DALLAS
POLICE & FIRE
PENSION SYSTEM

2010 ANNUAL REPORT

2010 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= 5,482

Benefit Recipients = 3,535

Terminated Vested = 135

Total Participants = 9,152

Service Retirements Added

Police = 77

Fire = 59

Total = 136

Disability Retirements Added

Police = 1

Fire = 1

Total = 2

System Net Assets at Market Value = $3,112,686,542

Benefits Paid = $169,458,531

Member Contributions = $19,823,954

City Contributions = $108,263,675


DALLAS
18
POLICE

Comprehensive Annual Financial Report

of the

Dallas Police and Fire Pension System

for the Year Ending December 31, 2010

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

DALLAS POLICE & FIRE PENSION SYSTEM

July 14, 2011

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*** (the Annual Report), including 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, 2010. Though the assets of the System and Supplemental Plans 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.

The System achieved a net investment return of 11.4% during 2010, almost 3% greater than the actuarially assumed rate of return of 8.5%. The investment return reflects a continued, broad-based market recovery from 2008.

Despite the recovery, actuarial projections in 2010 indicated that System funding would deteriorate over the next few years to levels that threatened the System's ability to pay benefits in the future. In response, the Board of Trustees asked the Members to approve changes to Plan benefits for new Members, as well as removing restrictions on the change in the Deferred Retirement Option Plan (DROP) interest rate from year to year for current Members and requiring DROP participants still in Active Service to pay Member contributions on a phased in basis beginning October 2011. In an election held in early 2011, the proposed Plan amendments were overwhelmingly approved by the Members with an 88% favorable vote from the Members voting in the election. The Plan changes had an immediate positive impact on Plan funding as reflected in the System's actuarial valuation as of January 1, 2011. (See the Actuarial Report section of this Annual Report.)

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.
- 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 financial statements and notes to the 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.

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- 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 2010 Actuarial Valuation and the 2010 Financial Statements with Independent Auditor's Report for the Supplemental Police and Fire Pension Plan of the City of Dallas.

MFR, PC, 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 80% funded and a funding period of 21 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 Board of Trustees and the System's management staff are 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.

At a time when the defined benefit form of public pension plan remains under attack 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 the System's 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,

George Tomasovic
Chairman of the Board of Trustees

Richard L. Tettamant
Administrator


DALLAS P
"Caring, Serving,
and Protecting"

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.

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 a vote of the membership, effective March 1, 1973. Together, the three plans are referred to as the Combined Pension Plan. In 2010, the System celebrated its 94th anniversary of ensuring the financial future of City of Dallas Police Officers and Firefighters and their families. The System now serves over 9,000 families of Police Officers and Firefighters.

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.

Fire Trustee Lieutenant Gerald Brown retired and resigned from the Board in August 2010. Mr. Brown served on the Board from 1983 through 2010, and as Chairman since 1996. He continued to serve on the Board as a Trustee until replaced through a special election in January 2011.

PROFESSIONAL SERVICE PROVIDERS

Investment Advisors

AllianceBernstein Institutional Investment Mgmt.
Ashmore Investment Management Limited
BankCap Partners
Brandywine Global Investment Management
Bridgewater Associates
CDK Realty Advisors
Cintra US
Criswell-Radovan
Eagle Asset Management
Energy Opportunities Capital Management
Forest Investment Associates
Grantham, Mayo, Van Otterloo & Co. (GMO)
HM Capital Partners
Hancock Agricultural Investment Group
Hearthstone Advisors
Highland Capital Management
Hudson Clean Energy Partners
INTECH
Invesco Real Estate
JPMorgan Asset Management
Kennedy Associates Real Estate Counsel
Knudson Luxury Housing
LandBaron Investments
L&B Realty Advisors
Levine Leichtman Capital Partners
Lone Star Advisors
Lone Star Investment Advisors
Loomis, Sayles & Company
Mellon Capital Management
Merit Energy Partners
The Mitchell Group
Mondrian Investment Partners
Northern Trust Investments
OFI Institutional Asset Management
Oaktree Capital Management
Olympus Real Estate Partners
Pharos Capital Group
Prudential Strategic Value Investors
Putnam Fiduciary Trust Company
Pyramis Global Advisors
RCM Capital Management
RMK Timberland Group
Robeco Transtrend Diversified Fund, LLC.
RREEF America
Sustainable Asset Management, USA
T. Rowe Price
Tradewinds Global Investors
TRECAP Partners
Walter Scott & Partners
W.R. Huff Asset Management
Yellowstone Capital Partners

Actuary

Buck Consultants Inc.

Auditor

MFR (formerly Mir • Fox & Rodriguez, P.C.)

Custodian Bank

JP Morgan Chase Bank

Other Banking Relationships

Bank of America, N.A.
Southwest Securities, FSB
Texas Capital Bank, N.A.

Investment Consultants

The Townsend Group
NEPC

Performance Measurement Consultants

Financial Control Systems Inc. (FCS)

Legal Advisors

Strasburger & Price, LLP
Travis & Calhoun

Legislative Consultants

Locke, Lord, Bissell, & Liddell, LLP
Hillco Partners

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 investment earnings pursuant to an annual budget adopted by the Board.

INVESTMENT HIGHLIGHTS

The Pension System maintains a highly diversified investment portfolio that is comprised of Global Equity (public equity and private equity), Global Fixed Income, Global Natural Resources, Global Asset Allocation (GAA), and Global Real Estate. The rate of return on System investments during 2010 was 11.4% net of fees. The performance number was provided by NEPC, the System's general investment consultant. The actuarial expected rate of return was 8.5%. As of December 31, 2010, the System's net assets were valued at approximately $3.11 billion.

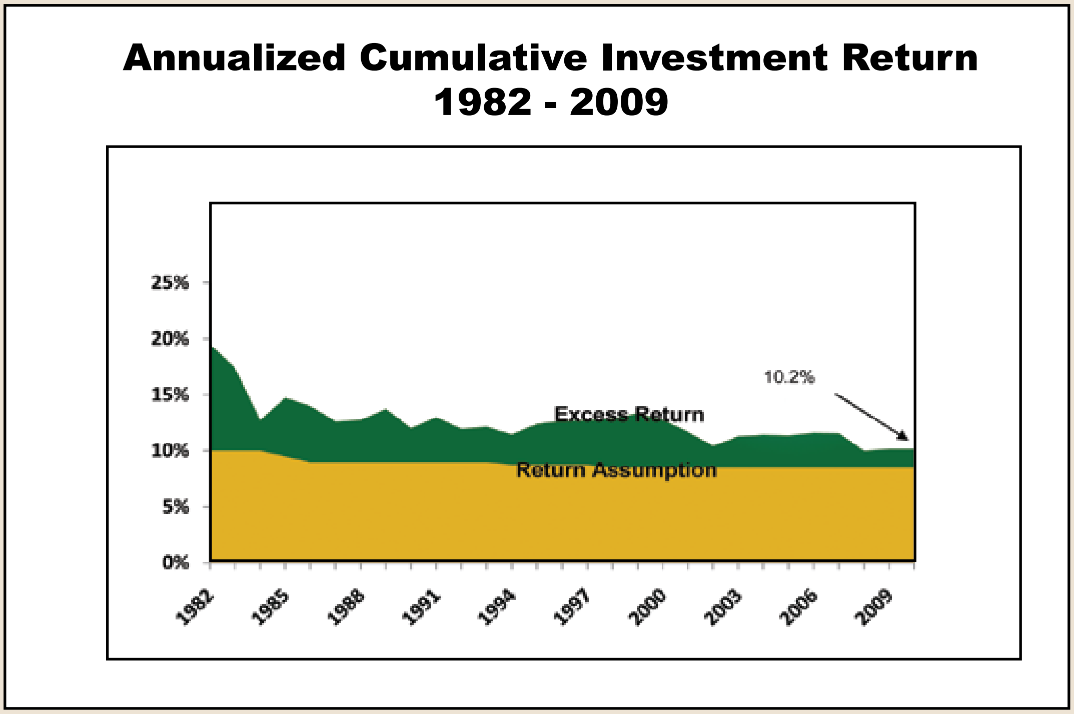
The public equity portion of the Global Equity portfolio outperformed the MSCI ACWI Index, returning 17.34% while the private equity investments returned 11.90%.

Within the Global Private Equity allocation, the System implemented new investments in the LBJ Infrastructure Group ($50 million) and the JPMorgan Global Maritime Investment Fund ($50 million).

The Global Fixed Income portfolio returned 16.21%, outperforming the BC Global Aggregate index by 10.71%. During the year an emerging markets local currency strategy was added to fixed income investments managed by the Ashmore Investment Management Limited.

The System's Global Asset Allocation (GAA) had an annual rate of return of 12.00%, outperforming its benchmark by 5.90%. In December of 2010, the entire GMO portfolio was transferred from the Real Return Global Balanced Asset Allocation strategy to the Global Allocation Absolute Return strategy.

The System's Global Real Estate portfolio returned 3.07% while the Townsend Group Stylized Index returned 11.72%. This underperformance, although disappointing, reflects the still weak fundamentals in certain real estate markets the System has investments. As the real estate market cycle typically runs much longer than that of financial markets, the System takes a long term view and as such, longer term metrics are a better measurement of performance.



The above chart demonstrates that the System's long-term investment performance of 10.2% since 1982 has exceeded the expected rate of return.

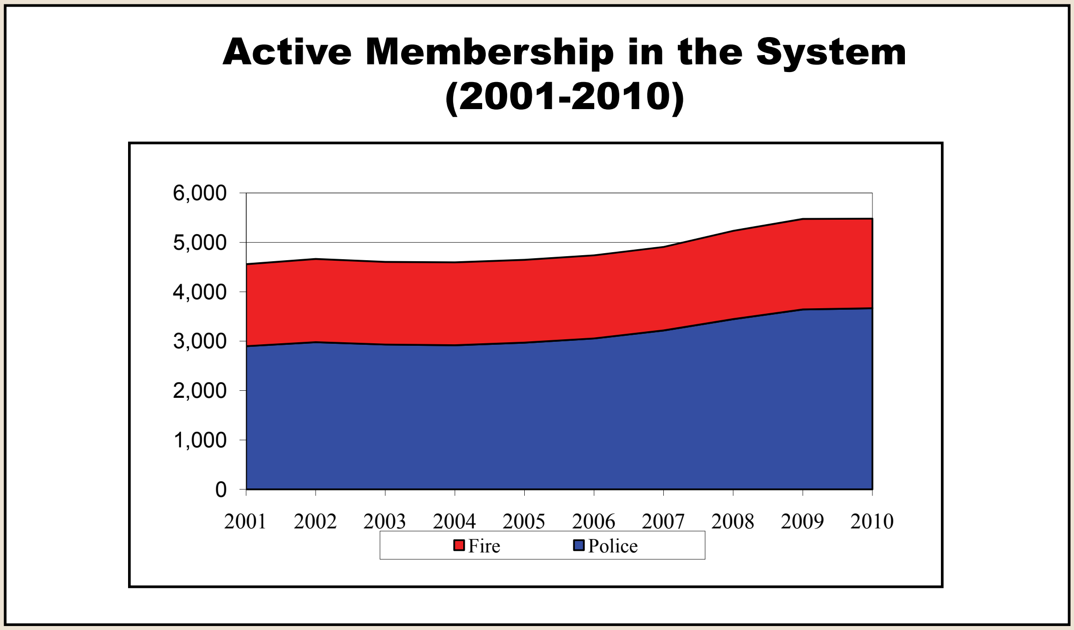
As of end of 2010, the System's agricultural holdings returned 12.30% net of fees for the year. Over the longer term the agricultural portfolio has generated stable, double-digit returns over 3- and 5-year periods of time.

During 2010, the System received the "2010 Projects of the Year" award from ***American Road and Transportation Builders Association*** for participation as an equity partner in an infrastructure investment in North Texas to rebuild the managed lanes sections of State Highways 121 and 183 and Interstate Highway 820 in Tarrant County, as well as the managed lanes sections of the LBJ express way in Dallas County. The System was also interviewed by *Institutional Real Estate, Inc. (IREI)* regarding infrastructure investing. The interview is published in the July/August 2010 issue of IREI Infrastructure Newsletter.

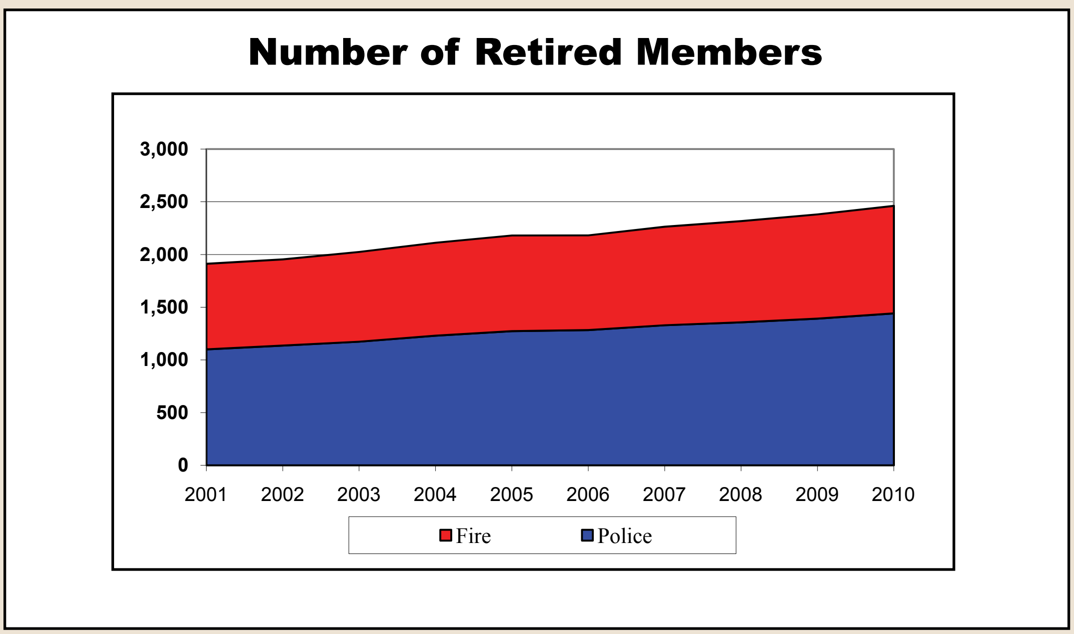
PLAN MEMBERSHIP

The System provides comprehensive retirement, disability and survivor benefits for the City's 9,152 Police Officers, Firefighters, Pensioners and their beneficiaries and deferred vested Members. As of December 31, 2010, the active membership of the Pension System included 3,668 Police Officers and 1,814 Firefighters. The total of 5,482 Active Members reflects an increase of 6 from last year's total of 5,476 (3,643 Police Officers and 1,833 Firefighters). The average Police Officer is 40.21 years of age with 13.42 years of pension service. The average Firefighter is 42.83 years of age and has 16.43 years of pension service with the City of Dallas.

The System paid $169.5 million in pension benefit payments to recipients in 2010. At the end of the year benefit payments were being made to 2,462 service Pensioners, 182 disability Pensioners, and 891 beneficiaries. The total number of benefit recipients increased by 85.



Total Active Membership increased by 1,005 Members over the last ten years from 4,477 Members in 2000 to 5,482 Members as of December 31, 2010, 3,668 Police Officers and 1,814 Firefighters. The number of Active Police Officers increased by 25 in 2010, while the number of Firefighters decreased by 19.



The total number of Members on Service Retirement increased steadily over the last ten years from 1,853 in 2000 to 2,462 as of December 31, 2010, including 1,442 retired Police Officers and 1,020 retired Firefighters.


Quality

FINANCIAL HIGHLIGHTS

The System relies on contributions from the City and the Members, as well as income from investments, to provide the funds necessary to finance payment of retirement and survivor benefits. The Member and City contributions are established by statute. Members are required to pay 8.5% of computation pay (base pay plus education pay and state longevity pay). The City is required to pay 27.5% on total gross payroll for Members. The System pays benefits under defined benefit plans calculated on the basis of a Member's age, average computation pay, eligible service credit and a service multiplier percentage.

In 2010, benefit payments exceeded contributions received by approximately $41.4 million. This is a normal situation for a mature pension plan like the System and benefit payments and other expenses not met by contributions received are paid from investment income.

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 of this report and on the Pension System's Web site under the "Publications" tab at www.dpfp.org.

Additions to Plan Net Assets

During 2010, the System received $128.1 million in Member and City contributions. The System also earned investment return, net of fees, of $40.4 million, other income of $1.2 million and net appreciation on plan assets of $246.7 million. Net additions to Plan Net Assets totaled $416.5 million.

Deductions from Plan Net Assets

The System paid out over $169 million in 2010 in service and disability retirement benefits and survivor benefits, including Deferred Retirement Option Program (DROP) disbursements. The System also refunded Member contributions of about $814 thousand to terminated Members. System administrative expenses totaled $6.5 million. Total deductions from Plan Net Assets were $176.7 million.

Plan Net Assets increased by $239.7 million over the year.

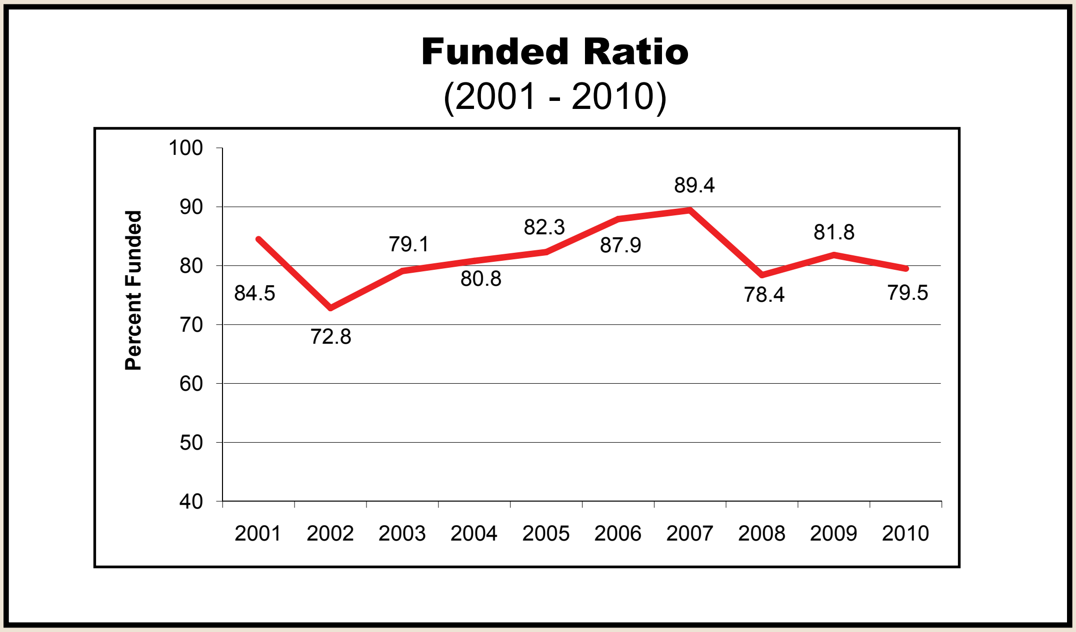
PLAN AMENDMENTS

There were no changes to the Combined Pension Plan in 2010.

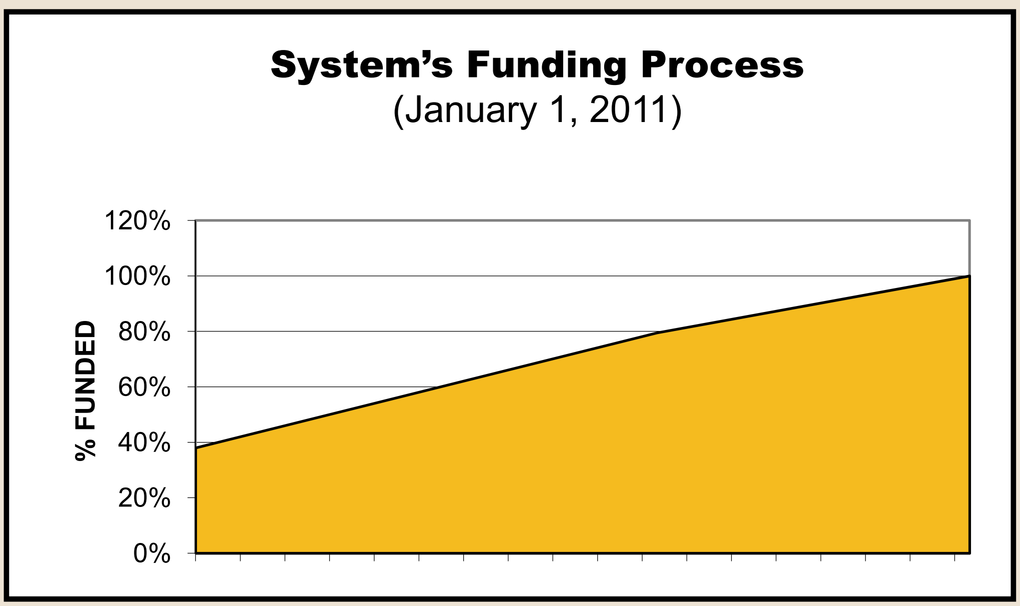
LEGISLATION

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 State Legislature was not in session in 2010.

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.



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



The System is on track to be fully funded in 21 years.

SUMMARY

Pension System assets, membership, and programs remained strong at the end of the year. However, projections of the System's funding status indicated that the System's funding level could reach infinity in just two years. To preserve and protect our Members' Pension Plan into the future, the Board proposed and the Members overwhelming passed certain plan changes in early 2011. The positive impact of the changes are reflected in the funding levels reported in the Actuarial Valuation included in this annual report. The Board also continued to expand communications efforts to better meet the needs of the Membership.

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

ACKNOWLEDGEMENTS

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

2010 BOARD OF TRUSTEES

(As of 12/31/2010)

George Tomasovic
Fire-Rescue Department
Chairman

Steve Shaw
Police Department
Vice Chairman

Rick Salinas
Fire-Rescue Department
Deputy Vice Chairman

Jerry Allen
City Council

Gerald Brown
Fire-Rescue Department

Sheffie Kadane
City Council

John Mays
Police Pensioner

Rector McCollum
Police Department

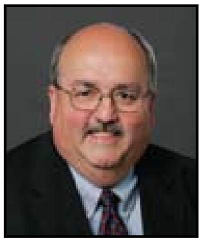
David Neumann
City Council

Steve Umlor
Police Department

Richard Wachsman
Fire Pensioner

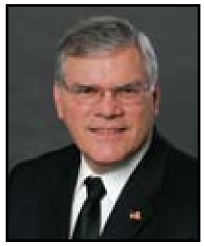
2010 Administrative Staff

(As of 12/31/2010)



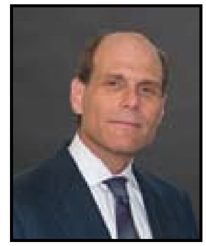
Richard Tettamant
Administrator

Brian Blake
Asst. Administrator
Investments

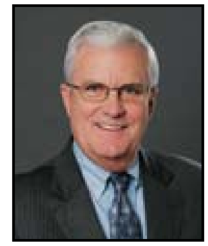


Don Rohan
Asst. Administrator
Operations

Mike Taylor
Chief Financial
Officer

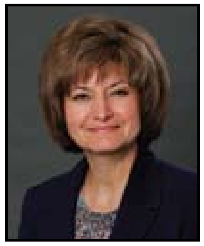


Josh Mond
General Counsel

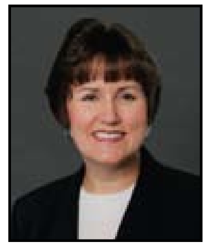


Everard Davenport
Investments Counsel

John Holt
Information Technology
Manager



Pat McGennis
Benefits
Manager



Linda Rickley
Board Coordination
Manager

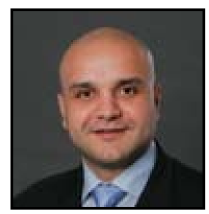
Carol Huffman
Executive Secretary

Laura Banda
Admin. Clerk

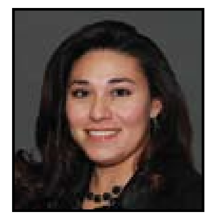
Larissa Branford
Accountant

Jerry Chandler
Systems Analyst

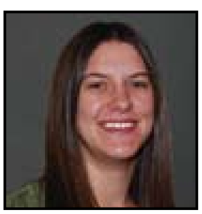
Aimee Crews
Benefits Counselor



Talal Elass
Director of Global
Investments

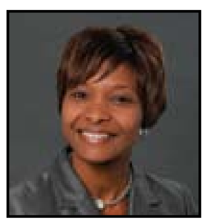


Crystal Flores
Admin. Clerk

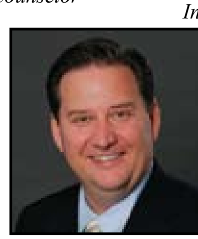


Kristen Holcomb
Admin. Clerk

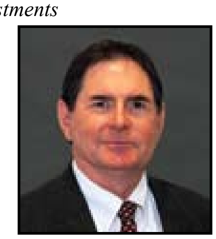
Greg Irlbeck
Investment Analyst



Vickie Johnson
Accounting
Specialist

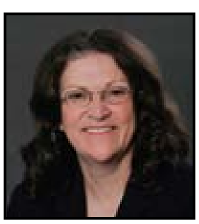


Kevin Killingsworth
Communications
Specialist

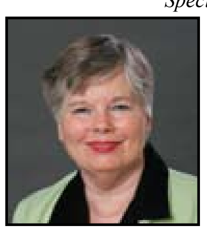


Larry Landfried
Investment Analyst

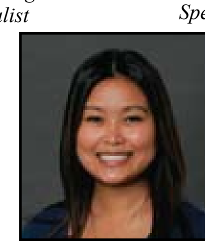
Genieva Lopez
Admin. Clerk



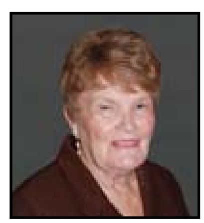
Ann Matthews
Benefits Counselor



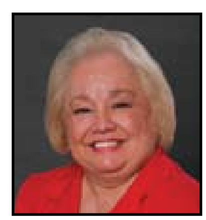
Barbara McCann
Pensioner Liaison



Chang Men
Admin. Clerk

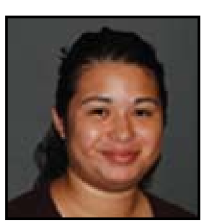


Alberta Patterson
Admin. Clerk

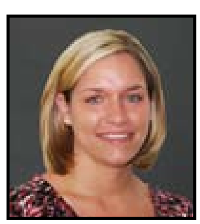


Rosa Perez
Admin. Clerk

Cynthia Reyes
Admin. Clerk/
Receptionist



Corina Rocha
Data Control Clerk



Milissa Schmidt
Benefits Counselor

Bill Scoggins, Jr.
Senior Accountant

Christina Wu
Investment Analyst


WATCH
COMMANDER
DALLAS
POLICE
SERVING SINCE 1881

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 off site
- 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)

2009

- Restructured Real Estate portfolio
- Implemented eCorrespondence – an electronic communications system with Members through the System's Website and e-mail
- Completed set-up of System "hotsite" remote location for business continuity
- System Assets totaled $2.85 billion (12-31-09)

2010

- Received following awards in 2010
  - Money Management Letter – 2009 Mid-Sized Public Pension Plan of the Year
  - US Green Building Council – LEED Silver Certification for 4100 Harry Hines
  - Infrastructure Journal – 2009 Transport Deal of the Year (NTE)
  - American Road and Transportation Builders Association – 2010 Projects of the Year (NTE and LBJ)
- Renewed loan program to enhance real estate investment return
- Implemented Web Member Services upgrades to improve Member access to information
- Established two new investments:
  - LBJ Infrastructure Group
  - JPMorgan Global Maritime Investment Fund
- System Assets totaled $3.11 billion (12-31-10)

Financials

DALLAS POLICE AND FIRE PENSION SYSTEM

Financial Statements and
Required Supplemental Information

December 31, 2010 and 2009
(With Independent Auditors' Report Thereon)

DALLAS POLICE AND FIRE PENSION SYSTEM

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mfr Accountants & Consultants

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, 2010 and 2009, 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, 2010 and 2009, and the changes in its financial status for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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. This information is the responsibility of the System'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 required supplemental information. However, we did not audit such information and do not express an opinion it.

MFR, P.C.

June 22, 2011

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

OVERVIEW

The Management's Discussion and Analysis (MD&A) of the Dallas Police and Fire Pension System's (the System) financial position and performance provides an overview of the System's financial activities for the fiscal years ended December 31, 2010 and 2009. 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 basic financial statements, notes to the financial statements and required supplemental information.

FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the System's financial statements which consist of (1) Basic Financial Statements, (2) Notes to Basic Financial Statements and (3) Required 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 Schedules.

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)

	2010	2009	2008
Assets	$ 3,109,320	2,870,025	2,530,668
Liabilities	55	271	1,203
Net Assets Available for Benefits	3,112,687	2,872,940	2,529,465
Contributions	128,088	127,284	123,011
Investment and Other Income (Loss)	288,389	378,796	(796,511)
Benefit Payments	169,459	155,343	142,076
Withdrawals and Refunds of Contributions	814	771	358
Administrative Expenses and Professional Fees	6,457	6,490	7,942

Continued

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED), CONTINUED

FINANCIAL HIGHLIGHTS

- The System's plan net assets increased $240 million in 2010 and increased $343 million in 2009. Plan net assets totaled $3.11 billion at the end of 2010 and $2.87 billion at the end of 2009. The increase in plan net assets reflects continued recovery in the financial markets in 2010 and 2009.

- The assets of the System and Supplemental Plans are co-invested through a Group Trust, the two plans are separate legal entities. The rate of return on Group Trust investments during 2010 was 11.4% net of fees, compared to a rate of return of 15.7% for 2009. The performance numbers are provided by the System's general investment consultant. The actuarial expected rate of return for both years was 8.5%. The investment return represents continued recovery from 2008 and the early part of 2009 when global financial markets experienced substantial losses. Despite high unemployment rates in the U.S. and distress in Europe's debt markets, the global financial markets finished 2010 with solid gains, returning 12.7% for the year as measured by the MSCI World Index. The System's financial composite, comprised of Global Equity, Global Fixed Income, Global Asset Allocation, and the public portion of Global Natural Resources returned 16.4% net of fees for 2010, outperforming the allocation index by 2.7%. The System's private equity portfolio returned 18.29%, outperforming the public markets as measured by the S&P 500 by 3.19%, and the MSCI World Index by 5.59%. The System's real estate portfolio returned 3.1%, underperforming the NCREIF Property Index by 10%. Longer term, the System's real estate portfolio has outperformed the index by 1.5% and 3.4% during the 3-year and 5-year periods, respectively.

- Liabilities totaled $55 thousand as of December 31, 2010. Liabilities at December 31, 2009 totaled $271 thousand. Investment liabilities are incorporated into the Group Trust and reflected within total investments.

- The System received member contributions of $19.8 million in 2010 and $19.6 million in 2009 and received employer contributions from the City of Dallas in the amounts of $108.3 million and $107.7 million in 2010 and 2009, respectively. The member contributions are 8.5% of computation pay (base pay rate plus education and longevity pays). Total member contributions increased by $239 thousand, or about 1%, in 2010 compared to 2009 and increased by $1 million, or about 5%, in 2009 compared to 2008. The employer contributions represent 27.5% of total salary and wages of covered members. Total employer contributions increased by $564 thousand, or less than 1%, in 2010 compared to 2009 and increased by $3.3 million, or about 3%, in 2009 compared to 2008.

- The System paid $169.5 million in service retirement, disability retirement, survivor benefits and DROP disbursements during 2010, compared to payments of $155.3 million in 2009. The System refunded approximately $814 thousand and $771 thousand in contributions to former members in 2010 and 2009, respectively. No changes to benefit provisions were implemented in 2010 or 2009. The increase of $14.1 million, or 9%, in benefit payments in 2010 compared to 2009 resulted from an increase in the number of benefit recipients, post retirement increases to base benefits and an increase in distributions from DROP. The increase of $13.2 million, or 9.3%, in benefit payments in 2009 compared to 2008 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 $6.5 million in 2010 compared to $6.5 million in 2009.

 Continued

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED), CONTINUED

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, 2011. 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 System conducted an election in 2011 and approved by a vote of the members to amend certain Plan benefits for new Members hired after February 28, 2011 and DROP interest provisions for Members hired before March 1, 2010. The impact of the changes to improve the funding of the Plan are reflected in the numbers reported below.

- The Actuarial Valuation Report shows that the market value of assets increased $261.1 million during 2010 to $3.11 billion as of January 1, 2011. The market value of assets increased $318.5 million during 2009 to $2.87 billion as of January 1, 2010.
- As of January 1, 2011, the actuarial value of the assets (AVA) increased $47.9 million during 2010 to a total of $3.43 billion. As of January 1, 2010, the actuarial value of the assets (AVA) increased $343.2 million during 2009 to $3.38 billion.
- As of January 1, 2011, the actuarial accrued liability (AAL), or actuarial value of liabilities, increased during 2010 by $183.0 million to $4.32 billion. As of January 1, 2010, the actuarial accrued liabilities (AAL), or actuarial value of liabilities, increased during 2009 by $255.2 million to $4.13 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 79.5% during 2010 compared to 81.8% in 2009.
- 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, 2011, the System's UAAL was $885.5 million, an increase of $135.1 million from a UAAL of $750.4 million as of January 1, 2010.
- 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, 2011, the employer contribution rate of 27.5% covers the normal cost and the amortization of the UAAL over 21 years, compared to 26 years to fund as of the January 1, 2010 valuation. This decrease of 5 years in the number of years to fully fund the System demonstrates the impact on the System's funding status of changes to plan benefits approved by the System's Members in the 2011 Plan Amendment election.

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, 2010 and 2009

Assets	2010	2009
Plan interest in Group Master Trust, at fair value (notes 2, 3, 4, 6, 7 and 8)	$ 3,109,319,678	2,870,025,498
Receivables:		
Employer (note 5)	2,894,319	2,691,600
Member (note 5)	527,697	493,931
Total receivables	3,422,016	3,185,531
Total assets	3,112,741,694	2,873,211,029
Liabilities and Net Assets		
Administrative expense payable	55,152	270,962
Total liabilities	55,152	270,962
Plan net assets held in trust for pension benefits	$ 3,112,686,542	2,872,940,067

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, 2010 and 2009

	2010	2009
Additions to plan net assets:		
Investment income -		
net investment gain from the Group Master Trust (note 3)	$ 288,388,645	378,795,917
Contributions:		
Employer (note 5)	108,263,675	107,699,648
Member (note 5)	19,823,954	19,584,241
Total contributions	128,087,629	127,283,889
Total additions to plan net assets	416,476,274	506,079,806
Deductions from plan net assets:		
Benefit payments	169,458,531	155,342,896
Refunds of contributions (note 11)	813,966	771,352
Administrative expenses and professional fees (note 10)	6,457,302	6,490,408
Total deductions from plan net assets	176,729,799	162,604,656
Net increase in plan net assets	239,746,475	343,475,150
Plan net assets held in trust for pension benefits:		
Beginning of year	2,872,940,067	2,529,464,917
Plan net assets held in trust for pension benefits	3,112,686,542	2,872,940,067

See accompanying notes to basic financial statements.

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DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements
December 31, 2010 and 2009

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, 2010 and 2009, the System's membership consisted of:

	2010	2009
Non-active members:		
Pensioners and qualified survivors currently receiving benefits and terminated members entitled to benefits but not yet receiving them:		
Firefighters	1,511	1,481
Police officers	2,024	1,969
Terminated vested members not yet receiving benefits	135	144
Total non-active members	3,670	3,594
Current members:		
Vested:		
Firefighters	1,406	1,409
Police officers	2,474	2,466
Total vested current members	3,880	3,875
Nonvested:		
Firefighters	408	424
Police officers	1,194	1,177
Total non-vested current members	1,602	1,601
Total current members	5,482	5,476

 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 $928,680,243 and $811,700,225 at December 31, 2010 and 2009, 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 2010 and 2009, 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.

Additionally, within the Group Trust, 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 Trust. JPMorgan Chase served as custodian for the years ended December 31, 2010 and 2009. 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 99.385% and 99.285% at December 31, 2010 and 2009, 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, contributions and administrative expenses are allocated to each plan directly.

Investment valuation and income recognition

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

Investments are reported at fair value. The System's interest in the Group Trust is based on the fair value of the unitized interest held by the System. The underlying investments included in the Group 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, 2010 and 2009 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, 2010 and 2009, respectively. These foreign exchange gains and losses are included in the Group Trust net 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.

Recent accounting pronouncements

GASB Statement No. 59, *Financial Instruments Omnibus*

This statement updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools.

GASB Statement No. 59 amends the following pronouncements:

- GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, to clarify that unallocated insurance contracts should be reported as interest-earning investment contracts,
- GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, to emphasize the applicability of SEC requirements to certain external investment pools - known as 2a7-like pools,
- GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, to clarify that interest rate risk disclosure for a government's investments pools should be limited to its debt investment pools,

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, to clarify (1) which financial guarantee contracts, revenue-based contracts, and hybrid instruments are within the scope of the statement and (2) whether contracts that include nonperformance penalties meet the net settlement characteristics,
- National Council on Governmental Accounting (NCGA) Statement 4, *Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences*, to conform with the amendments made to GASB Statement No. 53.

The requirements of this statement are effective for financial statements for periods beginning after June 15, 2010. Management does not believe that GASB Statement No. 59 will have a material effect on the Supplemental Plan's financial statements when adopted in fiscal year 2011.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.*

This statement is intended to enhance the usefulness of the GASB Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. By incorporating and maintaining this guidance in a single source, this statement improves financial reporting and reduces the complexity of locating and using authoritative literature needed to prepare governmental financial reports. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2011. Management does not believe that GASB Statement No. 62 will have a material effect on the Supplemental Plan's financial statements when adopted in fiscal year 2012.

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, JPMorgan Chase. As of December 31, 2010 and 2009, the Group Trust and the System had bank balances of $4,164,365 and $4,362,318, 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.

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

The following disclosures on investments and the System's interest in the Group Trust are made for the Group Trust as of and for the years ended December 31, 2010 and 2009. 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.

Continued

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

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

	2010	2009
Assets		
Investments, at fair value (notes 2, 3 and 4):		
Cash and cash equivalents	$ 216,646,496	357,487,781
United States government securities	13,720,331	9,007,801
United States government sponsored enterprises	1,161,739	4,144,690
Foreign government securities	101,358,508	95,161,233
Commingled funds	21,127,562	21,173,407
Domestic equities	655,491,225	431,665,296
International equities	1,380,897,131	1,264,841,924
Corporate securities	309,833,860	342,763,532
Investments, at appraised value - real estate equity funds	1,082,549,559	1,123,902,487
Total investments	3,782,786,411	3,650,148,151
Receivables:		
Accrued interest and dividends	7,268,566	8,363,375
Forward currency contracts (note 6)	132,126,580	159,950,987
Securities sold	3,407,551	1,922,746
Total receivables	142,802,697	170,237,108
Total assets	3,925,589,108	3,820,385,259
Liabilities and Net Assets		
Repurchase loan agreement (note 7)	29,957,000	31,147,000
Payable for securities purchased	3,641,324	77,255,071
Professional fees payable	7,118,538	3,389,132
Forward currency contracts (note 6)	132,259,801	159,016,722
Securities lending collateral (note 4)	160,248,227	220,696,254
Line of credit and other bank loans (note 8)	461,926,000	438,176,000
Total liabilities	795,150,890	929,680,179
Net assets in the Group Trust	$ 3,130,438,218	2,890,705,080

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:

	2010	2009
Investment income:		
Interest	$ 21,861,080	25,691,877
Dividends	29,862,794	46,486,971
Real estate income	6,775,774	13,316,273
Net appreciation in fair value of investments	247,436,040	318,474,104
Securities lending income	599,936	1,124,410
Less investment expenses:		
Custody fees	(373,660)	(335,135)
Investment services	(18,040,207)	(23,530,722)
Total investment income in Group Trust	288,121,757	381,227,778
Benefit payments in excess of contributions received for System and Supplemental Plan	(48,388,619)	(36,528,355)
Plan net assets held in trust for pension benefits:		
Beginning of year	2,890,705,080	2,546,005,657
End of year	$ 3,130,438,218	2,890,705,080

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

Group Trust interest held by the System	$ 3,109,319,678	2,870,025,498
Group Trust interest held by the Supplemental Plan	21,118,540	20,679,582
Total net assets of Group Trust	$ 3,130,438,218	2,890,705,080

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.

The fair values of the Group Trust's investments at December 31, 2010 and 2009 are presented by type, as follows:

	2010	2009
Cash and cash equivalents	$ 216,646,496	357,487,781
United States government securities	13,720,331	9,007,801
U.S. government sponsored enterprises	1,161,739	4,144,690
Foreign government securities	101,358,508	95,161,233
Commingled funds	21,127,562	21,173,407
Domestic equities	655,491,225	431,665,296
International equities	1,380,897,131	1,264,841,924
Corporate securities	309,833,860	342,763,532
Investments, at appraised value - real estate equity funds	1,082,549,559	1,123,902,487
Total investments	$ 3,782,786,411	3,650,148,151

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DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

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 JPMorgan Chase and under such agreements JPMorgan 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:

	2010 Fair value	2009 Fair value
Investments greater than 5% of net assets, at quoted market value:		
Securities lending -		
Global Securities Lending JPMorgan Chase	$ 160,248,227	220,696,255
Total investments greater than 5% of net assets	160,248,227	220,696,255
Investments less than 5% of net assets:		
At quoted market value	2,539,988,625	2,305,549,409
At appraised value	1,082,549,559	1,123,902,487
Total investments	$ 3,782,786,411	3,650,148,151

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, 2010 and 2009, 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.

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DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

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.

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.

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DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

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 invest 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.

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.

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DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

At December 31, 2010, the following table shows 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	$	561,517	4,577,271	8,581,543	13,720,331
U.S. Government agency securities				1,161,739	1,161,739
Commingled funds				21,127,562	21,127,562
Corporate securities:					
Collateralized mortgage obligations				8,531,243	8,531,243
Corporate bonds	4,813,671	97,777,090	52,734,253	139,664,846	294,989,860
Municipal bonds				1,453,651	1,453,651
Convertible bonds	192,150	2,208,619	1,500,600	957,737	4,859,106
Total fixed maturity domestic	5,005,821	100,547,226	58,812,124	181,478,321	345,843,492
International government bonds:					
Australian Dollar		8,199,099	6,236,221		14,435,320
Brazil Real		755,437		4,274,773	5,030,210
British Pound Sterling		675,547		3,836,870	4,512,417
Canadian Dollar	3,047,683	1,655,947			4,703,630
EURO Currency		4,652,544	7,042,635	3,974,850	15,670,029
Hungary		1,505,186			1,505,186
Indonesian Rupiah	2,834,714				2,834,714
Japanese Yen	582,302	13,779,209	6,003,350		20,364,861
Malaysian Ringgit	1,419,935	2,439,685			3,859,620
Mexican New Peso		4,025,480		781,206	4,806,686
New Zealand Dollar		2,212,538	811,076		3,023,614
Norway Krone		3,325,561			3,325,561
Poland New Zloty		6,357,558	2,067,473		8,425,031
South Korea			3,507,228		3,507,228
Swedish Krona		4,674,082	680,319		5,354,401
Total international government bonds	7,884,634	54,257,873	26,348,302	12,867,699	101,358,508
Total fixed maturity	$ 12,890,455	154,805,099	85,160,426	194,346,020	447,202,000

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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, 2010 is as follows:

Type	S & P Rating	Amount	Percentage of holding
Corportate securities:			
Convertible bonds:			
	B+	$ 408,287	0.09%
	B	3,901,369	0.87%
	CCC	549,450	0.12%
	NR		
Total convertible bonds		4,859,106	1.09%
Corporate bonds:			
	AAA	9,785,936	2.19%
	AA+		0.00%
	AA	3,387,698	0.76%
	AA-	1,305,134	0.29%
	A+	7,851,599	1.76%
	A	3,820,428	0.85%
	A-	4,654,578	1.04%
	BBB+	3,384,766	0.76%
	BBB	6,954,770	1.56%
	BBB-	8,742,575	1.95%
	BB+	9,302,387	2.08%
	BB	21,203,907	4.74%
	BB-	27,731,142	6.20%
	B+	29,714,678	6.64%
	B	24,946,870	5.58%
	B-	12,903,121	2.89%
	CCC+	13,509,950	3.02%
	CCC	5,396,812	1.21%
	CCC-	7,202,719	1.61%
	CC	695,588	0.16%
	C		0.00%
	D	2,252,325	0.50%
	NR	90,242,877	20.18%
Total corporate bonds		294,989,860	65.96%

Type	Moody Rating	Amount	Percentage of holding
Mortgage bonds:			
	AAA	701,055	0.16%
	AA	637,960	0.14%
	A+	561,706	0.13%
	BB-	448,265	0.10%
	B	850,467	0.19%
	B-		0.00%
	CCC	440,909	0.10%
	NR	4,890,881	1.09%
Total mortgage bonds		8,531,243	1.91%
Investment fund	NR		0.00%
Total investment fund		-	0.00%
Total corporate securities		308,380,209	68.96%
Government sponsored enterprises			
	AAA	1,161,739	0.26%
	NR		
		1,161,739	0.26%
Foreign securities:			
Government bonds:			
	AAA	34,197,914	7.65%
	AA+	2,528,449	0.57%
	AA	19,013,230	4.25%
	AA-	2,420,395	0.54%
	A+	5,614,985	1.26%
	A	16,955,624	3.79%
	A-	3,424,310	0.77%
	BBB+	589,119	0.13%
	BBB	944,052	0.21%
	BBB-	1,505,186	0.34%
	BB+	226,758	0.05%
	BB-	68,754	0.02%
	B		0.00%
	D		0.00%
	NR	13,869,732	3.10%
Total government bonds		101,358,508	22.67%
United States government securities			0.00%
Treasury Note	AAA	13,720,331	3.07%
Total U.S. government securities		13,720,331	3.07%
Municipal bonds	A+	693,651	0.16%
	NR	760,000	0.17%
		1,453,651	0.33%
Commingled	NR	21,127,562	4.72%
Total credit risk debt securities		$ 447,202,000	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 JPMorgan Chase (JPMorgan) 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 2010 and 2009, JPMorgan lent, on behalf of the Group Trust, securities held by JPMorgan as the Group Trust's custodian, and received United States dollar cash and United States Government securities as collateral. JPMorgan 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 2010 and 2009 on the amount of the loans that JPMorgan made on its behalf. There were no failures by any borrowers to return the loaned securities or pay distributions thereon during the fiscal years 2010 and 2009. Moreover, there were no losses during the 2010 and 2009 fiscal years resulting from a default of the borrower. JPMorgan indemnifies the Group Trust in respect of any loan related to any non-cash distribution and return of securities.

During 2010 and 2009, 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 JPMorgan. 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, 2010 and 2009, the Group Trust and the System had no credit risk exposure to borrowers. The market value for securities on loan for the Group Trust were $155,506,124 and $212,745,824 at December 31, 2010 and 2009, respectively. The collateral held for the Group Trust were $160,248,227 and $220,696,255 at December 31, 2010 and 2009, 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, 2010 and 2009.

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, 2010 compared to 14 years as of January 1, 2009.

The required contribution rate of the City, pursuant to an actuarial study effective January 1, 2011, consists of 16.70% of covered members' salaries to pay normal costs, 12.84% of covered members' salaries to amortize its funding deficit over 21 years, and by (2.04)% 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 2010 and 2009, 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 2010 and 2009, contributions were made in accordance with the adopted plans of benefits approved by the System's actuary.

Funded status

Information regarding the actuarial funding status of the System as of January 1, 2011, the most recent actuarial valuation date, is as follows (dollar amounts in millions):

Actuarial Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	AVA as a Percentage of AAL	Covered Payroll	UAAL as a Percentage of Covered Payroll
1/01/11	$3,431	$4,316	$885	79.5%	$365	242.5%

The January 1, 2011 actuarial valuation used the following significant assumptions:

Investment rate of return	8.5% per year, compounded annually
General inflation rate	4% per year
Mortality, retirement, disability and separation rates	Graduated rates
Actuarial cost method	Entry age normal cost method
Post retirement benefit increases:	
Group A (former Plan A) and Group B	4% per year 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	21 years
DROP account returns	8.5% per year
Post retirement mortality	1994 Group Annuity Mortality Table

The January 1, 2011 actuary valuation includes amendments that went into effect after December 31, 2010 that were made to certain benefit provisions, including DROP. See note 14 for a description of the amendments.

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DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

Historical trend information

Historical trend information is provided as supplemental information on pages 28 through 30. 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 2010 and 2009, 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, 2010 and 2009.

During 2010 and 2009, the Group Trust recognized net realized gains and losses on foreign currency forward contracts of $911,553 and $72,927, respectively. At December 31, 2010 and 2009, the Group Trust had net unrealized gains and losses on forward currency contracts reflected in the accompanying Group Trust summary information of $(1,118,863) and $547,703, respectively, included in net appreciation in fair value of investments.

7. **Obligation Under Reverse Repurchase Agreements**

State statutes permit the System to enter into reverse repurchase agreements. The credit exposure at year end 2010 and 2009 related to these agreements was $29,957,000 and $31,147,000 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, 2010 and 2009.

 Continued

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

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 75 basis points at December 31, 2010 and 2009, payable quarterly. At December 31, 2010 and 2009, the Group Trust had borrowed approximately $344,666,000 and $340,916,000, respectively, related to the revolving credit line, which provides for a maximum borrowing of $400,000,000. The revolving credit line was opened on November 1, 2006, and expires on March 31, 2014. The Group Trust and the System also pay a quarterly fee on the unused portion of the line of credit equaling 20 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.

The Group Trust has a credit agreement with a commercial bank which provides for a revolving line of credit bearing interest at the PRIME rate and a floor rate of 5% as of December 31, 2010 and 2009, payable monthly. At December 31, 2010 and 2009, the Group Trust had borrowed $40,000,000 related to the revolving credit line, which provides for a maximum borrowing of $40,000,000. The revolving credit line expires on June 29, 2012. The Group Trust and the System also pay a monthly fee on the unused portion of the line of credit equaling 50 basis points.

The Group Trust has a credit agreement with a commercial bank which provides for a revolving line of credit bearing interest at the PRIME rate as of December 31, 2010 and 2009, payable quarterly. At December 31, 2010 and 2009 the Group Trust had borrowed $40,000,000 and $20,000,000, respectively, related to the revolving credit line, which provides for a maximum borrowing of $40,000,000. The credit agreement has no monthly fee for the unused portion of the line of credit. On February 14, 2011, the Group Trust renewed the line of credit agreement in the amount of $40,000,000 which matures on February 14, 2012.

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 75 basis points at December 31, 2010 and 2009, payable quarterly. At December 31, 2010 and 2009, the loan balance outstanding was $37,260,000. The loan is secured by real property and matures on March 31, 2014. 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.

Maturities of debt at December 31 are as follows:

Year	Amount
2012	$ 80,000,000
2013	-
2014	381,926,000
Total	$ 461,926,000

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 $148,035 and $119,159 related to the System's overall administrative costs during the years ended December 31, 2010 and 2009, respectively.

Group Trust investment related expenses for the years ended December 31, 2010 and 2009 also include $18,040,207 and $23,530,722, 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 upon termination of employment with the City, prior to being eligible for pension benefits. As of December 31, 2010 and 2009, aggregate contributions from active members of the System with less than five years of service were $13,878,101 and $11,130,286, respectively,

The Group Trust had outstanding investment commitments to various limited partnerships and international investment advisors of $422,439,988 and $398,583,338 at December 31, 2010 and 2009, 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 2010 and 2009, the System contributed $330,002 and $270,731, 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 employer contributions, page 29, and schedule of funding progress, page 28, 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, 2010 and 2009.

14. **Subsequent Events**

Management has evaluated subsequent events through June 22, 2011, which is the date that the financial statements were available for issuance. Benefit amendments approved by the Board on February 17, 2011 are as follows:

- Removal of the 0.25% restriction on DROP interest rate changes.
- Requiring member contributions while in active DROP.
- Allowing a one-time opportunity for active DROP members to rescind their DROP election.
- Providing benefits for member hired after February 28, 2011 with the following provisions:
  - 2% accrual rate for the first 20 years of service, 2.5% accrual rate for the next 5 years of service and 3% accrual rate for service after 25 years.
  - Average computation pay based on 60 months of pay.
  - Retirement eligibility at age 55 with 20 years of service.
- Disability benefits with the following provisions:
  - Own occupation definition for first two years of disability.
  - Any occupation definition after two years of disability.
  - On-duty disability retirement befits will be based on a minimum of 50% of average computation pay.
- Survivor benefits for members who die while on active service will be based on a minimum of 25% of average computation pay.

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)
1/1/2002	$ 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 %
1/1/2010	3,383	4,133	750	81.8 %	367	204.4 %
1/1/2011	3,431	4,316	885	79.5 %	365	242.5 %

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

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
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%
2009	107,669	100%
2010	108,264	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.

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, 2011 and 2010 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	21 years in 2011 actuary report 26 years in 2010 actuary report
DROP account returns	8% per annum 2011 and 9% per annum 2010
Post retirement mortality	1994 Group Annuity Mortality Table

The actuarial information presented was determined by the actuarial firm Buck Consultants, Inc. 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. The actuarial assumptions incorporate amendments made to the plan provisions through February 17, 2011.

Actuarial calculations were made by the consulting actuary Buck Consultants, Inc. as of January 1, 2011 and 2010, and are not materially different from what they would have been had they been calculated on December 31, 2010 and 2009, 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 plan document.

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


DALLAS POLICE
DALLAS POLICE

INVESTMENTS


DALLAS
FIRE-RESCUE

STRATEGIC INVESTMENT POLICY

The Strategic Investment Policy of 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. The System's Strategic Investment Policy is published on the System's website at www.dpfp.org. (See "Policies" under the "About Us" tab.)

STATEMENT OF INVESTMENT GOALS

The 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 of Trustees ("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.

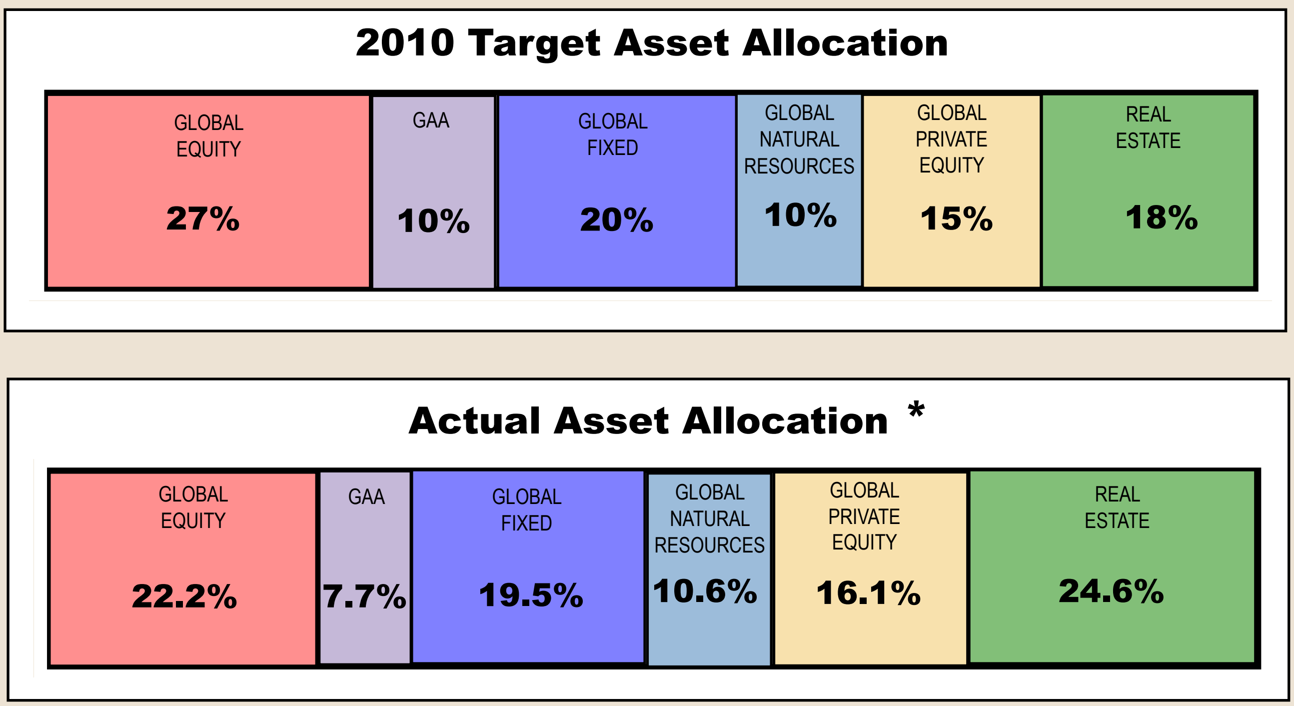
3. The pension investment program shall at all times comply with existing and future applicable state and federal regulations.

STRATEGIC ASSET ALLOCATION POLICY

In order to achieve maximum returns, the policy of the Board 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 Global Real Estate, as shown in the chart below.

An asset allocation review is conducted monthly by the Board and staff. 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 as soon as administratively possible.



(- Percentage does not add to 100 % due to rounding)*

GENERAL INVESTMENT MANAGER GUIDELINES

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

INVESTMENT HIGHLIGHTS

The global financial markets experienced a roller coaster ride during 2010. While strong corporate earnings and the Federal Reserve's commitment to a second round of quantitative easing lifted the markets, the high United States unemployment rates, a depressed United States housing market, and concerns over Europe's sovereign debt problems weighed on the markets. Despite many ups and downs, the global financial markets finished the year with strong gains. The broad United States stock market as measured by the S&P 500 returned 15.1%. Small- and mid-capitalization stocks did even better, returning 26.9% as measured by the Russell 2000 index. Outside the United States the international markets returned 11.15% as measured by the MSCI ACWI ex US index. Against this backdrop, the System's investment portfolio had an annual return of 11.4% net of fees. While the Global Equity and Global Natural Resources investments led with double digit gains, all of the System's major asset classes had positive returns for the year. At the end of 2010, the System's assets were valued at $3.11 billion.

The System maintained its long-term perspective in 2010. The System's financial composite comprised of Global Public Equity, Global Asset Allocation, the public portion of the Global Fixed Income and the Global Natural Resources portfolios ranked in the top 4% among public plans according to NEPC, the System's general investment consultant. The System also received the "2010 Projects of the Year" award from ***American Road and Transportation Builders Association*** for participation as an equity partner in infrastructure investments in North Texas to rebuild the managed lanes sections of State Highways 121 and 183 and Interstate Highway 820 in Tarrant County, as well as the managed lanes sections of the LBJ express way in Dallas County.

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 to continue to achieve its financial goals in the future. For a more detailed comparison, see "Rates of Return by Asset Class" below.

Rates of Return by Asset Class

Asset Class	2010 Return	Benchmark Return	Benchmark
Global Equity			
Global Public Equity	17.34%	12.70%	MSCI ACWI
Global Private Equity	11.90%	17.30%	S&P 500 + 2%
Global Natural Resources	17.39%	8.41%	Custom
Global Fixed Income	16.21%	5.50%	BC Global Aggregate
Global Asset Allocation	12.00%	6.10%	T-Bill +600BPS
Global Real Estate	3.07%	11.72	Townsend Group Stylized Index
Cash Equivalent	0.17%	0.12%	T-Bill

Global Equity Portfolio

The System's Global Equity portfolio consists of the System's investments in global public equities as well as global private equities. The asset allocation target for global public equities is 27% while the target for global private equities is 15%. Public equities are those securities traded on any of the world's security markets. Private equities generally are not publicly traded.

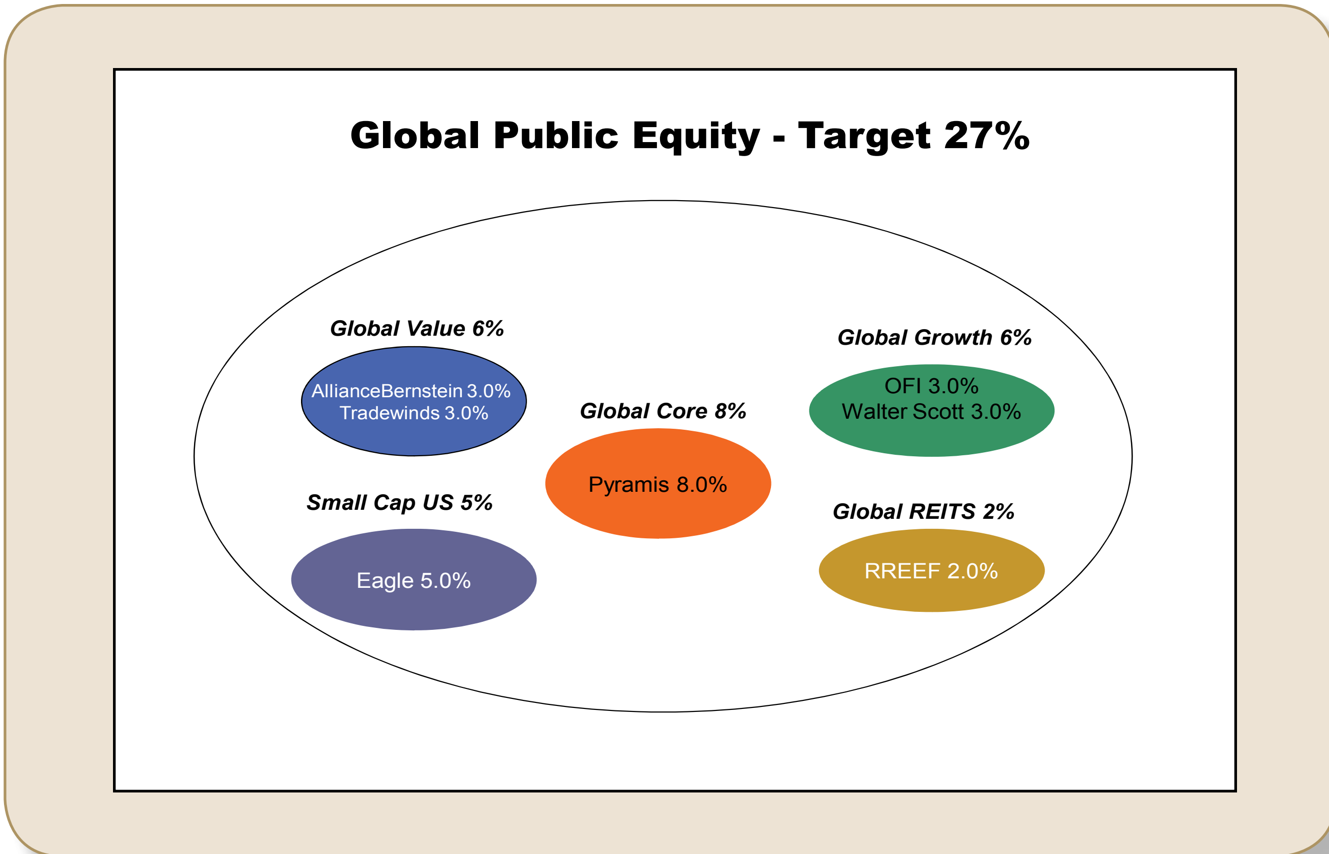
As of December 31, 2010, the System's public equities investments returned 17.34% compared to a return of 12.70%% by the MSCI ACWI index, a measure of global equity markets. The investments were valued at $690 million, representing 22.2% of the System's total market value. Tradewinds Global Investors LLC, a global all capitalization manager funded in fourth quarter 2009, finished the year with a gain of 25.5%, while OFI Institutional Asset Manager had an annual rate of return of 16.2%. Also included in this portfolio are the System's investments in public real estate consisting of Real Estate Investment Trusts (REITs) totaling approximately $51 million.

As of the end of 2010, the System's Global Private Equity portfolio is valued at approximately $518 million, representing 16.6% of the System's total investment portfolio. The annualized rate of return of the Global Private Equity portfolio was 11.90% for 2010. Among the top performing private equity investments, the Lone Star CRA Fund and North Texas Opportunity Fund, both advised by the Dallas based Lone Star Investment Advisors, returned 61.7% and 11.3% for the year respectively.

New private equity investments made by the System during 2010 included closing on a $50 million investment with the LBJ Infrastructure Group, and closing on a $50 million investment with JP Morgan Global Maritime Investment Fund. The System's investment objective is to seek a combination of income and capital appreciation over a multi-year holding period.

Top Ten Global Equity Holdings

Security Description	Market Value
PFIZER INC	$5,607,577.50
WAL-MART STORES INC	$5,002,816.45
NIPPON TELEGRAPH & TELEPHONE CORP (NTT)	$4,472,258.19
NESTLE SA	$4,232,801.74
MICROSOFT CORP	$4,069,898.40
JOHNSON & JOHNSON	$4,063,545.00
NEWMONT MINING CORP	$3,883,911.75
NOVO-NORDISK AS	$3,641,504.45
BARRICK GOLD CORP	$3,481,960.50
ERICSSON	$3,410,173.36

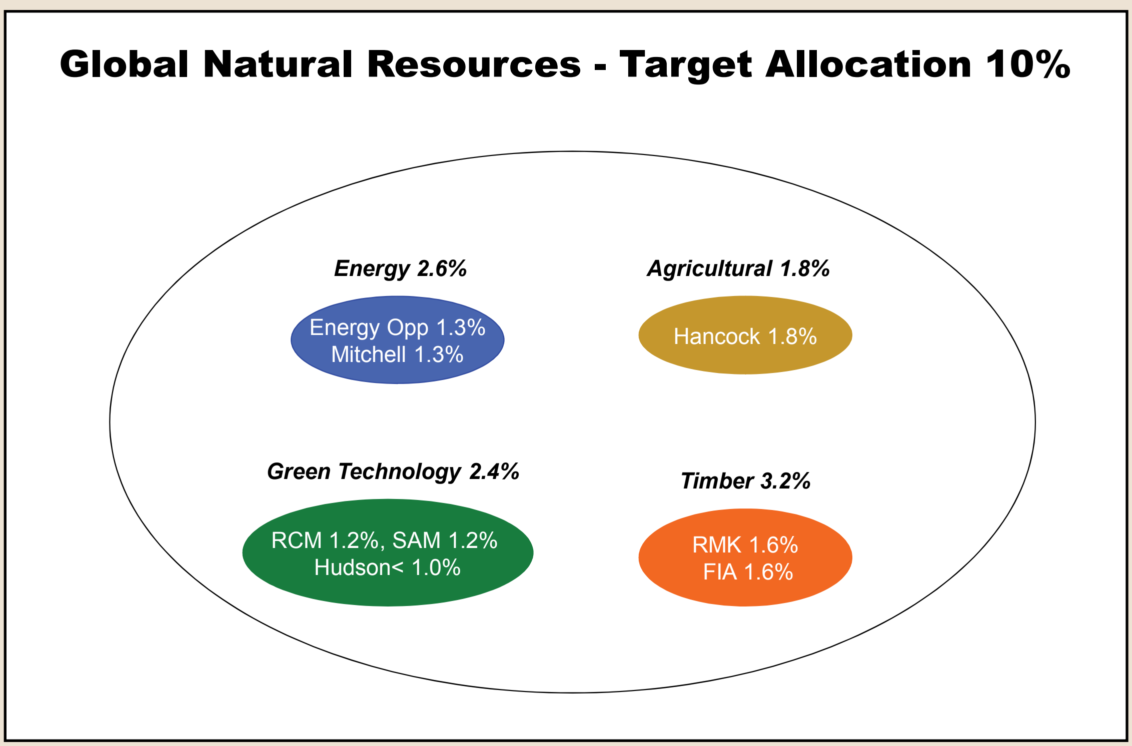

Global Public Equity - Target 27%
Global Value 6%
AllianceBernstein 3.0%
Tradewinds 3.0%
Global Core 8%
Pyramis 8.0%
Global Growth 6%
OFI 3.0%
Walter Scott 3.0%
Small Cap US 5%
Eagle 5.0%
Global REITS 2%
RREEF 2.0%


GFP

Global Natural Resources

Global Natural Resources allocation represents the System's continuing commitment to natural resources, clean water, as well as green technology. This portfolio includes energy, farmland, timberland, and alternative energy investments.

The System's energy holdings are managed by Energy Opportunities Capital Management and the Mitchell Group. Both managers produced solid gains outperforming their respective benchmarks for the year. The System's timber portfolio is managed by Forest Investment Associates and RMK Timberland Group. The timber investments managed by Forest Investment Associates are primarily located in the southeastern parts of the US while the RMK Timberland portfolio has a global footprint with investments in the US as well as South America. At the year end, timber investments had a market value of approximately $119 million with a one year return of 4.2% The System's farmland holdings managed by the Hancock Agricultural Investment Group continued to generate stable and solid returns, returning 12.3% for the year and 14.7% over a five year period. At year end the farmland portfolio had a market value of approximately $88 million. The crops include apples, cranberries, almonds, pistachios, walnuts, macadamia nuts and wine grapes. RCM Capital Management, Sustainable Asset Management, USA, and Hudson Clean Energy Partners make up the System's investments in clean water and alternative energy. During the year Hudson Clean Energy Partners completed a successful sale of one of its portfolio investments and had an impressive 22.61% appreciation for the year.



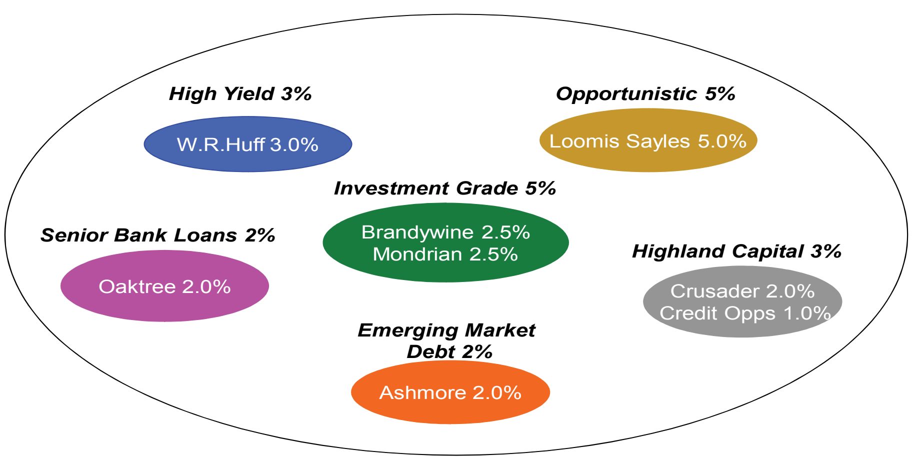
Global Fixed Income Portfolio

The System's Global Fixed Income investments represent approximately 19.3 % of the total portfolio and returned 16.21% for the year. While the global high quality fixed income market had a moderate return of 5.5%, the System's high quality fixed income investments outperformed the index, including the high quality fixed income portfolio managed by Brandywine Global Investment Manager returning 13.3%, and the Mondrian Investment Partners portfolio that returned 8.3%. The global high yield and opportunistic fixed income market fared better, with the Citigroup High Yield Index returning 14.3% for the year. The System's high yield portfolio managed by W. R. Huff Asset Management returned 24.2% and Loomis Sayles gained 18.0%. The Ashmore Emerging Market Debt portfolio also had solid gains returning 18.4% for the year outperforming its benchmark – the 70% Merrill Lynch High Yield / 30% JP Morgan EMD – by 6.6%.

Top Ten Global Fixed Income Holdings

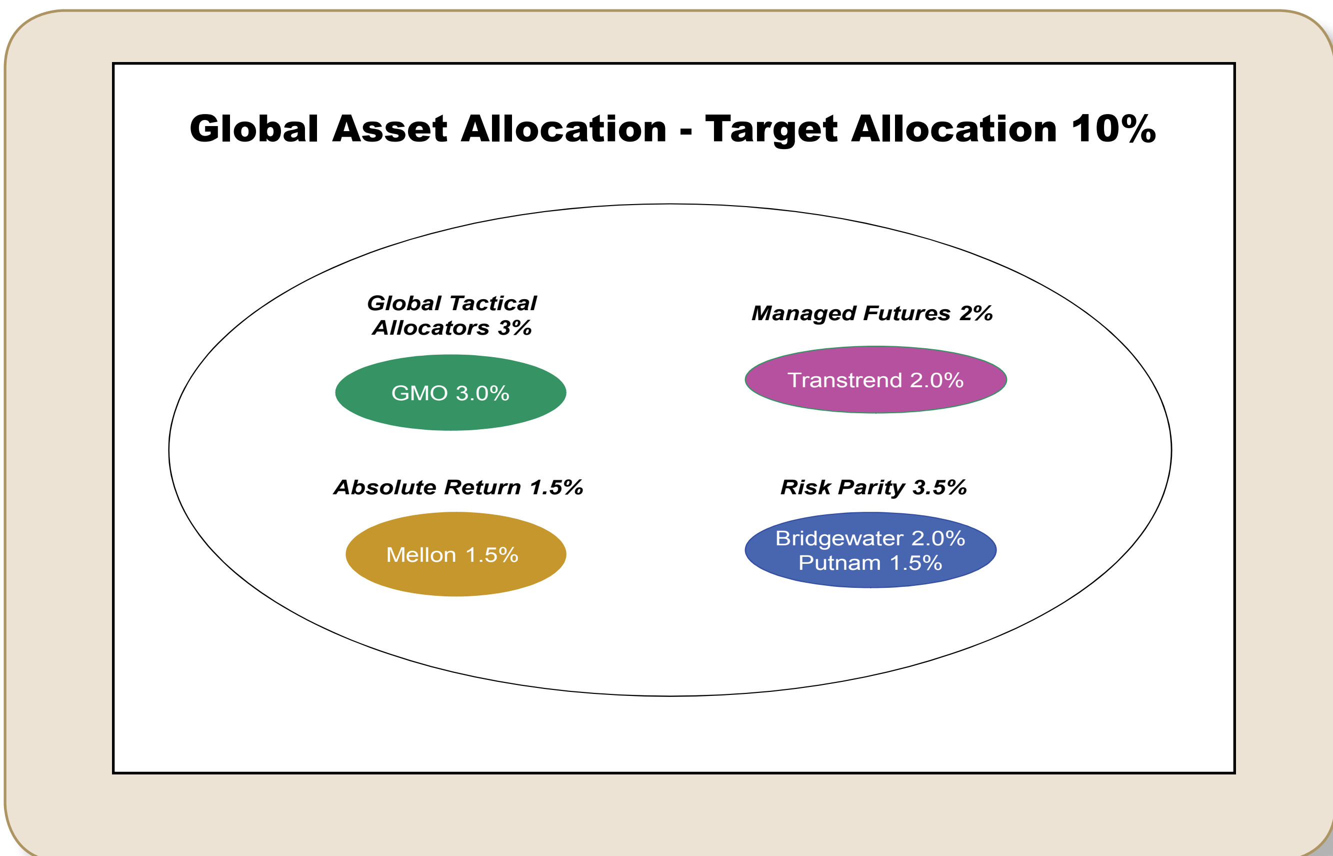
Security Description	Market Value
VALEANT PHARMACEUTICALS INTL 4% CNV BDS 11/15/2013	$6,238,400.00
UNITED STATES TREASURY BDS 4.25% 11/15/2040	$5,686,075.00
NEW SOUTH WALES TREASURY CORP 6% BDS 04/01/2016	$5,507,546.84
BORDEN INC 7.875% DEBS 02/15/2023	$5,030,100.00
POLAND (REPUBLIC OF) 5.25% BDS 10/25/2017	$4,857,756.95
SWEDEN (KINGDOM OF) 5.50% BDS 10/08/2012	$4,671,354.93
BRAZIL (FED REP OF) 10.25% SNR BDS 01/10/2028	$4,301,810.84
LUCENT TECHNOLOGIES 6.45% DEB 03/15/2029	$4,078,770.00
DENBURY RESOURCES INC 7.50% 12/15/2015	$4,074,795.00
JAPAN 1.5% BDS JPY50000 SER 296 09/20/2018	$3,888,145.00

Global Fixed Income - Target Allocation 20%



Global Asset Allocation Portfolio

The System's Global Asset Allocation (GAA) portfolio represents approximately 7.7% of the System's market value. The GAA portfolio has a target allocation of 10% and is designed to produce absolute returns regardless of market conditions. As of year-end of 2010 this portfolio was valued at approximately $238 million representing a return of 12% over the year. The System funded Putnam Total Return Trust and Robeco Transtrend Diversified Fund, LLC in the GAA category, each with a 1.5% allocation prior to yearend 2009. The Putnam Total Return Trust returned 14.2% while the Robeco Transtrend Diversified Fund, LLC returned 17% for the year. The Bridge Water All Weather portfolio led the GAA managers with a one-year return of 21.1%. Also included in this portfolio is approximately $80 million managed by Grantham, Mayo, Van Otterloo & Co. (GMO). In December of 2010 the entire GMO portfolio was transferred from the Real Return Global Balanced Asset Allocation strategy to the Global Allocation Absolute Return strategy with a goal of generating relatively strong real returns over a market cycle.



Global Real Estate Portfolio

The System's global real estate portfolio is diversified by the type and location of the real estate assets owned. The portfolio consists of retail, industrial, multi-family, office, and undeveloped land. The location of the private assets covers the United States. International locations of the System's private real estate investments include Paris, France and the Bahamas.

The System's private real estate returned 3.07% net of fees for the year amid a slowly recovering real estate market. Longer term, the private real estate portfolio has returned 3.8% net of fees for the 5-year period and has outperformed the benchmark in 7-year, 10-year, and 15-year periods.

The System's real estate portfolio experienced an upturn in commercial real estate activities during the 4th quarter of 2010. The System sold two of its retail assets, achieving a return higher than the overall real estate portfolio. Additionally, the System had three other assets under contract at the end of the year. The System also renegotiated outstanding property level debt on some of its real estate assets, which resulted in more favorable terms for the System, such as lower financing costs, longer maturity, and reduced principal.

INFLATION

Inflation as measured by the Consumer Price Index for all Urban Consumers (CPI-U) increased 1.5% from December 2009 through December 2010 according to the U.S. Department of Labor.

Actuarial Report

DALLAS POLICE AND FIRE PENSION SYSTEM

ACTUARIAL VALUATION

AS OF JANUARY 1, 2011

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May 18, 2011

Mr. Richard L. Tettamant
Administrator
Dallas Police & Fire Pension System
4100 Harry Hines Blvd., Suite 100
Dallas, TX 75219

Re: Dallas Police and Fire Pension System Actuarial Valuation as of January 1, 2011

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, 2011.

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, 2011, the employer contribution rate for GASB 27 purposes to pay the normal cost and fund the Unfunded Actuarial Accrued Liability over 30 years is 29.54%. This amount is more than the 28.23% employer contribution rate calculated as of January 1, 2010.

The funding period has been calculated consistent with the Texas Pension Review Board (Texas PRB) Guidelines for Actuarial Soundness, which allow funding the Unfunded Actuarial Accrued Liability (UAAL) over a level percentage of payroll. In calculating the funding period, we have

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May 18, 2011
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determined the level percentage of pay available to fund the UAAL as the excess of the fixed contribution rates over the normal cost rate. In order for this excess to be level, the normal cost rate must be level and, as such, has been determined using the entry age normal cost rate for the benefits available to members hired after February 28, 2011. Based on this method, the current contribution rate covers the normal cost and the amortization of the UAAL over 21 years.

Benefit Provisions

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

1. Removing the 0.25% restriction on DROP interest rate changes
2. Requiring member contributions while in active DROP
3. Allowing a one-time opportunity for active DROP members to rescind their DROP election
4. Providing benefits for members hired after February 28, 2011 with the following provisions
    a. 2% accrual rate for the first 20 years of service, 2.5% accrual rate for the next 5 years of service and 3% accrual rate for service after 25 years
    b. Average computation pay based on 60 months of pay
    c. Retirement eligibility at age 55 with 20 years of service
5. Disability benefits with the following provisions
    a. Own occupation definition for first two years of disability
    b. Any occupation definition after two years of disability
    c. On-duty disability retirement benefit will be based on a minimum of 50% of average computation pay
6. Survivor benefits for members who die while on active service will be based on a minimum of 25% of average computation pay

Assumptions and Methods

The actuarial assumptions and methods used in the valuation are presented in Schedule C. Due to the change in the DROP interest rate determination, the assumed rate of return on DROP balances was changed from 9.0% to 8.5%. Additionally, we have selected demographic assumptions for the Members expected to be hired after February 28, 2011 that we believe to be reasonable based on the applicable benefit provisions and anticipated employment patterns. Otherwise, the valuation is based on the same assumptions and methods adopted by the Board of Trustees as the previous valuation.

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Mr. Richard Tettamant
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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, 2011 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.

We are Enrolled Actuaries, Fellows of the Society of Actuaries, and Members of the American Academy of Actuaries. We meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein. To the best of our knowledge, this report is complete and accurate and has been prepared in accordance with generally accepted actuarial principles and practice, and we are available to answer questions about it.

Very truly yours,

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

R. Ryan Falls, FSA, EA, MAAA
Director, Consulting Actuary

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Enclosures

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Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2011

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Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2011

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Summary of Principal Results

	January 1, 2011	January 1, 2010
Membership		
Active	5,482	5,476
Terminated with refunds due	68	57
Terminated with deferred benefits	135	144
Retired members and beneficiaries	3,535	3,450
Compensation		
Total	$ 365,126,229	$ 366,720,115
Average	$ 66,605	$ 66,969
Assets		
Market value	$ 3,112,686,542	$ 2,851,645,944
Actuarial value	$ 3,430,818,823	$ 3,382,907,776
Valuation Results		
Unfunded actuarial accrued liability	$ 885,530,459	$ 750,381,064
Funding period	21*	26
GASB No. 25		
Actuarial accrued liability (AAL)	$ 4,316,349,282	$ 4,133,288,840
Assets (actuarial)	$ 3,430,818,823	$ 3,382,907,776
GASB ratio	79.5%	81.8%
Unfunded AAL	$ 885,530,459	$ 750,381,064

* For the January 1, 2011 valuation, the funding period has been calculated consistent with the Texas PRB Guidelines for Actuarial Soundness, which allow funding the UAAL over a level percentage of payroll. In calculating the funding period, we have determined the level percentage of pay available to fund the UAAL as the excess of the fixed contribution rates over the normal cost rate. In order for this excess to be level, the normal cost rate must be level and, as such, has been determined using the entry age normal cost rate for the benefits available to members hired after February 28, 2011. Based on this method, the funding period is 21 years.

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Comments on the Valuation

Overview

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

The overall funding of the Plan remains sound. The funding period decreased to 21 years from 26 years. This decrease was primarily due to the recent modifications to plan benefits offset by losses 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 29.54% of payroll compared with the City's actual contribution rate of 27.50% of payroll and the 30-year funding cost in 2010 of 28.23% of payroll. Section 3 shows a reconciliation of the changes between the 2010 and 2011 figures.

The other measure is the funding period. This is the length of time in years that will be required to amortize the current UAAL based on the current contribution rate. The funding period has been calculated consistent with the Texas PRB Guidelines for Actuarial Soundness, which allow funding the UAAL over a level percentage of payroll. In calculating the funding period, we have determined the level percentage of pay available to fund the UAAL as the excess of the fixed contribution rates over the normal cost rate. In order for this excess to be level, the normal cost rate must be level and, as such, has been determined using the entry age normal cost rate for the benefits available to members hired after February 28, 2011. Based on this method, the current contribution rate covers the normal cost and the amortization of the UAAL over 21 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 2010 and 2011.

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 except for the following.

1. Removing the 0.25% restriction on DROP interest rate changes
2. Requiring member contributions while in active DROP
3. Allowing a one-time opportunity for active DROP members to rescind their DROP election
4. Providing benefits for members hired after February 28, 2011 with the following provisions
    a. 2% accrual rate for the first 20 years of service, 2.5% accrual rate for the next 5 years of service and 3% accrual rate for service after 25 years
    b. Average computation pay based on 60 months of pay
    c. Retirement eligibility at age 55 with 20 years of service
5. Disability benefits with the following provisions
    a. Own occupation definition for first two years of disability
    b. Any occupation definition after two years of disability
    c. On-duty disability retirement benefit will be based on a minimum of 50% of average computation pay
6. Survivor benefits for members who die while on active service will be based on a minimum of 25% of average computation pay

Actuarial Assumptions and Methods

The actuarial assumptions and methods used in the valuation are presented in Schedule C. Due to the change in the DROP interest rate determination, the assumed rate of return on DROP balances was changed from 9.0% to 8.5%. Additionally, we have selected demographic assumptions for the Members expected to be hired after February 28, 2011 that we believe to be reasonable based on the applicable benefit provisions and anticipated employment patterns. Otherwise, the valuation is based on the same assumptions and methods adopted by the Board of Trustees 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 29.54% of payroll will be required for the City to avoid showing an additional pension liability on its financial statements for the fiscal year beginning in 2011. 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 statements 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 2010 and 2011 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. The estimated rate of return for 2010 is 10.72% for the market value of assets, and 2.69% 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 remained fairly level during the last year. The active membership increased from 5,476 members as of January 1, 2010 to 5,482 members as of January 1, 2011, a 0.1% increase. The total active payroll decreased from $366,720,115 to $365,126,229 over the same period, a 0.4% decrease. Schedule A shows a summary of the membership data.

Experience

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

Actuarial Cost, Margin and Funding Period

		January 1, 2011	January 1, 2010
1.	Covered Payroll		
	a. Active members excluding DROP	236,127,391	241,857,063
	b. DROP members	128,998,838	124,863,052
	c. Total	365,126,229	366,720,115
2.	Actuarial present value of future pay		
	a. Active members excluding DROP	2,123,253,500	2,160,021,400
	b. DROP members	1,486,205,000	1,486,642,400
	c. Total	3,609,458,500	3,646,663,800
3.	Current contribution rates		
	a. City	27.50%	27.50%
	b. Member	8.50%*	8.50%
	c. Total	36.00%	36.00%
4.	Actuarial present value of future benefits	5,193,430,871	5,041,696,694
5.	Actuarial present value of future normal costs		
	a. Total	877,081,589	908,407,854
	b. Member (3b x 2a)	290,132,373*	183,601,819
	c. City (5a - 5b)	586,949,216	724,806,035
6.	Actuarial accrued liability (4 - 5a)	4,316,349,282	4,133,288,840
7.	Actuarial value of assets	3,430,818,823	3,382,907,776
8.	Unfunded actuarial accrued liability (UAAL) (6 - 7)	885,530,459	750,381,064
9.	Normal cost		
	a. Normal cost percentage (5a ÷ 2c)	24.30%	24.91%
	b. Total normal cost (1c x 9a)	88,725,674	91,349,981
	c. Member normal cost (1a x 3b)	21,038,320*	20,557,850
	d. City normal cost (9b - 9c)	67,687,354	70,792,131
	e. City normal rate (9d ÷ [1c x 1.11])	16.70%	17.39%

* Active DROP members contribute 3.0% of pay for pay periods ending on or after October 1, 2011, 6.0% of pay for pay periods ending on or after October 1, 2012, and 8.5% of pay for pay periods ending on or after October 1, 2013. Present value of future member contributions (line 5b) as of January 1, 2011 was increased by $109,655,825 and member normal cost (line 9c) as of January 1, 2011 was increased by $967,491 to account for these changes.

Actuarial Cost, Margin and Funding Period

	January 1, 2011	January 1, 2010
10. 30-year funding cost*		
a. City normal cost rate**	16.70%	17.39%
b. Amortization rate	12.84%	10.84%
c. Total	29.54%	28.23%
11. Margin over/(under) 30-year cost* (3a - 10c)	(2.04)%	(0.73)%
12. Funding period to amortize UAAL	21***	26

* 30-year funding cost is necessary for accounting purposes only.

** 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 and the plan modifications approved by the membership in 2011.

*** For the January 1, 2011 valuation, the funding period has been calculated consistent with the Texas PRB Guidelines for Actuarial Soundness, which allow funding the UAAL over a level percentage of payroll. In calculating the funding period, we have determined the level percentage of pay available to fund the UAAL as the excess of the fixed contribution rates over the normal cost rate. In order for this excess to be level, the normal cost rate must be level and, as such, has been determined using the entry age normal cost rate for the benefits available to members hired after February 28, 2011. Based on this method, the funding period is 21 years.

Analysis of Change in UAAL

1.	UAAL as of January 1, 2010	$ 750,381,064
2.	Changes due to:	
	a. Expected increase/(amortization)	$ 19,990,718
	b. Plan amendment	(48,838,083)
	c. Actual contributions (greater)/less than expected	7,833,885
	d. Liability experience	(39,248,981)
	e. Asset experience	195,411,856
	f. Total changes	$ 135,149,395
3.	UAAL as of January 1, 2011	$ 885,530,459

Analysis of Change in Funding Cost

1.	30-year funding cost* as of January 1, 2010	28.23%
2.	Changes due to:	
	a. Resetting of amortization from prior year	(0.14)
	b. Plan amendment	(1.26)
	c. Actual contributions (greater)/less than expected	0.10
	d. Liability experience	(0.11)
	e. Asset experience	2.72
	f. Total	1.31
3.	30-year funding cost* as of January 1, 2011	29.54%

* 30-year funding cost is necessary for accounting purposes only.

Analysis of Change in Funding Period

1.	Funding period as of January 1, 2010	26 years
2.	Changes due to:	
	a. Passage of time	(1)
	b. Plan amendment	(16)
	c. Actual contributions (greater)/less than expected	1
	d. Liability experience	1
	e. Asset experience	10
	f. Total changes	(5)
3.	Funding period as of January 1, 2011*	21 years

* For the January 1, 2011 valuation, the funding period has been calculated consistent with the Texas PRB Guidelines for Actuarial Soundness, which allow funding the UAAL over a level percentage of payroll. In calculating the funding period, we have determined the level percentage of pay available to fund the UAAL as the excess of the fixed contribution rates over the normal cost rate. In order for this excess to be level, the normal cost rate must be level and, as such, has been determined using the entry age normal cost rate for the benefits available to members hired after February 28, 2011. Based on this method, the funding period is 21 years.

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, 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%
January 1, 2010	3,383	4,133	750	81.8%	367	204.4%
January 1, 2011	3,431	4,316	885	79.5%	365	242.5%

GASB #25 Schedule of Employer Contributions for Year Ending December 31, 2010

Annual Required Contribution	Percentage Contributed
28.23% of Pay	97.4%

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Summary of Accumulated Benefits
(FASB ASC 960)

Accumulated Benefits at January 1, 2011

Vested benefits of participants and beneficiaries currently receiving payments	$ 2,117,339,109
Other vested benefits	2,018,952,530
Nonvested benefits	144,498,536
Total benefits	$ 4,277,790,175

ASC 960 Reconciliation

Accumulated benefits at January 1, 2010		$ 4,066,409,722
Benefits accumulated	$ 83,001,303	
Interest	338,555,815	
Benefits paid	(170,272,496)	
Assumption change	0	
Plan amendments	(39,904,169)	
Total Change		211,380,453
Accumulated benefits at January 1, 2011		$ 4,277,790,175

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Reconciliation of Fund Assets

	Year Ending December 31, 2010
1. Value of fund at beginning of year	$ 2,851,645,944
2. Contributions	
a. City	108,060,956
b. Member	19,790,189
c. Total	$ 127,851,145
3. Benefit payments (including DROP payments)	(169,458,531)
4. Refunds	(813,965)
5. Gross earnings	309,919,251
6. Expenses	(6,457,302)
7. Value of assets at end of year	$ 3,112,686,542
8. Estimated rate of return	10.72%

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Determination of Excess Earnings To Be Deferred

		Year Ending December 31, 2010
1.	Market value at beginning of year	$ 2,851,645,944
2.	Net new investments	
	a. Contributions	$ 127,851,145
	b. Benefit payments (including DROP payments)	(169,458,531)
	c. Refunds	(813,965)
	d. Total	$ (42,421,351)
3.	Market value at end of year	$ 3,112,686,542
4.	Yield, net of expenses (3 - 1 - 2d)	$ 303,461,949
5.	Average balance [1 + ½ x (2d)]	2,830,435,268
6.	Assumed investment return rate	8.50%
7.	Expected net return (5 x 6)	$ 240,586,998
8.	Gains/(losses) subject to deferral (4 - 7)	$ 62,874,951

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Calculation of Actuarial Value of Assets

1. Market value of assets as of January 1, 2011 — $3,112,686,542

2. Deferral amounts

	Year	Total Gain/(Loss)	Percent Deferred	Deferral Amount
a.	2010	$ 62,874,951	80%	$ 50,299,961
b.	2009	132,954,038	60%	79,772,423
c.	2008	(1,125,904,567)	40%	(450,361,827)
d.	2007	10,785,809	20%	2,157,162
e.	Total			$ (318,132,281)

3. Preliminary actuarial value of assets (1 - 2e) — 3,430,818,823

4. 80% of Market value — 2,490,149,234

5. 120% of Market value — 3,735,223,850

6. Actuarial value of assets (3, not less than 4 or more than 5) — 3,430,818,823

7. Rate of return on actuarial value of assets — 2.69%

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Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2011

Schedule A

Membership Data

	January 1, 2011	January 1, 2010
1. Active members (excluding DROP)		
a. Police and Fire		
1. Number	4,085	4,170
2. Covered payroll	$236,127,391	$241,857,063
3. Average annual pay	$ 57,804	$ 57,999
4. Average age	36.58	36.64
5. Average service (years)	9.68	9.82
b. Police		
1. Number	2,867	2,919
2. Covered payroll	$164,267,163	$168,101,831
3. Average annual pay	$ 57,296	$ 57,589
4. Average age	36.43	36.55
5. Average service (years)	9.49	9.68
c. Fire		
1. Number	1,218	1,251
2. Covered payroll	$ 71,860,228	$ 73,755,232
3. Average annual pay	$ 58,999	$ 58,957
4. Average age	36.94	36.86
5. Average service (years)	10.13	10.13

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Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2011

Schedule A
(continued)

Membership Data
(continued)

	January 1, 2011	January 1, 2010
2. Active members (DROP only)		
a. Police and Fire		
1. Number	1,397	1,306
2. Covered payroll	$128,998,838	$124,863,052
3. Average annual pay	$ 92,340	$ 95,607
4. Average age	54.21	54.31
5. Average total service (years)	28.27	28.56
6. Average time in DROP (years)	4.66	4.65
7. DROP account balance	$416,749,719	$378,800,973
b. Police		
1. Number	801	724
2. Covered payroll	$ 73,402,057	$ 68,755,764
3. Average annual pay	$ 91,638	$ 94,967
4. Average age	53.72	53.96
5. Average total service (years)	27.50	27.99
6. Average time in DROP (years)	4.13	4.24
7. DROP account balance	$206,566,146	$186,337,436
c. Fire		
1. Number	596	582
2. Covered payroll	$ 55,596,781	$ 56,107,288
3. Average annual pay	$ 93,283	$ 96,404
4. Average age	54.88	54.74
5. Average service (years)	29.30	29.28
6. Average time in DROP (years)	5.36	5.16
7. DROP account balance	$210,183,573	$192,463,537

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Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2011

Schedule A
(continued)

Membership Data
(continued)

	January 1, 2011	January 1, 2010
3. Active members (including DROP)		
a. Police and Fire		
1. Number	5,482	5,476
2. Covered payroll	$365,126,229	$366,720,115
3. Average annual pay	66,605	66,969
4. Average age	41.08	40.86
5. Average service (years)	14.42	14.29
6. DROP account balance	$416,749,719	$378,800,973
b. Police		
1. Number	3,668	3,643
2. Covered payroll	$237,669,220	$236,857,595
3. Average annual pay	$ 64,795	$ 65,017
4. Average age	40.21	40.01
5. Average service (years)	13.42	13.32
6. DROP account balance	$206,566,146	$186,337,436
c. Fire		
1. Number	1,814	1,833
2. Covered payroll	$127,457,009	$129,862,520
3. Average annual pay	$ 70,263	$ 70,847
4. Average age	42.83	42.54
5. Average service (years)	16.43	16.21
6. DROP account balance	$210,183,573	$192,463,537

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Membership Data
(continued)

		January 1, 2011	January 1, 2010
4.	Inactive members eligible for annuity		
	a. Retired members	2,644	2,565
	b. Beneficiaries	891	885
	c. Number entitled to deferred benefits	135	144
	d. Total number of inactive members	3,670	3,594
	e. Total annual benefit	$143,188,147	$135,299,594
	f. Average annual benefit	$ 39,016	$ 37,646
5.	Inactive members with refunds due		
	a. Number	68	57
	b. Accumulated contribution balance	$ 225,527	$ 139,166

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Summary of Benefit Provisions
As of January 1, 2011
For Actuarial Calculations

Group A

Definitions

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

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

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

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

Pension System: The Dallas Police and Fire Pension System

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

Qualified Surviving Children: All surviving unmarried children under 19 years of age and children that become handicapped before age 23 provided they were born or adopted before Member terminated his employment.

Contribution Rates

The Member contribution rate is 6.5%.

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

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

Service Retirement Benefits

Annual Normal Retirement Pension

Greater of I or II:

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

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

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

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

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

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

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

Disability Retirement Benefits

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

Annual Amount of Pension

Greater of I or II:

I. Same as Normal Retirement Pension (I).

II. Depending on Source of Disability

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

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

Survivor Benefits

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

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

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

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

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

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

Minimum Benefits

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

Benefit Supplement

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

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

Group B

Generally applicable to Members hired on or before February 28, 2011.

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 and children that become handicapped before age 23 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 contribution rate for Members not participating in DROP is currently 8.5%. The contribution rate for Members participating in DROP will be 3.0% for pay periods ending on or after October 1, 2011, 6.0% for pay periods ending on or after October 1, 2012, and 8.5% for pay periods ending on or after October 1, 2013.

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 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 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. As of October 1, 2011, Members continue making contributions to the Combined Pension Plan while active and participating in DROP. 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.

Group B

For Members hired after February 28, 2011

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 60 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 and children that become handicapped before age 23 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 contribution rate for Members not participating in DROP is currently 8.5%. The contribution rate for Members participating in DROP will be 3.0% for pay periods ending on or after October 1, 2011, 6.0% for pay periods ending on or after October 1, 2012, and 8.5% for pay periods ending on or after October 1, 2013.

Service Retirement Benefits

Annual Normal Retirement Pension

Condition for Retirement: Attainment of age 55 and 20 years of Pension Service.

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Amount for Allowance: 2.0% of Average Computation Pay for the first 20 years of Pension Service, 2.5% of Average Computation Pay for the next five years of Pension Service, and 3.0% of Average Computation Pay for every year of Pension Service after 25 years.

Disability Retirement Benefits

Service-Related Disability

Condition for Retirement: Disability preventing the Member from performing his or her duties with his or her department for the first two years. After the initial two years, the disability must prevent the Member from performing any gainful employment for which he or she is qualified by reason of training, education or experience.

Amount of Pension: The greater of 50% of Average Computation Pay and the Normal Retirement Allowance.

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: Normal Retirement Allowance.

Survivor Benefits

Survivor Benefits for Qualified Surviving Spouse: Death in Active Service: The greater of 50% of: (1) the benefit amount that the deceased Member would have received if the Member had left active service and had attained age 55, assuming a benefit based on a minimum of 50% of Average Computation Pay; or (2) as calculated using the benefit calculation formula and actual years of Pension Service.

Survivor Benefits when no Qualified Surviving Spouse: Death in Active Service: The greater of 50% of: (1) the benefit amount that the deceased Member would have received if the Member had left active service and had attained age 55, assuming a benefit based on a minimum of 50% of Average Computation Pay; or (2) as calculated using the benefit calculation formula and actual 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. 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.

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

Not eligible for an automatic increase.

Minimum Benefits

The minimum benefit for normal retirement is $2,200 monthly 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.

Benefit Supplement

If a Member retires 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

At normal retirement age, a member may elect to enter the DROP. Retirement benefits will be calculated as if the Member retired on that date. Each month, the retirement benefit will be deposited in an account while the active Member is participating in DROP. Upon termination of employment, the Member will have the balance in the 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, 2011

Schedule C

Summary of Actuarial Methods and Assumptions
(Effective as of January 1, 2011)

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 8.5% per annum for Members eligible to receive interest accumulation in their DROP account.

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, 2011

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.

Postretirement Mortality: According to the 1994 Group Annuity Mortality Table for males and females, set back one year for males and females.

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DROP Election: Members are assumed to elect DROP at age 50 with five years for Plan B if hired on or before February 28, 2011, age 55 with 20 years for Plan B if hired after February 28, 2011, 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.

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2011

Schedule C (continued)

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.

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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, 2006 through December 31, 2010 shows that during this period there have been about 10% more terminations than expected.

January 1, 2006 through December 31, 2010			
	Actual	Expected	Actual/Expected
Termination Prior to Retirement	467	425	110%

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, 2006 through December 31, 2010 shows that during this period there have been about 20% 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, 2006 through December 31, 2010			
	Actual	Expected	Actual/Expected
Disability Retirements	12	10	120%

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2011

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, 2006 through December 31, 2010 shows that during this period there have been about 25% less retirements than expected. Due to the changes in DROP interest rates and Member contributions during the DROP period, we feel that no change is needed at this time due to the expectation that these changes will create an increase in retirement rates.			
January 1, 2006 through December 31, 2010			
	Actual	Expected	Actual/Expected
Retirement	595	789	75%

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, 2010 shows that during this period there has been only one more death than expected. It is generally desirable to have some margin in this assumption for mortality improvement.			
January 1, 2007 through December 31, 2010			
	Actual	Expected	Actual/Expected
Death	387	386	100%

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 very little difference in the assumed age at DROP and the actual age at DROP.			
Through December 31, 2010			
	Actual	Expected	Actual/Expected
Age at DROP (from January 1, 1996)	49.9	50.0	100%
Age at DROP (from January 1, 2006)	49.4	50.0	99%

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Dallas Police and Fire Pension System — **Schedule D**
Actuarial Valuation - January 1, 2011 — **(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, 2010 has been 3.67%. 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, 1951 through December 31, 2010

	Actual	Expected	Actual/Expected
Inflation	3.67%	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, 2010 follows.

January 1, 2006 through December 31, 2010

	Actual	Expected	Actual/Expected
Valuation Compensation	$1,625,627,809	$1,650,909,323	98%

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Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2011

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, 2010 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)
1/1/2009	through	12/31/2009	13.78
1/1/2010	through	12/31/2010	10.72
10/1/1988	through	12/31/2010	9.42%

Effective for years beginning on October 1, 2011 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 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 5.96%. Therefore, the annual DROP interest rate for October 1, 2011 is 8.00%.

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Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2011

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
2011	$3,112,686,542	$135,100,000	$205,700,000	$261,600,000	$3,303,700,000
2012	3,303,700,000	144,600,000	230,700,000	277,200,000	3,494,800,000
2013	3,494,800,000	154,500,000	258,000,000	292,700,000	3,684,000,000
2014	3,684,000,000	163,500,000	287,400,000	307,900,000	3,868,000,000
2015	3,868,000,000	170,000,000	319,400,000	322,400,000	4,041,000,000
2016	4,041,000,000	176,800,000	353,300,000	336,000,000	4,200,500,000
2017	4,200,500,000	183,900,000	390,200,000	348,300,000	4,342,500,000
2018	4,342,500,000	191,200,000	429,000,000	359,000,000	4,463,700,000
2019	4,463,700,000	198,900,000	470,200,000	367,900,000	4,560,300,000
2020	4,560,300,000	206,800,000	513,600,000	374,600,000	4,628,100,000
2021	4,628,100,000	215,100,000	491,700,000	381,600,000	4,733,100,000
2022	4,733,100,000	223,700,000	453,700,000	392,500,000	4,895,600,000
2023	4,895,600,000	232,600,000	472,700,000	405,900,000	5,061,400,000
2024	5,061,400,000	242,000,000	491,800,000	419,600,000	5,231,200,000
2025	5,231,200,000	251,600,000	509,500,000	433,700,000	5,407,000,000

* 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, 2011

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	56	42,505	103	44,380	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25 to 29	80	42,729	465	45,426	66	52,400	0	0	0	0	0	0	0	0	0	0	0	0	0	0
30 to 34	33	42,694	253	45,662	184	55,093	49	59,953	1	52,488	0	0	0	0	0	0	0	0	0	0
35 to 39	12	43,282	117	45,412	155	55,934	182	62,544	38	69,639	0	0	0	0	0	0	0	0	0	0
40 to 44	9	42,938	44	45,052	75	56,072	106	63,216	214	71,589	117	75,968	3	78,678	0	0	0	0	0	0
45 to 49	1	43,864	10	45,224	37	55,827	28	64,201	98	72,973	219	78,554	58	80,112	0	0	0	0	0	0
50 to 54	0	0	5	61,698	7	56,632	5	65,871	14	67,465	8	75,220	2	85,430	1	85,048	0	0	0	0
55 to 59	0	0	6	57,745	0	0	0	0	2	74,308	1	78,116	1	78,795	0	0	0	0	0	0
60 to 64	0	0	0	0	0	0	0	0	0	0	1	71,155	0	0	0	0	0	0	0	0
65 to 69	0	0	0	0	1	56,566	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, 2011

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	8	41,690	36	44,107	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25 to 29	22	41,690	166	45,236	11	50,703	1	46,979	0	0	0	0	0	0	0	0	0	0	0	0
30 to 34	14	41,908	118	45,550	98	55,520	42	61,004	1	61,663	0	0	0	0	0	0	0	0	0	0
35 to 39	0	0	36	45,015	90	56,007	122	64,443	23	72,775	1	63,609	0	0	0	0	0	0	0	0
40 to 44	1	41,690	2	47,716	31	55,334	58	64,884	67	71,691	30	79,261	1	88,632	0	0	0	0	0	0
45 to 49	0	0	2	24,583	20	56,408	13	64,237	53	72,715	73	79,446	63	81,590	0	0	0	0	0	0
50 to 54	0	0	1	1,392	2	52,053	1	64,908	5	73,349	1	74,571	3	73,411	0	0	0	0	0	0
55 to 59	0	0	2	48,640	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
60 to 64	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
65 to 69	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
70 & up	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

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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, 2011

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	64	42,403	139	44,309	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25 to 29	102	42,505	631	45,376	77	52,158	1	46,979	0	0	0	0	0	0	0	0	0	0	0	0
30 to 34	47	42,460	371	45,627	282	55,241	91	60,438	2	57,076	0	0	0	0	0	0	0	0	0	0
35 to 39	12	43,282	153	45,319	245	55,961	304	63,306	61	70,821	1	63,609	0	0	0	0	0	0	0	0
40 to 44	10	42,813	46	45,168	106	55,856	164	63,806	281	71,613	147	76,640	4	81,167	0	0	0	0	0	0
45 to 49	1	43,864	12	41,783	57	56,031	41	64,213	151	72,882	292	78,777	121	80,881	0	0	0	0	0	0
50 to 54	0	0	6	51,647	9	55,615	6	65,711	19	69,013	9	75,148	5	78,219	1	85,048	0	0	0	0
55 to 59	0	0	8	55,469	0	0	0	0	2	74,308	1	78,116	1	78,795	0	0	0	0	0	0
60 to 64	0	0	0	0	0	0	0	0	0	0	1	71,155	0	0	0	0	0	0	0	0
65 to 69	0	0	0	0	1	56,566	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, 2011

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	56	42,505	103	44,380	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25 to 29	80	42,729	465	45,426	66	52,400	0	0	0	0	0	0	0	0	0	0	0	0	0	0
30 to 34	33	42,694	253	45,662	184	55,093	49	59,953	1	52,488	0	0	0	0	0	0	0	0	0	0
35 to 39	12	43,282	117	45,412	155	55,934	182	62,544	38	69,639	0	0	0	0	0	0	0	0	0	0
40 to 44	9	42,938	44	45,052	75	56,072	106	63,216	214	71,589	131	78,451	3	78,678	0	0	0	0	0	0
45 to 49	1	43,864	10	45,224	37	55,827	28	64,201	101	73,152	277	81,000	112	85,932	0	0	0	0	0	0
50 to 54	0	0	5	61,698	9	57,591	9	72,711	34	76,155	112	89,722	194	93,010	79	92,256	1	85,496	0	0
55 to 59	0	0	6	57,745	4	89,254	1	76,609	7	78,629	29	92,242	45	90,031	74	92,894	36	93,534	2	87,855
60 to 64	0	0	0	0	1	95,428	0	0	0	0	16	89,335	10	90,470	12	92,129	28	92,671	8	86,594
65 to 69	0	0	0	0	1	56,566	0	0	0	0	0	0	0	0	0	0	1	99,995	2	95,191
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 2

THE NUMBER AND ANNUAL AVERAGE COMPENSATION OF ACTIVE
(including DROP) MEMBERS DISTRIBUTED BY FIFTH AGE AND SERVICE
AS OF JANUARY 1, 2011

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	8	41,690	36	44,107	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25 to 29	22	41,690	166	45,236	11	50,703	1	46,979	0	0	0	0	0	0	0	0	0	0	0	0
30 to 34	14	41,908	118	45,550	98	55,520	42	61,004	1	61,663	0	0	0	0	0	0	0	0	0	0
35 to 39	0	0	36	45,015	90	56,007	122	64,443	23	72,775	1	63,609	0	0	0	0	0	0	0	0
40 to 44	1	41,690	2	47,716	31	55,334	58	64,884	67	71,691	31	79,593	1	88,632	0	0	0	0	0	0
45 to 49	0	0	2	24,583	20	56,408	13	64,237	55	73,747	103	82,784	94	86,190	0	0	0	0	0	0
50 to 54	0	0	1	1,392	2	52,053	2	70,820	22	84,030	53	91,526	146	95,043	57	91,596	0	0	0	0
55 to 59	0	0	2	48,640	0	0	0	0	4	79,287	13	94,290	43	95,716	77	94,391	41	87,104	1	122,211
60 to 64	0	0	0	0	0	0	1	77,526	1	92,072	1	82,459	2	99,159	21	89,416	35	92,133	11	98,360
65 to 69	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	5	103,971	5	104,123
70 & up	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	108,629

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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, 2011

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	64	42,403	139	44,309	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25 to 29	102	42,505	631	45,376	77	52,158	1	46,979	0	0	0	0	0	0	0	0	0	0	0	0
30 to 34	47	42,460	371	45,627	282	55,241	91	60,438	2	57,076	0	0	0	0	0	0	0	0	0	0
35 to 39	12	43,282	153	45,319	245	55,961	304	63,306	61	70,821	1	63,609	0	0	0	0	0	0	0	0
40 to 44	10	42,813	46	45,168	106	55,856	164	63,806	281	71,613	162	78,670	4	81,167	0	0	0	0	0	0
45 to 49	1	43,864	12	41,783	57	56,031	41	64,213	156	73,362	380	81,484	206	86,050	0	0	0	0	0	0
50 to 54	0	0	6	51,647	11	56,584	11	72,367	56	79,248	165	90,302	340	93,883	136	91,980	1	85,496	0	0
55 to 59	0	0	8	55,469	4	89,254	1	76,609	11	78,868	42	92,876	88	92,808	151	93,657	77	90,110	3	99,306
60 to 64	0	0	0	0	1	95,428	1	77,526	1	92,072	17	88,930	12	91,918	33	90,402	63	92,372	19	93,406
65 to 69	0	0	0	0	1	56,566	0	0	0	0	0	0	0	0	0	0	6	103,308	7	101,571
70 & up	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	108,629

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TABLE 3

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF RETIRED MEMBERS
BY AGE AS OF JANUARY 1, 2011

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
44	1	$ 26,974	$ 26,974
45	1	15,176	15,176
46	4	109,841	27,460
47	5	106,027	21,205
48	13	357,250	27,481
49	8	237,936	29,742
50	16	472,245	29,515
51	23	747,133	32,484
52	27	1,238,652	45,876
53	19	690,243	36,329
54	22	786,376	35,744
55	29	1,369,177	47,213
56	41	2,212,916	53,974
57	60	3,101,676	51,695
58	74	4,536,103	61,299
59	109	6,297,130	57,772
60	105	5,499,110	52,372
61	126	6,940,964	55,087
62	120	5,843,616	48,697
63	157	7,599,148	48,402
64	139	6,831,387	49,147
65	97	4,639,077	47,826
66	87	3,971,103	45,645
67	93	4,561,266	49,046
68	108	5,042,220	46,687
69	66	3,303,276	50,050
70	94	4,421,777	47,040
71	75	3,727,513	49,700
72	85	4,196,056	49,365
73	68	3,369,736	49,555
74	56	2,519,743	44,995
75	52	2,321,558	44,645
76	54	2,306,305	42,709
77	51	2,054,424	40,283

TABLE 3

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF RETIRED MEMBERS
BY AGE AS OF JANUARY 1, 2011
CONTINUED

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
78	54	$ 2,471,720	$ 45,773
79	54	2,045,305	37,876
80	50	1,881,224	37,624
81	43	1,582,373	36,799
82	39	1,508,135	38,670
83	27	1,062,912	39,367
84	18	682,098	37,894
85	19	673,456	35,445
86	19	722,283	38,015
87	17	675,551	39,738
88	8	305,163	38,145
89	3	106,734	35,578
90	11	427,534	38,867
91	9	318,905	35,434
92	1	35,578	35,578
93	3	98,333	32,778
94	1	35,455	35,455
95	1	35,504	35,504
TOTAL	2,462	$ 116,121,397	$ 47,165
POLICE	1,442	$ 65,438,190	$ 45,380
FIRE	1,020	$ 50,683,207	$ 49,689

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TABLE 4

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF DISABLED MEMBERS
BY AGE AS OF JANUARY 1, 2011

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
31	1	$ 25,435	$ 25,435
34	1	30,699	30,699
35	1	22,184	22,184
38	2	68,984	34,492
39	1	37,995	37,995
40	1	26,711	26,711
42	2	68,288	34,144
43	5	185,774	37,155
44	1	32,732	32,732
45	1	39,056	39,056
46	2	63,798	31,899
47	5	191,464	38,293
48	3	98,212	32,737
49	2	54,651	27,326
50	3	89,076	29,692
51	2	67,361	33,681
53	2	66,999	33,500
54	4	124,621	31,155
55	3	96,266	32,089
56	5	169,536	33,907
57	2	65,554	32,777
58	1	35,873	35,873
59	6	245,337	40,890
60	6	227,390	37,898
61	6	293,748	48,958
62	6	211,688	35,281
63	7	283,821	40,546
64	4	114,683	28,671
65	2	46,041	23,021
66	6	215,930	35,988
67	2	81,891	40,946
68	4	173,341	43,335
69	2	65,829	32,915
70	7	303,284	43,326

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TABLE 4

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF DISABLED MEMBERS
BY AGE AS OF JANUARY 1, 2011
CONTINUED

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
71	12	$ 570,339	$ 47,528
72	5	235,510	47,102
73	5	197,118	39,424
74	5	161,979	32,396
75	3	145,654	48,551
76	4	158,772	39,693
77	4	141,003	35,251
78	3	121,941	40,647
79	3	101,656	33,885
80	5	235,810	47,162
81	4	128,757	32,189
82	3	116,158	38,719
83	2	70,885	35,443
84	2	71,008	35,504
85	3	106,513	35,504
86	3	117,212	39,071
87	2	62,878	31,439
88	2	63,531	31,766
89	2	62,829	31,415
90	1	35,455	35,455
93	1	35,035	35,035
TOTAL	182	$ 6,864,295	$ 37,716
POLICE	69	$ 2,310,075	$ 33,479
FIRE	113	$ 4,554,220	$ 40,303

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TABLE 5

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF BENEFICIARIES
BY AGE AS OF JANUARY 1, 2011

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
7	1	$ 5,483	$ 5,483
8	1	4,928	4,928
10	2	27,353	13,677
11	3	24,509	8,170
12	4	37,494	9,374
13	7	83,593	11,942
14	7	54,801	7,829
15	1	11,673	11,673
16	5	69,393	13,879
17	3	55,426	18,475
18	4	42,026	10,507
19	5	74,685	14,937
27	1	13,323	13,323
36	2	28,463	14,232
37	2	32,587	16,294
39	3	54,214	18,071
40	2	37,128	18,564
41	3	37,886	12,629
42	1	16,996	16,996
43	3	52,345	17,448
44	3	54,257	18,086
45	2	57,482	28,741
46	3	50,040	16,680
48	3	88,267	29,422
49	7	133,354	19,051
50	10	228,878	22,888
51	7	148,890	21,270
52	10	204,248	20,425
53	5	140,427	28,085
54	5	68,107	13,621
55	9	206,485	22,943
56	14	334,225	23,873
57	10	210,895	21,090
58	9	197,232	21,915

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TABLE 5

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF BENEFICIARIES
BY AGE AS OF JANUARY 1, 2011
CONTINUED

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
59	15	$ 287,442	$ 19,163
60	19	488,669	25,719
61	16	300,646	18,790
62	23	469,007	20,392
63	17	454,446	26,732
64	31	674,098	21,745
65	18	382,186	21,233
66	15	297,663	19,844
67	24	619,327	25,805
68	21	510,177	24,294
69	21	493,471	23,499
70	25	513,961	20,558
71	31	746,506	24,081
72	21	503,728	23,987
73	24	680,350	28,348
74	21	490,609	23,362
75	25	591,083	23,643
76	31	626,534	20,211
77	20	362,594	18,130
78	29	538,437	18,567
79	23	523,807	22,774
80	23	433,589	18,852
81	26	478,965	18,422
82	29	591,922	20,411
83	27	517,637	19,172
84	31	632,003	20,387
85	15	273,619	18,241
86	26	465,340	17,898
87	18	383,158	21,287
88	11	234,077	21,280
89	11	222,407	20,219
90	9	152,952	16,995
91	11	192,711	17,519
92	9	154,315	17,146

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TABLE 5

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF BENEFICIARIES
BY AGE AS OF JANUARY 1, 2011
CONTINUED

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
93	6	$ 105,207	$ 17,535
94	5	87,984	17,597
95	4	117,269	29,317
96	3	51,662	17,221
TOTAL	891	$ 18,536,651	$ 20,804
POLICE	513	$ 10,535,683	$ 20,537
FIRE	378	$ 8,000,968	$ 21,167

TABLE 6

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF RETIRED MEMBERS,
DISABLED MEMBERS AND BENEFICIARIES
BY AGE AS OF JANUARY 1, 2011

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
7	1	$ 5,483	$ 5,483
8	1	4,928	4,928
10	2	27,353	13,677
11	3	24,509	8,170
12	4	37,494	9,374
13	7	83,593	11,942
14	7	54,801	7,829
15	1	11,673	11,673
16	5	69,393	13,879
17	3	55,426	18,475
18	4	42,026	10,507
19	5	74,685	14,937
27	1	13,323	13,323
31	1	25,435	25,435
34	1	30,699	30,699
35	1	22,184	22,184
36	2	28,463	14,232
37	2	32,587	16,294
38	2	68,984	34,492
39	4	92,209	23,052
40	3	63,839	21,280
41	3	37,886	12,629
42	3	85,284	28,428
43	8	238,119	29,765
44	5	113,963	22,793
45	4	111,714	27,929
46	9	223,679	24,853
47	10	297,491	29,749
48	19	543,729	28,617
49	17	425,941	25,055
50	29	790,199	27,248
51	32	963,384	30,106
52	37	1,442,900	38,997

TABLE 6

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF RETIRED MEMBERS,
DISABLED MEMBERS AND BENEFICIARIES
BY AGE AS OF JANUARY 1, 2011
CONTINUED

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
53	26	$ 897,669	$ 34,526
54	31	979,104	31,584
55	41	1,671,928	40,779
56	60	2,716,677	45,278
57	72	3,378,125	46,918
58	84	4,769,208	56,776
59	130	6,829,909	52,538
60	130	6,215,169	47,809
61	148	7,535,358	50,915
62	149	6,524,311	43,787
63	181	8,337,415	46,063
64	174	7,620,168	43,794
65	117	5,067,304	43,310
66	108	4,484,696	41,525
67	119	5,262,484	44,223
68	133	5,725,738	43,051
69	89	3,862,576	43,400
70	126	5,239,022	41,580
71	118	5,044,358	42,749
72	111	4,935,294	44,462
73	97	4,247,204	43,786
74	82	3,172,331	38,687
75	80	3,058,295	38,229
76	89	3,091,611	34,737
77	75	2,558,021	34,107
78	86	3,132,098	36,420
79	80	2,670,768	33,385
80	78	2,550,623	32,700
81	73	2,190,095	30,001
82	71	2,216,215	31,214
83	56	1,651,434	29,490
84	51	1,385,109	27,159
85	37	1,053,588	28,475
86	48	1,304,835	27,184

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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, 2011
CONTINUED

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
87	37	$ 1,121,587	$ 30,313
88	21	602,771	28,703
89	16	391,970	24,498
90	21	615,941	29,331
91	20	511,616	25,581
92	10	189,893	18,989
93	10	238,575	23,858
94	6	123,439	20,573
95	5	152,773	30,555
96	3	51,662	17,221
TOTAL	3,535	$ 141,522,343	$ 40,035
POLICE	2,024	$ 78,283,948	$ 38,678
FIRE	1,511	$ 63,238,395	$ 41,852

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TABLE 7

THE NUMBER AND FUTURE ANNUAL
ALLOWANCE OF TERMINATED MEMBERS
ENTITLED TO A FUTURE BENEFIT
BY AGE AS OF JANUARY 1, 2011

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
29	2	$ 12,891	$ 6,446
31	1	4,694	4,694
33	4	26,026	6,507
34	4	29,937	7,484
35	3	20,785	6,928
36	3	27,466	9,155
37	5	57,480	11,496
38	6	60,865	10,144
39	5	53,196	10,639
40	9	95,092	10,566
41	13	123,054	9,466
42	7	96,153	13,736
43	7	126,443	18,063
44	7	74,699	10,671
45	14	168,615	12,044
46	8	150,631	18,829
47	7	107,596	15,371
48	9	175,893	19,544
49	8	82,778	10,347
50	3	36,562	12,187
51	2	21,634	10,817
52	2	35,838	17,919
53	2	16,984	8,492
55	1	14,546	14,546
56	1	18,825	18,825
57	1	22,124	22,124
61	1	4,997	4,997
TOTAL	135	$ 1,665,804	$ 12,339
POLICE	112	$ 1,416,597	$ 12,648
FIRE	23	$ 249,207	$ 10,835

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TABLE 8

THE NUMBER, ANNUAL RETIREMENT
ALLOWANCE AND ACCOUNT BALANCE
OF DROP MEMBERS
BY AGE AS OF JANUARY 1, 2011

POLICE AND FIRE
DROP

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT	ACCOUNT BALANCE	AVERAGE ACCOUNT BALANCE
41	3	$ 89,303	$ 29,768	$ 51,896	$ 17,299
42	5	144,024	28,805	50,053	10,011
43	2	64,057	32,029	130,013	65,007
44	4	120,416	30,104	232,902	58,226
45	2	62,795	31,398	227,199	113,600
46	6	210,219	35,037	572,473	95,412
47	9	304,780	33,864	465,336	51,704
48	45	2,127,184	47,271	1,116,720	24,816
49	76	3,672,931	48,328	4,003,078	52,672
50	115	5,996,770	52,146	8,303,704	72,206
51	135	6,673,777	49,435	12,562,239	93,054
52	162	9,065,175	55,958	23,673,966	146,136
53	129	7,297,967	56,573	25,691,527	199,159
54	130	7,233,092	55,639	33,991,723	261,475
55	88	5,027,139	57,127	28,432,295	323,094
56	101	5,705,248	56,488	41,477,045	410,664
57	72	3,951,627	54,884	32,657,074	453,570
58	67	3,632,856	54,222	34,391,924	513,312
59	68	3,587,991	52,765	38,121,095	560,604
60	44	2,201,266	50,029	26,457,990	601,318
61	39	1,898,657	48,684	24,717,818	633,790
62	31	1,432,662	46,215	19,438,292	627,042
63	25	1,115,104	44,604	19,347,341	773,894
64	19	764,899	40,258	14,557,881	766,204
65	9	468,510	52,057	9,788,324	1,087,592
66	5	271,317	54,263	6,565,204	1,313,041
67	3	175,873	58,624	4,823,108	1,607,703
68	2	131,799	65,900	3,485,904	1,742,952
75	1	98,215	98,215	1,415,595	1,415,595
TOTAL	1,397	$ 73,525,653	$ 52,631	$ 416,749,719	$ 298,318
POLICE	801	$ 41,713,906	$ 52,077	$ 206,566,146	$ 257,885
FIRE	596	$ 31,811,747	$ 53,375	$ 210,183,573	$ 352,657

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DALLAS FIRE RESCUE

STATISTICS


Dallas
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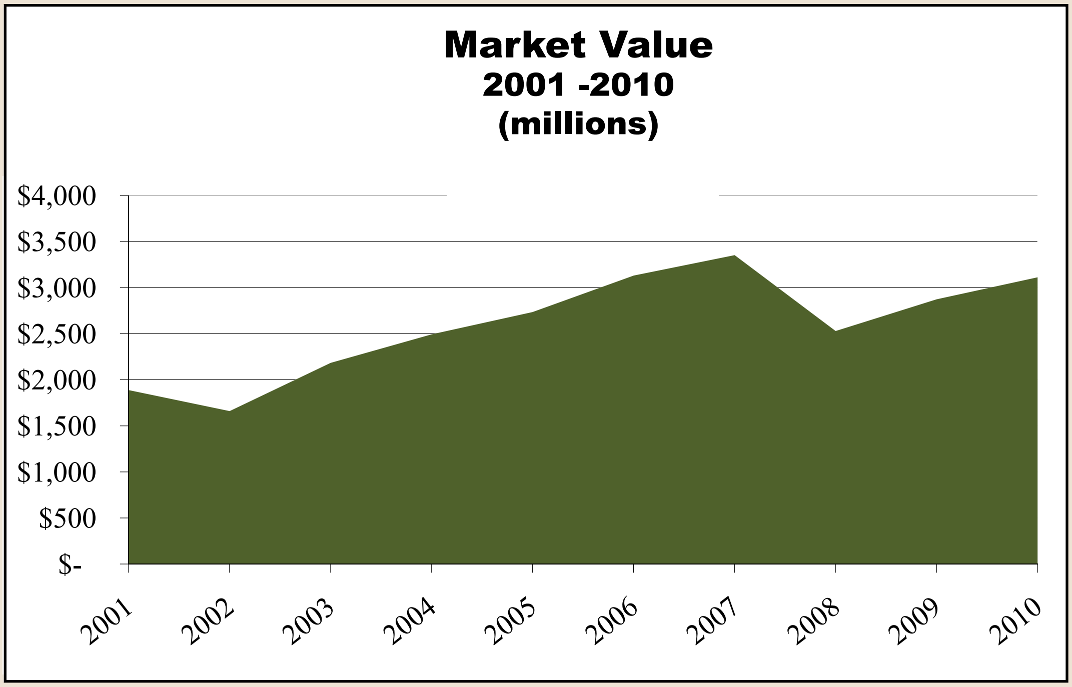
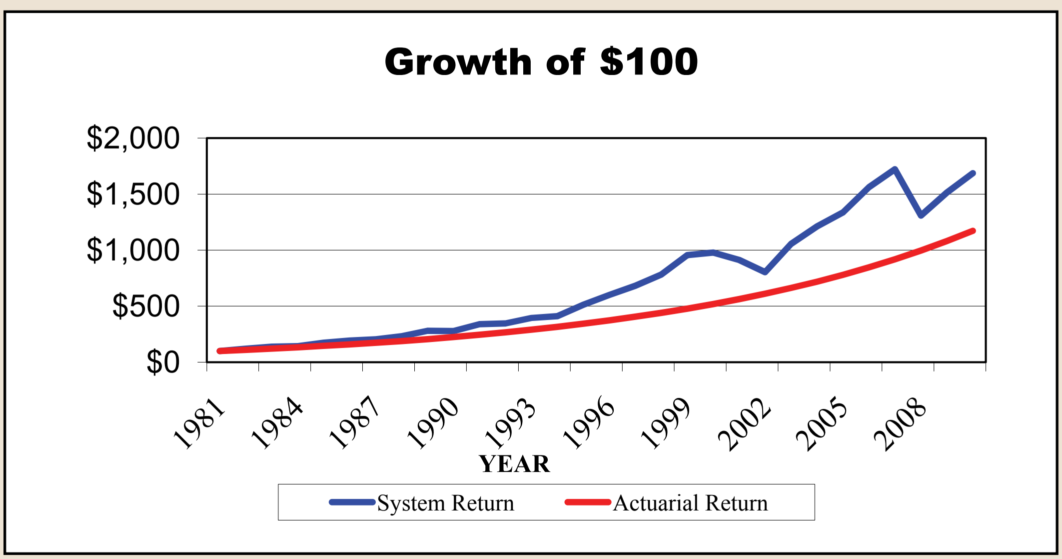


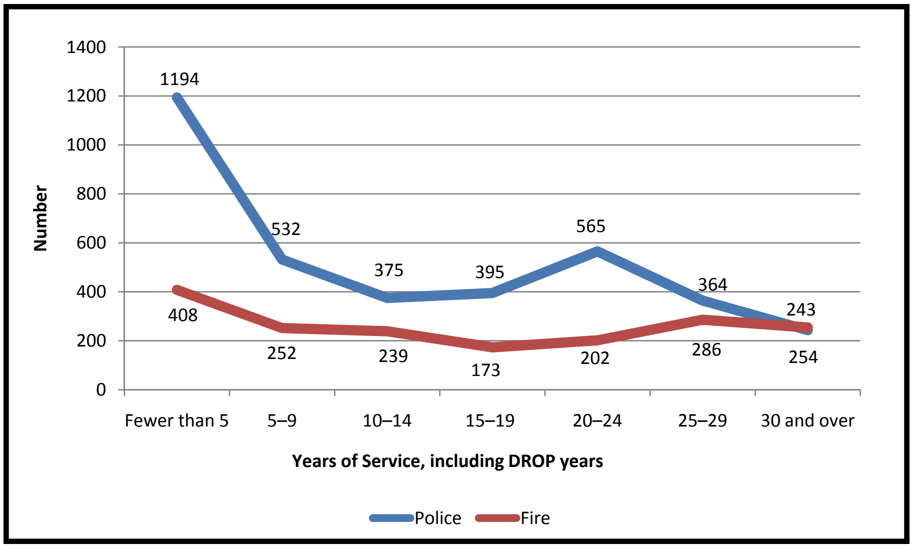
The graph above indicates the growth in market value of the System's assets over the last ten years. The market value of System assets has grown from $1.89 billion in 2001 to over $3.11 billion as of December 31, 2010.



The System's investment return has exceeded the actuarial assumed return rate over the period from 1981 through 2010. One hundred dollars invested in the Pension System's portfolio in 1982 would be worth $1,664.42 as of December 31, 2010. If the $100 had earned the actuarial interest rate, it would be worth $1,173.03.

Active Membership By Service
Including DROP
As of December 31, 2010

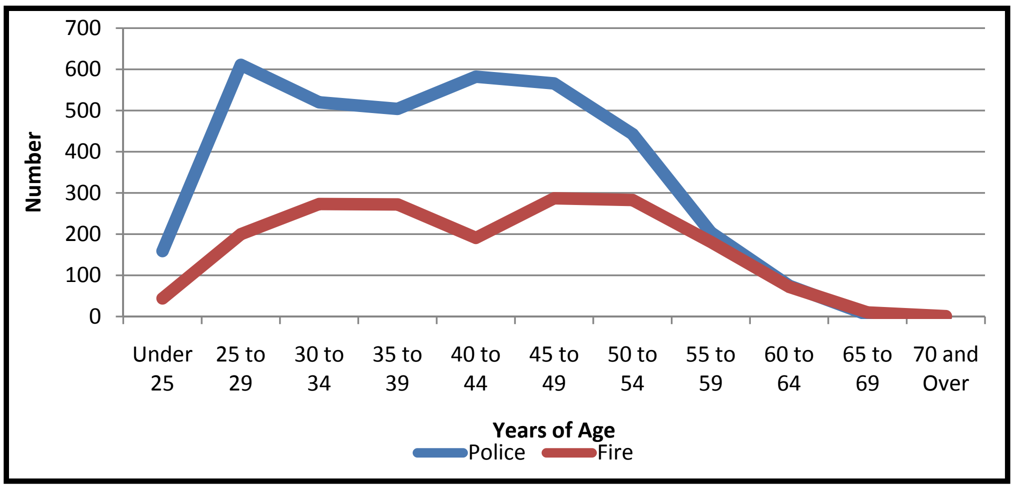
Years of Service	Police	Fire	Total
Fewer than 5	1194	408	1602
5–9	532	252	784
10–14	375	239	614
15–19	395	173	568
20–24	565	202	767
25–29	364	286	650
30 and over	243	254	497
TOTAL	3,668	1,814	5482



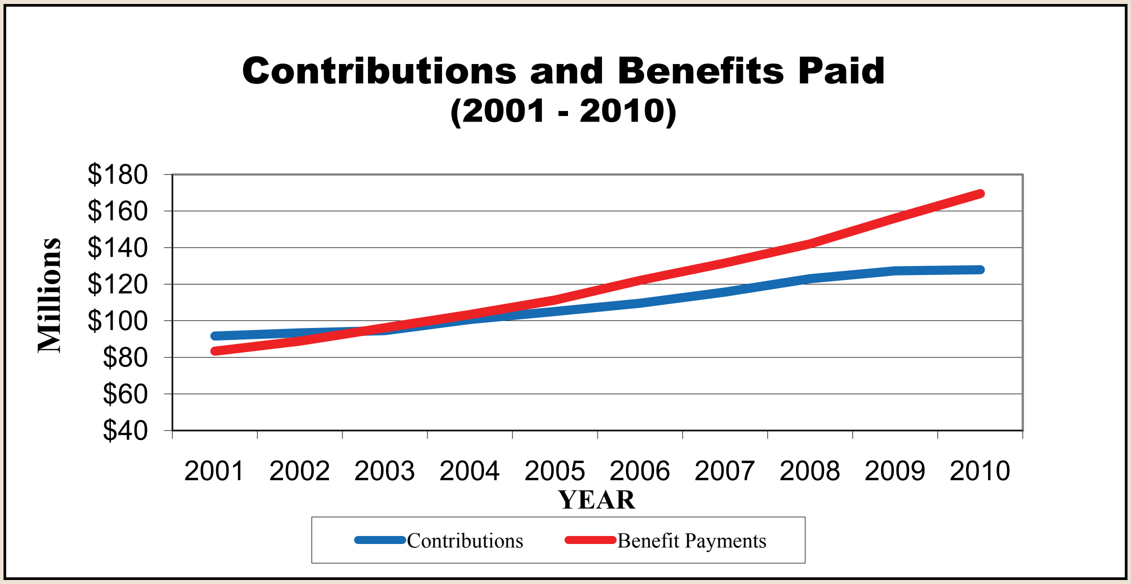
The charts above report the number of Active Members by Department according to years of service. The average service for all Active Members is 14.42 years, 13.42 years of service for Police Officers, and 16.43 for Firefighters. There were 5,482 Active Members as of January 1, 2011.

Active Membership By Age
Including DROP
As of December 31, 2010

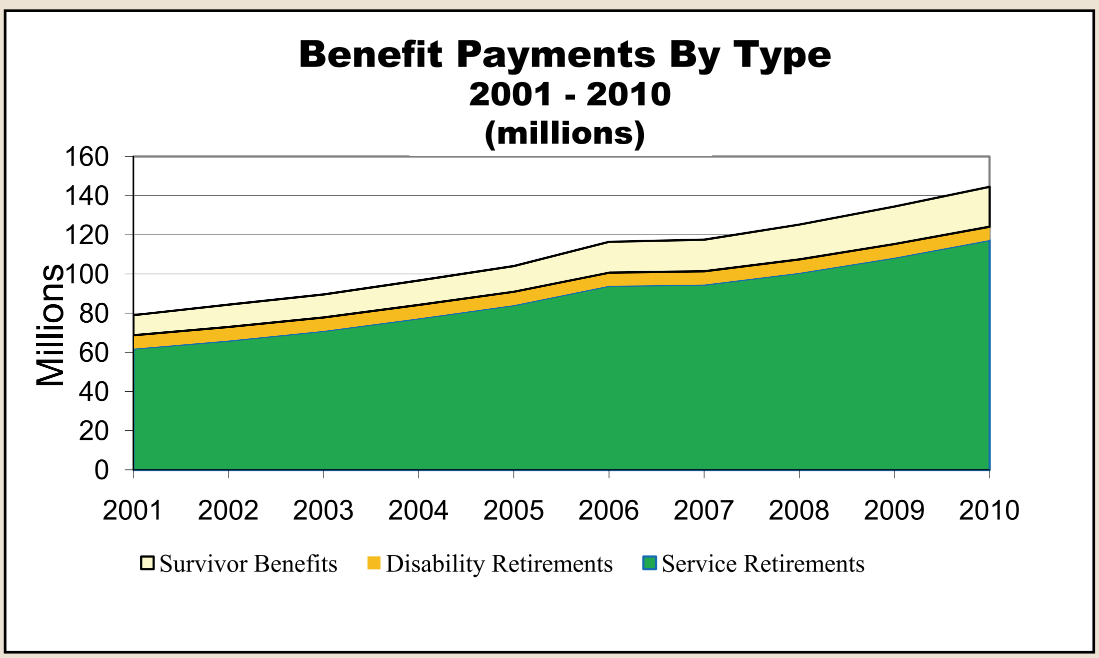
Years of Age	Police	Fire	Total
Under 25	159	44	203
25 to 29	611	200	811
30 to 34	520	273	793
35 to 39	504	272	776
40 to 44	582	191	773
45 to 49	566	287	853
50 to 54	443	283	726
55 to 59	204	181	385
60 to 64	75	72	147
65 to 69	4	10	14
70 and Over	0	1	1
TOTAL	3,668	1,814	5482



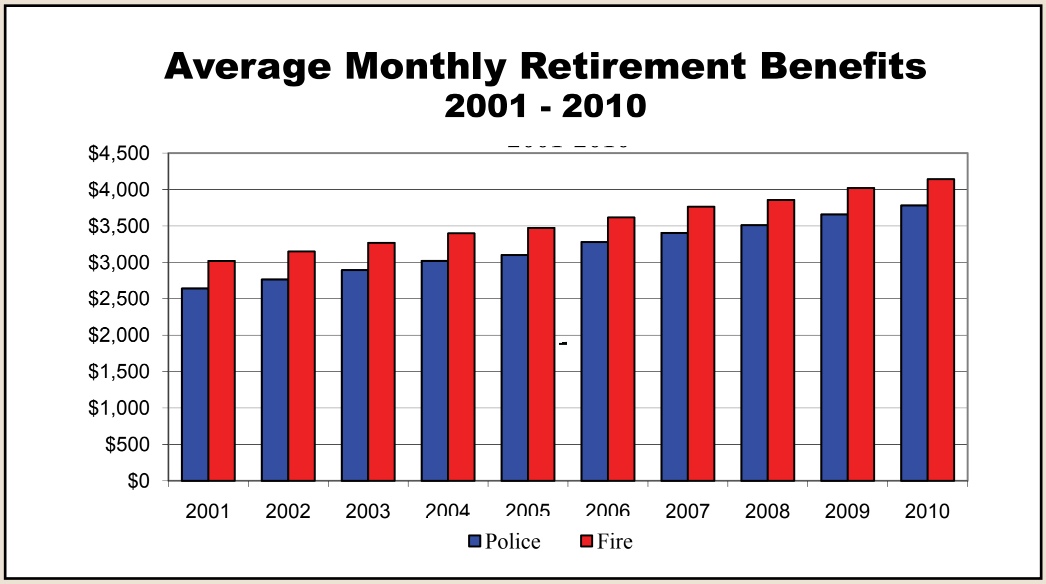
The charts above report the number of Active Members by Department according to years of age. The average age for all Active Members is 41.08 - 40.21 for Police Officers and 42.83 for Firefighters. There were 5,482 Active Members as of December 31, 2010.



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.



The ten year history of benefit payments by type, excluding lump sum DROP distributions, demonstrates that payments have increased from $74.2 Million in 2001 to $140.6 Million in 2010.



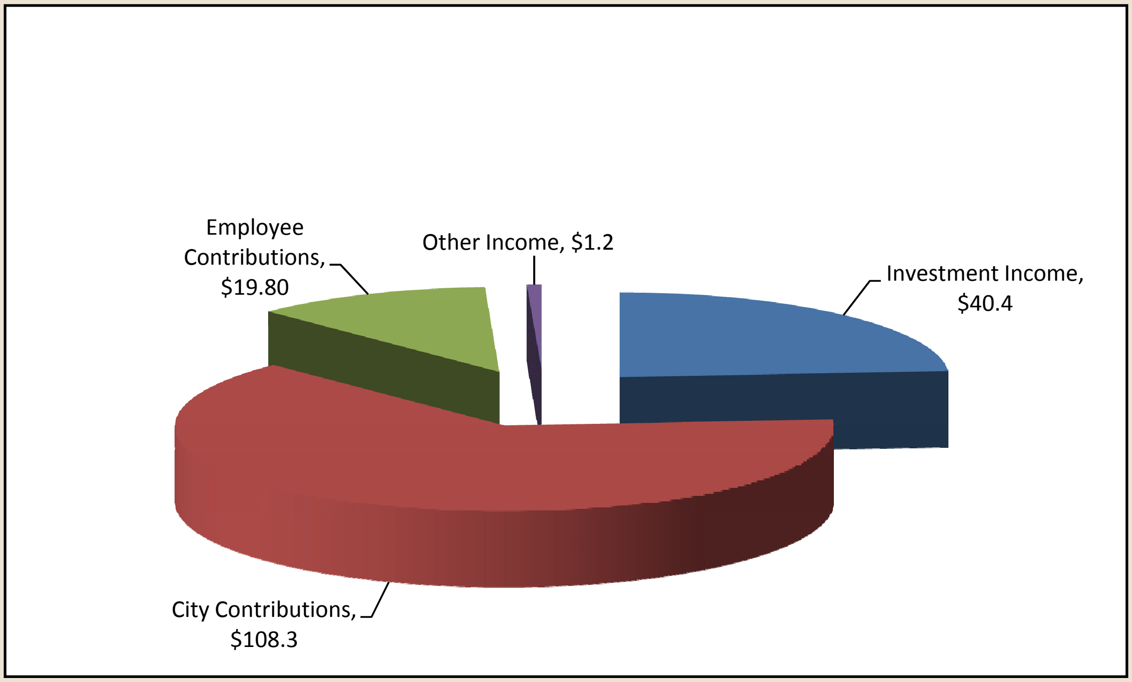
Benefit payments for both Police and Fire Retired Members have increased steadily over the last ten years. As of the end of 2010, the average monthly benefit of retired Police Officers was $3,782 and of Firefighters was $4,141.

Actuarial Summary Information

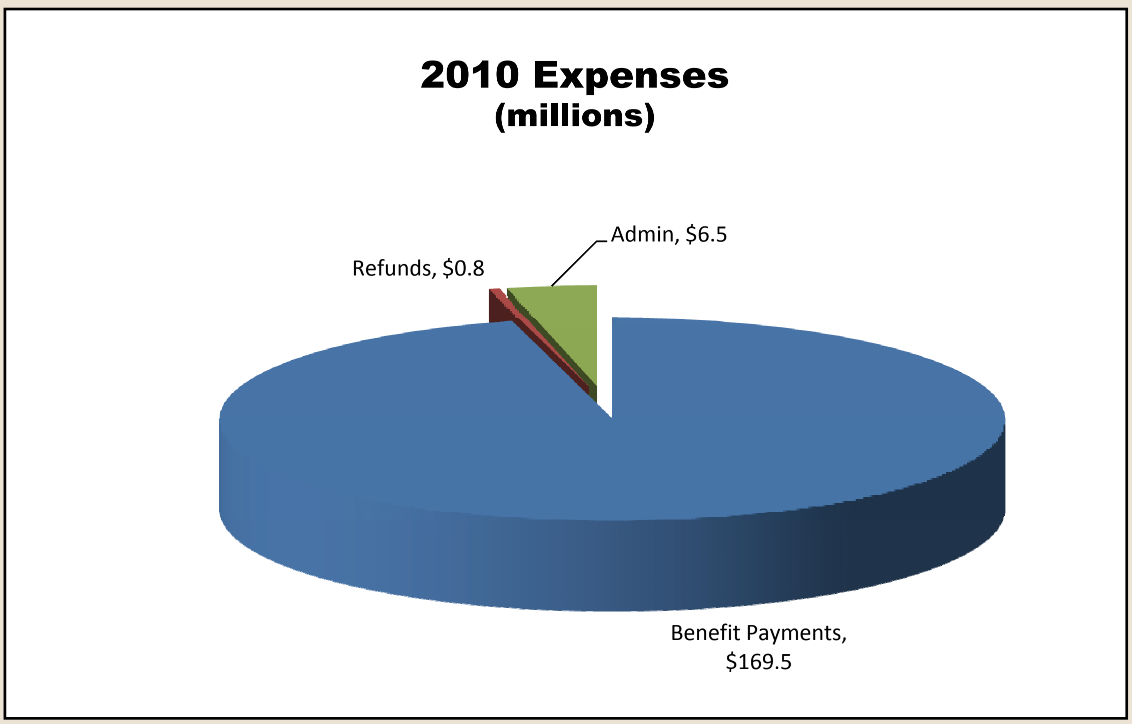
Actuarial Valuation Results	January 1, 2009 Valuation	January 1, 2010 Valuation	January 1, 2011 Valuation
UAAL[1]	$ 838,429,477	$ 744,774,235	$ 885,530,459
Actuarial Value[2]	$ 3,039,667,165	$ 3,382,907,776	$ 3,430,818,823
Market Value[3]	$ 2,533,055,971	$ 2,851,645,944	$ 3,112,686,542
AAL Ratio[4]	78.4%	81.8%	79.5%
Years To Fund[5]	33	26	21

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 valuations of the System over the last three years, demonstrating the funding made by the System over this period.



Revenues totaled $169.7 million in 2010. There was additional gain of $246.7 million in net appreciation.



Expenses totaled $176.7 million in 2010.


DALLAS FIRE-RESCUE
"Caring, Serving, and Protecting"
14
DALLAS
POLICE

Supplemental Pension Plan

DALLAS POLICE AND FIRE PENSION SYSTEM
SUPPLEMENTAL PLAN

ACTUARIAL VALUATION

AS OF JANUARY 1, 2011

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May 18, 2011

Mr. Richard L. Tettamant
Administrator
Dallas Police & Fire Pension System
4100 Harry Hines Blvd., Suite 100
Dallas, TX 75219

Re: Dallas Police and Fire Pension System Supplemental Plan Actuarial Valuation as of January 1, 2011

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, 2011.

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 2011, the contribution is $1,543,717.

Funding Progress

As of January 1, 2011, the City's contribution rate needed in order to meet the funding goal is 174.20% of covered payroll. This amount is greater than the 138.24% employer rate calculated as of January 1, 2010. The current contribution rate of 174.20% of covered payroll covers the normal cost and the amortization of the Unfunded Actuarial Accrued Liability (UAAL).

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

Mr. Richard Tettamant
May 18, 2011
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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 except for the following.

1. Removing the 0.25% restriction on DROP interest rate changes
2. Requiring member contributions while in active DROP
3. Allowing a one-time opportunity for active DROP members to rescind their DROP election
4. Providing benefits for members hired after February 28, 2011 with the following provisions
    a. 2% accrual rate for the first 20 years of service, 2.5% accrual rate for the next 5 years of service and 3% accrual rate for service after 25 years
    b. Average computation pay based on 60 months of pay
    c. Retirement eligibility at age 55 with 20 years of service
5. Disability benefits with the following provisions
    a. Own occupation definition for first two years of disability
    b. Any occupation definition after two years of disability
    c. On-duty disability retirement benefit will be based on a minimum of 50% of average computation pay
6. Survivor benefits for members who die while on active service will be based on a minimum of 25% of average computation pay

The plan modifications had no effect on the results since no participants in the Supplemental Plan are impacted.

Assumptions and Methods

The actuarial assumptions and methods used in the valuation are presented in Schedule C. Due to the change in the DROP interest rate determination, the assumed rate of return on DROP balances was changed from 9.0% to 8.5%. Otherwise, the valuation is based on the same assumptions and methods adopted by the Board of Trustees 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, 2011, 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.

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Mr. Richard Tettamant
May 18, 2011
Page 3

We are Enrolled Actuaries, Fellows of the Society of Actuaries, and Members of the American Academy of Actuaries. We meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein. To the best of our knowledge, this report is complete and accurate and has been prepared in accordance with generally accepted actuarial principles and practice, and we are available to answer questions about it.

Very truly yours,

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

R. Ryan Falls, FSA, EA, MAAA
Director, Consulting Actuary

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Enclosures

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Dallas Police and Fire Pension System Supplemental Plan
Actuarial Valuation - January 1, 2011

Table of Contents

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Summary of Principal Results

	January 1, 2011	January 1, 2010
Membership		
Active	39	40
Retired and terminated members and beneficiaries	113	112
Compensation		
Total	$ 886,150	$ 1,044,326
Average	$ 22,722	$ 26,108
Assets		
Market value	$ 21,119,036	$ 20,680,752
Valuation Results		
Unfunded actuarial accrued liability (UAAL)	$ 13,189,869	$ 12,768,518
City's normal cost contribution	$ 145,714	$ 178,325
Funding Policy contribution	$ 1,543,717	$ 1,443,717
GASB No. 25		
Actuarial accrued liability (AAL)	$ 34,308,905	$ 33,449,270
Assets	$ 21,119,036	$ 20,680,752
GASB ratio	61.6%	61.8%
Unfunded AAL	$ 13,189,869	$ 12,768,518

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Comments on the Valuation

Overview

The current valuation indicates that a total contribution of $1,543,717 should be contributed during 2011.

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 except for the following.

1. Removing the 0.25% restriction on DROP interest rate changes
2. Requiring member contributions while in active DROP
3. Allowing a one-time opportunity for active DROP members to rescind their DROP election
4. Providing benefits for members hired after February 28, 2011 with the following provisions
    a. 2% accrual rate for the first 20 years of service, 2.5% accrual rate for the next 5 years of service and 3% accrual rate for service after 25 years
    b. Average computation pay based on 60 months of pay
    c. Retirement eligibility at age 55 with 20 years of service
5. Disability benefits with the following provisions
    a. Own occupation definition for first two years of disability
    b. Any occupation definition after two years of disability
    c. On-duty disability retirement benefit will be based on a minimum of 50% of average computation pay
6. Survivor benefits for members who die while on active service will be based on a minimum of 25% of average computation pay

The plan modifications had no effect on the results since no participants in the Supplemental Plan are impacted.

Actuarial Assumptions and Methods

The actuarial assumptions and methods used in the valuation are presented in Schedule C. Due to the change in the DROP interest rate determination, the assumed rate of return on DROP balances was changed from 9.0% to 8.5%. Otherwise, the valuation is based on the same assumptions and methods adopted by the Board of Trustees 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 102.25% will be required for the City to avoid showing an accrued pension liability on its financial statements for the fiscal year beginning in 2011, 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 2010 and 2011. The estimated rate of return for 2010 was 4.52%.

Membership Statistics

Data on active members and on retired members was supplied by the Administrator. The active membership decreased from 40 members as of January 1, 2010, to 39 members as of January 1, 2011. The payroll decreased from January 1, 2010 to January 1, 2011 ($1,044,326 for 2010 and $886,150 for 2011). Schedule A shows a summary of the membership data.

Actuarial Cost

		January 1, 2011	January 1, 2010
1.	Covered Payroll	$ 886,150	$ 1,044,326
2.	Actuarial present value of future benefits	$ 35,372,757	$ 34,767,421
3.	Actuarial present value of future normal costs	$ 1,063,852	$ 1,318,151
4.	Actuarial accrued liability (2 - 3)	$ 34,308,905	$ 33,449,270
5.	Actuarial value of assets	$ 21,119,036	$ 20,680,752
6.	Unfunded actuarial accrued liability (UAAL) (4 - 5)	$ 13,189,869	$ 12,768,518
7.	City's normal cost contribution	$ 149,568	$ 178,325
8.	Funding Policy contribution	$ 1,543,717	$ 1,443,717
9.	Total contribution as a percentage of covered payroll (8 ÷ 1)	174.20%	138.24%

Analysis of Change in UAAL

1.	UAAL as of January 1, 2010	$12,768,518
2.	Changes due to:	
	a. Expected increase/(amortization)	$ (232,750)
	b. Actual contributions (greater)/less than expected	2,555
	c. Plan amendment	(279,619)
	d. Liability experience	118,605
	e. Asset experience	812,560
	f. Total changes	$ 421,351
3.	UAAL as of January 1, 2011	$13,189,869

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Historical Trend Information

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

Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
January 1, 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%
January 1, 2010	20.681	33.449	12.768	61.8%	1.044	1,223.0%
January 1, 2011	21.119	34.309	13.190	61.6%	0.886	1,488.7%

GASB #25 Schedule of Employer Contributions for Year Ending December 31, 2010

Annual Required Contribution	Percentage Contributed
$1,443,717	100%

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Summary of Accumulated Benefits
(FASB ASC 960)

Accumulated Benefits at January 1, 2011

Vested benefits of participants and beneficiaries currently receiving payments	$ 27,394,489
Other vested benefits	7,102,847
Nonvested benefits	435,582
Total benefits	$ 34,932,918

ASC 960 Reconciliation

Accumulated benefits at January 1, 2010		$ 33,831,079
Benefits accumulated and actuarial gains/losses	$ 560,087	
Interest	2,793,856	
Benefits paid	(1,964,422)	
Plan amendment	(287,682)	
Assumption changes	0	
Total change	1,101,839	
Accumulated benefits at January 1, 2011		$ 34,932,918

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Reconciliation of Fund Assets

	Year Ending December 31, 2010
1. Value of fund at beginning of year	$ 20,680,752
2. Contributions	
a. City	1,443,717
b. Member	34,355
c. Total	$ 1,478,072
3. Benefit payments	(1,964,422)
4. Refunds	0
5. Gross earnings	968,492
6. Expenses	(43,858)
7. Value of assets at end of year	21,119,036
8. Estimated rate of return	4.52%

Dallas Police and Fire Pension System Supplemental Plan
Actuarial Valuation - January 1, 2011

Schedule A

Membership Data

	January 1, 2011	January 1, 2010
1. Active members (excluding DROP)		
a. Number	11	13
b. Compensation	$ 372,354	$ 433,017
c. Average compensation	$ 33,850	$ 33,309
d. Average age	45.73	46.46
e. Average service (years)	18.91	19.31
2. Active members (DROP only)		
a. Number	28	27
b. Compensation	$ 513,796	$ 611,309
c. Average Compensation	$ 18,350	$ 22,641
d. Average age	54.64	54.26
e. Average total service	30.93	30.07
f. DROP account balance	$ 1,934,159	$ 1,785,839
3. Inactive members		
a. Number	113	112
b. Total annual benefit	$ 1,804,837	$ 1,699,279
c. Average annual benefit	$ 15,972	$ 15,172

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Summary of Benefit Provisions
As of January 1, 2011
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 and children that become handicapped before age 23 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 contribution rate for Members not participating in DROP is currently 8.50%. The contribution rate for Members participating in DROP will be 3.0% for pay periods ending on or after October 1, 2011, 6.0% for pay periods ending on or after October 1, 2012, and 8.5% for pay periods ending on or after October 1, 2013.

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.

Dallas Police and Fire Pension System Supplemental Plan **Schedule C**
Actuarial Valuation - January 1, 2011

Summary of Actuarial Methods and Assumptions
(Effective as of January 1, 2011)

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 8.5% 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 Supplemental Plan
Actuarial Valuation - January 1, 2011

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.

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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 Postretirement 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. New Members hired after December 31, 2006 will not be eligible for an automatic increase.

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, 2010 and 2009
(With Independent Auditors' Report Thereon)

SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Table of Contents

Accountants & Consultants

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, 2010 and 2009, 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, 2010 and 2009, and the changes in its financial status for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis (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. 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 supplemental information. However, we did not audit such information and do not express an opinion on it.

MFR, P.C.

June 22, 2011

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Member of the American Institute of Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

OVERVIEW

The Management's Discussion and Analysis (MD&A) of the Supplemental Police and Fire Pension Plan of the City of Dallas (the Supplemental Plan) financial position and performance provides an overview of the Supplemental Plan's financial activities for the fiscal years ended December 31, 2010 and 2009. 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 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 (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.

The Supplemental Plan presents the 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.

CONDENSED FINANCIAL INFORMATION

	2010	2009	2008
Assets	$ 21,119,411	20,680,579	18,103,822
Liabilities	375	1,953	8,598
Net Assets Available for Benefits	21,119,036	20,678,626	18,095,224
Contributions	1,477,946	1,399,978	1,289,185
Investment and Other Income (Loss)	970,744	2,701,834	(5,482,130)
Benefit Payments	1,964,422	1,471,644	1,363,912
Administrative Expenses and Professional Fees	43,858	46,766	56,872

Continued

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED), CONTINUED

FINANCIAL HIGHLIGHTS

- The Supplemental Plan's net assets increased $440 thousand in 2010 to $21.1 million. Net assets increased $2.6 million in 2009 to $20.7 million. The increase in plan net assets reflects the continued recovery in the financial markets in 2010 and 2009.

- The assets of the System and Supplemental Plans are co-invested through a Group Trust, the two plans are separate legal entities. The rate of return on the Group Trust investments during 2010 was 11.4% net of fees, compared to a rate of return of 15.7% for 2009. The performance numbers are provided by the Supplemental Plan's general investment consultant. The actuarial expected rate of return for both years was 8.5%. The investment return represents continued recovery from 2008 and the early part of 2009 when global financial markets experienced substantial losses. Despite high unemployment rates in the U.S. and distress in Europe's debt markets, the global financial markets finished the year with solid gains, returning 12.7% for 2010 as measured by the MSCI world index. The Supplemental Plan's financial composite, comprised of Global Equity, Global Fixed Income, Global Asset Allocation, and the public portion of Global Natural Resources returned 16.4% net of fees for 2010, outperforming the allocation index by 2.7%. The Supplemental Plan's private equity portfolio returned 18.29%, outperforming the public markets as measured by the S&P 500 by 3.19%, and the MSCI World index by 5.59%. The Supplemental Plan's real estate portfolio returned 3.1%, underperforming the NCREIF property index by 10%. Longer term, the Supplemental Plan's real estate portfolio has outperformed the index by 1.5% and 3.4% during the 3-year and 5-year period, respectively.

- The Supplemental Plan had $375 in liabilities as of December 31, 2010, and $1,953 in liabilities as of December 31, 2009.

- The Supplemental Plan received employee contributions of $34,229 in 2010 and $56,261 in 2009. The Supplemental Plan received employer contributions from the City of Dallas (the City) in the amount $1.44 million in 2010, an increase of $100,000 over the $1.34 million received in 2009. The 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 also is limited to be within $100,000 of the previous year's contribution.

- The Supplemental Plan paid $1,964,422 in service retirement, disability retirement and survivor benefits during 2010, compared to $1,471,644 in 2009. No changes to benefit provisions were implemented in 2010 or 2009.

- The cost of administering the benefit programs of the Supplemental Plan, including administrative costs and professional fees, was $43,858 in 2010 compared to $46,766 for 2009. 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 decreased by one to 39 members as of the end of 2010. There were 41 active members in 2009. The number of retired, terminated vested and beneficiaries was 113 and 112 as of December 31, 2010 and December 31, 2009, respectively.

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.

 Continued

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED), CONTINUED

FUNDING PROGRESS

The Supplemental Plan contracted with Buck Consultants, Inc. to conduct an actuarial valuation to determine the actuarial position of the Supplemental Plan as of January 1, 2011.

The ratio of a plan's actuarial value of assets (AVA) to the actuarial accrued liability (AAL), expressed as a percentage, is an indicator of the plan's funding status. Generally, the larger the percentage, the stronger the financial health of the plan. The Supplemental Plan's AAL ratio decreased slightly to 61.6% for 2010 compared to 61.8% for 2009.

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, 2011, the Supplemental Plan's UAAL was $13,189,869, an increase of $421 thousand from a UAAL of $12,768,518 as of January 1, 2010.

CONTACTING THE SUPPLEMENTAL PLAN'S FINANCIAL MANAGEMENT

This financial section is designed to provide our members and other users with a general overview of the Supplemental Plan's financial activities. If you have questions about this report or need additional financial information, contact the Administrator of the Supplemental Police and Fire Pension Plan of the City of Dallas 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, 2010 and 2009

Assets	2010	2009
Plan interest in Group Master Trust, at fair value (notes 2, 3, 4, 6, 7 and 8)	$ 21,118,540	20,679,582
Accrued member contributions receivable (note 5)	871	997
Total assets	21,119,411	20,680,579
Liabilities and Plan Net Assets		
Administrative expenses payable	375	1,953
Plan net assets held in trust for pension benefits	$ 21,119,036	20,678,626

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, 2010 and 2009

	2010	2009
Additions to plan net assets:		
Net investment income -		
net investment gain from the Group Master Trust (note 3)	$ 970,744	2,701,834
Contributions:		
Employer (note 5)	1,443,717	1,343,717
Member (note 5)	34,229	56,261
Total contributions	1,477,946	1,399,978
Total additions to plan net assets	2,448,690	4,101,812
Deductions from plan net assets:		
Benefit payments	1,964,422	1,471,644
Administrative and professional fees (note 10)	43,858	46,766
Total deductions from plan net assets	2,008,280	1,518,410
Net increase in plan net assets	440,410	2,583,402
Plan net assets held in trust for pension benefits:		
Beginning of year	20,678,626	18,095,224
End of year	$ 21,119,036	20,678,626

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, 2010 and 2009

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, 2010 and 2009, the Supplemental Plan membership consisted of:

	2010	2009
Non-active members -		
pensioners and qualified survivors currently receiving benefits:		
Firefighters	49	48
Police officers	64	64
Total non-active members	113	112
Current employees -		
vested:		
Firefighters	17	15
Police officers	22	26
Total current employees	39	41

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 $8,104,067 and $7,300,563 for December 31, 2010 and 2009, 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 on 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.

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.

Continued

SUPPLEMENTAL POLICE AND FIRE PENSION PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

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.

Additionally, within the Group Trust, 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.

Cash and cash equivalents

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

Continued

SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

Plan Interest in Group Trust

Beginning January 1, 2006, the Supplemental Plan's investments are held in the Group Trust. JPMorgan Chase served as custodian for the years ended December 31, 2010 and 2009. The fair value of the Supplemental Plan's interest in the Group Trust is based on the unitized interest that the Supplemental Plan has in the Group Trust. The Supplemental Plan's interest in the Group Trust was approximately 0.675% and 0.715% at December 31, 2010 and 2009, 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 Trust is based on the fair value of the unitized interest held by the Supplemental Plan. The underlying investments included in the Group 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.

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 contract, 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.

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SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

Investments and broker accounts denominated in foreign currencies outstanding at December 31, 2010 and 2009 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, 2010 and 2009, respectively. These foreign exchange gains and losses are included the in Group Trust net 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.

Recent accounting pronouncements

GASB Statement No. 59, *Financial Instruments Omnibus*

This statement updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools.

GASB Statement No. 59 amends the following pronouncements:

- GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, to clarify that unallocated insurance contracts should be reported as interest-earning investment contracts,
- GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, to emphasize the applicability of SEC requirements to certain external investment pools - known as 2a7-like pools,
- GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, to clarify that interest rate risk disclosure for a government's investments pools should be limited to its debt investment pools,
- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, to clarify (1) which financial guarantee contracts, revenue-based contracts, and hybrid instruments are within the scope of the statement and (2) whether contracts that include nonperformance penalties meet the net settlement characteristics,
- National Council on Governmental Accounting (NCGA) Statement 4, *Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences*, to conform with the amendments made to GASB Statement No. 53.

The requirements of this statement are effective for financial statements for periods beginning after June 15, 2010. Management does not believe that GASB Statement No. 59 will have a material effect on the Supplemental Plan's financial statements when adopted in fiscal year 2011.

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SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.*

This statement is intended to enhance the usefulness of the GASB Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. By incorporating and maintaining this guidance in a single source, this statement improves financial reporting and reduces the complexity of locating and using authoritative literature needed to prepare governmental financial reports. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2011. Management does not believe that GASB Statement No. 62 will have a material effect on the Supplemental Plan's financial statements when adopted in fiscal year 2012.

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, JPMorgan Chase. As of December 31, 2010 and 2009, the Group Trust had bank balances of $2,759,099 and $4,362,318, respectively, that are in demand deposit accounts subject to coverage by the 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.

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

The following disclosures on investments and the Supplemental Plan's interest in the Group Trust are made for the Group Trust as of and for the years ended December 31, 2010 and 2009. 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.

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SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

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

	2010	2009
Assets		
Investments, at fair value (notes 2, 3 and 4):		
Cash and cash equivalents	$ 216,646,496	357,487,781
United States government securities	13,720,331	9,007,801
United States government sponsored enterprises	1,161,739	4,144,690
Foreign government securities	101,358,508	95,161,233
Commingled funds	21,127,562	21,173,407
Domestic equities	655,491,225	431,665,296
International equities	1,380,897,131	1,264,841,924
Corporate securities	309,833,860	342,763,532
Investments, at appraised value - real estate equity funds	1,082,549,559	1,123,902,487
Total investments	3,782,786,411	3,650,148,151
Receivables:		
Accrued interest and dividends	7,268,566	8,363,375
Forward currency contracts (note 6)	132,126,580	159,950,987
Securities sold	3,407,551	1,922,746
Total receivables	142,802,697	170,237,108
Total assets	3,925,589,108	3,820,385,259
Liabilities and Net Assets		
Repurchase loan agreement (note 7)	29,957,000	31,147,000
Payable for securities purchased	3,641,324	77,255,071
Professional fees payable	7,118,538	3,389,132
Forward currency contracts (note 6)	132,259,801	159,016,722
Securities lending collateral (note 4)	160,248,227	220,696,254
Line of credit and other bank loans (note 8)	461,926,000	438,176,000
Total liabilities	795,150,890	929,680,179
Net assets in the Group Trust	$ 3,130,438,218	2,890,705,080

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:

	2010	2009
Investment income:		
Interest	$ 21,861,080	25,691,877
Dividends	29,862,794	46,486,971
Real estate income	6,775,774	13,316,273
Net appreciation in fair value of investments	247,436,040	318,474,104
Securities lending income	599,936	1,124,410
Less investment expenses:		
Custody fees	(373,660)	(335,135)
Investment services	(18,040,207)	(23,530,722)
Total investment income in Group Trust	288,121,757	381,227,778
Benefit payments in excess of contributions received for System and Supplemental Plan	(48,388,619)	(36,528,355)
Plan net assets held in trust for pension benefits:		
Beginning of year	2,890,705,080	2,546,005,657
End of year	$ 3,130,438,218	2,890,705,080

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

	2010	2009
Group Trust interest held by the System	$ 3,109,319,678	2,870,025,498
Group Trust interest held by the Supplemental Plan	21,118,540	20,679,582
Total net assets of Group Trust	$ 3,130,438,218	2,890,705,080

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.

The fair values of the Group Trust's investments at December 31, 2010 and 2009 are presented by type, as follows:

	2010	2009
Cash and cash equivalents	$ 216,646,496	357,487,781
United States government securities	13,720,331	9,007,801
U.S. government sponsored enterprises	1,161,739	4,144,690
Foreign government securities	101,358,508	95,161,233
Commingled funds	21,127,562	21,173,407
Domestic equities	655,491,225	431,665,296
International equities	1,380,897,131	1,264,841,924
Corporate securities	309,833,860	342,763,532
Investments, at appraised value - real estate equity funds	1,082,549,559	1,123,902,487
Total investments	$ 3,782,786,411	3,650,148,151

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SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

The System 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 JPMorgan Chase and under such agreements JPMorgan 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:

	2010 Fair value	2009 Fair value
Investments greater than 5% of net assets, at quoted market value:		
Securities lending -		
Global Securities Lending JPMorgan Chase	$ 160,248,227	220,696,255
Total investments greater than 5% of net assets	160,248,227	220,696,255
Investments less than 5% of net assets:		
At quoted market value	2,539,988,625	2,305,549,409
At appraised value	1,082,549,559	1,123,902,487
Total investments	$ 3,782,786,411	3,650,148,151

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, 2010 and 2009, 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.

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SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

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 System 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 System 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 following transactions are prohibited: short sales, selling on margin, put and call options, and the use of derivatives for speculation unless authorized by the System 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 System Board.
    d. Transactions shall be executed at competitive costs, or within the parameters established for directed brokerage transactions by the System Board.
    e. Managers shall maintain cash levels consistent with their style as presented to the System 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.

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.

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SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

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 invest 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.

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.

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SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

At December 31, 2010, the following table shows 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	$	561,517	4,577,271	8,581,543	13,720,331
U.S. Government agency securities				1,161,739	1,161,739
Commingled funds				21,127,562	21,127,562
Corporate securities:					
Collateralized mortgage obligation				8,531,243	8,531,243
Corporate bonds	4,813,671	97,777,090	52,734,253	139,664,846	294,989,860
Municipal bonds				1,453,651	1,453,651
Convertible bonds	192,150	2,208,619	1,500,600	957,737	4,859,106
Total fixed maturity domestic	5,005,821	100,547,226	58,812,124	181,478,321	345,843,492
International government bonds:					
Australian Dollar		8,199,099	6,236,221		14,435,320
Brazil Real		755,437		4,274,773	5,030,210
British Pound Sterling		675,547		3,836,870	4,512,417
Canadian Dollar	3,047,683	1,655,947			4,703,630
EURO Currency		4,652,544	7,042,635	3,974,850	15,670,029
Hungary		1,505,186			1,505,186
Indonesian Rupiah	2,834,714				2,834,714
Japanese Yen	582,302	13,779,209	6,003,350		20,364,861
Malaysian Ringgit	1,419,935	2,439,685			3,859,620
Mexican New Peso		4,025,480		781,206	4,806,686
New Zealand Dollar		2,212,538	811,076		3,023,614
Norway Krone		3,325,561			3,325,561
Poland New Zloty		6,357,558	2,067,473		8,425,031
South Korea			3,507,228		3,507,228
Swedish Krona		4,674,082	680,319		5,354,401
Total international government bonds	7,884,634	54,257,873	26,348,302	12,867,699	101,358,508
Total fixed maturity	$ 12,890,455	154,805,099	85,160,426	194,346,020	447,202,000

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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, 2010 is as follows:

Type	S & P Rating	Amount	Percentage of holding
Corportate securities:			
Convertible bonds:	B+	$ 408,287	0.09%
	B	3,901,369	0.87%
	CCC	549,450	0.12%
	NR		
Total convertible bonds		4,859,106	1.09%
Corporate bonds:			
	AAA	9,785,936	2.19%
	AA+		0.00%
	AA	3,387,698	0.76%
	AA-	1,305,134	0.29%
	A+	7,851,599	1.76%
	A	3,820,428	0.85%
	A-	4,654,578	1.04%
	BBB+	3,384,766	0.76%
	BBB	6,954,770	1.56%
	BBB-	8,742,575	1.95%
	BB+	9,302,387	2.08%
	BB	21,203,907	4.74%
	BB-	27,731,142	6.20%
	B+	29,714,678	6.64%
	B	24,946,870	5.58%
	B-	12,903,121	2.89%
	CCC+	13,509,950	3.02%
	CCC	5,396,812	1.21%
	CCC-	7,202,719	1.61%
	CC	695,588	0.16%
	C		0.00%
	D	2,252,325	0.50%
	NR	90,242,877	20.18%
Total corporate bonds		294,989,860	65.96%

Type	Moody Rating	Amount	Percentage of holding
Mortgage bonds:	AAA	701,055	0.16%
	AA	637,960	0.14%
	A+	561,706	0.13%
	BB-	448,265	0.10%
	B	850,467	0.19%
	B-		0.00%
	CCC	440,909	0.10%
	NR	4,890,881	1.09%
Total mortgage bonds		8,531,243	1.91%
Investment fund	NR		0.00%
Total investment fund		-	0.00%
Total corporate securities		308,380,209	68.96%
Government sponsored enterprises:			
	AAA	1,161,739	0.26%
	NR		
		1,161,739	0.26%
Foreign securities:			
Government bonds:			
	AAA	34,197,914	7.65%
	AA+	2,528,449	0.57%
	AA	19,013,230	4.25%
	AA-	2,420,395	0.54%
	A+	5,614,985	1.26%
	A	16,955,624	3.79%
	A-	3,424,310	0.77%
	BBB+	589,119	0.13%
	BBB	944,052	0.21%
	BBB-	1,505,186	0.34%
	BB+	226,758	0.05%
	BB-	68,754	0.02%
	B		0.00%
	D		0.00%
	NR	13,869,732	3.10%
Total government bonds		101,358,508	22.67%
United States government securities -			0.00%
Treasury Note	AAA	13,720,331	3.07%
Total U.S. government securities		13,720,331	3.07%
Municipal bonds	A+	693,651	0.16%
	NR	760,000	0.17%
		1,453,651	0.33%
Commingled	NR	21,127,562	4.72%
Total credit risk debt securities		$ 447,202,000	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 JPMorgan Chase (JPMorgan) 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, JPMorgan lent, on behalf of the Group Trust, securities held by JPMorgan as the Group Trust's custodian, and received United States dollar cash and United States government securities as collateral. JPMorgan 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 2010 and 2009 on the amount of the loans that JPMorgan made on its behalf. There were no failures by any borrowers to return the loaned securities or pay distributions thereon during the fiscal years 2010 and 2009. Moreover, there were no losses during the 2010 and 2009 fiscal years resulting from a default of the borrower. JPMorgan indemnifies the Group Trust in respect of any loan related to any non-cash distribution and return of securities.

During 2010 and 2009, 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 JPMorgan. 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, 2010 and 2009, the Group Trust and the Supplemental Plan had no credit risk exposure to borrowers. The market value of securities on loan for the Group Trust were $155,506,124 and $212,745,824 at December 31, 2010 and 2009, respectively. The collateral held for the Group Trust were $160,248,227 and $220,696,255 at December 31, 2010 and 2009, 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, 2010 and 2009.

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, 2010 and 2009. The contribution is also limited to be within $100,000 of the previous year's contribution.

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SUPPLEMENTAL POLICE AND FIRE PENSION PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

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, 2011, consists of 174.20% of covered members' salaries and is an increase of 35.96% from the 138.24% of covered members salaries as of January 1, 2010.

The required contribution rate of the City, pursuant to an actuarial study effective January 1, 2010, consists of 138.24% of covered members' salaries and is an increase of 9.45% from the 128.79% of covered members salaries as of January 1, 2009.

Funded status

Information regarding the actuarial funding status of the Supplemental Plan as of January 1, 2011, the most recent actuarial valuation date, is as follows (dollar amounts in thousands):

Actuarial Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	AVA as a Percentage of AAL	Covered Payroll	UAAL as a Percentage of Covered Payroll
1/1/11	$21,119	$34,309	$13,190	62%	$886	1,488%

The January 1, 2011 actuarial valuation used the following significant assumptions:

Investment rate of return	8.5% per year, compounded annually
General inflation rate	4% per year
Mortality, retirement, disability and separation rates	Graduated rates
Actuarial cost method	Entry age normal
Post retirement benefit increases	4% per year of original pension amount
Asset valuation	Fair market value
Amortization method	Open level fixed %
Remaining amortization period	5 years
DROP account returns	8.5% per year
Post retirement mortality	1994 Group Annuity Mortality Table
Salary increases	4% per year
Salary assumption	Overtime assumed to be 11% of base pay

Historical trend information

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

Continued

SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

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.

6. **Forward Contracts**

During fiscal years 2010 and 2009, 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, 2010 and 2009.

During 2010 and 2009, the Group Trust recognized net realized gains and losses on foreign currency forward contracts of $911,553 and $72,927, respectively. At December 31, 2010 and 2009, the Group Trust had net unrealized gains and losses on forward currency contracts reflected in the accompanying Group Trust summary information of $(1,118,863) and $547,703, respectively, included in net appreciation in fair value of investments.

7. **Obligation Under Reverse Repurchase Agreements**

State statutes permit the Supplemental Plan to enter into reverse repurchase agreements. The credit exposure at year end 2010 and 2009 related to these agreements was $29,957,000 and $31,147,000, 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, 2010 and 2009.

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 75 basis points at December 31, 2010 and 2009, payable quarterly. At December 31, 2010 and 2009, the Group Trust had borrowed approximately $344,666,000 and $340,916,000, respectively, related to the revolving credit line, which provides for a maximum borrowing of $400,000,000. The revolving credit line was opened on November 1, 2006, and expires on March 31, 2014. The Group Trust and the System also pay a quarterly fee on the unused portion of the line of credit equaling 20 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

The Group Trust has a credit agreement with a commercial bank which provides for a revolving line of credit bearing interest at the PRIME rate and a floor rate of 5% as of December 31, 2010 and 2009, payable monthly. At December 31, 2010 and 2009, the Group Trust had borrowed $40,000,000 related to the revolving credit line, which provides for a maximum borrowing of $40,000,000. The revolving credit line expires on June 29, 2012. The Group Trust and the System also pay a monthly fee on the unused portion of the line of credit equaling 50 basis points.

The Group Trust has a credit agreement with a commercial bank which provides for a revolving line of credit bearing interest at the PRIME rate as of December 31, 2010 and 2009, payable quarterly. At December 31, 2010 and 2009, the Group Trust had borrowed $40,000,000 and $20,000,000, respectively, related to the revolving credit line, which provides for a maximum borrowing of $40,000,000. The credit agreement has no monthly fee for the unused portion of the line of credit. On February 14, 2011, the Group Trust renewed the line of credit agreement in the amount of $40,000,000 which matures on February 14, 2012.

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 75 basis points at December 31, 2010 and 2009, payable quarterly. At December 31, 2010 and 2009, the loan balance outstanding was $37,260,000. The loan is secured by real property and matures on March 31, 2014. 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.

Maturities of debt at December 31 are as follows:

Year	Amount
2012	$ 80,000,000
2013	-
2014	381,926,000
Total	$ 461,926,000

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 $148,035 and $119,159 related to the Supplemental Plan's overall administrative costs during the years ended December 31, 2010 and 2009, respectively.

Continued

SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

Group Trust investment related expenses for the years ended December 31, 2010 and 2009 also include $18,040,208 and $23,530,722, 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 upon termination of employment with the City, prior to being eligible for pension benefits. As of December 31, 2010 and 2009, aggregate contributions from active members of the Supplemental Plan with less than five years of service were $89,710 and $67,389, respectively. The Group Trust had outstanding investment commitments to various limited partnerships and international investment advisors of $422,439,988 and $398,583,338 at December 31, 2010 and 2009, 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.

The Supplemental Plan contribution rates and the actuarial information included in the schedule of employer contributions, page 27, and schedule of funding progress, page 26, are based on certain assumptions pertaining to interest rates, inflation rates and participant demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term could be material to the basic financial statements.

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

The Supplemental Plan has intervened in the above lawsuits to protect the Supplemental Plan's right to members and City contributions which the Supplemental Plan believes will be due if the police officers' and firefighters' claims are successful. The ultimate outcome of these lawsuits cannot be determined at this time and, accordingly, no amounts related to these claims have been accrued in the Supplemental Plan's basic financial statements as of December 31, 2010 and 2009.

13. **Subsequent Events**

Management has evaluated subsequent events through June 22, 2011, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed, except for noted in the above notes, or that would have a material impact on reported net assets or changes in net assets.

REQUIRED SUPPLEMENTAL INFORMATION

Schedule 1

SUPPLEMENTAL POLICE AND FIRE PENSION PLAN OF THE CITY OF DALLAS

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

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)
1/1/2002	$ 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 %
1/1/2010	20,681	33,449	12,768	62 %	1044	1,223 %
1/1/2011	21,119	34,309	13,190	62 %	886	1,488 %

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

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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
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 %
2009	1,343,717	100 %
2010	1,443,717	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 note to required supplemental schedules.
See accompanying independent auditors' report.

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, 2011 and 2010 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
DROP account returns	8.5% per annum
Post retirement mortality	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 8.5% per annum. Total payroll is assumed to increase 4% per year. Overtime is assumed to be 11% of base pay per the January 1, 2011 actuary report and 11% of base pay per the January 1, 2010 actuary report.

The actuarial information presented was determined by the actuarial firm Buck Consultants, Inc. 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, 2011 and 2010, and are not materially different from what they would have been had they been calculated on December 31, 2010 and 2009, 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.

DALLAS POLICE & FIRE PENSION SYSTEM

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