Comprehensive Annual Financial Report

Employees' Retirement Fund
of the City of DALLAS

2005

fiscal year ended December 31, 2005

2005 AT - A- GLANCE
(unaudited)

Active Members	7,763
Benefit Recipients	5,065
Inactive Members	748
Fund Net Assets	$2,798,535,000
Benefits Paid	$127,578,000
Refunds	$3,049,000
Member Contributions	$23,392,000
City Contributions	$565,569,000
Investment Rate of Return	8.27%

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

EMPLOYEES' RETIREMENT FUND
OF THE CITY OF DALLAS

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005

CHERYL CLEMONS
ADMINISTRATOR

Office Location and Mailing Address
EMPLOYEES' RETIREMENT FUND
600 North Pearl Street, Suite 2450
Dallas, Texas 75201

Prepared by the Staff of The Employees' Retirement Fund

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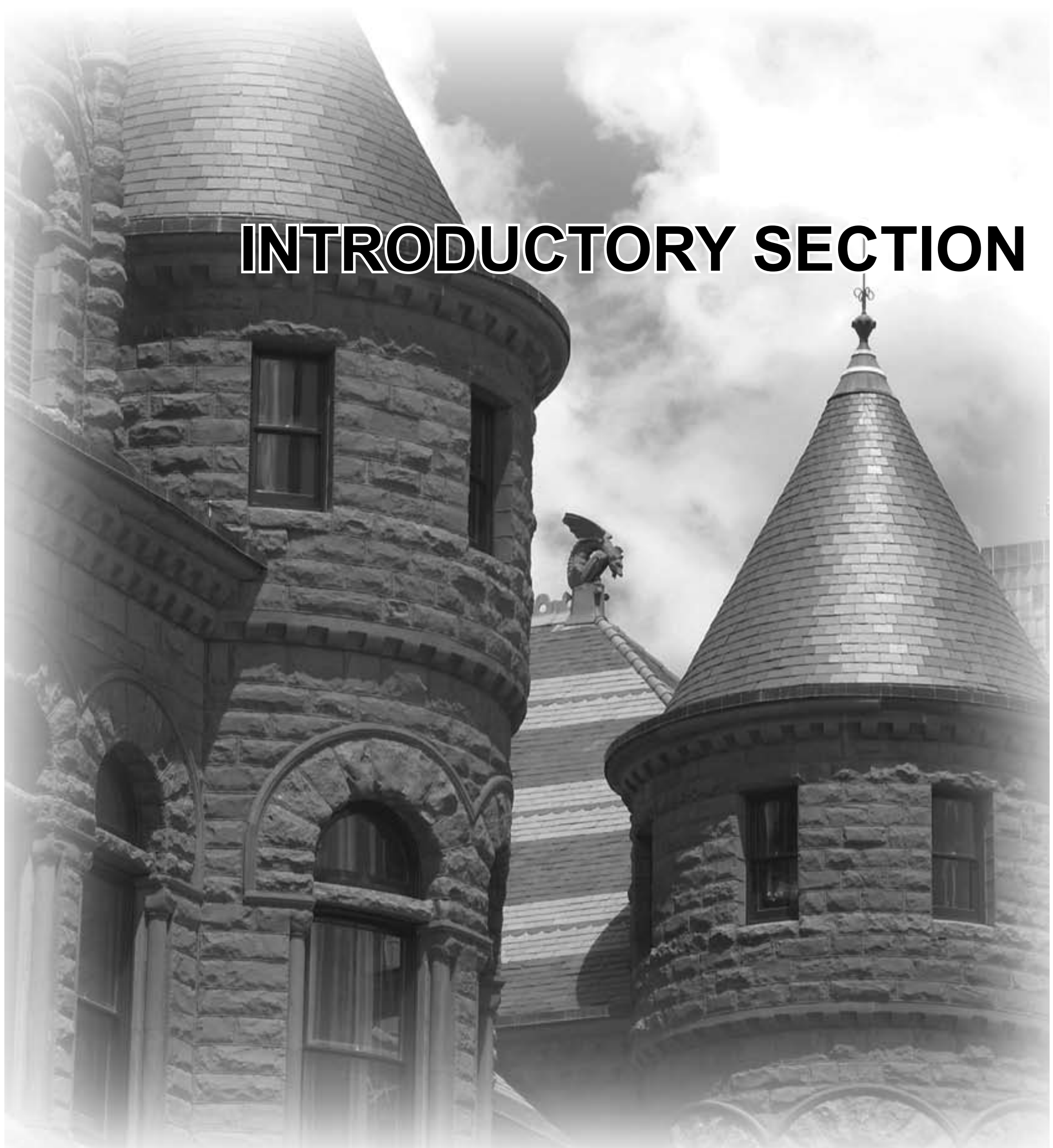

INTRODUCTORY SECTION

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LETTER OF TRANSMITTAL

July 15, 2006

Board of Trustees
Employees' Retirement Fund
600 North Pearl St., Suite 2450
Dallas, Texas 75201

Dear Board Members:

The comprehensive annual financial report (CAFR) of the Employees' Retirement Fund (ERF) for the fiscal year ended December 31, 2005 is submitted herewith. Our mission is to provide retirement benefits and superior service to advance the financial security of our members. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation rests with me and the staff of ERF.

Report Contents

This CAFR is divided into five sections: an Introductory Section, which contains the administrative organization, a letter of transmittal, and the Plan Summary; a Financial Section, which contains the report of the Independent Auditors, the financial statements of ERF and certain required supplementary information; an Investment Section, which contains a report on investment activity, investment policies, investment results, and various investment schedules; an Actuarial Section, which contains an Actuary's Certification Letter and the results of the annual actuarial valuation; and a Statistical Section, which includes significant data pertaining to ERF. I trust that you and the members of ERF will find this CAFR helpful in understanding your retirement plan.

Plan Overview

ERF was established by ordinance in November 1943 and became effective in January 1944 after ratification by the voters of the City of Dallas. ERF is a single-employer defined benefit pension plan sponsored by the City of Dallas (the "City"), and it provides retirement, disability and death benefits to its members. All employees of the City are members except police officers, fire fighters, elected officers, non-salaried appointee members of administrative boards or commissions, part-time employees working less than one-half time, temporary employees, individuals working under contract, and individuals whose salaries are paid in part by another government agency. Members are entitled to retirement benefits at the date of eligibility for retirement or to survivor benefits after two years of service.

Major Initiatives

The major initiative under taken during the year focused on plan funding. A Study Committee was appointed in December 2003 by the City Council to study the unfunded liability issue and to make recommendations to the City Council on how to solve the problem. The Study Committee presented its report to the City Council in May 2004. The Committee made several recommendations to the City Council. The primary recommendations were to issue pension obligation bonds to cover the current unfunded liability, increase the contributions of the city and employees, and place before the voters a plan change amendment that would put a modified automatic contribution adjustment mechanism in the Plan. The Council voted to support the recommendations of the Study Committee.

After the Council voted to support the Study Committee recommendations, the Board, the City Manager, the Chief Financial Officer, and the City Attorney's office all worked to draft a plan amendment to incorporate the recommended changes. This amendment was completed and submitted to the Dallas voters on the November 2, 2004 ballot. The plan amendment passed with 71% of the voters voting in favor of the amendment. Details of the plan amendment are included in the Management's Discussion and Analysis section. After passage of the plan amendment the Council approved the issuance of $399,000,000 in pension obligation bonds (POBs) issued with a premium of $140,000,000 to address the unfunded liability. These bonds are general obligation bonds of the city, and they were issued and the proceeds transferred to the Fund on February 16, 2005.

Investments

The Board of Trustees oversees the Fund's portfolio, managers, and performance. It also reviews and approves potential investment opportunities, with input from the investment consultant and staff. The Board follows the "prudent person rule" which states that fiduciaries shall discharge their duties solely in the interest of the fund and its participants and beneficiaries with the degree of diligence, care and skill which prudent men and women would ordinarily exercise under similar circumstances in a like position.

2005 was the third year of positive return since 1999. The total Fund return for 2005 was 8.27%. The Fund's total return for the past three years was 16.61%, and the last five years was 6.28%. ERF expects and assumes an investment rate of return of 8.25% over the long term, which encompasses many years in the future.

An integral part of the overall investment policy is the strategic asset allocation policy. This policy is designed to provide an optimal diversification to reduce risk and maximize total rate of return relative to risk. This emphasizes a maximum diversification of the portfolio that protects ERF from declines that a particular asset class may experience in a given period. Although traditional and alternative assets were incorporated into the asset allocation mix, the alternative venture capital asset class is being liquidated from ERF's portfolio, and is not a part of the strategic asset allocation policy. ERF has incorporated a restricted derivatives program in selected equity and fixed income portfolios as an investment technique to reduce volatility and enhance the portfolio returns over a full-market cycle.

Additions To Plan Net Assets

The collection of employer and member contributions, as well as income from investments, is intended to provide the reserves needed to finance retirement benefits. Contribution and investment income, including unrealized gains and losses for 2005, totaled $797,542,000. Employer and member contributions increased $530,318,000 (1,504.41%) and $2,812,000 (13.66%) respectively. The increase in employer contributions is primarily attributed to the net proceeds received from the pension obligation bonds. The factors that contributed to increases for both employer and employees were salary increases and a contribution rate increase from 11.00% to 15.38% for the City and 6.50% to 9.03% for employees.

Deductions To Plan Net Assets

The principal purpose for which ERF was established is to provide retirement benefits, survivor benefits, and total and permanent disability benefits to qualified members and their beneficiaries. The cost of such programs includes recurring benefit payments, refund of contributions to terminated employees, and the cost of administering ERF.

In 2005 expenses totaled $133,364,000. This represents an increase of $11,638,000 or 9.56%. Administrative expenses are controlled by a budget approved by the Board of Trustees, and these expenses increased $662,000 or 31.9% due to retiree cost of living adjustment and higher base pension amounts for new retirees.

Accounting System And Internal Controls

This CAFR was prepared to conform with the principles of governmental accounting and reporting set forth by the Governmental Accounting Standards Board (GASB) in Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans," as well as generally accepted accounting principles that apply to government accounting for fiduciary funds. The accompanying financial statements are prepared using the accrual basis of accounting. Member and employer contributions are recognized in the period in which employee services are performed. Expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made.

The Governmental Accounting Standards Board issued Statement No. 44. *Economic Condition Reporting: The Statistical Section—an amendment of NCGA Statement 1*. This Statement amends the portions of NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles,* that guide the preparation of the statistical section. The statistical section presents detailed information, typically in ten-year trends, that assists users in utilizing the basic financial statements, notes to basic financial statements, and required supplementary information to assess the economic condition of a government.
The statistical section is a required part of a comprehensive annual financial report (CAFR) and applies to any statistical section that accompanies a government's basic financial statements.

In developing and evaluating ERF's accounting system, it was determined that internal controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Funding

A pension fund is well funded when it is receiving enough money to meet all expected future obligations to participants. ERF's funding objective is to meet long-term benefit payments through contributions that remain approximately level as a percent of member payroll. The advantage of a well-funded plan is that the participants can look at assets that are committed to the payment of benefits. The actuarial accrued liability and actuarial value of assets of ERF as of December 31, 2005 amounted to $2.6 billion and $2.7 billion, respectively. A detailed discussion of funding is provided in the Actuarial Section of this report.

Professional Services

Consultants are appointed by the Board of Trustees to perform professional services that are essential to the effective and efficient operation of ERF. An opinion from the certified public accounting firm of KPMG LLP and the actuarial firm of Gabriel, Roeder, Smith & Company are included in this report. The consultants appointed by the Board are listed in the Introductory Section.

Acknowledgments

The compilation of this report reflects the combined effort of the staff under the leadership of the Board of Trustees. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means of determining responsible stewardship of the funds of ERF.

The report is available to all members of ERF.

I would like to express my gratitude to the staff, the advisors, and others who have worked so diligently to assure the successful operation of ERF.

Respectfully submitted,

Cheryl Clemons

Cheryl Clemons
Administrator

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Board of Trustees

As of December 31, 2005

Administrative Staff

Cheryl Clemons, Administrator

Gail Smith, Assistant Administrator

Newton Bruce, Assistant Administrator

Evelyn Thomas, Senior Pension Benefits Specialist

Judith Greene, Senior Pension Benefits Specialist

Sheila Willis, Pension Benefits Specialist

Re'Gine Green, Pension Benefits Specialist

Berda Venerable, Management Assistant

Melissa Harris, Communications Specialist

Susan Oakey, Management Assistant

C. Kay Watson, Management Assistant

Duc Lam, Database Analyst

Jill Lang, Information Technology Analyst

Lisa Larry, Office Assistant

Beth Turner, Office Assistant

Professional Service Providers

Master Custodian

The Northern Trust Company

Consulting Actuary

Gabriel, Roeder, Smith & Company

Investment Consultants

Wilshire Associates, Inc.

Investment Accounting Firm

Financial Control Systems, Inc.

Auditors

KPMG LLP

Legal Advisors

City Attorney's Office

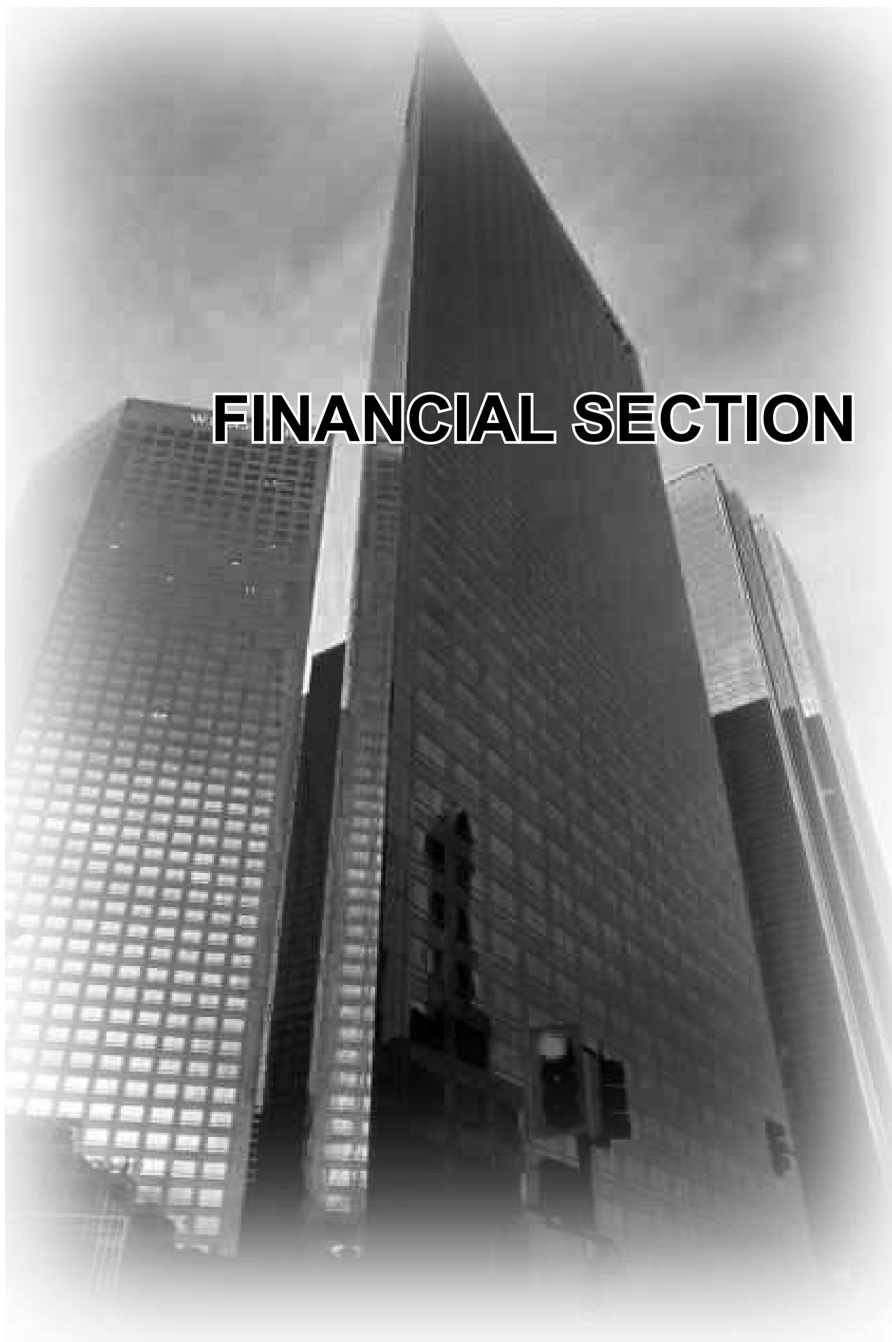
PLAN SUMMARY

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

As of December 31, 2005

Membership	An employee becomes a member upon permanent employment and contributes to the Retirement Fund.
Contributions	Member: 9.03% of compensation City: The City contributes an amount not less than the amount contributed by its employees, currently 15.38% of member wages.
Definitions	Final Average Salary: Average monthly salary over the member's highest three years of service. Credited Service: Length of time a person is an employee of the City of Dallas and while making contributions to the Plan. Part-time employees receive proportional credited service only.
Retirement Pension	Eligibility: a. At age 60; or b. At age 55 (if credited service began before May 9, 1972); or c. Completion of 30 years of credited service; or d. At any age after completion of 30 years of credited service with a reduced benefit before age 50; or e. At or after age 50, if the total of an active member's age and credited service is at least 78.
Retirement Benefits	The retirement benefit equals 2-3/4% multiplied by average monthly earnings multiplied by credited service limited to a maximum of 36.3636 years plus $125 health supplement (prorated for service less than 5 years).
Form of Payment	An unreduced pension under a joint and one half survivor option or a ten-year certain and life option. An actuarially equivalent joint and full survivor option is also available.
Deferred Retirement	Eligibility: Deferred retirement pension commencing at age 60 or at age 55, if employment commenced prior to May 9, 1972, with at least five years of credited service, and accumulated contributions are left on deposit with the Fund. Monthly Benefit: The deferred retirement is equal to the retirement pension based on earnings and credited service at the time of termination.

Disability Retirement Pension	Non-Service Disability: 1. Eligibility: Five years of service and totally and permanently incapacitated from procuring and retaining any type of employment for compensation. 2. Monthly Benefit: Computed based on average monthly earnings and credited service at time of disability but not less than 10 times the percentage multiplier multiplied by the average monthly earnings. Service Disability: 1. Eligibility: Totally and permanently incapacitated as a result of injury while in the course of employment for the City. 2. Monthly Benefit: Calculated as a non-service disability pension but not less than $500 per month.
Death Benefits	Form: Benefit paid in accordance with the option on file, or the eligible option, or if no eligible beneficiary, a lump sum equivalent of 10 years of benefit payments to the member's estate. If less than 2 years of service, contributions are refunded. Monthly Benefit: Based on average monthly earnings and credited service at death but not less than 10 times the percentage multiplier multiplied by the average monthly earnings. Minimum Service Death Benefit: Not less than $500 per month if death resulted from a service related injury.
Return of Accumulated Contributions	A member at the time of termination is entitled to be paid their accumulated contributions without interest.
Cost-of-Living Adjustments	A cost-of-living adjustment to the base pension shall be made based on the greater of: The percentage of change in the price index for October of the current year over October of the previous year up to 5%, or The percentage of annual average change in the price index for the 12 month period ending with the effective date of the adjustment, up to 5%.


FINANCIAL SECTION

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EMPLOYEES' RETIREMENT FUND OF THE CITY OF DALLAS

Financial Statements
As of December 31, 2005 and 2004

With Independent Auditors' Report Thereon

KPMG LLP
Suite 3100
717 North Harwood Street
Dallas, TX 75201-6585

Independent Auditors' Report

To the Board of Trustees
of the Employees' Retirement Fund
of the City of Dallas:

We have audited the accompanying statements of plan net assets of the Employees' Retirement Fund of the City of Dallas (the Plan) as of December 31, 2005 and 2004, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Plan as of December 31, 2005 and 2004, and the changes in its plan net assets for the years then ended in conformity with U.S. generally accepted accounting principles.

Management's Discussion and Analysis, the schedule of city contributions, and the schedule of funding progress are not a required part of the basic financial statements of the Plan, but are supplementary information required by the U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of administrative expenses, schedule of investment expenses, schedule of payments to consultants, the introductory section, the statistical section, the investment section and the actuarial section are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The schedule of administrative expenses, schedule of investment expenses, and schedule of payments to consultants have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section, statistical section, investment section and actuarial section have not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

July 14, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of the Employees' Retirement Fund of the City of Dallas' (The Fund) financial performance provides an overview of the financial activities and funding conditions for the fiscal years ended December 31, 2005, 2004 and 2003.

FINANCIAL STATEMENTS

The Fund is a defined benefit plan. As such the Fund has two basic financial statements: a statement of plan net assets that provides information about the fair value and composition of plan assets, plan liabilities, and plan net assets; and a statement of changes in plan net assets that provides information about the year-to-year changes in plan net assets. Notes to the financial statements include among other things a brief plan description, a summary of significant accounting policies, and information about contributions, legally required reserves, and investment concentrations.

CONDENSED FINANCIAL INFORMATION

	2005 (in thousands)	2004 (in thousands)	2003 (in thousands)
Assets	$3,359,240	$ 2,517,664	$2,222,867
Liabilities	560,705	383,307	313,118
Net Assets available for benefits	2,798,535	2,134,357	1, 909,749
Contributions	588,961	56,147	55,309
Investment & other income	208,581	290,187	412,772
Benefit payments	127,578	116,675	108,402
Refund of contributions	3,049	2,976	2, 605
Administrative expenses	2,737	2,075	2,119
Change in Net Assets	664,178	224,608	354,955

FINANCIAL POSITION AND RESULTS OF OPERATIONS

The Fund's total return for 2005 was 8.27% as compared to a 15.61% in 2004 and 26.7% in 2003. As a result the Fund's net asset value at the end of 2005 was approximately $2.8 billion, an approximate increase of $700 million from the 2004 year end value of approximately $2.1 billion. A part of this increase was from additional contributions made by the City of Dallas. To address the 2003 unfunded liability, the City Council approved and issued $399,000,000 in pension obligation bonds. The net proceeds of $533,397,000 from the sale of these bonds were contributed to the Plan. The net asset value at the end of 2003 was $1.9 billion.

Liabilities increased 46.3% in 2005 as compared to 2004. This is largely due to securities lending collateral and unsettled security purchases at year end. The volume of securities on loan in the Fund's security lending program for 2005 was higher than the 2004 volume. The volume of securities on loan for 2005 and 2004 were 749 and 258 respectively. Likewise, the year end market values of securities that were unsettled for 2005 were higher than those for 2004 because of market growth. Market values of securities that were unsettled at year end 2005 were $116 million while the year end values for 2004 were $71 million. Year 2004 as compared to 2003 had a 22.4 % increase in liabilities.

Benefit payments increased from $116,675 million to $127,557 million. This increase is attributable to the large number of retirements in 2005 with higher base benefits and to the 3.210% cost-of-living-adjustment paid to retirees and beneficiaries. There were 285 new retirements in 2005 with a base pension total of $748,000 compared to 249 retirements in 2004 with a base of $648,000. Year 2004 as compared to 2003 had an $8,273 million increase in benefit payments.

CURRENT ENVIRONMENT

The number of active participants in the Fund remained steady in 2005. See Note 1 (a) regarding the Plan's membership. In addition, 2005 saw an average growth in the number of retirements. On an annual basis at least 200 plus members retire each year. As seen in the benefit paragraph above, the average pension payments continue to increase as does the number of retirees. This will continue to cause a need for cash generated from investments in order to meet benefit payments and expenses.

The Fund in our opinion continues to be financially sound. The Fund's investments are well diversified, and we are meeting our obligations as they become due.

EMPLOYEES' RETIREMENT FUND OF
THE CITY OF DALLAS

Statements of Plan Net Assets

As of December 31, 2005 and 2004
(In thousands)

	2005	2004
ASSETS:		
Cash and short-term investments	$ 500,196	$ 387,118
Receivables:		
Currency contracts	9,899	441
Currency gains	194	-
Accrued dividends	2,100	2,068
Accrued interest	9,465	6,325
Accrued securities lending	76	55
Securities sold	50,051	4,201
Employer contributions	682	1,060
Employee contributions	881	626
Total receivables	73,348	14,776
Investments, at fair value:		
Commingled index funds	1,125,465	555,808
Domestic equities	492,324	549,588
United States and foreign government securities	319,054	163,160
Domestic corporate fixed-income securities	473,196	372,896
International equities	375,496	474,029
Investments, at estimated fair value:		
Venture capital funds	161	289
Total investments	2,785,696	2,115,770
Total assets	3,359,240	2,517,664
LIABILITIES:		
Accounts payable	4,797	3,791
Payable for securities purchased	115,877	70,587
Investment fees payable	1,951	1,731
Currency contracts	9,899	441
Currency contracts loss	-	5
Securities lending collateral	428,181	306,752
Total liabilities	560,705	383,307
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS (A Schedule of Funding Progress is presented on page 15)	$2,798,535	$2,134,357

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

EMPLOYEES' RETIREMENT FUND OF
THE CITY OF DALLAS

Statements of Changes in Plan Net Assets

For the Years Ended December 31, 2005 and 2004
(In thousands)

	2005	2004
ADDITIONS:		
Contributions:		
Employer	$ 565,569	$ 35,251
Employee	23,392	20,896
Total contributions	588,961	56,147
Net investment income:		
Dividends	21,143	19,442
Interest	40,630	27,417
Net appreciation in fair value of investments	153,271	249,190
Securities lending income	12,135	3,901
Less investment expenses:		
Investment management fees	(7,186)	(6,260)
Custody fees	(125)	(125)
Consultant fees	(250)	(240)
Securities lending borrower rebates	(10,984)	(3,154)
Securities lending management fees	(345)	(224)
Total investment expenses	(18,891)	(10,003)
Net investment income	208,288	289,947
Other income	293	240
Total increases	797,542	346,334
DEDUCTIONS:		
Benefit payments	127,578	116,675
Refund of contributions	3,049	2,976
Administrative expenses	2,737	2,075
Total deductions	133,364	121,726
Net increase in net assets available for benefits	664,178	224,608
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
Beginning of year	2,134,357	1,909,749
End of year	$2,798,535	$2,134,357

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

(1) Description of the Plan

(a) General

The Employees' Retirement Fund of the City of Dallas (the "Plan") is a single-employer defined benefit pension plan that provides retirement, disability, and death benefits to its members, and it is sponsored by the City of Dallas (the "City"). All employees of the City are members in the Plan, except police officers, firefighters, elected officers, non-salaried appointee members of administrative boards or commissions, part-time employees working less than one-half time, temporary employees, individuals working under contract, and individuals whose salaries are paid in part by another government agency. Members are entitled to retirement benefits after five years of service and to survivor benefits after two years of service or at the date of eligibility for retirement. The Plan was established and derives its authority to continue in operation from Chapter 40A of the Dallas City Code. The description of the Plan provisions in this report is for financial disclosure only. It is not intended to create or reduce legal rights. The rights and responsibilities of the Board of Trustees, the Plan, the members and the retirees are governed by the Plan as set forth in Chapter 40A. As of December 3l, 2005 and 2004, the Plan's membership consisted of:

	2005	2004
Retirees and beneficiaries currently receiving benefits and inactive members entitled to benefits but not yet receiving them	5,813	5,415
Current members:		
Vested	5,361	5,483
Nonvested	2,402	2,342
Total current members	7,763	7,825
Total membership	13,576	13,240

(b) Pension Benefits

Effective November 7, 1989, members of the Plan are entitled to pension benefits equal to 2-3/4% of the average monthly earnings of the member for each year of credited service. Average monthly earnings are determined based on the member's earnings for the three highest years. Normal retirement age is 60. Members of the Plan employed prior to May 9, 1972 are entitled to pension benefits at age 55, determined as described in this note.

A member who has completed 30 years of credited service may elect retirement at age 50 and is entitled to full pension benefits. A member who has completed 30 years of service and elects retirement before age 50 is entitled to pension benefits at a percentage of normal retirement benefits ranging from 67.0% to 93.3%, depending upon the age of the member. Effective May 1993, active members may elect to retire after the attainment of age 50 once a combination of their age and years of service equal at least 78 ("Rule of 78"), and they are entitled to full pension benefits. The provisions of this amendment have been incorporated into the actuarial calculations reflected in these notes to the financial statements.

Cost-of-living adjustments for retirees are made each year on the first of January by adjusting the pension base by the percentage change of the Consumer Price Index, not to exceed 5%. The cost-of-living adjustments in 2005 and 2004 were 3.21% and 2.35%, respectively.

In addition, the Plan provides retirees who have five or more years of service a flat taxable amount of $125 per month as a health premium subsidy. Payment of the health supplement will be prorated for each partial year of credited service.

(c) Disability and Death Benefits

Members that become totally and permanently disabled receive disability benefits equal to normal retirement benefits or a minimum of $500 per month for a service connected disability.

Upon the death of an active married member with less than 15 years of service, the joint and one-half survivor option is the automatic death benefit unless the member (with spousal consent) previously elected a different survivor option.

If an active member has at least 15 years of service or is eligible to retire, the member may elect the joint and full survivor option. Under this option, the member receives a reduced base pension payment which is actuarially computed based on the member's age, average monthly earnings, years of credited service at retirement, and the relative age of the spouse. Upon the death of the member, this option pays the full amount of the member's pension payment to the surviving spouse for life.

Upon the death of a member before retirement, death benefits equal to the normal retirement benefit will be paid to a qualified recipient: surviving spouse, minor child under age 18, a disabled child who became disabled before age 18, or a dependent parent. Death benefits vary depending on the beneficiary. The surviving spouse, the disabled child, or the dependent parent will receive a lifetime benefit unless the ten-year option is taken. The minor child under age 18 will receive the normal retirement benefit for ten years or until reaching age 18. If the member has less than two years of credited service, the member's contributions will be refunded.

Upon the death of a retired member, a death benefit is paid in accordance with the option selected by the member at retirement. If there are no qualified recipients at the time of death and benefits have not been paid for ten years, death benefits are paid to the designee (an estate, a person or an entity) named by the member. The designee will receive a lump-sum payment based on ten years of benefit payments when the member's death occurs before retirement. If death occurs after retirement, the designee will receive a commuted lump-sum payment representing the balance of a guaranteed ten-year period starting from the date of retirement.

If a member does not have an eligible beneficiary, death benefits will be paid to the designee or member's estate in one commuted value payment. Benefit payments will vary depending on whether death occurred before or after retirement. Upon the death of a member before retirement, the designee or member's estate will receive a lump-sum payment based on ten years of benefit payments. Upon the death of a retired member, the designee or estate will receive a commuted value lump-sum payment representing the balance of a guaranteed ten-year period starting from the date of retirement.

(d) Contributions

If employment ends before attaining five years of service and before attaining eligibility for retirement, the member's contributions will be refunded upon written request to the Plan.

If a member's employment is terminated after five years of service, the member may elect a refund of contributions upon a written request, or the member may elect to receive pension benefits at normal retirement age equal to the amount accrued to the date of termination.

Although the City and the members have contributed the legally required percentages established by

Chapter 40A, the actual contributions made by the City and the members have been less than the Actuarially Required Contribution (ARC) that is necessary to cover the amortization of the unfunded liability or the expense allowance components of the ARC for the previous five years. During 1999 a working group established by the City Manager's Office and the Plan's Board of Trustees (the "Board") completed their evaluation of strategies to address the additional funding requirements. The Working Group recommended contribution increases by the City and the employees and that an automatic contribution adjustment mechanism be incorporated into the Plan. The Board and the City Council adopted the recommendations of the working group, and in December 1999 the employee membership voted to increase their contributions to the Plan. These contribution increases began phasing in over a two-year period beginning October 1, 2000. Effective October 1, 2000 the City's contribution increased from 8.5% to 9.75% and the employee contribution increased from 5.0% to 5.75%. On October 1, 2001 the City's contribution increased from 9.75% to 11.0% and the employee contribution increased from 5.75% to 6.5%.

The other recommendation made by the Working Group which would require voter approval was to put an automatic contribution adjustment mechanism in the Plan to adjust contribution rates by the City and the employees every three years based on a change of more than 2% in the actuarially required contribution rate. This recommendation was initially approved by the City Council. However, the recommended Plan change was not placed on a ballot for voter approval. A new Mayor and City Council became concerned with the size of the unfunded actuarial liability and recommended a new study be completed. A new study committee consisting of seven members was appointed in December 2003 to again study the unfunded liability issue and to make recommendations to the City Council on how to solve the problem. The study committee presented its report to the City Council at the May 12, 2004 Council Meeting. The study committee made several recommendations to the City Council. The primary recommendations were to issue pension obligation bonds to cover the current unfunded liability, increase the contributions of the City and employees, and place before the voters a plan change amendment that would put a modified automatic contribution adjustment mechanism in the Plan. The Council voted to support the recommendations of the study committee.

After the Council voted to support the study committee recommendations, the Board, the City Manager, the Chief Financial Officer, and the City Attorney's office all worked to draft a plan amendment to incorporate the recommended changes. This amendment was completed and submitted to the Dallas voters on the November 2, 2004 ballot. The plan amendment passed with 71% of the voters voting in favor of the amendment.

The changes this amendment made to the Plan included: providing authorization and procedures for the Board to annually increase or decrease contribution rates beginning October 1, 2005 in a ratio where the City pays 63% and the employee pays 37% of the contribution rate as determined by the actuarial valuation; requiring notice to the City of the contribution rates and providing procedures by which the City may review and challenge those rates; codifying the Board's policies and procedures relating to the Plan's actuarial process and the City's participation in the selection of an actuarial firm to perform a peer review/audit; increasing the Board from five members to seven by adding another employee elected representative and another council appointed representative effective March 1, 2005; increasing from three to four the number of board members required to constitute a quorum; increasing the terms of the employee elected representatives from two to three years; requiring Council approval before the Board may grant temporary or permanent discretionary adjustments to retirement benefits over and above the regular cost-of-living increases; correcting section references to the term "qualified recipient"; and authorizing either the Council or the Board to propose amendments to Chapter 40A, subject to approval by the Board, the Council, and the voters of the city.

After passage of the plan amendment the Council approved the issuance of $399,000,000 in pension obligation bonds (POBs) with a $140,000,000 premium to address the unfunded liability. These bonds are general obligation bonds of the City, and the net proceeds of $533,397,000 were contributed to the Fund on February 16, 2005. The plan amendment provided that the City's payment of the principal and interest on the POBs is part of their 63% of the contribution rate to the Plan.

Based on the authorization in the plan amendment, the 2004 actuarial valuation established new contribution rates for employees and the City. The new rates which became effective October 1, 2005 are 9.03% of pay for employees and a combined rate of 15.38% of pay for the City. The City's 15.38% is divided into 6.99% cash to the Plan and 8.39% for debt service payments on the pension obligation bonds.

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

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

(e) Plan Administration

Effective March 1, 2005 as a result of the Plan change amendment passed in November 2004, the Board of Trustees (the "Board") composition changed from five to seven members. The Plan is governed by seven-members consisting of three members appointed by the City Council who may be Council members, three employee members of the Plan (elected by the membership) and the City Auditor (serving ex officio). The Board has general powers and duties to administer the Plan, including appointing an administrator to carry out the business of the Board, investing the assets of the Plan, making expenditures from the Plan, and determining members' eligibility for benefits.

The Plan may be terminated only by ordinance recommended by the Board, adopted by the City Council, and approved by a majority of the voters of the City voting in a general or special election. The Plan does not address allocation of the net assets in the event of termination.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The accompanying financial statements are prepared on the economic resources measurement focus and accrual basis of accounting. Accordingly, interest earned but not received and dividends declared but not received as of the Plan's fiscal year-end are recorded as accrued interest and dividends receivable, respectively. Contributions owed but not received (approximately $1,563,000 and $1,686,000 at December 31, 2005 and 2004, respectively) as of the Plan's fiscal year-end are recorded as contributions receivable. In addition, unsettled investment purchases and sales are accrued.

(b) Administrative Expenses

Administrative expenses (excluding investment related expenses) totaling approximately $2,737,000 and $2,075,000 for the years ended December 31, 2005 and 2004 respectively are paid from the Plan's investment income only when the Plan's actuary certifies payment will not have an adverse effect on the payment of benefits.

(c) Use of Estimates

The preparation of financial statements in accordance with U. S. accounting principles generally accepted requires Plan management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(d) Investments

The Plan's investment policy requires that investments comply at all times with applicable local, state and federal regulations. The Plan's investment policy is based upon an asset allocation study that considers the current and expected condition of the Plan, the expected long-term capital market outlook and the Plan's risk tolerance. Unless specifically permitted in the investment manager guidelines or other governing document, the investment policy prohibits the purchase of non-negotiable securities, short sales, selling on margin, puts, calls, straddles, options, or "letter" (restricted) stock. Also, unless specifically authorized in a manager's individual guidelines, the investment policy prohibits the use of derivatives.

Investments are valued at fair value based on quoted market prices, where available. Estimated fair values of venture capital funds have been determined based upon appraised values or other comparable methods. Purchases and sales of securities and any resulting gain or loss are recorded on a trade-date basis.

(e) Foreign Currency Transactions

The Plan may enter into forward foreign currency exchange contracts for the purchase or sale of a specific foreign currency at a fixed price on a future date as a hedge against specific transactions or portfolio position to protect the Plan against adverse currency movements. Entering into these arrangements involves the risk of dealing with counter parties and their ability to meet the terms of the contracts. These contracts are valued at fair value at the financial statement date, and any realized and unrealized gains and losses are recorded when they are incurred.

Investments denominated in foreign currencies at December 31, 2005 and 2004 were converted to U.S. dollars at the foreign exchange rates quoted at December 31, 2005 and 2004. These foreign exchange gains and losses which were immaterial are included in net appreciation in fair value of investments in the accompanying statements of changes in net assets.

(f) Securities Lending

The Board has authorized the Plan to enter into an agreement with The Northern Trust Company ("Northern") for the lending of certain of the Plan's securities (the "Securities Lending Program" or "Program") including, but not limited to, stocks and bonds to counter party brokers and banks ("borrowers"), for a predetermined period of time and fee. Such transactions are not prohibited by state statute.

Disclosure of securities lending revenue is shown gross with the associated reductions for investment expenses on the face of the Statements of Changes in Plan Net Assets, and the cash collateral and associated securities lending payable is shown on the face of the Statements of Plan Net Assets for the years ended December 31, 2005 and 2004.

(3) Deposit and Investment Risk Disclosures

Investments are subject to certain types of risks, including interest rate risk, custodial credit risk, credit quality risk and foreign currency risk. The Plan's exposure to deposit and investment risks are disclosed in the following sections.

Custodial Credit Risk

Custodial credit risk is the risk that, in event of the failure of the counterparty, the Plan will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The plan does not have a policy for custodial credit risk. As of December 31, 2005 and December 31, 2004 respectively, $5,359,000 and $1,412,000 of the Plan's total investments (excluding short term investments) of approximately $2,786,000,000 and $2,116,000,000 were exposed to custodial credit risk as follows (in thousands):

	2005		2004	
	Fair Value	Asset Type as a percent of Total Investment	Fair Value	Asset Type as a percent of Total Investment
Uninsured and uncollateralized deposits held by custodian bank outside of the United States:				
Deposits	$ 5,359	.19%	$ 1,412	.067%
Total	$ 5,359		$ 1,412	

Concentration of Credit Risk

The Board has contracted with investment managers to manage the investment portfolio of the Plan, subject to the policies and guidelines established by the Board. The Northern Trust Company ("Northern") as the Plan's custodian bank had responsibility for the safekeeping of certain investments, handling of transactions based on the instructions of investment managers, and accounting for the investment transactions.

Investments that individually represent 5% or more of the net assets available for benefits and the total of investments that individually represent less than 5% of the net assets available for Plan benefits at December 31, 2005 and 2004 are as shown below (in thousands except per share amounts). The plan does not have a policy for concentration credit risk.

	2005		2004	
	Number of Shares/Units	Fair Value	Number of Shares/Units	Fair Value
Investments greater than 5% of net assets, at fair value:				
NTGI S&P 500 Equity Index Fund	180,011	$596,846	83,082	$262,499
NTGI Collective Russell 1000	450,374	314,336	450,374	293,309
NTGI EAFE	663,404	214,283	-	-
Investments less than 5% of net assets:				
At fair value		2,160,266		1,946,791
At estimated fair value		161		289
Total cash and investments		$3,285,892		$2,502,888

Credit Risk

The Plan's strategic fixed income investment policy allocates 30 percent of the total assets to fixed income. The policy provides for investment of up to 20 percent of the fixed income assets in investment grade assets and up to 10 percent of the fixed income assets in high yield (below investment grade) assets. The investment grade allocation also allows the managers to invest in non-US dollar issues on an opportunistic basis up to 20 percent of their portfolio assets. Long term bond ratings as of December 31, 2005 and 2004 are as follows (in thousands):

Bond Category	Moody's Rating* (unless noted) 12/31/2004	Fair Value 12/31/2005	Percentage of Bond Portfolio 12/31/2005	Fair Value 12/31/2004	Percentage of Bond Portfolio 12/31/2004
U. S. Agencies	Aaa	$ 174,711	22.06	$ 124,309	23.19
U. S. Treasury Bonds	Aaa	9,330	1.18	2,043	0.38
U. S. Treasury Inflation	Aaa	-	-	1,734	0.32
U. S. Treasury Notes	Aaa	105,853	13.36	26,669	4.98
Corporate Bonds	Aaa	55,881	7.05	31,391	5.86
Foreign Bonds	Aaa	11,826	1.49	5,845	1.09
Mortgages	Aaa	53,701	6.78	24,318	4.54
Corporate Bonds	Aa1	828	0.10	2,364	0.44
Corporate Bonds	Aa2	4,018	0.51	3,990	0.74
Corporate Bonds	Aa3	12,494	1.58	22,422	4.18
Corporate Bonds	A1	13,250	1.67	14,233	2.66
Corporate Bonds	A2	21,977	2.77	23,689	4.42
Corporate Bonds	A3	7,902	1.00	15,985	2.98
Corporate Bonds	A- (S&P)	-	-	823	0.15
Corporate Bonds	Baa	-	-	6,032	1.13
Corporate Bonds	Baa1	23,514	2.97	26,914	5.02
Foreign Bonds	Baa1	8,026	1.01	418	0.08
Corporate Bonds	Baa2	29,484	3.72	21,063	3.93
Foreign Bonds	Baa2	1,668	0.21	697	0.13
Corporate Bonds	Baa3	21,127	2.67	18,062	3.37
Foreign Bonds	Baa3	2,151	0.27	-	-
Corporate Bonds	Ba1	2,330	0.29	4,429	0.83
Foreign Bonds	Ba1	2,527	0.32	-	-
Corporate Bonds	Ba2	28,903	3.65	23,213	4.33
Corporate Bonds	Ba3	37,062	4.68	28,929	5.39
Foreign Bonds	Ba3	404	0.05	1,228	0.23
Foreign Bonds	BBB (S&P)	2,559	0.32	3,470	0.65
Corporate Bonds	B1	41,000	5.18	24,562	4.57
Corporate Bonds	B2	59,444	7.50	37,675	7.03
Corporate Bonds	B3	43,201	5.45	22,857	4.26
Mortgages	B3	-	-	725	0.14
Corporate Bonds	Caa1	10,606	1.34	8,254	1.54
Corporate Bonds	Caa2	4,225	0.53	6,162	1.15
Corporate Bonds	Ca	2,042	0.26	1,192	0.22
Corporate Bonds	NR	206	0.03	360	0.07
	Total	$ 792,250	100.00	$ 536,057	100.00

*The Moody's ratings are used when available. The Standard & Poor's rating is used when it is available and a Moody's rating is not available. Standard & Poor's ratings are denoted by (S&P).
NR-Investments that are not rated.

Foreign Currency Risk

The Plan's investment policies limit the aggregate amount that can be invested in each class of investments. The equity investment policy sets an allocation of 20 percent of assets to international equity. The fixed income policy permits up to twenty percent of the global manager's portfolio to be invested in global investment grade fixed income bonds. The Plan's positions in these equity securities, invested in directly and through commingled funds, was 13.48% and 22.40% of invested assets at December 31, 2005 and 2004 respectively. The Plan's positions in such fixed income assets invested were 1.05% and .37% of invested assets at December 31, 2005 and 2004 respectively.

Non-US Dollar denominated investments at December 31, 2005 and 2004 were as follows (in thousands):

Currency	Investment Type	U. S. Dollars Balance of Investment at 12/31/2005 (in thousands)	U. S. Dollars Balance of Investment at 12/31/2004 (in thousands)
Euro	Equities	$ 24,645	$ 77,486
	Fixed Income	-	878
Japanese Yen	Equities	47,266	57,625
	Fixed Income	985	2,340
British Sterling Pound	Equities	21,668	57,705
	Fixed Income	9,748	1,288
Swiss Francs	Equities	4,848	26,461
Hong Kong Dollars	Equities	5,624	11,222
Australian Dollars	Equities	13,058	9,822
Korean Won	Equities	2,950	8,136
Canadian Dollars	Equities	1,613	4,831
	Fixed Income	-	463
New Zealand Dollars	Equities	-	3,627
Singapore Dollar	Equities	1,053	1,714
Swedish Krona	Equities	660	17
	Fixed Income	1,093	876
Danish Krone	Equities	272	198
Mexican Peso	Fixed Income	6,783	-
Turkish Lira	Equities	262	-
Norwegian Krone	Equities	1,867	-
	Total	$ 144,395	$ 264,689

Interest Rate Risk

As of December 31, 2005 and 2004 the weighted-average maturity of the bonds by bond type are as follows:

Bond Category	Par Value 12/31/2005 (in thousands)	Weighted Average Maturity (years) at 12/31/2005	Par Value 12/31/2004 (in thousands)	Weighted Average Maturity (years) at 12/31/2004
Asset Backed	$ 62,281	9.85	$ 36,791	14.65
Bank Deposits	2,500	0.17	-	-
Commercial Mortgage-Backed	23,780	33.78	1,322	26.98
Corporate Bonds	479,622	2.78	302,638	7.76
Government Agencies	243,980	2.78	11,070	4.76
Government Bonds	136,977	5.63	274,583	2.09
Government Mortgage-Backed Securities	161,385	25.03	109,649	8.00
Index Linked Government Bond	-	-	1,660	9.54
Non-Government Backed C.M.O.'s	25,124	29.20	20,772	24.56
Repurchase Agreement	1,110	6.32	-	-
Short Term Bills and Notes	13,836	0.15	-	-
Total	$ 1,150,595		$ 758,485	
Portfolio weighted Average maturity		7.72		6.53

Government Mortgage Backed Securities are most sensitive to changes in interest rates as their prepayments can vary significantly with interest rate changes. This change in prepayments will generally cause the duration, or interest rate risk, of these securities to increase when interest rates rise and decrease when interest rates fall. These securities represent 20% of the total fixed income portfolio, or a fair market value of $159,911 at year-end 2004, and 20% of the fixed income portfolio, fair market value of $106,052 at year end 2005. The Board does not have a separate policy for interest rate risk.

Appreciation or Depreciation of Investments

In 2005 and 2004, the Plan's investments, including investments bought, sold, and held during the year, appreciated (depreciated) in value as follows (in thousands):

	2005	2004
Investments, at fair value:		
Commingled index funds	$55,635	$63,694
Domestic equities	53,044	97,099
United States and foreign government securities	(4,807)	1,284
Corporate bonds and notes	(20,306)	1,311
International equities	69,434	85,808
Short-term investments	(547)	86
Currency contracts	784	(98)
	153,236	249,184
Investments, at estimated fair value:		
Venture capital funds	34	6
	$153,271	$249,190

Securities Lending

During the fiscal year, Northern lent, on behalf of the Plan, securities held by Northern, as Plan custodian, and received United States dollar cash, United States government securities, agency securities, and irrevocable bank letters of credit as collateral. Northern did not have the ability to pledge or sell collateral securities absent a borrower default. Borrowers were required to put up collateral for each loan equal to: (i) in the case of loaned securities, the collateral for which is all denominated in the same currency as the loaned securities, 102% of the fair market value of the loaned securities plus any accrued but unpaid distributions thereon, and (ii) in the case of loaned securities denominated in a different currency from the loaned securities, 105% of the fair market value of the loaned securities plus any accrued but unpaid distributions thereon. The following table shows for open loans at December 31, 2005 and 2004, the type of collateral held, the market value of the securities on loan, and the market value of the collateral held (in thousands except percents).

Collateral Type	Fair Value 12/31/2005	Collateral Market Value 12/31/2005	Collateral Percentage	Fair Value 12/31/2004	Collateral Market Value 12/31/2004	Collateral Percentage
Cash	$416,626	$428,180	103%	$298,963	$306,752	103%
Non-cash	16,508	16,908	102%	14,340	14,657	102%
Total	$433,134	$445,088		$313,303	$321,409	

The Board did not impose any restrictions during the respective fiscal year on the amount of the loans that Northern made on its behalf. There were no failures by any borrowers to return the loaned securities or pay distributions thereon during the fiscal year. Moreover, there were no losses during the respective fiscal year resulting from default of the borrowers or Northern. Northern is contractually obligated to fully indemnify the Plan for a borrower's failure to return the loaned securities.

During the fiscal year, 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 Northern. The relationship between the average maturities of the investment pool and the Plan's loans was affected by the maturities of the loans made by other plans' entities that invested cash collateral in the collective investment pool, which the Board could not determine. On December 31, 2005 and 2004, the Plan had no credit risk exposure to borrowers.

The following represents the balances relating to the securities lending transactions as of December 31, 2005 and 2004 (in thousands):

Securities Lent	Underlying Securities 12/31/2005	Securities Collateral Value 12/31/2005	Cash Collateral Investment Value 12/31/2005	Underlying Securities 12/31/2004	Securities Collateral Value 12/31/2004	Cash Collateral Investment Value 12/31/2004
Lent for cash Collateral:						
Domestic equities	$170,681		$175,312	$122,435		$125,281
Domestic corporate fixed income	79,210		81,300	65,057		66,450
International equities	30,177		31,919	42,170		44,371
US government, agency & foreign securities	136,558		139,649	69,301		70,650
subtotal :	416,626		428,180	298,963		306,752
Lent for securities Collateral:						
Domestic equities	-	-		545	2,846	
Domestic corporate fixed income	6,684	10,059		6,495	4,610	
International equities	9,824	-		4,514	571	
US government, agency & foreign securities	-	6,849		2,786	6,630	
Total	$433,134	$ 16,908	$428,180	$313,303	$ 14,657	$306,752

(4) Federal Income Tax Status

The Internal Revenue Service issued a determination letter dated January 14, 2003, stating that the Plan was designed in accordance with applicable Internal Revenue Code requirements as of that date. The Plan administrator believes that the Plan is currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code. Therefore, the Plan was qualified and the related trust was tax-exempt as of the financial statement dates.

REQUIRED SUPPLEMENTARY INFORMATION

(Unaudited Data)

Schedule of City Contributions

The following table shows information related to City contributions (in thousands):

Years Ended December 31	Annual Actuarially Required Contribution	Percentage Contributed
2000	33,682	82.7
2001	31,728	110.9
2002	49,475	74.0
2003	65,849	52.7
2004	71,382	49.4
2005	27,898	2029.3

Schedule of Funding Progress

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

Actuarial Valuation Date	Actuarial Value of Assets ($) (a)	Actuarial Accrued Liability ($) (AAL) – Entry Age (b)	Unfunded AAL (UAAL) ($) (b-a)	Funded Ratio (a/b)	Covered Payroll ($) (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/00	1,998	2,038	40	98%	298	13.5%
12/31/01	2,017	2,276	259	89%	333	77.9%
12/31/02	1,864	2,400	536	78%	325	165.0%
12/31/03	1,843	2,489	646	74%	318	202.8%
12/31/04	2,482	2,488	6	99%	331	1.9%
12/31/05	2,739	2,606	-133	105%	332	-40.0 %

To address the 2003 unfunded liability, the City Council approved and issued $399,000,000 in pension obligation bonds with a $140,000,000 premium. The net proceeds of $533,397,000 were included as a receivable in the plan's actuarial valuation for 2004. This significantly reduced the unfunded liability for 2004 as shown above.

The actuarial information presented is determined by an actuarial valuation that results from applying various assumptions with regard to termination, disability, retirement, mortality, and the time value of money to the accumulated plan benefits.

Actuarial methods used are entry age normal for actuarial cost method and level percent open for amortization method. The remaining amortization period is 30 years. Significant actuarial assumptions used include: (a) an annual rate of return on the investment of present and future assets of 8.25% in 2005 and 8.5% in 2004, compounded annually; (b) projected salary increases based on graded rates in 2005 and 2004, compounded annually, attributable to inflation; (c) post retirement benefit increases of 3% in 2005 and 3% in 2004 calculated annually; and (d) asset valuation method three year smoothed market.

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.

Schedule of Administrative Expenses

as of December 31, 2005

Personal services	
Salaries	$1,004,839
Retirement	120,449
Insurance	69,410
Total Personal Services	1,194,698
Professional services	
Actuary Service	71,720
Accounting & Audit Fees	38,000
Attorney fees	23,041
Communication	16,156
Medical	7,077
Total Professional Services	155,994
Operating Services:	
Data Processing	84,272
Election	659,227
Parking	11,583
Printing	27,980
Rent	203,901
Supplies and Services	134,783
Telephone	17,567
Travel and Training	80,927
Indirect and Other Costs	153,959
Total Operating Services	1,374,199
Furniture & Fixtures	
Furniture	11,998
Other	-
Total Furniture & Fixtures	11,998
Total Administrative Expenses	$2,736,889

Schedule of Investment Expenses

as of December 31, 2005

Manager Fees	$7,185,808
Custodian Fees	125,000
Securities Lending Fees*	11,329,724
Investment Consultant Fees	250,000
Total Investment Expenses	$18,890,532

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

Schedule of Payments for Professional Services

as of December 31, 2005

Accounting and Audit: Financial Control Systems	$38,000
Actuarial: Gabriel, Roeder, Smith & Company	71,720
Election: Voice Retrieval & Information Services	8,703
Legal: Various	23,041
Medical: Various	7,178
Investments: Wilshire Associates, Inc	250,000
Total Professional Services Payments	$398,642

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INVESTMENT SECTION
(Unaudited)

WILSHIRE

Rosalind M. Hewsenian
Managing Director

June 15, 2006

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

Re: 2004 Performance Results

Dear Cheryl:

The purpose of this letter is to review the 2005 investment performance results of the Dallas Employees' Retirement Fund System ("ERF, the Fund").

ERF maintains a well-diversified investment portfolio that consists of domestic and international equities, fixed income, and real estate securities. During 2005, the Fund generated a return of 8.27%[1], which outpaced both the Fund's asset allocation policy benchmark return of 8.09% and the actuarial rate of interest of 8.25%. All of the fund's major asset classes had positive returns during the year. The Fund's domestic equities rose 5.96%, international equities gained 18.07%, global fixed income increased 1.47%, domestic high yield fixed income appreciated 1.35% and real estate gained 16.90%. Overall, ERF enjoyed solid gains in 2005.

At the beginning of 2005, the ERF Board of Trustees reviewed the Fund's asset allocation policy and reconfirmed its long-term strategic asset allocation. The approved allocations are:

Asset Class	Allocation
Domestic Equity	40%
Fixed Income	20%
International Equity	20%
High Yield	10%
Real Estate Securities	10%.

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

Sincerely,

RM Hewsenian

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

WILSHIRE ASSOCIATES
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INVESTMENT POLICIES SUMMARY

Statement of Goals

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

1. The overall goal of the Plan is to provide benefits, as anticipated under the plan document, Dallas City Code, Chapter 40A, to its participants and their beneficiaries through a carefully planned and executed investment program.

2. The Plan seeks to produce the highest return on investment which is consistent with sufficient liquidity and investment risk that are prudent and reasonable, given prevailing capital market conditions. While the importance of the preservation of capital is recognized, the theory of capital market pricing which maintains that varying degrees of investment risk should be rewarded with compensating returns is also recognized. Consequently, prudent risk taking is reasonable and necessary.

3. The Plan investment program shall at all times comply with existing and applicable local, state and federal regulations.

Investment Philosophy

The Plan is long term in nature, and the selection of investments is regulated by: the investment time horizon; the limits of acceptable risk; and the objective of optimizing the total rate of return. Each investment manager is authorized to execute investment transactions on behalf of the Board.

Investment decisions are made under the framework of the goal established for the rate of return, limits of acceptable risk, and Plan objectives. The goal is to optimize the return of the portfolio, as opposed to maximizing the rate of return.

The optimal portfolio mix is one that carefully equates expected rate of return with expected risk of all investment categories utilized in the portfolio. In setting the optimal mix of assets for the portfolio, the Board has developed a strategic asset allocation policy which incorporates a diversified asset mix. The strategic asset allocation is designed to provide an optimal diversification to reduce risk and maximize total rate of return relative to risk and the existing and projected liability structure.

The Board bases its investment strategy and goals on advice obtained from the investment consultant, the staff, and the external investment managers. The Board uses the annual external audit and annual actuarial valuation in its evaluation of the Fund's performance each year.

Corporate Governance

Article XVI, Section 67 of the Texas Constitution and Chapter 40A of the Dallas City Code, give complete responsibility for the management and investment actions of the Employees' Retirement Fund to the Board of Trustees. The Board is held to the standard of conduct of fiduciaries in discharging their responsibilities. According to Chapter 40A the Trustees, as fiduciaries, must carry out their functions solely in the interest of the members and beneficiaries.

The Board considers the active voting of proxies an integral part of the investment process. Proxy voting may be delegated to the discretion of investment managers retained by the Board. The managers shall be required to establish a proxy voting policy and maintain records of proxy votes, and shall make these records available quarterly to the Board or its designee. The Board may at its discretion establish an overall policy of voting proxies in which case the managers' proxy voting policy shall be in accordance with that of the Board's. The Board recognizes that in certain non-U.S. markets, investment managers may, balancing the costs and benefits, not exercise proxy voting.

Investment Results

Investment Summary

The investment managers and the returns by investment category are shown in the following tables.

Investment Category	2005 Rate of Return
Domestic Equities	5.96%
International Equities	18.07%
Fixed Income	1.47%
High Yield Bonds	1.35%
Real Estate Securities	16.90%
Cash Equivalents	3.06%
Venture Capital	-11.95%
Total Portfolio	8.27%

Investment Managers

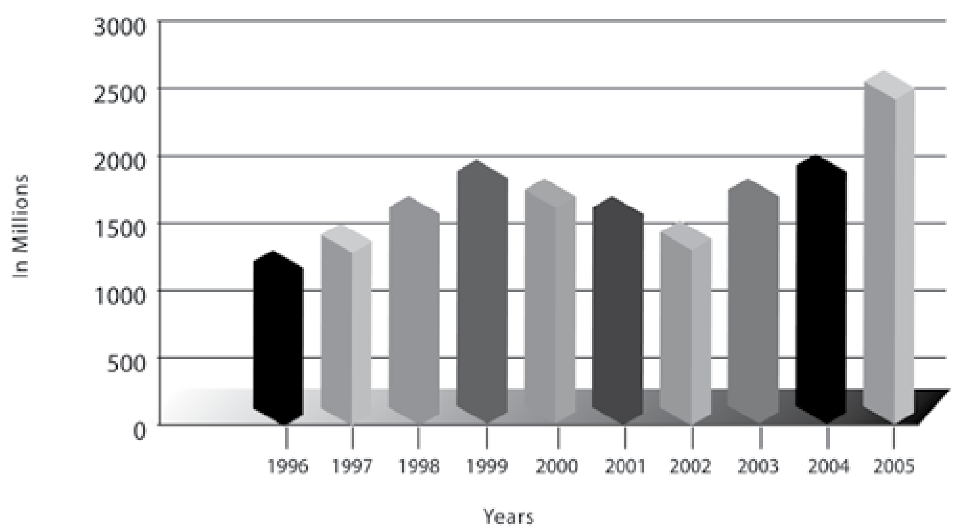
Domestic Equities, REITs & Commingled Index Funds	Northern Trust Global Investments Systematic Financial Adelante Capital Security Capital
International Equities	Acadian Baring Northern Trust Global Investments
Fixed Income	Loomis Sayles Payden & Rygel W.R. Huff Oaktree
Cash Equivalents	The Northern Trust Company
Venture Capital	Alliance Capital Brinson Partners

Total Plan Results

The world equity markets as measured by various indices were positive for 2005 with the MSCI All World ex-US Index returning 17.11% and the Dow Jones Wilshire 5000 returning 6.38%. The Lehman Aggregate was up 2.43%. The Citigroup High Yield Cash Pay Index was up 2.07% for the year.

At December 31, 2005, the net asset value of the Plan was $2.8 billion. This value represents a 31.12% or $700 million increase over last year's value of $2.1 billion. The Net Assets of the Plan graph below provides a pictorial history of the Plan's growth over the past 10 years.

Market Value of Assets



Asset Allocation

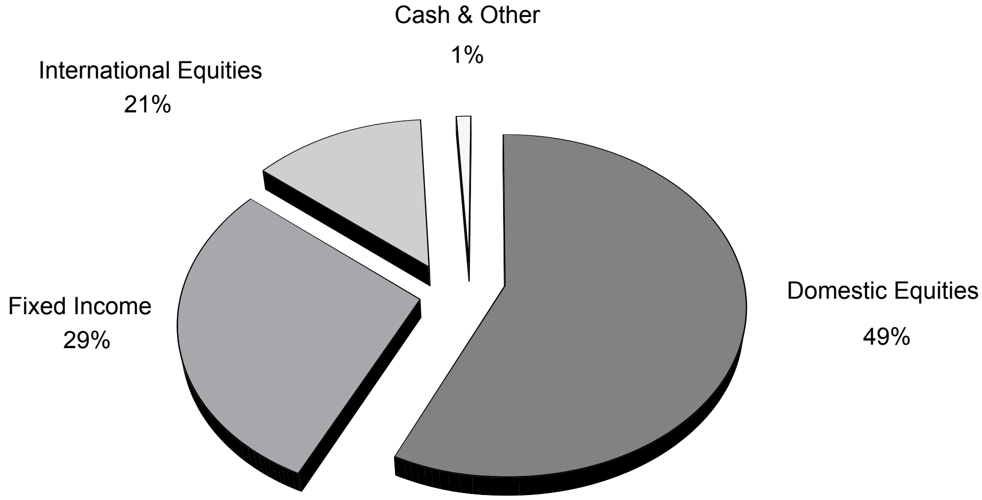
The Plan's long-term strategic asset allocation policy sets the following targets: 50% in domestic equity including REIT securities; 20% in international equity; 20% in global fixed income; and 10% in high yield fixed income. The chart on the next page shows the investments by asset class at year-end. Venture capital had a small allocation (less than 1%) at year-end and will continue to have some level of investment during the next 2-3 years as the asset class is liquidated. Although no specific allocation to cash and equivalents is targeted, cash must be available for the payment of benefits and other expenses of the Plan. To accommodate constantly changing market values, the Board has approved ranges for each of the asset classes.

Domestic Equity

The Plan's allocation to domestic equity is targeted at 50% of the Plan's total assets including 10% ultimately allocated to REITs. Passively managed index funds totaled 65% of domestic equity assets at year end, and actively managed portfolios represented the remaining 35%. The domestic equity and REIT's segment returned 5.96% and 16.90% respectively for the year while the benchmark Wilshire 5000 Index had a return of 6.38% and the Wilshire Real Estate Securities index returned 13.82%. The S&P 500 index returned 4.89% for the year.

International equity has a target allocation of 20%, and it is split between two active managers and one index manager. The Plan's international equity composite return was 18.07% while the MSCI All World ex-US Index reported a return of 17.11% for the year.

Asset Allocation



Global Fixed Income

Global fixed income has a target of 20% of total assets. This allocation is split evenly between two investment managers. During the year the global fixed income returned 1.47% while the Citigroup Non-US Government Bond Index returned -9.21% and the Lehman Aggregate Index returned 2.43%.

High Yield Fixed Income

High yield fixed income has a target of 10%. This allocation is also evenly split between two investment managers. The high yield return for 2005 was 1.35% and the Citigroup High Yield Cash Pay Index returned 2.07%.

Alternative Investments

Although venture capital is no longer a part of the long-term strategic asset allocation policy, residual values did remain at year-end as this investment is in liquidation status. The venture capital investments had a -11.95% return versus the S&P 500 Index's return of 4.89%.

Annualized Rates of Return

as of December 31, 2005

	2005	3-Year	5-Year
Total Plan	8.27%	16.61%	6.28%
Domestic Equity	5.96	16.49	2.75
S&P 500 Index	4.89	14.39	0.54
Dow Jones Wilshire 5000 Index	6.38	16.35	2.10
International Equity	18.07	27.27	7.97
MSCI ACWI ex US (G) Index	17.11	26.19	6.66
MSCI EAFE Index	13.53	23.68	4.55
Global Fixed Income	1.47	3.59	5.94
Lehman Aggregate Bond Index	2.43	3.62	5.87
Citigroup Non-US Government Bond Index	-9.21	6.46	7.26
High Yield Fixed Income	1.35	9.68	7.72
Citigroup High Yield Cash Pay	2.07	13.42	9.17
Venture Capital	-11.95	-7.56	-11.35
Cash Equivalent	3.06	1.84	2.34
T-Bills	3.06	1.84	2.34
Real Estate Securities	16.90	29.50	--
Dow Jones Wilshire REIT Index	13.82	27.32	19.15

Investment Management Fees

as of December 31, 2005

Investment	Assets Under Management	Fees	Basis Points
Domestic Equity	$1,409,399,702	$2,976,761	21.1
International Equity	590,906,435	1,924,564	32.6
Global Fixed Income	580,248,083	1,083,682	18.7
High Yield Fixed Income	256,731,732	1,196,953	46.6
Venture Capital	161,492	3,848	238.3
Cash Equivalents	20,264,481	N/A	N/A
	$2,857,711,925	$7,185,808	
Other Investment Services			
Investment Consultant		250,000	
Custodian		125,000	
Security Lending*		11,329,724	
Subtotal		11,704,724	
Total Investment Management Fees		$18,890,532	

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

Ten Largest Holdings*

as of December 31, 2005

Equity	Shares	Market
MFB NTGI-QM COLTV DAILY S&P 500	180,010.60	$596,846,386
MFB NTGI-GM COLTV DAILY RUSSEL	450,374.35	314,335,625
MFB NTGI-QM COLTV EAFE INDEX	663,403.69	214,282,709
JAPAN MSCI INDEX	3,912,729.05	39,624,207
SIMON PPTY GROUP INC NEW	280,600.00	21,502,378
PROLOGIS TR	456,500.00	21,327,680
UK MSCI INDEX	382,704.69	20,903,713
AVALONBAY CMNTYS INC	233,200.00	20,813,100
MSCI FINANCIALS SECTOR INDEX	1,355,822.92	18,165,315
MSCI ENERGY SECTOR INDEX	1,059,571.35	17,833,645

Fixed Income	Par Value	Market
FNMA 30 YR PASS-THROUGHS 6.000% due 12/25/2035	31,920,000	$32,209,259
U.S.A. TREASURY NOTES 3.625% due 04/30/2007	19,430,000	19,226,587
U.S.A. TREASURY NOTES 3.125% due 10/15/2008	18,060,000	17,469,528
U.S.A. TREASURY NOTES 4.000% due 02/15/2015	16,690,000	16,181,472
FNMA 30 YEAR PASS-THROUGHS 5.500% due 01/25/2034	16,030,000	15,869,700
U.S.A. TREASURY NOTES 3.875% due 09/15/2010	14,830,000	14,521,239
U.S.A. TREASURY NOTES 3.500% due 11/15/2006	10,400,000	10,318,339
UK(GOVT OF) 4.750% due 09/07/2015	5,400,000	9,748,146
GNMA TBA ARM POOL 5.500% due 01/15/2034	9,190,000	9,244,570
FHLMC POOL #B1-5492 5.000% due 07/01/2019	9,268,175	9,180,776

*A complete list of portfolio holdings is available upon request.

Investment Holdings Summary

as of December 31, 2005

Investment Sector	Market Value	Percentage of Market Value
Fixed Income		
Government Bonds	$319,054,366	11.16%
Corporate Bonds	473,195,810	16.56%
Total Fixed Income	792,250,176	27.72%
Equity		
Common Stock	867,820,077	30.37%
Index & Commingled	1,125,464,719	39.38%
Total Equity	1,993,284,796	69.75%
Alternative Investments		
Venture Capital	161,492	0.01%
Total Alternative Investments	161,492	0.01%
Cash And Equivalents		
Cash	1,215,777	0.04%
Cash Equivalents	70,799,684	2.48%
Total Cash And Equivalents	72,015,461	2.52%
Total Plan	$2,857,711,925	100.00%

ACTUARIAL SECTION
(Unaudited)

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The Report of the
December 31, 2005 Actuarial Valuation
of the Employees' Retirement Fund
of the City of Dallas

Employees' Retirement Fund
of the City of DALLAS ®

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May 9, 2006

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

Dear Members of the Board:

We are pleased to present the report of the actuarial valuation of the Employees' Retirement Fund of the City of Dallas ("ERF") as of December 31, 2005.

This valuation provides information on the funding status of ERF. It includes a determination of the actuarially calculated contribution level for the 2006 calendar year. In addition, it also contains the information necessary to determine the current total obligation rate and the current adjusted total obligation rate for the fiscal year beginning October 1, 2006. This rate is a function of the previous year's adjusted total obligation rate, this year's actuarially calculated contribution rate, and the rate necessary to make the debt service payment on the pension obligation bonds for fiscal year 2007.

This valuation is based on the provisions of ERF in effect as of the valuation date, data on the ERF membership and information on the asset value of the trust fund as of that date. All member data and asset information were provided by ERF staff. While certain checks for reasonableness were performed, the data used was not audited.

The actuarial assumptions and cost method are those adopted by the Board of Trustees in April 2006 following the completion of an experience investigation.

To the best of our knowledge, this report is complete and accurate and was conducted in accordance with standards of practice by the Actuarial Standards Board and in compliance with the provisions of the ordinance. The actuarial assumptions used for the valuation produce results which, in the aggregate, are reasonable. The valuation was produced under the supervision of a Member of the American Academy of Actuaries, and all three signatories have significant experience valuing large, public employee retirement systems.

Respectfully submitted,

Norman S. Losk, F.S.A.	Lewis Ward	Mark R. Randall, M.A.A.A
Senior Consultant	Consultant	Senior Consultant

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SUMMARY OF THE VALUATION

Funding Process

Based on the previous work of the Employees' Retirement Fund Study Committee that was ratified by both the City Council and the voters, a new funding process commenced October 1, 2005. From that date forward, a new "current adjusted total obligation rate" will be contributed jointly by the City (63%) and the Membership (37%). This current adjusted total obligation rate will cover both the debt service tied to pension obligation bonds issued in 2005 and the contributions to the ERF. In subsequent years, the contribution rate will change only if the actuarial valuation develops a "current total obligation rate" which differs from the "prior adjusted total obligation rate" by 3.00% or more.

Actuarial Contribution

The Actuarially Required Contribution Rate developed in this actuarial valuation is 14.03% of active member payroll. This rate excludes the amount needed to make the City's debt service payment on the pension obligation bonds in fiscal year 2007. The debt service payment was determined to be 8.53% of projected payroll. The sum of these rates is 22.56% (the Current Total Obligation Rate) which is 1.85% less than the Prior Adjusted Total Obligation Rate of 24.41%. Because the difference is less than 3.00%, the total contribution rate in fiscal year 2007 (the Current Adjusted Total Obligation Rate) to fund the ERF and make the debt service payment on the pension obligation bonds remains at 24.41%.

Actuarial Assumptions

Appendix G of the report includes a summary of the actuarial assumptions and methods used in this valuation. In short, costs are determined using the Entry Age actuarial cost method. The assumed annual investment return rate is 8.25%.

An experience investigation was completed for the five-year period ending December 31, 2005. Based on that investigation, the actuary recommended numerous changes to the actuarial assumptions.

ERF Benefits

There have been no changes in the benefit provisions of ERF since the prior valuation.

Experience During 2005

Actuarial Gain and Loss Analysis reviews the effects of experience that differs from that assumed on actuarial results. If such a difference increases assets or reduces liabilities, we have an actuarial gain. The reverse is an actuarial loss.

ERF experienced an overall actuarial gain in calendar year 2005. This year's overall actuarial gain amounted to approximately $134.00 million.

The total actuarial gain is the net of the gain from assets and the gain from liabilities. The total gain is broken down as follows ($ in millions):

		2002	2003	2004	2005
1)	Actuarial (Gain)/Loss on Assets	$279.54	$118.79	($15.80)	($133.36)
2)	Actuarial (Gain)/Loss on Liabilities	(21.08)	(51.16)	(27.52)	(0.64)
3)	Total Actuarial (Gain) or Loss (1+2)	258.46	67.63	(43.32)	(134.00)

On a market value basis, the fund earned approximately 7.93% (on a dollar weighted basis net of investment expenses). However, the actual investment income was slightly more than the expected investment income on the actuarial value of assets, therefore, a small amount of excess investment income is being deferred into the future. Due to the recognition of prior years' deferred investment gains, there was an actuarial gain of nearly $133.36 million on the actuarial value of assets. The rate of return on the actuarial value for 2005 was 13.71% (on a dollar weighted basis net of investment expenses). This result was more than the current investment return assumption of 8.25%.

In addition, during 2005, there was an actuarial gain of about $640,000 from demographic assumptions and non-investment economic assumptions (salary increases).

Asset Information

The market value of the assets of the fund, which are available for benefits, increased from $2,668 million as of December 31, 2004 (includes proceeds of the pension obligation bond) to $2,799 million as of December 31, 2005. The investment markets, which turned downward significantly in the first three years of the 21st century, have reversed themselves to produce significant investment gains in the last three calendar years.

The assets recognized for actuarial purposes (actuarial value of assets) are the product of a smoothing technique. The purpose of such a technique is to allow the use of market values, but to dampen the effect of market volatility. See Table 3 for the determination of the actuarial value of assets.

The actuarial value of assets has been increased from $2,482 million to $2,739 million during 2005. The rate of return on investments for 2005 on the actuarial value of assets was 13.71% compared to 9.34% in 2004. The detailed determinations of asset values utilized in this valuation and asset growth in the last year are set out in Appendix A.

Funded Status

The funded status of ERF is measured by the Funded Ratio and the Unfunded Actuarial Accrued Liability (UAAL). The Funded Ratio is the ratio of the actuarial value of assets available for benefits to the actuarial accrued liability (AAL) of the Fund. Thus, it reflects the portion of the AAL that is covered by ERF assets. The UAAL is the difference between these items.

A funded ratio of 100% means that the funding of ERF is precisely on schedule. By monitoring changes in the funding ratio each year we can determine whether or not funding progress is being made.

Based on the actuarial value of assets, the ERF funded ratio would have increased from 99.75% as of December 31, 2004 to 105.07% as of December 31, 2005 had the assumptions not been changed. The assumption change increased the funded ratio to 105.11%.

The UAAL decreased from $6.2 million at December 31, 2004 to -$132.1 million at December 31, 2005 with no assumption changes. The UAAL as of December 31, 2005 after the assumption changes is -$133.1 million. Since the UAAL is negative, this implies the actuarial assets exceed the actuarial liabilities of the Fund.

GASB Disclosure

GASB Statements Numbers 25 and 27 set out the current accounting standards for ERF. Tables 11, 12, and 13 in Appendix D provide footnotes and/or Required Supplemental Information tables required to be disclosed by those statements.

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STATISTICAL SECTION
(Unaudited)

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Schedule of Revenue by Source

Year Ending	Member Contributions ($'s000)	Employer Contributions ($'s 000)	% of Annual Covered Payroll	Investment Income ($'s 000)	Total ($'s 000)
1996	12,391	21,073	8.2	166,035	199,499
1997	13,193	22,404	8.4	262,475	298,072
1998	14,001	23,762	9.0	258,591	296,354
1999	14,932	25,217	8.9	290,691	330,840
2000	16,460	27,847	9.3	(68,847)	(24,540)
2001	20,814	35,182	10.6	(103,558)	(47,562)
2002	21,771	36,606	8.9	(171,787)	(113,410)
2003	20,580	34,729	9.2	412,128	467,437
2004	20,896	35,251	9.4	289,947	346,094
2005	23,392	565,569	58.8	208,288	797,249

Schedule of Expenses by Type

Year Ending	Benefit Payments ($'s 000)	Administrative Expenses ($'s 000)	Refunds ($'s 000)	Investment Professional Expenses ($'s 000)	Total ($'s 000)
1996	61,402	1,665	2,473	8,470	74,010
1997	65,636	1,415	2,640	7,133	76,824
1998	69,111	1,138	3,020	8,411	81,680
1999	73,530	1,470	2,706	11,168	88,874
2000	81,006	1,860	2,971	16,212	102,049
2001	87,054	1,918	2,434	12,237	103,643
2002	97,363	1,944	2,552	7,458	109,317
2003	108,402	2,119	2,976	7,322	120,448
2004	116,675	2,075	2,605	10,003	131,729
2005	127,578	2,737	3,049	18,891	152,255

Schedule of Benefit Expenses by Type

Year Ending	Retiree ($'s 000)	Beneficiary ($'s 000)	Disability ($'s 000)	Supplement ($'s 000)	Total ($'s 000)
1996	50,719	3,014	1,828	5,841	61,402
1997	53,961	3,795	1,956	5,924	65,636
1998	57,299	3,713	2,111	5,988	69,111
1999	61,730	3,461	2,204	6,135	73,530
2000	67,714	4,563	2,427	6,302	81,006
2001	73,963	4,076	2,554	6,431	87,024
2002	82,918	5,012	2,753	6,681	97,363
2003	93,859	4,562	2,951	7,030	108,402
2004	101,284	5,076	3,128	7,187	116,675
2005	110,761	6,054	3,376	7,387	127,578

Average Age and Pension at Retirement

as of December 31, 2005

Status	Average Age	Average Pension	Average Age at Retirement
Members Only	67.5	$2,282.22	57.5
Members and Survivors	68.2	$2,092.47	N/A
Survivors Only	71.7	$1,260.34	N/A

New Retirements - Average Benefit Payment

as of December 31, 2005

	Years of Credited Service						
	0 - 5	5 - 10	10 - 15	15 - 20	20 - 25	25 - 30	30+
Average monthly benefit	$315.77	$763.76	$1,454.99	$1,800.93	$2,765.44	$3,123.08	$4,215.25
Average final average salary	$3,260.47	$3,652.23	$3,894.79	$3,710.63	$4,515.87	$4,399.20	$4,949.87
Number of retired members	8	31	24	28	84	74	41

Retired Members By Type Of Benefit

as of December 31, 2005

Amount of Monthly Benefits	Type of Retirement[a]							Option Selected[b]		
	1	2	3	4	5	6	7	#1	#2	#3
$1 - 250	38	0	22	0	0	0	0	16	14	30
$251 - 500	134	4	110	58	0	6	22	41	123	170
$501 - 750	217	10	127	44	11	19	18	91	115	240
$751 - 1,000	245	18	89	32	24	22	7	89	148	200
$1,001 - 1,250	287	27	64	28	11	20	11	123	154	171
$1,251 - 1,500	243	23	58	20	6	18	5	113	108	152
$1,501 - 1,750	276	36	36	16	4	11	5	130	128	126
$1,751 - 2,000	286	43	43	12	3	9	4	137	129	134
over $2,000	2,136	159	133	34	5	23	4	851	960	683
Total	3,862	320	682	244	64	128	76	1,591	1,879	1,906

Type of Retirement[a]

1. Normal retirement for age, service or Rule of 78
2. Early retirement
3. Beneficiary payment, normal or early retirement
4. Beneficiary payment, service connected death
5. Service connected disability retirement
6. Non-Service connected disability retirement
7. Beneficiary payment, disability retirement

Option Selected[b]

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

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