2007

EMPLOYEES' RETIREMENT FUND OF THE CITY OF DALLAS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

fiscal year ended December 31, 2007

Employees' Retirement Fund
of the City of DALLAS ®

2007 AT - A - GLANCE
(unaudited)
(dollars in thousands)

Active Members	**8,117**
Benefit Recipients	**5,304**
Inactive Members	**1,043**
Fund Net Assets	**$3,185,410**
Benefits Paid	**$146,810**
Refunds	**$3,065**
Member Contributions	**$31,806**
City Contributions	**$23,493**
Investment Rate of Return	**3.73%**

The Employees' Retirement Fund provides retirement, disability, and death 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, 2007

CHERYL D. ALSTON
EXECUTIVE DIRECTOR

Office Location and Mailing Address
EMPLOYEES' RETIREMENT FUND
600 North Pearl, 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

August 20, 2008

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, 2007 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:

Section One - Introductory Section, contains the administrative organization, a letter of transmittal, and the Plan Summary.
Section Two - Financial Section contains the report of the Independent Auditors, the financial statements of ERF and certain required supplementary information.
Section Three - Investment Section contains a report on investment activity, investment policies, investment results, and various investment schedules.
Section Four - Actuarial Section which contains an Actuary's Certification Letter and the results of the annual actuarial valuation.
Section Five - Statistical Section 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 after five years of service or to survivor benefits after two years of service.

Investments

The Board of Trustees oversees ERF'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 ERF 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.

2007 was the fifth year of positive return. ERF's total fund return for 2007 was 3.73%. The total return for the past three years was 9.64% and the last five years was 14.05%. 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.

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 2007, totaled $166,417,000. Employer contributions of $23,493,000 were higher by $493,000 compared to city contributions received in 2006. Member contributions of $31,806,000 increased $1,683,000. The factor that contributed to this increase was due to salary increases.

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.

Deductions for fiscal year 2007 totaled $152,541,000, an increase of 5.1% over 2006. This increase is primarily due to an increase in the number of benefit recipients. Administrative expenses, which are controlled by a budget approved by the Board of Trustees, reflected an increased $259,000 or 10.7%, when compared to fiscal year 2006 expenses. This increase is attributed to the upgrade and enhancement to the pension administration system.

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 actuarial accrued liability and actuarial value of assets of ERF as of December 31, 2007 amounted to $2.9 billion and $3.2 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 Grant Thornton LLP and the actuarial firm of Gabriel, Roeder, Smith & Company are included in this report. The consultants appointed by the Board are listed in this 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 D Alston

Cheryl D. Alston
Executive Director

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Board of Trustees

As of December 31, 2007

Administrative Staff

Cheryl D. Alston, Executive Director

Newton Bruce, Assistant Administrator

Gail Smith, Assistant Administrator

Natalie Jenkins, Investment Officer

Evelyn Thomas, Senior Pension Benefits Specialist

Deirdre Taylor, Senior Pension Benefits Specialist

Judith Greene, Senior Pension Benefits Specialist

Susan Oakey, Senior Pension Benefits Specialist

Duc Lam, Database Analyst

John Binford, Senior Information Technology Analyst

Jason Thompson, Senior Information Technology Analyst

Sheila Willis, Pension Benefits Specialist

Re'Gine Green, Pension Benefits Specialist

Patricia Jack, Pension Benefits Specialist

Berda Venerable, Management Assistant

Melissa Harris, Communications Specialist

C. Kay Watson, Office Manager

Lisa Larry, Office Assistant

Beth Turner, Office Assistant

Micaela Arredondo, 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

Grant Thornton, 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, 2007

Membership	An employee becomes a member upon permanent employment and contributes to the Retirement Fund.
Contributions	The contribution rate is determined each year by the actuarial valuation. The total contribution is split 37% members and 63% City. At December 31, 2007 the members contributed 8.40% of pay and the City contributed 14.31% of pay of which 5.93% is received by the Fund and 8.38% is the used for the pension obligation bonds debt service.
Definitions	Final Average Salary: Average monthly salary over the member's highest three years of service. Credited Service: Length of time an employee of the City of Dallas and while making contributions to the Fund. Part-time employees receive proportional credited service only.
Retirement Pension	Eligibility: a. Attainment of age 60; or b. Attainment of 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. Attainment of age 50, if the sum 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 the annual average change of the price index for the latest 12 months available up to 5%.

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FINANCIAL SECTION

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EMPLOYEES' RETIREMENT FUND OF THE CITY OF DALLAS

Financial Statements
As Of December 31, 2007 and 2006

With Independent Auditor's Report Thereon

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Grant Thornton

Report of Independent Certified Public Accountants

Audit • Tax • Advisory

Grant Thornton LLP
1717 Main Street, Suite 1500
Dallas, TX 75201-9436

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F 214.561.2370
www.GrantThornton.com

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

We have audited the accompanying statement of plan net assets of the Employees' Retirement Fund of the City of Dallas (the "Plan") as of December 31, 2007, and the related statement of changes in plan net assets for the year 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants. 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 audit provides 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 Employees' Retirement Fund of the City of Dallas as of December 31, 2007, and the change in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the required supplemental information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Our audit was 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 audit of the basic financial statements and, accordingly, we express no opinion on them.

GRANT THORNTON LLP

Dallas, Texas
August 11, 2008

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MANAGEMENT'S DISCUSSION AND ANALYSIS
(Required Supplementary Information)

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of the Employees' Retirement Fund of the City of Dallas (The Plan) financial performance provides an overview of the financial activities and funding conditions for the fiscal years ended December 31, 2007, 2006 and 2005. The intent of this discussion and analysis is to give a narrative overview and analysis of the Plan's financial performance as a whole. For more detailed information regarding performance, readers should also review the financial statements, notes to the financial statements, and required supplementary information in order to enhance their understanding of the Plan's financial performance.

FINANCIAL STATEMENTS

The Plan is a defined benefit plan that provides retirement, disability, and death benefits to full time and permanent part-time civilian employees of the City of Dallas (the City). The Plan 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.

There are also notes to the financial statements that include a brief plan description, a summary of significant accounting policies, and information about contributions, legally required reserves, and investment concentrations. The report also contains required supplemental information in addition to the basic financial statements. Collectively, this information presents the net assets available for pension benefits and summarizes the changes in net assets for those benefits.

FINANCIAL HIGHLIGHTS

The following financial highlights occurred during the fiscal year ended December 31, 2007:

- Total rate of return on market basis was 3.73% and was due primarily to returns from investments in international equities and fixed markets.
- The net assets of the Plan held in trust to pay pension benefits were $3.2 billion as of December 31, 2007. This amount reflects a slight increase of $14 million from last year. This increase is primarily the result of interest and dividend income and net appreciation of the fair value of the investment portfolio.
- Contribution revenue for fiscal year 2007 was $55 million, an increase of $2 million from last fiscal year. This increase is attributable to growth in covered payroll.
- Pension benefits paid to retirees and beneficiaries increased $7.6 million bringing the total benefit payments to $146.8 million. Refunds of contributions paid to former members upon termination of employment decreased from $3.5 million to $3.1 million.
- Net investment earnings (net appreciation in the fair value of investments, plus interest and dividend income, less investment expenses) decreased by 76% compared to last fiscal year.
- Administrative expenses in 2007 totaling $2.7 million increased by $259 thousand from last fiscal year total of $2.4 million.

During the fiscal year, the Plan elected early adoption of and implemented Government Accounting Standards Board Statement No. 50, *Pension Disclosures (an amendment of GASB Statements 25 and 27)*. See notes 2 (g) and 5 of notes to the financial statements.

CONDENSED FINANCIAL INFORMATION

	2007 (in thousands)	2006 (in thousands)	2005 (in thousands)
Assets	$ 4,176,699	$ 4,052,572	$ 3,359,240
Liabilities	991,289	881,038	560,705
Net Assets available for benefits	3,185,410	3,171,534	2,798,535
Contributions	55,299	53,123	588,961
Investment & other income	111,118	464,949	208,581
Benefit payments	146,810	139,206	127,578
Refund of contributions	3,056	3,451	3,049
Administrative expenses	2,675	2,416	2,737
Change in Net Assets	13,876	372,999	664,178

FINANCIAL POSITION AND RESULTS OF OPERATIONS

The Plan's total return for fiscal year 2007 was 3.73% as compared to 17.33% in 2006 and 8.27% in 2005. The low return in 2007 is mostly due to the activity in the U. S. economy during the latter half of the year. During this period, the market experienced a deceleration due to the crisis in the housing and credit markets. Contrastingly, the market conditions for 2006 were strong producing exceptional returns. Investments in international equities and REITS had 2006 returns of 25.52% and 37.65% respectively for the year. The 2005 return rate of 8.27 % outperformed the actuarial assumed annual return rate of 8.25%.

Even with weakness in the market and a modest increase of $14 million, the Plan's investment portfolio for fiscal year 2007 was approximately $3.2 billion, which was approximately the same as the close of fiscal year 2006. High oil and gas prices coupled with the crisis in the credit and subprime markets caused declining market trends in the U. S. markets during the latter quarters of 2007. The $14 million increase is due primarily to interest and dividend income and the net appreciation in market value. At year ended 2006, the Plan's net asset value was approximately $3.2 billion and represented an approximate increase of $373 million over the 2005 year ended value of approximately $2.8 billion. Contributing factors for this increase were net appreciation in market values and corporate earnings from investments both of which are attributable to the change in market conditions in general.

The additions to Plan Net Assets consist of employer and employee contributions, investment income, and net realized and unrealized gain on investments. City and employee contributions for fiscal year 2007 were approximately $23.5 million and $31.8 million, respectively. Changes in both sources showed marginal increases over the $23.0 million of City and $30.1 million of employee contributions received in 2006. The contribution revenue in fiscal year 2006 was less than the revenue received in 2005, although the contribution rates increased from 6.50% to 9.03% for employees and 11.0% to 15.38% for the City in 2005. Two factors attributed to this decrease: (1) additional contributions of $533 million from net proceeds on the sale of pension obligation bonds sold in 2005 and (2) an adjustment to the City contribution rate for the debt service payment on the bonds.

For 2007 the Plan's net investment income was $111 million. Net investment income is presented net of investment expenses and is comprised of interest, gains/(losses) from the sale of investments, net unrealized appreciation/(depreciation) in the fair value of investments, and net income from securities lending activities. The net investment income for fiscal year 2007 is approximately $354 million less than the $465 million earned in fiscal year 2006. The decrease was due primarily to the downtrend in the U. S. market during the latter half of 2007. Net investment income for fiscal year 2006 had a noteworthy change over 2005. The 123% increase in fiscal year 2006 of $465 million compared to $208 million in income for 2005 was mainly a result of the change in the net unrealized appreciation in the fair value of investments and in the increase of security lending income. Market growth and reallocation from three commingled indexed products to four active managers were contributing factors as well as the increase in the Plan's share of security lending net income from 65% to 75%.

Liabilities for fiscal year 2007 were $991 million. Liabilities for fiscal year 2006 were $881 million. This represents an increase of 12.5% over 2006. The major contributor for the 2007 increase was currency contracts. At year end 2007, the currency contracts outstanding were $432 million compared to $194 outstanding at year end 2006. In 2006 liabilities increased 57.1% as compared to 2005. The increases were largely due to an increase in securities lending collateral, unsettled security purchases and currency contracts outstanding at year end. The volume of securities on loan in the Plan's securities lending program for fiscal year 2006 was higher than the 2005 volume. The volume of securities on loan during 2006 significantly soared from 749 in 2005 to 2,462 in 2006. Likewise, the year end market values of purchases that were unsettled for fiscal 2006 were $177 million compared to the $116 million for 2005. The increases between these years were due to market growth.

Deductions from Plan Net Assets are largely benefit payments. During fiscal year 2007, benefits paid were $147 million, an increase of $8 million over payments made in 2006. Benefits paid in fiscal year 2006 were $139 million, an increase of $12 million over payments made in 2005. Major causes of the increases between all years are attributable to new retirements with higher base benefits and to annual cost-of-living-adjustments paid to retirees and their beneficiaries. New retirements for these periods were 251 in fiscal year 2007, 276 in fiscal year 2006 and 285 in fiscal year 2005. Cost-of-living-adjustments (which are effective on January 1 of the succeeding year) paid in each of the respective years were 3.48% in 2007, 4.67% in 2006 and 3.21% in 2005. Refunds of contributions to members who terminated employment during FY 2007 amounted to $3.1 million (476 refunds), compared with $3.5 million refunded (472 refunds) during fiscal year 2006 and $3.0 million refunded (446 refunds) during fiscal year 2005. The change during FY 2007 reflects a lower average refund amount compared to fiscal year 2006. The administrative costs of the Plan represented approximately 1.8% of total deductions in 2007, 1.7% in 2006 and 2.1% in 2005.

CURRENT ENVIRONMENT

Plan membership for active members continued to increase during fiscal year 2007. Active membership grew from 7,772 to 8,117 members, an increase of 4.4%. Growth for new retirements continued to increase as well. The Plan's experience for retiring members, on the average, is approximate 200-plus new retirements each year. Correspondingly, as the Plan fulfills its mission of providing retirement benefits to the membership and their survivors, the payments for benefits continue to increase and exceed the level of contribution revenue received. This tendency is expected to continue as more of the "baby boomers" in active membership mature and become eligible for retirement.

An actuarial valuation of the Plan's assets and benefit obligations is performed annually. For 2007, the actuarial funded ratio, which is a standard measure of a plan's funded status representing the ratio of the actuarial value of assets to the actuarial accrued liability, was 109.2%, up by approximately 1% over 2006.

The ratio for 2006 was 108.6% and up by 4% over the 2005 ratio of 105.1%. This increase was primarily a result of the favorable investment return.

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EMPLOYEES' RETIREMENT FUND OF
THE CITY OF DALLAS

Statements of Plan Net Assets

As of December 31, 2007 and 2006
(In thousands)

	2007	2006
ASSETS:		
Cash and short-term investments	$ 133,987	$ 93,872
Collateral on loaned securities	478,743	502,669
	612,730	596,541
Receivables:		
Currency contracts	432,122	194,023
Currency gains	289	412
Accrued dividends	4,966	3,980
Accrued interest	10,837	9,687
Accrued securities lending	428	90
Securities sold	31,045	87,251
Employer contributions	721	695
Employee contributions	1,021	916
Total receivables	481,429	297,054
Investments, at fair value:		
Commingled index funds	132,433	128,599
Domestic equities	1,397,506	1,450,143
United States and foreign government securities	274,031	438,622
Domestic corporate fixed-income securities	595,881	490,094
International equities	682,651	651,456
Investments, at estimated fair value:		
Venture capital funds	38	63
Total investments	3,082,540	3,158,977
Total assets	4,176,699	4,052,572
LIABILITIES:		
Accounts payable	3,345	3,961
Payable for securities purchased	73,716	176,782
Investment fees payable	3,363	3,603
Currency contracts	432,122	194,023
Securities lending collateral	478,743	502,669
Total liabilities	991,289	881,038
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS (A Schedule of Funding Progress is presented on page 46)	$3,185,410	$3,171,534

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, 2007 and 2006
(In thousands)

	2007	2006
ADDITIONS:		
Contributions:		
Employer	$ 23,493	$ 23,000
Employee	31,806	30,123
Total contributions	55,299	53,123
Net investment income:		
Dividends	39,870	30,706
Interest	58,548	49,386
Net appreciation in fair value of investments	22,766	393,728
Securities lending income	29,330	26,730
Total investment income	150,514	500,550
Less investment expenses:		
Investment management fees	(12,069)	(9,855)
Custody fees	(125)	(125)
Consultant fees	(283)	(268)
Securities lending borrower rebates	(26,820)	(25,220)
Securities lending management fees	(558)	(453)
Total investment expenses	(39,855)	(35,921)
Net investment income	110,659	464,629
Other income	459	320
Total increases	166,417	518,072
DEDUCTIONS:		
Benefit payments	146,810	139,206
Refund of contributions	3,056	3,451
Administrative expenses	2,675	2,416
Total deductions	152,541	145,073
Net increase in net assets available for benefits	13,876	372,999
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
Beginning of year	3,171,534	2,798,535
End of year	$3,185,410	$3,171,534

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

EMPLOYEES' RETIREMENT FUND OF
THE CITY OF DALLAS

Notes to the Financial Statements

December 31, 2007 and 2006

(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, 2007 and 2006, the Plan's membership consisted of:

	2007	2006
Retirees and beneficiaries currently receiving benefits and inactive members entitled to benefits but not yet receiving them	6,347	6,177
Current members:		
Vested	5,000	5,216
Nonvested	3,117	2,556
Total current members	8,117	7,772
Total membership	14,464	13,949

(b) Pension Benefits

Effective November 7, 1989, members of the Plan are entitled to pension benefits equal to 2.75% 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 paid in 2007 and 2006 were 3.48% and 4.67%, respectively.

EMPLOYEES' RETIREMENT FUND OF
THE CITY OF DALLAS

Notes to the Financial Statements

December 31, 2007 and 2006

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 for less than five years of credited service.

(c) Disability and Death Benefits

Members that become totally and permanently disabled may qualify for a service-connected disability with no minimum service, or a non-service connected disability with five or more years of credited service. Non-service connected benefits are based on actual credited service or a minimum of 10 years. Service-connected benefits are equal to normal retirement benefits or a minimum of $500.

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.

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The Plan was amended in 2004. Amendment changes 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.

Based on the authorization in the Plan amendment, the annual actuarial valuation will establish any new contribution rates for employees and the City. The new rates which became effective October 1, 2007 are 8.40% of pay for employees and a combined rate of 14.31% of pay for the City. The City's 14.31% is divided into 5.93% cash to the Plan and 8.38% 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 Plan 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

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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 $1,742,000 and $1,611,000 at December 31, 2007 and 2006 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 $2,675,000 and $2,416,000 for the years ended December 31, 2007 and 2006 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 generally accepted U. S. accounting principles 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 (See derivatives disclosure in footnote 3).

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, 2007 and 2006 were converted to U.S. dollars at the foreign exchange rates quoted at December 31, 2007 and 2006. These foreign exchange gains and losses 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

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("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, 2007 and 2006.

(g) Adoption of New Accounting Standards

In May 2007, the Governmental Accounting Standards Board ("GASB") issued Statement No. 50, *Pension Disclosures* (GASB No. 50). The reporting changes required by this Statement amend applicable note disclosure and Required Supplemental Information requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The statement is effective for financial statements for periods beginning after June 15, 2007, the Plan implemented GASB 50 for fiscal year ending 2007. The adoption of GASB No. 50 requires new note disclosure (see note 5) and changes to the required supplemental information related to the schedule of funding progress.

(3) Derivatives

Derivatives are generally defined as contracts whose value depend on, or are derived from, the value of an underlying asset; reference rate or index. The Plan has classified the following as derivatives:

(a) Forward 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. No such losses occurred during fiscal years 2007 and 2006. 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 Plan records the unrealized currency translation gain or loss based on the applicable forward exchange rates.

The Plan recognized a net realized loss of $5,055,000 at December 31, 2007 and a net realized gain of $1,305,000 at December 2006. At December 31, 2007 and 2006, the Plan had net unrealized gain on forward contracts of $663,000 and a net unrealized loss of $1,396,000, respectively. These gains and losses are included in net appreciation in fair value of investments in the accompanying statements of changes in net assets.

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(b) Swaps

A swap is an agreement between two or more parties to exchange a sequence of cash flows over a period of time in the future. No principal is exchanged at the beginning of the swap. The cash flows that the counterparties exchange are tied to a "notional" amount. The agreements provide that, at predetermined future dates, the Plan pays interest based upon a notional principal amount and receives a return based upon the underlying index. Notional amounts represent the volume of outstanding transactions and do not represent the potential gain or loss associated with market risk or credit risk of such instruments. Risk associated with swaps includes adverse movements in the underlying index. The Plan has one investment manager authorized to enter into swaps. The Plan held no open swap contracts at December 31, 2007 and December 31, 2006.

(c) Futures

Financial futures are agreements to purchase or sell a specific amount of an asset at a specified delivery or maturity date for an agreed upon price. These derivative securities are used to improve yield, adjust the duration of the fixed income portfolio, circumvent changes in interest rates, or to replicate an index. Futures contracts are standardized and traded on organized exchanges, thereby minimizing the Plan's risk. There were no outstanding futures contracts at December 31, 2007. However, the Plan had an outstanding equity future contract with a fair value of $1,945,000 at December 31, 2006.

(4) Deposit and Investment Risk Disclosures

Deposits and investments of state and local governments are exposed to risks that have the potential to result in losses. GASB Statement No. 40, *Deposit and Investment Risk Disclosures - an amendment to GASB Statement No. 3,* addresses common deposit and investment risks including custodial credit risk, credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. The required disclosures related to these risks and the Plan' exposures to these 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's custodial credit risk policy is set forth in Chapter 40A of the Dallas City Code and in the master custody agreement which includes the securities lending program. All investments are registered in the name of Employees' Retirement Fund City of Dallas or in the name of the Plan's custodian which was established through a master trust custodial agreement. The securities are held by the custodian in the name of the Plan.

As of December 31, 2007 the Plan had $228,000 or .007% of its approximate $3,083,000,000 total investments (excluding short term investments) were exposed to custodial credit risk. The risk exposure at December 31, 2006 was $2,413,000 or .08% of total investments (excluding short term investments) of approximate $3,159,000,000. These exposures were uninsured and uncollateralized deposits held by custodian banks outside of the United States.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. A concentration of investments in any one single issuer of debt securities presents a greater risk for loss in the event that the issuer fails on its obligations.

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

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based on the instructions of investment managers, and accounting for the investment transactions.

The Plan had no investments that individually represent 5% or more of the net assets available for benefits at December 31, 2007 and 2006. The Plan's concentration of credit risk policy is communicated to individual managers in their guidelines through limitations or restrictions to securities, sectors, debt ratings, and other factors that may be applicable to a particular manager.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit quality ratings for the Plan's investments in fixed income securities as of December 31, 2007 and 2006 are included in the schedule below. Securities are rated using Standard and Poor's and/or Moody's and are presented below using the Moody's rating scale.

The Plan's strategic fixed income investment policy allocates 30% of the total assets to fixed income. The policy provides for investment of up to 20% of the fixed income assets in investment grade assets and up to 10% of the fixed income assets in high yield (below investment grade) assets. The investment grade allocation also allows selected managers to invest in non-US dollar issues on an opportunistic basis up to 20% of their portfolio assets. Long term bond ratings as of December 31, 2007 and 2006 are as follows (in thousands):

	2007		2006	
Quality Rating	Fair Value	Percentage of Bond Portfolio	Fair Value	Percentage of Bond Portfolio
AAA	$ 292,443	33.62	$ 495,675	53.37
AA1	4,829	0.55	682	0.07
AA2	3,238	0.37	3,003	0.32
AA3	5,867	0.67	8,854	0.95
A1	13,638	1.57	7,055	0.76
A2	9,903	1.14	4,964	0.53
A3	7,508	0.86	838	0.09
BAA1	20,564	2.36	9,902	1.07
BAA2	33,110	3.81	9,248	1.00
BAA3	32,521	3.74	19,748	2.13
BA1	11,342	1.30	18,565	2.00
BA2	16,794	1.93	23,078	2.48
BA3	40,430	4.65	37,241	4.01
B1	52,025	5.98	54,670	5.89
B2	38,839	4.46	50,760	5.47
B3	66,704	7.67	48,683	5.24
CAA1	25,885	2.98	17,702	1.91
CAA2	5,225	0.60	5,196	0.56
CAA3	668	0.08	-	-
CA	1,735	0.20	-	-
Not rated (NR)*	97,509	11.21	50,791	5.47
U. S. Government fixed income securities (NR)**	89,135	10.25	62,061	6.68
	$ 869,912	100.00	$ 928,716	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.
**NR-U. S. Treasury Bonds and Notes are obligations of the U. S government or explicitly guaranteed by the U. S. government and therefore are not considered to have a credit risk.
NR-Investments that are not rated.

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Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The Plan's foreign currency risk policy is communicated to those managers who are authorized to hedge currency in their guidelines and sets specific parameters for each manager individually. 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% 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, were 22.15% and 20.62% of invested assets at December 31, 2007 and 2006 respectively. The Plan's positions in such fixed income assets invested were 0.65% and 0.76% of invested assets at December 31, 2007 and 2006 respectively.

Non-US Dollar denominated investments at December 31, 2007 and 2006 were as follows (in thousands):

	2007			2006		
	U. S. Dollars Balance of Investments (in thousands)			U. S. Dollars Balance of Investments (in thousands)		
Currency	Equities	Fixed	Short-term	Equities	Fixed	Short-term
Australian Dollar	$ 31,782	$ -	$ -	$ 19,662	$ -	$ -
Brazil Real	1,146			335		
British Pound Sterling	78,489	3,407		85,442		
Canadian Dollar	784	4,044		961		
Denmark Krone	4,044			2,686		
Euro	130,544			115,951	884	4,411
Hong Kong Dollars	9,987			6,841		
Israel Shekel	298			213		
Japanese Yen	85,567			99,925	11,529	
Korean Won	4,304			5,172		
Malaysia Ringgit	680			-		
Mexican Peso	938	7,825		1,949		
Norwegian Krone	3,000			2,802	3,156	
Pakistan Rupee	642					
Philippines Peso	-			158		
Singapore Dollar	3,173	12,443		3,935		
South Africa Rand	147					
Swedish Krona	9,617			10,435	2,928	
Swiss Franc	21,105			22,832		
Thailand Baht				204		
Turkish Lira	1,069			420		
Total	$ 387,316	$27,719	$ -	$ 379,923	$18,497	$ 4,411

Interest Rate Risk

Interest rate risk is the risk that future changes in prevailing market rates of interest will have an adverse effect on the fair value of debt investments. The fair values of securities with long terms to maturity may be highly sensitive to interest rate changes.

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As of December 31, 2007 and 2006 the weighted-average maturity of the bonds by bond type are as follows:

Bond Category	Fair Value 12/31/2007 (in thousands)	Weighted Average Maturity (years) at 12/31/2007	Fair Value 12/31/2006 (in thousands)	Weighted Average Maturity (years) at 12/31/2006
Asset Backed	$ 14,785	0.10	$ 77,377	0.73
Commercial Mortgage-Backed	73,611	3.01	48,161	1.87
Corporate Bonds	468,425	5.38	349,526	3.71
Corporate Convertible Bonds	-	-	359	0.01
Government Agencies	31,174	0.13	33,484	0.05
Government Bonds	92,229	0.62	178,106	2.12
Government Mortgage-Backed Securities	142,477	4.40	212,333	8.05
Index Linked Government Bonds	5,811	0.08	-	-
Municipal/ Provincial Bonds	396	0.01	-	-
Non-Government Backed C.M.O.s	41,004	1.26	29,370	0.91
Total	$ 869,912		$ 928,716	
Portfolio weighted Average maturity		4.00		3.83

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 16% of the total fixed income portfolio for 2007 and 23% for 2006. Their fair values at year end 2007 and 2006 were $142,477,000 and $212,333,000 respectively. The Plan’s interest rate risk policy is communicated to the fixed income managers through the Fixed Income Asset Policy and each manager’s guidelines.

Appreciation or Depreciation of Investments

In 2007 and 2006, the Plan's investments, including investments bought, sold, and held during the year, appreciated (depreciated) in value as follows (in thousands):

	2007	2006
Investments, at fair value:		
Commingled index funds	$ 7,120	$ 63,850
Domestic equities	(45,803)	208,742
United States and foreign government securities	7,676	(8,120)
Corporate bonds and notes	(16,515)	6,263
International equities	74,732	122,918
Short-term investments	(5,052)	1,303
Currency contracts	662	(1,396)
	22,820	393,560
Investments, at estimated fair value:		
Venture capital funds	(54)	168
	$ 22,766	$393,728

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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, 2007 and 2006, the type of collateral held, the market value of the securities on loan, and the market value of the collateral held (in thousands except percentages).

Collateral Type	Fair Value 12/31/2007	Collateral Market Value 12/31/2007	Collateral Percentage	Fair Value 12/31/2006	Collateral Market Value 12/31/2006	Collateral Percentage
Cash	$465,908	$478,743	103%	$488,311	$502,669	103%
Non-cash	16,024	16,415	102%	36,309	37,235	103%
Total	$481,932	$495,158		$524,620	$539,904	

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, 2007 and 2006, the Plan had no credit risk exposure to borrowers.

The following represents the balances relating to the securities lending transactions as of December 31, 2007 and 2006 (in thousands):

Securities Lent	Underlying Securities 12/31/2007	Securities Collateral Value 12/31/2007	Cash Collateral Investment Value 12/31/2007	Underlying Securities 12/31/2006	Securities Collateral Value 12/31/2006	Cash Collateral Investment Value 12/31/2006
Lent for cash Collateral:						
Domestic equities	$232,996	$ -	$239,180	$203,097	$ -	$208,749
Domestic corporate fixed income	87,993		90,065	74,231		76,172
International equities	48,867		51,483	61,881		65,021
US government, agency & foreign securities	96,052		98,015	149,102		152,727
subtotal	465,908	-	478,743	488,311	-	502,669

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Securities Lent	Underlying Securities 12/31/2007	Securities Collateral Value 12/31/2007	Cash Collateral Investment Value 12/31/2007	Underlying Securities 12/31/2006	Securities Collateral Value 12/31/2006	Cash Collateral Investment Value 12/31/2006
Lent for securities Collateral:						
Domestic equities	1,400	1,102		1,436	8,710	
Domestic corporate fixed income	7,579	6,092		13,831	12,843	
International equities	5,969	1,468		12,548	1,507	
US government, agency & foreign securities	1,076	7,753		8,494	14,175	
subtotal	16,024	16,415	-	36,309	37,235	-
Total	$481,932	$ 16,415	$478,743	$524,620	$ 37,235	$502,669

Disclosure of securities lending income is shown gross with the associated reductions for investment expenses on the statements of changes in plan net assets, and the cash collateral and associated securities lending payable is shown on the statements of plan net assets for December 31, 2007 and 2006.

(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 last Plan change occurred in December 2004. 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.

(5) Funded Status and Funding Progress

The funded status of the Plan as December 31, 2007, the most recent actuarial valuation date, is as follows (dollars in thousands):

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)
12/31/07	3,183	2,915	-268	109%	370	-72.4 %

The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AAL for benefits.

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Additional information as of the latest actuarial valuation follows:

Valuation date	December 31, 2007
Actuarial cost method	Entry Age Normal
Asset valuation method	3-year smoothed market
Amortization method	Level percent open, the remaining period is 30 years
Investment rate of return	8.25% compounded annually
Salary increases	Graded rates
Payroll growth factor	3.0% per year

REQUIRED SUPPLEMENTARY INFORMATION
(unaudited)

Schedule of City Contributions

The information presented in the required supplementary schedules was determined as part of the actuarial valuation for each year presented. The following table shows information related to City contributions (in thousands):

Years Ended December 31	Annual Actuarially Required Contribution	Percentage Contributed
1998	47,338	50.20
1999	42,227	59.72
2000	33,682	82.68
2001	31,728	110.91
2002	49,475	73.99
2003	65,849	52.74
2004	71,382	49.38
2005	27,898	2,027.29
2006	14,380	159.94
2007	9,387	249.42

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)
12/31/98	1,617	1,750	133	92%	276	48.3%
12/31/99	1,863	1,874	11	99%	282	4.0%
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 %
12/31/06	2,998	2,761	-237	109%	345	-68.6 %
12/31/07	3,183	2,915	-268	109%	370	-72.4 %

The actuarial information presented is determined by an actuarial valuation that results from applying various assumptions (see note 5 of notes to the financial statements) termination, disability, retirement, mortality, and the time value of money to the accumulated plan benefits.

Certain factors, such as changes in benefit provisions, the size or composition of the population covered by the plan, 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, 2007

(dollars in thousands)

Personal services:	
Salaries	$1,411
Retirement	221
Insurance	75
Total Personal Services	1,707
Professional services:	
Actuary Service	135
Accounting & Audit Fees	38
Attorney fees	-
Communication	-
Medical	8
Total Professional Services	181
Operating Services:	
Data Processing	123
Election	10
Parking	14
Printing	36
Rent	194
Supplies and Services	165
Telephone	17
Travel and Training	87
Indirect and Other Costs	121
Total Operating Services	767
Furniture & Fixtures:	
Furniture	20
Other	-
Total Furniture & Fixtures	20
Total Administrative Expenses	$2,675

Schedule of Investment Expenses

as of December 31, 2007

(dollars in thousands)

Manager Fees	$12,069
Custodian Fees	125
Securities Lending Fees	27,378
Investment Consultant Fees	283
Total Investment Expenses	$39,855

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

Schedule of Payments for Professional Services

as of December 31, 2007

(dollars in thousands)

Accounting and Audit:	
Financial Control Systems	$ 38
Acturial:	
Buck Consultants, LLC	35
Benefits Partners, Inc.	19
Gabriel, Roeder, Smith & Company	81
Election:	
Voice Retrieval & Information Services	10
Legal:	
various	0
Medical:	
various	8
Investments:	
Wilshire Associates, Inc.	283
Total Professional Services Payments	$474

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INVESTMENT SECTION
(unaudited)

WILSHIRE
CONSULTING

Andrew H. Junkin
CFA, CIMA, CAIA
Managing Director

August 20, 2008

Ms. Cheryl Alston
Executive Director
City of Dallas Employees' Retirement Fund
600 North Pearl Street #2450
Dallas, TX 75201

Re: 2007 Performance Results

Dear Cheryl:

The purpose of this letter is to review the 2007 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 the calendar year 2007, the Fund generated a net-of-fee return of 3.73%[1], which underperformed both the Fund's asset allocation policy benchmark return of 5.33% and the actuarial rate of interest of 8.25%. The overall underperformance was caused by the domestic market which was impacted by on-going liquidity concerns.

In the beginning of 2007, 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,

Andrew Junkin
Managing Director

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

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INVESTMENT POLICIES SUMMARY

Statement of Goals

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

1. The overall goal of the Fund 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 Fund 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 Fund investment program shall at all times comply with existing and applicable local, state and federal regulations.

Investment Philosophy

The Fund 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 Fund 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.

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Investment Results

Investment Summary

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

Investment Category	2007 Rate Of Return
Domestic Equities	3.33%
International Equities	11.71%
Fixed Income	5.86%
High Yield Bonds	3.41%
Real Estate Securities	-17.16%
Cash Equivalents	5.00%
Venture Capital	- %*
Total Portfolio	3.73%

* rate of return unmeasurable due to small dollar value of investment

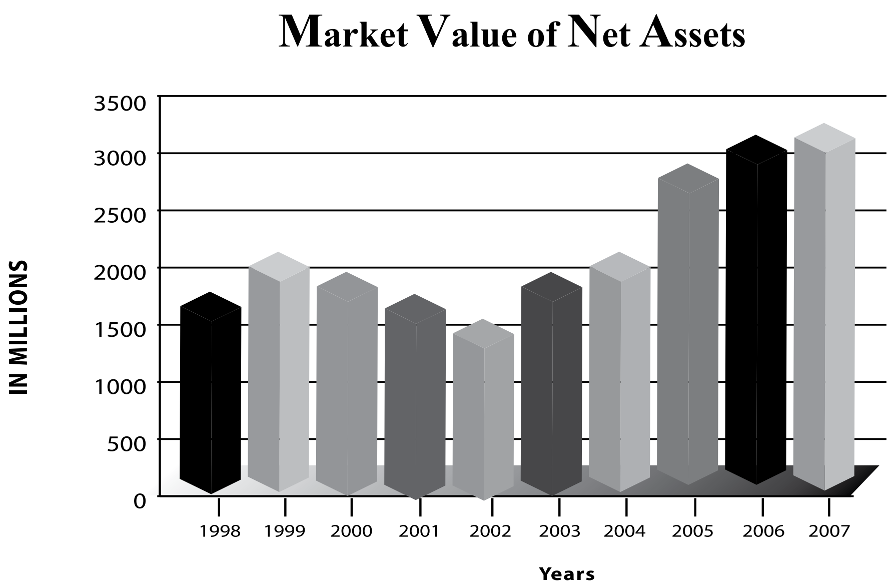
Investment Managers

Domestic Equities, REITs & Commingled Index Funds	Adelante Capital Management, LLC Barclays Global Investors Intech Northern Trust Global Investments Security Capital Research & Management Systematic Financial Management, LP T. Rowe Price
International Equities	Acadian Asset Management Inc. AQR Capital Management, LLC Baring International Investment Limited
Fixed Income	Advantus Capital Management, Inc. Black Rock Financial Management Julius Baer Investment Management, LLC Loomis Sayles & Company Oaktree Capital Management, LLC
Cash Equivalents	The Northern Trust Company
Venture Capital	Brinson Partners

Total Plan Results

The world equity markets as measured by various indices were positive for 2007 with the MSCI All World ex-US Index returning 17.12% and the Dow Jones Wilshire 5000 returning 5.62%. The Lehman Aggregate was up 6.96%. The Citigroup High Yield Cash Pay Index was up 1.91% for the year.

At December 31, 2007, the net asset value of the Plan was $3.2 billion. This value represents a 0.43% or $14 million increase over last year's value. The Net Assets of the Plan graph below provides a pictorial history of the Plan's growth over the past 10 years.



Asset Allocation

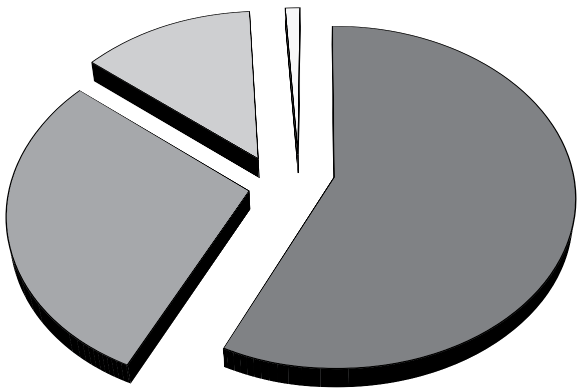
The Plan's long-term strategic asset allocation policy sets the following targets: 50% in domestic equity including REIT securities; 20% in international equity; 20% in global fixed income; and 10% in high yield fixed income. The chart on the next page shows the investments by asset class at year-end. 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 8.66% of domestic equity assets at year end, and actively managed portfolios represented the remaining 91.34%. The domestic equity and REIT's segment returned 3.33% and -17.16% respectively for the year while the benchmark Wilshire 5000 Index had a return of 5.62% and the Wilshire Real Estate Securities index returned -17.66%. The S&P 500 index returned 5.54% for the year.

International equity has a target allocation of 20%, and it is split between two active managers and one enhanced index manager. The Plan's international equity composite return was 11.71% while the MSCI All World ex-US Index reported a return of 17.12% for the year.

Asset Allocation



Global Fixed Income

Global fixed income has a target of 20% of total assets. This allocation is allocated to three investment managers. During the year the global fixed income returned 5.86% while the Citigroup Non-US Government Bond Index returned 11.45% and the Lehman Aggregate Index returned 6.96%.

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 2007 was 3.41% and the Citigroup High Yield Cash Pay Index returned 1.91%.

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.

Annualized Rate of Return

as of December 31, 2007

	2007	3-Year	5-Year
Total Fund	3.73%	9.64%	14.05%
Domestic Equity	3.33	8.46	13.74
S&P 500 Index	5.54	8.63	12.84
Dow Jones Wilshire 5000 Index	5.62	9.16	14.01
International Equity	11.71	18.30	23.65
MSCI ACWI ex US Index	17.12	20.37	24.51
MSCI EAFE Index	11.17	16.83	21.58
Global Fixed Income	5.86	3.81	4.15
Lehman Aggregate Bond Index	6.96	4.56	4.42
Citigroup Non-US Government Bond Index	11.45	2.67	7.54
High Yield Fixed Income	3.41	3.92	7.88
Citigroup High Yield Cash Pay	1.91	5.14	10.68
Cash Equivalents	5.00	4.29	3.06
T-Bills	5.03	4.30	3.06
Real Estate Securities	-17.16	10.06	19.88
Dow Jones Wilshire REIT Index	-17.66	8.34	18.64

Investment Management Fees

as of December 31, 2007

(dollars in thousands)

Investment	Assets Under Management	Fees	Basis Points
Domestic Equity	$1,529,938	$5,935	38.8
International Equity	682,651	3,376	49.5
Global Fixed Income	603,999	1,331	22.0
High Yield Fixed Income	265,914	1,426	53.6
Venture Capital	38	1	241.3
Cash Equivalents	132,899	N/A	N/A
subtotal	$3,215,439	$12,069	

Other Investment Services		Fees	
Investment Consultant		283	
Custodian		125	
Security Lending*		27,378	
subtotal		27,786	
Total Investment Management Fees		$39,855	

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

Ten Largest Holdings

as of December 31, 2007

(fair value dollars in thousands)

Equity	Shares	Fair Value
MFB NTGI-QM COLTV Daily S&P 500	32,679.96	$132,433
Exxon Mobil Corp. COM	402,395.00	37,700
MSCI France PROV Index	2,417,715.82	25,113
MSCI United Kingdon PROV Index	2,500,007.49	25,073
General Electric Company	617,969.00	24,910
Simon PPTY Group Inc. New	264,358.00	22,962
Microsoft Corp.	633,840.00	22,565
AT&T	529,292.00	21,997
Prologis TR	339,081.00	21,491
MSCI Japon PROV Index	2,058,453.08	19,234

Fixed Income	Par Value	Fair Value
U.S.A. Treasury Notes 3.625% due 12/31/2012	$17,428,000	$17,559
U.S.A. Treasury Notes 4.000% due 08/31/2009	14,660,000	14,875
U.S.A. Treasury Notes 3.125% due 11/30/2009	13,070,000	13,084
U.S.A. Treasury Notes 4.750% due 05/15/2014	10,680,000	11,357
FHLMC 30 Year Gold Participation 6.500% due 01/15/2038	10,500,000	10,792
FNMA Pool #826961 5.500% due 06/01/2035	8,160,513	81,556
FHLMC 5.000% due 10/01/2021	7,942,410	7,950
CMO GS MTG SECS TR 2007 GG10 5.799% due 08/10/2045	7,500,000	7,757
FHLB 2.625% due 07/15/2008	7,610,000	7,541
General Electric CAP Corp. MTN 2.960% due 05/18/2012	10,500,000	7,347

Investment Holdings Summary

as of December 31, 2007

(dollars in thousands)

Fixed Income		Fair Value	Percentage of Fair Value
Government Bonds		$ 274,031	8.52%
Corporate Bonds		595,881	18.53%
	Total Fixed Income	869,912	27.05%
Equity			
Common Stock		2,080,157	64.67%
Index & Commingled		132,433	4.12%
	Total Equity	2,212,590	68.79%
Alternative Investments			
Venture Capital		38	0.00%
	Total Alternative Investments	38	0.00%
Cash and Equivalents			
Cash		1,088	0.03%
Cash Equivalents		132,899	4.13%
	Total Cash and Equivalents	133,987	4.16%
	Total Fund*	$3,216,527	100.00%

*Does not include security lending collateral or receivables.

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ACTUARIAL SECTION

(unaudited)

The Report of the December 31, 2007 Actuarial Valuation of the Employees' Retirement Fund of the City of Dallas

GRS
Gabriel Roeder Smith & Company
Consultants & Actuaries
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Suite 870
Irving, TX 75038-2631
469.524.0000 phone
469.524.0003 fax
www.gabrielroeder.com

May 13, 2008

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, 2007.

This valuation provides information on the funding status of ERF. It includes a determination of the actuarially calculated contribution level for the 2008 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, 2008. 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 2009.

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.

There were no changes in actuarial assumptions and cost method since the prior valuation.

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 both signatories have significant experience valuing large, public employee retirement systems.

Respectfully submitted,

Lewis Ward | Mark R. Randall

Lewis Ward
Consultant

Mark R. Randall, M.A.A.A
Senior Consultant

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SUMMARY OF THE VALUATION

(This summary is an excerpt of the 2007 Actuarial Valuation report. Sections referenced in this summary are available in the full report.)

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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.

As shown on Table 3 and discussed later in this report, the "current total obligation rate" differs from the "prior adjusted total obligation rate" by less than 3.00%. This means that the "current adjusted total obligation rate" will remain unchanged from the "prior adjusted total obligation rate".

ACTUARIAL CONTRIBUTION

The Actuarially Required Contribution Rate developed in this actuarial valuation is 12.25% 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 2009. As shown in Table 3, the debt service payment was determined to be 7.96% of projected payroll. The sum of these rates is 20.21% (the Current Total Obligation Rate) which is 2.50% less than the Prior Adjusted Total Obligation Rate of 22.71%. Because the difference is less than 3.00%, the total contribution rate in fiscal year 2009 (the Current Adjusted Total Obligation Rate) to fund the ERF and make the debt service payment on the pension obligation bonds will remain unchanged.

ACTUARIAL ASSUMPTIONS

Section N of this 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%.

There were no changes in the actuarial assumptions since the prior valuation report. Please see Section N for a complete description of these assumptions.

ERF BENEFITS

There have been no changes in the benefit provisions of ERF since the prior valuation. Please see Section O for a summary description of ERF benefits

EXPERIENCE DURING 2007

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 2007. This year's overall actuarial gain amounted to approximately $17.46 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):

		2004	2005	2006	2007
1)	Actuarial (Gain)/Loss on Assets	($15.80)	($133.36)	($128.75)	($39.19)
2)	Actuarial (Gain)/Loss on Liabilities	(27.52)	(0.64)	9.35	21.73
3)	Total Actuarial (Gain) or Loss (1+2)	(43.32)	(134.00)	(119.40)	(17.46)

On a market value basis, the fund earned approximately 3.56% (on a dollar weighted basis net of investment expenses). The actual investment income was less than the expected investment income on the actuarial value of assets, therefore, an investment income loss is being deferred into the future. Due to the recognition of prior years' deferred investment gains, there was an actuarial gain of approximately $39.19 million on the actuarial value of assets. The rate of return on the actuarial value for 2007 was 9.58% (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 2007, there was an aggregate actuarial loss of about $21.73 million from demographic assumptions and non-investment economic assumptions (salary increases).

ASSET INFORMATION

The assets of the fund (on a market value basis), that are available for benefits, increased from $3,172 million as of December 31, 2006 (includes proceeds of the pension obligation bonds) to $3,185 million as of December 31, 2007.

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 6 for the determination of the actuarial value of assets.

The actuarial value of assets has increased from $2,998 million to $3,183 million during

2007. The rate of return on investments for 2007 on the actuarial value of assets was 9.58% compared to 13.03% in 2006. The detailed determinations of asset values utilized in this valuation and asset growth in the last year are exhibited in Tables 4 and 5.

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 increased from 108.57% as of December 31, 2006 to 109.20% as of December 31, 2007.

The UAAL decreased from -$236.7 million as of December 31, 2006 to -$268.1 million as of December 31, 2007. 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 detail the current accounting standards for ERF and the Fund's sponsor, the City of Dallas. Tables 10a, 10b, and 10c provide footnotes and/or Required Supplemental Information tables required to be disclosed by these 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)
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	11.3	(171,787)	(113,410)
2003	20,580	34,729	109.1	412,128	467,437
2004	20,896	35,251	10.6	289,947	346,094
2005	23,392	565,569	170.1	208,288	797,249
2006	30,123	23,000	6.7	464,629	517,752
2007	31,806	23,493	6.3	110,659	165,958

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)
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	2,605	7,322	120,448
2004	116,675	2,075	2,976	10,003	131,729
2005	127,578	2,737	3,049	18,891	152,255
2006	139,206	2,416	3,451	35,921	180,994
2007	146,810	2,675	3,056	39,855	192,396

Schedule of Benefit Expenses by Type

Year Ending	Retiree ($'s 000)	Beneficiary ($'s 000)	Disability ($'s 000)	Supplement ($'s 000)	Total ($'s 000)
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	97,364
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
2006	121,085	6,897	3,628	7,597	139,207
2007	129,326	5,897	3,806	7,781	146,810

Average Age and Pension at Retirement

as of December 31, 2007

Status	Average Age	Average Pension	Average Age at Retirement
Members Only	67.4	$2,491.93	57.2
Members and Survivors	68.1	$2,291.32	N/A
Survivors Only	71.2	$1,393.93	N/A

Average Benefit Payment

as of December 31, 2007

Retirement Effective Dates	Years of Credited Service					
	0 - 5	5 - 10	10 - 15	15 - 20	20 - 25	25 - 30
Period 01/01/2007 to 12/31/2007						
Average monthly benefit	$330.49	$760.80	$1,251.93	$2,168.34	$2,565.23	$3,226.37
Average final average salary	$3,350.81	$3,387.56	$3,787.73	$2,941.32	$4,272.21	$4,516.64
Number of retired members	12	29	36	26	69	52
Period 01/01/2006 to 12/31/2006						
Average monthly benefit	$208.24	$741.86	$1,187.64	$1,522.49	$2,566.20	$3,252.67
Average final average salary	$3,421.25	$3,359.50	$3,382.90	$3,213.03	$4,263.23	$4,483.42
Number of retired members	9	31	30	25	73	72
Period 01/01/2005 to 12/31/2005						
Average monthly benefit	$315.77	$763.76	$1,454.99	$1,800.93	$2,765.44	$3,123.08
Average final average salary	$3,260.48	$3,652.23	$3,894.79	$3,710.63	$4,515.87	$4,399.20
Number of retired members	8	31	24	28	84	74

Retired Members By Type of Benefit
as of December 31, 2007

	Type of Retirement[a]							Option Selected[b]		
Amount of Monthly Benefits	1	2	3	4	5	6	7	**#1**	**#2**	**#3**
$1 - 250	46	0	11	0	0	0	0	14	16	27
$251 - 500	118	3	81	51	0	3	23	34	121	124
$501 - 750	193	10	105	47	13	16	18	91	115	196
$751 - 1,000	240	19	79	28	24	22	6	83	160	175
$1,001 - 1,250	237	26	71	33	11	21	10	108	153	148
$1,251 - 1,500	222	20	57	15	6	17	6	98	105	140
$1,501 - 1,750	227	35	43	18	5	13	6	127	105	115
$1,751 - 2,000	218	41	35	13	2	11	5	107	105	113
over 2,000	2,330	156	154	46	5	26	7	918	1,050	756
Total	3,831	310	636	251	66	129	81	1,580	1,930	1,794

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

Employees' Retirement Fund
of the City of DALLAS ®

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