Comprehensive Annual Financial Report

2009

fiscal year ended December 31, 2009

Employees' Retirement Fund of the City of DALLAS ®

2009 AT - A - GLANCE
(unaudited)
(dollars in thousands)

Active Members	7,654
Benefit Recipients	5,706
Inactive Members	1,219
Fund Net Assets	$2,600,200
Benefits Paid	$172,493
Refunds	$4,273
Member Contributions	$32,229
City Contributions	$25,265
Investment Rate of Return	30.62%

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

EMPLOYEES' RETIREMENT FUND
OF THE CITY OF DALLAS

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2009

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
(unaudited)

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Employees' Retirement Fund of the City of DALLAS

LETTER OF TRANSMITTAL

August 19, 2010

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, 2009 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.

2009 was a positive year for ERF with a total fund return of 30.62%. The total return for the past three years was negative 2.15% and the last five years was 3.54%. The Fund expects and assumes an investment rate 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 venture capital asset class is being liquidated from ERF's portfolio.

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 2009 totaled $677,016,000. City and member contributions for the fiscal year were $57,000,000, an increase of approximately $ 2,000,000 from prior year. This increase is attributed to the change in the contribution rates. The city contribution rate changed from 14.31% to 15.60% of which 7.64% is the Pension Obligation Bond Credit Rate. The City contribution to ERF increased from 7.93% to 7.96% and the member rate changed from 8.40% to 9.16%. City contributions received in 2009 were $25,000,000 and member contributions were $32,000,000.

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 2009 totaled $180,018,000, an increase of 10.8% over 2008. 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, were relatively unchanged from prior year. 2009 reflected a marginal increase of $ $59,000, when compared to fiscal year 2008 expenses.

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, 2009 amounted to $3.192 billion and $3.032 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

Board of Trustees

As of December 31, 2009

Administrative Staff

Cheryl D. Alston, Executive Director

Newton Bruce, Assistant Administrator

Gail Smith, Assistant Administrator

Natalie Sorrell, Investment Officer

Evelyn Thomas, Senior Pension Specialist

Deirdre Taylor, Senior Pension Specialist

Judith Greene, Senior Pension Specialist

Susan Oakey, Senior Pension Specialist

Duc Lam, Database Analyst

Jason Thompson, Senior Information Technology Analyst

Garfield Landry, 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, Senior Office Assistant

Beth Turner, Office Assistant

Micaela Galicia, Office Assistant

Jessica Leija, Office Assistant

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Professional Service Providers

Master Custodian

The Northern Trust Company

Consulting Actuary

Gabriel, Roeder, Smith & Company

Investment Consultant

Wilshire Associates, Inc.

Investment Accounting Firm

Financial Control Systems, Inc.

Auditor

Grant Thornton, LLP

Legal Advisors

Strasburger & Price, LLP
Foster Pepper, PLLC

PLAN SUMMARY

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

As of December 31, 2009

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, 2009 the members contributed 9.16% of pay and the City contributed 15.60% of pay of which 7.96% is received by the Fund and 7.64% 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, 2009 and 2008

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 75201-4667

T 214.561.2300
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 statements of plan net assets of the Employees' Retirement Fund of the City of Dallas (the "Plan") as of December 31, 2009 and 2008, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Employees' Retirement Fund of the City of Dallas as of December 31, 2009 and 2008, and the respective 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 principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of administrative expenses, schedule of investment expenses, schedule of payments to consultants, the introductory section, the statistical section, the investment section and the actuarial section are presented for purposes 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
September 8, 2010

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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, 2009, 2008 and 2007. 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

Fiscal year 2009 was a good year for the Plan. At year end positive returns were reported for all of the Plan's assets classes. The Plan's financial highlights for fiscal year ended December 31, 2009 are as follows:

- The Plan's total rate of return on market basis was 30.62% compared to a -30.85% return in 2008.
- The net assets of the Plan held in trust to pay pension benefits were $2.6 billion as of December 31, 2009. This amount reflects an increase of $500 million from last year. This increase is primarily the result of the growth in fair value of the investment portfolio.
- Contribution revenue for fiscal year 2009 was $57 million, an increase of $2 million from last fiscal year. This is attributed to an increase in the contribution rates.
- Pension benefits paid to retirees and beneficiaries increased $15 million bringing the total benefit payments to $172 million. Refunds of contributions paid to former members upon termination of employment increased from $2.7 million to $4.3 million.
- Net investment earnings (net appreciation) in the fair value of investments, plus interest and dividend income, less investment expenses) increased by $1.6 billion compared to last fiscal year.
- Administrative expenses of $3.3 million in 2009 were relatively unchanged from prior year.

CONDENSED FINANCIAL INFORMATION

	2009 (in thousands)	2008 (in thousands)	2007 (in thousands)
Assets	$ 3,183,437	$ 2,563,463	$ 4,176,699
Liabilities	583,237	460,198	991,289
Net Assets Held in Trust for Pension Benefits	2,600,200	2,103,265	3,185,410
Contributions	57,494	54,559	55,299
Investment & other income, net	619,522	(974,132)	111,118
Benefit payments	172,493	156,575	146,810
Refund of contributions	4,273	2,742	3,056
Administrative expenses	3,315	3,255	2,675
Change in Net Assets Held in Trust for Pension Benefits	496,935	(1,082,145)	13,876

FINANCIAL POSITION AND RESULTS OF OPERATIONS

For fiscal year 2009, the total return for the Plan was 30.62%. Compared to a -30.85% in 2008 and a 3.73% in 2007, the 2009 return was a welcome change. Every asset class in the Plan's portfolio reported a positive return for the year. The top performing asset classes were international equities and high yield with returns of 42.72% and 41.66% respectively for the year. As noted in 2008, a global economic crisis made the 2008 investment markets a difficult environment for investors. In 2009, the global economic markets showed signs of improvement. Also impacted by improvement in the markets for fiscal year 2009 were the Plan's investments. The Plan's investment portfolio increased from $1.9 billion to $2.5 billion in fiscal year 2009, an increase of approximately $600 million. In contrast, fiscal year 2008 portfolio, compared to fiscal year 2007, showed a decrease from $3.1 billion in fiscal year 2007 to $1.9 billion in fiscal year 2008. This was due to declining markets during fiscal year 2008.

Additions to Plan Net Assets consist of employer and employee contributions, investment income, and net realized and unrealized gain on investments. For fiscal year 2009, additions to plan net assets increased from a negative $920 million in 2008 to a positive $677 million. This increase represents a $1.6 billion addition to plan net assets over fiscal year 2008. Largely, this increase is a reflection of the improvement in the investment markets for 2009. Both city and employee contributions showed marginal increases for 2009. City and employee contributions for fiscal year 2009 were approximately $25 million and $32 million, respectively. Although there was a slight increase in both the city and employee contribution rates in 2009, collection levels for total contributions over the past three years continue to be fairly constant. Total contributions for 2009 were $57 million compared to $55 million in both 2008 and 2007.

Correspondingly, improved market conditions also had a positive impact on the Plan's investment income. Net investment income/(loss) 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. For fiscal year 2009, the Plan had net investment income of $619 million (which does not include non-investment income of $345 thousand). This surge in income is approximately $1.6 billion more than the $975 million loss reported for fiscal year 2008. Compared to the $111 million earned in 2007, the net investment loss for fiscal year 2008 was approximately $1.1 billion less. The loss was reflective of the carry-over of the downward trend in the U. S. and global markets which began during the latter half of 2007.

Fiscal year 2009 liabilities of $583 million showed an increase of 26.74% over fiscal year 2008. The major items responsible for this increase were a decrease in the security lending collateral deficiency payable and an increase in currency contracts. In fiscal year 2009, the value of the securities lending collateral deficiency was reduced by $5.1 million from $6.4 million to $1.3 million, while currency contracts outstanding at year end increased from $114 million in 2008 to $182 million in 2009. Other increases at year end include the effect of additional securities lending cash collateral and an increase in payables for investment fees. The change in securities lending collateral is dependent on the securities loaned by the Plan's master custodian at year end which was $369 million in 2009 and $306 million in 2008. Investment fees are proportionate to the fluctuation in fair value of investments and will increase or decrease with the fluctuation. Since the Plan's fair value of investments increased so did the amount for investment fees. Liabilities for fiscal year 2008 were $460 million compared to liabilities of $991 million for fiscal year 2007.

Deductions from Plan Net Assets are largely benefit payments. During fiscal year 2009, benefits paid were $172 million, an increase of $15 million over payments made in 2008. Benefits paid in fiscal year 2008 were $157 million, an increase of $10 million over payments made in 2007. Although the plan experienced more retirements than normal due to the city's reduction in force in October of 2009, the primary cause for the increase in benefits paid was an increase in the activity and dollar value of the large lump sum estate payments. In 2009 there were 72 estate payments compared to 37 estate payments in 2008. The 2009 payments were $5 million whereas the 2008 payments were $2.1 million. Major causes of the increases between 2008 and 2007 were attributed 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 263 in fiscal year 2008 and 251 in fiscal year 2007. Cost-of-living-adjustments (which are effective on January 1 of the succeeding year) paid in each of the respective years were 4.82% in 2009, 3.73% in 2008 and 3.48% in 2007. The city's reduction in force also caused a higher level in the refunds of contributions to members who terminated employment. During fiscal year 2009 refunds of contributions amounted to $4.3 million (522 refunds), compared with $2.7 million refunded (426 refunds) during fiscal year 2008 and $3.1 million refunded (476 refunds) during fiscal year 2007. The change during fiscal year 2008 reflects a decline in the number of members requesting refunds as compared to fiscal year 2007. The administrative costs of the Plan represented approximately 1.84% of total deductions in 2009, 2.00% in 2008 and 1.75% in 2007. The modest fluctuations between the three years were primarily due to maintenance enhancement to the pension administrative system.

CURRENT ENVIRONMENT

Impacted by the city's reduction in force, plan membership for active members decreased during fiscal year 2009. Active membership declined from 8,371 to 7,654 members, a decrease of 8.6%. Historically, this is the largest reduction in membership experienced by the plan. Accordingly with such a large reduction in active membership there were a higher than normal number of retirements for 2009. The Plan's experience for retiring members, on the average, is approximately 200-plus new retirements each year. For 2009 the number of new retirements was 375. Correspondingly, the trend of payments for benefits continues to increase. Similar to most mature plans, benefit payments exceed the level of contribution revenue received and cash generated from investments are needed in order to meet benefit payments.

An actuarial valuation of the Plan's assets and benefit obligations is performed annually. For 2009, 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 94.97%, down by 1.20% over 2008. This decrease is due to the downturn in the economy during the last half of 2008. The ratio for 2008 was 96.17%, down by 13.03% over 2007 ratio of 109.20%. This decrease was primarily a result of the unfavorable investment returns during these years. Prior to 2008, the plan had three fiscal years of increasing funded ratios all of which were above 100%.

EMPLOYEES' RETIREMENT FUND OF
THE CITY OF DALLAS

Statements of Plan Net Assets

As of December 31, 2009 and 2008
(In thousands)

	2009	2008
ASSETS:		
Cash and short-term investments	$ 87,493	$ 183,207
Collateral on loaned securities	369,108	305,649
	456,601	488,856
Receivables:		
Currency contracts	182,053	114,012
Accrued dividends	2,721	3,856
Accrued interest	9,328	8,946
Accrued securities lending	76	206
Securities sold	2,363	20,707
Employer contributions	217	1,001
Employee contributions	239	1,325
Total receivables	196,997	150,053
Investments, at fair value:		
Commingled index funds	355,299	81,083
Domestic equities	914,290	881,969
United States and foreign government fixed income securities	167,335	254,105
Domestic corporate fixed-income securities	539,799	353,804
International equities	549,403	353,588
Investments, at estimated fair value:		
Private equities	3,708	-
Venture capital funds	5	5
Total investments	2,529,839	1,924,554
Total assets	3,183,437	2,563,463
LIABILITIES:		
Accounts payable	4,324	3,692
Payable for securities purchased	23,939	28,340
Investment fees payable	2,558	2,090
Currency contracts	182,053	114,012
Security lending core collateral fund deficiency payable	1,255	6,415
Securities lending collateral	369,108	305,649
Total liabilities	583,237	460,198
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS (A Schedule of Funding Progress is presented on page 16)	$2,600,200	$2,103,265

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, 2009 and 2008
(In thousands)

	2009	2008
ADDITIONS:		
Contributions:		
Employer	$ 25,265	$ 22,720
Employee	32,229	31,839
Total contributions	57,494	54,559
Net investment income:		
Dividends	34,573	44,073
Interest	42,697	56,086
Net appreciation/(depreciation) in fair value of investments	549,631	(1,068,115)
Securities lending rebates paid by borrowers	529	-
Securities lending income	1,384	13,241
Total investment income/(loss)	628,814	(954,715)
Less investment expenses:		
Investment management fees	(8,859)	(10,293)
Custody fees	(150)	(142)
Consultant fees	(310)	(295)
Securities lending borrower rebates	-	(9,137)
Securities lending management fees	(318)	(1,059)
Total investment expenses	(9,637)	(20,926)
Net investment income/(loss)	619,177	(975,641)
Other income	345	1,059
Total increases/(decreases)	677,016	(919,573)
DEDUCTIONS:		
Benefit payments	172,493	156,575
Refund of contributions	4,273	2,742
Administrative expenses	3,315	3,255
Total deductions	180,081	162,572
Net increase/(decrease) in net assets held in trust for pension benefits	496,935	(1,082,145)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
Beginning of year	2,103,265	3,185,410
End of year	$2,600,200	$2,103,265

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, 2009 and 2008

(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, 2009 and 2008, the Plan's membership consisted of:

	2009	2008
Retirees and beneficiaries currently receiving benefits and inactive members entitled to benefits but not yet receiving them	6,925	6,568
Current members:		
Vested	4,763	4,947
Nonvested	2,891	3,424
Total current members	7,654	8,371
Total membership	14,579	14,939

(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 2009 and 2008 were 4.82% and 3.73%, respectively.

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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, 2009 are 9.16% of pay for employees and a combined rate of 15.60% of pay for the City. The City's 15.60% is divided into 7.96% cash to the Plan and 7.64% 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

The Plan is governed by seven-members consisting of three members appointed by the City Council who may be Council members, three employee members of the Plan (elected by the membership) and the City Auditor (serving ex officio). The Board has general powers and duties to administer the Plan, including appointing an administrator to carry out the business of the Board, investing the assets of the Plan, making expenditures from the Plan, and determining members' eligibility for benefits.

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

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The accompanying financial statements are prepared on the economic resources measurement focus and accrual basis of accounting. Accordingly, interest earned but not received and dividends declared but not received as of the Plan's fiscal year end are recorded as accrued interest and dividends receivable, respectively. Contributions owed but not received (approximately $456 thousand and $2.3 million at December 31, 2009 and 2008 respectively) as of the Plan's fiscal year end are recorded as contributions receivable. In addition, unsettled investment purchases and sales are accrued.

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(b) Administrative Expenses

Administrative expenses (excluding investment related expenses) totaling approximately $3.3 million for the years ended December 31, 2009 and 2008 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 accounting principles generally accepted in the United States of America 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 private equity and 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, 2009 and 2008 were converted to U.S. dollars at the foreign exchange rates quoted at December 31, 2009 and 2008. These foreign exchange gains and losses are included in net appreciation in fair value of investments in the accompanying Statements of Changes in Plan Net Assets.

(f) Securities Lending

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

In September 2008 when the market experienced a major credit crisis, certain securities held in the custodial security lending cash collateral pool were deemed to be impaired. As a result, the securities in this pool were marked down causing the value of the pool to fall below the commitments owed to the borrowers creating a collateral deficiency. The Plan's pro rata share of this mark down at December 31, 2008 was $6.4 million. This amount was posted as an unrealized loss on securities and a corresponding payable in the Plan's financial statements. It was anticipated that these unrealized losses will be recovered, either when the current extreme risk discounts abate or when the securities mature at par over the next two to three years. The recovery of the unrealized losses began in 2009 when $5.1 million was recovered by year end. The remaining $1.3 million of recovery was completed in March 2010.

The Plan's securities lending exposure is capped at the amount that was on loan at September 18, 2008, the date the collateral deficiency was declared by Northern Trust. This amount was $538.2 million.

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, 2009 and 2008.

(g) Adoption of New Accounting Standards

In June 2008, the Governmental Accounting Standards Board ("GASB") issued Statement No. 53, *Accounting and Financial Reporting for the Derivative Instruments* (GASB No. 53). This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by the state and local governments. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or to make investments. The statement is effective for financial statements for periods beginning after June 15, 2010. The Plan implemented GASB 53 for fiscal year ending 2009. The adoption of GASB No. 53 requires new note disclosure (see 3 d).

(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 2009 and 2008. 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 $89 thousand at December 31, 2009 and a net realized loss of $4.2 million at December 2008. At December 31, 2009 and 2008, the Plan had net unrealized gains on forward contracts of $3.6 million and $1.4 million, respectively. These gains and losses are included in net appreciation in fair value of investments in the accompanying Statements of Changes in

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Plan Net Assets. Contracts outstanding at December 31, 2009 and 2008 were $182 million and $114 million respectively.

(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, 2009 and December 31, 2008.

(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, 2009 and December 31, 2008.

(d) Private Equity

To enhance the potential for earning higher rates of return relative to its other asset classes and to provide for broader portfolio diversification, the Plan, in March 2009, allocated 5% of its portfolio to private equity. Recognizing that private equity investments have higher risk levels, this target of 5.0% is to be allocated within an acceptable range of 0.0% to 7.0% to private equity-oriented investments. Funding of committed capital in the private equity portfolio will occur over an extended time period and may take several years before the total allocation is fully invested. In order to reach the allocation target, a "committed" allocation up to 1.5 times the allocation is authorized. The Plan selected Hamilton Lane as a private equity fund of funds investment manager and committed as a limited partner $25 million to Hamilton Lane's Secondary's Fund II and initially, $10 million to Hamilton Lane's Private Equity Fund (PEF) VII. An additional $40 million will be committed to the PEF VII as other investors make commitments to the fund. In the fourth quarter of 2009 the Plan invested $3.2 million in the Secondary's Fund II and $440 thousand in PEF VII.

Investments in these funds as a limited partner are carried at estimated fair value. Estimated fair values of investments in private limited partnerships are determined by the fund managers or general partner based on the latest investee information available, including financial statements and other similar data necessary to the valuation process. The private equity value at December 31, 2009 was $3.7 million.

(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.

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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, 2009 the Plan had $687 thousand or .026% of its approximate $2.6 billion total investments (excluding short term investments) exposed to custodial credit risk. The risk exposure at December 31, 2008 was $500 thousand or .026% of total investments (excluding short term investments) of approximate $1.9 billion. 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. Northern as the Plan's custodian bank had responsibility for the safekeeping of certain investments, handling of transactions based on the instructions of investment managers, and accounting for the investment transactions.

Investments that individually represent 5% or more of the net assets available for benefits and the total of investments that individually represent less than 5% of the net assets available for Plan benefits at December 31, 2009 are as shown below (in thousands except per share amounts). There were no investments that met these criteria for fiscal year 2008. 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.

	2009		2008	
	Number of Shares/Units	Fair Value	Number of Shares/Units	Fair Value
Investments greater than 5% of net assets, at fair value:				
NTGI S&P 500 Equity Index Fund Non-Security Lending	75,594	$ 243,874	___	$ _______
Investments less than 5% of net assets:				
At fair value		2,738,852		
At estimated fair value		3,713		_______
Total cash and investments		$2,986,439		$ _______

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, 2009 and 2008 are included in the schedule below. Securities are rated using Standard and Poor’s quality ratings as presented below in the rating scale.

The Plan’s strategic fixed income investment policy allocates 30% of the total assets to fixed income. The

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policy provides for investment of up to 15% of the fixed income assets in investment grade assets and up to 15% 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, 2009 and 2008 are as follows (in thousands):

	2009		2008	
Quality Rating	Fair Value	Percentage of Bond Portfolio	Fair Value	Percentage of Bond Portfolio
AAA	$ 206,004	29.13	$ 307,121	50.53
AA+	5,646	0.80	1,181	0.19
AA	7,864	1.11	3,250	0.54
AA-	5,708	0.81	2,021	0.33
A+	7,974	1.13	10,941	1.80
A	23,658	3.35	13,445	2.21
A-	14,086	1.99	14,052	2.31
BBB+	20,461	2.89	12,173	2.00
BBB	28,182	3.99	26,404	4.34
BBB-	18,115	2.56	43,797	7.21
BB+	30,651	4.33	11,767	1.93
BB	47,425	6.71	26,607	4.37
BB-	84,732	11.98	32,064	5.27
B+	69,668	9.85	26,515	4.36
B	41,047	5.80	37,436	6.17
B-	47,867	6.77	-	-
CCC+	12,955	1.83	11,699	1.93
CCC	9,968	1.41	6,659	1.09
CCC-	3,228	0.46	329	0.06
CC	136	0.02	1,353	0.22
C	278	0.04	2,656	0.44
D	3,331	0.47	3,857	0.63
Not rated (NR)*	12,436	1.76	10,614	1.74
U. S. Government fixed income securities (NR)**	5,714	0.81	1,968	0.33
	$ 707,134	100.00	$ 607,909	100.00

* NR-Investments that are not rated.
**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.

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 18% of assets to international equity. The fixed income policy permits up to 20% 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 21.72% and 18.37% of invested assets at December 31, 2009 and 2008 respectively. The Plan's positions in such fixed income assets invested were 0.49% and 0.60% of invested assets at December 31, 2009 and 2008 respectively.

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Non-US Dollar denominated investments at December 31, 2009 and 2008 were as follows (in thousands):

	2009 U. S. Dollars Balance of Investments (in thousands)		2008 U. S. Dollars Balance of Investments (in thousands)	
Currency	Equities	Fixed	Equities	Fixed
Australian Dollar	$ 8,827	$ 1,663	$ 6,690	$ 429
Brazil Real	1,702	5,339	905	-
British Pound Sterling	57,327	-	43,774	-
Canadian Dollar	3836	1,467	861	1,861
Denmark Krone	13	-	126	-
Euro	118,408	4,136	69,883	3,720
Hong Kong Dollars	7,761	-	2,626	-
Hungary-Forint	324	-	-	-
Indonesia-Rupiahs	1,482	-	-	-
Israel Shekel	2,650	-	112	-
Iceland Krona	-	348	-	700
Japanese Yen	60,544	-	61,472	-
Korean Won	9,009	-	1,352	-
Malaysia Ringgit	3,236	-	666	-
Mexican Peso	1,100	-	165	1,638
Norwegian Krone	6,634	-	3,672	-
Pakistan Rupee	-	-	104	-
Philippines-Pesos	598	-	-	-
Poland-Zlotych	559	-	-	-
Singapore Dollar	4,398	-	720	7,411
South Africa Rand	3,307	-	1,805	-
Swedish Krona	6,503	-	1,854	-
Swiss Franc	9,829	-	7,491	-
Thailand Baht	6,265	-	-	-
Turkish Lira	6,871	-	598	-
Total	$ 321,183	$12,953	$ 204,876	$15,759

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.

As of December 31, 2009 and 2008 the weighted-average maturity of the bonds by bond type are as follows:

Bond Category	Fair Value 12/31/2009 (in thousands)	Weighted Average Maturity (years) at 12/31/2009	Fair Value 12/31/2008 (in thousands)	Weighted Average Maturity (years) at 12/31/2008
Asset Backed Securities	$ 13,951	5.01	$ 18,059	5.91
Bank Loans	17,985	4.20	9,500	5.10
Commercial Mortgage-Backed	32,735	29.47	21,396	30.34
Corporate Bonds	463,064	38.86	283,210	8.74
Corporate Convertible Bonds	-	-	1,729	2.09
Government Agencies	11,773	5.41	22,465	4.66
Government Bonds	45,442	10.80	65,142	9.18
Government Mortgage-Backed Securities	100,592	7.81	154,406	26.74
Government issued Commercial Mortgage-Backed Securities	148	9.41	-	-
Guaranteed Fixed Income	1,492	1.46	9,747	2.37
Index Linked Government Bonds	7,478	10.30	5,639	10.98
Municipal/ Provincial Bonds	735	12.05	-	-
Non-Government Backed CMOs	11,739	26.12	16,616	26.53
Total	$707,134		$607,909	
Portfolio weighted Average maturity		29.47		14.21

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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 14% of the total fixed income portfolio for 2009 and 25% for 2008. Their fair values at year end 2009 and 2008 were $100.6 million and $154.4 million 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 2009 and 2008, the Plan's investments, including investments bought, sold, and held during the year, appreciated (depreciated) in value as follows (in thousands):

	2009	2008
Investments, at fair value:		
Commingled index funds	$ 75,029	($ 49,963)
Domestic equities	399,931	(427,697)
United States and foreign government fixed income securities	1,469	10,805
Corporate bonds and notes	101,311	(154,721)
International equities	(37,827)	(437,380)
Short-term investments	(89)	(4,206)
Currency contracts	3,633	1,446
	543,457	(1,061,716)
Investments, at estimated fair value:		
Security lending core fund collateral deficiency	5,160	(6,415)
Private equity and venture capital funds	1,014	16
	$ 549,631	($ 1,068,115)

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, 2009 and 2008, 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 12/31/2009	Collateral Market Value 12/31/2009	Collateral Percentage	Fair Value 12/31/2008	Collateral Market Value 12/31/2008	Collateral Percentage
Cash	$357,454	$369,108	103%	$300,653	$305,649	102%
Non-cash	93	95	102%	360	382	106%
Total	$357,547	$369,203		$301,013	$306,031	

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The following represents the balances relating to the securities lending transactions as of December 31, 2008 and 2009 (in thousands):

Securities Lent	Underlying Securities 12/31/2009	Securities Collateral Value 12/31/2009	Cash Collateral Investment Value 12/31/2009	Underlying Securities 12/31/2008	Securities Collateral Value 12/31/2008	Cash Collateral Investment Value 12/31/2008
Lent for cash Collateral:						
Domestic equities	$200,340	$ -	$206,747	$162,639	$ -	$164,193
Domestic corporate fixed income	88,724	-	91,330	62,001	-	62,982
International equities	34,431	-	36,190	23,767	-	25,254
US government, agency & foreign securities	33,959	-	34,841	52,246	-	53,220
subtotal	357,454	-	369,108	300,653	-	305,649
Lent for securities Collateral:						
Domestic equities	-	85	-	348	13	-
Domestic corporate fixed income	-	10	-	-	-	-
International equities	10	-	-	-	369	-
US government, agency & foreign securities	83	-	-	12	-	-
subtotal	93	95	-	360	382	-
Total	$357,547	$95	$369,108	$301,013	$382	$305,649

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, 2009 and 2008. The net income from securities lending in 2009 and 2008 was $1.6 million and $3 million respectively.

(5) 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.

(6) Funded Status and Funding Progress

The funded status of the Plan as December 31, 2009, the most recent actuarial valuation date, is as follows (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)
12/31/09	3,032	3,192	160	95%	375	42.8%

EMPLOYEES' RETIREMENT FUND OF
THE CITY OF DALLAS

Notes to the Financial Statements

December 31, 2009 and 2008

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.

Additional information as of the latest actuarial valuation follows:

Valuation date	December 31, 2009
Actuarial cost method	Entry Age Normal
Asset valuation method	5-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
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
2008	10,798	210.41
2009	39,386	64.06

Schedule of Funding Progress

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

Actuarial Valuation Date	Actuarial Value of Assets ($) (a)	Actuarial Accrued Liability ($) (AAL) – Entry Age (b)	Unfunded AAL (UAAL) ($) (b-a)	Funded Ratio (a/b)	Covered Payroll ($) (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/00	1,998	2,038	40	98%	298	13.5%
12/31/01	2,017	2,276	259	89%	333	77.9%
12/31/02	1,864	2,400	536	78%	325	165.0%
12/31/03	1,843	2,489	646	74%	318	202.8%
12/31/04	2,482	2,488	6	99%	331	1.9%
12/31/05	2,739	2,606	-133	105%	332	- 40.0%
12/31/06	2,998	2,761	-237	109%	345	-68.6%
12/31/07	3,183	2,915	-268	109%	370	-72.4%
12/31/08	2,958	3,075	118	96%	389	30.1%
12/31/09	3,032	3,192	160	95%	375	42.8%

The actuarial information presented is determined by an actuarial valuation that results from applying various assumptions (see note 6 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, 2009

(dollars in thousands)

Personal services:	
Salaries	$1,433
Retirement	115
Insurance	76
Total Personal Services	1,624
Professional services:	
Actuary Service	102
Accounting & Audit Fees	42
Attorney fees	350
Communication	-
Medical	16
Total Professional Services	510
Operating Services:	
Data Processing	167
Election	23
Parking	25
Printing	31
Rent	224
Supplies and Services	146
Telephone	41
Travel and Training	73
Indirect and Other Costs	440
Total Operating Services	1,170
Furniture & Fixtures:	
Furniture	11
Other	-
Total Furniture & Fixtures	11
Total Administrative Expenses	$3,315

Schedule of Investment Expenses

as of December 31, 2009

(dollars in thousands)

Manager Fees	$8,859
Custodian Fees	150
Securities Lending Fees	318
Investment Consultant Fees	310
Total Investment Expenses	$9,637

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

Schedule of Payments for Professional Services

as of December 31, 2009

(dollars in thousands)

Accounting and Audit:	
Financial Control Systems	$ 43
Acturial:	
Buck Consultants LLC	36
Gabriel, Roeder, Smith & Company	66
Legal:	
Adorno Yoss White & Wiggins	9
Beus Gilbert PLLC	1
Foster Pepper PLLC	117
Strasburger & Price, LLP	223
Medical:	
various	16
Investments:	
Wilshire Associates, Inc	310
Total Professional Services Payments	$821

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INVESTMENT SECTION
(unaudited)

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Andrew H. Junkin
CFA, CIMA, CAIA
Managing Director

August 19, 2010

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

Re: 2009 Performance Results

Dear Cheryl:

The purpose of this letter is to review the 2009 investment performance results of the Dallas Employees' Retirement Fund ("ERF", "the Fund").

ERF maintains a well-diversified investment portfolio that consists of domestic and international equities, fixed income, real estate securities, and private equity. During 2009, the Fund generated a net-of-fee return of 30.62%[1], modestly trailing its asset allocation policy benchmark's return of 30.95%, but outperformed its actuarial rate of return of 8.25%. Massive government stimulus provided by developed and emerging nations successfully helped stabilize global economies and restored confidence to world capital markets, and this continued recovery is fully reflected in ERF's U.S. and international equity portfolio performance as these asset classes rebounded 27.79% and 42.72%, respectively, in 2009. Similar to equities, the Fund's high yield portfolio also posted solid gains and was the second best performing asset class for the year with a return of 41.66%, as liquidity returned to the credit market, alleviating panic, flight-to-quality, and sharply reduced yield spreads. When compared to other public funds, ERF ranked in the first quartile during 2009, in the third quartile over the three-year period, and in the second quartile over the five- and ten-year periods. Overall, ERF's diversified asset allocation and discipline have served it well during the year of 2009.

Based on research conducted in 2008 aimed to further optimize its existing asset allocation, the ERF Board of Trustees adopted a new policy mix in 2009 by adding

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

allocations to real assets and private equity. As the Trustees look to pro-actively diversify its investments across asset classes, the Fund will continue to examine potential investments in private equity, private real estate and inflation-linked assets such as commodities. The approved allocations as of the end of 2009 were:

Asset Class	Allocation
Domestic Equity	37%
Fixed Income	15%
International Equity	18%
High Yield	15%
Real Estate Securities	5%
Real Assets	5%
Private Equity	5%

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

Sincerely,

Andrew Junkin
Managing Director

WILSHIRE ASSOCIATES INCORPORATED
1299 Ocean Avenue, Suite 700 Santa Monica, CA 90401-1085
TEL 310.451.3051 FAX 310.458.6936 www.wilshire.com

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	2009 Rate Of Return
Domestic Equities	27.79%
International Equities	42.72%
Fixed Income	11.36%
High Yield Bonds	41.66%
Real Estate Securities	27.76%
Cash Equivalents	0.20%
Private Equity	N/A%*
Total Portfolio	30.62%

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

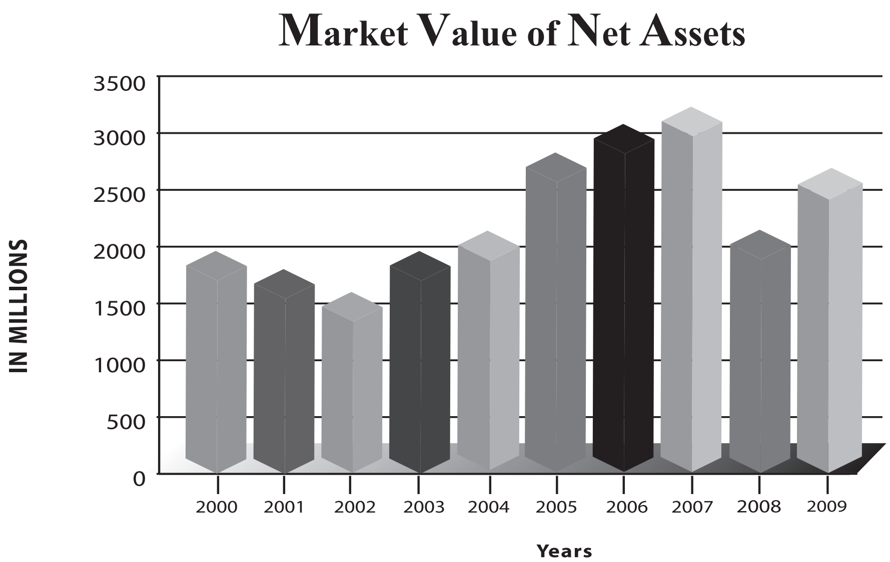
Investment Managers

Domestic Equities, REITs & Commingled Index Funds	Adelante Capital Management, LLC Intech Northern Trust Global Investments Piedmont Investment Advisors, LLC Security Capital Research & Management, Inc. SIT Investment Associates, INC Systematic Financial Management, LP T. Rowe Price Associates, Inc.
International Equities	Acadian Asset Management Inc. AQR Capital Management, LLC Baring International Investment Limited
Fixed Income	Advantus Capital Management, Inc. Artio Global Investors Black Rock Financial Management Oaktree Capital Management, LLC
Cash Equivalents	The Northern Trust Company
Private Equity	Brinson Partners Hamilton Lane

Total Plan Results

The world equity markets as measured by various indices were positive for 2009 with the MSCI All World ex-US Index returning 42.14% and the Dow Jones Wilshire 5000 returning 28.30%. The Barclays Aggregate Bond Index was up 5.93%. The Citigroup High Yield Cash Pay Index was up 53.15% for the year.

At December 31, 2009, the net asset value of the Plan was $2.6 billion. This value represents a 23.81% or $500 million increase over last year's value. The Net Assets of the Plan graph below provides a pictorial history of the Plan over the past 10 years.



Asset Allocation

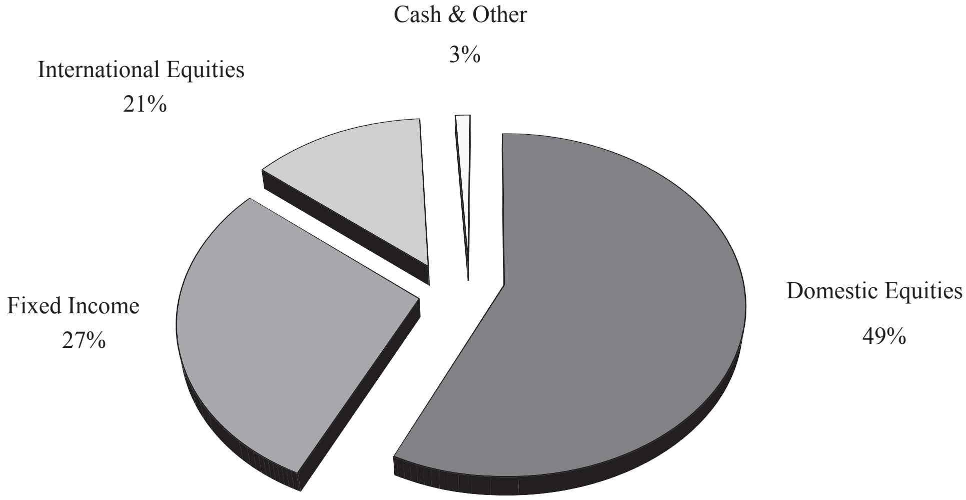
The Plan's long-term strategic asset allocation policy sets the following targets: 52% in domestic equity including real estate securities and private equity; 18% in international equity; 15% in global fixed income; and 15% in high yield fixed income. The chart on the next page shows the investments by asset class at year-end. Private equity had a small allocation less than 1% at year-end. 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 52% of the Plan's total assets including 10% allocated to real estate and 5% to private equity. Passively managed index funds totaled 28% of domestic equity assets at year end, and actively managed portfolios represented the remaining 72%. The domestic equity and REIT's segment returned 27.79% and 27.76% respectively for the year while the benchmark Wilshire 5000 Index had a return of 28.30% and the Wilshire Real Estate Securities index returned 29.20%. The S&P 500 index returned 26.45% for the year.

International equity has a target allocation of 18%, and it is split between two active managers and one enhanced index manager. The Plan's international equity composite return was 42.72% while the MSCI All World ex-US Index reported a return of 42.14% for the year.

Asset Allocation



Global Fixed Income

Global fixed income has a target of 15% of total assets. This allocation is allocated to two investment managers. During the year the global fixed income returned 11.36% while the Citigroup Non-US Government Bond Index returned 4.39% and the Barclays Aggregate Bond Index returned 5.93%.

High Yield Fixed Income

High yield fixed income has a target of 15%. This allocation is also evenly split between two investment managers. The high yield return for 2009 was 41.66% and the Citigroup High Yield Cash Pay Index returned 53.15%.

Alternative Investments

Private equity has a target allocation of 5%. Funding to this allocation was made during the latter half of 2009. At year end the allocation was less than 1%. As a result the rate of return was unmeasurable due to the small dollar value of investment.

Venture capital had a small residual value (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.

Annualized Rate of Return

as of December 31, 2009

	2009	3-Year	5-Year
Total Fund	30.62%	-2.15%	3.54
Domestic Equity	27.79	-5.64	0.74
S&P 500 Index	26.45	-5.62	0.42
Dow Jones Wilshire 5000 Index	28.30	-5.25	0.93
International Equity	42.72	-4.74	5.08
MSCI ACWI ex US Index	42.14	-3.04	6.30
MSCI EAFE Index	31.77	-6.04	3.54
Global Fixed Income	11.36	3.77	3.38
Barclays Aggregate Bond Index	5.93	6.04	4.97
High Yield Fixed Income	41.66	4.91	4.62
Citigroup High Yield Cash Pay	53.15	5.51	6.02
Cash Equivalents	0.20	-2.47	0.04
T-Bills	0.19	2.41	3.02
Real Estate Securities	27.76	-15.25	-0.41
Dow Jones Wilshire REIT Index	29.20	-13.82	-0.23

Investment Management Fees

as of December 31, 2009

(dollars in thousands)

Investment**		Assets Under Management	Fees	Basis Points
Domestic Equity		$1,269,590	$4,212	33.2
International Equity		549,402	2,306	42.0
Global Fixed Income		339,218	806	23.7
High Yield Fixed Income		367,916	1,535	41.7
Private equity/venture Capital***		3,713	0	0.0
Cash Equivalents		86,338	N/A	N/A
	subtotal	$2,616,177	$8,859	

Other Investment Services		Fees
Investment Consultant		310
Custodian		150
Security Lending*		318
	subtotal	778
	Total Investment Management Fees	$9,637

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

**Excludes cash.

***Fees are netted in capital cost and are not billed separately.

Ten Largest Holdings

as of December 31, 2009

Equity	Shares	Fair Value
MFB S&P 500 Non-lending	75,593.81	$243,874,476
MFB NTGI-QM COLTV Daily S&P 500	34,673.87	111,424,828
Exxon Mobil Corp. COM	284,305.00	19,386,758
Simon PPTY Group Inc. New	242,064.83	19,316,773
UK MSCI Index	337,202.84	19,256,642
Canada MSCI Index	234,511.03	16,454,701
Japan MSCI Index	1,963,489.48	15,275,948
Boston PPTYS Inc.	221,910.00	14,883,504
Public Storage Inc.	158,950.00	12,946,478
MSCI Materials Sector Index	400,065.80	12,670,084

Fixed Income	Par Value	Fair Value
U.S.A. Treasury Notes 1.000% due 12/31/2011	$11,045,000	$11,013,964
U.S.A. Treasury Notes 3.750% due 11/15/2019	6,970,000	6,704,304
CHS/Community Health System 8.875% due 07/15/2015	5,285,000	5,469,975
U.S.A. Treasury Notes 4.500% due 08/15/2039	5,460,000	5,336,276
FHLMC Gold Go-4955 6.500% due 11/01/2038	4,917,831	5,268,718
U.S.A. Treasury Notes 1.125% due 12/15/2012	5,210,000	5,126,536
NRG Energy 7.375% due 2/112016	4,700,000	4,705,875
FHLMC GO-8122 5.500% due 04/01/2036	4,297,615	4,510,261
FHLMC Gold 4.500% due 01/15/2040	4,295,000	4,284,263
Government of France 4.000% due 10/25/2038	3,000,000	4,136,252

Investment Holdings Summary

as of December 31, 2009

(dollars in thousands)

Fixed Income		Market Value	Percentage of Market Value
Government Bonds		$ 167,335	6.40%
Corporate Bonds		539,799	20.62%
	Total Fixed Income	707,134	27.02%
Equity			
Common Stock		1,463,692	55.93%
Index & Commingled		355,299	13.57%
	Total Equity	1,818,991	69.50%
Alternative Investments			
Venture Capital		5	0.00%
Private Equity		3,708	0.14%
	Total Alternative Investments	3,713	0.14%
Cash and Equivalents			
Cash		1,155	0.04%
Cash Equivalents		86,338	3.30%
	Total Cash and Equivalents	87,493	3.34%
	Total Fund*	$2,617,331	100.00%

*Does not include security lending collateral or receivables.

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ACTUARIAL SECTION

(unaudited)

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The Report of the
December 31, 2009 Actuarial Valuation
of the Employees' Retirement Fund
of the City of Dallas

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GRS
Gabriel Roeder Smith & Company
Consultants & Actuaries
5605 N. MacArthur Blvd.
Suite 870
Irving, TX 75038-2631
469.524.0000 phone
469.524.0003 fax
www.gabrielroeder.com

May 28, 2010

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

Dear Members of the Board:

We are pleased to present our report of the actuarial valuation of the Employees' Retirement Fund of the City of Dallas, Texas ("ERF" or the "Fund") as of December 31, 2009.

This valuation provides information on the funding status of ERF. It includes a determination of the actuarially calculated contribution rates for the 2010 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, 2010 per City Ordinance. 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 previously issued pension obligation bonds for fiscal year 2011.

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 values of the Fund as of December 31, 2009. The member, annuitant and asset data used in the valuation were all prepared and furnished by ERF staff. While certain checks for reasonableness were performed, the data used was not audited.

There were no changes in the actuarial assumptions since the prior valuation. The actuarial asset method was modified this year. The smoothing period was increased from three to five years. All actuarial assumptions and methods are described under Section N of this report and meet the parameters of Governmental Accounting Standards Board Statement No. 25. We believe the actuarial assumptions individually and collectively represent reasonable expectations of experience over the long-term future.

To the best of our knowledge, this report is complete and accurate and was conducted in accordance with the Actuarial Standards of Practice as set forth by the Actuarial Standards Board and in compliance with the provisions of the City Ordinance. The actuarial 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, MAAA, FCA, EA
Executive Vice President & Senior Consultant

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SUMMARY OF THE VALUATION

(This summary is an excerpt of the 2009 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 of Dallas, a new funding process commenced October 1, 2005. From this 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 the pension obligation bonds issued in 2005 and the contributions to the ERF. In subsequent years, the contribution rate changes only if the actuarial valuation develops a "current total obligation rate" which differs from the "prior adjusted total obligation rate" by more than 3.00%.

As shown in Table 3 (under Section L) and discussed later in this report, the "current total obligation rate" differs from the "prior adjusted total obligation rate" by more than 3.00% as of December 31, 2009. This means that the "current adjusted total obligation rate" will increase from 24.76% to 26.51% of active member payroll effective October 1, 2010.

EXPERIENCE DURING 2009

An Actuarial (Gain)/Loss Analysis [(G)/L] reviews the effects of the actual experience that differs from the assumed experience based on the actual results for the year. If any difference increases assets or reduces liabilities, we have an actuarial gain. The reverse is an actuarial loss.

On a market value return basis, the Fund gained approximately 30.35% (calculated on a dollar-weighted basis, net of investment expenses). Given this positive return, the actual investment income was more than the expected investment income on the actuarial value of assets; therefore, an investment income gain is being partially recognized this year (1/5) and partially deferred into the near future (4/5). Recognizing prior years' deferred investment gains and losses (years 2008, 2007, 2006 and 2005), there was an overall actuarial loss of approximately $147 million on the actuarial value of assets as of December 31, 2009. The rate of return on the actuarial value of assets for 2009 was 6.79% (calculated on a dollar-weighted basis, net of investment expenses). This result was less than the current investment return assumption of 8.25% per annum.

During 2009 there was an aggregate actuarial gain of about $23.7 million derived from demographic assumptions and non-investment economic assumption (salary increases) losses. As seen below, ERF experienced an overall actuarial loss in calendar year 2009. This year's overall actuarial experience loss amounted to approximately $123.24 million.

The total (G)/L for the prior 4 years is broken down as follows ($ in millions):

		2006	2007	2008	2009
1)	Actuarial (Gain)/Loss on Assets	($128.75)	($39.19)	$375.99	$146.94
2)	Actuarial (Gain)/Loss on Liabilities	9.35	21.73	29.25	(23.70)
3)	Total Actuarial (Gain) or Loss (1+2)	(119.40)	(17.46)	405.24	123.24

In addition, as previously discussed, there was a method change which resulted in an actuarial gain of approximately $96.7 million. Also, the UAAL increased $14.3 million because of the difference between the calculated amortization payment and the actual payment during 2009.

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. Therefore, it reflects the portion of the AAL that is covered by ERF assets. The UAAL is the difference between these two amounts.

A Funded Ratio of 100% means that the funding of ERF is precisely on schedule. In addition, an increasing funded ratio from year-to-year also means that the funding of ERF is 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 Funded Ratio of ERF decreased from 96.2% as of December 31, 2008 to 95.0% as of December 31, 2009 as a result of the continued recognition of the significant downturn in the investment markets during 4th quarter of 2008.

The UAAL increased from $117.9 million (shortfall) as of December 31, 2008 to $160.5 million (shortfall) as of December 31, 2009. Since the UAAL is positive, this implies the actuarial accrued liabilities exceed the actuarial assets of the Fund as of December 31, 2009.

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STATISTICAL SECTION
(unaudited)

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Schedule of Revenue by Source

Year Ending	Member Contributions (in thousands)	Employer Contributions (in thousands)	% of Annual Covered P/R	Investment Income (in thousands)	Total (in thousands)
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
2008	31,839	22,720	5.8	(975,641)	(921,082)
2009	32,229	25,265	6.7	619,177	676,671

Schedule of Expenses by Type

Year Ending	Benefit Payments (in thousands)	Administrative Expenses (in thousands)	Refunds (in thousands)	Investment Professional Expenses (in thousands)	Total (in thousands)
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
2008	156,575	3,255	2,742	20,926	183,498
2009	172,493	3,315	4,273	9,637	189,718

Schedule of Benefit Expenses by Type

Year Ending	Retiree (in thousands)	Beneficiary (in thousands)	Disability (in thousands)	Supplement (in thousands)	Total (in thousands)
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
2008	138,695	5,959	3,979	7,942	156,575
2009	150,843	9,340	4,149	8,161	172,493

Average Age and Pension at Retirement

as of December 31, 2009

Status	Average Age	Average Pension	Average Age at Retirement
Members Only	67.34	$2,729.10	57.21
Members and Survivors	69.2	$2,524.75	N/A
Survivors Only	78.18	$1,557.23	N/A

Average Benefit Payment

as of December 31, 2009

Retirement Effective Dates	Years of Credited Service						
	0 - 5	5 - 10	10 - 15	15 - 20	20 - 25	25 - 30	30+
Period 01/01/2009 to 12/31/2009							
Average monthly benefit	$301.96	$784.21	$1,294.02	$2,149.66	$2,949.94	$3,576.69	$4,305.35
Average final average salary	$3,287.00	$3,605.72	$3,878.74	$4,396.37	$4,788.12	$4,881.66	$4,969.17
Number of retired members	27	25	36	37	65	110	79
Period 01/01/2008 to 12/31/2008							
Average monthly benefit	$256.93	$992.79	$1,160.28	$2,059.59	$2,717.68	$3,490.12	$4,168.44
Average final average salary	$3,816.62	$4,347.54	$3,472.80	$4,301.64	$4,446.61	$4,739.25	$4,930.47
Number of retired members	8	33	26	18	68	73	38
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	$4,030.12
Average final average salary	$3,350.81	$3,387.56	$3,787.73	$2,941.32	$4,272.21	$4,516.64	$4,476.76
Number of retired members	12	29	36	26	69	52	27
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	$3,883.23
Average final average salary	$3,421.25	$3,359.50	$3,382.90	$3,213.03	$4,263.23	$4,483.42	$4,605.96
Number of retired members	9	31	30	25	73	72	50
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	$4,215.25
Average final average salary	$3,260.48	$3,652.23	$3,894.79	$3,710.63	$4,515.87	$4,399.20	$4,949.87
Number of retired members	8	31	24	28	84	74	41

Retired Members By Type of Benefit

as of December 31, 2009

	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	7	0	0	0	0	14	19	20
$251 - 500	117	4	60	46	0	2	15	45	125	74
$501 - 750	193	10	77	42	3	11	27	60	210	93
$751 - 1,000	225	18	87	33	28	24	8	96	200	127
$1,001 - 1,250	228	11	76	24	11	12	7	105	167	97
$1,251 - 1,500	220	23	58	21	6	19	5	118	128	106
$1,501 - 1,750	217	14	43	26	8	15	3	133	106	87
$1,751 - 2,000	197	34	51	7	1	9	6	121	105	79
over 2,000	2,785	177	194	58	9	34	14	1,104	1,287	880
Total	4,228	291	653	257	66	126	85	1,796	2,347	1,563

Type of Retirement[a]

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

Option Selected[b]

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

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Employees' Retirement Fund
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