

**SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS**

Financial Statements and
Required Supplemental Information

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

SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis (Unaudited)	2
Basic Financial Statements:	
Statements of Plan Net Assets - December 31, 2010 and 2009	5
Statements of Changes in Plan Net Assets - Years Ended December 31, 2010 and 2009	6
Notes to Basic Financial Statements	7
Required Supplemental Information:	
Schedule 1 - Schedule of Funding Progress (Unaudited)	26
Schedule 2 - Schedule of Employer Contributions (Unaudited)	27
Note to Required Supplemental Information (Unaudited)	28



INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Supplemental Police and Fire Pension
Plan of the City of Dallas:

We have audited the accompanying statements of plan net assets of the Supplemental Police and Fire Pension Plan of the City of Dallas (the Supplemental Plan) as of December 31, 2010 and 2009, and the related statements of changes in plan net assets for the years then ended. These basic financial statements are the responsibility of the Supplemental Plan's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial status of the Supplemental Plan as of December 31, 2010 and 2009, and the changes in its financial status for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis (MD&A) and the required supplemental information (schedules 1 and 2) are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This information is the responsibility of the Supplemental Plan's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the MD&A and supplemental information. However, we did not audit such information and do not express an opinion on it.

A handwritten signature in black ink that reads "MFR, P.C." in a cursive, stylized font.

June 22, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

OVERVIEW

The Management's Discussion and Analysis (MD&A) of the Supplemental Police and Fire Pension Plan of the City of Dallas (the Supplemental Plan) financial position and performance provides an overview of the Supplemental Plan's financial activities for the fiscal years ended December 31, 2010 and 2009. The Supplemental Plan is a defined benefit pension plan under Section 401(a) of the Internal Revenue Code.

Certain comparative information between the current year and the prior year is required to be presented in the MD&A. The analysis should be read in conjunction with the basic financial statements, notes to the basic financial statements and required supplemental information.

FINANCIAL STATEMENTS

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

The Statement of Plan Net Assets presents the Supplemental Plan's assets and liabilities and plan net assets held in trust for the payment of pension benefits. The Statement of Changes in Plan Net Assets summarizes additions to and deductions from Supplemental Plan assets, providing plan net assets held in trust at the end of the year for pension benefits. The difference between assets and liabilities is one measure of the Supplemental Plan's financial position and the change in this measure over time is an indication of whether the Supplemental Plan's financial health is improving or deteriorating.

The Notes to Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the Basic Financial Statements.

The Required Supplemental Information consists of Schedules of Funding Progress and Required Employer Contributions and Notes to Required Supplemental Information.

The Supplemental Plan presents the financial statements solely on the accounts of the Supplemental Plan. The accrual basis of accounting is used by the Supplemental Plan, whereby revenues are recognized when they are earned and collection is reasonably assured, and expenses are recognized when the liability has been incurred. Investments are reported at fair value.

CONDENSED FINANCIAL INFORMATION

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED), CONTINUED

FINANCIAL HIGHLIGHTS

- The Supplemental Plan's net assets increased \$440 thousand in 2010 to \$21.1 million. Net assets increased \$2.6 million in 2009 to \$20.7 million. The increase in plan net assets reflects the continued recovery in the financial markets in 2010 and 2009.
- The assets of the System and Supplemental Plans are co-invested through a Group Trust, the two plans are separate legal entities. The rate of return on the Group Trust investments during 2010 was 11.4% net of fees, compared to a rate of return of 15.7% for 2009. The performance numbers are provided by the Supplemental Plan's general investment consultant. The actuarial expected rate of return for both years was 8.5%. The investment return represents continued recovery from 2008 and the early part of 2009 when global financial markets experienced substantial losses. Despite high unemployment rates in the U.S. and distress in Europe's debt markets, the global financial markets finished the year with solid gains, returning 12.7% for 2010 as measured by the MSCI world index. The Supplemental Plan's financial composite, comprised of Global Equity, Global Fixed Income, Global Asset Allocation, and the public portion of Global Natural Resources returned 16.4% net of fees for 2010, outperforming the allocation index by 2.7%. The Supplemental Plan's private equity portfolio returned 18.29%, outperforming the public markets as measured by the S&P 500 by 3.19%, and the MSCI World index by 5.59%. The Supplemental Plan's real estate portfolio returned 3.1%, underperforming the NCREIF property index by 10%. Longer term, the Supplemental Plan's real estate portfolio has outperformed the index by 1.5% and 3.4% during the 3-year and 5-year period, respectively.
- The Supplemental Plan had \$375 in liabilities as of December 31, 2010, and \$1,953 in liabilities as of December 31, 2009.
- The Supplemental Plan received employee contributions of \$34,229 in 2010 and \$56,261 in 2009. The Supplemental Plan received employer contributions from the City of Dallas (the City) in the amount \$1.44 million in 2010, an increase of \$100,000 over the \$1.34 million received in 2009. The contribution rates are established by statute. The City's contribution rate is intended to be sufficient to amortize the unfunded actuarial accrued liability over five years, including the normal cost. The contribution also is limited to be within \$100,000 of the previous year's contribution.
- The Supplemental Plan paid \$1,964,422 in service retirement, disability retirement and survivor benefits during 2010, compared to \$1,471,644 in 2009. No changes to benefit provisions were implemented in 2010 or 2009.
- The cost of administering the benefit programs of the Supplemental Plan, including administrative costs and professional fees, was \$43,858 in 2010 compared to \$46,766 for 2009. A pro rata share of the total expenses of the Group Master Trust are allocated to the Supplemental Plan according to the ratio of Supplemental Plan assets to the total assets of the Group Trust, plus any expenses specific to the Supplemental Plan.
- The active membership of the Supplemental Plan decreased by one to 39 members as of the end of 2010. There were 41 active members in 2009. The number of retired, terminated vested and beneficiaries was 113 and 112 as of December 31, 2010 and December 31, 2009, respectively.

The Supplemental Plan presents its financial statements solely on the accounts of the Supplemental Plan. The accrual basis of accounting is used by the Supplemental Plan, whereby revenues are recognized when they are earned and collection is reasonably assured, and expenses are recognized when the liability has been incurred. Investments are reported at fair value.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED), CONTINUED

FUNDING PROGRESS

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

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

When a plan's total liabilities exceed the assets available to pay benefits on an actuarial basis, the plan is said to have an unfunded actuarial accrued liability (UAAL). As of January 1, 2011, the Supplemental Plan's UAAL was \$13,189,869, an increase of \$421 thousand from a UAAL of \$12,768,518 as of January 1, 2010.

CONTACTING THE SUPPLEMENTAL PLAN'S FINANCIAL MANAGEMENT

This financial section is designed to provide our members and other users with a general overview of the Supplemental Plan's financial activities. If you have questions about this report or need additional financial information, contact the Administrator of the Supplemental Police and Fire Pension Plan of the City of Dallas at 4100 Harry Hines Blvd, Suite 100, Dallas, TX 75219.

SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Statements of Plan Net Assets
December 31, 2010 and 2009

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

See accompanying notes to basic financial statements.

SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS

Statements of Changes in Plan Net Assets
Years Ended December 31, 2010 and 2009

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

See accompanying notes to basic financial statements.

**SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS**

**Notes to Basic Financial Statements
December 31, 2010 and 2009**

1. Description of the Plan and Summary of Significant Accounting Policies

General

The Supplemental Police and Fire Pension Plan of the City of Dallas (the Supplemental Plan) is a single-employer, defined benefit pension plan for police officers and firefighters employed by the City of Dallas, Texas (the City or Employer) and was created in 1973 to supplement the Dallas Police and Fire Pension System's (the System) Plan B Defined Benefit Pension Plan (Plan B). The Plan B benefit structure was consolidated into the System's Combined Pension Plan in 1992. Former Plan B members are now denominated as "Group B" members of the Combined Pension Plan. The intent of the Supplemental Plan is to provide additional retirement benefits (as discussed below) to those members of the Supplemental Plan (Members) holding a rank higher than the highest corresponding Civil Service rank as provided in the Combined Pension Plan. Members receive a supplemental pension based upon the difference between compensation for the Civil Service position held before entrance in the Supplemental Plan and Compensation while in the Supplemental Plan. The Supplemental Plan was established and derives its authority from a non-codified City ordinance. As of December 31, 2010 and 2009, the Supplemental Plan membership consisted of:

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

In 1992, an amendment to Article 6243a-1 was approved by the members of the Combined Pension Plan allowing for a Deferred Retirement Option Plan (DROP). The amendment automatically modified the Supplemental Plan so members that enter the DROP program in the Combined Pension Plan also enter the DROP program in the Supplemental Plan. DROP Members have their contribution discontinued but the City's portion of the total contribution continues. The Member's monthly benefit remains in the plan and accumulates interest. Upon retirement from the City, the Member is able to withdraw from their DROP Account along with the Member's normal benefits. Amounts included in these basic financial statements related to DROP members are \$8,104,067 and \$7,300,563 for December 31, 2010 and 2009, respectively.

SUPPLEMENTAL POLICE AND FIRE PENSION PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

Pension benefits

The Supplemental Plan's benefits are designed to supplement Group B benefits for those Members holding a rank higher than the highest corresponding Civil Service rank because their Combined Pension Plan benefits are capped by the Combined Pension Plan's definition of considered compensation. Accordingly, when Group B benefits are amended, the Supplemental Plan's benefit calculation is also affected. The basis for a Member's benefits shall be the difference between the monthly rate of pay a Member is due as the base pay for the rank the Member currently holds and the monthly rate of pay the Member is due for the highest Civil Service rank the Member has held as a result of competitive examinations. The formula used to determine the Member's Group B benefit shall also be used to determine the Member's benefit under the Supplemental Plan so that the same length of time shall be used to determine "average computation pay" for both plans. Application for benefits under the provisions of the Combined Pension Plan shall be deemed to be application for benefits under the Supplemental Plan and no additional application need be filed.

Contributions

The City is required by ordinance to contribute amounts, as determined by an actuary, necessary to maintain the Supplemental Plan.

Members electing to participate in the Supplemental Plan must contribute 8.5% of the excess of their compensation for the rank held over the compensation of the Civil Service rank held as a result of competitive examinations.

Members are immediately vested in their contributions and with five years of service in the Supplemental Plan or the Combined Pension Plan may, at termination of employment, leave their contributions on deposit with the Supplemental Plan and receive a monthly benefit at normal retirement age. If a Member's employment is terminated and the Member elects not to retire or not to have vested rights, the Member's contributions are returned, without interest, upon written application. If application for refund is not made within three years, the Member forfeits the right to a refund of his or her contributions; however, a procedure does exist whereby the Member's right to the contributions can be reinstated.

Termination

Although the Supplemental Plan has not expressed any intent to do so, in the event the Supplemental Plan is terminated or upon complete discontinuance of contributions, the Members and their beneficiaries shall be entitled to the benefits accrued to the date of such termination or discontinuance, to the extent then funded.

Supplemental Plan administration

The Supplemental Plan is administered by a twelve-member Board of Trustees (the Board) consisting of four City Council members appointed by the City Council, three police officers and three firefighters, all elected by employees of their respective departments who are members of the Supplemental Plan, and one pensioner who has retired from the Police Department and one pensioner who has retired from the Fire Department and each are elected by pensioners from their respective departments.

Effective January 1, 2006, the Supplemental Plan's Board elected to establish a Group Master Trust (Group Trust) for investment unitization of the Supplemental Plan's investment and those of the Dallas Police and Fire Pension System (the System). The System's Board has investment oversight for the investment activities of the Group Trust.

SUPPLEMENTAL POLICE AND FIRE PENSION PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

Basis of presentation

The accompanying basic financial statements are presented in accordance with generally accepted accounting principles established by the Governmental Accounting Standards Board (GASB), which designates accounting principles and financial reporting standards applicable to State and local governmental units. The accompanying basic financial statements include solely the accounts of the Supplemental Plan, which include all programs, activities and functions relating to the accumulation and investment of the net assets and related income necessary to provide the service, disability and death benefits required under the terms of the governing statutes and amendments thereto.

Basis of accounting

The basis of accounting is the method by which revenues and expenses are recognized in the accounts and reported in the basic financial statements. The accrual basis of accounting is used by the Supplemental Plan. Under the accrual basis of accounting, revenues, which include contributions and investment income, are recognized when they are earned and collection is reasonably assured, and expenses are recognized when the liability is incurred. Member and Employer contributions are recognized as revenue in the period in which the compensation is earned. In addition, the Supplemental Plan records contributions according to Supplemental Plan requirements and State statute. Benefits paid to Members and contribution refunds are recognized when due and payable in accordance with the terms of the Supplemental Plan. Accrued income, when deemed uncollectible, is charged to operations.

Additionally, within the Group Trust, interest earned but not received and dividends declared but not received as of the Supplemental Plan's fiscal year-end are recorded as accrued interest and dividends receivable, respectively. In addition, unsettled investment purchases and sales are accrued.

Reporting entity

The Supplemental Plan is a component unit of the City and its basic financial statements and required supplemental information are included in the City's Comprehensive Annual Financial Report.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

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

SUPPLEMENTAL POLICE AND FIRE PENSION PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

Plan Interest in Group Trust

Beginning January 1, 2006, the Supplemental Plan's investments are held in the Group Trust. JPMorgan Chase served as custodian for the years ended December 31, 2010 and 2009. The fair value of the Supplemental Plan's interest in the Group Trust is based on the unitized interest that the Supplemental Plan has in the Group Trust. The Supplemental Plan's interest in the Group Trust was approximately 0.675% and 0.715% at December 31, 2010 and 2009, respectively. The allocation of income between the System and the Supplemental Plan is based on the number of units owned of the Group Trust. Benefits, contributions and administrative expenses are allocated to each plan directly.

Investments valuation and income recognition

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

Investments are reported at fair value. The Supplemental Plan's interest in the Group Trust is based on the fair value of the unitized interest held by the Supplemental Plan. The underlying investments included in the Group Trust are reported at fair value based on quoted market prices. When quoted market prices are not available, investments are based on independent appraisals and recent financial results, or if no established market, then they are reported at their estimated fair values.

Purchases and sales of investments and forward foreign exchange contracts are recorded on the trade date. Gains or losses on forward foreign exchange contracts are recognized when the contract is complete.

Benefits

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

Foreign currency transactions

The Group Trust and the Supplemental Plan are party to certain financial arrangements, utilizing forward contracts, options and futures only as a hedge against foreign currency fluctuations. Entering into these arrangements involves not only the risk of dealing with counterparties and their ability to meet the terms of the contract, but also the risk associated with market fluctuations. Gains and losses on option and future arrangements are recorded as they are incurred. Gains and losses on forward contracts are recorded on the settlement date.

Gains and losses resulting from foreign exchange contracts (transactions denominated in a currency other than the Group Trust's and the Supplemental Plan's functional currency - United States dollars) are recorded by the Group Trust and the Supplemental Plan based on changes in market values and are combined with similar transactions in the accompanying statements of changes in plan net assets and are included in net investment income. The Group Trust and the Supplemental Plan structure foreign exchange contracts and enter into certain transactions to substantially mitigate the Group Trust's and the Supplemental Plan's exposure to fluctuations in foreign exchange rates.

SUPPLEMENTAL POLICE AND FIRE PENSION PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

Investments and broker accounts denominated in foreign currencies outstanding at December 31, 2010 and 2009 were converted to the Group Trust's and the Supplemental Plan's functional currency (United States dollars) at the foreign exchange rates quoted at December 31, 2010 and 2009, respectively. These foreign exchange gains and losses are included in the Group Trust net appreciation in fair value of investments in the accompanying disclosures of the Group Trust.

Administrative expenses

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

Recent accounting pronouncements

GASB Statement No. 59, *Financial Instruments Omnibus*

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

GASB Statement No. 59 amends the following pronouncements:

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

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

SUPPLEMENTAL POLICE AND FIRE PENSION PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

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

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

2. Cash and Cash Equivalents

For cash deposits and cash equivalents, custodial credit risk is the risk that in the event of a bank failure, the Group Trust's and the Supplemental Plan's deposits may not be returned to it. The Group Trust's and the Supplemental Plan's deposits are held by the custodian, JPMorgan Chase. As of December 31, 2010 and 2009, the Group Trust had bank balances of \$2,759,099 and \$4,362,318, respectively, that are in demand deposit accounts subject to coverage by the Federal Deposit Insurance Corporation, but not collateralized. The Group Trust and the Supplemental Plan do not have a deposit policy for custodial credit risk; however, management believes that the Group Trust's and the Supplemental Plan's credit risk exposure is mitigated by the financial strength of the banking institution in which the deposits are held.

3. Investments and Plan Interest in Group Master Trust

The following disclosures on investments and the Supplemental Plan's interest in the Group Trust are made for the Group Trust as of and for the years ended December 31, 2010 and 2009. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Short-term investments are government and corporate bonds with a maturity of less than one year and are valued based on current market rates. The fair value of limited partnerships, real estate trusts, and real estate loans is based on independent appraisals and recent financial results. Investments that do not have an established market are reported at their estimated fair values. Unrealized gains and losses are presented as net appreciation in fair value of investments on the statement of changes in plan net assets along with gains and losses realized on sales of investments. Dividend income is recorded on the ex-dividend date. Interest and income from other investments are recorded as earned.

**SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS**

Notes to Basic Financial Statements, Continued

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

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

**SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS**

Notes to Basic Financial Statements, Continued

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

	<u>2010</u>	<u>2009</u>
Investment income:		
Interest	\$ 21,861,080	25,691,877
Dividends	29,862,794	46,486,971
Real estate income	6,775,774	13,316,273
Net appreciation in fair value of investments	247,436,040	318,474,104
Securities lending income	599,936	1,124,410
Less investment expenses:		
Custody fees	(373,660)	(335,135)
Investment services	<u>(18,040,207)</u>	<u>(23,530,722)</u>
Total investment income in Group Trust	288,121,757	381,227,778
Benefit payments in excess of contributions received for System and Supplemental Plan	(48,388,619)	(36,528,355)
Plan net assets held in trust for pension benefits:		
Beginning of year	<u>2,890,705,080</u>	<u>2,546,005,657</u>
End of year	\$ <u>3,130,438,218</u>	<u>2,890,705,080</u>
The following is a break out of interest held in the Group Trust:		
Group Trust interest held by the System	\$ 3,109,319,678	2,870,025,498
Group Trust interest held by the Supplemental Plan	<u>21,118,540</u>	<u>20,679,582</u>
Total net assets of Group Trust	\$ <u>3,130,438,218</u>	<u>2,890,705,080</u>

Portions of the Group Trust's investments are classified as security investments. A security is a transferable financial instrument that evidences ownership or creditorship. Investments in commingled funds, limited partnerships, real estate trusts, and loans and mortgages are investments that are evidenced by contracts rather than securities.

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

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

**SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS**

Notes to Basic Financial Statements, Continued

The System Board has contracted with investment managers to manage the investment portfolio of the Group Trust, subject to the policies and guidelines established by the Board. The Board has custody agreements with JPMorgan Chase and under such agreements JPMorgan Chase assumes responsibility for the safekeeping of certain investments, handling of transactions based on the instructions of investment managers, and accounting for the investment transactions.

Group Trust investments that individually represent 5% or more of the net assets available for benefits and the total of investments that individually represent less than 5% of the net assets available for benefits of the Group Trust at December 31 are as follows:

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

Custodial credit risk

For an investment, custodial credit is the risk that, in the event of the failure of the counterparty, the Group Trust and the Supplemental Plan will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Group Trust or the Supplemental Plan, and are held by either the counterparty or the counterparty's trust department or agent but not in the Group Trust's or the Supplemental Plan's name. At December 31, 2010 and 2009, the Group Trust's and the Supplemental Plan's security investments that were not subject to custodial credit risk were the investments in fixed income and equity investments.

Concentration of credit risk

The allocations of assets among various asset classes are set by the System Board with the objective of optimizing the investment return of the Group Trust within a framework of acceptable risk and diversification. For major asset classes (e.g., domestic equities, international equities, fixed income, alternative investments, and real estate), the Group Trust will further diversify by employing investment managers who implement the strategies selected by the System's Board.

SUPPLEMENTAL POLICE AND FIRE PENSION PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

Significant guidelines are as follows:

Public market investments

1. Specific guidelines are developed cooperatively by the System investment staff, legal counsel, and investment manager and shall be incorporated into the Investment Management Services Contract executed by the Chair of the System Board, System Administrator, General Counsel, and the investment manager.
2. In case of conflict between the specific manager guidelines and the general guidelines, the specific guidelines, as approved by the System Board, shall supersede. The general guidelines are as follows:
 - a. Manager investment philosophy, style, and strategy shall remain consistent and shall not change without the System Board's approval. The manager shall have discretion to manage the portfolio consistent with the style presented to the System Board at the time of selection and further subject to the restrictions established by the policy herein.
 - b. The following transactions are prohibited: short sales, selling on margin, put and call options, and the use of derivatives for speculation unless authorized by the System Board.
 - c. Transactions that involve a broker acting as a principal, where such broker is also affiliated with the manager who is making the transaction are prohibited, unless specifically approved by the System Board.
 - d. Transactions shall be executed at competitive costs, or within the parameters established for directed brokerage transactions by the System Board.
 - e. Managers shall maintain cash levels consistent with their style as presented to the System Board at the time of selection. Any deviation shall be allowed only after notifying the System Administrator and Assistant Administrator of Investments and should be related to unusual market conditions. The cash level held by each manager will be addressed in the Investment Management Services Contract.
3. The System's Board with the assistance from the System staff shall monitor each investment manager's performance and adherence to style, strategy, and manager specific guidelines. It is the Board's discretion to take corrective action by replacing an investment manager if they deem it appropriate at any time.

Alternative and real estate investments

1. The investment specific guidelines for each manager will be incorporated in a Limited Partnership Agreement, Limited Liability Company Agreement, or other binding agreement as is appropriate for the investment. The System Board, System Administrator, General Counsel, and the investment manager execute this document.
2. In case of conflict between the specific manager guidelines and the general guidelines, the specific guidelines, as approved by the System's Board, shall supersede. The general guidelines are as follows:
 - a. Manager investment philosophy, style, and strategy shall remain consistent and shall not change without the System Board's approval. The manager shall have discretion to manage the portfolio consistent with the style presented to the System Board at the time of selection and further subject to the restrictions established by the policy herein.

SUPPLEMENTAL POLICE AND FIRE PENSION PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

- b. The Chair of the System Board may execute amendments and consents if the resulting changes or allowances are provided for in the governing documents as previously accepted by the System Board. Otherwise, such changes are to be approved by the System Board. The System Board will be notified on a quarterly basis of all executed amendments.
3. The System Board with assistance from the System staff shall monitor each Alternative and Real Estate manager's performance and adherence to strategy and manager specific guidelines. It is the System Board's discretion to take corrective action by replacing an investment manager if they deem it feasible and appropriate at any time. Alternative and Real Estate investment manager retention is governed in most cases by Limited Partnership Agreements, Limited Liability Company Agreements, or other binding agreements. In these cases, the System Board with assistance from the System staff shall identify available options as allowed by the governing documents and determine the impact and consequences of these options.

Interest rate risk and foreign currency risk

The Group Trust and the Supplemental Plan invest in fixed income securities including, but not limited to, investments representing instruments with an obligated fixed rate of interest including public and private debentures, mortgages, investments in life insurance general accounts and guaranteed investment contracts, with maturities greater than one year, and options/futures. Instruments may have an investment grade or non-investment grade rating. Purchases and sales, investment selection and implementation of investment strategies are delegated to the discretion of the investment manager, subject to compliance with its management agreement and the System's Investment Policy.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment. Interest rate risk is the greatest risk faced by an investor in the fixed income market. The price of a fixed income security typically moves in the opposite direction of the change in interest rates. The weighted average maturity expresses investment time horizons (when the investment comes due and payable) in years, weighted to reflect the dollar size of individual investments within the investment type. The System does not have a formal investment policy that limits investment maturities as a means of managing its exposure to potential fair value losses arising from future changes in interest rates, but rather mandates such limits within the Investment Management Services Contract.

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. International securities investment managers are expected to maintain diversified portfolios by sector and by issuer using the System Investment Policy.

**SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS**

Notes to Basic Financial Statements, Continued

At December 31, 2010, the following table shows the Group Trust's investments by type, time-to-maturity, fair value, and foreign currency fluctuation:

Type of Investment	Less Than 1 Year	1-5 Years	6-10 Years	More Than 10 Years	Total Fair Value
Fixed maturity domestic:					
U.S. Treasury securities	\$	561,517	4,577,271	8,581,543	13,720,331
U.S. Government agency securities				1,161,739	1,161,739
Commingled funds				21,127,562	21,127,562
Corporate securities:					
Collateralized mortgage obligation				8,531,243	8,531,243
Corporate bonds	4,813,671	97,777,090	52,734,253	139,664,846	294,989,860
Municipal bonds				1,453,651	1,453,651
Convertible bonds	192,150	2,208,619	1,500,600	957,737	4,859,106
Total fixed maturity domestic	5,005,821	100,547,226	58,812,124	181,478,321	345,843,492
International government bonds:					
Australian Dollar		8,199,099	6,236,221		14,435,320
Brazil Real		755,437		4,274,773	5,030,210
British Pound Sterling		675,547		3,836,870	4,512,417
Canadian Dollar	3,047,683	1,655,947			4,703,630
EURO Currency		4,652,544	7,042,635	3,974,850	15,670,029
Hungary		1,505,186			1,505,186
Indonesian Rupiah	2,834,714				2,834,714
Japanese Yen	582,302	13,779,209	6,003,350		20,364,861
Malaysian Ringgit	1,419,935	2,439,685			3,859,620
Mexican New Peso		4,025,480		781,206	4,806,686
New Zealand Dollar		2,212,538	811,076		3,023,614
Norway Krone		3,325,561			3,325,561
Poland New Zloty		6,357,558	2,067,473		8,425,031
South Korea			3,507,228		3,507,228
Swedish Krona		4,674,082	680,319		5,354,401
Total international government bonds	7,884,634	54,257,873	26,348,302	12,867,699	101,358,508
Total fixed maturity	\$ 12,890,455	154,805,099	85,160,426	194,346,020	447,202,000

SUPPLEMENTAL POLICE AND FIRE PENSION PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

4. **Securities Lending**

The System Board has authorized the Group Trust to enter into an agreement with JPMorgan Chase (JPMorgan) for the lending of certain of the Group Trust's securities (the Securities Lending Program or program) including, but not limited to, stocks and bonds to counterparty brokers and banks (borrowers), for a predetermined period of time and fee. Such transactions are allowed by State statute.

During 2006, JPMorgan lent, on behalf of the Group Trust, securities held by JPMorgan as the Group Trust's custodian, and received United States dollar cash and United States government securities as collateral. JPMorgan did not have the ability to pledge or sell collateral securities absent a borrower default. Borrowers were required to put up collateral for each loan equal to: (i) in the case of loaned securities denominated in United States dollars or whose primary trading market was in the United States or sovereign debt issued by foreign governments, 102% of the fair market value of the loaned securities; and (ii) in the case of loaned securities not denominated in United States dollars or whose primary trading market was not in the United States, 105% of the fair market value of the loaned securities.

The System Board did not impose any restrictions during 2010 and 2009 on the amount of the loans that JPMorgan made on its behalf. There were no failures by any borrowers to return the loaned securities or pay distributions thereon during the fiscal years 2010 and 2009. Moreover, there were no losses during the 2010 and 2009 fiscal years resulting from a default of the borrower. JPMorgan indemnifies the Group Trust in respect of any loan related to any non-cash distribution and return of securities.

During 2010 and 2009, the System Board and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral was invested, together with the collateral of other qualified tax-exempt plan lenders, in a collective investment pool maintained by JPMorgan. The relationship between the average maturities of the investment pool and the Group Trust's loans was affected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which the System Board could not determine. On December 31, 2010 and 2009, the Group Trust and the Supplemental Plan had no credit risk exposure to borrowers. The market value of securities on loan for the Group Trust were \$155,506,124 and \$212,745,824 at December 31, 2010 and 2009, respectively. The collateral held for the Group Trust were \$160,248,227 and \$220,696,255 at December 31, 2010 and 2009, respectively.

Disclosure of securities lending revenue is shown gross with the associated reductions for investment expenses on the face of the Group Trust's statements of changes in plan net assets, and the cash collateral and associated securities lending payable is shown on the face of the statements of plan net assets for the Group Trust as of December 31, 2010 and 2009.

5. **Contributions Required and Contributions Made**

Funding policy

The City is required by ordinance to contribute amounts, as determined by an actuary, necessary to maintain the Supplemental Plan. The City's contribution rate is intended to be sufficient to amortize the unfunded actuarial liability over five years as of January 1, 2010 and 2009. The contribution is also limited to be within \$100,000 of the previous year's contribution.

**SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS**

Notes to Basic Financial Statements, Continued

Members electing to participate in the Supplemental Plan must contribute 8.5% of the excess of their compensation for the rank held over the compensation of the Civil Service rank held as a result of competitive examinations.

The required contribution rate of the City, pursuant to an actuarial study effective January 1, 2011, consists of 174.20% of covered members' salaries and is an increase of 35.96% from the 138.24% of covered members salaries as of January 1, 2010.

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

Funded status

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

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

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

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

Historical trend information

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

SUPPLEMENTAL POLICE AND FIRE PENSION PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

The Supplemental Plan's contribution rates and the actuarial information included in schedules 1 and 2 is based on certain assumptions pertaining to interest rates, inflation rates and participant demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term could be material to the financial statements.

6. **Forward Contracts**

During fiscal years 2010 and 2009, the Group Trust entered into forward foreign exchange contracts. A currency forward is a contractual agreement between two parties to pay or receive specific amounts of foreign currency at a future date in exchange for another currency at an agreed upon exchange rate. Forward commitments are not standardized and carry credit risk due to the possible nonperformance by one of the counterparties. The maximum potential loss is the aggregate face value in U.S. dollars at the time the contract was opened; however, the likelihood of such loss is remote. Forwards are usually traded over-the-counter. These transactions are entered into in order to hedge risks from exposure to foreign currency rate fluctuation and to facilitate trade settlement of foreign security transactions. Forwards carry market risk resulting from adverse fluctuations in foreign exchange rates. Recognition of realized gain or loss depends on whether the currency exchange rate has moved favorable or unfavorable to the contract holder upon termination of the contract. Prior to termination of the contract, the Group Trust records the unrealized currency translation gain or loss based on the applicable forward exchange rates. Such matching existed at December 31, 2010 and 2009.

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

7. **Obligation Under Reverse Repurchase Agreements**

State statutes permit the Supplemental Plan to enter into reverse repurchase agreements. The credit exposure at year end 2010 and 2009 related to these agreements was \$29,957,000 and \$31,147,000, respectively, in the Group Trust. All sales of investments under reverse repurchase agreements are for fixed terms. In investing the proceeds of reverse repurchase agreements, the Supplemental Plan policy is for the term to maturity of the investment to be the same as the term of the reverse repurchase agreements. Such matching existed at December 31, 2010 and 2009.

8. **Line of Credit**

The Group Trust has a credit agreement with a commercial bank which provides for a revolving line of credit bearing interest at the 30 day floating LIBOR plus 75 basis points at December 31, 2010 and 2009, payable quarterly. At December 31, 2010 and 2009, the Group Trust had borrowed approximately \$344,666,000 and \$340,916,000, respectively, related to the revolving credit line, which provides for a maximum borrowing of \$400,000,000. The revolving credit line was opened on November 1, 2006, and expires on March 31, 2014. The Group Trust and the System also pay a quarterly fee on the unused portion of the line of credit equaling 20 basis points. The line of credit agreement contains various covenants under the terms of the agreement in which the bank may call the line of credit, if the Group Trust is in violation of any restrictive covenants.

**SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS**

Notes to Basic Financial Statements, Continued

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

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

In addition to the line of credit, the Group Trust has an additional loan agreement with the commercial bank bearing interest per annum at the LIBOR rate plus 75 basis points at December 31, 2010 and 2009, payable quarterly. At December 31, 2010 and 2009, the loan balance outstanding was \$37,260,000. The loan is secured by real property and matures on March 31, 2014. The bank loan agreement contains various covenants under the terms of the agreement in which the bank may call the loan if the Group Trust is in violation of any restrictive covenants.

Maturities of debt at December 31 are as follows:

<u>Year</u>	<u>Amount</u>
2012	\$ 80,000,000
2013	-
2014	<u>381,926,000</u>
Total	\$ <u>461,926,000</u>

9. Federal Income Tax Status

A favorable determination that the Supplemental Plan is qualified and exempt from Federal income taxes was received on January 24, 2001, from the Internal Revenue Service (IRS). The Board believes that the Supplemental Plan is designed and continues to operate in compliance with the applicable requirements of the Internal Revenue Code.

10. Administrative Expenses

The Supplemental Plan's plan document authorizes the Board to pay administrative costs from the Supplemental Plan, provided that the Supplemental Plan's actuary has determined that the Supplemental Plan has sufficient income to pay such costs. The Supplemental Plan reimbursed the City for \$148,035 and \$119,159 related to the Supplemental Plan's overall administrative costs during the years ended December 31, 2010 and 2009, respectively.

SUPPLEMENTAL POLICE AND FIRE PENSION PLAN OF THE CITY OF DALLAS

Notes to Basic Financial Statements, Continued

Group Trust investment related expenses for the years ended December 31, 2010 and 2009 also include \$18,040,208 and \$23,530,722, respectively, in asset management fees for the Group Trust.

11. Commitments and Contingencies

As described in note 1, certain members of the Supplemental Plan are entitled to refunds of their accumulated contributions upon termination of employment with the City, prior to being eligible for pension benefits. As of December 31, 2010 and 2009, aggregate contributions from active members of the Supplemental Plan with less than five years of service were \$89,710 and \$67,389, respectively. The Group Trust had outstanding investment commitments to various limited partnerships and international investment advisors of \$422,439,988 and \$398,583,338 at December 31, 2010 and 2009, respectively.

12. Risks and Uncertainties

The Group Trust invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and that such changes, could materially affect the amounts reported in the statements of plan net assets.

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

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

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

13. Subsequent Events

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

REQUIRED SUPPLEMENTAL INFORMATION

**SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS**

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

GASB required supplementary information (unaudited) related to the Supplemental Plan's funding progress is as follows (amounts in thousands):

Schedule of Funding Progress						
Actuarial valuation date	Actuarial value of assets (AVA) (a)	Actuarial accrued liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
1/1/2002	\$ 15,496	21,214	5,718	73 %	\$ 737	776 %
1/1/2003	14,081	22,398	8,317	63 %	858	970 %
1/1/2004	16,950	23,325	6,375	73 %	730	873 %
1/1/2005	18,720	24,496	5,776	76 %	818	706 %
1/1/2006	19,961	26,320	6,409	76 %	928	691 %
1/1/2007	23,314	28,663	5,349	81 %	866	618 %
1/1/2008	25,254	30,098	4,844	84 %	938	516 %
1/1/2009	18,140	32,053	13,913	57 %	1,043	1,334 %
1/1/2010	20,681	33,449	12,768	62 %	1044	1,223 %
1/1/2011	21,119	34,309	13,190	62 %	886	1,488 %

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

Analysis of the dollar amounts of actuarial value of assets, actuarial accrued liability, and unfunded actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the plan is becoming financially stronger or weaker, generally, the greater this percentage, the stronger the plan. Trends in unfunded actuarial accrued liability and covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liability as a percentage of covered payroll approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the plan.

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

**SUPPLEMENTAL POLICE AND FIRE PENSION
PLAN OF THE CITY OF DALLAS**

Schedule of Employer Contributions (Unaudited)

The following table lists required supplementary information (unaudited) related to Employer contributions:

Schedule of Contributions

<u>Year ended December 31,</u>	<u>Annual required contribution</u>	<u>Percentage contributed</u>
2001	\$ 800,000	100 %
2002	900,000	100 %
2003	1,000,000	100 %
2004	1,100,000	100 %
2005	1,200,000	100 %
2006	1,300,000	100 %
2007	1,340,414	100 %
2008	1,243,717	100 %
2009	1,343,717	100 %
2010	1,443,717	100 %

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

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

Contributions were made in accordance with actuarially determined contribution requirements as adopted by the Board.

See accompanying note to required supplemental schedules.

See accompanying independent auditors' report.

SUPPLEMENTAL POLICE AND FIRE PENSION PLAN OF THE CITY OF DALLAS

Note to Required Supplemental Schedules (Unaudited)

The information in the accompanying schedules of required supplemental information were determined as part of the actuarial valuation at the dates indicated. Additional information as of the latest actuarial valuation date of January 1, 2011 and 2010 is as follows:

Actuarially assumed investment rate of return *	8.5% per annum, compounded annually
Mortality, retirement, disability and separation rates	Graduated rates detailed in actuary's report
Actuarial cost method	Entry age normal
Post retirement benefit increases	4% per annum of original pension amount
Asset valuation	Fair market value
Amortization method	Open level fixed %
Remaining amortization period	5 years
DROP account returns	8.5% per annum
Post retirement mortality	1994 Group Annuity Mortality Table

- * Includes inflation rate of 4% and a real rate of return of 4.5%. DROP balances are assumed to earn 8.5% per annum. Total payroll is assumed to increase 4% per year. Overtime is assumed to be 11% of base pay per the January 1, 2011 actuary report and 11% of base pay per the January 1, 2010 actuary report.

The actuarial information presented was determined by the actuarial firm Buck Consultants, Inc. and results from applying various assumptions with regard to termination, disability, retirement, mortality and the time value of money to the accumulated plan benefits.

The actuarial assumptions are based on the presumption that the Supplemental Plan will continue. Were the Supplemental Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated plan benefits.

Actuarial calculations were made by the consulting actuary Buck Consultants, Inc. as of January 1, 2011 and 2010, and are not materially different from what they would have been had they been calculated on December 31, 2010 and 2009, respectively. The above assumptions are used by the Supplemental Plan's actuaries to determine the Supplemental Plan's obligations only, and are not used to calculate the actual Supplemental Plan benefits. Plan benefits are fully described in the Supplemental Plan's document.