

DALLAS POLICE AND FIRE PENSION SYSTEM

Financial Statements and
Required Supplemental Information

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

DALLAS POLICE AND FIRE PENSION SYSTEM

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Dallas Police and Fire Pension System:

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

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

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

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

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 Dallas Police and Fire Pension System's (the System) financial position and performance provides an overview of the System's financial activities for the fiscal years ended December 31, 2010 and 2009. The System is a defined benefit pension plan under Section 401(a) of the Internal Revenue Code. Certain comparative information between the current year and the prior year is required to be presented in the MD&A. The analysis should be read in conjunction with the basic financial statements, notes to the financial statements and required supplemental information.

FINANCIAL STATEMENTS

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

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

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

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

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

CONDENSED FINANCIAL INFORMATION (in thousands)

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED), CONTINUED

FINANCIAL HIGHLIGHTS

- The System's plan net assets increased \$240 million in 2010 and increased \$343 million in 2009. Plan net assets totaled \$3.11 billion at the end of 2010 and \$2.87 billion at the end of 2009. The increase in plan net assets reflects continued recovery in the financial markets in 2010 and 2009.
- The assets of the System and Supplemental Plans are co-invested through a Group Trust, the two plans are separate legal entities. The rate of return on Group Trust investments during 2010 was 11.4% net of fees, compared to a rate of return of 15.7% for 2009. The performance numbers are provided by the System's general investment consultant. The actuarial expected rate of return for both years was 8.5%. The investment return represents continued recovery from 2008 and the early part of 2009 when global financial markets experienced substantial losses. Despite high unemployment rates in the U.S. and distress in Europe's debt markets, the global financial markets finished 2010 with solid gains, returning 12.7% for the year as measured by the MSCI World Index. The System's financial composite, comprised of Global Equity, Global Fixed Income, Global Asset Allocation, and the public portion of Global Natural Resources returned 16.4% net of fees for 2010, outperforming the allocation index by 2.7%. The System's private equity portfolio returned 18.29%, outperforming the public markets as measured by the S&P 500 by 3.19%, and the MSCI World Index by 5.59%. The System's real estate portfolio returned 3.1%, underperforming the NCREIF Property Index by 10%. Longer term, the System's real estate portfolio has outperformed the index by 1.5% and 3.4% during the 3-year and 5-year periods, respectively.
- Liabilities totaled \$55 thousand as of December 31, 2010. Liabilities at December 31, 2009 totaled \$271 thousand. Investment liabilities are incorporated into the Group Trust and reflected within total investments.
- The System received member contributions of \$19.8 million in 2010 and \$19.6 million in 2009 and received employer contributions from the City of Dallas in the amounts of \$108.3 million and \$107.7 million in 2010 and 2009, respectively. The member contributions are 8.5% of computation pay (base pay rate plus education and longevity pays). Total member contributions increased by \$239 thousand, or about 1%, in 2010 compared to 2009 and increased by \$1 million, or about 5%, in 2009 compared to 2008. The employer contributions represent 27.5% of total salary and wages of covered members. Total employer contributions increased by \$564 thousand, or less than 1%, in 2010 compared to 2009 and increased by \$3.3 million, or about 3%, in 2009 compared to 2008.
- The System paid \$169.5 million in service retirement, disability retirement, survivor benefits and DROP disbursements during 2010, compared to payments of \$155.3 million in 2009. The System refunded approximately \$814 thousand and \$771 thousand in contributions to former members in 2010 and 2009, respectively. No changes to benefit provisions were implemented in 2010 or 2009. The increase of \$14.1 million, or 9%, in benefit payments in 2010 compared to 2009 resulted from an increase in the number of benefit recipients, post retirement increases to base benefits and an increase in distributions from DROP. The increase of \$13.2 million, or 9.3%, in benefit payments in 2009 compared to 2008 resulted both from an increase in the number of benefit recipients and annual adjustment increases to base benefits.
- The cost of administering the benefit programs of the System, including administrative costs and professional fees, was \$6.5 million in 2010 compared to \$6.5 million in 2009.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED), CONTINUED

FUNDING PROGRESS

The System contracted with Buck Consultants to conduct an actuarial valuation to determine the actuarial position of the System as of January 1, 2011. The Actuarial Valuation Report indicated that the overall funding of the System remains sound and the current contribution rates are sufficient to keep the System actuarially sound. In preparing the valuation, the actuary uses a smoothing process over a rolling five-year period of investment data to remove year-to-year volatility in asset returns.

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

- The Actuarial Valuation Report shows that the market value of assets increased \$261.1 million during 2010 to \$3.11 billion as of January 1, 2011. The market value of assets increased \$318.5 million during 2009 to \$2.87 billion as of January 1, 2010.
- As of January 1, 2011, the actuarial value of the assets (AVA) increased \$47.9 million during 2010 to a total of \$3.43 billion. As of January 1, 2010, the actuarial value of the assets (AVA) increased \$343.2 million during 2009 to \$3.38 billion.
- As of January 1, 2011, the actuarial accrued liability (AAL), or actuarial value of liabilities, increased during 2010 by \$183.0 million to \$4.32 billion. As of January 1, 2010, the actuarial accrued liabilities (AAL), or actuarial value of liabilities, increased during 2009 by \$255.2 million to \$4.13 billion.
- The ratio of a plan's AVA to AAL, expressed as a percentage, is an indicator of the plan's funding status. Generally, the larger the percentage, the stronger the financial health of the plan. The System's AAL ratio decreased to 79.5% during 2010 compared to 81.8% in 2009.
- When a plan's total liabilities exceed the assets available to pay benefits on an actuarial basis, the plan is said to have an unfunded actuarial accrued liability (UAAL). As of January 1, 2011, the System's UAAL was \$885.5 million, an increase of \$135.1 million from a UAAL of \$750.4 million as of January 1, 2010.
- Another measure of funding status is funding period. This is the length of time in years needed to amortize the current unfunded actuarial accrued liability (UAAL) based on the current contribution rate. As of January 1, 2011, the employer contribution rate of 27.5% covers the normal cost and the amortization of the UAAL over 21 years, compared to 26 years to fund as of the January 1, 2010 valuation. This decrease of 5 years in the number of years to fully fund the System demonstrates the impact on the System's funding status of changes to plan benefits approved by the System's Members in the 2011 Plan Amendment election.

CONTACTING THE SYSTEM'S FINANCIAL MANAGEMENT

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

DALLAS POLICE AND FIRE PENSION SYSTEM

Statements of Plan Net Assets December 31, 2010 and 2009

<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)	\$ <u>3,109,319,678</u>	<u>2,870,025,498</u>
Receivables:		
Employer (note 5)	2,894,319	2,691,600
Member (note 5)	<u>527,697</u>	<u>493,931</u>
Total receivables	<u>3,422,016</u>	<u>3,185,531</u>
Total assets	<u>3,112,741,694</u>	<u>2,873,211,029</u>
 <u>Liabilities and Net Assets</u>		
Administrative expense payable	<u>55,152</u>	<u>270,962</u>
Total liabilities	<u>55,152</u>	<u>270,962</u>
Plan net assets held in trust for pension benefits	<u>\$ 3,112,686,542</u>	<u>2,872,940,067</u>

See accompanying notes to basic financial statements.

DALLAS POLICE AND FIRE PENSION SYSTEM

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

See accompanying notes to basic financial statements.

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements December 31, 2010 and 2009

1. Description of Plan and Summary of Significant Accounting Policies

General

The Dallas Police and Fire Pension System (the System) is a single-employer pension and retirement fund for police officers and firefighters employed by the City of Dallas, Texas (the City or Employer). The general terms "police officers" and "firefighters" also include fire and rescue operators, fire alarm operators, fire inspectors, apprentice police officers, and apprentice firefighters. The System is comprised of a single defined benefit pension plan, called the "Combined Pension Plan," designed to provide retirement, death, and disability benefits for firefighters and police officers (members). The System was originally established under former Article 6243a of the Revised Civil Statutes of Texas, and since 1989, derives its authority to continue in operation under the provisions of Article 6243a-1 of the Revised Civil Statutes of Texas. All active police officers and firefighters (as defined above) employed by the City are required to participate. As of December 31, 2010 and 2009, the System's membership consisted of:

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

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

Pension benefits

Members hired by the City before March 1, 1973 were eligible to be Group A members, all other members hired on or after March 1, 1973 became Group B members.

Group A members of the Combined Pension Plan may elect to receive one of two benefit structures:

- Members with 20 years or more of pension service are entitled to normal monthly pension benefits beginning at age 50 equal to 50% of the base pay as defined as the maximum monthly civil service pay established by the City for a police officer or firefighter at the time of retirement plus 50% of the Longevity Pay the member was receiving at the time he or she left active service with the City or the effective date the member joined the Deferred Retirement Option Plan (DROP). Benefit payments are adjusted according to changes in base pay. Additionally, a member is eligible to receive 50% of the difference between any annualized City Service Incentive Pay granted to the member less annual Longevity Pay. Members who meet the service prerequisite may elect to take early retirement at age 45 with reduced pension benefits.
- Members with 20 years or more of pension service are entitled to normal monthly pension benefits beginning at age 55 equal to 3% of the base pay computed as noted in the prior paragraph for each year with a maximum of 32 years. In addition, a member receives 50% of the Longevity Pay and 1/24 of any City Service Incentive Pay the member was receiving at the time he or she left active service with the City or the effective date the member joined DROP. Pension benefit payments are increased in the same manner as under Group B (described below). Members who meet the service prerequisite may elect to take early retirement at age 50 with reduced pension benefits.

Group B Benefit - Members with five or more years of pension service are entitled to monthly pension benefits beginning at age 50 equal to 3% of the member's average Computation Pay determined over the highest 36 consecutive months of Computation Pay, multiplied by the number of years of pension service, up to a maximum of 32 years. Computation Pay, for purposes of this calculation, includes Civil Service Pay for the highest rank attained by competitive exam and any educational incentive, Longevity or City Service Incentive Pay. Certain members who meet the service prerequisite may elect to take early retirement with reduced benefits starting at age 45. A Group B member who has accrued 20 or more years of Pension Service and who has been on Active Service at any time on or after January 1, 1999 may take a pension benefit regardless of age. The pension benefit calculation would be the same except the percent multiplier would be based on the member's age at the time of applying for the pension. In addition, Group B benefits are increased by 4% of the initial benefit amount each October 1.

Additional benefits available under the System:

- Members with over 20 years of pension service, upon attaining age 55, shall receive a monthly supplement equal to the greater of \$75 or 3% of their total monthly benefits (excluding the benefit supplement amount).
- Disability benefits are available for members who become disabled during the performance of their duties from the first day of employment. Reduced disability benefits are also available for non duty-related disabilities as are survivor benefits for qualified survivors.

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

- Members who are eligible to retire are allowed to enter the DROP program. DROP members have their contribution discontinued but the City's portion of the total contribution continues. The member's monthly benefit remains in the System in a DROP Account and accumulates interest. Upon retirement from the City, the Member is able to withdraw from their DROP Account along with the normal benefits. DROP members' balances are \$928,680,243 and \$811,700,225 at December 31, 2010 and 2009, respectively.
- A minimum benefit is paid to vested retired members of an amount not less than \$2,200 per month subject to any restrictions contained in the System's plan document. The minimum benefit is prorated for members who retire with less than 20 years of service credit and \$1,200 monthly for Qualified Surviving Spouse, if there are no Qualified Surviving Children receiving benefits. The minimum benefit is \$1,100 monthly for Qualified Surviving Children and Qualified Surviving Spouse, if Qualified Surviving Children are receiving benefits.

Contributions

As a condition of participation, Group A members contribute to the System 6.5% of their base pay, as defined in the System's plan document. However, during 2010 and 2009, no member elected contribution under Group A. Group B members are required to contribute to the System 8.5% of their Computation Pay, as defined in the System's plan document. Article 6243a-1 of the Revised Civil Statutes of Texas requires the City to make contributions of 27.5% of total wages and salaries as defined in the System's plan document, in accordance with schedules contained in the plan document.

The contribution schedules contained in the System's plan document can be changed by the Texas State Legislature or majority votes of the voters of the City.

Members of Group B are immediately vested in their member contributions and, with five years of pension service may, at termination of employment, leave their contribution on deposit with the System and receive a monthly benefit at normal retirement age. If a member's employment is terminated and is not eligible for a future benefit or the member elects not to receive present or future pension benefits, the member's contributions to the System are returned, without interest, upon written application. If application for refund is not made within three years, the member who is not eligible for a future benefit forfeits the right to a refund of his or her contribution; however, a procedure does exist whereby the member's right to the contributions can be reinstated. Under current law, Group A members must have 20 years of service to be eligible for a benefit. Group A member contributions are not refunded upon termination from employment.

Termination

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

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

System administration

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

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

Basis of presentation

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

Basis of accounting

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

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

Reporting entity

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

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

Use of estimates

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

Cash and cash equivalents

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

Plan interest in Group Master Trust

Beginning January 1, 2006, the System's investments are held in the Group Trust. JPMorgan Chase served as custodian for the years ended December 31, 2010 and 2009. The fair value of the System's interest in the Group Trust is based on the unitized interest that it has in the Group Trust. The System's interest in the Group Trust was approximately 99.385% and 99.285% at December 31, 2010 and 2009, respectively. The allocation of investment income and administrative expenses between the System and the Supplemental Plan is based on the number of units owned of the Group Trust. Benefits, contributions and administrative expenses are allocated to each plan directly.

Investment valuation and income recognition

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

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

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

Benefits

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

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

Foreign currency transactions

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

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

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

Administrative expenses

The cost of administering the System is paid by the System from current earnings pursuant to an annual fiscal budget approved by the Board.

Recent accounting pronouncements

GASB Statement No. 59, *Financial Instruments Omnibus*

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

GASB Statement No. 59 amends the following pronouncements:

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

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

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

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

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

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

2. **Cash and Cash Equivalents**

For cash deposits and cash equivalents, custodial credit risk is the risk that in the event of a bank failure, the Group Trust's and the System's deposits may not be returned to it. The Group Trust's and the System's deposits are held by the custodian, JPMorgan Chase. As of December 31, 2010 and 2009, the Group Trust and the System had bank balances of \$4,164,365 and \$4,362,318, respectively, that are in demand deposit accounts subject to coverage by the Federal Deposit Insurance Corporation, but not collateralized. The Group Trust and the System do not have a deposit policy for custodial credit risk; however, management believes that the Group Trust's and the System's credit risk exposure is mitigated by the financial strength of the banking institution in which the deposits are held.

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

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

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

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

	<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>

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

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

	<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>

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

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

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

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

Concentration of credit risk

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

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

Significant guidelines are as follows:

Public market investments

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

Alternative and real estate investments

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

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

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

Interest rate risk and foreign currency risk

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

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

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

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

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

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

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

Credit risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Group Trust does not have a formal policy limiting investment credit risk, but rather mandates such limits within the Investment Management Services Contract. The Group Trust's exposure to investment credit risk in fixed income securities as of December 31, 2010 is as follows:

Type	S & P Rating	Amount	Percentage of holding		Moody Rating	Amount	Percentage of holding
Corporate securities:							
Convertible bonds:							
	B+	\$ 408,287	0.09%	Mortgage bonds:			
	B	3,901,369	0.87%		AAA	701,055	0.16%
	CCC	549,450	0.12%		AA	637,960	0.14%
	NR	<u>4,859,106</u>	<u>1.09%</u>		A+	561,706	0.13%
Total convertible bonds					BB-	448,265	0.10%
Corporate bonds:							
	AAA	9,785,936	2.19%		B	850,467	0.19%
	AA+	3,387,698	0.76%		B-	-	0.00%
	AA	1,305,134	0.29%		CCC	440,909	0.10%
	AA-	7,851,599	1.76%	Total mortgage bonds	NR	<u>4,890,881</u>	<u>1.09%</u>
	A+	3,820,428	0.85%			<u>8,531,243</u>	<u>1.91%</u>
	A	4,654,578	1.04%				
	A-	3,384,766	0.76%	Investment fund	NR	-	0.00%
	BBB+	6,954,770	1.56%	Total investment fund		-	0.00%
	BBB	8,742,575	1.95%				
	BBB-	9,302,387	2.08%	Total corporate securities		<u>308,380,209</u>	<u>68.96%</u>
	BB	21,203,907	4.74%				
	BB-	27,731,142	6.20%	Government sponsored enterprises			
	B+	29,714,678	6.64%		AAA	1,161,739	0.26%
	B	24,946,870	5.58%		NR	<u>1,161,739</u>	<u>0.26%</u>
	B-	12,903,121	2.89%	Foreign securities:			
	CCC+	13,509,950	3.02%	Government bonds:			
	CCC	5,396,812	1.21%		AAA	34,197,914	7.65%
	CCC-	7,202,719	1.61%		AA+	2,528,449	0.57%
	CC	695,588	0.16%		AA	19,013,230	4.25%
	C	-	0.00%		AA-	2,420,395	0.54%
	D	2,252,325	0.50%		A+	5,614,985	1.26%
	NR	<u>90,242,877</u>	<u>20.18%</u>		A	16,955,624	3.79%
Total corporate bonds		<u>294,989,860</u>	<u>65.96%</u>		A-	3,424,310	0.77%
					BBB+	589,119	0.13%
					BBB	944,052	0.21%
					BBB-	1,505,186	0.34%
					BB+	226,758	0.05%
					BB-	68,754	0.02%
					B	-	0.00%
					D	-	0.00%
				Total government bonds	NR	<u>13,869,732</u>	<u>3.10%</u>
						<u>101,358,508</u>	<u>22.67%</u>
				United States government securities			0.00%
				Treasury Note	AAA	13,720,331	3.07%
				Total U.S. government securities		<u>13,720,331</u>	<u>3.07%</u>
				Municipal bonds	A+	693,651	0.16%
					NR	760,000	0.17%
						<u>1,453,651</u>	<u>0.33%</u>
				Commingled	NR	21,127,562	4.72%
				Total credit risk debt securities		<u>\$ 447,202,000</u>	<u>100.00%</u>

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

4. Securities Lending

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

During 2010 and 2009, JPMorgan lent, on behalf of the Group Trust, securities held by JPMorgan as the Group Trust's custodian, and received United States dollar cash and United States Government securities as collateral. JPMorgan did not have the ability to pledge or sell collateral securities absent a borrower default. Borrowers were required to put up collateral for each loan equal to: (i) in the case of loaned securities denominated in United States dollars or whose primary trading market was in the United States or sovereign debt issued by foreign governments, 102% of the fair market value of the loaned securities; and (ii) in the case of loaned securities not denominated in United States dollars or whose primary trading market was not in the United States, 105% of the fair market value of the loaned securities.

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

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

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

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

5. Contributions Required and Contributions Made

Funding policy

Contribution rates are established to remain level over time as a percentage of members' salaries. The contribution rate has been determined to provide for normal cost plus the level percentage of members' salaries required to amortize the unfunded actuarial accrued liability (or surplus) over 33 years as of January 1, 2010 compared to 14 years as of January 1, 2009.

The required contribution rate of the City, pursuant to an actuarial study effective January 1, 2011, consists of 16.70% of covered members' salaries to pay normal costs, 12.84% of covered members' salaries to amortize its funding deficit over 21 years, and by (2.04)% of covered members' salaries for an additional amortization requirement resulting in a net contribution rate of 27.5%. The City is required to contribute at a rate that has been actuarially determined and adopted by the Board.

In 2010 and 2009, combined police officers, firefighters and City contributions represent approximately 8.5 % and 27.5%, respectively, of each year's covered payroll. State law requires that the System fund the plan benefits based on an approved actuarial study. The actuary must certify that the contribution commitment by police officers, firefighters and the City provides an adequate financing arrangement. During 2010 and 2009, contributions were made in accordance with the adopted plans of benefits approved by the System's actuary.

Funded status

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

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

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

Investment rate of return	8.5% per year, compounded annually
General inflation rate	4% per year
Mortality, retirement, disability and separation rates	Graduated rates
Actuarial cost method	Entry age normal cost method
Post retirement benefit increases:	
Group A (former Plan A) and Group B	4% per year of original pension annually
Group A (former Old Plan) members	4% compounded annually
Asset valuation	5-year smoothing
Amortization method	Open level percent of payroll
Remaining amortization period	21 years
DROP account returns	8.5% per year
Post retirement mortality	1994 Group Annuity Mortality Table

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

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

Historical trend information

Historical trend information is provided as supplemental information on pages 28 through 30. This information is intended to demonstrate progress the System has made in accumulating sufficient assets to pay benefits when due and the related actuarial assumptions used in determining the actuarially determined amounts.

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

6. Forward Contracts

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

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

7. Obligation Under Reverse Repurchase Agreements

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

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

8. Line of Credit and Other Bank Loans

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

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

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

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

Maturities of debt at December 31 are as follows:

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

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

10. Administrative Expenses

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

Group Trust investment related expenses for the years ended December 31, 2010 and 2009 also include \$18,040,207 and \$23,530,722, respectively, in asset management fees for the Group Trust.

11. Commitments and Contingencies

As described in note 1, certain members of the System are entitled to refunds of their accumulated contributions upon termination of employment with the City, prior to being eligible for pension benefits. As of December 31, 2010 and 2009, aggregate contributions from active members of the System with less than five years of service were \$13,878,101 and \$11,130,286, respectively,

The Group Trust had outstanding investment commitments to various limited partnerships and international investment advisors of \$422,439,988 and \$398,583,338 at December 31, 2010 and 2009, respectively.

12. Deferred Compensation Plans

The System offers its employees a deferred compensation plan (the DCP) created in accordance with Internal Revenue Code Section 457. The DCP, available to all employees of the System, permits employees to defer a portion of their salary until future years. Distributions from the DCP are not available to employees until termination, retirement, death or unforeseeable emergency. The DCP has a third party administrator, ING Retirement Services (ING) and the cost of administration and funding are borne by the DCP participants. Amounts deferred are held in trust by ING and since the System had no fiduciary responsibility for the DCP, these amounts are not reflected in the accompanying basic financial statements in accordance with GASB Statement No. 32.

The System also offers its employees a money purchase pension plan (MPP) created in accordance with Internal Revenue code Section 401. The plan is available to employees of the System that are not considered an employee of the City. Participation in the plan is with the performance of one hour of service and termination from the plan is upon employment termination. Employees are allowed to make after tax contributions, not to exceed IRS Code limitations. System contributions equal a percentage of the employee's compensation that is equal to the contributed amount the City makes on behalf of a System participant. During 2010 and 2009, the System contributed \$330,002 and \$270,731, respectively. The MPP has a third party administrator, ING, Inc., and the cost of administration and funding are borne by the MPP participants. Amounts deferred are held in trust by ING and since the System had no fiduciary responsibility for the MPP, these amounts are not reflected in the accompanying financial statements in accordance with GASB Statement No. 32.

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Basic Financial Statements, Continued

13. Risks and Uncertainties

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

The System contribution rates and the actuarial information included in the schedule of employer contributions, page 29, and schedule of funding progress, page 28, are based on certain assumptions pertaining to interest rates, inflation rates and participant demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term could be material to the basic financial statements.

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

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

14. Subsequent Events

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

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

REQUIRED SUPPLEMENTAL INFORMATION

DALLAS POLICE AND FIRE PENSION SYSTEM

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

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

Schedule of Funding Progress						
Actuarial valuation date	Actuarial value of assets (AVA) (a)	Actuarial accrued liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
1/1/2002	\$ 2,158	2,554	396	84.5 %	\$251	157.8 %
1/1/2003	1,992	2,738	746	72.8 %	270	276.3 %
1/1/2004	2,286	2,889	603	79.1 %	265	227.5 %
1/1/2005	2,485	3,074	589	80.8 %	282	208.9 %
1/1/2006	2,700	3,282	582	82.3 %	295	197.3 %
1/1/2007	2,962	3,371	409	87.9 %	306	133.7 %
1/1/2008	3,259	3,644	385	89.4 %	321	119.9 %
1/1/2009	3,040	3,878	838	78.4 %	348	240.8 %
1/1/2010	3,383	4,133	750	81.8 %	367	204.4 %
1/1/2011	3,431	4,316	885	79.5 %	365	242.5 %

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

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

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

DALLAS POLICE AND FIRE PENSION SYSTEM

Schedule of Employer Contributions (Unaudited)
(dollars in thousands)

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

<u>Schedule of Contributions</u>		
<u>Year ended December 31,</u>	<u>Annual required contribution</u>	<u>Percentage contributed</u>
2001	\$ 75,592	100%
2002	77,085	100%
2003	78,323	100%
2004	83,291	100%
2005	87,373	100%
2006	91,653	100%
2007	97,762	100%
2008	104,373	100%
2009	107,669	100%
2010	108,264	100%

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

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

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

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

DALLAS POLICE AND FIRE PENSION SYSTEM

Note to Required Supplemental Schedules (Unaudited)

The information presented in the required supplemental schedules was determined as part of the actuarial valuations at the dates indicated. The significant assumptions underlying the actuarial calculations at January 1, 2011 and 2010 are as follows:

Actuarially assumed investment rate of return *	8.5% per annum, compounded annually
Mortality, retirement, disability and separation rates	Graduated rates detailed in actuary's report
Projected salary increases **	Range of 4% to 9.64%
Actuarial cost method	Entry age normal cost method
Post retirement benefit increases:	
Group A (former Plan A) and Group B members	4% of original pension annually
Group A (former Old Plan) members	4% compounded annually
Asset valuation	5-year smoothing
Amortization method	Open level percent of payroll
Remaining amortization period	21 years in 2011 actuary report 26 years in 2010 actuary report
DROP account returns	8% per annum 2011 and 9% per annum 2010
Post retirement mortality	1994 Group Annuity Mortality Table

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

The actuarial assumptions are based on the presumption that the System will continue. Were the System to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated plan benefits. The actuarial assumptions incorporate amendments made to the plan provisions through February 17, 2011.

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

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

** Includes inflation rate of 4%.