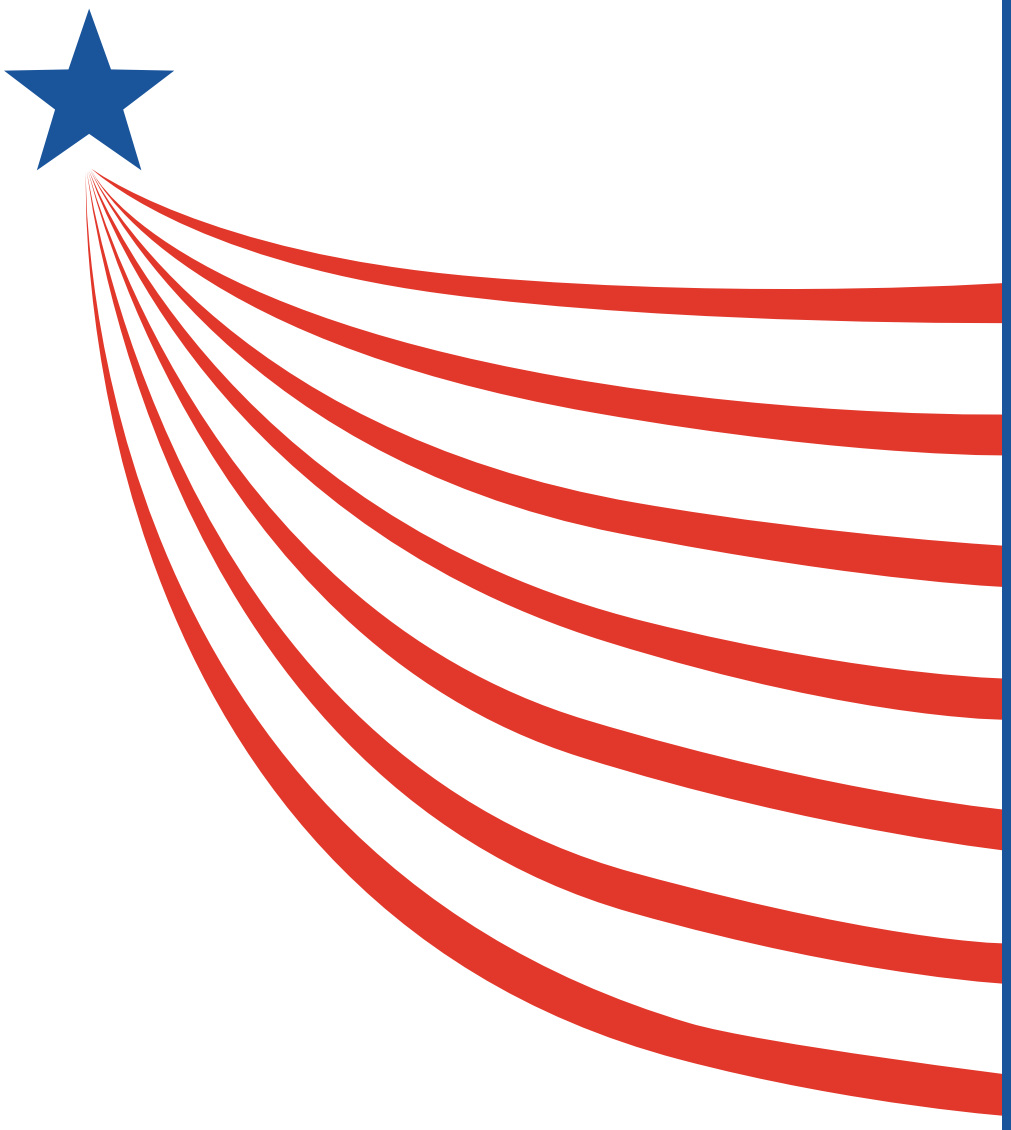
DALLAS
POLICE & FIRE
PENSION SYSTEM



Comprehensive Annual 2001 Financial Report

2001 at a Glance

Statistical Highlights

The Dallas Police and Fire Pension System provides retirement, disability and survivor benefits to the Police Officers and Firefighters of the City of Dallas. The System has had a steady growth in both its membership and its assets since it was founded in 1916.

Participants

Active Members Contributing = 4,560

Benefit Recipients = 2,813

Total Participants = 7,373

Service Retirements Added

Police = 63

Fire = 40

Total = 103

Disability Retirements Added

Police = 2

Fire = 2

Total = 4

Fund Assets at Market Value = $1,888,386,893

Benefits Paid = $83,442,133

Member Contributions (Net of Refunds) = $15,158,753

City Contributions = $75,592,062

Comprehensive Annual Financial Report of the Dallas Police and Fire Pension System

and

Financial Statements of the Police and Fire Supplemental Pension Fund of the City of Dallas

for the Year Ending December 31, 2001

Richard L. Tettamant, Administrator
Dallas Police and Fire Pension System
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Dallas, Texas 75201
214.638.3863 or 1.800.638.3861

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Photo courtesy of the *Dallas Morning News*

Photo courtesy of the *Dallas Morning News*

Honorable Mayor, Members of the City Council, and Members of the Dallas Police and Fire Pension System:

The Board of Trustees and staff of the Dallas Police and Fire Pension System (the System) are pleased to present the 2001 Annual Report. This annual report is intended to provide complete and reliable information regarding the financial performance of the System and a means to measure the responsible stewardship of the System's assets.

The events of September 11, 2001, have renewed the country's sense of appreciation for the public servants who frequently and regularly risk their lives for the safety of all of us. This annual report is dedicated as a tribute to the heroic and unselfish acts of our Police and Firefighter brothers and sisters in Dallas, the State of Texas, and throughout our great country.

In addition to this introductory message, this annual report consists of six other sections. The "Year 2001 in Review" section highlights the System's operations and programs, summarizes significant developments during the year, and provides a list of professional service providers. The "Statistics" section of this report lists significant events in the System's modern history and shows pertinent financial and demographic information in graphic form. Both current and historical data is presented. The "Administrative" section lists current and past Trustees, identifies System staff members, and provides an organizational chart.

The complete *Actuarial Valuation* and *Audited Financial Reports* of the System are included in separate sections of this annual report. The *Actuarial Valuation* was performed by Buck Consultants, Inc., as of January 1, 2002, and indicates that, through proper management and prudent investment practices, the overall funding of the System remains financially sound. The current contribution rate, from both the employees and the City, covers the cost of current benefits and the amortization of the Unfunded Actuarial Accrued Liability over a 19-year period.

The financial reports and notes were audited by KPMG and include all recent Governmental Accounting Standards Board rulings. Except where noted, Wilshire Associates and the Townsend Group provided the investment performance data included in this report. During the year ended December 31, 2001, both the Pension System and the Supplemental Fund remained broadly diversified with investments in equities and fixed income, and real estate. The total rate of return on investments for the year was -6.74%.

The final section of this annual report presents the *2001 Actuarial Valuation* and *2001 Audit Report* for the Supplemental Police and Fire Pension Fund.

The management of the System is responsible for maintaining a system of adequate internal controls. These controls are designed to provide reasonable assurance that the assets are protected and that financial transactions are executed in accordance with Board policy and federal, state, and local laws and regulations. Additionally, the controls provide assurance regarding management's responsibility to the System and facilitate the timely preparation of financial statements in accordance with generally accepted accounting principles.

Shortly after the close of 2001, the System uncovered theft of System funds by one employee. An audit confirmed the net loss at $9,767.72. It is important to note that the controls implemented to assure the integrity of the System assets worked to identify the problem. The Board of Trustees and staff immediately dealt with the situation and have further

strengthened these controls to minimize the chance of a recurrence of theft. The Pension System remains safe, and we are confident that the System's internal controls will continue to safeguard your pension.

Although 2001 was a year of turbulence in the financial markets, the System maintained its excellent financial condition through diversification and sound management. The Board of Trustees and the staff are dedicated to maintaining and enhancing the strength and integrity of the System.

The Board of Trustees and the pension staff realize that our primary commitment to our Members is to maintain the excellent financial condition of the Pension System. We will continue to do our best to:

"Serve those who protect the Dallas community."

Respectfully submitted,

Gerald Brown
Chairman of the Board of Trustees

Richard L. Tettamant
Administrator

Photo courtesy of the *Dallas Morning News*

Photo courtesy of the Dallas Police Department

Year 2001 in Review

The year 2001 was a year of continued success and stability of the Pension System. Amendments to the Combined Pension Plan provided benefit enhancements and greater flexibility to Members. The membership increased slightly and activity continued to increase in both the number of Members participating in the Deferred Retirement Option Plan (DROP) and the assets in DROP accounts. The System acquired a four-story office building situated north of downtown Dallas on North Akard Street at the intersection of Cedar Springs Road. The System office occupies the second floor of the building, with the Board Room and Conference Center located on the first floor. Two new Pensioner Trustees joined the Board, as authorized by an amendment passed by the membership in 2000.

The Pension System continued to outperform most large public retirement funds. As a result of the downturn in the markets, the market value of System assets fell slightly during 2001. However, the actuarial value of plan assets continued to increase and the overall financial picture of the Pension System remains strong. The number of years needed to fully fund the Plan increased by two years.

We discuss these topics in further detail in the remainder of this Report. For a review of the Combined Pension Plan provisions, see the "Actuarial Valuation" and the "Notes to Financial Statements." You may obtain more information on the Pension System's Web site at *www.dpfp.org*.

Board of Trustees

The Board of Trustees is composed of 12 positions. Three are elected from the membership of the Police Department, three are elected from the Fire Department membership, one is elected by retired Police Officers, one by retired Firefighters, and the City Council appoints four City Councilmembers to the Board. The two pensioner trustee positions were established by a plan amendment approved by the membership in 2000. In an election held in the Spring of 2001, John Mays, a retired Police Officer, and Richard Wachsman, a retired Firefighter, were elected to fill these positions. Their terms became effective June 1, 2001.

City Councilmembers John Loza and Mary Poss left the Board during 2001. The System appreciates the exceptional service of Councilmembers Poss and Loza during their tenures on the Board.

Administrative Staff

The administrative staff of the System performs the day-to-day operations of the System. The System had 12 employees on staff at the end of 2000, and had grown to 19 staff members at the end of 2001. The administrative team will grow to 22 when all positions approved by the Board are filled. This growth is allowing the staff to better serve the needs of our Members, and the entire staff is committed to providing exceptional service to our Members. The staff's main functions are (i) payment of benefits, (ii) audit and control, (iii) Member communications, (iv) counseling, (v) legal, (vi) review and monitoring of investments, (vii) coordination with professional service providers, and (viii) staff support to the Board.

Professional Service Providers

To continue its efforts to ensure safe and sound pension benefits and investment administration, the Board of Trustees has retained the services of many professional consultants and advisors. These professionals assist the Board in making the decisions that affect the System's investment performance as well as the administration and maintenance of benefit programs. The table on the next page lists the firms that the Board of Trustees has engaged and the areas of expertise that they provide the System.

Professional Service Providers

Investment Advisors

AEW Capital Management
Alliance Capital Management, Inc.
Bank of Ireland Asset Management
Crow Holdings
Deutsche Asset Management
Forest Investment Associates
Hancock Agricultural Investment Group
Hearthstone Advisors
Heitman Capital Management
W. R. Huff Asset Management
INVESCO Realty Advisors
Kennedy Associates Real Estate Counsel
L & B Real Estate Counsel
Lone Star Partners
Loomis, Sayles & Company
Mitchell Group
North Texas Investment Advisors, LLC
Oak Associates
Oaktree Capital Management
Olympus Real Estate Partners
Prudential Asset Management
RREEF
State Street Global Advisors

Actuary

Buck Consultants, Inc.

Auditor

KPMG, LLP

Custodian Bank

State Street Bank and Trust Company

Investment Consultants

Russell Real Estate Advisors
The Townsend Group
Wilshire Associates Inc.

Performance Measurement Consultants

Financial Control Systems, Inc.

Legal Advisors

Dallas City Attorney's Office
Lawson, Fields, McCue, Lee and Campbell, PC

Member Programs

PREP

During 2001, the System's Member programs continued to be successful. Four day-long seminars for the very popular Pre-Retirement Education Program (PREP) were held with almost 300 Members and spouses attending. PREP assembles many professionals in addition to our staff to provide our Members with information in their areas of expertise at these educational seminars. We would like to thank all of the PREP speakers, including Tom Clark of the Social Security Administration; Lonzie Greene of the City of Dallas Health Benefits Division; Neil "Doc" Gallagher of Gallagher Financial Group, Inc.; Evaleen Davis, Attorney; Gary Lawson, Attorney; and Denny Burris and Ike Moore, Fire Department Chaplains. In addition, Deborah Plashko (Fidelity Investments) of the 401(k) program and Justin Liptrot (Great West Life Insurance) of the 457 Deferred Compensation Program presented information on their respective programs.

The PREP programs were held at the Police Academy during 2001, and we appreciate the help of the dedicated team there that worked with us. We also thank the entire Pension System staff for their efforts in making PREP a success.

DROP

The DROP (Deferred Retirement Option Plan) program began in 1993 and added a new dimension to retirement planning by providing participants with another opportunity to save for their retirement years. DROP continues to be an attractive option to Members. A total of 1,204 Active Members and Pensioners participate in the program. This includes 68 Pensioners who have deferred their benefit payments and continue to accumulate funds in their DROP accounts even though they have left active service.

At the end of 2001, total retirement funds in our DROP program totaled $185 million.

Communications

The Board and staff continued to place great emphasis on meaningful communications with our membership. In 2001, 12 monthly newsletters were sent to active Members, and 12 newsletters were mailed to pensioners. System staff also mailed several other communications to Members on issues such as the Amendment Election.

The Board of Trustees conducted a survey of the Active and Pensioner membership in April 2001. Responses from more than 1,400 Members provided important information regarding the Members' understanding of and satisfaction with Pension System operations and benefits. The Board relied heavily on the survey results to determine the items included in the 2001 plan amendment election, and System staff used the responses as a guide to improving Member communications.

The Internet's role in our communications efforts continues to grow, and our Members' access of our Web site has increased. Via our Internet site, you can now view agendas and minutes of Board meetings. You also may follow the progress and learn the results of issues such as elections, and you may access current and back issues of System publications. We strive to keep the Web site interesting and informative. Our Internet address is *www.dpfp.org*. You may reach System staff by e-mail at *info@dpfp.org*.

Investment Highlights

The beginning of a domestic recession and the events of September 11 weighed heavily on the financial markets in 2001. During the year, the market value of the System went from $2.04 billion at December 31, 2000 to $1.9 billion as of December 31, 2001. The System's 2001 investment return of -6.74% fell below the 8.50% interest rate that the Pension System expects to earn during an extended period into the future.

Despite the current market challenges, however, the System's policy of diversification through the use of multiple managers employing different investment styles continues to produce strong long-term performance. The System's investment performance ranks among the top 25% of large public retirement funds for the last 10 years. The System's long-term performance continues to outpace the actuarial rate of 8.50%. Annualized over the last 20 years, the return has been 12.35% as shown in the "Annualized Cumulative Investment Return" graph in the "Statistics" section.

Equity Portfolio

For the second year in a row, large capitalization value style investing outperformed large market capitalization growth in the United States. The *Wilshire Large Value Index* returned -8.17% versus the *Wilshire Large Growth Index* that returned -20.35%. Small stocks outperformed large stocks as evidenced by the *Wilshire Small Cap 1750* return of -0.25% versus the *Wilshire Large Cap 750* return of -12.77%. International stocks tracked by the *Morgan Stanley Capital International (MSCI) All Country World Index excluding the United States (ACWI ex U.S.)* returned -19.50%, performing under the domestic *S&P 500 Index* that returned -11.88%.

The System's domestic equity portfolio outperformed its performance benchmark, the *S&P 500 Index,* by 2.00% for the year (-9.88% vs. -11.88%) due largely to the outstanding performance by the Deutsche Bank Micro-Cap team, which returned 20.65% for the year. In addition, the Micro-Cap team has returned 30.10% annualized as a manager for the System since March 1999. The System's value manager returned 3.26% versus the *Richards Tierney Large Value Index* of 3.87%.

For the last five years, the System's equity investment managers produced a 14.19% annualized return, beating both the annualized *S&P 500 Index* at 10.70% and the annualized *Wilshire 5000 Index* at 9.70% by impressive margins.

Fixed Income Portfolio

Fixed income markets benefited from concerns in the other markets, a strong U.S. dollar, and a recession that is now officially recognized as beginning in March 2001. Despite the events of September 11, the high-grade domestic bond market as represented by the *Lehman Aggregate Index* returned 8.44%. The high-yield market as evidenced by the *Credit Suisse First Boston (CSFB) High Yield Index* returned 5.78%. High-grade bonds outperformed high-yield bonds by 2.66% in 2001.

The System's fixed income holdings represent approximately 27% of the entire portfolio and are divided in three categories: Domestic High Yield, Global Quality, and Global Opportunistic. The Domestic High Yield underperformed its benchmark, the *Salomon Smith Barney (SSB) High Yield Index* plus 1.50%, by 5.05% (1.38% vs. 6.43%). The Domestic High Yield manager, W. R. Huff, has exceeded the *SSB High Yield Index* plus 1.50% by 0.38% annualized since inception of December 1990 (12.81% vs. 12.43%). The Global Quality portfolio returned 0.56% for the year and underperformed its global benchmark that returned 3.89%. The Global Quality portfolio is measured against a custom benchmark consisting of a 50% weight to the *SSB Non-U.S. Government Bond Index* and 50% weight to the domestic *Lehman Aggregate* plus 1.50%. The Global Opportunistic portfolio returned -4.88% for the year underperforming various custom indices. The category for Global Opportunistic has performed well over time. Since September 1998 when an additional manager was added to the category, Global Opportunistic has returned an annualized 10.20%. W. R. Huff's management in the Global Opportunistic portfolio has produced 32.33% annualized returns since 1994.

International Portfolio

International equity markets were in a difficult environment where the prolonged effects of a weak technology sector, the beginnings of recession in many countries, and the effects of September 11, 2001, weakened overseas investments. In addition, the safe haven for global currencies continued to be the strong U.S. dollar. The System's large capitalization international manager returned -19.29%, underperforming the performance benchmark that returned -17.01% by 2.28%. The benchmark is the *MSCI All Country World Index ex United States* plus 2.50%. The System's emerging market manager returned -2.25% against the benchmark of -0.37% for the year. The emerging market's benchmark is the *MSCI Emerging Markets Free Index* plus 2.0%. The System's international index manager returned -21.52% in line with the *MSCI Europe Far East (EAFE) Provisional Index,* which returned -21.45%.

Real Estate Portfolio

Real Estate had an outstanding year returning 6.63%, 3.88% greater than the *Wilshire Real Estate Fund* benchmark of 2.75%. RREEF, the System's Real Estate Investment Trust (REIT) manager, returned 14.91%. Another of the System's managers, Lone Star Partners, managed distressed real estate debt for the System and two of their funds, *Lone Star Fund II* and *Lone Star Fund III,* turned in outstanding performances of 26.16% and 31.85% respectively. INVESCO, one of the System's real estate managers, has had exceptional performance returning 25.52% annualized for five years. The total real estate portfolio continues to perform well for the System by obtaining 10.58% and 10.42% annualized performances for three-year and five-year periods respectively.

Inflation

Inflation as measured by the Consumer Price Index for All Urban Consumers (CPI-U), reported by the U.S. Department of Labor, decreased from 3.4% in 2000 to 1.6% for 2001.

Contributions

The combination of Member and City contributions, along with an outstanding record of investment performance, has led to the excellent financial condition of the Pension System. Members contribute a percentage of their compensation to the System, along with statutory contributions from the City, under the provisions of Article 6243a-1 of the Revised Civil Statutes of Texas. Neither Members nor the City (for Pension System Members) make any retirement contributions to the Social Security program.

During 2001, the Pension System received $15.2 million in contributions from Members of the System (less refunds) and $75.6 million from the City of Dallas on behalf of Members.

Actuarial Valuation

The complete *Actuarial Valuation* for the Pension System is included in this annual report. The report shows that the market value has decreased from $2.04 billion in the January 1, 2001, valuation to $1.9 billion in the current (January 1, 2002) valuation. The actuarial value of the assets, however, has increased from $2.01 billion to $2.16 billion during the same period. The actuarial value is calculated using a smoothing process over five years of investment data to remove year-to-year volatility in asset returns. The actuarial accrued liability ratio has changed from 86.1% to 84.5%. The Pension System's funding plan is still on track and moving toward being fully funded.

The actuarial valuation reflects benefit and contribution provisions approved by the membership in the 2001 Amendment Election and certified by the Board. The only change that had a material effect on the Plan was the increase in minimum benefits. Although the method of calculating the DROP interest rate was changed, the change had no effect on actuarial valuation results.

These changes are reviewed in more detail in the "Actuarial Valuation" section of this annual report. Other changes made to the System had no material effect on the valuation results. See the "Plan Amendments" section on the following page for a complete list of Plan amendments approved during the year 2001.

Due to the impact of a weak economy on investment performance and the benefit improvements approved by the membership, the number of years to fund the Plan increased slightly from 17 to 19 years. The overall funding of the Plan remains sound.

Plan Membership

The Dallas Police and Fire Pension System provides comprehensive retirement, death, and disability benefits for the City's 7,373 Police Officers, Firefighters, Pensioners, and their beneficiaries. During 2001, the System experienced a normal number of retirements and a slight increase in active membership. As of December 31, 2001, 1,660 Firefighters and 2,900 Police Officers were Members of the Pension System. The total of 4,560 active Members reflects an increase over last year's total of 4,477 (20 more Firefighters and 63 more Police Officers). The "Membership of the System" chart in the "Statistics" section of this report provides an analysis of the membership by length of service. The average Firefighter is 42.39 years of age and has 16.78 years of service with the City of Dallas. The average Police Officer is 40.15 years of age and has 14.21 years of service.

The number of DROP participants still in active service was 860 during 2001, an increase of 52. The average DROP participant still in active service is 53.69 years of age with 27.72 years of pension service. The DROP accounts, including amounts deferred by Pensioners, totaled $184.9 million as of December 31, 2001. The average age at which members enter DROP is 50.3 years of age.

The System included 1,912 Pensioners, 228 disabled Members, and 673 beneficiaries at the end of 2001. More than $83.4 million was paid to 2,813 total benefit recipients. The history of growth in the number of pension recipients is included in the "Pensioners, Disabilities, and Survivors" chart in the "Statistics" section.

Plan Amendments

The Board of Trustees met on November 8, 2001, and called for an election to make certain amendments to the Combined Pension Plan. The election, held December 6-17, 2001, included the following amendments:

1) Allow payroll deductions for Pension Service purchase on a pre-tax basis.
2) Allow rollovers for Pension Service purchases with pre-tax dollars.
3) Permit partial Pension Service purchases.
4) Provide a non-service disability pension for a person disabled while on military leave of absence.
5) Provide a 100% joint and survivor annuity option.
6) Increase pensioner and qualified survivor minimum benefits.
7) Increase DROP interest, and base future changes on System's 10-year investment return.
8) Require special elections to fill vacant trustee positions.
9) Make Combined Pension Plan technical and grammatical language revisions.

All of the amendments passed and became a part of the Combined Pension Plan.

Legislation

The year 2001 finally saw the passage of federal legislation to improve pension portability. The changes, long awaited and supported by the System, were incorporated into the Plan amendments passed by the Membership in December. During 2001, the System, along with other public retirement systems and organizations, also successfully continued efforts to educate legislators in the U.S. Congress about the general opposition by public retirement plans to mandatory or universal Social Security coverage. The Board believes that legislation that would mandate Social Security coverage for all public employees would be bad public policy, would do little to correct any perceived shortcomings in the Social Security program, and would potentially jeopardize public pension plans. This effort has thus far been successful in that current plans for changing Social Security do not include mandatory provisions. The System's involvement in this activity will be ongoing.

Revenue and Expenses

Revenues received by the System are used to fund current and future benefits for System Members and their beneficiaries. Revenues for 2001 totaled $138.8 million before depreciation in fair value of investments, and -$51.9 million after the reduction in the fair value of investments. Revenues came from the following sources: investment income including gains and losses from investment activities (-$144.1 million), city contributions ($75.6 million), employee contributions ($16.1 million), and other income ($0.4 million).

Expenses consisted of benefits to retired Members and their qualified beneficiaries, refunds of contributions to former Members, fees for professional services, and the cost of administering the programs of the System. Total expenses for 2001 were $99.4 million and consisted of the following: benefit payments 83.9%, administrative and professional service fees 15.1%, and refunds 1.0%. Administrative and professional service fees totaled $15.0 million, or 0.79%, of the total assets of the System.

Summary

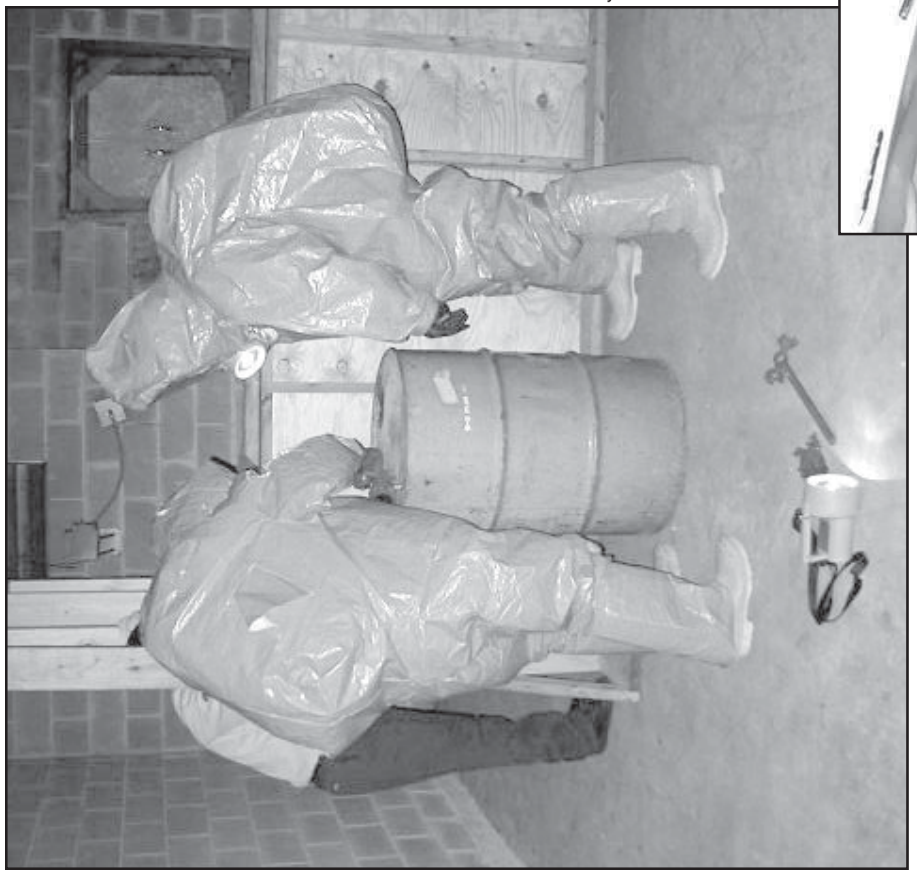
Pension System assets, membership, and programs remain strong. Participation in the DROP program continued to increase. The System's communications efforts continued to improve.

The investment performance of the System is rated among the top of all public pension plans. Despite the reduced investment performance from recent years, the years and actual dollars needed to fully fund the Plan increased only slightly during 2001, and the System's funding progress remains on track.

As always, the Board of Trustees and staff welcome your comments. We appreciate your support and the opportunity to serve you.

Photo courtesy of the Dallas Police Department

Photo courtesy of the Dallas Fire Rescue



Membership and Benefits

Program Highlights

Benefit Statements Distributed
4,910 with year 2001 *Member Handbooks*

Counseling Sessions
541 Members

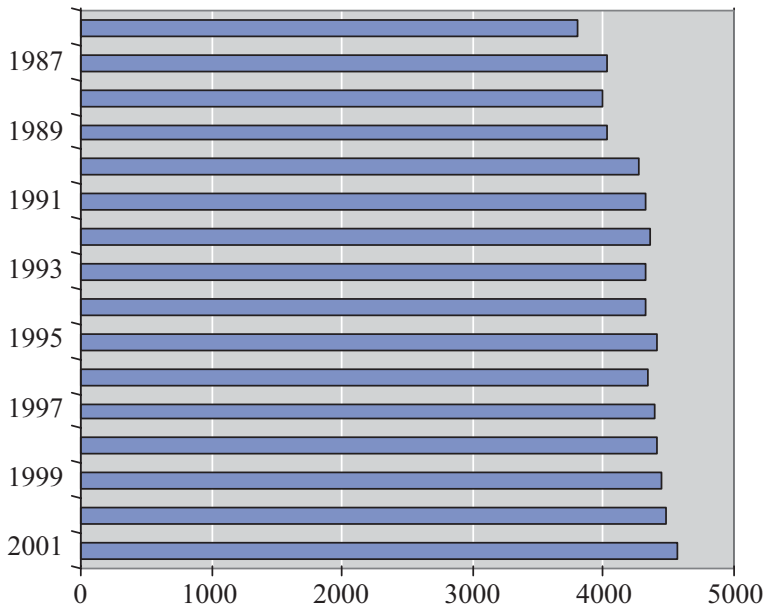
Deferred Retirement Option Plan (DROP)
In 2001, 124 new active participants and 38 new Pensioner participants enrolled in the program, bringing the total to 1,204 participants, with approximately $185 million in total deposits.

New Recruit Education Meetings
Eight meetings with 251 new Members

Newsletters Mailed
- 93,582 total
- Pensioners—Mailed monthly to more than 2,900 Pensioners and survivors
- Active Members—Mailed monthly to almost 4,900 active Members and DROP Members

Pre-Retirement Education Program (PREP)
Four meetings, 284 attendees

Active Members



The number of Active Members has increased slightly during the past several years.

Membership of the System

As of December 31, 2001

Years of Service	Fire	Police	Total
Fewer than 5	272	571	843
5–9	208	376	584
10–14	176	693	869
15–19	339	428	767
20–24	194	265	459
25–29	64	98	162
30 and more	10	6	16
DROP Members	397	463	860
TOTAL	**1,660**	**2,900**	**4,560**

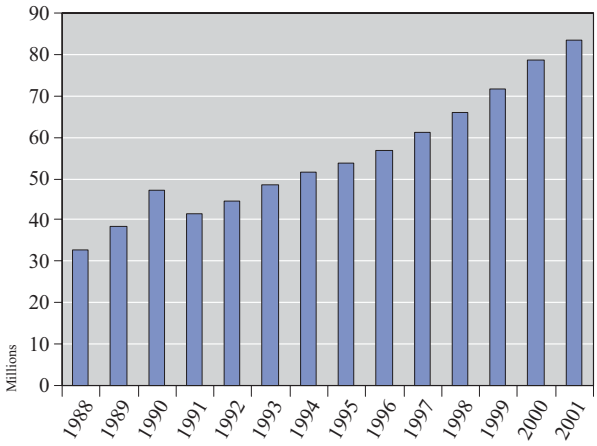
The "Membership of the System" chart lists Active Members by Department according to years of service. The average service for all Active Members is 15.15 years, 16.78 years of service for Firefighters, and 14.21 for Police Officers. There were 4,560 Active Members as of December 31, 2001.

Benefit Recipients—2001

	Police	Fire	Total
Service Pensions Granted:	63	40	103
Disability Pensions Granted:	2	2	4
Pensions Discontinued due to Death:	18	15	33
Survivor Pensions Granted:	25	14	39
Survivor Pensions Discontinued:	8	15	23

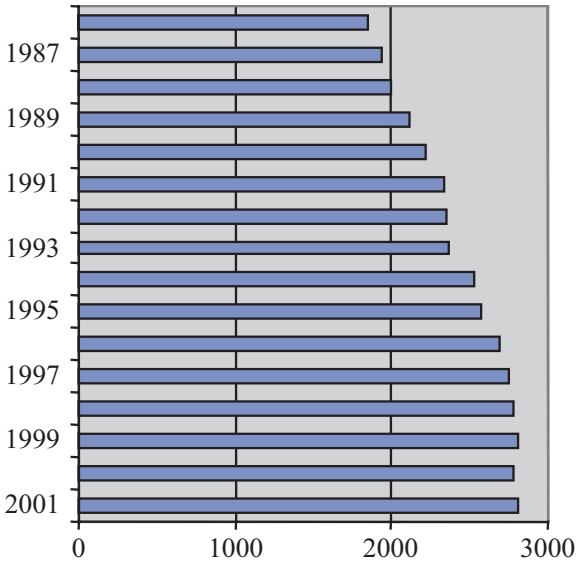
During 2001, the System experienced a normal number of service and survivor pensions.

Total Benefits Paid



The amount of benefits paid to Pensioners and survivors has steadily increased throughout the years. In 2001, benefit payments totaled $83.4 million.

Pensioners, Disabilities, and Survivors



The history of growth in the number of benefit recipients is indicated in the above graph.

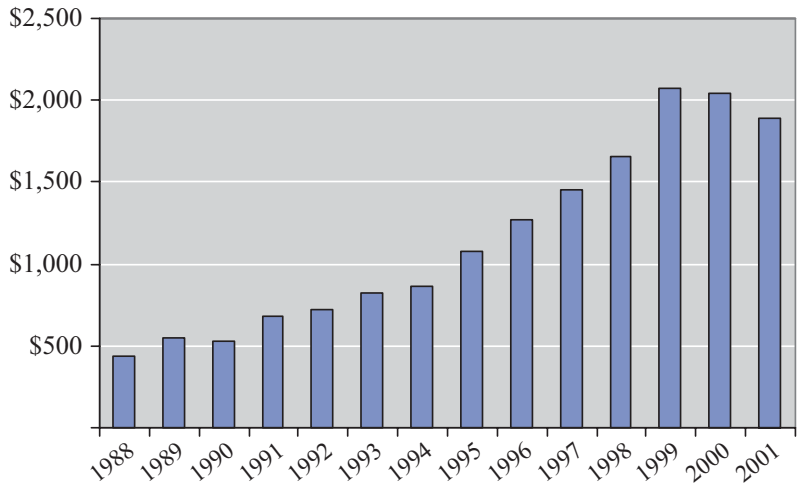
Investments

Assets by Class

	Market Value
DOMESTIC EQUITIES	
SSgA S & P Flagship	$275,300,836
Alliance R&T Value Index Fund	112,857,615
Oak Associates Growth Equity	122,666,250
W.R. Huff High Yield	10,091,668
Deutsche Asset Micro Cap	97,071,947
Mitchell Group	16,145,713
Subtotal	**$634,134,029**
INTERNATIONAL EQUITIES	
Loomis Sayles	$5,869,254
Deutsche Asset Emerging Market	89,794,525
Bank of Ireland	149,533,245
State Street Global Advisors	183,708,528
Subtotal	**$428,905,552**
DOMESTIC FIXED INCOME	
W.R. Huff High Yield	$86,693,657
Loomis Sayles	130,649,899
Deutsche Asset	87,280,956
W.R. Huff Alternative Income Funds	33,255,015
North Texas Opportunity Fund	5,688,004
Oaktree OCM Fund IV	11,250,000
TCW Special Credit Trust IIIb	528,066
Subtotal	**$355,345,597**
GLOBAL FIXED INCOME	
Deutsche Asset	$81,364,682
Loomis Sayles	30,611,241
Subtotal	**$111,975,923**
REAL ESTATE	
Hancock Agricultural	$19,497,837
Hearthstone MSH Home Bld.	1,625,017
Lone Star Partners	27,955,306
Oaktree (OCM Real Estate)	15,145,058
Olympus Real Estate	19,624,227
Prudential (Strategic Value)	9,130,278
RREEF REITS	54,723,214
INVESCO	30,154,940
Kennedy Associates	30,608,374
Forest Investment Associates	47,477,841
Heitman Capital Management	1,283,713
L & B Real Estate Counsel	50,566,070
Crow Holdings	6,704,804
Subtotal	**$314,496,679**
Cash & Short Term Securities	$34,804,669
Security Sold and Receivables	38,861,233
Securities Purchase and other Payables	(30,136,789)
Subtotal	**$43,529,113**
Total Investments	**$1,888,386,893**

The "Assets by Class" chart lists the market value of all plan assets by asset class and investment manager as of December 31, 2001.

Market Value in Millions
Fiscal Years 1988–2001



The graph above indicates the long-term growth in market value of the System's assets.

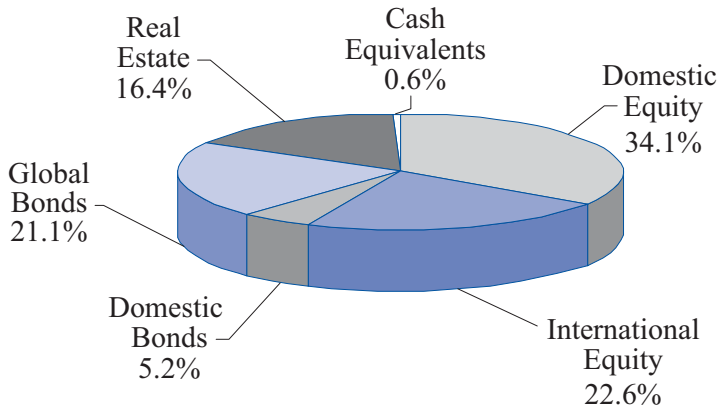
Changes in Assets Available for Benefits
Years 1996–2001

(In Thousands)

	December 1996	December 1997	December 1998	December 1999	December 2000	December 2001
Assets at Cost—Beginning	$ 880,871	$ 1,018,749	$ 1,312,621	$ 1,415,483	$ 1,655,216	$ 1,884,622
Contributions:						
City	54,072	57,039	59,308	63,441	66,690	75,592
Employee (Less Refunds)	12,182	12,537	12,982	13,199	13,371	15,159
Interest, Dividends, and Realized Gains (Losses)	136,696	293,254	106,387	245,777	241,912	28,859
Benefit Payments and Administrative Fees	(65,072)	(68,958)	(75,815)	(82,684)	(92,567)	(98,447)
Assets at Cost—Ending	$ 1,018,749	$ 1,312,621	$ 1,415,483	$ 1,655,216	$ 1,884,622	$ 1,905,785
Assets at Market	$ 1,267,612	$ 1,452,336	$ 1,659,397	$ 2,069,734	$ 2,039,741	$ 1,888,387

This chart conveys the growth in plan assets since 1996.

Asset Allocation as of December 31, 2001

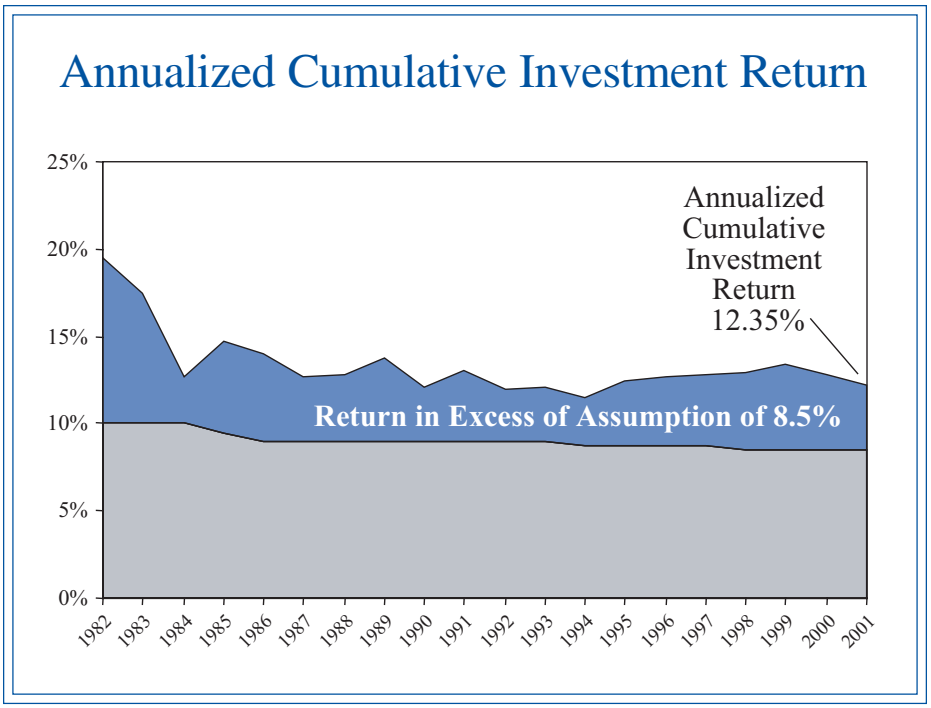


Pension System assets were diversified into the categories shown above as of December 31, 2001.

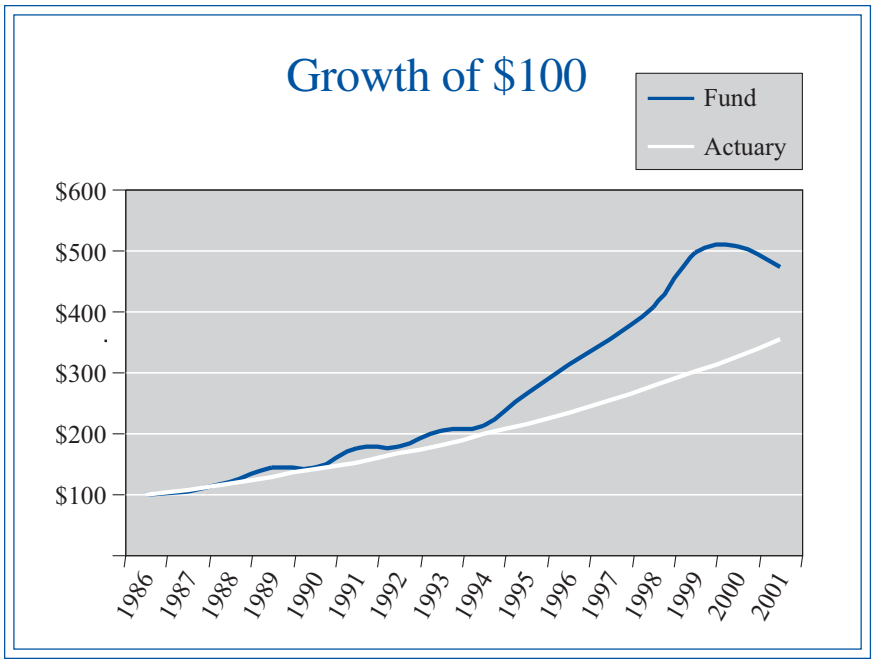
Rates of Return by Asset Class

Investment Category	Rate of Return	Benchmark Comparison	
Domestic Equities	-9.88%	-11.88%	S&P 500 Index
International Equities	-17.07%	-21.45%	EAFE Index
Domestic Fixed Income	1.38%	8.43%	Lehman Aggregate Bond Index
Global Fixed Income	0.56%	-3.55%	Salomon Non-US Gov't Index
Global Opportunistic Fixed	-7.39%	8.78%	Custom Global Bond Index
Real Estate	6.63%	2.75%	Wilshire Real Estate Fund Index
Cash & Equivalents	4.55%	4.42%	91-Day Treasury Bill
Total Portfolio	-6.74%	1.60%	Consumer Price Index (CPI-U)

Investments are diversified among various asset classes, and the performance of each category is compared to a benchmark index.



The graph above shows the System's 20-year cumulative investment return.



One hundred dollars invested in the Pension System's portfolio 15 years ago as of December 31, 2001 is worth $475. If the $100 had earned the actuarial interest rate, it would be worth $354.

Actuarial Information

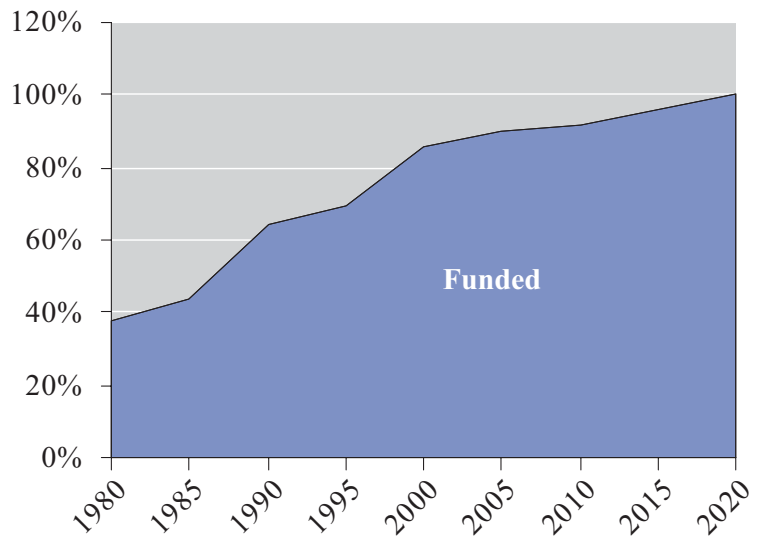
Actuarial Summary Information

Actuarial Valuation Results	January 1, 2001 Valuation	January 1, 2002 Valuation
Level Funding [1]	$323,007,168	$395,501,252
Actuarial Value [2]	$2,005,078,546	$2,158,395,018
Market Value [3]	$2,039,741,240	$1,888,386,893
Normal Cost Rate [4]	23.75%	23.85%
AAL Ratio [5]	86.10%	84.50%
Years To Fund [6]	17	19

1 Level Funding Requirements Accumulated to Date
2 Actuarial Value of Assets
3 Market Value of Assets
4 Monthly Normal Cost Rate
5 Actuarial Accrued Liability (GASB 25)
6 Projected Years to Fund Level Funding

The chart above summarizes the Actuarial Valuation report and indicates that the actuarial value of assets grew from $2 billion to $2.2 billion during 2001.

System's Funding Progress



The overall funding of the System remains sound and has improved significantly in the last 20 years. The System is on track toward full funding by 2020.

Significant Events in the System's Modern History

1977
- Separation of pension administration from the City Secretary's Office
- Appointment of first Administrator of the Dallas Police and Fire Pension System—Ray Ward
- Retention of A.S. Hansen, Inc. as the System's actuary

1978
- Development of a plan to resolve unfunded past service cost
- System's assets top $74 million (12-31-78)

1979
- New city and employee contribution plan implemented
- Retention of Compensation & Capital, Inc. to monitor investments
- System's assets top $85.8 million (12-31-79)

1980
- Retention of Eppler, Guerin & Turner, Inc. as the System's first consultant
- Retention of Peat, Marwick, Mitchell & Co. as actuary
- Retention of First City Bank as custodian
- System's assets top $103.3 million (9-30-80)

1981
- Distinction of becoming the first retirement system to be officially registered with the Texas State Pension Review Board
- System's assets top $110.4 million (9-30-81)

1982
- Retention of two real estate investment advisors
- Jerry Hast named as the Fund's second Administrator
- Renewal of Master Custodian service by First City Bank—Dallas
- System's assets top $136.7 million (9-30-82)

1983
- Largest growth in the history of the System (to date)
- Benefit improvements to Plan B and Plan A, increasing cost of living to 4% simple
- System's assets top $196.9 million (9-30-83)

1984
- Retention of Pension Real Estate Services, Inc. as consultant
- Hired three additional real estate managers and designated 10% of fund for real estate
- Citizens vote approval of change in city and employee contribution rates
- System's assets top $218.8 million (9-30-84)

1985
- Increase Plan A and Plan B Benefits, including survivor and retiree minimum benefit amounts
- Equity assets invested 100% with mutual funds
- System's assets top $262.1 million (9-30-85)

1986
- Pension System benefit counseling program created
- Members vote to begin paying administrative fees from System's assets
- System's assets top $329.5 million (9-30-86)

1987
- Wilshire Associates retained as investment consultant (10-1-86)
- Assets reallocated: 52% domestic equity, 10% international equity, 18% fixed income, and 20% real estate
- System's assets top $425 million (9-30-87)

1988
- Approval of Plan amendments increased pension service credits from 2.5% to 2.75% per year
- Stock market dropped October 19, 1987
- System's assets top $434 million (9-30-88)

1989
- The Old Pension Plan and Plan A were combined to form the Combined Pension Plan
- Buck Consultants, Inc. retained as System's actuary
- The Finance and Administrative Board Committees were created
- Participation in securities lending and commission recapture programs
- System's assets top $547 million (9-30-89)

1990
- Benefit changes made during the year included:
  1) the benefit supplement increased and
  2) the yearly pension service credit was increased from 2.75% to 3%
- Changes in asset allocation included global fixed income (9%) and international small capitalization (5%)
- System's assets decreased to $529.7 million (9-30-90)

1991
- Plan amendment election held July 1991
- The System changed its year-end to December 31
- System's assets top $683 million (12-31-91)

1992
- Plan Amendment election held October, 1992:
  1) created Deferred Retirement Option Plan (DROP),
  2) increased the minimum benefit,
  3) allowed active Members to buy back service time they lost or to repay contributions withdrawn by a Qualified Domestic Relations Order (QDRO), and
  4) Integrated Plan B of the System into the Combined Pension Plan
- Appointed a new administrator, Richard Tettamant, and approved the addition of a second assistant administrator
- System's assets top $719 million (12-31-92)

1993
- Plan amendment election held September 1993
- Implemented multifamily residential (apartment) investment program
- Exit strategy for real estate commingled funds implemented
- Deferred Retirement Option Plan (DROP) implemented January 1st
  1) 220 Members joined
  2) Annual benefit statements distributed
- Added two staff positions and appointed an assistant administrator
- System's assets top $825.8 million (12-31-93)

1994
- Relocated Pension System office to 2777 Stemmons Freeway
- Assistant administrator appointed for financial controls and investments
- Plan improved to reinstate benefits for 68 surviving widows whose benefits had been previously terminated upon remarriage
- Texas State Pension Review Board reaffirmed the System's actuarial soundness
- Initiated Pre-Retirement Education Program (PREP) for active employees
- System's assets exceed $863.8 million (12-31-94)

1995
- Initiated Periodic Retirement Education and Planning seminars (PREP, Jr.) for active employees with 5–15 years of service
- Retained LRS' Pension Plus for new automated pension administration
- System's assets top $1 billion in July
- System's assets exceed $1.077 billion (12-31-95)

1996
- Plan amended to correct, clarify and delete inoperative provisions, initiate excess benefit plan, and authorize pretax contributions
- System's assets exceed $1.268 billion (12-31-96)

1997
- Member pretax contributions begin
- DROP five-year actuarial review completed—approved by the Board with no changes to DROP
- System's assets exceed $1.452 billion (12-31-97)

1998
- "20 and Out" and/or "20 and DROP" begins
- Minimum benefit increased
- DROP interest rate calculation based on 10-year treasury bond with a range of 8% to 10%
- Trustee positions have place numbers
- Pension System's Internet Web page initiated
- System's assets exceed $1.659 billion (12-31-98)

1999
- Minimum benefit increased
- Pensioners begin receiving a onetime opportunity to defer their pension benefit into DROP
- Ten-year certain benefit begins
- Pension service purchases can now be made with a tax-deferred rollover from other qualified plans
- City Council Trustee Board positions receive place numbers
- DROP had 959 total participants with more than $109 million in deposits
- System's assets exceed $2.069 billion (12-31-99)

2000
- Group B Member's computation pay decreased to 36 months
- SWAR (Spouse wed after retirement) option begins
- Age and service credits requirement for the special survivor benefit decreases
- "Qualifying Spouse" is the Spouse at the time the Member leaves active service
- Minimum benefit increased
- DROP funds can be transferred the Member's City of Dallas 401(k) account
- Members who retired early can participate in DROP
- A Police pensioner and a Firefighter pensioner place added to the Board of Trustees
- System's assets exceeded $2.039 billion (12-31-00)

2001
- Relocated Pension System office to 2301 North Akard Street
- Police Pensioner and Firefighter Pensioner Trustees elected to the Board
- Plan amendment election held December 2001
  - Pension Service purchase can be made on a pretax basis through payroll deductions
  - Pension Service purchases can be made with pretax dollars from rollovers
  - Partial Pension Service purchases now allowed
  - Persons disabled while on military leave of absence can now receive a non-service disability pension
  - A 100% joint and survivor annuity option added
  - Minimum benefits increased
  - DROP interest increased, and future changes in interest rate will be based on the System's 10-year investment return
  - Special elections are now required to fill vacant Trustee positions
- System's assets totaled $1.9 billion (12-31-01)

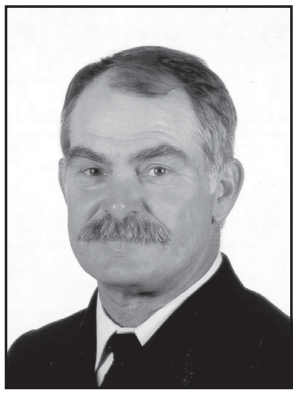
Photo courtesy of the Dallas Police Museum

Photo courtesy of the Dallas Firefighers Museum

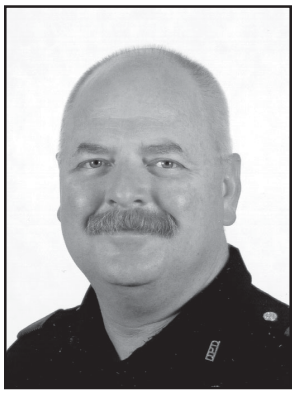
Board of Trustees—2001

Gerald Brown
Fire Department
Chairman

Steve Shaw
Police Department
Vice Chairman



Gary Edge
Fire Department
Deputy Vice Chairman

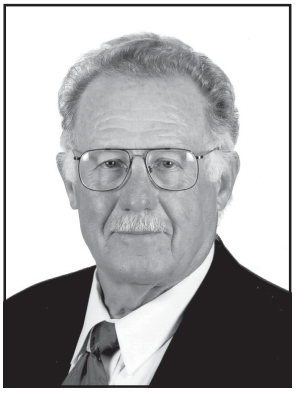


Rector McCollum
Police Department

George Tomasovic
Fire Department

Steve Umlor
Police Department

John Mays
Police Pensioner
Trustee



Richard Wachsman
Fire Pensioner Trustee

Donald Hill
City Councilmember

John Loza
City Councilmember

Mary Poss
City Councilmember

Maxine Thornton-Reese
City Councilmember

Historical List of Trustees 1920–2001

Councilmember Inglish, 1920–1921

Officer L.E. McGee (P), 1920–1921

Firefighter Prigmore (F), 1920–1921

Officer J.W. Ryan (P), 1920–1921

Mayor Frank W. Wozencraft, 1920–1921

Officer Muse (P), 1920–1923

Mayor Louis Blaylock, 1920–1927

Chief T.A. Myers (F), 1920–1927

Chief Elmo Strait (F), 1921–1922

Mayor Sawnie R. Aldredge, 1921–1923

Chief J.H. Tanner (P), 1922, 1951–1961

Firefighter J.R. Bower (F), 1922–1926

Chief Louis W. Brown (P), 1922–1926

Firefighter F.D. Thomas (F), 1923–1927

Officer J.C. Harris (P), 1923–1927

Commissioner L.S. Turley, 1923–1927

Firefighter J.L. Burgess (F), 1927–1928

Officer Harry I. Maxson (P), 1927–1928

Mayor R.E. Burt, 1927–1931

Sergeant Davis (P), 1927–1931

Officer Clarence S. Parker (P), 1927–1931

Chief C.W. Trammell (P), 1924–1934

Councilmember Wolff, 1928–1929

Chief R.D. Gambrell (F), 1928–1932

Councilmember Julius Schepps, 1928–1932

Historical List of Trustees 1920–2001 *(continued)*

Councilmember Ray Shelton, 1928–1935

City Manager John M. Edy, 1929–1931

Police and Fire Commissioner W.C. Graves, 1929–1931

Mayor J. Waddy Tate, 1929–1931

Chief J.T. Coffman (F), 1929–1933

Mayor T.L. Bradford, 1931–1932

Sergeant Hexter (P), 1931–1935

Firefighter W.J.D. Moore (F), 1931–1935

Councilmember Duff, 1935–1935

Councilmember Jones, 1935–1936

Sergeant Banks (P), 1935–1939

Officer D.R. Graham (P), 1935–1939

Lieutenant Gunn (F), 1935–1939

Officer C.D. McKeehan (P), 1935–1939

Mayor George Sergeant, 1935–1940

Councilmember M.M. Straus, 1935–1941

Mayor George A. Sprague, 1937–1939

Lieutenant Cantrell (P), 1939–1943

Sergeant Coleman (P), 1939–1943

Firefighter E.J. Gannon (F), 1939–1943

Lieutenant Haynes (F), 1939–1943

Lieutenant Riddell (F), 1939–1943

Mayor James Woodall Rodgers, 1939–1943

Lieutenant Spencer (P), 1939–1943

Firefighter A.B. Williams (F), 1939–1943

Councilmember Bennett Stampes, 1942–1947

Historical List of Trustees 1920–2001 (continued)

Councilmember W.J. Red Bryan, 1948–1953

Councilmember Jess S. Epps, 1948–1953

Councilmember E.C. Harrell, 1948–1953

Chief C.N. Penn (F), 1948–1953

Mayor J.R. Temple, 1948–1953

Mayor Wallace H. Savage, 1949–1951

Councilmember W.H. Pierce, 1949–1953

Officer Paul Ashenhust (P), 1949–1957

Mayor J.B. Adoue, 1951–1955

Councilmember Cecil French, 1951–1955

Councilmember B.B. Hemphill, 1951–1955

Chief M.C. Hendrix (F), 1951–1965

Councilmember Harris, 1953–1956

Councilmember Arthur L. Kramer, 1953–1957

Mayor Robert L. Thornton, 1953–1959

Chief Guy Harbert (F), 1953–1973

Councilmember Carr P. Collins, 1957–1961

Captain Johan C. Nichols (P), 1957–1961

Councilmember Tom Unis, 1957–1961

Sergeant Cousin (P), 1959–1963

Sergeant Moody (P), 1961–1962

Councilmember Elizabeth Blessing, 1961–1965

Mayor Earle Cabell, 1961–1965

Lieutenant J.W. Finley (P), 1961–1969

Mayor Pro Tem Carie Welch, 1963–1965

Mayor Erik Jonsson, 1963–1971

Historical List of Trustees 1920–2001 (continued)

Councilmember W.H. (Bill) Roberts, 1965–1967

Councilmember Charles G. Cullum, 1965–1971

Chief E.A. Emerson (F), 1966–1970

Councilmember William E. Cothrum, 1966–1981

Captain Lloyd S. Reeves (P), 1967–1971

Lieutenant G.L. Hill (F), 1967–1973

Councilmember Jack F. McKinney, 1967–1973

Chief John P. Lamar (F), 1967–1973

Sergeant C.T. Burnley (P), 1969–1973

Deputy Mayor Pro Tem Fain, 1969–1973

Councilmember Ted Holland, 1969–1973

Deputy Mayor Pro Tem Sheffield Kadane, 1969–1973

Mayor Wes Wise, 1969–1973

Councilmember Jesse Price, 1971–1972

Councilmember Fred Zeder, 1971–1974

Councilmember Pedro Aguirre, 1973–1975

Mayor Pro Tem George Allen, 1973–1975

Councilmember Charles Terrell, 1973–1975

Chief C.R. Busby (P), 1973–1977

Chief Bobby C. Moore (F), 1973–1977

Mayor Pro Tem Adlene Harrison, 1975–1977

Councilmember L.A. Murr, 1975–1977

Councilmember Richard Smith, 1975–1977

Captain W.F. Gentry (F), 1975–1979

Driver W.E. Sheppeard (F), 1975–1979

Assistant Chief J.F. Stark (F), 1975–1979

Historical List of Trustees 1920–2001 *(continued)*

Sergeant Troy Withers (P), 1975–1979

Mayor Robert Folsom, 1976–1978

Captain Kenneth Dodd (F), 1977–1990

Battalion Section Chief Richard Wachsman (F), 1979–1987, 1990–1999

Driver Engineer W.L. Goggans (F), 1979–1980

Sergeant Ray Ball (P), 1979–1983

Councilmember Don Hicks, 1979–1983

Detective Ken Coop (P), 1979–1985

Mayor Steve Bartlett, 1980–1982

Councilmember Fred Blair, 1980–1982

Lieutenant Marcus Dollar (F), 1980–1983

Councilmember Joe Haggar, 1981–1983

Councilmember Ricardo Medrano, 1981–1983

Sergeant John M. Mays (P), 1981–2000

Councilmember Paul Fielding, 1983–1984

Councilmember Jerry Rucker, 1983–1984

Councilmember Jim Richards, 1983–1985

Lieutenant A.L. McAllister (P), 1983–1986

Councilmember Craig Holcomb, 1983–1989

Lieutenant Gerald Brown (F), 1983–Present

Councilmember Al Lipscomb, 1984–1986

Councilmember Dean Vanderbilt, 1984–1986

Sergeant Ron Waldrop (P), 1985–1987

Captain W.R. Rollins (P), 1986–1987

Councilmember Jerry Bartos, 1987–1989

Historical List of Trustees 1920–2001 (continued)

Councilmember Charles Tandy, 1987–1992

Lieutenant Charles Luedeker (F), 1987–1995

Sergeant Larry Eddington (P), 1987–1999

Captain Dwight Walker (P), 1987–2000

Councilmember Diane Ragsdale, 1989–1989

Councilmember Max Wells, 1989–1989

Councilmember Glenn Box, 1989–1991

Councilmember Harriet Miers, 1989–1991

Councilmember Mattie Nash, 1991–1992

Councilmember Larry Duncan, 1991–1998

Councilmember Charlotte Mayes, 1991–1998

Councilmember Sandra Crenshaw, 1993–1993

Mayor Pro Tem Mary Poss, 1995–2001

Driver Engineer Gary W. Edge (F), 1995–Present

Sergeant Steve Shaw (P), 1999–Present

Lieutenant George Tomasovic (F), 1999–Present

Councilmember John Loza, 2000–2001

Councilmember Donald Hill, 2000–Present

Sergeant Rector McCollum (P), 2000–Present

Councilmember Dr. Maxine Thornton-Reese, 2000–Present

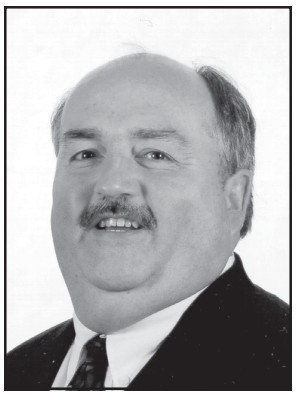
Sergeant Steve Umlor (P), 2000–Present

John M. Mays (P-Pensioner), 2001–Present

Richard Wachsman (F-Pensioner), 2001–Present

To the best of our knowledge and according to the records we have, the list is accurate. However, we would appreciate any corrections or changes you notice while reading.

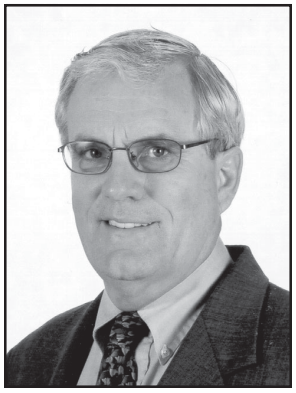
Administrative Staff—2001



Richard L. Tettamant
Administrator

Don Rohan
Assistant Administrator, Operations

Brian Blake
Assistant Administrator, Investments



Everard Davenport
General Counsel

Jerry Baldree
Internal Auditor

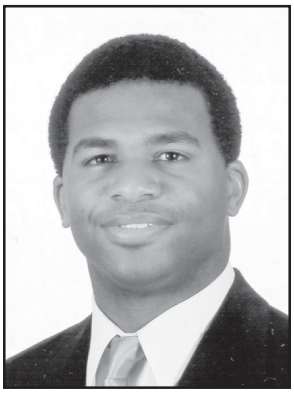
John Holt
Information Technology Manager

Linda Stevenson
Accounting Manager

Gail Borneman
Benefits Specialist

Jerry Chandler
Systems Analyst

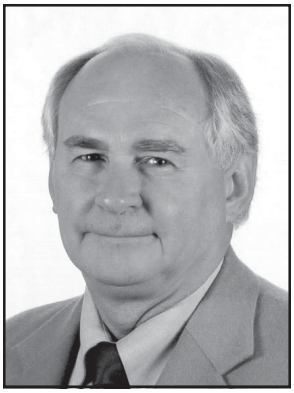
Erica Douglas
Receptionist



Vijay Freeman
Accountant

Jay Jackson
Investment Analyst

Barbara McCann
Payroll Specialist



Don McMillan
Benefits Counselor

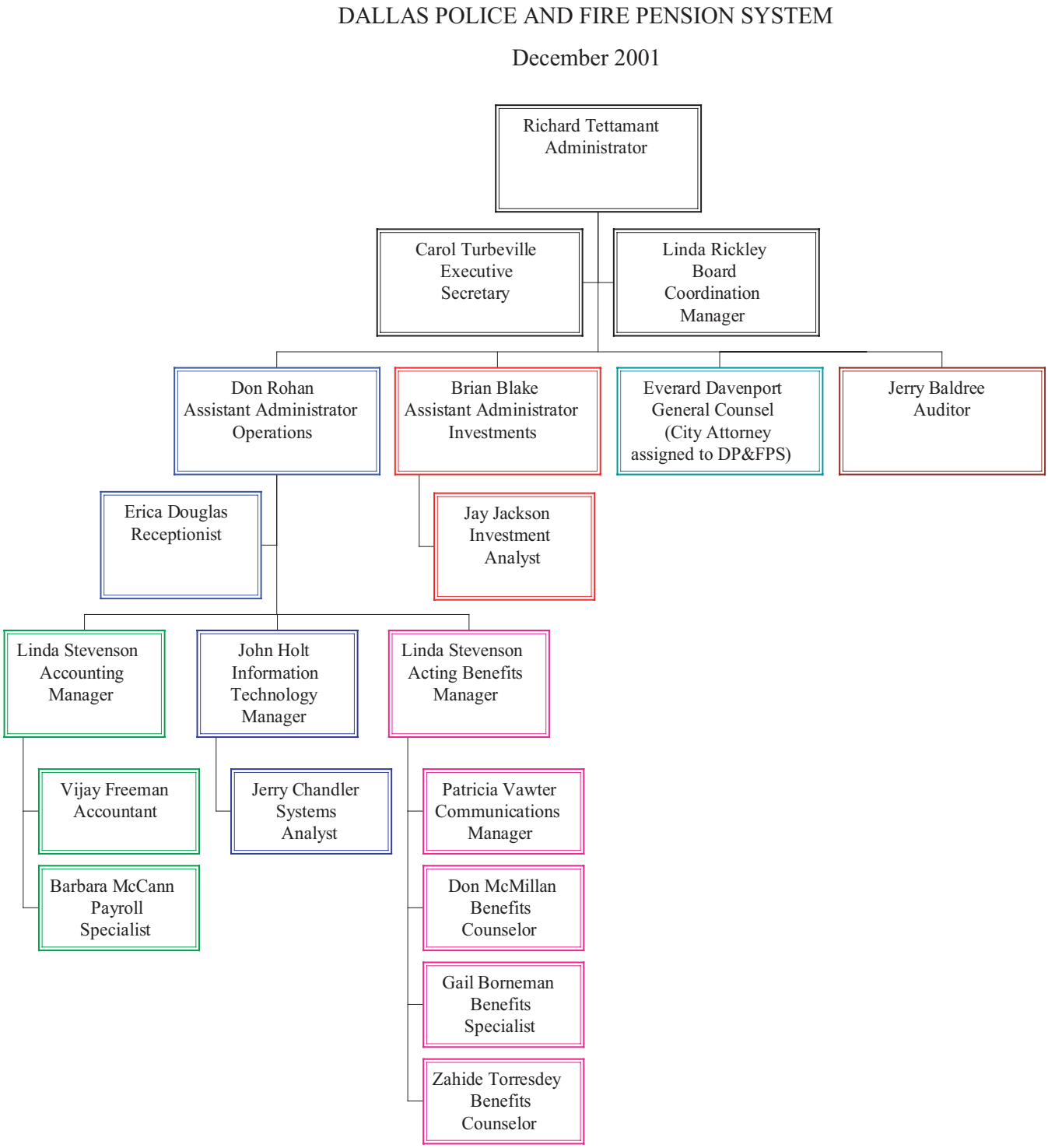
Linda Rickley
Board Coordination Manager

Zahide Torresdey
Benefits Counselor

Carol Turbeville
Executive Secretary

Patricia Vawter
Communications Manager

Organizational Chart



EVERARD C. DAVENPORT

Photo courtesy of Dallas Fire Rescue

Photo courtesy of the Dallas Police Department

DALLAS POLICE AND FIRE PENSION SYSTEM

ACTUARIAL VALUATION

AS OF JANUARY 1, 2002

May 20, 2002

Mr. Richard L. Tettamant
Administrator
Dallas Police and Fire Pension System
2301 N. Akard Street, Suite 200
Dallas, TX 75201

Re: Dallas Police and Fire Pension System Actuarial Valuation as of January 1, 2002

Dear Mr. Tettamant:

We certify that the information contained in this report is accurate and fairly presents the actuarial position of the Dallas Police and Fire Pension System (the System) as of January 1, 2002.

Actuarial Valuation

The primary purpose of the valuation report is to determine the adequacy of the current City's contribution rate, to describe the current financial condition of the System, and to analyze changes in the System's condition. In addition, the report provides information required by the City of Dallas in connection with Governmental Accounting Standards Board Statements Number 25 and Number 27.

Basis for Funding

The member and City contribution rates are established by statute. The City's and the members' contributions are intended to be sufficient to pay the normal cost and to amortize the System's unfunded actuarial accrued liability.

Funding Progress

As of January 1, 2002, the employer contribution rate needed in order to pay the normal cost and fund the Unfunded Actuarial Accrued Liability over 40 years is 23.85%. This amount is more than the 23.04% employer contribution calculated as of January 1, 2001. The current contribution rate covers the normal cost and the amortization of the Unfunded Actuarial Accrued Liability (UAAL) over 19 years.

Benefit Provisions

The actuarial valuation reflects the benefit and contribution provisions set forth in the System's statutes. There was one change in these provisions since the last actuarial valuation that affected the results. The minimum retiree benefit was increased to $2,200 per month from $2,000 per month. The minimum benefit was increased to $1,200 per month from $1,100 per month for a qualified surviving spouse, if there are no qualified surviving children receiving benefits. The minimum benefit was increased to $1,100 from $1,000 per month for a qualified surviving spouse, if there are qualified surviving children receiving benefits.

In addition, the DROP interest rate basis was changed from a five-year weighted average of the 30-year U.S. Treasury bond rates to a ten-year average of the System's actual market return. Effective January 1, 2002, the rate was set to 9.00%. However, this had no effect on the valuation results as the actuarial assumption for the rate was not changed.

The other changes made to the System had no effect on the valuation results.

Assumptions and Methods

The actuarial assumptions and methods used in the valuation are presented in Schedule C. The valuation is based on the same assumptions and methods as the previous valuation. The assumptions used are individually reasonable and reasonable in the aggregate.

Data

Asset information and member data for retired, active, and inactive members was supplied as of January 1, 2002 by the Administrator. We have not subjected this data to any auditing procedures, but have examined the data for reasonableness and consistency with the prior year's data.

Very truly yours,

Signed (RICHARD A. MACKESEY)

Richard A. Mackesey, F.S.A.
Principal, Consulting Actuary

RAM:km
\DPF\VAL\2002PLAN.DOC

Enclosures

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2002

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Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2002

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Summary of Principal Results

	January 1, 2002	January 1, 2001
Membership		
Active	4,560	4,477
Terminated with deferred benefits	121	116
Retired members and beneficiaries	2,813	2,780
Compensation		
Total	$ 251,103,654	$ 224,276,366
Average	$ 55,067	$ 50,095
Assets		
Market value	$ 1,888,386,893	$ 2,039,741,240
Actuarial value	$ 2,158,395,018	$ 2,005,078,546
Valuation Results		
Unfunded actuarial accrued liability	$ 395,501,252	$ 323,007,168
Funding period	19	17
40-year funding cost (City)	23.85%	23.04%
Margin	3.65%	4.46%
GASB No. 25		
Actuarial accrued liability (AAL)	$ 2,553,896,270	$ 2,328,085,714
Assets (actuarial)	$ 2,158,395,018	$ 2,005,078,546
GASB ratio	84.5%	86.1%
Unfunded AAL	$ 395,501,252	$ 323,007,168

Comments on the Valuation

Overview

The current contribution rates are sufficient to keep the System actuarially sound, based on the current membership data, the current financial data, the current benefit provisions and the actuarial assumptions and methods used to determine liabilities and costs.

The overall funding of the Plan remains sound. The funding period increased to 19 years from 17 years. There were significant pay increases this year and a less than expected return on the actuarial value of assets.

Section 3 shows in more detail the changes to the 40-year funding cost and the funding period based on the current contribution rates.

Funding status

There are two significant measures of the funding status of the System. The first is the 40-year funding cost. This is the City contribution rate required to pay the normal cost and to amortize the UAAL over a 40-year period. This rate is currently 23.85% compared with the City's actual contribution rate of 27.50% and with the 40-year funding cost in 2001 of 23.04%. Section 3 shows a reconciliation of the changes between the 2001 and 2002 figures.

The other measure is the funding period. This is the length of time in years that will be required to amortize the current UAAL based on the current contribution rate. The current contribution rate is sufficient to pay the normal cost and amortize the UAAL over 19 years.

The UAAL is the excess of the liability assigned to prior years (the actuarial accrued liability) over the value of assets. Section 3 shows a reconciliation of this amount between 2001 and 2002.

GASB Statements

Section 4 provides the information required for reporting under GASB No. 25.

Benefit Provisions

Schedule B summarizes all the benefit provisions of the System. There are no significant benefits which were not taken into account in this valuation. There was one change in these provisions since the last actuarial valuation that affected the results. The minimum retiree benefit was increased to $2,200 per month from $2,000 per month. The minimum benefit was increased to $1,200 per month from $1,100 per month for a qualified surviving spouse, if there are no qualified surviving children receiving benefits. The minimum benefit was increased to $1,100 from $1,000 per month for a qualified surviving spouse, if there are qualified surviving children receiving benefits.

In addition, the DROP interest rate basis was changed from a five-year weighted average of the 30-year U.S. Treasury bond rates to a ten-year average of the System's actual market return. Effective January 1, 2002, the rate was set to 9.00%. However, this had no effect on the valuation results as the actuarial assumption for the rate was not changed.

Actuarial Assumptions and Methods

The actuarial assumptions and methods used in the valuation are presented in Schedule C. The valuation is based on the same assumptions and methods as the previous valuation. The assumptions used are individually reasonable and reasonable in the aggregate.

Schedule D compares the assumptions to the recent experience of the system and describes the adequacy of the assumptions.

GASB Statement No. 27

Under GASB Statement No. 27, which is effective for fiscal years beginning after June 15, 1997, employers must determine a pension expense based on a 40-year amortization of the UAAL. The amortization can assume payroll growth due to inflation, but no membership growth. After a 10-year transition period, the required amortization period will drop to 30 years. If the actual contribution rate is less than the rate required by GASB No. 27, the excess must be expensed. This will result in the employer showing an accrued but unpaid liability for pension benefits on its financial statements.

A City Contribution rate of 23.85% will be required for the City to avoid showing an accrued pension liability on its financial statements for the fiscal year beginning in 2002, assuming no other changes are made. At the current rate of contribution, and assuming no other changes, the City would not be required to show an accrued but unpaid pension liability for the System on its financial statement.

Financial Data

The financial data used in this report was supplied by the System.

Section 5 reconciles the System's assets between 2001 and 2002 and shows the development of the actuarial value of assets (AVA). Rather than using the market value for cost calculations, an adjusted market value, which phases in gains and losses (compared to the assumed investment return rate) over five years, is used. This method is designed to reduce the volatility of the results. The estimated rates of return for 2001 are (7.76)% and 7.27% for the market value of assets and the actuarial value of assets, respectively.

Membership Statistics

Data on active members and on retired members was supplied by the Administrator. Growth among active members was relatively flat and growth of the total payroll for active members was moderate during the last year. The active membership increased from 4,477 members as of January 1, 2001 to 4,560 members as of January 1, 2002. The total active payroll increased from $224,276,366 to $251,103,654 over the same period, a 12.0% increase. Schedule A shows a summary of the membership data.

Experience

Schedule D compares the actual experience of the system with the actuarial expectations.

Actuarial Cost, Margin and Funding Period

		January 1, 2002	January 1, 2001
1.	Covered Payroll		
	a. Active members excluding DROP	$ 190,879,663	$ 172,846,171
	b. DROP members	$ 60,223,991	$ 51,430,195
	c. Total	$ 251,103,654	$ 224,276,366
2.	Actuarial value of future pay		
	a. Active members excluding DROP	$ 1,242,720,624	$ 1,133,966,306
	b. DROP members	$ 483,577,976	$ 427,942,694
	c. Total	$ 1,726,298,600	$ 1,561,909,000
3.	Current contribution rates		
	a. City	27.50%	27.50%
	b. Member	8.50%	8.50%
	c. Total	36.00%	36.00%
4.	Actuarial present value of future benefits	$ 2,965,152,647	$ 2,699,049,306
5.	Actuarial present value of future normal costs		
	a. Total	$ 411,256,377	$ 370,963,592
	b. Member (3b x 2a)	$ 105,631,253	$ 96,387,136
	c. City (5a - 5b)	$ 305,625,124	$ 274,576,456
6.	Actuarial accrued liability (4 - 5a)	$ 2,553,896,270	$ 2,328,085,714
7.	Actuarial value of assets	$ 2,158,395,018	$ 2,005,078,546
8.	Unfunded actuarial accrued liability (UAAL) (6 - 7)	$ 395,501,252	$ 323,007,168
9.	Normal cost		
	a. Normal cost percentage (5a ÷ 2c)	23.82%	23.75%
	b. Total normal cost (1c x 9a)	$ 59,812,890	$ 53,265,637
	c. Member normal cost (1a x 3b)	$ 16,224,771	$ 14,691,925
	d. City normal cost (9b - 9c)	$ 43,588,119	$ 38,573,712
	e. City normal rate (9d ÷ [1c x 1.07])	16.22%	16.07%

Actuarial Cost, Margin and Funding Period (continued)

		January 1, 2002	January 1, 2001
10.	40-year funding cost*		
	a. City normal cost rate	16.22%	16.07%
	b. Amortization rate	7.63%	6.97%
	c. Total	23.85%	23.04%
11.	Margin over/(under) 40-year cost* (3a - 10c)	3.65%	4.46%
12.	Funding period to amortize UAAL	19	17

* 40-year funding cost is necessary for accounting purposes only. The actual funding period is calculated each year based on level contributions and is currently 19 years.

Analysis of Change in UAAL

1.	UAAL as of January 1, 2001	$ 323,007,168
2.	Changes due to:	
	a. Expected increase (negative amortization)	$ (1,724,811)
	b. Actual contributions greater than expected	(11,520,202)
	c. Liability experience	58,934,155
	d. Asset experience	24,734,505
	e. Plan amendments	2,070,437
	f. Total changes	$ 72,494,084
3.	UAAL as of January 1, 2002	$ 395,501,252

Analysis of Change in Funding Cost

1.	40-year funding cost* as of January 1, 2001	23.04%
2.	Changes due to:	
	a. Actual contributions greater than expected	(0.24)
	b. Liability experience	0.80
	c. Asset experience	0.18
	d. Plan amendments	0.07
	e. Total	0.81
3.	40-year funding cost* as of January 1, 2002	23.85%

* 40-year funding cost is necessary for accounting purposes only. The actual funding period is calculated each year based on level contributions and is currently 19 years.

Analysis of Change Funding Period

1. Funding period as of January 1, 2001	17
2. Changes due to:	
a. Passage of time	(1)
b. Actual contributions greater than expected	(1)
c. Liability experience	2
d. Plan amendments	0
e. Asset experience	2
f. Total	2
3. Funding period as of January 1, 2002	19

Historical Trend Information

(As required by GASB #25 - Amounts are in millions of dollars)

	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
January 1, 1997	1,137	1,630	493	69.7%	178	277.0%
January 1, 1998	1,307	1,782	475	73.3%	193	246.1%
January 1, 1999	1,503	1,958	455	76.8%	205	222.0%
January 1, 2000	1,772	2,094	322	84.6%	213	151.2%
January 1, 2001	2,005	2,328	323	86.1%	224	144.2%
January 1, 2002	2,158	2,554	396	84.5%	251	157.8%

GASB #25 Schedule of Employer Contributions for Year Ending December 31, 2001

Annual Required Contribution	Percentage Contributed
27.50% of Pay	100.0%

Summary of Accumulated Benefits (FASB #35)

Accumulated Benefits at January 1, 2002

Vested benefits of participants and beneficiaries currently receiving payments		$ 1,049,930,660
Other vested benefits		1,230,659,262
Nonvested benefits		86,029,158
Total benefits		$ 2,366,619,080

FASB #35 Reconciliation

Accumulated benefits at January 1, 2001		$ 2,173,914,377
Benefits accumulated	$ 92,137,753	
Interest	181,267,740	
Benefits paid	(84,427,117)	
Plan amendments	3,726,327	
Total Change		192,704,703
Accumulated benefits at January 1, 2002		$ 2,366,619,080

Reconciliation of Fund Assets

	Year Ending December 31, 2001
1. Value of fund at beginning of year	$ 2,039,741,240
2. Contributions	
a. City	75,592,062
b. Member	16,143,737
c. Total	$ 91,735,799
3. Benefit payments	(83,442,133)
4. Refunds	(984,984)
5. Earnings	(143,572,561)
6. Expenses	(15,090,468)
7. Value of assets at end of year	$ 1,888,386,893
8. Estimated rate of return	(7.76)%

Determination of Excess Earnings To Be Deferred

		Year Ending December 31, 2001
1.	Market value at beginning of year	$ 2,039,741,240
2.	Net new investments	
	a. Contributions	$ 91,735,799
	b. Benefit payments	(83,442,133)
	c. Refunds	(984,984)
	d. Total	$ 7,308,682
3.	Market value at end of year	$ 1,888,386,893
4.	Yield (3 - 1 - 2d)	$ (158,663,029)
5.	Average balance [1 + 1/2(2d)]	2,043,395,581
6.	Assumed investment return rate	8.50%
7.	Expected net return (5 x 6)	$ 173,688,624
8.	Gains/(losses) subject to deferral (4 - 7)	$ (332,351,653)

Calculation of Actuarial Value of Assets

1.	Market value of assets as of January 1, 2002				$1,888,386,893
2.	Deferral amounts				
		Year	Total Gain/(Loss)	Percent Deferred	Deferral Amount
	a.	2001	$ (332,351,653)	80%	$ (265,881,322)
	b.	2000	(207,378,713)	60%	(124,427,228)
	c.	1999	264,873,251	40%	105,949,300
	d.	1998	71,755,626	20%	14,351,125
	e.	Total			$ (270,008,125)
3.	Preliminary actuarial value of assets (1 - 2e)				2,158,395,018
4.	80% of Market value				1,510,709,514
5.	120% of Market value				2,266,064,272
6.	Actuarial value of assets (3, not less than 4 or more than 5)				2,158,395,018
7.	Rate of return on actuarial value of assets				7.27%

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2002

Schedule A

Membership Data

	January 1, 2002	January 1, 2001
1. Active members (excluding DROP)		
a. Police and Fire		
1. Number	3,700	3,669
2. Covered payroll	$ 190,879,663	$ 172,846,171
3. Average annual pay	$ 51,589	$ 47,110
4. Average age	38.01	37.95
5. Average service (years)	12.23	12.35
b. Police		
1. Number	2,437	2,398
2. Covered payroll	$ 124,725,329	$ 111,900,620
3. Average annual pay	$ 51,180	$ 46,664
4. Average age	37.56	37.45
5. Average service (years)	11.74	11.82
c. Fire		
1. Number	1,263	1,271
2. Covered payroll	$ 66,154,334	$ 60,945,551
3. Average annual pay	$ 52,379	$ 47,951
4. Average age	38.87	38.90
5. Average service (years)	13.17	13.34

Dallas Police and Fire Pension System
Actuarial Valuation - January 1, 2002

Schedule A (continued)

Membership Data
(continued)

	January 1, 2002	January 1, 2001
2. Active members (DROP only)		
a. Police and Fire		
1. Number	860	808
2. Covered payroll	$ 60,223,991	$ 51,430,195
3. Average annual pay	$ 70,028	$ 63,651
4. Average age	53.69	53.41
5. Average service (years)	27.72	27.56
6. DROP account balance	$ 126,014,451	$ 105,543,120
b. Police		
1. Number	463	439
2. Covered payroll	$ 32,346,260	$ 27,636,713
3. Average annual pay	$ 69,862	$ 62,954
4. Average age	53.77	53.37
5. Average service (years)	27.24	26.98
6. DROP account balance	$ 65,294,662	$ 52,975,182
c. Fire		
1. Number	397	369
2. Covered payroll	$ 27,877,731	$ 23,793,482
3. Average annual pay	$ 70,221	$ 64,481
4. Average age	53.59	53.46
5. Average service (years)	28.28	28.24
6. DROP account balance	$ 60,719,789	$ 52,567,938

Membership Data
(continued)

	January 1, 2002	January 1, 2001
3. Active members (including DROP)		
a. Police and Fire		
1. Number	4,560	4,477
2. Covered payroll	$ 251,103,654	$ 224,276,366
3. Average annual pay	$ 55,067	$ 50,095
4. Average age	40.96	40.74
5. Average service (years)	15.15	15.10
6. DROP account balance	$ 126,014,451	$ 105,543,120
b. Police		
1. Number	2,900	2,837
2. Covered payroll	$ 157,071,589	$ 139,537,333
3. Average annual pay	$ 54,163	$ 49,185
4. Average age	40.15	39.91
5. Average service (years)	14.21	14.17
6. DROP account balance	$ 65,294,662	$ 52,975,182
c. Fire		
1. Number	1,660	1,640
2. Covered payroll	$ 94,032,065	$ 84,739,033
3. Average annual pay	$ 56,646	$ 51,670
4. Average age	42.39	42.18
5. Average service (years)	16.78	16.69
6. DROP account balance	$ 60,719,789	$ 52,567,938

Membership Data
(continued)

	January 1, 2002	January 1, 2001
4. Inactive members		
a. Retired and disabled members	2,140	2,085
b. Beneficiaries	673	695
c. Number entitled to deferred benefits	121	116
d. Total number of inactive members	2,934	2,896
e. Total annual benefit	$ 83,872,896	$ 77,986,732
f. Average annual benefit	$ 28,587	$ 26,929

Summary of Benefit Provisions
As of January 1, 2002
For Actuarial Calculations

Group A

Definitions

Base Pay: The annualized maximum monthly civil service pay established by the City for a police officer or fire fighter exclusive of any and all other forms of compensation.

City Service Incentive Pay: Additional annualized salary granted to Member under the authority of the City Charter.

Longevity Pay (Service Pay): Additional annualized salary granted to Member under provisions of Section 141.032, Local Government Code, for each year of service completed by such Member.

Pension Service: Time in years (prorated for fractional years) that Member made contributions under the terms of the Combined Pension Plan or under any Pension Plan within the Pension System.

Pension System: The Dallas Police and Fire Pension System

Qualified Surviving Spouse: The Member's legal spouse at time of death providing the marriage occurred prior to the Member's termination of employment (entering DROP is not considered termination of employment) and continued until the member's death.

Qualified Surviving Children: All surviving unmarried children under 19 years of age (23 for a disabled child) provided they were born or adopted before Member terminated his employment.

Contribution Rates

The Member contribution rate is 6.5%. Members contribute for a maximum of 32 years.

The City's contribution rate is a function of the highest Member contribution rate of any pension plan within the Pension System (currently Group B) as follows:

City	Member
28.5%	9.0%
27.5	8.5
26.0	8.0
24.5	7.5
23.0	7.0
21.5	6.5

Service Retirement Benefits

Annual Normal Retirement Pension

Greater of I or II:

I. Condition for Retirement: Age 50 with 20 years of Pension Service.

Amount of Pension Benefit: 50% of Base Pay, plus 50% of Longevity Pay, plus 50% City Service Incentive Pay. Pension is increased annually to reflect changes in the rate of Longevity Pay and City Service Incentive Pay based on Member's Pension Service and status at date of retirement.

Member may retire as early as age 45 with 20 years of Pension Service. Pension benefit will be reduced by 2/3 of 1% per month of retirement prior to age 50.

II. Condition for Retirement: Age 55 with 20 years of Pension Service.

Amount of Pension Benefit: 3% of Base Pay for each year of Pension Service (maximum of 32 years), plus 50% of Longevity Pay, plus 50% of City Service Incentive Pay. Pension is increased annually by 4% of the original pension benefit.

Member may retire as early as age 50 with 20 years of Pension Service. Pension benefit will be reduced by 2/3 of 1% for each month of retirement prior to age 55.

Disability Retirement Benefits

Condition for Retirement: Disability preventing Member from performing his or her duties with his or her department and lasting for a period of not less than 90 days.

Annual Amount of Pension

Greater of I or II:

I. Same as Normal Retirement Pension (I).

II. Depending on Source of Disability

a. Service Related Disability: 3% of Base Pay for each year of Pension Service (minimum of 20 years, maximum of 32 years), plus 50% of Longevity Pay, plus 50% of City Service Incentive Pay. Benefit is increased annually by 4% of the original amount, or

b. Non-Service Related Disability: 3% of Base Pay for each year of Pension Service (maximum 32 years), plus 50% of Longevity Pay, plus 50% of City Service Incentive Pay. Benefit is increased annually by 4% of the original amount.

Survivor Benefits

Survivor Benefits for Qualified Surviving Spouse: Death in Active Service: 50% of Service Retirement Pension calculated with a minimum of 20 years of Pension Service.

Survivor Benefits when no Qualified Surviving Spouse: Death in Active Service: 50% of Service Retirement Pension calculated with a minimum of 20 years of Pension Service. The benefit will be paid as a lump sum equal to the value of the lesser of a 10-year benefit or the remainder of the 10-year period if Qualified Surviving Children receive benefit.

Survivor Benefits After Retirement: The Qualifying Surviving Spouse shall receive 50% of any benefits paid to the Member. The percentage is increased if the Qualified Surviving Spouse has attained age 55, there are no Qualified Surviving Children who are eligible for death benefits, the member retired after age 55 with 20 years of Pension Service or the Member's age plus Pension Service at retirement was at least 78 and the Member was receiving a benefit based on the former Plan A formulas.

Survivor Benefits After Retirement or Termination for a Non-Qualifying Surviving Spouse: The Surviving Spouse shall receive 50% of any benefits paid to the Member. However, the Member's benefit will be reduced for this coverage.

Survivor Benefits for Qualified Surviving Children: An amount equal to the amount paid to the Qualified Surviving Spouse divided among the Qualified Surviving Children. Amount paid as long as one or more children continue to qualify.

Survivor Benefits After December 17, 2001: For Members leaving active service after December 17, 2001, a Member may elect to receive an actuarially reduced benefit in order to provide a greater survivor percentage to the qualified spouse. Minimum benefits do not apply.

Minimum Benefits

The minimum benefit is $2,200 monthly for 20 years of Pension Service at retirement, and $1,200 monthly for Qualified Surviving Spouses, if there are no Qualified Surviving Children receiving benefits. The minimum benefit is $1,100 monthly for Qualified Surviving Children and Qualified Surviving Spouses if Qualified Surviving Children are receiving benefits. This minimum does not affect the base benefit. The benefit will not increase until the base retirement benefit with annual increases exceeds the minimum.

Benefit Supplement

If a Member retires with 20 years of Pension Service or if a Member is receiving a service related disability the Member or the Member's Qualified Surviving Spouse is entitled to receive the greater of $75 or 3% of the monthly benefit payable to the member when the Member or the Qualified Surviving Spouse attains age 55. This supplement is also available for both the

Member or the Member's Non-Qualifying Surviving Spouse for a member who has elected a reduced benefit to obtain coverage for a Non-Qualifying Surviving Spouse.

Group B

Definitions

Computation Pay: The annualized monthly rate of pay for the highest civil service rank held by a Member plus Educational Incentive Pay plus Longevity Pay plus City Service Incentive Pay.

Average Computation Pay: Computation Pay averaged over 36 months.

City Service Incentive Pay: Additional annualized salary granted to Member under the authority of the City Charter.

Longevity Pay: Additional annualized salary granted to Members under a provision of Section 141.032, Local Government Code, for each year of service completed by such Member.

Pension Service: The period, in years, months, and days, during which the Member made contributions under the terms of the Combined Plan or any Pension Plan within the Pension System.

Qualified Surviving Spouse: The Member's legal spouse at the time of death providing the marriage occurred prior to the Member's termination of employment (entering DROP is not considered termination of employment).

Pension System: The Dallas Police and Fire Pension System.

Qualified Surviving Children: All surviving unmarried children under 19 years of age (23 for a disabled child) provided they were born or adopted before the Member terminated his employment.

Educational Incentive Pay: Additional annualized salary granted to reward completion of college credits.

Contribution Rates

The City's contribution percentage is a function of the Member's contribution percentage as shown below:

City	Member
28.5%	9.0%
27.5	8.5
26.0	8.0
24.5	7.5
23.0	7.0
21.5	6.5

The Member contribution rate is currently 8.50%. Members contribute for a maximum of 32 years.

Service Retirement Benefits

Annual Normal Retirement Pension

Condition for Retirement: Attainment of age 50 and five years of Pension Service.

Amount for Allowance: 3% of Average Computation Pay for each year of Pension Service to a maximum of 32 such years.

Early Retirement Pension

Condition for Retirement:

a. Attainment of age 45 and five years of Pension Service.

Amount of Pension: 3% of Average Computation Pay for each year of Pension Service reduced 2/3 of 1% for each month by which retirement precedes age 50.

b. 20 years of Pension Service

Amount of Pension: 20 & Out multiplier of Average Compensation Pay for each year of Pension Service.

Age	20 & Out Multiplier
50 & above	3.00%
49	3.00% reduced by 2/3 of 1% for each month prior to age 50
48	2.75%
47	2.50
46	2.25
45 & below	2.00

Special Rule for Members of former Old Plan or Plan A

Group B Members who formerly were Members of either the former Old Plan or Plan A may elect to receive Group A benefits and receive a reimbursement of the additional contributions paid under Group B provisions in excess of the contributions that would have been made under Group A.

Disability Retirement Benefits

Service-Related Disability

Condition for Retirement: Disability preventing the Member from performing his or her duties with his or her department and lasting for a period of not less than 90 days.

Amount of Pension: 60% plus 3% for each year of Pension Service (maximum of 32 years) over 20, of Average Computation Pay.

Non-Service Related Disability

Condition for Retirement: Disability preventing the Member from performing his or her duties with his or her department and lasting for a period of not less than 90 days.

Amount of Pension: 3% of Average Computation Pay for each year of Pension Service (maximum 32 years).

Survivor Benefits

Survivor Benefits for Qualified Surviving Spouse: Death in Active Service: 1.50% of the Member's Average Computation Pay for each year of Pension Service with a minimum of 20 such years and a maximum of 32 such years.

Survivor benefits for Qualified Surviving Spouse: Death in Active Service: 50% of Service Retirement Pension calculated with a minimum of 20 years of Pension Service. The benefit will be paid as a lump sum equal to the value of the lesser of a 10-year benefit or the remainder of the 10-year period if Qualifying Surviving Children receive benefit.

Survivor Benefits After Retirement: The Qualified Surviving Spouse shall receive 50% of any benefits paid to the Member. The percentage is increased if the Qualified Surviving Spouse has attained age 55, there are no Qualified Surviving Children who are eligible for death benefits and the Member retired after age 55 with 20 years of Pension Service or if the Member's age plus Pension Service at retirement was at least 78.

Survivor Benefits After Retirement or Termination for a Non-Qualifying Surviving Spouse: The Surviving Spouse shall receive 50% of any benefits paid to the Member. However, the Member's benefit will be reduced for this coverage.

Survivor Benefits for Qualified Surviving Children: An amount equal to the amount paid to a Qualified Surviving Spouse is divided among the Qualified Surviving Children and continues to be paid as long as one or more of the children continue to qualify.

Survivor Benefits After December 17, 2001: For Members leaving active service after December 17, 2001, a Member may elect to receive an actuarially reduced benefit in order to provide a greater survivor percentage to the qualified spouse. Minimum benefits do not apply.

Post-Retirement Cost of Living Adjustments

Annually, on the first day of October, benefits in pay status will be increased by an amount equal to 4% of the original pension amount.

Minimum Benefits

The minimum benefit for normal retirement is $2,200 monthly (prorated if less than 20 years at retirement) and $1,200 monthly for Qualified Surviving Spouses, if there are no Qualified Surviving Children receiving benefits. The minimum benefit is $1,100 monthly for Qualified Surviving Children and Qualified Surviving Spouses if Qualified Surviving Children are receiving

benefits. This benefit does not affect the base benefit. The benefit will not increase until the base retirement benefit with annual increases exceeds the minimum.

Benefit Supplement

If a Member retires with 20 years of Pension Service or if a Member is receiving a service related disability the Member or the Member's Qualified Surviving Spouse is entitled to receive the greater of $75 or 3% of the monthly benefit payable to the Member when the Member or the Qualified Surviving Spouse attains age 55. This supplement is also available for both the Member or the Member's Non-Qualifying Surviving Spouse for a member who has elected a reduced benefit to obtain coverage for a Non-Qualifying Surviving Spouse.

Deferred Retirement Option Plan

As of January 1, 1993, at normal retirement age, a member may elect to enter the Deferred Retirement Option Plan (DROP). As of January 1, 1999, a member may also elect to enter DROP after 20 years of Pension Service. Retirement benefits will be calculated as if the Member retired on that date. Employee contributions made under the Combined Pension Plan will cease as will accruals under the Combined Pension Plan. Each month, the retirement benefit will be accumulated in an account earning interest based on a ten-year average of the System's actual market return. Upon termination of employment, the Member will have the balance in account in addition to the monthly benefit payable as though the Member retired at the date the Member entered DROP.

Statement of Actuarial Methods and Assumptions
(Effective as of January 1, 2002)

Investment Return: 8.50% per annum, compounded annually, net all expenses including administrative expenses. This rate reflects an underlying inflation rate of 4.00% and a real rate of return of 4.50%.

DROP balances are assumed to earn 9.00% per annum.

Separations Before Normal Retirement: Representative values of the assumed annual rates of withdrawal, death, and disability are as follows:

Annual Rate per 1,000 Members

	Withdrawal		Mortality - Disableds		Mortality - Other		Disability	
Age	Police	Fire	Male	Female	Male	Female	Police	Fire
20	43.0	21.0	48.30	26.30	.51	.28	.35	.70
25	43.0	21.0	48.30	26.30	.66	.29	.37	.75
30	32.0	16.0	36.20	23.70	.80	.35	.42	.84
35	23.0	16.0	27.80	21.40	.85	.48	.48	.96
40	23.0	16.0	28.20	20.90	1.07	.71	.57	1.15
45	23.0	16.0	32.20	22.40	1.58	.97	.79	1.58
50	NA	NA	38.30	25.70	2.58	1.43	NA	NA
60	NA	NA	60.30	33.10	7.98	4.44	NA	NA
70	NA	NA	73.90	41.10	23.73	13.73	NA	NA
75	NA	NA	84.20	49.20	37.21	22.69	NA	NA

Salary Increases: Representative values of the assumed annual rates of future salary increase attributable to seniority and promotion are as follows:

	Annual Rate of Salary Increase
20	10.00%
30	5.23
40	4.57
50	4.37
60	4.33

Total payroll is assumed to increase 4.00% per year. New hires are assumed to replace terminations.

Overtime is assumed to be 7% of base pay. The city contributes on total pay including overtime. This assumption is consistent with past experience and the city's budget.

Retirement Rates: The percentage of population assumed to retire at various ages is as follows:

Age	Rate	Age	Rate	Age	Rate
38	15%	48	15%	58	20%
39	15	49	15	59	30
40	15	50	20	60	40
41	15	51	15	61	50
42	15	52	15	62	60
43	15	53	15	63	70
44	15	54	15	64	80
45	15	55	20	65	100
46	15	56	20		
47	15	57	20		

Rates are only applied when member is eligible to retire. That is, age 50 with five years or 20 years for Plan B, age 55 with 20 years for Plan A, and age 50 with 20 years for Old Plan.

Postretirement Mortality: According to the 1994 Group Annuity Mortality Table for males and females.

DROP Election: Members are assumed to elect DROP at age 50 with five years for Plan B, age 55 with 20 years for Plan A, and age 50 with 20 years for Old Plan.

Spouses: 80% of active members are assumed to be married with the male three years older than the female. The age of the youngest child is assumed to be one year.

Assumption as to Choice of Plan Provisions: Those Members eligible to elect between Plan B and the Old Plan are assumed to elect in a manner which maximizes the benefit they receive.

Assumed Post Retirement Cost of Living:

Plan A and Plan B:	4% of original pension annually
Old Plan:	4% compounded annually

Future Expenses: All expenses, investment and administration, are paid from the Fund. The 8.50% assumed rate of return is net of these expenses.

Valuation Method: The method used to determine Normal Cost and Accrued Actuarial Liability is the Entry Age Normal Cost Method. Under the Entry Age Normal Cost Method, an annual Normal Cost is determined for each covered active Member which is the contribution required to provide all the projected pension benefits assuming this contribution is payable over a period ending on the date of retirement (separation from active service) and expressed as a level percentage of compensation. The Actuarial Accrued Liability is determined as the excess of the total present value of all pension benefits over the total present value of future Normal Costs. The Unfunded Actuarial Accrued Liability as of the valuation date is determined as the excess of the Actuarial Accrued Liability over the assets of the Fund.

The Normal Cost and Accrued Actuarial Liability are derived by making certain assumptions as to the rates of interest, mortality, turnover, etc., which are assumed to reflect experience for many years into the future. Since actual experience will differ from the assumptions, the costs determined must be regarded as estimates of the true costs of the Plan. The effects of any actuarial gains or losses are immediately reflected in the Unfunded Actuarial Accrued Liability and the Normal Cost.

Actuarial Value of Assets: The actuarial value of assets is calculated based on the following formula:

$$MV - (4/5) \times G/(L)_1 - (3/5) \times G/(L)_2 - (2/5) \times G/(L)_3 - (1/5) \times G/(L)_4$$

where:

MV = the market value of assets as of the valuation date

$G/(L)_i$ = the asset gain or (loss) (i.e., actual return on assets less expected return on assets) for the i-th year preceding the valuation date.

This method was phased in beginning January 1, 1995. Asset gains or losses prior to January 1, 1994, are fully reflected in the calculation of the Actuarial Value of Assets. In no event is the actuarial value of assets less than 80% nor more than 120% of the market value of assets.

Comparison of Actual Experience and Actuarial Expectations

Demographic Assumptions

The demographic assumptions used to value the liabilities of the System are used to estimate the timing and duration of the member contributions and benefit payments of the System. The main demographic assumptions used to value the liabilities of the System consist of termination prior to retirement, disability, retirement, death and DROP age. A comparison of the actual experience of the System to each of these assumptions follows.

Terminations Prior to Retirement

This assumption was last changed as of January 1, 1999 to better reflect the actual experience of the System and to better anticipate future expectations. The ratio of actual terminations prior to retirement to the expected terminations prior to retirement for the period January 1, 1998 through December 31, 2001 shows that during this period there have been about 18% more terminations than expected. Since the difference in assumed terminations and actual terminations is small and the period over which this assumption has been measured is short, we do not feel that any change in this assumption is necessary at this time.

January 1, 1998 through December 31, 2001

	Actual	Expected	Actual/Expected
Termination Prior to Retirement	347	293	118%

Disability

This assumption was last changed as of January 1, 1999 to better reflect the actual experience of the System and to better anticipate future expectations. The ratio of actual disability retirements to the expected disability retirements for the period January 1, 1998 through December 31, 2001 shows that during this period there have been about 17% less disability retirements than expected. Since the difference in assumed disability retirements and actual disability retirements is small and the period over which this assumption has been measured is short, we do not feel that any change in this assumption is necessary at this time.

January 1, 1998 through December 31, 2001

	Actual	Expected	Actual/Expected
Disability Retirements	10	12	83%

Retirement (Leaving Active Service)

This assumption was last changed as of January 1, 1993 to better reflect the actual experience of the System and to better anticipate future expectations. Since we changed our valuation programs as of January 1, 2000 to differentiate between leaving active service and entering DROP, we can measure this assumption explicitly. The ratio of actual retirements to the expected retirements for the period January 1, 1999 through December 31, 2001 shows that during this period there have been about 13% less retirements than expected. We do not feel that any change in this assumption is necessary at this time, since this difference in assumed retirements and actual retirements is small, the period over which this assumption has been measured is short, and this assumption has very little effect on the liabilities of the System (due to the fact that we assume all Members DROP when first eligible for unreduced benefits).

January 1, 1999 through December 31, 2001

	Actual	Expected	Actual/Expected
Retirement	655	755	87%

Death

This assumption was last changed as of January 1, 2001 to better reflect the actual experience of the System and to better anticipate future expectations. The ratio of actual deaths to the expected deaths for the period January 1, 2000 through December 31, 2001 shows that during this period there have been about 3% less deaths than expected.

January 1, 2000 through December 31, 2001

	Actual	Expected	Actual/Expected
Death	153	158	97%

Age at DROP			
This assumption has not changed since the implementation of DROP in 1993. The actual age at DROP is only slightly higher than the assumed age of 50. We do not feel that any change or assumption is necessary at this time since the difference in the assumed age at DROP and the actual age at DROP is very small.			
January 1, 1996 through December 31, 2001			
	Actual	Expected	Actual/Expected
Age at DROP	50.3	50.0	101%

Economic Assumptions

The economic assumptions used to value the liabilities of the System are used to estimate the amount and cost of the benefit payments of the System. Economic assumptions are generally based on a building block approach with the inflation rate used as the initial basis. For example, in setting the long-term rate of return, the expected inflation rate is added to the expected real-rate of return to determine the nominal rate of return. This nominal rate of return is then used to determine the present value of future benefit payment amounts. The main economic assumptions used to value the liabilities of the System consist of inflation, long-term rate of return and salary increase rate. A discussion of these assumptions follows.

Inflation			
The inflation assumption used to value the liabilities of the System is 4%. This assumption was last changed as of January 1, 1999 to better anticipate future expectations. The average annual inflation rate (as measured by CPI-U) over the 60 years ending December 31, 2001 has been 4.12%. We feel that given the history of inflation rates and reasonable expectations of the future that the 4% inflation rate assumption is reasonable.			
January 1, 1941 through December 31, 2001			
	Actual	Expected	Actual/Expected
Inflation	4.12%	4.00%	103%

Salary Increases			
The salary increase assumption used to value the liabilities of the System varies by the age of the Member. This assumption was last changed as of January 1, 1999 to reflect the change in the inflation rate. Based on our expectations of future promotional and merit salary increases and the assumed rate of inflation, we feel that the current salary increase rates are reasonable. A summary of the actual valuation earnings to the expected valuation earnings over the period January 1, 1998 through December 31, 2001 follows.			
January 1, 1998 through December 31, 2001			
	Actual	Expected	Actual/Expected
Valuation Compensation	$802,391,053	$781,347,427	103%

Long-Term Rate of Return on Plan Assets			
The long-term rate of return on plan assets used to value the liabilities of the System is 8.5%. This assumption was last changed as of January 1, 1999 to better anticipate future expectations and to reflect the change in the inflation rate. Based on the asset allocation policy, expectations of future real rates of return and the expected administrative expenses of the System, we feel that an 8.5% long-term rate of return is reasonable. A summary of the nominal rates of return over the period October 1, 1988 through December 31, 2001 follows.			
Period			Annualized Rate of Return
10/1/1988	through	9/30/1989	25.40%
10/1/1989	through	9/30/1990	(6.53)
10/1/1990	through	12/31/1991	20.73
1/1/1992	through	12/31/1992	2.94
1/1/1993	through	12/31/1993	14.06
1/1/1994	through	12/31/1994	2.78
1/1/1995	through	12/31/1995	24.33
1/1/1996	through	12/31/1996	16.69
1/1/1997	through	12/31/1997	13.84
1/1/1998	through	12/31/1998	13.68
1/1/1999	through	12/31/1999	24.39
1/1/2000	through	12/31/2000	(1.52)
1/1/2001	through	12/31/2001	(7.76)
10/1/1988	through	12/31/2001	10.50%

Effective for years beginning on October 1, 2002 and each October 1 thereafter, the DROP interest rate will be determined at a daily rate based on the arithmetic average of the annual market return on the Systems' investments for the preceding ten calendar years. However, the rate shall not vary by more than 25 basis points from the prior year and shall not be less than 8% nor more than 10%. The 10-year arithmetic average of the annual market return on the Systems' investments for the preceding ten calendar years is 10.34%. Last year's DROP interest rate was 9%. Therefore, the annual DROP interest rate for October 1, 2002 is 9.25%.

TABLE 1

THE NUMBER AND ANNUAL AVERAGE COMPENSATION OF ACTIVE
(excluding DROP) MEMBERS DISTRIBUTED BY FIFTH AGE AND SERVICE
AS OF JANUARY 1, 2002

POLICE

	YEARS OF SERVICE																	
	Under 1		1 to 4		5 to 9		10 to 14		15 to 19		20 to 24		25 to 29		30 to 34		35 to 39		40 & up	
ATTAINED AGE	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp
Under 25	49	34,217	34	36,123	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25 to 29	73	34,217	198	38,209	49	42,635	0	0	0	0	0	0	0	0	0	0	0	0	0	0
30 to 34	32	34,611	120	38,581	201	44,688	163	50,066	2	45,718	0	0	0	0	0	0	0	0	0	0
35 to 39	13	34,217	29	39,648	90	46,005	329	51,928	104	59,435	0	0	0	0	0	0	0	0	0	0
40 to 44	7	34,217	10	42,534	31	46,835	140	53,176	234	62,690	115	65,618	0	0	0	0	0	0	0	0
45 to 49	1	34,217	2	51,343	3	44,945	46	53,100	77	61,810	148	65,725	84	66,584	4	65,970	0	0	0	0
50 to 54	0	0	3	44,449	2	48,602	14	55,194	9	58,687	2	60,337	14	65,529	2	53,509	0	0	0	0
55 to 59	0	0	0	0	0	0	1	58,099	2	63,197	0	0	0	0	0	0	0	0	0	0
60 to 64	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
65 to 69	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
70 & up	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

TABLE 1

THE NUMBER AND ANNUAL AVERAGE COMPENSATION OF ACTIVE
(excluding DROP) MEMBERS DISTRIBUTED BY FIFTH AGE AND SERVICE
AS OF JANUARY 1, 2002

FIRE

	YEARS OF SERVICE																					
	Under 1		1 to 4		5 to 9		10 to 14		15 to 19		20 to 24		25 to 29		30 to 34		35 to 39		40 & up	
ATTAINED AGE	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp
Under 25	8	34,217	27	34,999	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25 to 29	29	34,217	108	37,192	21	42,829	1	34,217	0	0	0	0	0	0	0	0	0	0	0	0
30 to 34	14	34,217	60	37,635	100	44,957	19	51,677	1	60,934	0	0	0	0	0	0	0	0	0	0
35 to 39	8	34,217	13	36,427	56	46,652	83	53,298	90	58,959	0	0	0	0	0	0	0	0	0	0
40 to 44	0	0	2	37,768	23	46,216	48	54,171	173	59,987	68	63,051	1	63,135	0	0	0	0	0	0
45 to 49	0	0	2	49,598	5	51,285	20	54,607	69	61,043	120	63,328	52	65,423	6	64,479	0	0	0	0
50 to 54	0	0	1	36,876	3	52,041	5	50,361	6	59,530	6	65,190	11	63,414	3	55,808	0	0	0	0
55 to 59	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	54,268	0	0	0	0
60 to 64	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
65 to 69	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
70 & up	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

TABLE 1

THE NUMBER AND ANNUAL AVERAGE COMPENSATION OF ACTIVE
(excluding DROP) MEMBERS DISTRIBUTED BY FIFTH AGE AND SERVICE
AS OF JANUARY 1, 2002

POLICE AND FIRE

	YEARS OF SERVICE																					
	Under 1		1 to 4		5 to 9		10 to 14		15 to 19		20 to 24		25 to 29		30 to 34		35 to 39		40 & up	
ATTAINED AGE	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp
Under 25	57	34,217	61	35,626	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25 to 29	102	34,217	306	37,850	70	42,693	1	34,217	0	0	0	0	0	0	0	0	0	0	0	0
30 to 34	46	34,491	180	38,266	301	44,777	182	50,234	3	50,790	0	0	0	0	0	0	0	0	0	0
35 to 39	21	34,217	42	38,651	146	46,253	412	52,204	194	59,214	0	0	0	0	0	0	0	0	0	0
40 to 44	7	34,217	12	41,740	54	46,572	188	53,430	407	61,541	183	64,664	1	63,135	0	0	0	0	0	0
45 to 49	1	34,217	4	50,470	8	48,908	66	53,557	146	61,448	268	64,651	136	66,140	10	65,075	0	0	0	0
50 to 54	0	0	4	42,556	5	50,666	19	53,922	15	59,025	8	63,977	25	64,599	5	54,889	0	0	0	0
55 to 59	0	0	0	0	0	0	1	58,099	2	63,197	0	0	0	0	1	54,268	0	0	0	0
60 to 64	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
65 to 69	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
70 & up	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

TABLE 2

THE NUMBER AND ANNUAL AVERAGE COMPENSATION OF ACTIVE
(including DROP) MEMBERS DISTRIBUTED BY FIFTH AGE AND SERVICE
AS OF JANUARY 1, 2002

POLICE

	YEARS OF SERVICE																					
	Under 1		1 to 4		5 to 9		10 to 14		15 to 19		20 to 24		25 to 29		30 to 34		35 to 39		40 & up	
ATTAINED AGE	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp
Under 25	49	34,217	34	36,123	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25 to 29	73	34,217	198	38,209	49	42,635	0	0	0	0	0	0	0	0	0	0	0	0	0	0
30 to 34	32	34,611	120	38,581	201	44,688	163	50,066	2	45,718	0	0	0	0	0	0	0	0	0	0
35 to 39	13	34,217	29	39,648	90	46,005	329	51,928	104	59,435	0	0	0	0	0	0	0	0	0	0
40 to 44	7	34,217	10	42,534	31	46,835	140	53,176	234	62,690	117	65,541	0	0	0	0	0	0	0	0
45 to 49	1	34,217	2	51,343	3	44,945	46	53,100	78	61,793	152	66,026	89	66,664	4	65,970	0	0	0	0
50 to 54	0	0	3	44,449	3	47,254	25	56,809	32	66,435	69	69,708	144	69,881	94	70,927	1	62,878	0	0
55 to 59	0	0	0	0	0	0	3	62,777	6	65,470	17	71,974	24	69,715	51	68,234	11	70,842	0	0
60 to 64	0	0	0	0	0	0	1	48,544	3	79,799	1	65,823	2	78,082	4	65,934	4	71,921	0	0
65 to 69	0	0	0	0	0	0	0	0	0	0	0	0	1	79,485	1	73,890	0	0	0	0
70 & up	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

TABLE 2

THE NUMBER AND ANNUAL AVERAGE COMPENSATION OF ACTIVE
(including DROP) MEMBERS DISTRIBUTED BY FIFTH AGE AND SERVICE
AS OF JANUARY 1, 2002

FIRE

	YEARS OF SERVICE																					
	Under 1		1 to 4		5 to 9		10 to 14		15 to 19		20 to 24		25 to 29		30 to 34		35 to 39		40 & up	
ATTAINED AGE	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp
Under 25	8	34,217	27	34,999	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25 to 29	29	34,217	108	37,192	21	42,829	1	34,217	0	0	0	0	0	0	0	0	0	0	0	0
30 to 34	14	34,217	60	37,635	100	44,957	19	51,677	1	60,934	0	0	0	0	0	0	0	0	0	0
35 to 39	8	34,217	13	36,427	56	46,652	83	53,298	90	58,959	0	0	0	0	0	0	0	0	0	0
40 to 44	0	0	2	37,768	23	46,216	48	54,171	173	59,987	68	63,051	1	63,135	0	0	0	0	0	0
45 to 49	0	0	2	49,598	5	51,285	20	54,607	69	61,043	126	63,474	60	66,748	7	65,035	0	0	0	0
50 to 54	0	0	1	36,876	3	52,041	8	53,534	16	62,568	72	69,172	144	67,968	70	71,012	1	76,777	0	0
55 to 59	0	0	0	0	0	0	0	0	3	69,798	4	62,852	36	69,965	30	71,299	17	79,492	3	83,953
60 to 64	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	78,134	5	71,442	2	74,431
65 to 69	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	69,532	1	107,201
70 & up	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

TABLE 2

THE NUMBER AND ANNUAL AVERAGE COMPENSATION OF ACTIVE
(including DROP) MEMBERS DISTRIBUTED BY FIFTH AGE AND SERVICE
AS OF JANUARY 1, 2002

POLICE AND FIRE

	YEARS OF SERVICE																					
	Under 1		1 to 4		5 to 9		10 to 14		15 to 19		20 to 24		25 to 29		30 to 34		35 to 39		40 & up	
ATTAINED AGE	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp	#	Avg Comp
Under 25	57	34,217	61	35,626	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25 to 29	102	34,217	306	37,850	70	42,693	1	34,217	0	0	0	0	0	0	0	0	0	0	0	0
30 to 34	46	34,491	180	38,266	301	44,777	182	50,234	3	50,790	0	0	0	0	0	0	0	0	0	0
35 to 39	21	34,217	42	38,651	146	46,253	412	52,204	194	59,214	0	0	0	0	0	0	0	0	0	0
40 to 44	7	34,217	12	41,740	54	46,572	188	53,430	407	61,541	185	64,626	1	63,135	0	0	0	0	0	0
45 to 49	1	34,217	4	50,470	8	48,908	66	53,557	147	61,441	278	64,870	149	66,698	11	65,375	0	0	0	0
50 to 54	0	0	4	42,556	6	49,648	33	56,015	48	65,146	141	69,434	288	68,925	164	70,963	2	69,828	0	0
55 to 59	0	0	0	0	0	0	3	62,777	9	66,913	21	70,236	60	69,865	81	69,369	28	76,094	3	83,953
60 to 64	0	0	0	0	0	0	1	48,544	3	79,799	1	65,823	2	78,082	5	68,374	9	71,655	2	74,431
65 to 69	0	0	0	0	0	0	0	0	0	0	0	0	1	79,485	1	73,890	1	69,532	1	107,201
70 & up	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

TABLE 3

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF RETIRED MEMBERS
BY AGE AS OF JANUARY 1, 2002

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
41	1	$ 4,429	$ 4,429
44	1	27,088	27,088
45	1	11,104	11,104
46	5	96,291	19,258
47	3	43,403	14,468
48	5	94,829	18,966
49	5	135,729	27,146
50	18	542,831	30,157
51	22	628,554	28,571
52	28	813,595	29,057
53	36	1,059,739	29,437
54	50	1,585,241	31,705
55	56	1,923,632	34,351
56	68	2,314,746	34,040
57	62	2,046,622	33,010
58	79	2,991,760	37,870
59	91	3,386,695	37,216
60	69	2,706,570	39,226
61	101	3,687,631	36,511
62	85	3,298,444	38,805
63	93	3,737,288	40,186
64	79	3,163,979	40,050
65	63	2,309,868	36,665
66	73	2,549,175	34,920
67	72	2,395,539	33,271
68	74	2,367,978	32,000
69	74	2,522,039	34,082
70	71	2,106,079	29,663
71	72	2,227,461	30,937
72	68	1,978,003	29,088
73	60	1,772,766	29,546
74	50	1,565,615	31,312
75	37	1,156,631	31,260
76	40	1,220,706	30,518

TABLE 3

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF RETIRED MEMBERS
BY AGE AS OF JANUARY 1, 2002
CONTINUED

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
77	43	$ 1,294,674	$ 30,109
78	29	875,393	30,186
79	17	475,446	27,967
80	19	532,801	28,042
81	23	683,716	29,727
82	20	565,120	28,256
83	7	206,885	29,555
84	14	391,548	27,968
85	10	306,214	30,621
86	3	83,418	27,806
87	3	84,285	28,095
88	3	85,459	28,486
89	2	56,744	28,372
90	1	28,095	28,095
91	2	55,347	27,674
92	1	27,999	27,999
94	3	84,237	28,079
TOTAL	1,912	$ 64,309,441	$ 33,635
POLICE	1,100	$ 34,879,663	$ 31,709
FIRE	812	$ 29,429,778	$ 36,244

TABLE 4

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF DISABLED MEMBERS
BY AGE AS OF JANUARY 1, 2002

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
34	1	$ 26,400	$ 26,400
37	1	26,400	26,400
38	3	80,312	26,771
39	2	52,800	26,400
40	2	41,954	20,977
41	3	79,200	26,400
42	1	26,400	26,400
44	3	79,608	26,536
45	4	110,581	27,645
46	2	39,880	19,940
47	5	139,628	27,926
48	2	55,581	27,791
49	1	29,747	29,747
50	5	157,404	31,481
51	6	179,613	29,936
52	6	219,938	36,656
53	6	164,193	27,366
54	7	214,413	30,630
55	4	90,313	22,578
56	2	37,669	18,835
57	6	171,649	28,608
58	2	64,851	32,426
59	5	188,102	37,620
60	3	79,516	26,505
61	8	262,888	32,861
62	13	500,955	38,535
63	8	288,813	36,102
64	8	268,282	33,535
65	8	224,564	28,071

TABLE 4

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF DISABLED MEMBERS
BY AGE AS OF JANUARY 1, 2002
CONTINUED

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
71	7	$ 263,433	$ 37,633
72	7	208,765	29,824
73	4	124,512	31,128
74	4	111,900	27,975
75	6	167,538	27,923
76	7	194,973	27,853
77	6	177,178	29,530
78	4	111,417	27,854
79	8	217,066	27,133
80	5	138,477	27,695
81	2	55,950	27,975
82	1	27,855	27,855
83	1	27,300	27,300
84	4	109,146	27,287
87	1	27,975	27,975
88	2	56,190	28,095
89	1	27,999	27,999
92	1	28,095	28,095
98	1	28,095	28,095
TOTAL	228	$ 6,952,097	$ 30,492
POLICE	83	$ 2,282,047	$ 27,495
FIRE	145	$ 4,670,050	$ 32,207

TABLE 5

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF BENEFICIARIES
BY AGE AS OF JANUARY 1, 2002

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
2	1	$ 4,400	$ 4,400
4	1	4,400	4,400
5	1	6,733	6,733
7	1	13,200	13,200
8	1	13,200	13,200
9	1	6,604	6,604
10	4	35,907	8,977
11	2	17,111	8,556
12	4	39,172	9,793
13	2	31,901	15,951
14	3	31,378	10,459
15	1	3,300	3,300
16	6	55,669	9,278
17	3	39,993	13,331
18	8	108,425	13,553
19	3	28,938	9,646
28	2	26,666	13,333
30	1	18,512	18,512
31	1	13,200	13,200
32	2	28,167	14,084
34	1	13,200	13,200
35	2	27,600	13,800
36	1	13,200	13,200
37	1	14,400	14,400
40	2	32,130	16,065
41	2	26,408	13,204
42	3	49,661	16,554
43	2	27,938	13,969
44	4	63,948	15,987
45	3	42,578	14,193
46	3	46,184	15,395
47	4	57,875	14,469
48	5	80,628	16,126
49	3	47,327	15,776
50	4	56,992	14,248
51	4	60,273	15,068

TABLE 5

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF BENEFICIARIES
BY AGE AS OF JANUARY 1, 2002
CONTINUED

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
52	5	$ 72,632	$ 14,526
53	13	200,630	15,433
54	8	126,872	15,859
55	16	274,252	17,141
56	10	182,269	18,227
57	5	80,366	16,073
58	12	239,167	19,931
59	8	169,872	21,234
60	10	162,616	16,262
61	7	113,590	16,227
62	17	358,582	21,093
63	17	302,627	17,802
64	14	279,759	19,983
65	13	275,063	21,159
66	15	266,671	17,778
67	15	277,543	18,503
68	14	215,640	15,403
69	14	244,322	17,452
70	15	251,947	16,796
71	23	359,976	15,651
72	19	290,416	15,285
73	23	393,036	17,089
74	22	343,714	15,623
75	23	374,081	16,264
76	13	219,934	16,918
77	28	429,700	15,346
78	23	376,545	16,372
79	19	322,884	16,994
80	20	323,846	16,192
81	12	182,700	15,225
82	17	259,566	15,269
83	22	336,937	15,315
84	11	165,600	15,055
85	13	198,000	15,231

TABLE 5

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF BENEFICIARIES
BY AGE AS OF JANUARY 1, 2002
CONTINUED

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
88	7	$ 106,200	$ 15,171
89	5	76,500	15,300
90	6	91,800	15,300
91	5	76,500	15,300
92	5	76,500	15,300
93	5	76,500	15,300
94	2	30,600	15,300
95	1	15,300	15,300
97	1	14,400	14,400
99	2	30,600	15,300
100	1	15,300	15,300
101	1	15,300	15,300
TOTAL	673	$ 10,865,891	$ 16,145
POLICE	360	$ 5,646,739	$ 15,685
FIRE	313	$ 5,219,152	$ 16,675

TABLE 6

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF RETIRED MEMBERS,
DISABLED MEMBERS AND BENEFICIARIES
BY AGE AS OF JANUARY 1, 2002

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
2	1	$ 4,400	$ 4,400
4	1	4,400	4,400
5	1	6,733	6,733
7	1	13,200	13,200
8	1	13,200	13,200
9	1	6,604	6,604
10	4	35,907	8,977
11	2	17,111	8,556
12	4	39,172	9,793
13	2	31,901	15,951
14	3	31,378	10,459
15	1	3,300	3,300
16	6	55,669	9,278
17	3	39,993	13,331
18	8	108,425	13,553
19	3	28,938	9,646
28	2	26,666	13,333
30	1	18,512	18,512
31	1	13,200	13,200
32	2	28,167	14,084
34	2	39,600	19,800
35	2	27,600	13,800
36	1	13,200	13,200
37	2	40,800	20,400
38	3	80,312	26,771
39	2	52,800	26,400
40	4	74,084	18,521
41	6	110,037	18,340
42	4	76,061	19,015
43	2	27,938	13,969
44	8	170,644	21,331
45	8	164,263	20,533
46	10	182,355	18,236
47	12	240,906	20,076
48	12	231,038	19,253

TABLE 6

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF RETIRED MEMBERS,
DISABLED MEMBERS AND BENEFICIARIES
BY AGE AS OF JANUARY 1, 2002
CONTINUED

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
49	9	$ 212,803	$ 23,645
50	27	757,227	28,045
51	32	868,440	27,139
52	39	1,106,165	28,363
53	55	1,424,562	25,901
54	65	1,926,526	29,639
55	76	2,288,197	30,108
56	80	2,534,684	31,684
57	73	2,298,637	31,488
58	93	3,295,778	35,438
59	104	3,744,669	36,006
60	82	2,948,702	35,960
61	116	4,064,109	35,035
62	115	4,157,981	36,156
63	118	4,328,728	36,684
64	101	3,712,020	36,753
65	84	2,809,495	33,446
66	93	2,994,904	32,203
67	94	2,926,390	31,132
68	93	2,725,315	29,304
69	92	2,891,425	31,429
70	94	2,605,478	27,718
71	102	2,850,870	27,950
72	94	2,477,184	26,353
73	87	2,290,314	26,325
74	76	2,021,229	26,595
75	66	1,698,250	25,731
76	60	1,635,613	27,260
77	77	1,901,552	24,695
78	56	1,363,355	24,346
79	44	1,015,396	23,077
80	44	995,124	22,616
81	37	922,366	24,929
82	38	852,541	22,435
83	30	571,122	19,037

TABLE 6

THE NUMBER AND ANNUAL RETIREMENT
ALLOWANCE OF RETIRED MEMBERS,
DISABLED MEMBERS AND BENEFICIARIES
BY AGE AS OF JANUARY 1, 2002
CONTINUED

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
84	29	$ 666,294	$ 22,976
85	23	504,214	21,922
86	16	296,718	18,545
87	15	280,778	18,719
88	12	247,849	20,654
89	8	161,243	20,155
90	7	119,895	17,128
91	7	131,847	18,835
92	7	132,594	18,942
93	5	76,500	15,300
94	5	114,837	22,967
95	1	15,300	15,300
97	1	14,400	14,400
98	1	28,095	28,095
99	2	30,600	15,300
100	1	15,300	15,300
101	1	15,300	15,300
TOTAL	2,813	$ 82,127,429	$ 29,196
POLICE	1,543	$ 42,808,449	$ 27,744
FIRE	1,270	$ 39,318,980	$ 30,960

TABLE 7

THE NUMBER AND FUTURE ANNUAL
ALLOWANCE OF TERMINATED MEMBERS
ENTITLED TO A FUTURE BENEFIT
BY AGE AS OF JANUARY 1, 2002

POLICE AND FIRE

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT
30	1	$ 5,148	$ 5,148
31	2	11,807	5,904
32	7	63,421	9,060
33	4	28,334	7,084
34	4	39,499	9,875
35	7	60,985	8,712
36	9	91,998	10,222
37	4	49,352	12,338
38	6	65,802	10,967
39	8	115,392	14,424
40	9	107,741	11,971
41	8	122,863	15,358
42	4	54,938	13,735
43	7	114,881	16,412
44	7	87,390	12,484
45	9	95,989	10,665
46	5	122,902	24,580
47	9	237,027	26,336
48	7	130,218	18,603
49	3	105,185	35,062
54	1	34,595	34,595
TOTAL	121	$ 1,745,467	$ 14,425

TABLE 8

THE NUMBER, ANNUAL RETIREMENT
ALLOWANCE AND ACCOUNT BALANCE
OF DROP MEMBERS
BY AGE AS OF JANUARY 1, 2002

POLICE AND FIRE
DROP

AGE	NUMBER	BENEFIT	AVERAGE BENEFIT	ACCOUNT BALANCE	AVERAGE ACCOUNT BALANCE
41	1	$ 23,009	$ 23,009	$ 21,193	$ 21,193
42	1	18,256	18,256	35,952	35,952
45	1	18,686	18,686	57,355	57,355
46	2	48,200	24,100	73,097	36,549
48	8	303,001	37,875	170,776	21,347
49	14	596,813	42,630	608,685	43,478
50	104	4,395,085	42,260	3,351,163	32,223
51	125	5,129,071	41,033	7,448,749	59,590
52	123	5,074,621	41,257	11,823,340	96,125
53	120	4,578,950	38,158	16,100,601	134,172
54	133	5,050,483	37,974	23,011,258	173,017
55	81	3,261,222	40,262	17,053,037	210,531
56	38	1,514,455	39,854	9,331,870	245,576
57	32	1,284,236	40,132	10,008,376	312,762
58	32	1,264,181	39,506	11,163,543	348,861
59	18	710,101	39,450	6,914,750	384,153
60	7	286,522	40,932	2,607,841	372,549
61	9	320,886	35,654	2,663,125	295,903
62	4	138,339	34,585	1,251,360	312,840
63	1	17,078	17,078	104,228	104,228
64	2	103,024	51,512	1,158,001	579,001
65	3	154,861	51,620	684,816	228,272
67	1	32,925	32,925	371,335	371,335
TOTAL	860	$ 34,324,005	$ 39,912	$ 126,014,451	$ 146,528

Photo courtesy of the Dallas Police Department

Photo courtesy of Dallas Fire Rescue

DALLAS POLICE AND FIRE PENSION SYSTEM

Financial Statements

December 31, 2001 and 2000

(With Independent Auditors' Report Thereon)

200 Crescent Court
Suite 300
Dallas, TX 75201-1885

Independent Auditors' Report

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, 2001 and 2000, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the System as of December 31, 2001 and 2000, 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 schedule of funding progress in note 3 on page 12 is not a required part of the general-purpose financial statements of the System, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it.

The System has not presented Management's Discussion and Analysis, which is supplementary information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

KPMG LLP

May 7, 2002

KPMG, LLP. KPMG, LLP a U.S. limited liability partnership, is
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DALLAS POLICE AND FIRE PENSION SYSTEM

Statements of Plan Net Assets

December 31, 2001 and 2000

Assets	2001	2000
Investments, at quoted market value (note 4):		
Cash and short-term investments	$ 159,537,144	204,417,606
United States Government securities	34,106,396	60,984,829
Foreign government securities	95,078,011	124,251,485
Commingled index funds	509,730,450	600,584,806
Domestic equities	358,833,193	329,949,738
International equities	245,197,024	271,664,793
Corporate securities	264,795,407	277,374,709
Investments, at appraised value – real estate equity funds	314,496,677	290,007,306
	1,981,774,302	2,159,235,272
Receivables:		
Accrued interest and dividends	11,827,445	11,381,499
Employer contributions	2,695,952	1,936,902
Member contributions	566,137	408,426
Securities sold	23,771,699	60,203,208
	38,861,233	73,930,035
Total assets	2,020,635,535	2,233,165,307
Liabilities		
Bank overdraft	1,500,645	1,511,213
Payable for securities purchased	27,614,920	69,591,140
Administrative and professional fees payable	2,521,869	2,552,593
Securities lending collateral	100,611,208	119,769,121
Total liabilities	132,248,642	193,424,067
Net assets held in trust for pension benefits (a schedule of funding progress is presented on page 12)	$ 1,888,386,893	2,039,741,240

See accompanying notes to financial statements.

DALLAS POLICE AND FIRE PENSION SYSTEM

Statements of Changes in Plan Net Assets

Years ended December 31, 2001 and 2000

	2001	2000
Additions:		
Investment income:		
Interest	$ 18,399,220	48,392,321
Dividends	9,658,375	9,395,854
Real estate income	17,526,408	13,544,582
Net depreciation in fair value of investments	(190,756,578)	(90,074,213)
Securities lending income	8,872,192	10,901,343
Less investment expenses:		
Securities lending borrower rebates	(7,293,554)	(9,994,831)
Custody fees	(473,592)	(271,954)
Net investment loss	(144,067,529)	(18,106,898)
Contributions:		
Employer	75,592,062	66,690,520
Employee	16,143,737	14,593,058
	91,735,799	81,283,578
Other income	408,989	619,729
Total additions	(51,922,741)	63,796,409
Deductions:		
Benefit payments	83,442,133	78,662,824
Withdrawal payments and refunds	984,984	1,221,884
Administrative expenses and professional fees	15,004,489	13,904,683
Total deductions	99,431,606	93,789,391
Net decrease in net assets available for benefits	(151,354,347)	(29,992,982)
Net assets held in trust for pension benefits: (a schedule of funding progress is presented on page 12)		
Beginning of year	2,039,741,240	2,069,734,222
End of year	$ 1,888,386,893	2,039,741,240

See accompanying notes to financial statements.

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Financial Statements

December 31, 2001 and 2000

(1) Description of the System

(a) General

The Dallas Police and Fire Pension System (the System) is a single-employer pension and retirement fund for firefighters and police officers employed by the City of Dallas, Texas (the City or Employer). The general terms "firefighters" and "police officers" 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. Most active firefighters and police officers (as defined above) employed by the City are eligible to participate. As of December 31, 2001 and 2000, the System's membership consisted of:

	2001	2000
Pensioners and qualified survivors currently receiving benefits and terminated employees entitled to benefits but not yet receiving them:		
Firefighters	1,270	1,269
Police officers	1,543	1,511
Terminated vested members not yet receiving benefits	121	116
Total	2,934	2,896
Current employees:		
Vested:		
Firefighters	1,388	1,379
Police officers	2,329	2,335
	3,717	3,714
Nonvested:		
Firefighters	272	261
Police officers	571	502
	843	763
Total	4,560	4,477

(Continued)

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Financial Statements

December 31, 2001 and 2000

(b) Pension Benefits

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

(i) 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 prerequisites may elect to take early retirement at age 45 with reduced pension benefits.

(ii) 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 annual pension benefits beginning at age 50 equal to 3% of the member's highest average annual computation pay over three consecutive years, 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 increase 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.
- 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 nonduty-related disabilities as are survivor benefits for qualified survivors.

(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 may withdraw from their DROP account along with the normal benefits. DROP members' balances are $183,719,870 and $143,159,523 for December 31, 2001 and 2000, 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 plan document. The minimum benefit is prorated for members who retire with less than 20 years of service credit.

(c) 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.

(d) Contributions

As a condition of participation, Group A members are required to contribute to the System 6.5% of their base pay, as defined in the System's plan document. 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 documents.

The contribution schedules contained in the plan documents 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 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 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 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.

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Financial Statements

December 31, 2001 and 2000

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

Year ended December 31,	Annual required contribution	Percentage contributed
1996	$ 54,072	100%
1997	57,039	100%
1998	60,843	100%
1999	63,441	100%
2000	66,691	100%
2001	75,592	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.

(e) System Administration

The System is administered by a ten-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. As a result of a plan amendment, effective June 1, 2001, two more trustees joined the Board. One is a pensioner who has retired from the Police Department, the other one is a pensioner who has retired from the Fire Department, and each is elected by pensioners from their respective departments.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The accompanying financial statements are presented on the accrual basis of accounting. Accordingly, 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.

As part of an emphasis to conform financial statement disclosures for employee benefit plans, the Governmental Accounting Standards Board (GASB) issued Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* which was implemented by the System in fiscal year 1997. This statement requires greater consistency among all governmental employee benefit plans for the measurement and display of information in the financial statements.

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Financial Statements

December 31, 2001 and 2000

(b) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the plan administrator to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

(c) Investments

The System's investment policy requires that investments comply at all times with all applicable state laws. 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 valued at fair value based on quoted market prices, when available. Certain real estate investments are presented in the accompanying financial statements at estimated fair values, which are based upon appraised values or other methods. Purchases and sales of securities are recorded on a trade-date basis.

(d) Benefits

Benefits and refunds are recorded in these financial statements when they are due and payable to members.

(e) Foreign Currency Transactions

The System is a 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 System's functional currency – United States dollars) are recorded by 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 System structures its foreign exchange contracts and enters into certain transactions to substantially mitigate the System's exposure to fluctuations in foreign exchange rates.

Investments and broker accounts denominated in foreign currencies outstanding at December 31, 2001 and 2000 were converted to the System's functional currency (United States dollars) at the foreign exchange rates quoted at December 31, 2001 and 2000. These foreign exchange gains and losses are included in net appreciation in fair value of investments in the accompanying statements of changes in net assets.

(Continued)

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Financial Statements

December 31, 2001 and 2000

(f) Cash and Investments

The following shows the schedule of investments in Category 1 for custodial credit risk, which are insured or registered or for which the investments are held by the System or its agent in the System's name.

Investments – category 1 (held by System's agent in System's name)		Total fair value December 31, 2001	Total fair value December 31, 2000
Cash and short-term investments	$	58,925,935	84,648,485
Commingled index funds		509,730,450	600,584,806
Domestic corporate fixed-income		252,698,912	270,316,023
International fixed income		86,635,460	120,152,834
U.S. Government and agency securities:			
Not on securities loan		4,072,278	29,862,837
On securities loan for securities collateral:			
Letter of credit		—	241,064
Tri-party		2,593,132	—
Subtotal		6,665,410	30,103,901
Domestic equities:			
Not on securities loan		319,338,693	286,478,050
On securities loan for securities collateral – securities		129,630	178,541
Subtotal		319,468,323	286,656,591
International equities		236,975,165	241,352,200
Subtotal		236,975,165	241,352,200
Investments held by broker-dealers under securities loans with cash collateral:			
U.S. Government and agency securities		27,440,986	30,880,927
Domestic corporate fixed-income		12,096,494	7,058,686
Domestic equities		39,364,870	43,293,148
International equities		8,221,859	30,312,593
International fixed income		8,442,552	4,098,651
Subtotal		95,566,761	115,644,005
Securities lending short-term collateral investment pool		100,611,208	119,769,121
Real estate		314,496,677	290,007,306
Subtotal		415,107,885	409,776,427
Total	$	1,981,774,302	2,159,235,272

(Continued)

(g) Securities Lending

The Board has authorized the System to enter into an agreement with State Street Bank and Trust Company (State Street) for the lending of certain of the System'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 the fiscal year, State Street lent, on behalf of the System, securities held by State Street, as a System custodian, and received United States dollar cash and United States Government securities as collateral. State Street 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 the fiscal year on the amount of the loans that State Street made on its behalf. There were no failures by any borrowers to return the loaned securities or pay distributions thereon during the fiscal year. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or State Street. State Street maintains a banker's blanket bond in the amount of $75 million and has insurance coverage in the amount of $50 million for any losses, which could result from borrower's defaults.

During the fiscal year, the Board and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral was invested, together with the collateral of other qualified tax-exempt plan lenders, in a collective investment pool maintained by State Street. The relationship between the average maturities of the investment pool and the Board'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, 2001 and 2000, the System had no credit risk exposure to borrowers. The collateral held and market value of securities on loan for the System as of December 31, 2001 and 2000 were $103,465,860 and $120,222,843 and $98,289,524 and $116,063,611 respectively.

Disclosure of securities lending revenue is shown gross with the associated reductions for investment expenses on the face of the statements of changes in plan net assets and the cash collateral and associated securities lending payable is shown on the face of the statements of plan net assets for December 31, 2001 and 2000.

(h) New Accounting Standard Adopted

Effective for the fiscal year ending September 30, 2002, the City of Dallas will implement GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The System is required to adopt Statement No. 34 as its 2001 financial statements will be reported as a Pension Trust Fund in the City's 2002 comprehensive annual financial report. Statement No. 34 represents a very significant change in the financial

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Financial Statements

December 31, 2001 and 2000

reporting model used by state and local governments; in particular, the supplementary information on Management's Discussion and Analysis (MD&A), which includes an analytical overview of the System's financial activities. However, this Statement did not affect amounts reported in the financial statements of the System and the System's management chose not to include the MD&A in its financial statements.

(3) Funding Progress

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

The foregoing 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.

Actuarial calculations were made by the consulting actuary as of January 1, 2002 and 2001, and are not materially different from what they would have been had they been calculated on December 31, 2001 and 2000. The following assumptions are used by the System's actuary 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 document. The significant assumptions underlying the actuarial calculations at January 1, 2002 and 2001 are as follows:

Category	Assumption
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 4.3 to 10%
Actuarial cost method	Entry age normal
* Includes inflation rate of 4%	
Postretirement 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	Fair market value
Amortization method	Open level % payroll
Remaining amortization period	19 years

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

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) entry age (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
1/1/97	$ 1,137	1,630	$ 493	69.7%	$ 178	277.0%
1/1/98	1,307	1,782	475	73.3%	193	246.1%
1/1/99	1,503	1,958	455	76.8%	205	222.0%
1/1/00	1,772	2,094	322	84.6%	213	151.2%
1/1/01	2,005	2,328	323	86.1%	224	144.2%
1/1/02	2,158	2,554	396	84.5%	251	157.8%

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.

(4) Investments

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

(Continued)

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Financial Statements

December 31, 2001 and 2000

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 at December 31, 2001 and 2000 are as follows:

	2001		2000	
	Number of shares /units	Fair value	Number of shares /units	Fair value
Investments greater than 5% of net assets, at quoted market value:				
Bank commingled trust funds:				
S&P 500 Index Fund:				
State Street Global Advisors	1,386,633	$ 275,300,835	1,498,615	$ 337,679,826
International Equity:				
State Street Global Advisors	—	—	4,476,891	201,639,188
State Street EAFE Provisional	20,178,880	183,708,528	—	—
Securities Lending:				
State Street Bank and Trust Global Securities Lending	—	100,611,208	—	119,769,121
International Equity:				
Bank of Ireland	15,950,649	149,533,245	16,018,421	171,520,850
Domestic equities funds:				
Deutsche Asset Management MicroCap	5,796,150	97,071,947	6,099,000	100,126,162
Oak Associates	5,565,000	122,666,250	2,334,800	89,786,119
Alliance Capital	3,488,779	112,857,615	3,790,254	128,935,471
Corporate securities funds:				
W.R. Huff Asset Management	110,712,000	79,305,106	126,218,000	94,350,780
International Fixed Income:				
Loomis Sayles	290,797,927	116,167,652	233,921,287	138,419,052
Deutsche Asset Management	—	—	3,671,164,000	95,504,486
		1,237,222,386		1,477,731,055
Investments less than 5% of net assets:				
At quoted market value		430,055,239		391,496,911
At appraised value		314,496,677		290,007,306
Total investments		$ 1,981,774,302		$ 2,159,235,272

(Continued)

For the years ended December 31, 2001 and 2000, the System's investments, including investments bought, sold, as well as held during the year, appreciated (depreciated) in value as follows:

	2001	2000
Investments, at quoted market value:		
Cash (foreign exchange)	$ (15,130)	(17,817)
U.S. Government securities	(1,051,223)	2,944,535
Foreign government securities	(4,533,615)	(32,676,561)
Bank commingled trust funds	(89,621,183)	(67,498,176)
Domestic equities	(24,976,818)	44,123,382
International equities	(43,688,937)	(60,998,079)
Corporate securities	(27,754,744)	(1,429,965)
	(191,641,650)	(115,552,681)
Investment, at appraised value – real estate equity funds	885,072	25,478,468
	$ (190,756,578)	(90,074,213)

(5) Foreign Exchange Transactions

During 2001 and 2000, the System recognized net realized gains on foreign currency forward contracts of $597,097 and $327,510, respectively. At December 31, 2001 and 2000, the System had net unrealized depreciation on forward contracts reflected in the accompanying financial statements of approximately $(502,128) and $(1,746,921), respectively.

(6) 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 Plan is designed and continues to operate in compliance with the applicable requirements of the Internal Revenue Code.

(7) 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. Of the System's total administrative costs, $612,286 and $770,281 of the System's administrative costs were reimbursed to the City by the System during the years ended December 31, 2001 and 2000, respectively.

Investment related expenses for the years ended December 31, 2001 and 2000 also include approximately $11,570,405 and $11,417,356, respectively, in asset management fees.

(Continued)

DALLAS POLICE AND FIRE PENSION SYSTEM

Notes to Financial Statements

December 31, 2001 and 2000

(8) Uncertainties

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 overdue 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 these lawsuits to protect the System's right to members and City contributions which the System 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 financial statements as of December 31, 2001.

Photo courtesy of the *Dallas Morning News* and the Dallas Firefighers Museum

Photo courtesy of the Dallas Police Department

DALLAS POLICE AND FIRE PENSION SYSTEM
SUPPLEMENTAL PLAN

ACTUARIAL VALUATION

AS OF JANUARY 1, 2002

May 20, 2002

Mr. Richard L. Tettamant
Administrator
Dallas Police and Fire Pension System
2301 N. Akard Street, Suite 200
Dallas, TX 75201

Re: Dallas Police and Fire Pension System Supplemental Plan Actuarial Valuation as of January 1, 2002

Dear Mr. Tettamant:

We certify that the information contained in this report is accurate and fairly presents the actuarial position of the Dallas Police and Fire Pension System Supplemental Plan (the Plan) as of January 1, 2002.

Actuarial Valuation

The primary purpose of the valuation report is to determine the City's contribution rate, to describe the current financial condition of the Plan, and to analyze changes in the Plan's condition. In addition, the report provides information required by the City of Dallas in connection with Governmental Accounting Standards Board Statements Number 25 and Number 27.

Basis for Funding

The member 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 is also limited to be within $100,000 of the previous year's contribution. However, in no event will the City's contribution be less than the amount necessary to satisfy GASB 27. For 2002, the contribution is $900,000.

Funding Progress

As of January 1, 2002, the City's contribution rate needed in order to meet the funding goal is 122.17% of covered payroll. This amount is higher than the 122.11% employer rate calculated as of January 1, 2001. The current contribution rate of 122.17% of covered payroll covers the normal cost and the amortization of the Unfunded Actuarial Accrued Liability (UAAL).

The main reason for the increase in the City's contribution is the poor return on assets. The investment return on the market value of assets was (6.18)% compared to the assumed return of 8.50%.

Benefit Provisions

The actuarial valuation reflects the benefit and contribution provisions set forth in the System's statutes. There was one change in these provisions since the last actuarial valuation that affected the results. The minimum retiree benefit was increased to $2,200 per month from $2,000 per month. The minimum benefit was increased to $1,200 per month from $1,100 per month for a qualified surviving spouse, if there are no qualified surviving children receiving benefits. The minimum benefit was increased to $1,100 from $1,000 per month for a qualified surviving spouse, if there are qualified surviving children receiving benefits.

In addition, the DROP interest rate basis was changed from a five-year weighted average of the 30-year U.S. Treasury bond rates to a ten-year average of the System's actual market return. Effective January 1, 2002, the rate was set to 9.00%. However, this had no effect on the valuation results as the actuarial assumption for the rate was not changed.

The other changes made to the System had no effect on the valuation results.

Assumptions and Methods

The actuarial assumptions and methods used in the valuation are presented in Schedule C. The valuation is based on the same assumptions and methods as the previous valuation. The assumptions used are individually reasonable and reasonable in the aggregate.

Data

Asset information and member data for retired, active, and inactive members was supplied as of January 1, 2002 by the Administrator. We have not subjected this data to any auditing procedures, but have examined the data for reasonableness and consistency with the prior year's data.

Very truly yours,

Signed (RICHARD A. MACKESEY)

Richard A. Mackesey, F.S.A.
Principal, Consulting Actuary

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Enclosures

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Summary of Principal Results

	January 1, 2002	January 1, 2001
Membership		
Active	36	40
Retired and terminated members and beneficiaries	94	89
Compensation		
Total	$ 736,669	$ 655,158
Average	$ 20,463	$ 16,379
Assets		
Market value	$ 15,495,548	$ 16,626,033
Valuation Results		
Unfunded actuarial accrued liability (UAAL)	$ 5,718,423	$ 2,939,717
City's normal cost contribution	$ 129,023	$ 122,069
Funding Policy contribution	$ 900,000	$ 800,000
GASB No. 25		
Actuarial accrued liability (AAL)	$ 21,213,971	$ 19,565,750
Assets	$ 15,495,548	$ 16,626,033
GASB ratio	73.0%	85.0%
Unfunded AAL	$ 5,718,423	$ 2,939,717

Comments on the Valuation

Overview

The current valuation indicates that a total contribution of $900,000 should be contributed during 2002.

The contribution requirements are calculated to be sufficient to pay the City's portion of each year's normal cost and an amount calculated to amortize the UAAL.

GASB Statements

Section 4 provides the information required for reporting under GASB No. 25.

Benefit Provisions

Schedule B summarizes all the benefit provisions of the Plan. There are no significant benefits which were not taken into account in this valuation. The actuarial valuation reflects the benefit and contribution provisions set forth in the System's statutes. The valuation is based on the same plan provisions as the previous valuation with one exception. The DROP interest rate basis was changed from a five-year weighted average of the 30-year U.S. Treasury bond rates to a ten-year average of the System's actual market return. Effective January 1, 2002, the rate was set to 9.00%. However, this had no effect on the valuation results as the actuarial assumption for the rate was not changed.

Actuarial Assumptions and Methods

The actuarial assumptions and methods used in the valuation are presented in Schedule C. The valuation is based on the same assumptions and methods as the previous valuation. The assumptions used are individually reasonable and reasonable in the aggregate.

GASB Statement No. 27

Under GASB Statement No. 27, which became effective for fiscal years beginning after June 15, 1997, employers must determine a pension expense based on a 40-year amortization of the UAAL. The amortization can assume payroll growth due to inflation, but no membership growth. After a 10-year transition period, the required amortization period will drop to 30 years. If the actual contribution rate is less than the rate required by GASB No. 27, the excess must be expensed. This will result in the employer showing an accrued but unpaid liability for pension benefits on its financial statements.

A City Contribution rate of 56.95% will be required for the City to avoid showing an accrued pension liability on its financial statements for the fiscal year beginning in 2002, assuming no other changes are made. Under the current funding arrangement, the City would not be required to show an accrued but unpaid pension liability for the Supplemental Plan.

Financial Data

The financial data used in this report was supplied by the Administrator.

Section 5 reconciles the Plan's assets between 2001 and 2002. The estimated rate of return for 2001 was (6.18)%.

Membership Statistics

Data on active members and on retired members was supplied by the Administrator. The number of active members decreased over the last year. The active membership decreased from 40 members as of January 1, 2001, to 36 members as of January 1, 2002. The payroll increased from January 1, 2001 to January 1, 2002 ($655,158 for 2001 and $736,669 for 2002). Schedule A shows a summary of the membership data.

Actuarial Cost

		January 1, 2002	January 1, 2001
1.	Covered Payroll	$ 736,669	$ 655,158
2.	Actuarial present value of future benefits	$ 21,964,353	$ 20,203,819
3.	Actuarial present value of future normal costs	$ 750,382	$ 638,069
4.	Actuarial accrued liability (2 - 3)	$ 21,213,971	$ 19,565,750
5.	Actuarial value of assets	$ 15,495,548	$ 16,626,033
6.	Unfunded actuarial accrued liability (UAAL) (4 - 5)	$ 5,718,423	$ 2,939,717
7.	City's normal cost contribution	$ 129,023	$ 122,069
8.	Funding Policy contribution	$ 900,000	$ 800,000
9.	Total contribution as a percentage of covered payroll (8 ÷ 1)	122.17%	122.11%

Analysis of Change in UAAL

1.	UAAL as of January 1, 2001	$ 2,939,717
2.	Changes due to:	
	a. Expected decrease	$ (485,679)
	b. Actual contributions greater than expected	0
	c. Liability experience	831,907
	d. Asset experience	2,432,478
	e. Total changes	$ 2,778,706
3.	UAAL as of January 1, 2002	$ 5,718,423

Historical Trend Information
(As required by GASB #25 - Amounts are in millions of dollars)

Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
January 1, 1997	10.490	14.414	3.924	72.8%	0.795	493.6%
January 1, 1998	12.685	15.278	2.593	83.0%	0.852	304.3%
January 1, 1999	15.506	17.106	1.600	90.6%	0.851	188.0%
January 1, 2000	17.628	18.146	0.518	97.1%	0.934	55.5%
January 1, 2001	16.626	19.566	2.940	85.0%	0.655	448.9%
January 1, 2002	15.496	21.214	5.718	73.0%	0.737	775.8%

GASB #25 Schedule of Employer Contributions
for Year Ending December 31, 2001

Annual Required Contribution	Percentage Contributed
$900,000	100%

Summary of Accumulated Benefits
(FASB #35)

Accumulated Benefits at January 1, 2002

Vested benefits of participants and beneficiaries currently receiving payments	$ 14,378,411
Other vested benefits	5,944,958
Nonvested benefits	184,835
Total benefits	$ 20,508,204

FASB #35 Reconciliation

Accumulated benefits at January 1, 2001		$ 19,082,522
Benefits accumulated	$ 790,388	
Interest	1,582,576	
Benefits paid	(947,282)	
Total change		1,425,682
Accumulated benefits at January 1, 2002		$ 20,508,204

Reconciliation of Fund Assets

		Year Ending December 31, 2001
1.	Value of fund at beginning of year	$ 16,626,033
2.	Contributions	
	a. City	800,000
	b. Member	40,596
	c. Total	$ 840,596
3.	Benefit payments	(947,282)
4.	Refunds	0
5.	Earnings	(989,874)
6.	Expenses	(33,925)
7.	Value of assets at end of year	15,495,548
8.	Estimated rate of return	(6.18)%

Membership Data

		January 1, 2002	January 1, 2001
1.	Active members (excluding DROP)		
	a. Number	22	26
	b. Compensation	$ 471,089	$ 338,215
	c. Average compensation	$ 21,413	$ 13,008
	d. Average age	46.23	46.50
	e. Average service (years)	21.86	22.54
2.	Active members (DROP only)		
	a. Number	14	14
	b. Compensation	$ 265,580	$ 316,943
	c. Average Compensation	$ 18,970	$ 22,639
	d. Average age	53.00	52.28
	e. Average service	29.93	28.86
	f. DROP account balance	$ 500,508	$ 376,908
3.	Inactive members		
	a. Number	94	89
	b. Total current annual benefit	$ 1,081,649	$ 986,330
	c. Average current annual benefit	$ 11,507	$ 11,082

Summary of Benefit Provisions
As of January 1, 2002
For Actuarial Calculations

The Supplemental Plan was adopted and effective on March 1, 1973. Contributing Group B members who hold a permanent rank higher than the highest Civil Service rank held as a result of competitive examination are allowed to join the Supplemental Plan within 60 days of attaining such higher rank, or within 60 days of the effective date, if later.

Definitions

Computation Pay: The difference between the monthly base pay for the rank currently held and the monthly rate of pay due for the highest Civil Service rank held as a result of competitive examination.

Average Computation Pay: Computation Pay averaged over 36 months.

Pension Service: The period, in years, months, and days, during which the Member made contributions under the terms of the Combined Plan or any Pension Plan within the Pension Plan.

Qualified Surviving Spouse: The Member's legal spouse at the time of death providing the marriage occurred prior to the Member's termination of employment (entering DROP is not considered termination of employment).

Pension Plan: The Dallas Police and Fire Pension System Supplemental Plan.

Qualified Surviving Children: All surviving unmarried children under 19 years of age (23 for a disabled child) provided they were born or adopted before the Member terminated his employment.

Contribution Rates

The City's contributions are made in accordance with actuarial requirements.

The Member contribution rate is currently 8.50%. Members contribute for a maximum of 32 years.

Service Retirement Benefits

Annual Normal Retirement Pension

Condition for Retirement: Attainment of age 50 and five years of Pension Service.

Amount for Pension: 3% of Average Computation Pay for each year of Pension Service to a maximum of 32 such years.

Early Retirement Pension

Condition for Retirement:

a. Attainment of age 45 and five years of Pension Service.

Amount of Pension: 3% of Average Computation Pay for each year of Pension Service reduced 2/3 of 1% for each month by which retirement precedes age 50.

b. 20 years of Pension Service

Amount of Pension: 20 & out multiplier of Average Compensation Pay for each year of Pension Service.

Age	20 & Out Multiplier
50 – above	3.00%
49	3.00% reduced by 2/3 of 1/% for each month prior to age 50
48	2.75%
47	2.50
46	2.25
45 & below	2.00

Special Rule for Members of former Old Plan or Plan A

Group B Members who formerly were Members of either the former Old plan or Plan A may elect to receive Group A benefits and receive a reimbursement of the additional contributions paid under Group B provisions in excess of the contributions that would have been made under Group A.

Disability Retirement Benefits

Service-Related Disability

Condition for Retirement: Disability preventing the Member from performing his or her duties with his or her department and lasting for a period of not less than 90 days.

Amount of Pension: 60% plus 3% for each year of Pension Service (maximum 32 years) over 20, of Average Computation Pay.

Non-Service Related Disability

Condition for Retirement: Disability preventing the Member from performing his or her duties with his or her department and lasting for a period of not less than 90 days.

Amount of Pension: 3% of Average Computation Pay for each year of Pension Service (maximum 32 years).

Survivor Benefits

Survivor Benefits for Qualified Surviving Spouse: 1.50% of the Member's Average Computation Pay for each year of Pension Service with a minimum of 20 such years and a maximum of 32 such years.

Survivor Benefits when no Qualified Surviving Spouse: Death in Active Service: 50% of Service Retirement Pension calculated with a minimum of 20 years of Pension Service. The benefit will be paid as a lump sum equal to the value of the lesser of a 10-year benefit or the remainder of the 10-year period if Qualified Surviving Children receive benefit.

Survivor Benefits After Retirement: The Qualified Surviving Spouse shall receive 50% of any benefits paid to the Member. The percentage is increased if the Qualified Surviving Spouse has attained age 55, there are no Qualified Surviving Children who are eligible for death benefits and the Member retired after age 55 with 20 years of Pension Service or if the Member's age plus Pension Service at retirement was at least 78.

Survivor Benefits After Retirement or Termination for a Non-Qualifying Surviving Spouse: The Surviving Spouse shall receive 50% of any benefits paid to the Member. However, the Member's benefit will be reduced for this coverage.

Survivor Benefits for Qualified Surviving Children: An amount equal to the amount paid to a Qualified Surviving Spouse is divided among the Qualified Surviving Children and continues to be paid as long as one or more of the children continue to qualify.

Post-Retirement Cost of Living Adjustments

Annually, on the first day of October, benefits in pay status will be increased by an amount equal to 4% of the original pension amount.

Benefit Supplement

If a Member retires with 20 years of Pension Service or if a Member is receiving a service related disability the Member or the Member's Qualified Surviving Spouse is entitled to receive 3% of the monthly benefit payable to the Member when the Member or the Qualified Surviving Spouse attains age 55. This supplement is also available for both the Member or the Member's Non-Qualifying Surviving Spouse for a member who has elected a reduced benefit to obtain coverage for a Non-Qualifying Surviving Spouse.

Deferred Retirement Option Plan

As of January 1, 1993, at normal retirement age, a member may elect to enter the Deferred Retirement Option Plan (DROP). As of January 1, 1999, a member may also elect to enter DROP after 20 years of Pension Service. Retirement benefits will be calculated as if the Member retired on that date. Employee contributions made under the Combined Pension Plan will cease, as will accruals under the Combined Pension Plan. Each month, the retirement

benefit will be accumulated in an account earning interest based on a ten-year average of the System's actual market return. Upon termination of employment, the Member will have the balance in account in addition to the monthly benefit payable as though the Member retired at the date the Member entered DROP.

Statement of Actuarial Methods and Assumptions (Effective as of January 1, 2002)

Investment Return: 8.50% per annum, compounded annually, net all expenses including administrative expenses. This rate reflects an underlying inflation rate of 4.00% and a real rate of return of 4.50%.

DROP balances are assumed to earn 9.00% per annum.

Separations Before Normal Retirement: Representative values of the assumed annual rates of withdrawal, death, and disability are as follows:

Annual Rate per 1,000 Members

	Withdrawal		Mortality - Disableds		Mortality - Other		Disability	
Age	Police	Fire	Male	Female	Male	Female	Police	Fire
20	43.0	21.0	48.30	26.30	.51	.28	.35	.70
25	43.0	21.0	48.30	26.30	.66	.29	.37	.75
30	32.0	16.0	36.20	23.70	.80	.35	.42	.84
35	23.0	16.0	27.80	21.40	.85	.48	.48	.96
40	23.0	16.0	28.20	20.90	1.07	.71	.57	1.15
45	23.0	16.0	32.20	22.40	1.58	.97	.79	1.58
50	NA	NA	38.30	25.70	2.58	1.43	NA	NA
60	NA	NA	60.30	33.10	7.98	4.44	NA	NA
70	NA	NA	73.90	41.10	23.73	13.73	NA	NA
75	NA	NA	84.20	49.20	37.21	22.69	NA	NA

Salary Increases: Representative values of the assumed annual rates of future salary increase attributable to seniority and promotion are as follows:

	Annual Rate of Salary Increase
20	10.00%
30	5.23
40	4.57
50	4.37
60	4.33

Total payroll is assumed to increase 4.00% per year. New hires are assumed to replace terminations.

Overtime is assumed to be 7% of base pay. The city contributes on total pay including overtime. This assumption is consistent with past experience and the city's budget.

Retirement Rates: To determine the value of future normal cost, the percentage of population assumed to retire at various ages is as follows:

Age	Rate	Age	Rate	Age	Rate
38	15%	48	15%	58	20%
39	15	49	15	59	30
40	15	50	20	60	40
41	15	51	15	61	50
42	15	52	15	62	60
43	15	53	15	63	70
44	15	54	15	64	80
45	15	55	20	65	100
46	15	56	20		
47	15	57	20		

Rates are only applied when member is eligible to retire. That is, age 50 with five years or 20 years.

Postretirement Mortality: According to the 1994 Group Annuity Mortality Table for males and females.

DROP Election: Members are assumed to elect DROP at age 50 with five years.

Spouses: 80% of active members are assumed to be married with the male three years older than the female. The age of the youngest child is assumed to be one year.

Assumed Post Retirement Cost of Living: Annually, on the first day of October, benefits in pay status will be increased by an amount equal to 4% of the original pension amount.

Future Expenses: All expenses, investment and administration, are paid from the Fund. The 8.50% assumed rate of return is net of these expenses.

Valuation Method: The method used to determine Normal Cost and Accrued Actuarial Liability is the Entry Age Normal Cost Method. Under the Entry Age Normal Cost Method, an annual Normal Cost is determined for each covered active Member which is the contribution required to provide all the projected pension benefits assuming this contribution is payable over a period ending on the date of retirement (separation from active service) and expressed as a level percentage of compensation. The Actuarial Accrued Liability is determined as the excess of the total present value of all pension benefits over the total present value of future Normal Costs. The Unfunded Actuarial Accrued Liability as of the valuation date is determined as the excess of the Actuarial Accrued Liability over the assets of the Fund.

The Normal Cost and Accrued Actuarial Liability are derived by making certain assumptions as to the rates of interest, mortality, turnover, etc., which are assumed to reflect experience for many years into the future. Since actual experience will differ from the assumptions, the costs determined must be regarded as estimates of the true costs of the Plan. The effects of any actuarial gains or losses are immediately reflected in the Unfunded Actuarial Accrued Liability and the Normal Cost.

Actuarial Value of Assets: The actuarial value of assets is the market value of assets.

POLICE AND FIRE SUPPLEMENTAL PENSION PLAN OF THE CITY OF DALLAS

Financial Statements

December 31, 2001 and 2000

(With Independent Auditors' Report Thereon)

200 Crescent Court
Suite 300
Dallas, TX 75201-1885

Independent Auditors' Report

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

We have audited the accompanying statements of plan net assets of the Police and Fire Supplemental Pension Plan of the City of Dallas (the Plan) as of December 31, 2001 and 2000, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the Plan as of December 31, 2001 and 2000, 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 schedule of funding progress in note 3 on page 8 is not a required part of the general-purpose financial statements of the Plan, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it.

The System has not presented Management's Discussion and Analysis, which is supplementary information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

KPMG LLP

May 7, 2002

KPMG, LLP. KPMG, LLP a U.S. limited liability partnership, is a member of KPMG International, a Swiss association.

POLICE AND FIRE SUPPLEMENTAL PENSION PLAN OF THE CITY OF DALLAS

Statements of Plan Net Assets

December 31, 2001 and 2000

	2001	2000
Assets:		
Investments, at fair value (note 4):		
Short-term investments	$ 175,701	8,290
Bank commingled trust funds	15,343,070	16,637,841
	15,518,771	16,646,131
Accrued interest, dividends, and employee contributions receivable	1,757	2,151
Total assets	15,520,528	16,648,282
Liabilities – administrative and benefit expenses payable	24,980	22,249
Net assets held in trust for pension benefits (a schedule of funding progress is presented on page 8)	$ 15,495,548	16,626,033

See accompanying notes to financial statements.

POLICE AND FIRE SUPPLEMENTAL PENSION PLAN OF THE CITY OF DALLAS

Statements of Changes in Plan Net Assets

Years ended December 31, 2001 and 2000

	2001	2000
Additions:		
Net investment income:		
Interest and dividends	$ 8,314	9,197
Security lending (Index fund)	4,900	3,993
Net depreciation in fair value of investments	(1,003,089)	(354,226)
	(989,875)	(341,036)
Contributions:		
Employer	800,000	700,000
Member	40,596	33,799
	840,596	733,799
Total additions	(149,279)	392,763
Deductions:		
Benefit payments	947,281	1,372,891
Administrative and professional fees	33,925	22,250
Total deductions	981,206	1,395,141
Net decrease in net assets available for benefits	(1,130,485)	(1,002,378)
Net assets held in trust for pension benefits (a schedule of funding progress is presented on page 8):		
Beginning of year	16,626,033	17,628,411
End of year	$ 15,495,548	16,626,033

See accompanying notes to financial statements.

POLICE AND FIRE SUPPLEMENTAL PENSION PLAN
OF THE CITY OF DALLAS

Notes to Financial Statements

December 31, 2001 and 2000

(1) Description of the Plan

(a) General

The Police and Fire Supplemental Pension Plan of the City of Dallas (the Plan) is a single-employer, defined benefit pension plan for firefighters and police officers 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 is to provide additional retirement benefits (as discussed below) to those members of the 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 Plan was established and derives its authority from a noncodified city ordinance. As of December 31, 2001 and 2000, the Plan membership consisted of:

	2001	2000
Pensioners and qualified survivors currently receiving benefits:		
Firefighters	$ 40	40
Police officers	54	49
Terminated vested members not yet receiving benefits	—	—
Total	$ 94	89
Current employees:		
Vested:		
Firefighters	$ 17	17
Police officers	19	23
Total	$ 36	40

In 1992, an amendment to Article 6243a-1 was approved by the Members of the Combined 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 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 draw from this balance along with the Member's normal benefits. Amounts included in these financial statements related to DROP members are $1,141,119 and $775,991 for December 31, 2001 and 2000, respectively.

(Continued)

POLICE AND FIRE SUPPLEMENTAL PENSION PLAN
OF THE CITY OF DALLAS

Notes to Financial Statements

December 31, 2001 and 2000

(b) Pension Benefits

The 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 Plan benefits are capped due to that plan's definition of considered compensation. Accordingly, when Group B benefits are amended, the 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 holds 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 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 Group B shall be deemed to be application for benefits under the Plan and no additional application need be filed.

(c) Contributions

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

Members electing to participate in the 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 Plan may, at termination of employment, leave their contributions or deposit with the System 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.

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

Year ended December 31,	Annual required contribution	Percentage contributed
1996	$ 1,288,492	100%
1997	1,159,376	100
1998	1,010,687	100
1999	800,000	100
2000	700,000	100
2001	800,000	100

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

(Continued)

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.

(d) Plan Administration and Termination

The Plan is administered by a board of trustees (the Board). Although there has been no expressed intent to do so, in the event the 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.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The accompanying financial statements are presented on the accrual basis of accounting. Accordingly, interest earned but not received and dividends declared but not received as of the Plan's fiscal year end are recorded as accrued interest and dividends receivable, respectively.

As part of an emphasis to conform financial statement disclosures for employee benefit plans, the Governmental Accounting Standards Board (GASB) issued Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, which was implemented by the Plan in fiscal year 1997. This statement requires greater consistency among all employee benefit plans for the measurement and display of information in the financial statements.

(b) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the plan administrator to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(c) Investments

The Plan's investments policy requires investments comply at all times with applicable local, state, and federal regulations. The investments policy is based upon an asset allocation study that considers the current and expected condition of the Plan, the expected long-term capital market outlook and the Plan's risk tolerance.

Investments are valued at fair value based on quoted market prices. Purchases and sales of securities are recorded on a trade-date basis.

(d) Benefits

Benefits and refunds are recorded in these financial statements when they are due and payable to members.

POLICE AND FIRE SUPPLEMENTAL PENSION PLAN
OF THE CITY OF DALLAS
Notes to Financial Statements
December 31, 2001 and 2000

(e) Cash and Investments

The following shows investments reported at fair value at December 31, 2001 and 2000:

		2001	2000
Short-term investment fund	$	175,701	8,290
Commingled index funds		15,343,070	16,637,841
Total	$	15,518,771	16,646,131

Amounts invested in the above funds are not categorized in accordance with GASB No. 3 because they are not evidenced by securities that exist in physical or book entry form.

(f) New Accounting Standard Adopted

Effective for the fiscal year ending September 30, 2002, the City of Dallas will implement GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The Plan is required to adopt Statement No. 34 as its 2001 financial statements will be reported as a Pension Trust Fund in the City's 2002 comprehensive annual financial report. Statement No. 34 represents a very significant change in the financial reporting model used by state and local governments; in particular, the supplementary information on Management's Discussion and Analysis (MD&A), which includes an analytical overview of the Plan's financial activities. However, this Statement did not affect amounts reported in the financial statements of the Plan and the Plan's management chose not to include the MD&A in its financial statements.

(3) Funding Progress

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

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

POLICE AND FIRE SUPPLEMENTAL PENSION PLAN OF THE CITY OF DALLAS

Notes to Financial Statements

December 31, 2001 and 2000

Actuarial calculations were made by the consulting actuary as of January 1, 2002 and 2001 and are not materially different from what they would have been had they been calculated on December 31, 2001 and 2000. The following assumptions are used by the Plan's actuary to determine the Plan's obligations only, and are not used to calculate the actual plan benefits. These benefits are fully described in the Plan's document. The significant assumptions underlying the actuarial calculations at January 1, 2002 and 2001 are as follows:

Category	Assumption
Actuarially Assumed Investment Rate of Return*	8.50% per annum, compounded annually
Mortality, Retirement, Disability, and Separation Rates	Graduated rates detailed in actuary's report
Projected Salary Increases*	Range 4.3% to 10%
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

*Includes Inflation Rate of 4%

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

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) entry age (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll (b-a)/c)
12/31/96	$ 10,490	$ 14,414	$ 3,924	72.8%	$ 795	493.6%
12/31/97	12,685	15,278	2,593	83.0%	852	304.3%
12/31/98	15,506	17,106	1,600	90.6%	851	188.0%
12/31/99	17,628	18,146	518	97.1%	934	55.5%
12/31/00	16,626	19,566	2,940	85.0%	655	448.95%
12/31/01	15,496	21,214	5,718	73.0%	737	775.8%

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

(4) Investments

The Board has contracted with investment managers to manage the investment portfolio of the Plan, subject to the policies and guidelines established by the Board. The Board has custody agreements with State Street Bank and Trust Company of Boston and, whereby State Street Bank assumes responsibility for the safekeeping of certain investments, handling of transactions based on the instructions of investment managers and accounting for the investment transactions.

(Continued)

POLICE AND FIRE SUPPLEMENTAL PENSION PLAN OF THE CITY OF DALLAS

Notes to Financial Statements

December 31, 2001 and 2000

The Plan's investments at December 31, 2001 and 2000 consisted of the following:

	Number of shares/units	Fair value	Number of shares/units	Fair value
Investments greater than 5% of net assets, at quoted market value:				
S&P 500 Index Commingled Equity Trust Fund State Street Global Advisors	32,927	$ 6,537,348	29,186	$ 6,576,446
Commingled Bond Index Trust Funds State Street Global Advisors	303,899	5,931,196	375,294	6,770,300
Commingled Intercap Equity Index Trust Funds State Street Global Advisors	315,743	2,874,526	73,071	3,291,095
State Street Short-Term Investment Fund	175,701	175,701	8,290	8,290
Total investments		$ 15,518,771		$ 16,646,131

For the years ended December 31, 2001 and 2000, the Plan's investments, including investments bought, sold, as well as held during the year, depreciated in value as follows:

	2001	2000
Investments, at quoted market value:		
S&P 500 Index Commingled Equity Trust Fund	$ (772,405)	(615,795)
Commingled Bond Index Trust Fund	524,896	752,657
Commingled Intercap Equity Index Trust Fund	(755,580)	(491,088)
	$ (1,003,089)	(354,226)

(5) 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. The Board believes that the Plan is designed and continues to operate in compliance with the applicable requirements of the Internal Revenue Code.