

Dallas Police and Fire Pension System

(An Independently Governed Component Unit of the City of
Dallas, Texas)

Combining Financial Statements, Required Supplementary Information and Supplementary Schedule

December 31, 2017 and 2016

(With Independent Auditor's Reports Thereon)

Dallas Police and Fire Pension System

Contents

Independent Auditor's Reports	3-7
Management's Discussion and Analysis (Unaudited)	8-16
Financial Statements	
Combining Statements of Fiduciary Net Position	17
Combining Statements of Changes in Fiduciary Net Position	18
Notes to Combining Financial Statements	19-53
Required Supplementary Information (Unaudited)	
Schedule of Changes in the Net Pension Liability and Related Ratios	54-58
Schedule of Employer Contributions - Combined Pension Plan	59-60
Schedule of Employer Contributions - Supplemental Plan	61-63
Schedule of Investment Returns	64
Supplementary information	
Administrative, Investment, and Professional Services Expenses	65



Independent Auditor's Report

To the Board of Trustees
Dallas Police and Fire Pension System

Report on the Financial Statements

We have audited the accompanying financial statements of the Dallas Police and Fire Pension System (DPFP), including the Combined Pension Plan and the Supplemental Police and Fire Pension Plan of the City of Dallas (Supplemental Plan), collectively referred to as the "Plans", for the fiscal years ended December 31, 2017 and 2016, which comprise the combining statements of fiduciary net position, and the related combining statements of changes in fiduciary net position for the years then ended, and the related notes to the combining financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of DPFP as of December 31, 2017 and 2016, and the changes in fiduciary net position for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (MD&A) and the required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the MD&A and required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying supplementary schedule of Administrative, Investment and Professional Services Expenses is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of DPFP management and was derived from and related directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2018 on our consideration of DPFP's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial



reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering DPFP's internal control over financial reporting and compliance.

BDO USA, LLP

Dallas, Texas
October 10, 2018



Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

To the Board of Trustees
Dallas Police and Fire Pension System

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the Dallas Police and Fire Pension System (DPFP), including the Combined Pension Plan and the Supplemental Police and Fire Pension Plan of the City of Dallas (Supplemental Plan), collectively referred to as the "Plans", for the fiscal years ended December 31, 2017 and 2016, which comprise the combining statements of fiduciary net position, and the related combining statements of changes in fiduciary net position for the years then ended, and the related notes to the combining financial statements, and have issued our report thereon dated October 10, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered DPFP's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of DPFP's internal control. Accordingly, we do not express an opinion on the effectiveness of DPFP's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of DPFP's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Dallas Police and Fire Pension System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of DPFP's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering DPFP's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BDO USA, LLP

Dallas, Texas
October 10, 2018

Dallas Police and Fire Pension System

Management's Discussion and Analysis (Unaudited) December 31, 2017 and 2016

Overview

Management's Discussion and Analysis (MD&A) provides an overall review of the financial activities of the Dallas Police and Fire Pension System (DPFP), including the Combined Pension Plan and the Supplemental Police and Fire Pension Plan of the City of Dallas (Supplemental Plan), collectively referred to as the Plans, for the fiscal years ended December 31, 2017 and 2016. This discussion and analysis is intended to serve as an introduction to the financial statements which reflect the Plans' resources available for payment of benefits and other related expenses. MD&A should be read in conjunction with the combining financial statements, notes to the combining financial statements, required supplementary information, and additional supplementary information provided in this report.

Financial Statements

The combining financial statements consist of the following:

Combining Statements of Fiduciary Net Position which reflect a snapshot of the Plans' financial position and reflect resources available for the payment of benefits and related expenses at year end. The resulting Net Position (Assets - Liabilities = Net Position) represents the value of the assets held in trust for pension benefits net of liabilities owed as of the financial statement date.

Combining Statements of Changes in Fiduciary Net Position which reflect the results of all transactions that occurred during the fiscal year and present the additions to and deductions from the net position. Effectively, these statements present the changes in plan net position during the fiscal year. If change in net position increased, additions were more than deductions. If change in net position decreased, additions were less than deductions.

Notes to Combining Financial Statements which are an integral part of the combining financial statements and include additional information that may be needed to obtain an adequate understanding of the overall financial status of the Plans.

Required Supplementary Information (Unaudited) and additional Supplementary Information provide historical and additional information considered useful in obtaining an overall understanding of the financial positions and activities of the Plans.

Financial Highlights

The combining financial statements are presented solely on the accounts of the Plans. The accrual basis of accounting is utilized, whereby revenues are recognized when they are earned and collection is reasonably assured, and expenses are recognized when the related liability has been incurred. Investments are reported at fair value.

Dallas Police and Fire Pension System

Management's Discussion and Analysis (Unaudited) December 31, 2017 and 2016

A summary of the Combining Statements of Fiduciary Net Position of the Plans is as follows (in thousands):

December 31:	2017	2016	2015
Assets			
Investments, at fair value	\$ 1,990,602	\$ 1,960,057	\$ 2,827,859
Invested securities lending collateral	12,153	21,671	94,246
Receivables	34,629	29,378	58,568
Cash and cash equivalents	118,587	326,785	77,072
Prepaid expenses	436	460	202
Capital assets, net	12,715	12,041	12,192
Total assets	2,169,122	2,350,392	3,070,139
Liabilities			
Notes payable	-	130,000	235,315
Securities purchased	31,411	24,353	37,341
Securities lending obligations	12,153	21,671	94,246
Accounts payable and accrued liabilities	4,407	6,036	3,656
Total liabilities	47,971	182,060	370,558
Net position held in trust - restricted for pension benefits	\$ 2,121,151	\$ 2,168,332	\$ 2,699,581

The assets of the Combined Pension Plan and the Supplemental Plan are co-invested through a Group Master Trust (Group Trust). The rate of return on Group Trust investments during 2017 was 5.1% net of fees, compared to a rate of return of 3.2% for 2016 and (12.6%) for 2015. The rate of return is provided by NEPC, LLC (NEPC), DFPF's investment consultant at December 31, 2017. The rate of return calculation is prepared using a time-weighted rate of return in accordance with the CFA Institute's Global Investment Performance Standards and, as such, cannot be recalculated from the information provided herein. The methodology used by NEPC to calculate the rate of return incorporates a one quarter lag on market value adjustments for private equity, private debt, and real assets investments. This "lagged with cash flow adjustments" methodology is consistent with standard industry practice and allows for timely reporting to the Board of Trustees (Board). Gains and losses on lagged investments which occur in the fourth quarter of any year are recognized in the following year's rate of return.

The Plans' net position decreased by \$47 million in 2017 primarily the result of benefit payments exceeding total contribution payments. The net benefit outflow was partially offset by investment gains. The net position was relatively stable for the first time since 2013 due to passage of House Bill 3158 (HB 3158 or the bill) by the Texas legislature during the 85th legislative session. HB 3158 was passed unanimously by both the House of Representatives and the Senate and signed by Governor Abbott on May 31, 2017. HB 3158 was effective September 1, 2017 and made significant changes to governance, contributions and benefits, including the structure of the Deferred Retirement Option Plan (DROP). Additional information about HB 3158 is included in Notes 1, 5, 6, 12 and the Required Supplementary Information accompanying the financial statements.

Dallas Police and Fire Pension System

Management's Discussion and Analysis (Unaudited)

December 31, 2017 and 2016

The Plans' net position decreased by \$531 million in 2016 primarily as the result of payments of lump sum amounts from DROP balances in the latter half of the year. With uncertainty surrounding the impact of potential plan amendments, fueled by lack of assurance of the City of Dallas's commitment to participate in a solvency resolution, and fed by negative attention in the press, members withdrew over \$600 million in lump sum payments from their DROP balances during 2016 compared to only \$81 million and \$56 million in 2015 and 2014, respectively. The culmination of the volume of withdrawal requests and the resulting impact on liquidity led to the temporary halt of DROP lump sum disbursements until the DROP Policy was amended by the Board in January 2017, allowing for lesser amounts of withdrawals from that point forward which would be limited based on liquidity. The vast increase in DROP distributions created substantial liquidity strains for the portfolio and caused debt compliance issues. In order to meet the liquidity demands created by DROP withdrawals, equity and fixed income sales ensued, resulting in significant reductions of those asset classes. To provide an additional source of liquidity and progress toward the revised asset allocation adopted by the Board in March 2016, exposure to private investments was reduced through the initiation of a secondary sales process in the fourth quarter. In December, the Board approved a sale of 26 fund investments across the private equity, private debt and real assets portfolios resulting in proceeds of \$133 million and reducing unfunded commitments by \$53 million prior to year end, with additional proceeds of \$113 million and reduction of commitments of \$54 million occurring in 2017. The completion of these sales as a whole resulted in a substantial increase in cash and cash equivalents of \$250 million over the previous year even after the distribution of over \$600 million in DROP lump sum withdrawals.

Securities lending collateral and obligations decreased in 2017 due to the decline in volume of lending activity resulting from asset sales to meet liquidity needs in 2016 and the delay in redeploying excess cash during the legislative process in 2017. Changes in receivables are primarily a result of the timing of settlement of pending investment trades, as well as the timing of the last payroll of the year for the City of Dallas as such timing impacts the collection of benefit contributions. Notes payable decreased significantly in 2017 and 2016 as a result of the pay down of amounts drawn on agreements with Bank of America, N.A. For further discussion regarding debt transactions see Note 7 of the accompanying financial statements.

Dallas Police and Fire Pension System

Management's Discussion and Analysis (Unaudited) December 31, 2017 and 2016

A summary of the Combining Statements of Changes in Fiduciary Net Position of the Plans is as follows (in thousands):

Years ended December 31:	2017	2016	2015
Additions (Reductions):			
Contributions			
City	\$ 128,395	\$ 122,409	\$ 117,328
Members	33,044	25,553	25,720
Total contributions	161,439	147,962	143,048
Net income (loss) from investing activities	97,456	165,326	(237,572)
Net income from securities lending activities	101	402	544
Other income	2,094	204	132
Total additions (reductions)	261,090	313,894	(93,848)
Deductions:			
Benefits paid to members	295,245	827,649	285,857
Refunds to members	3,578	3,354	1,786
Interest expense	1,290	4,569	6,049
Professional and administrative expenses	8,158	9,571	8,479
Total deductions	308,271	845,143	302,171
Net decrease in net position	(47,181)	(531,249)	(396,019)
Net position held in trust - restricted for pension benefits			
Beginning of period	2,168,332	2,699,581	3,095,600
End of period	\$ 2,121,151	\$ 2,168,332	\$ 2,699,581

The passage of HB 3158 increased the contribution rates for active members and the City effective the first bi-weekly pay period beginning after September 1, 2017, which was September 6, 2017.

Contributions for active members not participating in DROP were 8.5% of base pay plus education and longevity pay (Computation Pay) while contributions for active members participating in DROP were 4% of Computation Pay prior to the effective date of HB 3158. As of September 6, 2017 the contribution rate for all active members is 13.5% of Computation Pay regardless of the member's DROP participation status. The 29% increase in employee contribution revenue is primarily a result of the higher employee contribution rate for the last four months of 2017 plus \$600 thousand of additional contributions received in 2017 for pension buy-backs related to DROP revocations and military service purchases. See Note 6 for information on DROP revocations. The City did not meet the Hiring Plan Computation Pay represented during the legislative process which resulted in lower employee contributions than expected for 2017. Compensation increases granted as a result of the 2016 Meet and Confer agreement were offset by total compensation declines due to high employee vacancies.

Dallas Police and Fire Pension System

Management's Discussion and Analysis (Unaudited) December 31, 2017 and 2016

The City contribution rate for the Combined Pension Plan is statutorily defined and was 27.5% of total salary and wages, including overtime, for all members in active service prior to the effective date of HB 3158. HB 3158 required that effective September 6, 2017, the City contribute the greater of (i) 34.5% of Computation Pay and (ii) a bi-weekly minimum amount (floor) defined in the bill plus \$13 million annually until December 31, 2024. After 2024 the bi-weekly floor and the additional \$13 million annual contribution are eliminated. After 2024, the bill requires an independent analysis to be performed to determine if the plan is adequately funded based on standards established by the Texas Pension Review Board and changes are required if the funding level is below the amortization period requirements under Section 802 of the Texas Government Code. See Note 1 for additional information on City contribution rates.

Total City contribution revenue to the Plans increased 5% (\$6 million) over 2016 contributions. City contribution revenue in the Combined Pension increased by \$7 million while City Contribution revenue in the Supplemental Plan decreased by \$1 million.

In the Combined Pension Plan, 60% (\$4 million) of the increased City contribution revenue in 2017 was due to the HB 3158 required additional \$13 million annual contribution which is paid \$500 thousand with each bi-weekly payroll. The remainder of the increase in contributions is due to the contribution floor. Although the City contribution rate increased from 27.5% to 34.5%, the resulting contributions did not increase significantly due to the change in the rate because overtime was eliminated from the City's contribution formula. The floor has been greater than the 34.5% of Computation Pay for all pay periods. The City's Computation Pay has not met the Hiring Plan Computation Pay represented by the City during the legislative process.

The City is required by ordinance to contribute amounts necessary to maintain the Supplemental Plan as determined by an actuary. The City contribution to the Supplemental Plan decreased by \$987 thousand or 32% because of the reduction in the Plan liability due to the passage of HB 3158.

The slight decrease in member contributions in 2016 was the result of a reduction in the number of active members compared to 2015 which was not fully offset by pay increases, while the increase in city contributions was the result of increased overtime pay which more than offset reductions from the decline in headcount.

The increase in other revenue of \$1.9 million is primarily due to the settlement of an investment related litigation matter and a property tax refund.

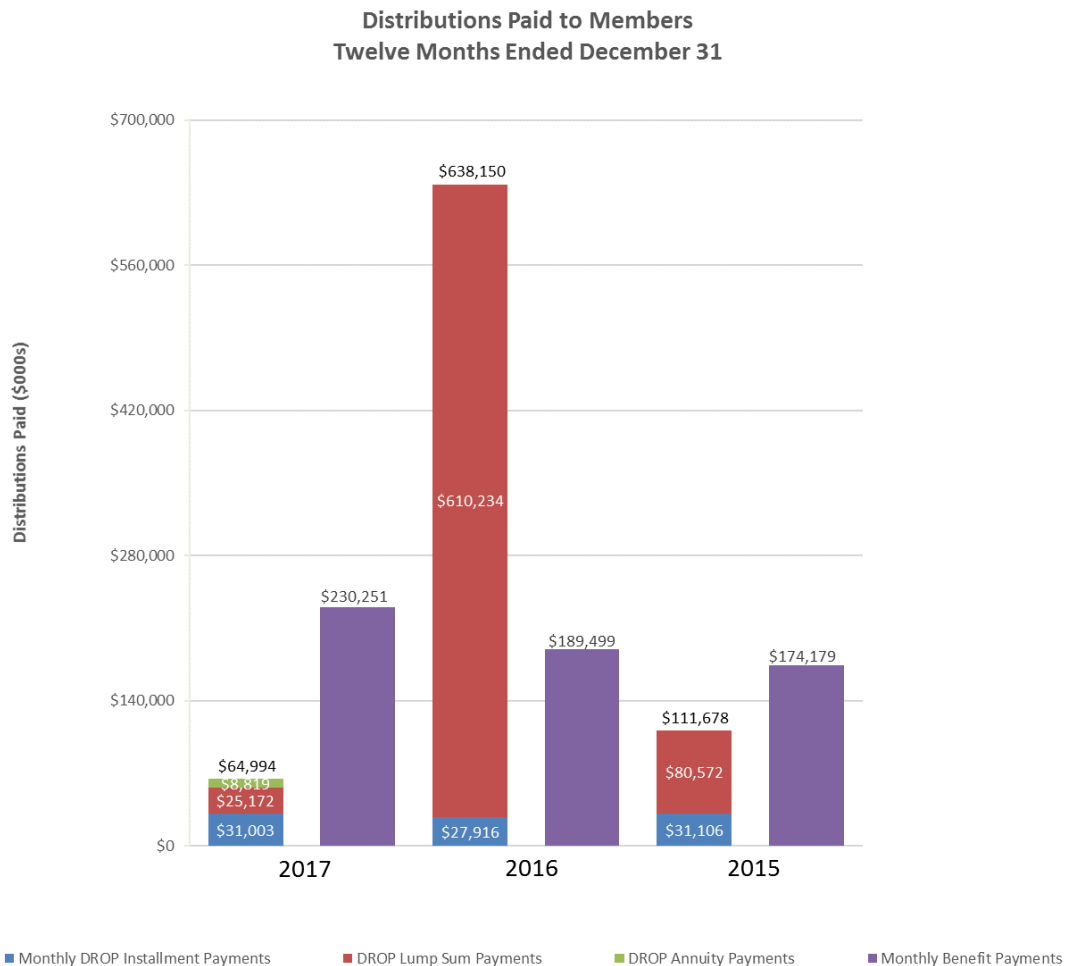
The Group Trust was over-allocated to cash for the majority of 2017 due to the uncertainty about what type of legislation would ultimately be passed and pending litigation as well as the transition to a new board which would then be tasked with deciding how to allocate excess cash. After the bill was signed, cash was redeployed into assets. The overallocation to cash resulted in lower income from investing activities in 2017. Also, the income from investing activities in 2016 included a \$92 million gain from the sale of two infrastructure assets which were under contract for sale at

Dallas Police and Fire Pension System

Management’s Discussion and Analysis (Unaudited) December 31, 2017 and 2016

December 31, 2016 and closed in 2017. This gain was partially offset by losses on private equity sales that were sold or under contract at December 31, 2016.

Distributions to members consist of monthly payments of retirement, disability, and survivor benefits, as well as monthly installment payments and lump sum payments of DROP balances and monthly DROP annuity payments. The chart below compares the components of distributions paid to members for the years ended December 31, 2017, 2016, and 2015.



Benefits paid in 2017 decreased \$532 million or 64% over 2016 as the result of the significant decrease (\$573 million) in DROP payments partially offset by a \$41 million increase in monthly benefit payments. DROP payments declined as a result of the Board’s action in December 2016 to stop honoring DROP lump sum payment requests due to liquidity constraints. DROP distributions remained constrained in 2017 to comply with debt agreements, litigation matters and the provisions of HB 3158. Distributions from DROP balances in 2017 totaled \$65 million including monthly installments for two months for certain members, a \$6.6 million pro-rata lump sum distribution for those members with DROP lump sum requests submitted prior to the December 2016 DROP policy

Dallas Police and Fire Pension System

Management's Discussion and Analysis (Unaudited) December 31, 2017 and 2016

change, the Internal Revenue Code Required Minimum Distributions for certain members and distributions in accordance with the January 2017 amended DROP policy which allowed each DROP account holder to receive \$3,000 per month and the ability to request distributions for unforeseeable emergencies. The \$3,000 payment provision stopped once the DROP accounts were annuitized in November 2017 in accordance with HB 3158. DROP annuity payments for November and December totaled \$8.8 million. See Note 6 for additional information on DROP. Monthly benefits increased by \$41 million due to the cost of living adjustment granted in October 2016 and an additional 304 retirees and beneficiaries receiving monthly benefits in 2017.

Interest expense decreased by \$3.3 million in 2017 from the 2016 level which was \$1.5 million lower than the prior year. The reduced interest is a result of the reduction of the debt outstanding, the modification of the terms in 2016 and the pay-off of outstanding debt in 2017. See Note 7 for the discussion of Notes Payable.

Refund expense includes \$460 thousand of additional expense due to a change in the interpretation of the calculation of the liability accrual. The cost of administering the benefit programs of the Plans, including administrative costs and professional fees, decreased approximately \$1.4 million in 2017 compared to an increase of \$1.1 million in 2016. The decrease in 2017 is primarily related to a \$1.4 million reimbursement from insurance for legal expenses. Excluding the insurance reimbursement, legal expenses incurred in 2017 were \$2.4 million, approximately \$200 thousand lower than 2016. The increased legal costs in 2016 and continued high legal costs in 2017 are associated with a number of legal filings in connection with the proposed 2016 plan amendments, DROP distributions, and existing litigation related to the 2014 plan amendments. Although remaining higher than normal due to the work related to HB 3158, actuarial expenses were \$89 thousand lower than 2016. Increased expenses of \$69 thousand and \$220 thousand in the legislative and communications categories, respectively, related to the pension crisis and legislative process. A pro rata share of the total expenses of the Plans is allocated to the Combined Pension Plan and the Supplemental Plan according to the ratio of Combined Pension Plan and Supplemental Plan investment assets to the total investment assets of the Group Trust. Any expenses specific to either the Combined Pension Plan or the Supplemental Plan are charged directly as a reduction of such plan's net position.

Funding Overview

As reported in the past three years, beginning as of January 1, 2015, due to the decline in portfolio value and the reduction of the assumed rate of return to 7.25%, the Combined Pension Plan's funding period significantly increased from 26 years to an infinite period. The infinite funding period remained as of January 1, 2016 and at that time, the Combined Pension Plan was projected to become insolvent within 15 years if no changes to plan provisions were made. A sub-committee of the Board was formed in 2015 to examine alternatives to improve funding over the long term while continuing to provide benefits to members. Representatives of the City of Dallas were included in meetings of the sub-committee to provide input. The work of this sub-committee led to a 2016 plan amendment election which put forth a vote to allow for raising member contributions from 8.5% to 12% over a period of two years, lower base benefit calculations, reduce future cost of living adjustments, shorten the time allowed to participate in DROP as an active member, and reduce interest paid on DROP balances. Under Article 6243a-1, an increase in member contributions would have triggered an increase of City contributions from 27.5% to 28.5%. These amendments were expected to provide over 10 years of additional life to the Combined Pension Plan before projected insolvency, however additional funding from the City would have been required to avoid insolvency. The plan amendment election was completed in December 2016, however the proposed

Dallas Police and Fire Pension System

Management's Discussion and Analysis (Unaudited) December 31, 2017 and 2016

amendments impacting solvency did not pass a vote of the members. This led to legislative efforts in which DFPF and the City of Dallas worked diligently with the Texas legislature during the 85th legislative session on plan changes. Such efforts resulted in the ultimate passage of House Bill 3158 which required extensive contribution and benefit changes.

DFPF's actuarial firm, Segal Consulting (Segal), conducts the annual actuarial valuations to determine if the assets and contributions are sufficient to provide the prescribed benefits (funding positions) of the Plans. Although the effective date of HB 3158 was September 1, 2017, the January 1, 2017 actuarial valuation considered the results of the changes due to the timing of the bill passage and the significance of the plan changes. The January 1, 2018 valuation considers the impact of the 183 members that elected to revoke their prior DROP election, 145 of the DROP revocations were completed in 2018.

The January 1, 2018 actuarial valuation reports a funded ratio of 47.7%, an unfunded actuarial accrued liability of \$2.4 billion and an expected fully funded date of 2063 for the Combined Pension Plan compared to a funded ratio of 49.4%, an unfunded actuarial accrued liability of \$2.2 billion and an expected fully funded date of 2061 for the Combined Pension Plan as reported in the January 1, 2017 actuarial valuation. The January 1, 2017 funding results reflected improvement over 2016 due to the passage of HB 3158. The January 1, 2016 actuarial valuation reported a funded ratio of 45.1%, and an unfunded actuarial accrued liability of \$3.3 billion and the Combined Pension Plan was projected to be insolvent in 15 years.

The January 1, 2018 actuarial valuation reports a funded ratio of 51.5% and an unfunded actuarial accrued liability of \$16.7 million for the Supplemental Plan compared to a funded ratio of 52.9%, and an unfunded actuarial accrued liability of \$15.7 million for the Supplemental Plan as reported in the January 1, 2017 actuarial valuation. The January 1, 2017 funding results reflect improvement due to the passage of HB 3158. The January 1, 2016 actuarial valuation reported a funded ratio of 45.8%, an unfunded actuarial accrued liability of \$23 million.

These projections may vary on an annual basis due to actual experience and demographics which may vary from the current actuarial assumptions. Beginning in 2025, once the City is contributing based solely on Computation Pay with no floor as discussed below, differences between actual payroll and the City's current projections may have a significant impact on the projected funding period.

The total Actuarially Determined Contribution (ADC) rate required to pay the normal cost and to amortize the unfunded actuarial accrued liability over a 30-year period is currently 58.9% of Computation Pay compared to 57% and 79% as of January 1, 2017 and 2016, respectively. The decrease in the ADC in the January 1, 2017 actuarial valuation from the January 1, 2016 actuarial valuation reflects the impact of the significant changes resulting from the passage of HB 3158. The ADC rate compares to the City's actual contribution rate of 34.5% of Computation Pay as of the first pay period that begins after September 1, 2017 which is subject to a minimum floor per the bill for the next seven years, plus the member contribution of 13.5% beginning September 6, 2017, plus an additional \$13 million per year from the City until December 31, 2024.

Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans - An Amendment of GASB Statement No. 25*, (GASB No. 67) requires disclosure of the Net Pension Liability (NPL). The GASB No. 67 valuation is prepared by Segal and is a calculation for accounting purposes as opposed to the actuarial valuation which is completed to determine the funding adequacy of the Plans. The NPL is the difference between the Total Pension Liability (TPL) and the

Dallas Police and Fire Pension System

Management's Discussion and Analysis (Unaudited) December 31, 2017 and 2016

market value of assets. GASB No. 67 requires the determination of the TPL using the individual entry age method, level percent of pay actuarial cost method, and a discount rate. The GASB No. 67 calculation is based on the benefit structure in place at year end, therefore the GASB No. 67 calculation completed for December 31, 2016 did not consider the impacts of HB 3158, while the actuarial valuation included the impacts.

The GASB No. 67 for December 31, 2017 includes the impacts of HB 3158 and reports a NPL of \$2.4 billion which is a decrease of \$3.9 billion from the NPL reported at December 31, 2016 for the Combined Pension Plan. The Fiduciary Net Position as a Percentage of Total Pension Liabilities (FNP) is 46.8% at December 31, 2017 compared to 25.5% at December 31, 2016 for the Combined Pension Plan. The Supplemental Plan had a NPL of \$16 million and \$23 million at December 31, 2017 and 2016, respectively. The Supplemental Plan had a FNP of 52.9% and 43.5% at December 31, 2017 and 2016, respectively.

Information about whether the Plans' net positions are increasing or decreasing over time relative to the TPL is provided in the accompanying Schedule of Changes in the Net Pension Liability and Related Ratios.

Contacting DFPF's Financial Management

This financial report is designed to provide members and other users with a general overview of DFPF's finances and present the Plans' accountability for the funding received. If you have questions about this report, you may contact the Executive Director of the Dallas Police and Fire Pension System at 4100 Harry Hines Boulevard, Suite 100, Dallas, Texas 75219, by phone at 214-638-3863, or by email at info@dpfp.org.

Dallas Police and Fire Pension System

Combining Statements of Fiduciary Net Position

December 31,	2017			2016		
	Combined Pension Plan	Supplemental Police and Fire Pension Plan of the City of Dallas	Total	Combined Pension Plan	Supplemental Police and Fire Pension Plan of the City of Dallas	Total
Assets						
Investments, at fair value						
Short-term investments	\$ 23,929,959	\$ 202,714	\$ 24,132,673	\$ 7,095,453	\$ 58,339	\$ 7,153,792
Fixed income securities	325,258,334	2,755,315	328,013,649	267,687,478	2,200,932	269,888,410
Equity securities	466,132,328	3,948,680	470,081,008	153,397,855	1,261,240	154,659,095
Real assets	794,476,173	6,730,133	801,206,306	1,119,758,392	9,206,677	1,128,965,069
Private equity	220,240,515	1,865,692	222,106,207	262,620,347	2,159,270	264,779,617
Alternative investments	143,709,605	1,217,387	144,926,992	133,798,219	1,100,092	134,898,311
Forward currency contracts	134,137	1,136	135,273	(284,449)	(2,339)	(286,788)
Total investments	1,973,881,051	16,721,057	1,990,602,108	1,944,073,295	15,984,211	1,960,057,506
Invested securities lending collateral	12,050,625	102,083	12,152,708	21,494,665	176,730	21,671,395
Receivables						
City	2,026,827	-	2,026,827	1,288,353	-	1,288,353
Members	641,998	1,147	643,145	279,043	427	279,470
Interest and dividends	2,924,484	24,774	2,949,258	2,920,613	24,013	2,944,626
Investment sales proceeds	28,155,275	238,508	28,393,783	24,509,363	201,516	24,710,879
Other receivables	610,876	5,175	616,051	153,268	1,260	154,528
Total receivables	34,359,460	269,604	34,629,064	29,150,640	227,216	29,377,856
Cash and cash equivalents	117,590,839	996,131	118,586,970	324,119,633	2,664,919	326,784,552
Prepaid expenses	431,773	3,658	435,431	456,034	3,750	459,784
Capital assets, net	12,608,396	106,808	12,715,204	11,943,266	98,198	12,041,464
Total assets	2,150,922,144	18,199,341	2,169,121,485	2,331,237,533	19,155,024	2,350,392,557
Liabilities						
Notes payable	-	-	-	128,939,854	1,060,146	130,000,000
Other payables						
Securities purchased	31,147,075	263,852	31,410,927	24,153,956	198,594	24,352,550
Securities lending obligations	12,050,625	102,083	12,152,708	21,494,665	176,730	21,671,395
Accounts payable and other accrued liabilities	4,378,973	28,253	4,407,226	5,987,255	49,227	6,036,482
Total liabilities	47,576,673	394,188	47,970,861	180,575,730	1,484,697	182,060,427
Net position						
Net investment in capital assets	12,608,396	106,808	12,715,204	11,943,266	98,198	12,041,464
Unrestricted	2,090,737,075	17,698,345	2,108,435,420	2,138,718,537	17,572,129	2,156,290,666
Net position held in trust - restricted for pension benefits	\$ 2,103,345,471	\$ 17,805,153	\$ 2,121,150,624	\$ 2,150,661,803	\$ 17,670,327	\$ 2,168,332,130

See accompanying independent auditor's report and notes to combining financial statements.

Dallas Police and Fire Pension System
Combining Statements of Changes in Fiduciary Net Position

Years ended December 31,	2017			2016		
	Combined Pension Plan	Supplemental Police and Fire Pension Plan of the City of Dallas	Total	Combined Pension Plan	Supplemental Police and Fire Pension Plan of the City of Dallas	Total
Additions (Reductions)						
Contributions						
City Members	\$ 126,318,005	\$ 2,077,059	\$ 128,395,064	\$ 119,345,000	\$ 3,063,584	\$ 122,408,584
	32,977,425	66,095	33,043,520	25,518,317	34,612	25,552,929
Total contributions	159,295,430	2,143,154	161,438,584	144,863,317	3,098,196	147,961,513
Investment income (loss)						
Net appreciation (depreciation) in fair value of investments	74,836,102	535,674	75,371,776	121,518,053	786,478	122,304,531
Interest and dividends	30,923,115	261,955	31,185,070	54,354,246	446,902	54,801,148
Total gross investment income (loss)	105,759,217	797,629	106,556,846	175,872,299	1,233,380	177,105,679
Less: Investment expense	(9,024,584)	(76,449)	(9,101,033)	(11,683,217)	(96,060)	(11,779,277)
Net investment income (loss)	96,734,633	721,180	97,455,813	164,189,082	1,137,320	165,326,402
Securities lending income						
Securities lending income	185,159	1,569	186,728	656,928	5,401	662,329
Securities lending expense	(84,612)	(717)	(85,329)	(258,130)	(2,122)	(260,252)
Net securities lending income	100,547	852	101,399	398,798	3,279	402,077
Other income	2,075,970	17,586	2,093,556	203,076	1,670	204,746
Total additions (reductions)	258,206,580	2,882,772	261,089,352	309,654,273	4,240,465	313,894,738
Deductions						
Benefits paid to members	292,576,281	2,668,579	295,244,860	821,737,799	5,911,533	827,649,332
Refunds to members	3,577,530	-	3,577,530	3,354,333	-	3,354,333
Interest expense	1,279,517	10,839	1,290,356	4,532,196	37,264	4,569,460
Professional and administrative expenses	8,089,584	68,528	8,158,112	9,492,445	78,047	9,570,492
Total deductions	305,522,912	2,747,946	308,270,858	839,116,773	6,026,844	845,143,617
Net increase/(decrease) in net position	(47,316,332)	134,826	(47,181,506)	(529,462,500)	(1,786,379)	(531,248,879)
Net position held in trust - restricted for pension benefits						
Beginning of period	2,150,661,803	17,670,327	2,168,332,130	2,680,124,303	19,456,706	2,699,581,009
End of period	\$ 2,103,345,471	\$ 17,805,153	\$ 2,121,150,624	\$ 2,150,661,803	\$ 17,670,327	\$ 2,168,332,130

See accompanying independent auditor's report and notes to combining financial statements.

Dallas Police and Fire Pension System

Notes to Combining Financial Statements

1. Organization

General

The Dallas Police and Fire Pension System (DPFP) is an independently governed component unit of the City of Dallas (City, or Employer) and serves as a single-employer pension and retirement fund for police officers and firefighters employed by the City. The general terms “police officers” and “firefighters” also include fire and rescue operators, fire alarm operators, fire inspectors, apprentice police officers, and apprentice firefighters. DPFP is comprised of a single defined benefit pension plan (Combined Pension Plan) designed to provide retirement, death, and disability benefits for police officers and firefighters (collectively, members). DPFP 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 (the Governing Statute). All active police officers and firefighters employed by the City are required to participate in the Combined Pension Plan.

The Supplemental Police and Fire Pension Plan of the City of Dallas (Supplemental Plan) was created in 1973 to supplement DPFP’s Plan B Defined Benefit Pension Plan (Plan B). The Combined Pension Plan and Supplemental Plan are collectively referred to as the Plans. Former Plan B members are now denominated as Group B members of the Combined Pension Plan. The intent of the Supplemental Plan is to provide additional retirement benefits to those members of the Supplemental Plan 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 into the Supplemental Plan and compensation while in the Supplemental Plan. The Supplemental Plan was established and derives its authority from a non-codified City ordinance.

As of December 31, 2017 and 2016, the Combined Pension Plan’s membership consisted of:

	2017	2016
Retirees and beneficiaries	4,748	4,456
Non-active vested members not yet receiving benefits	226	215
Non-active non-vested members not yet refunded	399	295
Total non-active members	5,373	4,966
Vested active members	3,757	3,978
Non-vested active members	1,195	1,126
Total active members	4,952	5,104

Dallas Police and Fire Pension System

Notes to Combining Financial Statements

As of December 31, 2017, and 2016, the Supplemental Plan's membership consisted of:

	2017	2016
Total non-active members	141	128
Vested active members	42	47
Non-vested active members	2	-
Total active members	44	47

The benefit, contribution and administration plan provisions discussed below are as of December 31, 2017.

Benefits

Members hired by the City before March 1, 1973 are Group A members of the Combined Pension Plan. Members hired on or after March 1, 1973 are Group B members of the Combined Pension Plan.

Group A members of the Combined Pension Plan have elected to receive one of two benefit structures as of December 31, 2017:

- Members with 20 years or more of pension service are entitled to monthly pension benefits beginning at age 50 equal to 50% of base pay, 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 either 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 annually according to changes in active service base pay, if any. 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 with 20 years or more of pension service are entitled to monthly pension benefits beginning at age 55 equal to 3% of their base pay, computed as noted in the prior paragraph, for each year of pension service with a maximum of 32 years. In addition, a member receives 50% of the longevity pay and $\frac{1}{24}$ th of any City service incentive pay the member was receiving either at the time he or she left active service with the City or the effective date the member joined DROP. Prior to September 1, 2017 pension benefit payments increased annually on October 1st by 4% of the initial benefit amount. After September 1, 2017 pension benefit payments are eligible for an ad hoc cost of living increase as approved by the Board, if certain funding requirements are met. It is not anticipated that the funding requirements necessary to grant an ad hoc cost of living increase will be met for several decades.

Group B members of the Combined Pension Plan receive one of two benefit structures as of December 31, 2017:

- Members who began membership before March 1, 2011 with 5 or more years of pension service are entitled to monthly pension benefits beginning at age 50 equal to 3% of the member's average base pay plus education and longevity pay (Computation Pay) determined over the highest 36 consecutive months of Computation Pay, multiplied by the number of years of pension service prior to September 1, 2017. The monthly pension benefit for service earned after September 1, 2017 is based on the highest 60 consecutive months of Computation Pay

Dallas Police and Fire Pension System

Notes to Combining Financial Statements

multiplied by a 2.5% multiplier at age 58. The multiplier is reduced to between 2.0% and 2.4% for retirement beginning at age 53 and prior to age 58. The member cannot accrue a monthly pension benefit that exceeds 90% of the member's average Computation Pay. Certain members may receive a 2.5% multiplier for pension service after September 1, 2017 prior to age 58 if the combination of their pre and post September 1, 2017 pension service calculations using the 2.5% multiplier for post September 1, 2017 meets or exceeds the 90% maximum benefit. Certain members who meet the service prerequisite or were 45 prior to September 1, 2017 may elect to take early retirement with reduced benefits starting at age 45, or earlier if the member has 20 years of pension service.

- Members who began membership after February 28, 2011 are entitled to monthly pension benefits after accruing 5 years of pension service and the attainment of age 58. Pension benefits are equal to the member's average Computation Pay determined over the highest 60 consecutive months of Computation Pay, multiplied by 2.5% for the number of years of pension service. The member cannot accrue a monthly pension benefit that exceeds 90% of the member's average Computation Pay. Certain members who meet the service prerequisite may elect to take early retirement with reduced benefits starting at age 53.

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 except that the percent multiplier would be based on the member's age at the time of applying for the pension, or earlier if the member has 20 years of pension service.

After September 1, 2017, Group B benefits for all members are eligible for an ad hoc cost of living increase as approved by the Board, if certain funding requirements are met. It is not anticipated that the funding requirements necessary to grant an ad hoc cost of living increase will be met for several decades. Prior to September 1, 2017 Group B members hired prior to January 1, 2007 received an automatic annual increase of 4% of the initial benefit amount each October 1st. Group B members hired on or after January 1, 2007 were eligible for an ad hoc increase not to exceed 4% of the initial benefit amount.

Additional provisions under the Combined Pension Plan as of December 31, 2017 are as follows:

- Prior to September 1, 2017 members with over 20 years of pension service, upon attaining age 55, received a monthly supplement equal to the greater of \$75 or 3% of their total monthly benefits (excluding the benefit supplement amount). After September 1, 2017, no additional members will receive the monthly supplement and no increases will be made to the amount of the supplement received by those members receiving the supplement prior to September 1, 2017.
- Service-connected disability benefits are available for members in active service who began service prior to March 1, 2011 and have not entered DROP who become disabled during the performance of their duties from the first day of employment. Members receiving service-connected disability benefits are given credit for the greater of actual pension service or 20 years of pension service. A benefit of 3% times the average of the highest 36 consecutive months of Computation Pay times the number of years of pension service prior to September 1, 2017 and a multiplier based on their age at the time the disability is granted for pension service after September 1, 2017 plus additional time necessary to reach 20 years of pension service credit times the average of the highest 60 consecutive months of Computation pay. Members who began membership after February 28, 2011 and have not entered DROP are

Dallas Police and Fire Pension System

Notes to Combining Financial Statements

entitled to a disability benefit based on the average of the highest 60 consecutive months of Computation Pay times a 2.5% multiplier regardless of their age. If a member has more than 20 years of service, the benefit is calculated in the same manner as their service retirement pension. If the member has fewer than 36 or 60 months of service, based on hire date, the benefit is based on the average of Computation Pay during their entire pension service.

- Members who began membership before March 1, 2011, who are determined to be eligible for a non-service connected disability benefit are entitled to a benefit of 3% times the average of the highest 36 consecutive months of Computation Pay times the number of years of pension service prior to September 1, 2017, plus a multiplier based on their age at the time the disability is granted for pension service after September 1, 2017 times the average of the highest 60 consecutive months of Computation pay. Total service is rounded to the nearest whole year. Members who began membership after February 28, 2011 are entitled to a disability benefit based on the average of the highest 60 consecutive months of Computation Pay, times a 2.5% multiplier regardless of their age. All non-service connected disability benefits are subject to a minimum benefit of \$110 for every year of pension service. The minimum benefit cannot exceed \$2,200 per month. If the member has fewer than 36 or 60 months of service, based on hire date, the benefit is based on the average of Computation Pay during their entire pension service.
- Members who are eligible to retire are eligible to enter the DROP program which is an optional method of accruing monthly pension benefits prior to leaving active service. Members who are receiving disability benefits are not eligible to enter the DROP program. The amount of an active member's DROP balance is based on the accumulation of the member's monthly benefit each month while in active DROP, and interest accrued prior to September 1, 2017. DROP balances do not earn interest after September 1, 2017. DROP balances of retired members and other DROP account holders, excluding active member DROP account holders, were converted to annuities (a stream of payments) on November 30, 2017. DROP balances of active members are annuitized upon retirement. The life expectancy of a DROP account holder at the time of annuitization determines the term of the annuity. Interest is included in the annuity calculation for balances accrued prior to September 1, 2017. The interest rate is based on the provisions of HB 3158 and rules adopted by the Board. See Note 6 for information about the changes in the DROP program resulting from the passage of HB 3158. See below, under Contributions, for discussion of required DROP contributions. The total DROP account balance including the present values of the annuitized balances for the Combined Pension Plan was \$1.05 billion at December 31, 2017 and 2016. The total DROP balances include amounts that may be paid out of the Excess Benefit Plan and Trust.
- A minimum benefit is paid to vested retired members of \$2,200 per month subject to any restrictions contained in the Combined Pension Plan. The minimum benefit is prorated for members who retire with less than 20 years of service credit and equals \$1,200 monthly for a qualified surviving spouse if there are no qualified surviving children receiving benefits. The minimum benefit is \$1,100 monthly for qualified surviving children combined and qualified surviving spouses if qualified surviving children are receiving or had received benefits.

The Supplemental Plan's benefits are designed to supplement Group B benefits for those members holding a rank higher than the highest civil service rank because their Combined Pension Plan benefits are capped by the Combined Pension Plan's definition of considered compensation. Accordingly, when Group B benefits are amended, the Supplemental Plan's benefit calculation is also affected. The basis for a member's benefits are 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 (and pay step) the member held as a

Dallas Police and Fire Pension System

Notes to Combining Financial Statements

result of competitive examinations. The service time used to determine the member's Group B benefit is used to determine the member's benefit under the Supplemental Plan so that the same length of time is used for both plans. Average Computation Pay is calculated for each plan separately and combined in determining the benefit. Application for benefits under the provisions of the Combined Pension Plan is deemed to be an application for benefits under the Supplemental Plan and no additional application need be filed.

Members of the Supplemental Plan who enter the DROP program in the Combined Pension Plan also enter the DROP program in the Supplemental Plan. The total DROP account balance and the present value of the annuitized balances related to the Supplemental Plan was \$8.1 million and \$8.0 million at December 31, 2017 and 2016, respectively. The total DROP balances include amounts that may be paid out of the Excess Benefit Plan and Trust.

Death benefits are available to a surviving spouse, dependent children, handicapped children, or dependent parents in the event of the death of a member either after disability or service retirement, prior to leaving active service or retirement eligible deferred vested members.

Members retiring with 20 years of pension service or who were receiving a service-connected disability benefit had been eligible to receive a benefit supplement upon reaching age 55. The supplement amount was 3% of the member's monthly benefit, with a minimum of \$75 per month in the Combined Pension Plan. After September 1, 2017, no additional members will receive the monthly supplement and no supplement amount will increase.

Contributions

HB 3158 increased employee contribution rates effective the first pay period beginning after September 1, 2017, which was September 6, 2017, to 13.5% of Computation Pay for all active members regardless of their status. Prior to September 1, 2017, Group B members not in DROP were required to contribute to the Combined Pension Plan 8.5% of Computation Pay. Beginning October 1, 2011, active members in DROP paid contributions at the rate of 3% of Computation Pay through September 30, 2012, 6% of Computation Pay through October 1, 2013, and 8.5% of Computation Pay through December 31, 2014. Effective January 1, 2015, active members in DROP paid contributions at the rate of 4% of Computation Pay.

Prior to September 1, 2017 the City contribution rates to the Combined Pension Plan were defined in Article 6243a-1 of the Revised Civil Statutes of Texas and required the City to make contributions of 27.5% of total wages, including overtime. HB 3158 required that effective the first bi-weekly pay period beginning after September 1, 2017, the City contribute the greater of (i) 34.5% of Computation Pay and (ii) a bi-weekly minimum (floor) amount defined in the bill, plus \$13 million annually until 2024. The 2017 floor amount was \$5.173 million. After 2024 the floor amount and the additional \$13 million annual amount are eliminated.

During 2024 an independent actuary selected by the Texas State Pension Review Board (PRB) must perform an analysis that includes the independent actuary's 1) conclusion regarding whether the pension system meets State Pension Review Board funding guidelines; and 2) recommendations regarding changes to benefits or to member or city contribution rates. The Board must adopt a plan

Dallas Police and Fire Pension System

Notes to Combining Financial Statements

that complies with the funding and amortization period requirements under Subchapter C, Section 802 of the Texas Government Code.

The City is required by ordinance to contribute amounts, as determined by an actuary, necessary to maintain the Supplemental Plan. Member contributions in the Supplemental Plan follow the same rules as the Combined Pension Plan on Computation Pay over the compensation of the highest civil service rank held as a result of competitive examinations.

City contributions can be changed by the legislature, by a majority vote of the voters of the city or in accordance with a written agreement entered into between the city and the pension system, where at least a eight trustees have approved the agreement, provided that the change does not increase the period required to amortize the unfunded accrued liability of the Combined Pension Plan. Employee contribution changes can be made by the legislature or by a vote of the Board where at least eight trustees have approved the change. Decreases in employee contributions can be approved by the Board only if certain funding conditions are met.

The Supplemental Plan's plan document can be amended only by the City Council in accordance with City ordinance. The benefit and contribution provisions of the Supplemental Plan follow those of the Combined Pension Plan.

Members of Group B are immediately vested in their member contributions. If a member's employment is terminated and the member is not vested, or the member elects not to receive present or future pension benefits, the member's contributions are refunded, without interest, upon written application. If application for a refund is not made within three years of normal retirement age, the member forfeits the right to a refund of his or her contribution; however, a procedure exists whereby the member's right to the contributions can be reinstated and refunded by the Board after the three-year period.

Administration

Collectively, the Combined Pension Plan Board of Trustees and the Supplemental Plan Board of Trustees are referred to as the Board. The Board is responsible for the general administration of DFPF and has the full power to invest the Plans' assets.

Effective September 1, 2017, HB 3158 modified the structure of the Board. Prior to September 1, 2017 the Plans were administered by a twelve-member Board of Trustees consisting of four City Council members appointed by the City Council, three active police officers and three active firefighters who were elected by employees of their respective departments, one pensioner who has retired from the Police Department and one pensioner who has retired from the Fire-Rescue Department who was elected by pensioners from their respective departments.

Beginning September 1, 2017, the Plans are administered by an eleven-member Board consisting of six Trustees appointed by the mayor of the City of Dallas, in consultation with the City Council; one current or former police officer, nominated and elected by active members; one current or former firefighter, nominated and elected by active members; and three non-member Trustees (who may

Dallas Police and Fire Pension System

Notes to Combining Financial Statements

not be active members or retirees) elected by the active members and retirees from a slate of nominees vetted and nominated by the Nominations Committee. The Nominations Committee consists of representatives from 11 named police and fire associations and the Executive Director of DPFP. The Executive Director is a nonvoting member of the committee.

To serve as a Trustee, a person must have demonstrated financial, accounting, business, investment, budgeting, real estate or actuarial expertise and may not be an elected official or current employee of the City of Dallas, with the exception of a current police officer or firefighter. The new Board was fully seated on October 12, 2017.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States (GAAP). In doing so, DPFP adheres to guidelines established by the Governmental Accounting Standards Board (GASB). The accompanying financial statements include solely the accounts of the Plans on a combined basis, which include all programs, activities and functions relating to the accumulation and investment of the net position and related income necessary to provide the service, disability and death benefits required under the terms of the governing statutes and amendments thereto.

Basis of Accounting

The accrual basis of accounting is used for the Plans. Revenues are recognized in the period in which they are earned and collection is reasonably assured. Expenses are recognized when the liability is incurred. Member and employer contributions are recognized in the period in which the contributions are due. Accrued income, when deemed uncollectible, is charged to operations.

Contributions for the final biweekly payroll of the year for the years ended December 31, 2017 and 2016 were not received by DPFP until subsequent to year end and accordingly, uncollected contributions are recorded as receivables in the accompanying financial statements. Benefits, lump sum payments, and refunds are recognized when due and payable. Dividend income is recorded on the ex-dividend date. Other income consists primarily of rental income which is recognized on a straight-line basis over the lease term. Realized gains and losses on sales of securities are recognized on the trade date. The cost of investments sold is determined using the average cost method.

Reporting Entity

DPFP is an independently governed component unit of the City and the basic financial statements and required supplementary information of the Plans are therefore included in the City's Comprehensive Annual Financial Report.

Administrative Costs

All costs of administering the Plans are paid from the Plans' assets pursuant to an annual fiscal budget approved by the Board.

Dallas Police and Fire Pension System

Notes to Combining Financial Statements

Federal Income Tax

Favorable determinations that the Plans are qualified and exempt from Federal income taxes were received on October 20, 2014. While the Board has authorized a filing with the Internal Revenue Service under the Voluntary Correction Program, the Board believes that the Plans are designed to meet and operate in material compliance with the applicable requirements of the Internal Revenue Code.

Use of Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the actuarial information included in the notes to the financial statements as of the benefit information date, the reported amounts of income and expenses during the reporting period, and when applicable, disclosures of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Cash and Cash Equivalents

DPFP considers only demand deposits as cash. Cash equivalent securities, which are composed of all highly liquid investments with a maturity of three months or less when purchased, are considered to be cash equivalents. Highly liquid securities invested by third party investment managers as part of a short-term investment fund are not considered cash equivalents and are classified as short-term investments.

Plan Interest in the Group Master Trust

Effective January 1, 2006, the Board elected to establish a Group Master Trust (Group Trust) in order to unitize the investments of the Combined Pension Plan and the Supplemental Plan. JPMorgan Chase Bank, N.A. (JPMorgan) served as custodian of the Group Trust for the years ended December 31, 2017 and 2016. The fair value of the Combined Pension Plan's interest and the Supplemental Plan's interest in the Group Trust is based on the unitized interest that each plan has in the Group Trust. The Combined Pension Plan's interest in the Group Trust's investments was approximately 99.2% at December 31, 2017 and 2016, while the remaining interest belongs to the Supplemental Plan. The allocation of investment income and expenses between the Combined Pension Plan and the Supplemental Plan is based on percentage interest in the Group Trust. Shared professional and administrative expenses are allocated to each plan directly in proportion to each plan's ownership interest. Benefits and contributions are attributed directly to the plan that such receipts and disbursements relate to and are not subject to a pro-rated allocation.

Investments

Investment Policy

Statutes of the State of Texas authorize DPFP to invest surplus funds in the manner provided by Government Code, Title 8, Subtitle A, Subchapter C which provides for the investment of surplus assets in any investment that is deemed prudent by the Board. These statutes stipulate that the governing body of the Plans is responsible for the management and administration of the funds of the Plans and shall determine the procedure it finds most efficient and beneficial for the management of the funds of the Plans. The governing body may directly manage the investments of the Plans or may contract for professional investment management services. Investments are reported at fair value.

Dallas Police and Fire Pension System

Notes to Combining Financial Statements

The investment policy of the Board does not restrict the types of investments authorized to be made on behalf of the Group Trust. HB 3158 requires at least eight members of the Board to approve an investment in an alternative asset. The Board determined that alternative assets include all asset classes other than traditional assets. Traditional assets include publicly traded stocks, bonds and cash equivalents. The investment policy is based upon an asset allocation study that considers the current and expected financial condition of the Plans, the expected long-term capital market outlook and DFPF's risk tolerance. The following is the Board's adopted asset allocation policy as of December 31, 2017:

Asset Class	Target Allocation
Equity	30%
Global Equity	20%
Emerging Markets Equity	5%
Private Equity	5%
Fixed Income	33%
Short-term Core Bonds	2%
Global Bonds	3%
High Yield	5%
Bank Loans	6%
Emerging Markets Debt	6%
Structured Credit and Absolute Return	6%
Private Debt	5%
Global Asset Allocation	10%
Risk Parity	5%
Global Tactical Asset Allocation	3%
Absolute Return	2%
Real Assets	25%
Liquid Real Assets	3%
Natural Resources	5%
Infrastructure	5%
Real Estate	12%
Cash	2%

The value and performance of DFPF's investments are subject to various risks, including, but not limited to, credit risk, interest rate risk, concentration of credit risk, custodial credit risk, and foreign currency risk, which are in turn affected by economic and market factors impacting certain industries, sectors or geographies. See Note 3 for disclosures related to these risks.

See Note 12 for Board action taken on May 8, 2018 to suspend a portion of the target allocation to asset classes.

Investment Transactions

The accompanying Combining Statements of Changes in Fiduciary Net Position present the net appreciation (depreciation) in the fair value of investments which consists of the realized gains and

Dallas Police and Fire Pension System

Notes to Combining Financial Statements

losses on securities sold and the changes in unrealized gains and losses on those investments still held in the portfolio at year end.

Purchases and sales of investments and forward foreign exchange contracts are recorded on the trade date. Unsettled investment trades as of fiscal year end are reported in the financial statements on the accrual basis of accounting. Realized gains or losses on forward foreign exchange contracts are recognized when the contract is settled.

Interest earned but not yet received and dividends declared but not yet received are recorded as accrued interest and dividends receivable, respectively. In addition, unsettled investment purchases and sales are accrued.

Valuation of Investments

The diversity of the investment types in which the Group Trust invests requires a wide range of techniques to determine fair value.

Short-term investments include money market funds and government bonds with a maturity of less than one year and are valued based on stated market rates.

Fixed income investments include government securities such as Treasury securities, bank loans, US corporate bonds, foreign securities such as dollar denominated and non-dollar denominated issues of non-US governments and private corporations, plus units of commingled fixed income funds of both US and foreign securities. Equity securities consist of individual shares of equity securities plus units of commingled stock funds of both US and foreign entities. The stated market value of investments in publicly traded fixed income and equity securities is based on published market prices or quotations from major investment dealers as provided by JPMorgan, utilizing vendor supplied pricing. Vendor supplied pricing data for equity securities is based upon the daily closing price from the primary exchange of each security while vendor supplied pricing data for fixed income securities is based upon a combination of market maker quotes, recent trade activity, and observed cash flows. Securities traded on an international exchange are valued at the last reported sales price as of year-end at exchange rates as of year-end. The fair value of non-publicly traded commingled fixed income funds and commingled stock funds is based on their respective net asset value (NAV) as reported by the investment manager.

Real assets consist of privately held real estate, infrastructure, timberland, and farmland investments. Real estate is held in separate accounts, limited partnerships, joint ventures, and commingled funds, and as debt investments in the form of notes receivable. Infrastructure, timberland, and farmland are held in separate accounts, limited partnerships, and joint ventures. Real estate, timberland and farmland are generally subject to independent third-party appraisals performed in accordance with the Uniform Standards of Professional Appraisal Practice on a periodic basis, every three years at minimum, as well as annual financial statement audits. Infrastructure funds are valued based on audited NAV reported by the manager which is based on internal manager valuation or independent appraisal at the discretion of the manager. Interests in joint ventures, limited partnerships and notes receivable are valued at the dollar value reported by the general partner or investment manager, as applicable. Certain real estate investments are managed internally by DFPF staff and the real estate holdings of such ventures are subject to independent third-party appraisals on a periodic basis, every three years at minimum. Internally managed investments are valued at their net equity on a fair value basis. Externally managed partnerships, joint venture, commingled funds, and separate accounts are valued at the NAV provided by the investment or fund manager, as applicable. The underlying investment holdings are valued by the investment or fund manager on a continuous basis.

Dallas Police and Fire Pension System

Notes to Combining Financial Statements

Private equity and alternative investments consist of various investment vehicles including limited partnerships, commingled funds, trusts and notes receivable. Alternative investments, also referred to as the global asset allocation portfolio, consist of risk parity, tactical asset allocation, and absolute return funds. Private equity limited partnership investments and notes receivable are valued as reported by the investment manager. Alternative investment commingled funds are valued using their respective NAV as reported by the fund's custodian or investment manager, as applicable. Private equity funds are valued using their respective NAV as reported by the fund's custodian, investment manager or independent valuations obtained by DFPF, as applicable.

DFPF has established a framework to consistently measure the fair value of the Plans' assets and liabilities in accordance with applicable accounting, legal, and regulatory guidance. This framework has been provided by establishing valuation policies and procedures that provide reasonable assurance that assets and liabilities are carried at fair value as described above and as further discussed in Note 4.

Foreign Currency Transactions

DFPF, through its investment managers, is party to certain financial arrangements, utilizing forward contracts, options and futures 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. Realized gains and losses on option and future arrangements are recorded as they are incurred. Realized gains and losses on forward contracts are recorded on the settlement date.

Gains and losses resulting from foreign exchange contracts (transactions denominated in a currency other than the Group Trust's functional currency - US dollar) are recorded based on changes in market values and are included in investment income (loss) in the accompanying financial statements. Investment managers, on behalf of the Group Trust, structure foreign exchange contracts and enter into transactions to mitigate exposure to fluctuations in foreign exchange rates.

Investments and broker accounts denominated in foreign currencies outstanding at December 31, 2017 and 2016 were converted to the US dollar at the applicable foreign exchange rates quoted as of December 31, 2017 and 2016, respectively. The resulting foreign exchange gains and losses are included in net appreciation (depreciation) in fair value of investments in the accompanying financial statements.

Recent Accounting Pronouncements

In March 2016, GASB issued Statement No. 82, Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement was adopted by DFPF for the 2017 annual financial statements. The implementation of this new standard did not significantly impact the financial statements.

In 2017 GASB adopted Statement No. 86, Certain Debt Extinguishment Issues and Exposure Draft, Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements, the

Dallas Police and Fire Pension System

Notes to Combining Financial Statements

effective dates of GASB Statement No. 86 and the Exposure Draft are in subsequent periods and the new standards are not anticipated to have an impact on the DPFP financial statements.

In 2017 GASB adopted Statement No. 87, Leases, this standard will require recognition of certain lease assets and liabilities for leases that are currently classified as operating leases. It is not anticipated that GASB Statement No. 87 will have a material effect on the financial statements. The statement is effective December 31, 2020.

3. Investments

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

The fair value of investments at December 31, 2017 and 2016 is as follows (in thousands):

	2017	2016
Short-term investments		
Short-term investment funds	\$ 24,133	\$ 7,154
Fixed income securities		
US Treasury bonds	41,686	6,854
US government agencies	871	-
Corporate bonds	104,434	88,307
Foreign-denominated bonds	37,209	28,896
Commingled funds	142,115	144,924
Municipal bonds	1,699	907
Equity securities		
Domestic	223,743	80,190
Foreign	196,092	74,469
Commingled funds	50,246	-
Real assets		
Real estate	532,079	589,364
Infrastructure	61,430	273,533
Timberland	52,171	95,734
Farmland	155,526	170,334
Private equity	222,106	264,780
Alternative investments	144,927	134,898
Forward currency contracts	135	(287)
Total	\$ 1,990,602	\$ 1,960,057

Dallas Police and Fire Pension System

Notes to Combining Financial Statements

Custodial Credit Risk

Portions of DPFP's investments are classified as security investments. A security is a transferable financial instrument that evidences ownership or creditorship. Investments in companies, partnerships and real estate are investments that are evidenced by contracts rather than securities.

Custodial credit risk is the risk that, in the event of the failure of an investment counterparty, the investor will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the investor, and are held by either the counterparty or the counterparty's trust department or agent, but not in the investor's name. DPFP mitigates this risk by having investments held at a custodian bank on behalf of DPFP. At December 31, 2017 and 2016, all investment securities held by the custodian were registered in the name of DPFP and were held by JPMorgan in the name of DPFP.

DPFP considers only demands on deposit as cash. As of December 31, 2017 and 2016, DPFP had a balance of \$62.7 million and \$3.9 million, respectively, on deposit at two financial institutions. The Federal Depository Insurance Corporation (FDIC) insures any deposits of an employee benefit plan in an insured depository institution on a "pass-through" basis, in the amount of up to \$250,000 for the non-contingent interest of each plan participant at each financial institution. The pass-through insurance applies only to vested participants. DPFP believes the custodial credit risk, if any, is not material.

DPFP does not have a formal policy for custodial credit risk; however, management believes that custodial credit risk exposure is mitigated by the financial strength of the financial institutions in which the deposits and securities are held.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributable to the magnitude of the Group Trust's investment in a single issue. DPFP does not have an investment policy specifically regarding concentration of credit risk; however, the target allocations of assets among various asset classes are determined by the Board with the objective of optimizing the investment return of the Group Trust within a framework of acceptable risk and diversification. For major asset classes, the Group Trust will further diversify the portfolio by employing multiple investment managers who provide guidance for implementing the strategies selected by the Board.

As of December 31, 2017, the Group Trust did not have any single investment in an issuer which represented greater than 5% of the Plans' net position.

Interest Rate Risk

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

Dallas Police and Fire Pension System

Notes to Combining Financial Statements

losses arising from future changes in interest rates, but rather mandates such limits within investment management services contracts. Investment managers have full discretion in adopting investment strategies to address these risks.

The Group Trust invests in fixed income securities including, but not limited to, investments representing instruments with an obligated fixed rate of interest including public and private debentures, mortgage backed securities, guaranteed investment contracts with maturities greater than one year, and options/futures. Purchases and sales, investment selection, and implementation of investment strategies are delegated to the discretion of the investment manager, subject to compliance with its management agreement and DFPF's investment policy.

At December 31, 2017, the Group Trust had the following fixed income securities and maturities (in thousands):

Investment Type	Less than 1 year	1 to 5 years	6 to 10 years	More than 10 years	Total
US Treasury bonds	\$ 9,199	\$ 30,800	\$ -	\$ 1,687	\$ 41,686
US Government Agencies	-	-	-	871	871
Corporate bonds	11,316	52,243	21,948	18,927	104,434
Municipal Bonds	-	399	-	1,300	1,699
Foreign-denominated bonds	4,671	13,412	4,419	14,707	37,209
Total	\$ 25,186	\$ 96,854	\$ 26,367	\$ 37,492	\$ 185,899

At December 31, 2016, the Group Trust had the following fixed income securities and maturities (in thousands):

Investment Type	Less than 1 year	1 to 5 years	6 to 10 years	More than 10 years	Total
US Treasury bonds	\$ -	\$ 1,760	\$ -	\$ 5,094	\$ 6,854
Corporate bonds	7,803	35,121	18,924	26,459	88,307
Municipal Bonds	-	-	-	907	907
Foreign-denominated bonds	2,758	8,689	4,908	12,541	28,896
Total	\$ 10,561	\$ 45,570	\$ 23,832	\$ 45,001	\$ 124,964

Commingled fixed income funds do not have specified maturity dates and are therefore excluded from the above tables.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The books and records of the Plans are maintained in US dollars. Foreign currencies and non-US dollar denominated investments are translated into US dollars at the bid prices of such currencies against US dollars at each balance sheet date. Realized and unrealized gains and losses on investments which result from changes in foreign currency exchange rates have been included in net appreciation (depreciation) in fair value of investments in the accompanying financial statements. Net realized foreign currency gains and losses resulting from changes in exchange rates include foreign currency gains and losses between trade date and settlement date of investment securities transactions, foreign currency transactions, and the difference between the amounts of interest and dividends are recorded on the books of the Plans and the amount actually received. International and global managers have permission to use currency forward and futures contracts to hedge currency against the US dollar. DFPF does not have an investment policy

Dallas Police and Fire Pension System

Notes to Combining Financial Statements

specific to foreign currency risk, however to mitigate foreign currency risk, investment managers with international exposure are expected to maintain diversified portfolios by sector and by issuer.

The Group Trust's exposure to foreign currency risk in US dollars as of December 31, 2017 is as follows (in thousands):

Currency	Fixed Income	Equity	Real Assets	Total
Australian Dollar	\$ 3,818	\$ 6,116	\$ 9,067	\$ 19,001
Brazilian Real	3,060	-	7,965	11,025
British Pound Sterling	4,671	27,120	-	31,791
Danish Krone	-	4,283	-	4,283
Euro	688	65,982	-	66,670
Hong Kong Dollar	-	13,831	-	13,831
Indonesian Rupiah	2,958	686	-	3,644
Japanese Yen	-	46,158	-	46,158
Malaysian Ringgit	4,213	-	-	4,213
Mexican Peso	9,085	-	-	9,085
Polish Zloty	5,178	-	-	5,178
Singaporean Dollar	-	157	-	157
South African Rand	3,538	-	28,940	32,478
South Korean Won	-	3,164	-	3,164
Swedish Krona	-	2,235	-	2,235
Swiss Franc	-	25,800	-	25,800
Taiwanese Dollar	-	560	-	560
Total	\$ 37,209	\$ 196,092	\$ 45,972	\$ 279,273

The Group Trust's exposure to foreign currency risk in US dollars as of December 31, 2016 was as follows (in thousands):

Currency	Fixed Income	Equity	Real Assets	Total
Australian Dollar	\$ 3,296	\$ 1,665	\$ 8,337	\$ 13,298
Brazilian Real	2,900	-	11,428	14,328
British Pound Sterling	4,322	7,930	15,842	28,094
Canadian Dollar	-	1,970	-	1,970
Danish Krone	-	1,363	-	1,363
Euro	923	24,991	-	25,914
Hong Kong Dollar	-	5,582	-	5,582
Indonesian Rupiah	2,472	-	-	2,472
Japanese Yen	-	18,083	-	18,083
Malaysian Ringgit	2,137	-	-	2,137
Mexican Peso	8,408	-	-	8,408
New Zealand Dollar	1,228	-	-	1,228
Singaporean Dollar	-	144	-	144
South African Rand	3,210	-	33,115	36,325
Swedish Krona	-	2,302	-	2,302
Swiss Franc	-	10,439	-	10,439
Total	\$ 28,896	\$ 74,469	\$ 68,722	\$ 172,087

In addition to the above exposures, certain fund-structure investments in the private equity, emerging markets debt, global asset allocation and real assets asset classes with a total fair value of \$295.0 million and \$277.6 million at December 31, 2017 and 2016, respectively, have some level

Dallas Police and Fire Pension System

Notes to Combining Financial Statements

of investments in various countries with foreign currency risk at the fund level. The individual investments in these funds with such exposure are not included in the above table.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. DFPF was party to negotiated derivative contracts in the form of forward foreign exchange contracts as of December 31, 2017 as discussed below. DFPF does not have an investment policy specific to credit risk, however to mitigate credit risk on the currency forward contracts, investment managers who manage such contracts maintain a diversified portfolio by counterparty.

The Group Trust's exposure to credit risk in fixed income securities, including short-term investment funds classified as cash equivalents, as of December 31, 2017 and 2016 using the Standard & Poor's rating scale, at fair value, is as follows (in thousands):

December 31, 2017

Rating	Corporate Bonds	Municipal Bonds	Foreign-Denominated Bonds	Commingled Funds	Short-term Investment Funds ⁽¹⁾	US Government Securities	Total
AAA	\$ 10,092	\$ -	\$ 1,936	\$ -	\$ -	\$ 41,686	\$ 53,714
AA+	2,587	-	974	-	-	-	3,561
AA	-	-	5,579	-	-	-	5,579
AA-	5,297	730	-	-	-	-	6,027
A+	1,933	-	-	-	-	-	1,933
A	4,603	969	1,344	-	-	-	6,916
A-	3,839	-	17,132	-	-	-	20,971
BBB+	9,491	-	-	-	-	-	9,491
BBB	3,141	-	-	-	-	-	3,141
BBB-	2,594	-	6,496	-	-	-	9,090
BB+	941	-	-	-	-	-	941
BB	4,276	-	3,060	-	-	-	7,336
BB-	7,392	-	-	-	-	-	7,392
B+	3,807	-	-	-	-	-	3,807
B	3,170	-	-	-	-	-	3,170
B-	13,482	-	688	-	-	-	14,170
CCC+	6,317	-	-	-	-	-	6,317
CCC	2,954	-	-	-	-	-	2,954
CCC-	736	-	-	-	-	-	736
CC	4,031	-	-	-	-	-	4,031
C	4,419	-	-	-	-	-	4,419
D	2	-	-	-	-	-	2
NR ⁽²⁾	9,330	-	-	142,115	80,245	871	232,561
Total	\$ 104,434	\$ 1,699	\$ 37,209	\$ 142,115	\$ 80,245	\$ 42,557	\$ 408,259

(1) Includes short-term money market funds classified as cash equivalents.

(2) NR represents those securities that are not rated.

Dallas Police and Fire Pension System

Notes to Combining Financial Statements

December 31, 2016

Rating	Corporate Bonds	Municipal Bonds	Foreign-Denominated Bonds	Commingled Funds	Short-term Investment Funds ⁽¹⁾	US Government Securities	Total
AAA	\$ 3,288	\$ -	\$ 1,565	\$ -	\$ -	\$ 6,854	\$ 11,707
AA+	6,888	-	7,282	-	-	-	14,170
AA	1,244	-	-	-	-	-	1,244
AA-	3,259	-	-	-	-	-	3,259
A+	2,063	-	-	-	-	-	2,063
A	2,513	907	-	-	-	-	3,420
A-	1,948	-	8,407	-	-	-	10,355
BBB+	657	-	-	-	-	-	657
BBB	1,111	-	3,210	-	-	-	4,321
BBB-	822	-	2,472	-	-	-	3,294
BB+	695	-	-	-	-	-	695
BB	5,393	-	2,900	-	-	-	8,293
BB-	8,528	-	-	-	-	-	8,528
B+	5,180	-	-	-	-	-	5,180
B	3,287	-	-	-	-	-	3,287
B-	8,295	-	448	-	-	-	8,743
CCC+	4,916	-	-	-	-	-	4,916
CCC	6,536	-	-	-	-	-	6,536
CCC-	1,944	-	475	-	-	-	2,419
CC	5,655	-	-	-	-	-	5,655
C	7,337	-	-	-	-	-	7,337
D	160	-	-	-	-	-	160
NR ⁽²⁾	6,588	-	2,136	144,924	330,768	-	484,416
Total	\$ 88,307	\$ 907	\$ 28,895	\$ 144,924	\$ 330,768	\$ 6,854	\$ 600,655

(1) Includes short-term money market funds classified as cash equivalents.

(2) NR represents those securities that are not rated.

Securities Lending

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

JPMorgan lends, on behalf of the Group Trust, securities held by JPMorgan as the Group Trust's custodian and receives US dollar cash and US government securities as collateral. JPMorgan does not have the ability to pledge or sell collateral securities absent a borrower default. Borrowers are required to put up collateral for each loan equal to: (i) in the case of loaned securities denominated in US dollars or whose primary trading market is in the US 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 US dollars or whose primary trading market is not in the US, 105% of the fair market value of the loaned securities.

The Board did not impose any restrictions during 2017 or 2016 on the amount of the loans that JPMorgan made on its behalf. There were no failures by any borrowers to return the loaned securities or pay distributions thereon during 2017 or 2016. Moreover, there were no losses during

Dallas Police and Fire Pension System

Notes to Combining Financial Statements

2017 or 2016 resulting from a default of the borrower. JPMorgan indemnifies the Group Trust with respect to any loan related to any non-cash distribution and return of securities.

During 2017 and 2016, the Board and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral was invested, together with the collateral of other qualified tax-exempt plan lenders, in a collective investment pool maintained by JPMorgan. The relationship between the maturities of the collateral pool and the Group Trust's securities lent has not been determined. The market value for securities on loan for the Group Trust was \$17.9 million and \$26.1 million at December 31, 2017 and 2016, respectively. Cash collateral held for the Group Trust was \$12.2 million and \$21.7 million at December 31, 2017 and 2016, respectively. Non-cash collateral held for the Group Trust was \$6.2 million and \$5.2 million at December 31, 2017 and 2016, respectively, consisting primarily of corporate bonds and equity securities. At year end, credit risk is substantially mitigated as the amounts of collateral held by the Group Trust exceed the amounts the borrowers owe the Group Trust. Securities lending transactions resulted in income, net of expenses, of \$101 thousand and \$402 thousand during 2017 and 2016, respectively.

Forward Contracts

During fiscal years 2017 and 2016, certain investment managers, on behalf of the Group Trust, entered into forward foreign exchange contracts as permitted by guidelines established by the Board. DFPF's staff monitors guidelines and compliance. A currency forward is a contractual agreement between two parties to pay or receive specific amounts of foreign currency at a future date in exchange for another currency at an agreed upon exchange rate. Forward commitments are not standardized and carry credit risk due to possible nonperformance by one of the counterparties. The maximum potential loss is the aggregate face value in US dollars at the time the contract was entered into. Forwards are usually traded over-the-counter. These transactions are initiated in order to hedge risks from exposure to foreign currency rate fluctuation and to facilitate trade settlement of foreign security transactions. Forwards carry market risk resulting from adverse fluctuations in foreign exchange rates. Recognition of realized gain or loss depends on whether the currency exchange rate has moved favorably or unfavorably to the contract holder upon termination of the contract. Prior to termination of the contract, the Group Trust records the unrealized currency translation gain or loss based on the applicable forward exchange rates. Forward currency contracts are considered derivative financial instruments and are reported at fair value.

The fair value and notional amounts of derivative instruments outstanding at December 31, 2017 and 2016, classified by type, and the changes in fair value of such derivative instruments for the year then ended are as follows (in thousands):

<u>December 31, 2017</u>	Change in Fair Value	Fair Value	Notional Value
Currency forwards	\$ 422	\$ 135	\$ 56,015
<u>December 31, 2016</u>	Change in Fair Value	Fair Value	Notional Value
Currency forwards	\$ (102)	\$ (287)	\$ 48,108

Dallas Police and Fire Pension System

Notes to Combining Financial Statements

4. Fair Value Measurement

GASB No. 72 requires all investments be categorized under a fair value hierarchy. Fair value of investments is determined based on both observable and unobservable inputs. Investments are categorized within the fair value hierarchy established by GASB and the levels within the hierarchy are as follows:

- Level 1 - quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date
- Level 2 - inputs (other than quoted prices included within Level 1) that are observable for an asset or liability, either directly or indirectly. These inputs can include quoted prices for similar assets or liabilities in active or inactive markets, or market-corroborated inputs.
- Level 3 - significant unobservable inputs for an asset or liability

The remaining investments not categorized under the fair value hierarchy are shown at NAV. These are investments in non-governmental entities for which a readily determinable fair value is not available, such as member units or an ownership interest in partners' capital to which a proportionate share of net assets is attributed. Investments at NAV are commonly calculated by subtracting the fair value of liabilities from the fair value of assets.

Dallas Police and Fire Pension System

Notes to Combining Financial Statements

The following table presents a summary of the Group Trust's investments by type as of December 31, 2017, at fair value (in thousands):

	Fair Value December 31, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level				
Short-term investment funds	\$ 24,133	\$ 24,133	\$ -	\$ -
Fixed income securities				
US Treasury bonds	41,686	-	41,686	-
US government agencies	871	-	871	-
Corporate bonds	104,434	-	104,434	-
Foreign-denominated bonds	37,209	-	37,209	-
Municipal bonds	1,699	-	1,699	-
Equity securities				
Domestic	223,743	223,743	-	-
Foreign	196,092	196,092	-	-
Real assets				
Real estate ¹	352,960	-	310	352,650
Timberland	14,637	-	-	14,637
Farmland	155,526	-	-	155,526
Private equity	79,381	-	79,381	-
Forward currency contracts	135	-	135	-
Total Investments by Fair Value Level	\$ 1,232,506	\$ 443,968	\$ 265,725	\$ 522,813

Investments Measured at NAV

Equity - commingled funds	\$ 50,246
Fixed income - commingled funds	142,115
Real assets ⁽¹⁾	278,083
Private equity	142,725
Alternative investments	144,927

Total Investments Measured at NAV \$ 758,096

Total Investments Measured at Fair Value \$ 1,990,602

(1) Direct holdings of real estate at Level 3 include only the assets which are wholly-owned and valued using significant unobservable inputs. Remaining real assets are valued at NAV.

The following table presents a summary of the Group Trust's investments by type as of December 31, 2016, at fair value (in thousands):

	Fair Value December 31, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level				
Short-term investment funds	\$ 7,154	\$ 7,154	\$ -	\$ -
Fixed income securities	-	-	-	-
US Treasury bonds	6,854	-	6,854	-
Corporate bonds	88,307	-	88,307	-
Foreign-denominated bonds	28,895	-	28,895	-
Commingled funds	41,893	-	35,677	6,216

Dallas Police and Fire Pension System

Notes to Combining Financial Statements

Municipal bonds	907	-	907	-
Equity securities	-	-	-	-
Domestic	80,190	80,190	-	-
Foreign	74,469	74,469	-	-
Real assets				
Real estate ¹	444,609	-	66,483	378,126
Infrastructure	179,100	-	-	179,100
Timberland	43,536	-	-	43,536
Farmland	170,334	-	-	170,334
Private equity	149,822	-	40,023	109,799
Alternative investments	927	-	927	-
Forward currency contracts	(287)	-	(287)	-
Total Investments by Fair Value Level	\$ 1,316,710	\$ 161,813	\$ 267,786	\$ 887,111

Investments Measured at NAV

Fixed income - commingled funds	\$ 103,032
Real assets ⁽¹⁾	291,386
Private equity	114,958
Alternative investments	133,971
Total Investments Measured at NAV	\$ 643,347
Total Investments Measured at Fair Value	\$ 1,960,057

(1) Direct holdings of real estate at Level 3 include only the assets which are wholly-owned and valued using significant unobservable inputs. Remaining real assets are valued at NAV.

Short-term investments consist of highly liquid securities invested by third party investment managers and held directly by the Group Trust with the custodian.

Fixed income securities consist primarily of US treasury securities, US corporate securities, international debt securities and commingled funds. Fixed income securities classified in Level 2 of the fair value hierarchy are valued using matrix pricing. This method uses quoted prices for securities with the same maturities and ratings rather than a fixed price for a designated security. Many debt securities are traded on a dealer market and much less frequently, which is consistent with a Level 2 classification as these investments are valued using observable inputs. Forward currency contracts are classified as Level 2 as these securities are priced using the cost approach on a dealer market traded on lower frequencies. Commingled funds classified as Level 3 involve internal evaluation of collectability and therefore involve unobservable inputs.

Equity securities, which include both domestic and foreign securities, are classified as Level 1 as fair value is obtained using a quoted price from active markets. The security price is generated by market transactions involving identical or similar assets, which is the market approach to measuring fair value. Inputs are observable in exchange markets, dealer markets, and brokered markets for which prices are based on trades of identical securities.

Private equity and real assets classified as Level 3 are investments in which DFPF either owns 100 percent of the asset or for which the valuation is based on non-binding offers from potential buyers to purchase the investments. Real estate investments which are wholly-owned direct holdings are valued at the income, cost, or market approach depending on the type of holding. All direct holdings are valued using unobservable inputs and are classified in Level 3 of the fair value hierarchy. Real estate and private equity holdings classified as Level 2 are investments which were sold subsequent to year end for which fair value is based on sales price.

Dallas Police and Fire Pension System

Notes to Combining Financial Statements

Alternative investments in Level 2 relate to residual cash proceeds on sales of assets which were settled subsequent to year end.

The following table presents a summary of the fair value and remaining unfunded commitments of the Group Trust's investments measured at NAV at December 31, 2017 (in thousands):

Asset Category/Class	Fair Value	Unfunded Commitments
Equity - commingled funds	\$ 50,246	\$ -
Fixed income - commingled funds	142,115	823
Real assets	278,083	7,154
Private equity	142,725	38,316
Alternative investments	144,927	-
Total	\$ 758,096	\$ 46,293

The following table presents a summary of the fair value and remaining unfunded commitments of the Group Trust's investments measured at NAV at December 31, 2016 (in thousands):

Asset Category/Class	Fair Value	Unfunded Commitments
Fixed income - commingled funds	\$ 103,032	\$ 4,626
Real assets	291,386	249,688
Private equity	114,958	4,892
Alternative investments	133,971	-
Total	\$ 643,347	\$ 259,206

Investments measured at NAV include commingled funds, real assets, private equity and alternative investments.

Equity commingled funds are fund structure investments reported by the fund manager at NAV. The commingled investment has a redemption notice period of 5 days.

Fixed income commingled funds are fund-structure investments reported by the fund managers at NAV. Certain of the commingled investments have a redemption notice period of 7-30 days and others are less liquid, with estimated redemption periods ranging from 5 to 10 years as assets within the funds are liquidated.

Real asset investments (real estate, infrastructure, timberland and farmland) are held either in separate accounts, as a limited partner, or in a joint venture. These investments are illiquid and resold at varying rates, with distributions received over the life of the investments. They are typically not redeemed, nor do they have set redemption schedules.

Private equity holdings include fund-structure investments with general partners. By their nature, these investments are illiquid and typically not resold or redeemed. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is expected that the underlying assets of the funds will be liquidated over a period ranging from 5 to 15 years on average.

Dallas Police and Fire Pension System

Notes to Combining Financial Statements

Alternative investments include funds that hold securities for the specific strategy of focusing on management of total risk and on generation of returns independent of broad market movements. These investments are reported at NAV as they are fund or trust-structure investments.

Upon initial investment with a general partner or in certain fund-structures, DPFP commits to a certain funding level for the duration of the contract. At will, the partners or fund managers may request that DPFP fund a portion of this amount. Such amounts remaining as of December 31, 2017 and 2016 for investments measured at NAV are disclosed above as unfunded commitments.

5. Net Pension Liability

The net pension liability is measured as the total pension liability, less the amount of the plan's fiduciary net position. The components of the net pension liability at December 31, 2017 and 2016 are as follows (in thousands):

Combined Pension Plan

	2017	2016
Total pension liability	\$ 4,497,347	\$ 8,450,281
Less: Plan fiduciary net position	(2,103,345)	(2,150,662)
Net pension liability	\$ 2,394,002	\$ 6,299,619

Plan fiduciary net position as a percentage of the total pension liability at December 31, 2017 and 2016 is 46.8% and 25.5%, respectively.

Supplemental Plan

	2017	2016
Total pension liability	\$ 33,670	\$ 40,647
Less: Plan fiduciary net position	(17,805)	(17,670)
Net pension liability	\$ 15,865	\$ 22,977

Plan fiduciary net position as a percentage of the total pension liability at December 31, 2017 and 2016 is 52.9% and 43.5%, respectively.

Dallas Police and Fire Pension System

Notes to Combining Financial Statements

Actuarial Assumptions as of December 31, 2017 and 2016

The total pension liability was determined by an actuarial valuation as of January 1, 2018, using the below significant assumptions, applied to all periods included in the measurement, except as noted below. 2016 and 2017 assumptions are based on an actuarial experience review covering the period January 1, 2010 to December 31, 2014, and based on assumption changes included in the January 1, 2017 valuation that are not related to September 1, 2017 plan changes. In addition, assumptions related to Plan changes which were effective September 1, 2017 as a result of the passage of HB 3158 are reflected in the 2017 assumptions below as the net pension liability is based on the plan provisions which are in effect on December 31, 2017.

Investment rate of return	7.25% per annum, compounded annually, net of investment expenses. This rate is based on an average inflation rate of 2.75% and a real rate of return of 4.50%.
Administrative expenses	Explicit assumption of \$8.5 million per year or 1% of Computation Pay, whichever is greater for the Combined Pension Plan and \$65 thousand per year for the Supplemental Plan, increasing 2.75% annually. Includes investment-related personnel costs.
Projected salary increases	2017: 10% if less than 10 years; 7% if 10-11 years; 2% if more than 11 years 2018: 5% if less than 10 years; 2% if more than 10 years 2019: 10% if less than 10 years; 7% if 10-11 years; 2% if more than 11 years 2020 and later: Range of 3.00% to 5.20% per year, inclusive of 2.75% inflation assumption, dependent upon years of service, with separate tables for police officers and firefighters 2017-2019 are based on the 2016 Meet and Confer Agreement. Remaining scale is based on the City's pay plan, along with analysis completed in conjunction with the most recent experience study.
Payroll growth	2.75% per year, to match inflation assumption
Actuarial cost method	Entry age normal cost method (level percent of pay)
Post-retirement benefit increases for participants hired prior to January 1, 2007	Ad hoc COLA after the Combined Plan is 70% funded after accounting for the impact of the COLA. 2% of original benefit, beginning October 1, 2053.

Dallas Police and Fire Pension System

Notes to Combining Financial Statements

Asset valuation method	Combined Pension Plan - Reset of the actuarial value of assets to market value as of December 31, 2015, with a five-year smoothing in future periods; Supplemental Pension Plan - Market value of assets
Amortization method	Level percent-of-pay
Remaining amortization period	Combined Pension Plan - 30 years; Supplemental Pension Plan - 10 years
DROP interest, compounded annually, net of expenses	3% on active balances as of September 1, 2017, payable upon retirement, 0% on balances accrued after September 1, 2017.
Retirement age	Experience-based table of rates based on age, extending to age 62, with separate tables for police officers and firefighters
Pre-retirement mortality	RP-2014 sex-distinct Employee Mortality Table, with a two-year setback for males and no adjustments for females; projected generationally using the MP-2015 improvement scale
Post-retirement mortality	RP-2014 sex-distinct Blue Collar Healthy Annuitant Mortality Table, with no adjustment for males and a two-year set forward for females; projected generationally using the MP-2015 improvement scale
Disabled mortality	RP-2014 sex-distinct Disabled Retiree Mortality Table, with a three-year setback for both males and females; projected generationally using the MP-2015 improvement scale
DROP election	0% elect to enter DROP. Current DROP members with at least eight years in DROP are assumed to retire. DROP members with less than eight years are assumed to retire when they have eight years in DROP.

Assumptions used to develop the 2016 Net Pension Liability did not include the changes related to HB 3158. The following assumptions used in the developing the 2016 Net Pension Liability differ from the 2017 assumptions.

Dallas Police and Fire Pension System

Notes to Combining Financial Statements

Assumption Category	Prior Assumption (1-1-17 Valuation)
Administration Expenses	The greater of \$10 million per year or 1% of Computation Pay for the Combined Plan. \$60,000 for the Supplemental Pension Plan.
Post-retirement benefit increases for participants hired prior to January 1, 2007	4% of original pension, annually
DROP interest, compounded annually, net of expenses	At October 1, 2016 - 6.0% At October 1, 2017 - 5.0% At October 1, 2018 and thereafter - 0.0%
Retirement age	Experience-based table of rates based on age, extending to age 67, with separate tables for police officers and firefighters
DROP election	100% assumed to elect DROP at first eligibility for unreduced benefits. Any active members who satisfy these criteria and have not entered DROP are assumed to never join DROP. Members who retired prior to January 1, 2015 are assumed to receive their DROP payments over a 10-year period from January 1, 2015. All retirees after January 1, 2015 are assumed to receive their DROP payments over a 10-year period from their retirement date.

The long-term expected rate of return used by the external actuary to evaluate the assumed return on the Plans' investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The actuary's best estimates of arithmetic real rates of return for each major asset class included in the Plans' target asset allocation as of December 31, 2017 are summarized as shown below. The rates of return below are net of the inflation component of 2.0%.

Asset Class	Long-Term Expected Real Rate of Return	Target Asset Allocation
Global Equity	6.54%	20%
Emerging Markets Equity	9.41%	5%
Private Equity	10.28%	5%
Short-term Core Bonds	1.25%	2%

Dallas Police and Fire Pension System

Notes to Combining Financial Statements

Global Bonds	1.63%	3%
High Yield	4.13%	5%
Bank Loans	3.46%	6%
Emerging Markets Debt	4.42%	6%
Structured Credit and Absolute Return	5.38%	6%
Private Debt	7.30%	5%
Global Asset Allocation	4.90%	10%
Liquid Real Assets	4.71%	3%
Natural Resources	7.62%	5%
Infrastructure	6.25%	5%
Real Estate	4.90%	12%
Cash	1.06%	2%

Discount rate

The discount rate used to measure the Combined Pension Plan liability was 7.25%. The projection of cash flows used to determine the discount rate assumed City contributions will be made in accordance with the provisions of HB 3158, including statutory minimums through 2024 and 34.50% of Computation Pay thereafter. Members are expected to contribute 13.50% of Computation Pay. For cash flow purposes, projected payroll is based on 90% of the City's Hiring Plan payroll projections through 2037, increasing by 2.75% per year thereafter. This payroll projection is used for cash flow purposes only and does not impact the Total Pension Liability. The normal cost rate for future members is assumed to be 14.60% for all years. Based on these assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The increase in the discount rate from the prior year and the HB 3158 benefit changes resulted in a decrease in the total pension liability of approximately \$3.953 billion.

For the December 31, 2016 measurement date, the cash flow projections were not expected to be sufficient to pay benefits, therefore a blended discount rate of 4.12% was used to measure the pension liability at December 31, 2016. In order to develop the blended GASB No. 67 discount rate of 4.12%, the actuarial assumed rate of return of 7.25% was used for the first twelve years of payments, and a municipal bond rate of 3.78% was used thereafter. The 3.78% municipal bond rate is based on the Bond Buyer 20-Bond General Obligation Index as of December 31, 2016 (published weekly by the Federal Reserve System). For the December 31, 2016 measurement date, the blended discount rate used to measure total pension liability was 4.12%.

The discount rate used to measure the total pension liability for the Supplemental Plan was 7.25%. The projection of cash flows used to determine the discount rate assume that City contributions will equal the employer's normal cost plus a ten-year amortization payment on the unfunded actuarial accrued liability and member contributions will equal 13.50% of supplemental Computation Pay. Based on those assumptions, the Supplemental Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The increase in the discount rate from the prior year and the HB 3158 benefit changes resulted in a decrease in the total pension liability of approximately \$6.98 million.

For the December 31, 2016 measurement date, the cash flow projections were not expected to be sufficient to pay benefits of the Supplemental Plan, therefore a blended discount rate of 7.10% was

Dallas Police and Fire Pension System

Notes to Combining Financial Statements

used to measure the pension liability at December 31, 2016. In order to develop the blended GASB No. 67 discount rate of 7.10%, the actuarial assumed rate of return of 7.25% was used during the period that the plan was projected to have a fiduciary net position, and a municipal bond rate of 3.78% was used thereafter. The 3.78% municipal bond rate is based on the Bond Buyer 20-Bond General Obligation Index as of December 31, 2016 (published weekly by the Federal Reserve System).

Sensitivity of the net pension liability to changes in the discount rate

The following tables present the net pension liability, calculated using the current discount rates, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate (dollars in thousands).

December 31, 2017

Combined Pension Plan

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Net pension liability	\$ 2,886,444	\$ 2,394,002	\$ 1,980,920

Supplemental Plan

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Net pension liability	\$ 18,826	\$ 15,865	\$ 13,316

December 31, 2016

Combined Pension Plan

	1% Decrease (3.12%)	Current Discount Rate (4.12%)	1% Increase (5.12%)
Net pension liability	\$ 7,746,688	\$ 6,299,619	\$ 5,159,478

Supplemental Plan

	1% Decrease (6.10%)	Current Discount Rate (7.10%)	1% Increase (8.10%)
Net pension liability	\$ 27,039	\$ 22,977	\$ 19,552

Dallas Police and Fire Pension System

Notes to Combining Financial Statements

6. Deferred Retirement Option Plan

HB 3158 changed the terms of the Deferred Retirement Option Plan. DROP interest for active DROP members was eliminated after September 1, 2017; only the balance as of September 1, 2017 is eligible for interest once active DROP members retire. Active DROP participation is limited to 10 years. Retirees are not allowed to defer payments into their DROP accounts. Retirees and other DROP account holders, excluding active DROP members, had their DROP balance converted to an annuity (stream of payments) on November 30, 2017. The term of the annuity was based on the DROP account holders expected lifetime at November 30, 2017. The annuity included Interest on balances accrued prior to September 1, 2017 at a rate that is correlated to the United States Treasury Note or Bond rates based on the term of the annuity and rules adopted by the Board.

DROP account balances of a member that retires after November 30, 2017 are converted to an annuity (stream of payments) at the time the member retires. The annuity is based on the member's life expectancy and interest rates at the time of retirement. Interest on retiree DROP accounts is based on the length of the retiree's expected lifetime and will be based on U.S. Treasury Bond Rates and rules adopted by the Board. Interest is only payable on the September 1, 2017 account balance.

HB 3158 allowed active members an opportunity to revoke their DROP election prior to February 28, 2018 under rules adopted by the Board. 183 members revoked their prior DROP participation election.

Prior to the passage of HB 3158, DROP accounts earned interest based on the 2014 plan amendments, which instituted a gradual step-down in the interest rate paid on DROP accounts. The interest paid on DROP accounts beginning October 1, 2016 until September 1, 2017 was 6%. See Note 10 for discussion of the status of litigation related to the 2014 plan amendments.

The following tables reflect the change in DROP balances and the change in the present value of DROP annuities and the number of participants and annuitants during the year ended December 31, 2017:

Combined Pension Plan

		DROP Balance (000's)		DROP Participants
Balance at December 31, 2016	\$	1,053,151	Participants at December 31, 2016	2,978
Accumulations		85,650		
Balances Annuitized		(812,414)		
Other Distributions/Deductions ¹		(83,266)		
Balance at December 31, 2017	\$	243,121	Participants at December 31, 2017	642

		Annuity Balance (000's)		Annuity Participants
Present Value of Annuities at December 31, 2016	\$	0	Annuitants at December 31, 2016	0
Accumulations		812,414		
Other Distributions/Deductions ¹		(2,828)		
Present Values of Annuities at December 31, 2017 ²	\$	809,586	Annuitants at December 31, 2017	1,978

Dallas Police and Fire Pension System

Notes to Combining Financial Statements

Supplemental Plan

	DROP Balance (000's)		DROP Participants
Balance at December 31, 2016	\$ 8,016	Participants at December 31, 2016	70
Accumulations	379		
Balances Annuitized	(7,530)		
Other Distributions/Deductions ¹	(275)		
Balance at December 31, 2017	\$ 590	Participants at December 31, 2017	7
	Annuity Balance (000's)		Annuity Participants
Present Value of Annuities at December 31, 2016	\$ 0	Annuitants at December 31, 2016	0
Accumulations	7,530		
Other Distributions/Deductions ¹	(10)		
Present Value of Annuities at December 31, 2017 ²	\$ 7,520	Annuitants at December 31, 2017	55

¹ Includes distributions and the elimination of DROP balances due to DROP revocation elections and amounts paid from the Excess Benefits Plan and Trust.

² Includes annuities that may be paid out of the Excess Benefits and Trust.

7. Notes Payable

As of December 31, 2015, DPFP had a credit agreement with Bank of America, N.A. (BoA) which provided for a maximum borrowing of \$200 million. As of December 31, 2015, the line of credit was in technical default due to the fact that the January 1, 2015 actuarial valuation report concluded that the Plans' fiduciary net position was not projected to be available to make all projected future payments to current plan members. On July 13, 2016, BoA waived the default and the loan agreement was amended to remove the financial covenant related to the actuarial projection of DPFP's ability to make all projected future payments.

At December 31, 2016, DPFP had outstanding \$40,000,000 and \$90,000,000 on the revolving line of credit and the term loan, respectively. At December 31, 2016, the line of credit was in technical default due to the fact that the surplus liquidity ratio covenant was not met for the quarter ended September 30, 2016. Non-compliance with the liquidity covenant stemmed from significant withdrawals of DROP balances by members beginning in the third quarter of 2016. On March 28, 2017, BoA waived the default and the loan agreement was amended. The line of credit and term loan were paid in full on July 7, 2017.

Dallas Police and Fire Pension System

Notes to Combining Financial Statements

8. Deferred Compensation Plan

DPFP offers its employees a money purchase pension plan (MPP) created in accordance with Internal Revenue Code Section 401. An employee of DPFP becomes a participant in the MPP on their first day of service. Participation ceases, except for purposes of receiving distributions in accordance with the terms of the MPP, on the day employment with DPFP is terminated. Employees are required to contribute 6.5% of their regular pay. Employees are allowed to make after-tax contributions, not to exceed IRS Code limitations. In accordance with the MPP, DPFP is obligated to contribute 12% of permanent employees' regular rate of pay and 8% of part-time and temporary employees' regular rate of pay each year. During 2017 and 2016, DPFP contributed approximately \$305 thousand and \$354 thousand, respectively, and participants contributed approximately \$165 thousand and \$192 thousand, respectively, to the MPP. The MPP is administered by a third party, Voya Financial, Inc. (Voya), and the cost of administration is borne by the MPP participants. The MPP is held in trust by Voya and is not a component of the accompanying financial statements.

9. Capital Assets

As of December 31, 2014, the DPFP office building and land were transferred to DPFP from a limited liability investment wholly owned by DPFP and were therefore reclassified from an investment asset to a capital asset. As donated capital assets, the DPFP office building and land are recorded at acquisition value as of December 31, 2014. Purchased capital assets which include building improvements, are recorded at historical cost. Depreciation is charged over the estimated useful lives of the assets using a straight-line method. Depreciation expense of \$226 thousand and \$212 thousand is included in professional and administrative expenses in the accompanying financial statements for the years ended December 31, 2017 and 2016, respectively. All capital assets belong to DPFP. Maintenance and repairs are charged to expense as incurred.

Capitalization thresholds for all capital asset classes and useful lives for exhaustible assets are as follows (dollars in thousands):

Asset Class	Capitalization Threshold	Depreciable Life
Building	\$ 50	50 years
Building improvements	\$ 50	15 years

Capital asset balances and changes for the fiscal years ending December 31, 2017 and 2016 are as follows (in thousands):

Asset Class	Balance December 31, 2015			Balance December 31, 2016			Balance December 31, 2017		
		Increases	Decreases		Increases	Decreases		Increases	Decreases
Land	\$ 3,321	\$ -	\$ -	\$ 3,321	\$ 241	\$ -	\$ 3,562		
Building	8,628	-	176	8,452	659	190	8,921		
Building improvements	243	61	36	268	-	36	232		
Total	\$ 12,192	\$ 61	\$ 212	\$ 12,041	\$ 900	\$ 226	\$ 12,715		

Dallas Police and Fire Pension System

Notes to Combining Financial Statements

10. Commitments and Contingencies

Members

As described in Note 1, certain members of the Plans whose employment with the City is terminated prior to being eligible for pension benefits are entitled to refunds of their accumulated contributions. Members who began service before March 1, 2011 who terminate employment with the City with less than five years of pension service are only entitled to a refund of their accumulated employee contributions, without interest, as they vest at five years. Prior to September 1, 2017, members who began service after February 28, 2011 were only entitled to a refund, without interest, if they terminate with less than ten years of pension service as they vested at ten years. After the passage of HB 3158 and the September 1, 2017 effective date the vesting period was reduced from ten to five years for employees hired after March 1, 2011, and such members are only entitled to a refund of their accumulated contributions, without interest, if they have less than five years of pension service. As of December 31, 2017 and 2016, aggregate contributions from non-vested members for the Combined Pension Plan were \$11.9 million and \$14.0 million, respectively. The portion of these contributions that might be refunded to members who terminate prior to pension eligibility and request a refund has not been determined. Refunds due to terminated non-vested members in the amount of \$1 million and \$537 thousand were included in accounts payable and other accrued liabilities of the Combined Pension Plan as of December 31, 2017 and 2016, respectively. The increase in refunds due to terminated non-vested members reflects a change in the interpretation of the liability. As of December 31, 2017 the aggregate contributions from active non-vested members of the Supplemental Plan was \$36 thousand. There are no contributions eligible for refund for terminated members in the Supplemental Plan.

At December 31, 2017 the total accumulated DROP balance and the present value of the DROP annuities was \$1.05 billion for the Combined Plan and \$8.1 million for the Supplemental Plan. The total accumulated DROP balance at December 31, 2016 was \$1.05 billion for the Combined Plan and \$8 million for the Supplemental Plan.

Dallas Police and Fire Pension System

Notes to Combining Financial Statements

Investments

The following table depicts the total commitments and unfunded commitments to various limited partnerships and investment advisors at December 31, 2017, by asset class (in thousands).

Asset Class	Total Commitment	Total Unfunded Commitment
Real assets	\$ 117,000	\$ 7,154
Private equity	201,283	38,316
Fixed income	10,000	823
Total	\$ 328,283	\$ 46,293

Capital calls related to private equity and real estate assets were received after December 31, 2017 which reduced the unfunded commitments to \$5,806 and \$6,927, respectively. A distribution was made subsequent to December 31, 2017 in fixed income which increases the unfunded capital commitments in fixed income to \$2.077 million. See Note 12.

Legal

DPFP is a defendant in litigation in which certain individual members have alleged that 2014 plan amendments to the Combined Pension Plan reducing the DROP interest rate and a related policy and procedure change to accelerate DROP distributions violated Article 16, Section 66 of the Texas Constitution. On April 14, 2015, the district court entered judgment for DPFP, holding these amendments and changes are constitutional. As a result of this court decision, the Board voted on April 16, 2015 to implement the changes approved by the members. Plaintiffs appealed and on December 13, 2016, the Fifth District Court of Appeals rendered a decision affirming the district court's ruling. On January 24, 2017, plaintiffs filed a petition for review with the Texas Supreme Court. On June 1, 2018 the Texas Supreme Court granted review of the appeal. DPFP will continue to vigorously defend this lawsuit. The ultimate outcome cannot be determined at this time and, accordingly, no amounts related to these claims have been recorded in the accompanying financial statements as of December 31, 2017 and 2016.

A lawsuit was filed in 2016 in state court related to distributions from DROP balances. The state court proceeding was initially brought by Mike Rawlings, Mayor of Dallas, in his individual capacity. Several parties subsequently intervened, including four trustees of the Board who are City of Dallas council members. Mr. Rawlings subsequently withdrew from the lawsuit. The plaintiffs sought various types of relief, including a request for a receivership and the prevention of any further amounts from being distributed from DROP balances to members. This lawsuit was dismissed in 2017.

In 2017 a group of retirees filed a lawsuit in federal court which seeks to require the Board to distribute lump sum payments from DROP upon the retirees' request. This lawsuit is pending. DPFP will continue to vigorously defend this lawsuit. The ultimate outcome of this lawsuit cannot be determined at this time and, accordingly, no amounts related to these claims have been recorded in the accompanying financial statements as of December 31, 2017.

Dallas Police and Fire Pension System

Notes to Combining Financial Statements

11. Risks and Uncertainties

The Group Trust invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. The effect of such risks on the Group Trust's investment portfolio is mitigated by the diversification of its holdings. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the value of investment securities may occur over the course of different economic and market cycles and that such change could be material to the financial statements.

The Plans' actuarial estimates disclosed in Note 5 are based on certain assumptions pertaining to investment rate of return, inflation rates, and participant demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is reasonably possible that changes in these estimates and assumptions in the near term could be material to the financial statements.

Several lawsuits are pending against the City by police officers and firefighters, which claim the right to significant back pay on behalf of many current and former City of Dallas police officers and firefighters. DPFP previously intervened in such lawsuits to protect DPFP's right to Member and City contributions if they were to become due upon a successful outcome of the police officers' and firefighters' claims. HB 3158, passed by the Texas Legislature in 2017, provided that any award of back pay arising out of litigation would not be included in Computation Pay, thereby eliminating any liability of DPFP for increased benefits regardless of the outcome of these suits. Additionally, a settlement agreement was signed by all parties in September 2018 which eliminates any liability for DPFP. Accordingly, no amounts related to these claims have been recorded in the accompanying financial statements as of December 31, 2017 and 2016.

Dallas Police and Fire Pension System

Notes to Combining Financial Statements

12. Subsequent Events

DROP Revocation

HB 3158 allowed certain members who had previously elected to participate in DROP to revoke the election until February 28, 2018. In total 183 members elected to revoke their DROP election, 38 members completed the revocation prior to December 31, 2017 and 145 members completed the revocation after January 1, 2018 and before February 28, 2018. Contributions paid by members as part of the revocation process were recorded as revenue in the year the contributions were received. The actuarial valuation dated January 1, 2018 accounts for the liability associated with all the DROP revocations, including the revocations made after December 31, 2017.

Investment Policy Statement - Target Allocation to Asset Classes

On May 8, 2018 the Board voted to temporarily suspend portions of the Investment Policy Statement specifically (i) to allow for GAA to be fully liquidated, (ii) to allow for a 15% allocation to be invested in a combination of approximately 12% allocation to Short-Term Core Bonds and approximately 3% allocation to Cash. The temporary suspension is effective until the Board adopts a revised asset allocation.

Capital Calls Resulting in the Reduction of Unfunded Commitments

Subsequent to December 31, 2017 DFPF received and paid the following material capital calls: Lone Star Opportunities Fund V \$18.75 million and Lone Star Growth Capital Fund \$13.76 million. In addition, a distribution was received which increases the unfunded commitments to Riverstone from \$823 thousand at December 31, 2017 to \$2.077 million.

Management has evaluated subsequent events through October 10, 2018, which is the date that the financial statements were available for issuance and noted no subsequent events to be disclosed other than those which are disclosed in this Note or elsewhere in the Notes to Combining Financial Statements.

Dallas Police and Fire Pension System

Required Supplementary Information (Unaudited)

Schedule of Changes in the Net Pension Liability and Related Ratios For Last Four Fiscal Years (dollars in thousands)

Combined Pension Plan

For fiscal year ending December 31,	2017	2016	2015	2014
Total pension liability				
Service cost	\$ 148,552	\$ 167,432	\$ 125,441	\$ 131,312
Interest	348,171	360,567	359,023	369,408
Changes of benefit terms	(1,167,597)	-	-	(329,794)
Differences between expected and actual experience	(134,665)	(77,463)	379,461	(4,453)
Changes of assumptions	(2,851,241)	(712,003)	908,988	-
Benefit payments, including refunds of employee contributions	(296,154)	(825,092)	(285,003)	(245,932)
Net change in total pension liability	(3,952,934)	(1,086,559)	1,487,910	(79,459)
Total pension liability - beginning	8,450,281	9,536,840	8,048,930	8,128,389
Total pension liability - ending (a)	\$ 4,497,347	\$ 8,450,281	\$ 9,536,840	\$ 8,048,930
Plan fiduciary net position				
Employer contributions	\$ 126,318	\$ 119,345	\$ 114,886	\$ 109,792
Employee contributions	32,977	25,518	25,676	29,333
Net investment income (loss), net of expenses	98,911	164,791	(235,207)	(138,893)
Benefits payments	(296,154)	(825,092)	(285,003)	(245,932)
Interest expense	(1,279)	(4,532)	(8,417)	(7,361)
Administrative expenses	(8,090)	(9,492)	(6,006)	(8,003)
Net change in plan fiduciary net position	(47,317)	(529,462)	(394,071)	(261,064)
Plan fiduciary net position - beginning	2,150,662	2,680,124	3,074,195	3,335,259
Plan fiduciary net position - ending (b)	\$ 2,103,345	\$ 2,150,662	\$ 2,680,124	\$ 3,074,195
Net pension liability - ending (a) - (b)	\$ 2,394,002	\$ 6,299,619	\$ 6,856,716	\$ 4,974,735
Plan fiduciary net position as a percentage of total pension liability	46.8%	25.5%	28.1%	38.2%
Covered employee payroll	\$ 346,037	\$ 357,414	\$ 365,210	\$ 383,006
Net pension liability as a percentage of covered employee payroll	691.8%	1,762.6%	1,877.5%	1,298.9%

See Notes below related to this schedule.

Dallas Police and Fire Pension System

Required Supplementary Information (Unaudited)

Supplemental Pension Plan

For fiscal year ending December 31,	2017	2016	2015	2014
Total pension liability				
Service cost	\$ 111	\$ 70	\$ 36	\$ 28
Interest	2,799	2,911	2,953	2,969
Changes of benefit terms	(5,305)	-	-	(526)
Differences between expected and actual experience	(1,435)	1,105	928	336
Changes of assumptions	(479)	(916)	(600)	-
Benefit payments	(2,668)	(5,912)	(2,640)	(3,414)
Net change in total pension liability	(6,977)	(2,742)	677	(607)
Total pension liability - beginning	40,647	43,389	42,712	43,319
Total pension liability - ending (a)	\$ 33,670	\$ 40,647	\$ 43,389	\$ 42,712
Plan fiduciary net position				
Employer contributions	\$ 2,077	\$ 3,064	\$ 2,443	\$ 1,817
Employee contributions	66	35	43	49
Net investment income (loss), net of expenses	740	1,141	(1,689)	(517)
Benefit payments	(2,668)	(5,912)	(2,640)	(3,414)
Interest expense	(11)	(78)	(44)	(51)
Administrative expenses	(69)	(37)	(61)	(56)
Net change in plan fiduciary net position	135	(1,787)	(1,948)	(2,172)
Plan fiduciary net position - beginning	17,670	19,457	21,405	23,577
Plan fiduciary net position - ending (b)	\$ 17,805	\$ 17,670	\$ 19,457	\$ 21,405
Net pension liability - ending (a) - (b)	\$ 15,865	\$ 22,977	\$ 23,932	\$ 21,307
Plan fiduciary net position as a percentage of total pension liability	52.9%	43.5%	44.8%	50.1%
Covered employee payroll	\$ 916	\$ 525	\$ 725	\$ 557
Net pension liability as a percentage of covered employee payroll	1,731.6%	4,376.2%	3,303.3%	3,827.3%

See Notes below related to this schedule.

Notes to Schedule:

Changes of benefit terms:

As of December 31, 2017

HB 3158 was signed by the Governor on May 31, 2017, the significant benefit and contribution changes in the bill were effective September 1, 2017.

- Normal Retirement Age increased from either age 50 or 55 to age 58
- For members less than the age of 45 on September 1, 2017, hired prior to March 1, 2011, and less than 20 years of pension service, the Early Retirement Age increased from age 45 to age 53

Dallas Police and Fire Pension System

Required Supplementary Information (Unaudited)

- Vesting for members hired after February 28, 2011 was reduced from ten years to five years of service
- Benefit multiplier for all future service for members hired prior to March 1, 2011 was lowered from 3.00% to 2.50%
- Benefit multiplier retroactively increased to 2.50% for members hired on or after March 1, 2011
- Benefit multipliers for 20 and Out benefit lowered and begin at later ages
- Members hired after February 28, 2011 are eligible for an early retirement benefit after 20-years of service
- Maximum benefit reduced from 96% of computation pay to 90% of computation pay for members hired prior to March 1, 2011
- Average computation pay period changed from 36 months to 60 months for future service for members hired prior to March 1, 2011
- Annual Adjustment (COLA) discontinued for all members. The Board may choose to provide a COLA if the funded ratio on a market value basis is at least 70% after the implementation of a COLA.
- The supplemental benefit is eliminated prospectively; only those for whom the supplement was already granted as of September 1, 2017 will maintain the supplement
- Active DROP participation is limited to 10 years
- DROP interest for active DROP members was eliminated after September 1, 2017; only the balance as of September 1, 2017 will be eligible for interest once active DROP members retire
- Retirees with DROP accounts as of September 1, 2017 will have their DROP account balances paid out over their expected lifetime based on their age as of September 1, 2017
- Future retirees with DROP accounts will have their DROP account balances paid out over their expected lifetime as of the date of their retirement
- Interest on retiree DROP accounts will be paid based on the length of the retiree's expected lifetime and will be based on U.S. Treasury rates which correlate to expected lifetime, as determined by the Board of Trustees
- Member contributions for both DROP and non-DROP members increased to 13.5% effective September 1, 2017
- The City's contribution rate will increase to 34.5% of computation pay. Between September 1, 2017 and December 31, 2024, the City's contribution will be the greater of (i) 34.5% and (ii) a biweekly contribution floor amount as stated in HB3158, plus \$13 million per year.

As of December 31, 2016 and 2015 - None

As of December 31, 2014

The Board approved a plan amendment implementing changes to DROP interest rates on April 16, 2015. Such changes were reflected in the valuation of the net pension liability as of December 31, 2015 and 2014.

Dallas Police and Fire Pension System

Required Supplementary Information (Unaudited)

Changes of methods and assumptions:

As of December 31, 2017

The discount rate used to measure the total pension liability changed from a blended discount rate of 4.12% to the assumed rate of return of 7.25% for the Combined Pension Plan and from blended discount rate of 7.10% to the assumed rate of return of 7.25% for the Supplemental Plan.

As a result of the passage of HB 3158 the following assumption were changed:

- The DROP utilization factor was changed from 100% to 0%
- Current DROP members with at least eight years in DROP as of January 1, 2017 are assumed to retire in 2018. Current DROP members with less than eight years in DROP as of January 1, 2017 are assumed to retire once they have been in the DROP for eight years.
- Retirement rates were changed effective January 1, 2018
- 100% retirement rate once the projected sum of age plus service equals 90
- New terminated vested members are assumed to retire at age 58
- DROP account balances annuitized as of September 1, 2017 are assumed to earn 2.75% interest; DROP account balances as of September 1, 2017 for active members are assumed to earn 3.00% interest upon retirement; DROP account balances accrued after September 1, 2017 for active members do not earn interest
- DROP payment period based on an 85%/15% male/female blend of the current healthy annuitant mortality tables
- COLA assumed to be a 2.00% COLA beginning October 1, 2053 and payable every October 1st thereafter.

The administrative expense assumption was changed from the greater of \$10 million per year or 1% of computation pay to the greater of \$8.5 million per year or 1% of computation pay for the Combined Plan and changed from \$60 thousand to \$65 thousand for the Supplemental Plan

As of December 31, 2016

The blended discount rate used to measure the total pension liability changed from 3.95% to 4.12% for the Combined Pension Plan and from 7.19% to 7.10% for the Supplemental Plan.

The remaining amortization period was adjusted from 40 years to 30 years for the Combined Pension Plan based on Section 802.101(a) of the Texas Government Code.

The salary scale was modified for valuation years 2017-2019 in accordance with the Meet and Confer Agreement. DROP interest is assumed to decline from 6.00% to 5.00% effective October 1, 2017, and to 0.00% effective October 1, 2018, per Section 6.14(c) of the plan document as amended and restated through April 16, 2015.

As of December 31, 2015

The blended discount rate used to measure the total pension liability changed from 4.94% to 3.95% for the Combined Pension Plan and from 7.13% to 7.19% for the Supplemental Plan.

As a result of the actuarial experience study completed for the five-year period ending December 31, 2014, the following changes in assumptions were adopted by the Board. For further information

Dallas Police and Fire Pension System

Required Supplementary Information (Unaudited)

regarding the changes to actuarial assumptions, refer to the January 1, 2016 Dallas Police and Fire Pension System actuarial valuation reports for the Combined Pension Plan and the Supplemental Plan.

- Salary scales were updated with separate service-based salary assumptions for police officers and firefighters, lowering the range of increase to 3.00% to 5.20% from the previous assumed range of 4.00% to 9.64%.
- The payroll growth rate assumption was lowered from 4.00% to 2.75% to equal the assumed inflation rate.
- In the prior valuation, the investment return assumption was net of both investment and administrative expenses. In the December 31, 2015 valuation, an explicit assumption for administrative expenses was added to the normal cost. Assumptions of \$10 million and \$60 thousand per year were utilized for the Combined Pension Plan and Supplemental Plan, respectively.
- In the prior valuation for the Combined Pension Plan, an asset valuation method using a 10-year smoothing period was applied. In the December 31, 2015 valuation, the actuarial value of assets was reset to market value as of the measurement date. A five-year smoothing period will be used in future periods.
- The remaining amortization period was adjusted from 30 years to 40 years for the Combined Pension Plan based on Section 802.101(a) of the Texas Government Code.
- Mortality tables were updated from the RP-2000 tables to the RP-2014 tables
- Assumed rates of turnover were lowered for police officers and raised for firefighters to reflect recent experience.
- Retirement rates were lowered for both police officers and firefighters, with the separation of service-based assumptions implemented based on recent experience.
- Disability rates were lowered for both police officers and firefighters and service-based assumptions were eliminated based on the similarity of recent experience between the two services.
- The assumption of the portion of active employees who are married was lowered from 80% to 75% and the age of the youngest child was raised from 1 to 10.

As of December 31, 2014

The assumption for the future interest rates credited to DROP balances was changed from 8.5% to the following rates prescribed by the 2014 plan amendment:

- At October 1, 2014 - 8.0%;
- At October 1, 2015 - 7.0%;
- At October 1, 2016 - 6.0%; and
- At October 1, 2017 and thereafter - 5.0%

Dallas Police and Fire Pension System

Required Supplementary Information (Unaudited)

Schedule of Employer Contributions - Combined Pension Plan (dollars in thousands)

Measurement Year Ending December 31,	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a % of Covered Payroll
2017	\$ 168,865	\$ 126,318	\$ 42,547	\$ 357,414	35.3%
2016	261,859	119,345	142,514	365,210	32.7%

Schedule is intended to show information for 10 years. Additional years will be presented as they become available.

Prior to January 1, 2016, the actuarial determined contribution for the Combined Plan was not determined by the actuary.

The City's contribution rate for the Combined Pension Plan is set by State statutes. The difference between the actuarial determined contribution and the City contribution set by State statutes results in the contribution deficiency.

Notes to Schedules:

The following methods and assumptions used to calculate the actuarial determined contribution for the year ended December 31, 2017.

Actuarial cost method	Entry age normal cost method
Amortization method	30-year level percent-of-pay
Remaining amortization period	Infinite as of January 1, 2017
Asset valuation method	Reset of the actuarial value of assets to market value as of December 31, 2015, with a five-year smoothing in future periods
Investment rate return	7.25% per annum, compounded annually, net of all expense, including administrative expenses. This rate is based on an average inflation rate of 2.75% and a real rate of return of 4.50%.
Inflation rate	2.75%
Projected salary increases	Inflation plus merit increases, varying by group and service, ranging from 0.25% to 2.45%
Post-retirement benefit increases	COLA assumed to be a 2.00% COLA beginning October 1, 2049 and payable every October 1 thereafter
Retirement age	Experienced-based table of rates, based on age

Dallas Police and Fire Pension System

Required Supplementary Information (Unaudited)

Mortality	<p>Pre-retirement: Sex-distinct RP-2014 Employee Mortality Table, set back two years for males, projected generationally using Scale MP-2015</p> <p>Post-retirement: Sex-distinct RP-2014 Blue Collar Healthy Annuitant Mortality Table, set forward two years for females, projected generationally using Scale MP-2015</p> <p>Disabled: Sex-distinct RP-2014 Disabled Retiree Mortality Table, set back three years for males and females, projected generationally using Scale MP-2015</p>
DROP balance returns	6% per year until September 1, 2017. Beginning September 1, 2017, DROP account balances for annuitants are assumed to earn 2.75% interest; DROP account balances as of September 1, 2017 for active members are assumed to earn 2.75% interest upon retirement; DROP account balances accrued after September 1, 2017 for active members do not earn interest.
DROP election	The DROP utilization factor is 0% for new entrants. Current DROP members with at least eight years in the DROP as of January 1, 2017 are assumed to retire in 2018. Current DROP members with less than eight years in DROP as of January 1, 2017 are assumed to retire once they have been in the DROP for eight years.

Changes in Methods and assumptions used to determine the actuarially determined contribution for the year ended December 31, 2016 were as follows:

Post-retirement benefit increases	4.00% simple COLA, October 1 st
DROP balance returns	At October 1, 2015 - 7.0% At October 1, 2016 - 6.0% At October 1, 2017 and thereafter - 5.0%
DROP election	Age 50 with 5 years of service. Any active member who satisfy these criteria and have not entered DROP are assumed never to join DROP. Active members who retire with a DROP account are assumed to receive the balance of their account over a 10-year time period.

Methods and assumptions used to determine the actuarially determined contribution for the years ended December 31, 2014 and 2015 for the Supplemental Plan differed from the above as follows:

Projected salary increases	Range of 4.00% - 9.64%
Mortality	RP-2000 Combined Healthy Mortality Table projected to 10 years beyond the valuation date using Scale AA for healthy retirees and active members

Dallas Police and Fire Pension System

Required Supplementary Information (Unaudited)

Schedule of Employer Contributions - Supplemental Plan (dollars in thousands)

Measurement Year Ending December 31,	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a % of Covered Payroll
2017	\$ 2,087	\$ 2,077	\$ 10	\$ 525	395.6%
2016	3,063	3,063	-	725	422.9%
2015	2,443	2,443	-	557	438.8%
2014	1,817	1,817	-	521	348.5%

Schedule is intended to show information for 10 years. Additional years will be presented as they become available.

Actuarially determined employer contributions for the Supplemental Plan are required by City ordinance. Actuarially determined contributions are calculated as of January 1 in the fiscal year in which the contribution is reported. The deficiency shown on the table is due to Supplemental Plan contributions paid directly to the Excess Benefit Plan in compliance with Internal Revenue Code Section 415.

Notes to Schedules:

The following methods and assumptions used to calculate the actuarial determined contribution for the year ended December 31, 2017 relate to both the Combined Pension Plan and the Supplement Plan unless specially noted:

Actuarial cost method	Entry age normal cost method
Amortization method	10-year level percent of pay
Remaining amortization period	10 years
Asset valuation method	Market value of assets
Investment rate return	7.25% per annum, compounded annually, net of all expense, including administrative expenses. This rate is based on an average inflation rate of 2.75% and a real rate of return of 4.50%.
Inflation rate	2.75%
Projected salary increases	Inflation plus merit increases, varying by group and service, ranging from 0.25% to 2.45%
Post-retirement benefit increases	COLA assumed to be a 2.00% COLA beginning October 1, 2049 and payable every October 1 thereafter

Dallas Police and Fire Pension System

Required Supplementary Information (Unaudited)

Retirement age	Experienced-based table of rates, based on age
Mortality	<p>Pre-retirement: Sex-distinct RP-2014 Employee Mortality Table, set back two years for males, projected generationally using Scale MP-2015</p> <p>Post-retirement: Sex-distinct RP-2014 Blue Collar Healthy Annuitant Mortality Table, set forward two years for females, projected generationally using Scale MP-2015</p> <p>Disabled: Sex-distinct RP-2014 Disabled Retiree Mortality Table, set back three years for males and females, projected generationally using Scale MP-2015</p>
DROP balance returns	6% per year until September 1, 2017. Beginning September 1, 2017, DROP account balances for annuitants are assumed to earn 2.75% interest; DROP account balances as of September 1, 2017 for active members are assumed to earn 2.75% interest upon retirement; DROP account balances accrued after September 1, 2017 for active members do not earn interest.
DROP election	The DROP utilization factor is 0% for new entrants. Current DROP members with at least eight years in the DROP as of January 1, 2017 are assumed to retire in 2018. Current DROP members with less than eight years in DROP as of January 1, 2017 are assumed to retire once they have been in the DROP for eight years.
Changes in Methods and assumptions used to determine the actuarially determined contribution for the year ended December 31, 2016 were as follows:	
Post-retirement benefit increases	4.00% simple COLA, October 1 st
DROP balance returns	At October 1, 2015 - 7.0% At October 1, 2016 - 6.0% At October 1, 2017 and thereafter - 5.0%
DROP election	Age 50 with 5 years of service. Any active member who satisfy these criteria and have not entered DROP are assumed never to join DROP. Active members who retire with a DROP account are assumed to receive the balance of their account over a 10-year time period.

Dallas Police and Fire Pension System

Required Supplementary Information (Unaudited)

Methods and assumptions used to determine the actuarially determined contribution for the years ended December 31, 2014 and 2015 for the Supplemental Plan differed from the above as follows:

Projected salary increases	Range of 4.00% - 9.64%
Mortality	RP-2000 Combined Healthy Mortality Table projected to 10 years beyond the valuation date using Scale AA for healthy retirees and active members

Dallas Police and Fire Pension System

Required Supplementary Information (Unaudited)

Schedule of Investment Returns

Fiscal Year Ended December 31,	Annual Money-weighted Rate of Return, net of Investment Expense
2017	5.07%
2016	3.09%
2015	(12.70%)
2014	3.98%

Notes to Schedule:

The annual money-weighted rate of return is calculated as the internal rate of return on pension plan investments, net of pension plan investment expense, and expresses investment performance adjusted for the changing amounts actually invested. Pension plan investment expense consists of manager fees. The return is calculated using a methodology which incorporates a one quarter lag for market value adjustments on private equity, debt, and real assets investments.

Schedule is intended to show information for 10 years. Additional years will be presented as they become available.

Dallas Police and Fire Pension System

Supplementary Information

Administrative, Investment, and Professional Services

Expenses

Year Ended December 31, 2017

Administrative expenses:	
Information technology	\$ 339,534
Education	50,316
Insurance	440,706
Personnel	3,977,797
Office equipment	149,114
Dues and subscriptions	103,504
Board meetings	8,317
Office supplies	25,148
Utilities	52,087
Postage	30,564
Printing	3,659
Election	19,060
Facilities	588,974
Other	8,323
Total administrative expenses	\$ 5,797,103
Investment expenses:	
Investment management	\$ 5,534,243
Custodial	252,705
Valuation	645,469
Research	19,303
Consulting and reporting	487,712
Legal	81,216
Transaction advisory	1,450,522
Tax	11,746
Other	618,117
Total investment expenses	\$ 9,101,033
Professional services expenses:	
Consulting	\$ 12,967
Actuarial	524,097
Auditing	149,500
Accounting	61,616
Medical review	7,360
Legal	1,020,957
Mortality records	2,800
Legislative	319,085
Communications	247,104
Other	15,523
Total professional services expenses	\$ 2,361,009

Notes to Schedule:

Supplementary information on investment expenses does not include investment management fees and performance fees embedded in the structure of private equity and other limited partnership investments. Rather, these fees are a component of the net appreciation (depreciation) in fair value of investments in the accompanying Statements of Changes in Fiduciary Net Position. In addition, management fees paid directly by DPFP are included net of rebates received.

The members of the Board of Trustees serve without compensation; they are reimbursed for actual expenses incurred.

See accompanying independent auditor's report.