# AGENDA

**Date:** November 14, 2019

A meeting of the Supplemental Police and Fire Pension Fund Board of Trustees will be held at **8:30 a.m.** on **Tuesday, November 19, 2019, in the Second Floor Board Room at 4100 Harry Hines Boulevard, Dallas, Texas**. Items of the following agenda will be presented to the Board:

## A. CONSENT AGENDA

### Approval of Minutes

Regular meeting of October 10, 2019

## B. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION

### 1. Financial Audit

**a.** 2018 Audit Results
**b.** Audit Committee
**c.** 2019 Auditing Services Provider

2. **2018 Comprehensive Annual Financial Report**

3. **Quarterly Financial Reports**

4. **Second reading and discussion of the 2020 Budget**

The term "possible action" in the wording of any Agenda item contained herein serves as notice that the Board may, as permitted by Texas Government Code, Section 551, in its discretion, dispose of any item by any action in the following non-exclusive list: approval, disapproval, deferral, table, take no action, and receive and file. At the discretion of the Board, items on this agenda may be considered at times other than in the order indicated in this agenda.

At any point during the consideration of the above items, the Board may go into Closed Executive Session as per Texas Government Code, Section 551.071 for consultation with attorneys, Section 551.072 for real estate matters, Section 551.074 for personnel matters, and Section 551.078 for review of medical records.

**Dallas Police and Fire Pension System**
**Thursday, October 10, 2019**
**8:30 a.m.**
**4100 Harry Hines Blvd., Suite 100**
**Second Floor Board Room**
**Dallas, TX**

DRAFT

Supplemental meeting, William F. Quinn, Chairman, presiding:

**ROLL CALL**

**Board Members**

| | |
|---|---|
| Present at 8:32 a.m. | William F. Quinn, Nicholas A. Merrick, Joseph P. Schutz, Robert B. French, Ray Nixon, Gilbert A. Garcia, Susan M. Byrne, Tina Hernandez Patterson, Armando Garza, Kneeland Youngblood |
| Present at 8:50 a.m. | Robert C. Walters |
| Absent: | None |
| **Staff** | Kelly Gottschalk, Josh Mond, Kent Custer, Brenda Barnes, John Holt, Damion Hervey, Cynthia Thomas, Ryan Wagner, Greg Irlbeck, Michael Yan, Milissa Romero |
| **Others** | Chuck Campbell, Jeff Williams, Caitlin Grice, Janis Elliston, David Elliston, Bill Ingram, Rick Salinas, Sheri Kowalski |

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The meeting was called to order at 8:32 a.m.

The meeting was recessed at 8:32 a.m. and reconvened at 1:01 p.m.

Mr. Garcia was not present when the meeting was reconvened.

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## A. CONSENT AGENDA

### Approval of Minutes

Regular meeting of September 12, 2019

After discussion, Ms. Byrne made a motion to approve the minutes of September 12, 2019. Ms. Hernandez Patterson seconded the motion, which was unanimously approved by the Board.

**Supplemental Board Meeting**
**Thursday, October 10, 2019**

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**B. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION**

**1. January 1, 2019 Actuarial Valuation**

Jeff Williams and Caitlin Grice of Segal Consulting, DPFP's actuarial firm, were present to discuss results of the January 1, 2019 actuarial valuation report, including the GASB No. 67 actuarial valuation.

After discussion, Ms. Byrne made a motion to approve issuance of the January 1, 2019 actuarial valuation report, subject to final review by the auditors (BDO) and review and approval by the Executive Director. Mr. Schutz seconded the motion, which was unanimously approved by the Board.

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**2. Initial reading and discussion of the 2020 Supplemental Plan Budget**

The Chief Financial Officer presented the initial reading of the 2020 budget, prepared in total for both the Combined Pension Plan and the Supplement Plan.

After discussion, staff was directed to revise the proposed budget based on the direction of the Board and bring the revised proposed budget to the Board at the November 2019 Board meeting for consideration.

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Ms. Gottschalk stated that there was no further business to come before the Board. On a motion by Ms. Byrne and a second by Mr. Garza, the meeting was adjourned at 1:02 p.m.

______________________
William F. Quinn
Chairman

**ATTEST:**

______________________
Kelly Gottschalk
Secretary



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# DISCUSSION SHEET

## Supplemental

## ITEM #B1

**Topic:** **Financial Audit**

**a.** 2018 Audit Results
**b.** Audit Committee
**c.** 2019 Auditing Services Provider

**Attendees:** Jill Svoboda, BDO, Partner
Matt Liu, BDO, Audit Manager

**Discussion:**

**a.** Representatives from BDO, DPFP's independent audit firm, will be present to discuss the results of their audit for the year ended December 31, 2018.

**b.** The Audit Committee met with representatives of BDO on October 30, 2019. The Committee Chair will comment on Committee observations and advice.

**c.** In 2015, the Board gave direction to conduct a competitive selection process for specific service providers, including the audit firm, every five years unless the Board explicitly waives or extends the requirement. BDO has conducted the audit for six years. Staff will discuss the pros and cons of conducting a competitive selection process for auditing services.

# DISCUSSION SHEET

**Staff Recommendation:** **Approve** issuance of the 2018 audit report, subject to final review and approval by BDO and the Executive Director. **Extend** for one year the requirement to conduct a selection process for auditing services to allow BDO to conduct the 2019 audit.

DALLAS POLICE & FIRE PENSION SYSTEM

# AUDIT WRAP-UP

## DECEMBER 31, 2018

The following communication was prepared as part of our review, has consequential limitations, and is intended solely for the information and use of those charged with governance (e.g., Board of Directors and audit committee) and, if appropriate, management of the Company and is not intended and should not be used by anyone other than these specified parties.

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BDO

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**www.bdo.com**

600 North Peart, Suite 1700
Dallas, Texas 75201

November 19, 2019

Board of Trustees and Audit Committee
Dallas Police and Fire Pension System

Professional standards require us to communicate with you regarding matters related to the audit, that are, in our professional judgment, significant and relevant to your responsibilities in overseeing the financial reporting process. On March 14, 2019 we presented an overview of our plan for the audit of the financial statements of the Dallas Police and Fire Pension System (the System) as of and for the year ended December 31, 2018, including a summary of our overall objectives for the audit, and the nature, scope, and timing of the planned audit work.

This communication is intended to elaborate on the significant findings from our audit, including our views on the qualitative aspects of the System's accounting practices and policies, management's judgments and estimates, financial statement disclosures, and other required matters.

We are pleased to be of service to the System and to discuss our audit findings, as well as other matters that may be of interest to you, and to answer any questions you might have.

Respectfully,

BDO USA, LLP

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# Discussion Outline



# Status of Our Audit

We have completed our audit of the financial statements, including procedures applied to the supplemental schedules, of the System as of and for the year ended December 31, 2018. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America and adheres to the guidelines established by the Governmental Accounting Standards Board. This audit of the financial statements does not relieve System management or those charged with governance of their responsibilities.

**Discussion Point**

- The objective of our audit was to obtain reasonable - not absolute - assurance about whether the financial statements are free from material misstatements.
- The scope of the work performed was substantially the same as that described to you in our earlier Audit Planning communications.
- We expect to issue an unmodified opinion on the financial statements and release our report upon final approval of the Board and obtaining the final signed representation letter.
- Our responsibility for other information in documents containing the System's audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform procedures to corroborate such other information. However, in accordance with professional standards, we have read the information included by the System and considered whether such information, or the manner of its presentation, was materially inconsistent with its presentation in the financial statements. Our responsibility also includes calling to management's attention any information that we believe is a material misstatement of fact. We have not identified any material inconsistencies or concluded there are any material misstatements of facts in the other information that management has chosen not to correct.
- All records and information requested by BDO were freely available for our inspection.
- Management's cooperation was excellent. We received full access to all information that we requested while performing our audit, and we acknowledge the full cooperation extended to us by all levels of the System personnel throughout the course of our work.

# Results of Our Audit

## ACCOUNTING PRACTICES, POLICIES, AND ESTIMATES

The following summarizes the more significant required communications related to our audit concerning the System's accounting practices, policies, and estimates:

The System's significant accounting practices and policies are those included in Note 2 to the financial statements. These accounting practices and policies are appropriate; comply with generally accepted accounting principles, industry practice and governmental accounting standards. They were consistently applied, and are adequately described within Note 2 to the financial statements.

- A summary of recently issued accounting pronouncements is included in Note 2 to the System's financial statements. GASB No. 86 *Certain Debt Extinguishment Issues,* was adopted by the System in 2018 and did not have a significant impact on the financial statements as the System currently does not have any debt outstanding.
- There were no changes in significant accounting policies and practices during 2018.

Significant estimates are those that require management's most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effects of matters that are inherently uncertain. The System's significant accounting estimates, including a description of management's processes and significant assumptions used in development of the estimates, are disclosed in Notes 2, 4 and 5 of the financial statements. The significant estimates include the following:

- Actuarial estimates
- Fair value measurements

Management did not make any significant changes to the processes or significant assumptions used to develop the significant accounting estimates in 2018.

# Results of Our Audit

## Discussion Point

### CORRECTED AND UNCORRECTED MISSTATEMENTS

There were no corrected or uncorrected misstatements related to accounts and/or disclosures that we presented to management.

### QUALITY OF THE SYSTEM'S FINANCIAL REPORTING

A discussion was held regarding the quality of the System's financial reporting, which included the following:

- Qualitative aspects of significant accounting policies and practices
  - BDO has no issues with the quality of the System's accounting policies and practices.
- Our conclusions regarding significant accounting estimates
  - BDO concurs with the System's critical accounting policies and practices with respect to significant estimates.
- Financial statement presentation
  - BDO does not note exceptions to the System's financial statements
- New accounting pronouncements
  - Refer to Note 2 of the financial statements and as noted above under accounting practices, polices and estimates.
- Alternative accounting treatments
  - BDO notes that there are no alternative accounting treatments adopted by the System during the year.

# Results of Our Audit

## Discussion Point

**Below is a summary of select policies, areas and findings:**

### Internal Controls

Summary of procedures:

- Reviewed internal controls in place over financial reporting, distributions, payroll data, investments, system expenses, and system obligations.
- Obtained and reviewed the Service Organization Controls reports for JPMorgan, the System's Custodian, and STP Investment Services, LLP, the System's investment accounting service provider.

Findings:

- No issues were noted during our review of internal controls which caused us to adjust planned audit procedures.

### Actuarial Valuation

Summary of procedures:

- Obtained actuarial reports and related requested data directly from the actuary.
- Ensured the census information provided was complete, accurate, and as of benefit information date.
- Tested census information in correlation with eligibility testing.
- Considered cash flow projections and determination of GASB 67 discount rates.
- Reviewed the actuarial valuation reports and utilized BDO's Actuarial Managing Director to perform an independent review of the reports and assumptions used. Primary areas of focus included demographic assumptions (mortality, termination prior to retirement, retirement and DROP participation eligibility which affect DROP utilization and retirement rates, disability) and economic assumptions (discount rate, inflation rate, investment rate of return, salary scale, administrative expenses, interest on DROP accounts) as well as the actuarial methods used (asset smoothing, actuarial cost method, amortization of unfunded actuarial accrued liability).
- Reviewed actuarial disclosures for completeness and accuracy during the review of the financial statements.

Findings:

- Based on the review by BDO and BDO's experts, the actuarial methods employed by the System meet the requirements under GASB and Actuarial Standards of Practice.

# Results of Our Audit

## Discussion Point

### Eligibility

Summary of procedures:

- Agreed demographic information to the census data used by the actuary.
- Ensured members were properly included or excluded from the System or census based on system requirements.

Findings:

- No issues were identified in our testing.

### Contributions

Summary of procedures:

- Obtained and reviewed a reconciliation of all contributions reported.
- Confirmed the contributions made during 2018 directly with the City.
- Tested a sample of participant contributions and recalculated amounts based on the System provisions.

Findings:

- No issues were identified in our testing.

### Benefit Payments

Summary of procedures:

- Reviewed reconciliation of annuity payments.
- Tested a sample of participants receiving benefits and ensured the participants selected were eligible to receive payment.
- For sample selected, traced amounts of benefit payments to the actual payments recorded per the payment register. Additionally, ensured proper tax was withheld and proper authorization of benefit payments was made.
- For each selection, obtained the calculation of benefits and recomputed the benefit amount based upon the participant data and ensured it was in accordance with the System documents.
- Reviewed annuity payments by month for any unusual variations.

Findings:

- No issues were identified in our testing.

# Results of Our Audit

## Discussion Point

### Investments

Summary of procedures:

- Tested investments by selecting a sample using statistical sampling techniques.
- Obtained confirmations from investment managers and reviewed audited financial statements for investments selected. Reviewed confirmations for unusual items and misclassifications. Additionally, performed recalculations based on the unit values in the audited financials.
- A majority of the real estate investments have audited financial statements. Consideration of those internally managed real estate investments included review of appraisals by BDO Valuation Real Estate Specialists.
- Reviewed all complex investment valuation techniques and utilized BDO Valuation experts where necessary.
- Reviewed purchase agreements and letters of intent for properties sold or currently for sale.
- Reviewed Management's valuation memos in obtaining an understanding of the supporting process for establishing fair value.
- Confirmed all cash balances.
- Reconciled unit information recorded by the System to JPMorgan and to the fund's financial statements.
- Selected a sample of transactions for investment transaction testing and agreed the purchase/sales price to approved pricing sources.
- Recalculated the exchange rate used for certain investments by comparing the rate to a third party source such as Oanda.com.
- Reviewed the investment policy and reviewed for deviations from policy.
- Reviewed Management's fair value considerations and fair value hierarchy by investment in correlation with GASB No. 72.

Findings:

- No issues were identified in our testing.

# Results of Our Audit

## Discussion Point

### Other Receivables, Payables and System Expenses

Summary of procedures:

- Confirmed and reviewed contributions receivables.
- Reviewed the reasonableness of interest and dividend receivables.
- Reviewed management's policy for securities lending and the accounting treatment of such transactions.
- Reviewed the schedule of accrued expenses. Tested fund management fees payable and accrued uncompensated balances.
- Performed a search for unrecorded liabilities to ensure all subsequent payments after year end which related to 2018 were appropriately accrued.
- Reviewed investment contracts in correlation with testing system expenses.
- Sampled administrative fees and selected individual transactions to test.
- Sampled management fee expenses and agreed the expense to confirmation received from investment managers where applicable. Reviewed and recalculated the breakout of fees and agreed amounts to actual invoices and payment support.

Findings:

- No issues were identified in our testing.

### Investment Income

Summary of procedures:

- Selected a sample of dividends received and verified to an independent market source.
- Tested interest earned by recalculating individual transactions and performing a reasonableness test.
- Reconciled investment value and investment income to JPMorgan.
- Recalculated realized and unrealized gains and losses for a sample of transactions.

Findings:

- No issues were identified in our testing.

# Results of Our Audit

## Discussion Point

**Fraud, Commitments and Contingencies and Subsequent Events**

Fraud procedures:

- Performed interviews with a sample of members of the Board of Trustees, Management, and other individuals and considered responses received in determining necessary audit procedures.
- The nature, timing and extent of our procedures across areas of the audit were also varied, mainly by auditing items that would be considered below our normal vouching scope.
- Performed detailed journal entry testing to review for any potential unusual or fraudulent transactions.

Commitments and Contingencies:

- Due to the litigation in 2017 we expanded our legal expense testing and reviewed legal invoices carefully for any unusual matters that were not already disclosed to us. No such matters were identified.
- Based on the legal confirmation responses received the System is appropriately disclosing legal matters in the financial statements.

Subsequent Events:

- Reviewed Board Meeting Minutes.
- Obtained legal update letters prior to issuance.
- Performed final subsequent event procedures, including inquiries of Management to be updated prior to issuance.

# Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

We are required to communicate, in writing, to those charged with governance all material weaknesses and significant deficiencies that have been identified in the System's internal controls over financial reporting. The definitions of control deficiency, significant deficiency and material weakness follow:

| Category | Definition |
|---|---|
| **Deficiency in 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. |
| **Significant Deficiency** | A deficiency or 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. |
| **Material Weakness** | A deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Government's financial statements will not be prevented, or detected and corrected on a timely basis. |

In conjunction with our audit of the financial statements, we noted no material weaknesses.

# Other Required Communications

The following is a summary of those required items, along with specific discussion points as they pertain to the System:

| Requirement | Discussion Points |
|---|---|
| **Significant changes to planned audit strategy or significant risks initially identified** | There were no significant changes to the planned audit strategy or significant risks initially identified and previously communicated to those charged with governance as part of our Audit Planning communications. |
| **Obtain information from those charged with governance relevant to the audit** | There were no matters noted relevant to the audit, including, but not limited to: violations or possible violations of laws or regulations; risk of material misstatements, including fraud risks; or tips or complaints regarding the System's financial reporting that we were made aware of as a result of our inquiry of those charged with governance. |
| **Nature and extent of specialized skills or knowledge needed related to significant risks** | The nature and extent of specialized skills or knowledge needed to perform the planned audit procedures or evaluate audit results related to significant risks are outlined below:<br>▶ Utilized BDO's Actuarial Managing Director and Actuarial Manager to review the assumptions presented in the actuarial report.<br>▶ Utilized BDO Valuation Real Estate specialists for review of the appraisal for the internally managed asset selected for testing.<br>▶ Utilized BDO Valuation specialists for review of the fair value for certain funds selected for testing. |
| **Consultations with other accountants** | We are not aware of any consultations about accounting or auditing matters between management and other independent public accountants. Nor are we aware of opinions obtained by management from other independent public accountants on the application of generally accepted accounting principles. |

# Other Required Communications

| Requirement | Discussion Points |
|---|---|
| **Our evaluation of the System's relationships and transactions with related parties and their impact on the financial statements** | We have evaluated the System's process to identify, authorize and approve, account for, and disclose its relationships and transactions with related parties and noted no significant issues |
| **Disagreements with management** | There were no disagreements with management about matters, whether or not satisfactorily resolved, that individually or in aggregate could be significant to the System's financial statements or to our auditor's report. |
| **Significant difficulties encountered during the audit** | There were no significant difficulties encountered during the audit. |
| **Other matters significant to the oversight of the System's financial reporting process, including complaints or concerns regarding accounting or auditing matters** | There are no other matters that we consider significant to the oversight of the System's financial reporting process that have not been previously communicated. |
| **Representations requested from management** | Please refer to the management representation letter to be provided upon issuance of the report. |

# Independence Communication

Our engagement letter to you dated December 18, 2018 describes our responsibilities in accordance with professional standards and certain regulatory authorities with regard to independence and the performance of our services. This letter also stipulates the responsibilities of the System with respect to independence as agreed to by the System. Please refer to that letter for further information.

# 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, 2018 and 2017

(With Independent Auditor's Reports Thereon)

DRAFT

The report accompanying these financial statements was issued by BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of BDO International Limited, a UK company limited by guarantee.

# Dallas Police and Fire Pension System

## Contents

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600 North Pearl, Suite 1700
Dallas, Texas 75201

**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, 2018 and 2017, 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.

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***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, 2018 and 2017, 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 November 19, 2019 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.

Dallas, Texas
November 19, 2019

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**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, 2018 and 2017, 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 November 19, 2019.

***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.

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***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.

Dallas, Texas
November 19, 2019

# Dallas Police and Fire Pension System

## Management's Discussion and Analysis (Unaudited)
**December 31, 2018 and 2017**

## 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, 2018 and 2017. 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, 2018 and 2017

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

| December 31: | | 2018 | 2017 | 2016 |
|---|---|---|---|---|
| **Assets** | | | | |
| Investments, at fair value | $ | 2,007,036 $ | 1,990,602 $ | 1,960,057 |
| Invested securities lending collateral | | 20,560 | 12,153 | 21,671 |
| Receivables | | 42,634 | 34,629 | 29,378 |
| Cash and cash equivalents | | 50,138 | 118,587 | 326,785 |
| Prepaid expenses | | 365 | 436 | 460 |
| Capital assets, net | | 12,489 | 12,715 | 12,041 |
| **Total assets** | | **2,133,222** | **2,169,122** | **2,350,392** |
| **Liabilities** | | | | |
| Notes payable | | - | - | 130,000 |
| Securities purchased | | 48,598 | 31,411 | 24,353 |
| Securities lending obligations | | 20,560 | 12,153 | 21,671 |
| Accounts payable and accrued liabilities | | 3,832 | 4,407 | 6,036 |
| **Total liabilities** | | **72,990** | **47,971** | **182,060** |
| **Net position held in trust – restricted for pension benefits** | **$** | **2,060,232 $** | **2,121,151 $** | **2,168,332** |

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 2018 was -1.49% net of fees, compared to a rate of return of 5.07% for 2017 and 3.09% for 2016. The rate of return for 2018 is provided by Meketa Investment Group, Inc., DPFP's investment consultant at December 31, 2018. NEPC, LLC (NEPC), DPFP's investment consultant at December 31, 2017 and 2016, provided the rate of return for 2017 and 2016. The methodology used by the investment consultants to calculate the time-weighted 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 $61 million in 2018 primarily the result of benefit payments exceeding total contribution payments. The net benefit outflow was partially offset by investment gains during the period.

The Plans' net position decreased by $47 million in 2017 primarily the result of benefit payments exceeding total contribution payments. The net benefit outflow was partially offset by investment gains. The net position was relatively stable for the first time since 2013 due to the passage of House Bill 3158 (HB 3158 or the bill) by the Texas legislature during the 85$^{th}$ 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

# Dallas Police and Fire Pension System

## Management's Discussion and Analysis (Unaudited)
### December 31, 2018 and 2017

Retirement Option Plan (DROP). Additional information about HB 3158 is included in Notes 1, 5 and 6 and the Required Supplementary Information accompanying the financial statements.

Securities lending collateral and obligations increased in 2018 due to an increase in lending activity resulting from increased lendable assets due to the funding of equity and fixed income mandates in mid-2017 and increased demand for securities due to market volatility in 2018. 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. Cash declined significantly in 2018 as cash held during the legislative process in 2017 was redeployed during the year.

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

| Years ended December 31: | 2018 | 2017 | 2016 |
|---|---|---|---|
| **Additions:** | | | |
| Contributions | | | |
| City | $ 151,336 | $ 128,395 | $ 122,409 |
| Members | 49,406 | 33,044 | 25,553 |
| Total contributions | 200,742 | 161,439 | 147,962 |
| Net income from investing activities | 43,452 | 97,456 | 165,326 |
| Net income from securities lending activities | 112 | 101 | 402 |
| Other income | 479 | 2,094 | 204 |
| **Total additions** | **244,785** | **261,090** | **313,894** |
| **Deductions:** | | | |
| Benefits paid to members | 297,155 | 295,245 | 827,649 |
| Refunds to members | 2,635 | 3,578 | 3,354 |
| Interest expense | - | 1,290 | 4,569 |
| Professional and administrative expenses | 5,914 | 8,158 | 9,571 |
| **Total deductions** | **305,704** | **308,271** | **845,143** |
| Net decrease in net position | (60,919) | (47,181) | (531,249) |
| **Net position held in trust – restricted for pension benefits** | | | |
| **Beginning of period** | **2,121,151** | **2,168,332** | **2,699,581** |
| **End of period** | **$ 2,060,232** | **$ 2,121,151** | **$ 2,168,332** |

The 2018 Contribution amounts for both members and the City are statutorily defined. Contributions for all active members (including members in DROP) were 13.5% of Computation Pay. Computation Pay is defined as base pay, education incentive pay and longevity pay. City contributions for the Combined Pension Plan were 34.5% of Computation Pay, plus a floor amount

# Dallas Police and Fire Pension System

## Management's Discussion and Analysis (Unaudited)
**December 31, 2018 and 2017**

to meet the minimum required contribution, plus an additional amount of $13 million in 2018. The floor has been greater than the 34.5% of Computation Pay for all pay periods in 2018. The increase in City and member contributions was the result of twelve full months of contributions at the legislative defined amounts. City contributions to the Plans increased by $23 million or 18% in 2018. Member contributions of $49.4 million exceeded expected contributions of $48.5 million by $0.9 million.

The City is required by ordinance to contribute amounts necessary to maintain the Supplemental Plan as determined by an actuary. City contributions to the Supplemental Plan in 2018 decreased by $98 thousand over 2017 contributions.

The decrease in other income in 2018 of $1.6 million is primarily due to the settlement of an investment related litigation matter and a property tax refund that occurred in 2017.

Net investment income during 2018 was primarily driven by the appreciation in the fair value of some private assets and was partially offset by public equity losses incurred especially during the fourth quarter of 2018.

In 2017, 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 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 was 13.5% of Computation Pay regardless of the member's DROP participation status. The 29% increase in employee contribution revenue from 2016 to 2017 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.

In 2017, the City contribution rate for the Combined Pension Plan was statutorily defined as 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.

In 2017, total City contribution revenue to the Plans increased 5% or $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.

# Dallas Police and Fire Pension System

## Management's Discussion and Analysis (Unaudited)
### December 31, 2018 and 2017

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.

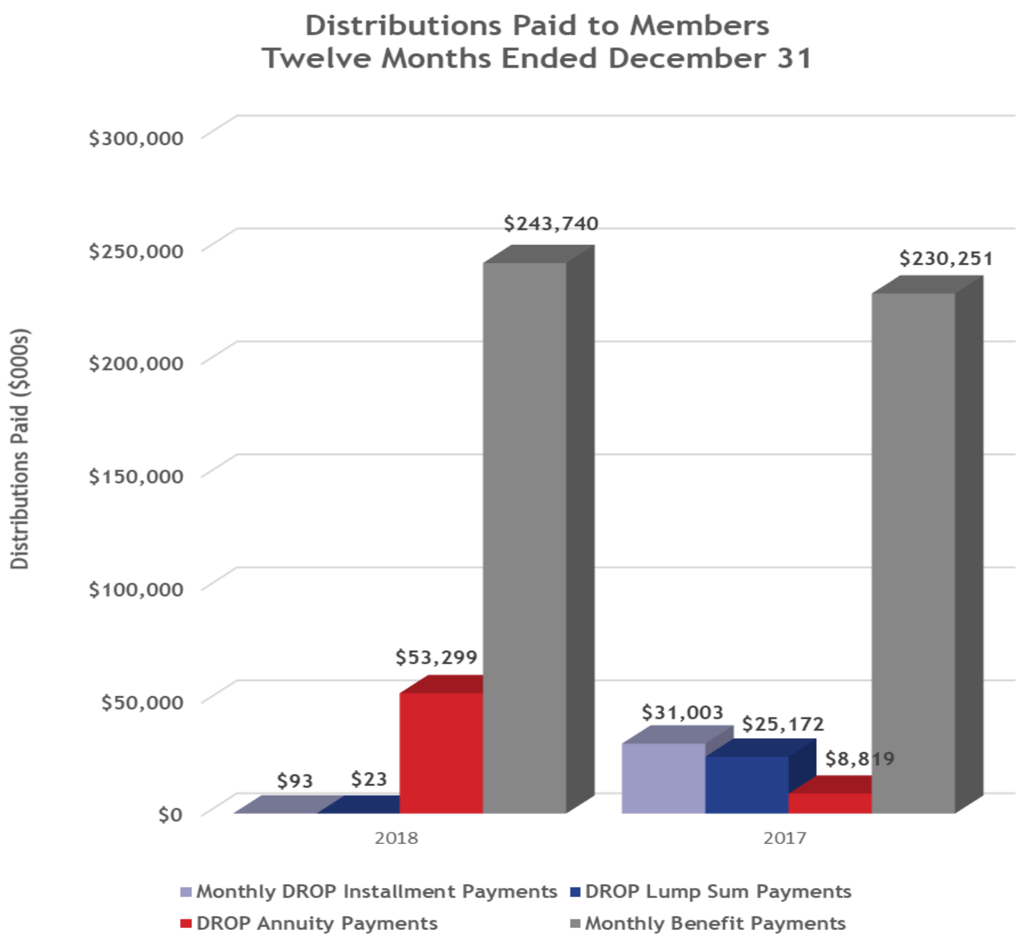
The City is required by ordinance to contribute amounts necessary to maintain the Supplemental Plan as determined by an actuary. In 2017, the City contribution to the Supplemental Plan decreased by $987 thousand or 32% because of the reduction in the Plan liability due to the passage of HB 3158.

The 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.

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, 2018 and 2017.

# Dallas Police and Fire Pension System

## Management's Discussion and Analysis (Unaudited)
**December 31, 2018 and 2017**




Total benefits paid in 2018 increased $1.9 million or 0.65% over 2017. Monthly benefit payments increased $13.5 million or 5.9% due to an additional 143 retirees and beneficiaries receiving monthly benefits in 2018. Distributions from DROP balances in 2018 totaled $53.4 million with $53.3 million paid as DROP annuity payments, up $44.5 million from 2017 due to a full twelve months of annuity payments to members. See Note 6 for additional information on DROP.

No Interest expense was incurred in 2018 as the line of credit and term loan were paid in full in 2017, resulting in a decrease in interest expense of $1.3 million in 2018. See Note 7 for the discussion of Notes Payable.

Refund expense declined $943 thousand in 2018 due in part to a change in the interpretation of the calculation of the liability accrual resulting in an additional expense of $460 thousand in 2017. The cost of administering the benefit programs of the Plans, including administrative costs and professional fees, decreased approximately $2.2 million in 2018. The decrease in 2018 is primarily related to lower legal fees (net of insurance reimbursement, down $642 thousand) and salaries and benefits, down $984 thousand. Actuarial expenses were $378 thousand lower in 2018 as expenses related to the implementation of HB 3158 were largely incurred during 2017. Legislative and Communications expenses decreased $193 thousand and $247 thousand, respectively, from 2017 to 2018 as the legislative process for the new bill completed in 2017. 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

DPFP'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.

The January 1, 2019 actuarial valuation reported a funded ratio of 48.1%, based on the actuarial value of assets, an unfunded actuarial accrued liability of $2.3 billion and an expected fully funded date of 2057 for the Combined Pension Plan compared to a funded ratio of 47.7%, based on the actuarial value of assets, an unfunded actuarial accrued liability of $2.4 billion and an expected fully funded date of 2063 for the Combined Pension Plan as reported in the January 1, 2018 actuarial valuation. 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, 2019 actuarial valuation reports a funded ratio of 57.6% and an unfunded actuarial accrued liability of $13.5 million for the Supplemental Plan compared to a funded ratio of 51.5%, and an unfunded actuarial accrued liability of $16.7 million for the Supplemental Plan as reported in the January 1, 2018 actuarial valuation.

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 55.4% of Computation Pay compared to 58.9% as of January 1, 2018. The ADC rate compares to the City's actual contribution rate of 34.5% of Computation Pay as of the first pay period that began 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 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 for December 31, 2018 includes the impacts of HB 3158 and reports a NPL of $2.5 billion, which is an increase of $66 million from the NPL reported at December 31, 2017 for the Combined Pension Plan.

# Dallas Police and Fire Pension System

## Management's Discussion and Analysis (Unaudited)
**December 31, 2018 and 2017**

The Fiduciary Net Position as a Percentage of Total Pension Liabilities (FNP) is 45.4% at December 31, 2018 compared to 46.8% at December 31, 2017 for the Combined Pension Plan. The Supplemental Plan had a NPL of $14 million and $16 million at December 31, 2018 and 2017, respectively. The Supplemental Plan had a FNP of 57.6% and 52.9% at December 31, 2018 and 2017, 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 DPFP's Financial Management

This financial report is designed to provide members and other users with a general overview of DPFP'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

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| *December 31,* | 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 | $ 40,949,194 | $ 367,721 | $ 41,316,915 | $ 23,929,959 | $ 202,714 | $ 24,132,673 |
| Fixed income securities | 511,184,404 | 4,590,396 | 515,774,800 | 325,258,334 | 2,755,315 | 328,013,649 |
| Equity securities | 432,055,193 | 3,879,822 | 435,935,015 | 466,132,328 | 3,948,680 | 470,081,008 |
| Real assets | 695,162,373 | 6,242,503 | 701,404,876 | 794,476,173 | 6,730,133 | 801,206,306 |
| Private equity | 310,090,215 | 2,784,586 | 312,874,801 | 220,240,515 | 1,865,692 | 222,106,207 |
| Alternative investments | - | - | - | 143,709,605 | 1,217,387 | 144,926,992 |
| Forward currency contracts | (268,300) | (2,409) | (270,709) | 134,137 | 1,136 | 135,273 |
| Total investments | 1,989,173,079 | 17,862,619 | 2,007,035,698 | 1,973,881,051 | 16,721,057 | 1,990,602,108 |
| **Invested securities lending collateral** | 20,376,453 | 182,979 | 20,559,432 | 12,050,625 | 102,083 | 12,152,708 |
| **Receivables** | | | | | | |
| City | 2,504,571 | - | 2,504,571 | 2,026,827 | - | 2,026,827 |
| Members | 801,661 | 1,583 | 803,244 | 641,998 | 1,147 | 643,145 |
| Interest and dividends | 4,759,677 | 42,742 | 4,802,419 | 2,924,484 | 24,774 | 2,949,258 |
| Investment sales proceeds | 33,926,492 | 304,657 | 34,231,149 | 28,155,275 | 238,508 | 28,393,783 |
| Other receivables | 290,170 | 2,606 | 292,776 | 610,876 | 5,175 | 616,051 |
| Total receivables | 42,282,571 | 351,588 | 42,634,159 | 34,359,460 | 269,604 | 34,629,064 |
| **Cash and cash equivalents** | 49,691,701 | 446,228 | 50,137,929 | 117,590,839 | 996,131 | 118,586,970 |
| **Prepaid expenses** | 362,262 | 3,253 | 365,515 | 431,773 | 3,658 | 435,431 |
| **Capital assets, net** | 12,377,791 | 111,152 | 12,488,943 | 12,608,396 | 106,808 | 12,715,204 |
| Total assets | 2,114,263,857 | 18,957,819 | 2,133,221,676 | 2,150,922,144 | 18,199,341 | 2,169,121,485 |
| **Liabilities** | | | | | | |
| **Other payables** | | | | | | |
| Securities purchased | 48,165,649 | 432,524 | 48,598,173 | 31,147,075 | 263,852 | 31,410,927 |
| Securities lending obligations | 20,376,453 | 182,979 | 20,559,432 | 12,050,625 | 102,083 | 12,152,708 |
| Accounts payable and other accrued liabilities | 3,807,625 | 24,423 | 3,832,048 | 4,378,973 | 28,253 | 4,407,226 |
| Total liabilities | 72,349,727 | 639,926 | 72,989,653 | 47,576,673 | 394,188 | 47,970,861 |
| **Net position** | | | | | | |
| Net investment in capital assets | 12,377,791 | 111,152 | 12,488,943 | 12,608,396 | 106,808 | 12,715,204 |
| Unrestricted | 2,029,536,339 | 18,206,741 | 2,047,743,080 | 2,090,737,075 | 17,698,345 | 2,108,435,420 |
| **Net position held in trust - restricted for pension benefits** | $ 2,041,914,130 | $ 18,317,893 | $ 2,060,232,023 | $ 2,103,345,471 | $ 17,805,153 | $ 2,121,150,624 |

*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

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| *Years ended December 31,* | **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 | $ 149,356,565 | $ 1,979,285 | $ 151,335,850 | $ 126,318,005 | $ 2,077,059 | $ 128,395,064 |
| Members | 49,332,262 | 73,880 | 49,406,142 | 32,977,425 | 66,095 | 33,043,520 |
| **Total contributions** | 198,688,827 | 2,053,165 | 200,741,992 | 159,295,430 | 2,143,154 | 161,438,584 |
| **Investment income** | | | | | | |
| Net appreciation in fair value of investments | 5,588,891 | 886,129 | 6,475,020 | 74,836,102 | 535,674 | 75,371,776 |
| Interest and dividends | 44,664,963 | 401,088 | 45,066,051 | 30,923,115 | 261,955 | 31,185,070 |
| Total gross investment income | 50,253,854 | 1,287,217 | 51,541,071 | 105,759,217 | 797,629 | 106,556,846 |
| Less: Investment expense | (8,017,586) | (71,997) | (8,089,583) | (9,024,584) | (76,449) | (9,101,033) |
| **Net investment income** | 42,236,268 | 1,215,220 | 43,451,488 | 96,734,633 | 721,180 | 97,455,813 |
| **Securities lending income** | | | | | | |
| Securities lending income | 309,613 | 2,780 | 312,393 | 185,159 | 1,569 | 186,728 |
| Securities lending expense | (198,695) | (1,784) | (200,479) | (84,612) | (717) | (85,329) |
| **Net securities lending income** | 110,918 | 996 | 111,914 | 100,547 | 852 | 101,399 |
| **Other income** | 475,111 | 4,266 | 479,377 | 2,075,970 | 17,586 | 2,093,556 |
| **Total additions** | 241,511,124 | 3,273,647 | 244,784,771 | 258,206,580 | 2,882,772 | 261,089,352 |
| **Deductions** | | | | | | |
| Benefits paid to members | 294,447,006 | 2,707,773 | 297,154,779 | 292,576,281 | 2,668,579 | 295,244,860 |
| Refunds to members | 2,634,049 | 498 | 2,634,547 | 3,577,530 | - | 3,577,530 |
| Interest expense | - | - | - | 1,279,517 | 10,839 | 1,290,356 |
| Professional and administrative expenses | 5,861,410 | 52,636 | 5,914,046 | 8,089,584 | 68,528 | 8,158,112 |
| **Total deductions** | 302,942,465 | 2,760,907 | 305,703,372 | 305,522,912 | 2,747,946 | 308,270,858 |
| **Net increase/(decrease) in net position** | (61,431,341) | 512,740 | (60,918,601) | (47,316,332) | 134,826 | (47,181,506) |
| **Net position held in trust - restricted for pension benefits** | | | | | | |
| Beginning of period | 2,103,345,471 | 17,805,153 | 2,121,150,624 | 2,150,661,803 | 17,670,327 | 2,168,332,130 |
| End of period | $ 2,041,914,130 | $ 18,317,893 | $ 2,060,232,023 | $ 2,103,345,471 | $ 17,805,153 | $ 2,121,150,624 |

*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, 2018 and 2017, the Combined Pension Plan's membership consisted of:

| | 2018 | 2017 |
|---|---|---|
| Retirees and beneficiaries | 4,849 | 4,706 |
| Beneficiaries, DROP Only | 70 | 50 |
| Non-active vested members not yet receiving benefits | 230 | 226 |
| Non-active non-vested members not yet refunded | 431 | 399 |
| Total non-active members | 5,580 | 5,381 |
| Vested active members | 3,677 | 3,757 |
| Non-vested active members | 1,335 | 1,195 |
| Total active members | 5,012 | 4,952 |

# Dallas Police and Fire Pension System

## Notes to Combining Financial Statements

As of December 31, 2018, and 2017, the Supplemental Plan's membership consisted of:

| | 2018 | 2017 |
|---|---|---|
| Retirees and beneficiaries | 138 | 140 |
| Non-active vested members not yet receiving benefits | 2 | 1 |
| Non-active non-vested members not yet refunded | 1 | - |
| Total non-active members | 141 | 141 |
| Vested active members | 38 | 42 |
| Non-vested active members | 1 | 2 |
| Total active members | 39 | 44 |

No changes to benefit, contribution or administration plan provisions were made to the Combined Pension Plan or the Supplemental Plan in 2018.

The benefit, contribution and administration plan provisions discussed below are as of December 31, 2018 and 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, 2018:

- 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 $^{1}/_{24}{}^{th}$ 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.

# Dallas Police and Fire Pension System

## Notes to Combining Financial Statements

Group B members of the Combined Pension Plan receive one of two benefit structures as of December 31, 2018:

- 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 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, 2018 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, 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 times the number of years of pension service. If needed, additional service time necessary to reach 20 years of service credit will be included with pension service after September 1, 2017. Members who began membership after February 28, 2011 and have not entered DROP 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. 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 $1.01 billion at December 31, 2018 and $1.05 billion at 2017. 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.

# Dallas Police and Fire Pension System

## Notes to Combining Financial Statements

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 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 $4.5 million and $8.1 million at December 31, 2018 and 2017, 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***

Employee contribution rates did not change in 2018.

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. From January 2017 to September 1, 2017, Group B members not in DROP were required to contribute to the Combined Pension Plan 8.5% of Computation Pay and active members in DROP paid contributions at the rate of 4% of Computation Pay.

City contribution rates did not change in 2018.

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 floor amounts were $5.344 and $5.173 million, respectively, for 2018 and 2017. After 2024, the floor amount and the additional $13 million annual amount are eliminated.

# Dallas Police and Fire Pension System

## Notes to Combining Financial Statements

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 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 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 increases 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 require the approval of the legislature.

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 DPFP 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 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, 2018 and 2017 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, 2018 and 2017. 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 99.1% at December 31, 2018 and 99.2% at 2017, 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*

<u>Investment Policy</u>
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. The Governing Statute 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 DPFP's risk tolerance. The following is the Board's adopted asset allocation policy as of December 31, 2018:

| Asset Class | Target Allocation |
|---|---|
| Equity | 55% |
| Global Equity | 40% |
| Emerging Markets Equity | 10% |
| Private Equity | 5% |
| | |
| Safety Reserve and Fixed Income | 35% |
| Cash | 3% |
| Short-term Investment Grade Bonds | 12% |
| Investment Grade Bonds | 4% |
| High Yield Bonds | 4% |
| Bank Loans | 4% |
| Global Bonds | 4% |
| Emerging Market Debt | 4% |
| | |
| Real Assets | 10% |
| Private Real Estate | 5% |
| Private Natural Resources | 5% |

The value and performance of DPFP'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.

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 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 DPFP 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.

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 DPFP, as applicable.

DPFP 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***

DPFP, 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, 2018 and 2017 were converted to the US dollar at the applicable foreign exchange rates quoted as of December 31, 2018 and 2017, 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 Applicable to DPFP***

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 DPFP for the 2017 annual financial statements. The implementation of this new standard did not significantly impact the financial statements.

In 2017, GASB issued Statement No. 86, Certain Debt Extinguishment Issues. The effective date of GASB Statement No. 86 was June 30, 2018 and had no impact on the financial statements.

In 2017, GASB issued 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.

In March 2018, GASB issued Statement No. 88, Certain Disclosures Related To Debt, Including Borrowings and Direct Placements. This Statement requires increased disclosure in notes to financial statements of all state and local governments. The new disclosure requirements are effective for reporting periods beginning after June 15, 2018. It is not anticipated that GASB Statement No. 88 will have an impact on the DPFP financial statements.

# Dallas Police and Fire Pension System

**Notes to Combining Financial Statements**

## 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, 2018 and 2017 is as follows (in thousands):

| | 2018 | 2017 |
|---|---|---|
| **Short-term investments** | | |
| Short-term investment funds | $ 41,317 | $ 24,133 |
| **Fixed income securities** | | |
| US Treasury bonds | 95,236 | 41,686 |
| US government agencies | 8,747 | 871 |
| Corporate bonds | 231,111 | 104,434 |
| Foreign-denominated bonds | 36,359 | 37,209 |
| Commingled funds | 141,465 | 142,115 |
| Municipal bonds | 2,857 | 1,699 |
| **Equity securities** | | |
| Domestic | 265,626 | 223,743 |
| Foreign | 170,309 | 196,092 |
| Commingled funds | - | 50,246 |
| **Real assets** | | |
| Real estate | 470,026 | 532,079 |
| Infrastructure | 57,458 | 61,430 |
| Timberland | 40,699 | 52,171 |
| Farmland | 133,222 | 155,526 |
| **Private equity** | 312,875 | 222,106 |
| **Alternative investments** | - | 144,927 |
| **Forward currency contracts** | (271) | 135 |
| Total | $ 2,007,036 | $ 1,990,602 |

***Custodial Credit Risk***

Deposits
Custodial credit risk is the risk that, in the event of a bank failure, the System's deposits might not be recovered. DPFP does not have a formal deposit policy for custodial credit risk of its deposits.

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 for deposits, if any, is not material.

Investments
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, 2018 and 2017, 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 does not have a formal policy for custodial credit risk of its investments; however, management believes that custodial credit risk exposure is mitigated by the financial strength of the financial institutions in which the 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, 2018 and 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 DPFP's investment policy.

At December 31, 2018, 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 | $ 896 | $ 80,138 | $ 7,560 | $ 6,642 | $ 95,236 |
| US Government Agencies | - | - | 1,138 | 7,609 | 8,747 |
| Corporate bonds | 20,786 | 157,009 | 24,035 | 29,281 | 231,111 |
| Municipal Bonds | - | 2,529 | - | 328 | 2,857 |
| Foreign-denominated bonds | 11,574 | 5,863 | 8,977 | 9,945 | 36,359 |
| Total | $ 33,256 | $ 245,539 | $ 41,710 | $ 53,805 | $ 374,310 |

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 |

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

# Dallas Police and Fire Pension System

## Notes to Combining Financial Statements

futures contracts to hedge currency against the US dollar. DPFP does not have an investment policy 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, 2018 is as follows (in thousands):

| Currency | Fixed Income | Equity | Real Assets | Total |
|---|---|---|---|---|
| Australian Dollar | $ 3,184 | $ 6,225 | $ 7,142 | $ 16,551 |
| Brazilian Real | 2,732 | 367 | 7,074 | 10,173 |
| British Pound Sterling | 4,348 | 25,367 | - | 29,715 |
| Canadian Dollar | - | 2,149 | - | 2,149 |
| Colombian Peso | 1,608 | - | - | 1,608 |
| Danish Krone | - | 3,921 | - | 3,921 |
| Euro | 635 | 62,327 | - | 62,962 |
| Hong Kong Dollar | - | 11,346 | - | 11,346 |
| Indonesian Rupiah | 2,378 | - | - | 2,378 |
| Japanese Yen | - | 33,638 | - | 33,638 |
| Malaysian Ringgit | 4,107 | - | - | 4,107 |
| Mexican Peso | 9,172 | - | - | 9,172 |
| Polish Zloty | 4,803 | - | - | 4,803 |
| Singaporean Dollar | - | 148 | - | 148 |
| South African Rand | 3,392 | - | 24,366 | 27,758 |
| South Korean Won | - | 2,671 | - | 2,671 |
| Swedish Krona | - | 1,782 | - | 1,782 |
| Swiss Franc | - | 20,368 | - | 20,368 |
| Total | $ 36,359 | $ 170,309 | $ 38,582 | $ 245,250 |

The Group Trust's exposure to foreign currency risk in US dollars as of December 31, 2017 was 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 |

In addition to the above exposures, certain fund-structure investments in the private equity, emerging markets debt, private debt and real assets asset classes with a total fair value of $137.0

million and $295.0 million at December 31, 2018 and 2017, respectively, have some level 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. DPFP was party to negotiated derivative contracts in the form of forward foreign exchange contracts as of December 31, 2018 as discussed below. DPFP 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, 2018 and 2017 using the Standard & Poor's rating scale, at fair value, is as follows (in thousands):

December 31, 2018

| Rating | Corporate Bonds | Municipal Bonds | Foreign-Denominated Bonds | Commingled Funds | Short-term Investment Funds (1) | US Government Securities | Total |
|---|---|---|---|---|---|---|---|
| AAA | $ 7,064 | $ - | $ 1,727 | $ - | $ - | $ 95,236 | $ 104,027 |
| AA+ | 657 | - | 675 | - | - | - | 1,332 |
| AA | 1,742 | - | 782 | - | - | - | 2,524 |
| AA- | 7,583 | 1,400 | - | - | - | - | 8,983 |
| A+ | 9,214 | - | - | - | - | - | 9,214 |
| A | 27,347 | - | - | - | - | - | 27,347 |
| A- | 20,914 | - | 17,141 | - | - | - | 38,055 |
| BBB+ | 31,290 | 1,457 | - | - | - | - | 32,747 |
| BBB | 18,956 | - | 1,608 | - | - | - | 20,564 |
| BBB- | 3,917 | - | 5,770 | - | - | - | 9,687 |
| BB+ | 2,223 | - | - | - | - | - | 2,223 |
| BB | 3,873 | - | 2,732 | - | - | - | 6,605 |
| BB- | 8,989 | - | - | - | - | - | 8,989 |
| B+ | 3,628 | - | - | - | - | - | 3,628 |
| B | 2,629 | - | - | - | - | - | 2,629 |
| B- | 10,308 | - | 636 | - | - | - | 10,944 |
| CCC+ | 4,504 | - | - | - | - | - | 4,504 |
| CCC | 2,482 | - | - | - | - | - | 2,482 |
| CCC- | 566 | - | - | - | - | - | 566 |
| CC | 3,770 | - | - | - | - | - | 3,770 |
| C | 3,615 | - | - | - | - | - | 3,615 |
| D | 771 | - | - | - | - | - | 771 |
| NR (2) | 55,069 | - | 5,288 | 141,465 | 41,317 | 8,747 | 251,886 |
| Total | $ 231,111 | $ 2,857 | $ 36,359 | $ 141,465 | $ 41,317 | $ 103,983 | $ 557,092 |

(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, 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.

### *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 2018 or 2017 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 2018 or 2017. Moreover, there were no losses during

2018 or 2017 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 2018 and 2017, 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 fair value for securities on loan for the Group Trust was $38.6 million and $17.9 million at December 31, 2018 and 2017, respectively. Cash collateral held for the Group Trust was $20.6 million and $12.2 million at December 31, 2018 and 2017, respectively. Non-cash collateral held for the Group Trust was $19 million and $6.2 million at December 31, 2018 and 2017, 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 $112 thousand and $101 thousand during 2018 and 2017, respectively.

### *Forward Contracts*

During fiscal years 2018 and 2017, certain investment managers, on behalf of the Group Trust, entered into forward foreign exchange contracts as permitted by guidelines established by the Board. DPFP'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, 2018 and 2017, classified by type, and the changes in fair value of such derivative instruments for the year then ended are as follows (in thousands):

| December 31, 2018 | Change in Fair Value | Fair Value | Notional Value |
|---|---|---|---|
| Currency forwards | $ (406) | $ (271) | $ 66,729 |

| December 31, 2017 | Change in Fair Value | Fair Value | Notional Value |
|---|---|---|---|
| Currency forwards | $ 422 | $ 135 | $ 56,015 |

## 4. Fair Value Measurement

GASB Statement 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, 2018, at fair value (in thousands):

| | Fair Value December 31, 2018 | 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 | $ 41,317 | $ 41,317 | $ - | $ - |
| Fixed income securities | | | | |
| US Treasury bonds | 95,236 | - | 95,236 | - |
| US government agencies | 8,747 | - | 8,747 | - |
| Corporate bonds | 231,111 | - | 231,111 | - |
| Foreign-denominated bonds | 36,359 | - | 36,359 | - |
| Municipal bonds | 2,857 | - | 2,857 | - |
| Equity securities | | | | |
| Domestic | 265,626 | 265,626 | - | - |
| Foreign | 170,309 | 170,309 | - | - |
| Real assets | | | | |
| Real estate | 293,428 | - | - | 293,428 |
| Timberland | 8,722 | - | - | 8,722 |
| Farmland | 133,222 | - | - | 133,222 |
| Private equity | 91,585 | - | - | 91,585 |
| Forward currency contracts | (271) | - | (271) | - |
| Total Investments by Fair Value Level | $ 1,378,248 | $ 477,252 | $ 374,039 | $ 526,957 |
| **Investments Measured at NAV** | | | | |
| Equity – commingled funds | **$** - | | | |
| Fixed income - commingled funds | 141,465 | | | |
| Real assets | 266,033 | | | |
| Private equity | 221,290 | | | |
| Alternative investments | - | | | |
| Total Investments Measured at NAV | **$** 628,788 | | | |
| Total Investments Measured at Fair Value | $ 2,007,036 | | | |

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

# Dallas Police and Fire Pension System

## Notes to Combining Financial Statements

| | 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 | $ 186,344 | $ 602,194 |
| **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 estate investments 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.

Real assets classified as Level 3 are investments in which DPFP 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 asset 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 holdings classified as Level 2 are investments which were sold subsequent to year end for which fair value is based on sales price. Private equity investments classified as Level 3 are investments valued by an independent appraiser. Private equity and real assets valued at NAV are based on per share (or its equivalent) of DPFP's ownership interest in the partners' capital valued by the managers and based on third party appraisals, valuations and audited financials.

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, 2018 (in thousands):

| Asset Category/Class | Fair Value | Unfunded Commitments |
|---|---|---|
| Fixed income – commingled funds | $ 141,465 | $ 1,445 |
| Real assets | 266,033 | 10,158 |
| Private equity | 221,290 | 5,541 |
| Total | $ 628,788 | $ 17,144 |

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 |

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 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.

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, 2018 and 2017 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, 2018 and 2017 are as follows (in thousands):

***Combined Pension Plan***

| | 2018 | 2017 |
|---|---|---|
| Total pension liability | $ 4,501,670 | $ 4,497,347 |
| Less: Plan fiduciary net position | (2,041,914) | (2,103,345) |
| Net pension liability | $ 2,459,756 | $ 2,394,002 |

Plan fiduciary net position as a percentage of the total pension liability at December 31, 2018 and 2017 is 45.4% and 46.8%, respectively.

***Supplemental Plan***

| | 2018 | 2017 |
|---|---|---|
| Total pension liability | $ 31,831 | $ 33,670 |
| Less: Plan fiduciary net position | (18,318) | (17,805) |
| Net pension liability | $ 13,513 | $ 15,865 |

# Dallas Police and Fire Pension System

## Notes to Combining Financial Statements

Plan fiduciary net position as a percentage of the total pension liability at December 31, 2018 and 2017 is 57.6% and 52.9%, respectively.

# Dallas Police and Fire Pension System

## Notes to Combining Financial Statements

***Actuarial Assumptions as of December 31, 2018***

The total pension liability was determined by an actuarial valuation as of January 1, 2019, using the below significant assumptions, applied to all periods included in the measurement, except as noted below. 2018 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, 2018.

| | |
|---|---|
| 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%. Market value asset returns are expected to be 5.25% in 2019, 5.75% in 2020, 6.25% in 2021, 6.75% in 2022 and 7.25% annually thereafter. |
| Discount rate | 7.25%, used to measure the total pension liability |
| 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<br>2018: 5% if less than 10 years; 2% if more than 10 years<br>2019: 10% if less than 10 years; 7% if 10-11 years; 2% if more than 11 years<br>2020 and later: Range of 2% to 5% per year, inclusive of 2.75% inflation assumption, dependent upon years of service.<br>2017-2019 are based on the 2016 Meet and Confer Agreement. 2020 is based on the 2016 Meet and Confer Agreement, as amended in 2018. 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 |

# Dallas Police and Fire Pension System

## Notes to Combining Financial Statements

| | |
|---|---|
| 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, 2050. |
| Actuarial Value of Assets | 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 Methodology | 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. |

# Dallas Police and Fire Pension System

**Notes to Combining Financial Statements**

***Actuarial Assumptions as of December 31, 2017 that differ from above***

| | |
|---|---|
| Projected salary increases | 2017: 10% if less than 10 years; 7% if 10-11 years; 2% if more than 11 years<br>2018: 5% if less than 10 years; 2% if more than 10 years<br>2019: 10% if less than 10 years; 7% if 10-11 years; 2% if more than 11 years<br>2020 and later: Range of 3% to 5.2% per year, inclusive of 2.75% inflation assumption, dependent upon years of service.<br>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. |
| 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. |
| 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%. Market value asset returns are expected to be 4.75% in 2018, 5.00% in 2019, 5.25% in 2020, 6.25% in 2021, and 7.25% annually thereafter. |
| 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. |

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, 2018 are summarized as shown below. The rates of return below are net of the inflation component of 2.75%.

# Dallas Police and Fire Pension System

## Notes to Combining Financial Statements

| Asset Class | Long-Term Expected Real Rate of Return | Target Asset Allocation |
|---|---|---|
| Global Equity | 6.40% | 40% |
| Emerging Markets Equity | 9.47% | 10% |
| Private Equity | 10.00% | 5% |
| Cash | 1.12% | 3% |
| Short-Term Investment Grade Bonds | 1.31% | 12% |
| Investment Grade Bonds | 1.89% | 4% |
| High Yield Bonds | 4.00% | 4% |
| Bank Loans | 3.52% | 4% |
| Global Bonds | 1.69% | 4% |
| Emerging Market Debt | 4.48% | 4% |
| Real Estate | 4.58% | 5% |
| Natural Resources | 7.44% | 5% |

***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 the Governing Statute, 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 13.07% 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 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.

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

# Dallas Police and Fire Pension System

## Notes to Combining Financial Statements

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 (in thousands).

**December 31, 2018**

***Combined Pension Plan***

| | 1% Decrease (6.25%) | Current Discount Rate (7.25%) | 1% Increase (8.25%) |
|---|---|---|---|
| Net pension liability | $ 2,953,141 | $ 2,459,756 | $ 2,046,452 |

***Supplemental Plan***

| | 1% Decrease (6.25%) | Current Discount Rate (7.25%) | 1% Increase (8.25%) |
|---|---|---|---|
| Net pension liability | $ 16,363 | $ 13,513 | $ 11,069 |

**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 |

## 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

# Dallas Police and Fire Pension System

## Notes to Combining Financial Statements

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, 2018:

***Combined Pension Plan***

| | | DROP Balance(000's) | | DROP Participants |
|---|---|---|---|---|
| Balance at December 31, 2017 | $ | 243,122 | Participants at December 31, 2017 | 626 |
| Accumulations | | 26,911 | | |
| Balances Annuitized | | (61,652) | | |
| Other Distributions/Deductions[1] | | (14,450) | | |
| Balance at December 31, 2018 | $ | 193,931 | Participants at December 31, 2018 | 483 |

| | | Annuity Balance(000's) | | Annuity Participants |
|---|---|---|---|---|
| Present Value of Annuities at December 31, 2017 | $ | 809,586 | Annuitants at December 31, 2017 | 1,978 |
| Present Values of Annuities at December 31, 2018[2] | $ | 828,520 | Annuitants at December 31, 2018 | 2,186 |

# Dallas Police and Fire Pension System

## Notes to Combining Financial Statements

***Supplemental Plan***

| | DROP Balance(000's) | | | DROP Participants |
|---|---|---|---|---|
| Balance at December 31, 2017 | $ | 590 | Participants at December 31, 2017 | 7 |
| Accumulations | | 23 | | |
| Balances Annuitized | | (438) | | |
| Other Distributions/Deductions[1] | | - | | |
| Balance at December 31, 2018 | $ | 175 | Participants at December 31, 2018 | 5 |

| | Annuity Balance(000's) | | | Annuity Participants |
|---|---|---|---|---|
| Present Value of Annuities at December 31, 2017 | $ | 7,520 | Annuitants at December 31, 2017 | 55 |
| Present Value of Annuities at December 31, 2018[2] | $ | 4,296 | Annuitants at December 31, 2018 | 57 |

[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. At December 31, 2016, the line of credit was in technical default because the surplus liquidity ratio covenant was not met for the quarter ended September 30, 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.

## 8. Deferred Compensation Plan

DPFP offers its employees a money purchase 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 2018 and 2017, DPFP contributed approximately $275 thousand and $305 thousand, respectively, and participants contributed approximately $149 thousand and $165 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 is included in professional and administrative expenses in the accompanying financial statements for the years ended December 31, 2018 and 2017. 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 (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, 2018 and 2017 are as follows (in thousands):

| Asset Class | Balance December 31, 2016 | Increases | Decreases | Balance December 31, 2017 | Increases | Decreases | Balance December 31, 2018 |
|---|---|---|---|---|---|---|---|
| Land | $ 3,321 | $ 241 | $ - | $ 3,562 | $ | $ | $ 3,562 |
| Building | 8,452 | 659 | 190 | 8,921 | | 190 | 8,731 |
| Building improvements | 268 | - | 36 | 232 | | 36 | 196 |
| Total | $ 12,041 | $ 900 | $ 226 | $ 12,715 | $ | $ 226 | $ 12,489 |

## 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, 2018 and 2017, aggregate contributions from active non-vested members for the Combined Pension Plan were $20.3 million and $11.9 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, for both December 31, 2018 and 2017, were included in accounts payable and other accrued liabilities of the Combined Pension Plan. As of December 31, 2018 and 2017, the aggregate contributions from active non-vested members of the Supplemental Plan were $38 and $36 thousand. One terminated member was eligible for a refund of $54 thousand from the Supplemental Plan as of December 31, 2018. No

# Dallas Police and Fire Pension System

## Notes to Combining Financial Statements

contributions for terminated members were eligible for refunds as of December 31, 2017 in the Supplemental Plan.

At December 31, 2018 the total accumulated DROP balance and the present value of the DROP annuities was $1.01 billion for the Combined Plan and $4.5 million for the Supplemental Plan. The total accumulated DROP balance at December 31, 2017 was $1.05 billion for the Combined Plan and $8.1 million for the Supplemental Plan.

### *Investments*

The following table depicts the total commitments and unfunded commitments to various limited partnerships and investment advisors at December 31, 2018, by asset class (in thousands).

| Asset Class | Total Commitment | Total Unfunded Commitment |
|---|---|---|
| Real assets | $ 117,000 | $ 10,158 |
| Private equity | 126,283 | 5,541 |
| Fixed income – commingled funds | 10,000 | 1,445 |
| Total | $ 253,283 | $ 17,144 |

Capital calls related to private equity and real assets were received after December 31, 2018, which reduced the unfunded commitments to $4.4 and $9.4 million, respectively. A distribution was made subsequent to December 31, 2018 in fixed income, which initially increased the unfunded capital commitment in fixed income to $1.5 million. However, an additional capital call of $740 thousand reduced the unfunded commitment to $770 thousand. See Note 12.

### *Legal*

DPFP was 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 March 8, 2019, the Texas Supreme Court upheld the decisions by the lower courts and on June 14, 2019 denied the plaintiff's motion for rehearing thereby ending the case.

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. On March 14, 2018, the district court granted DPFP's motion to dismiss the case. The plaintiffs appealed this decision to the Fifth Circuit and requested the Fifth Circuit certify certain issues relating to the case to the Texas Supreme Court. On March 20, 2019, the Fifth Circuit certified two questions to the Texas Supreme Court, and oral arguments occurred on September 17, 2019. 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, 2018 and 2017.

In February 2019, certain plaintiffs filed suit against the Texas Pension Review Board and its Chairman in state district court in Travis County alleging that changes to the provisions of the DPFP Plans relating to the benefit supplement and annual adjustment were violative of the Texas Constitution. The case is in its early stages. While DPFP is not a party to the lawsuit, a judgment for the plaintiffs would have a material effect upon DPFP and its financial statement and condition. 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, 2018.

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.

## 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, 2018 and 2017.

## 12. Subsequent Events

### *Investment Policy Statement Amendments*

In October 2018, the Board approved new long-term asset allocation targets. In late 2018, Investment Staff and Meketa completed a comprehensive review of the Investment Policy Statement (IPS) and proposed numerous changes to update for the new long-term asset allocation and implementation plan, incorporate best practices and improve clarity and structure of the policy.

The Board considered these changes at the December 2018 Board meeting, provided input and feedback on the proposed changes and ultimately approved a further revised policy at the January 2019 Board meeting. The IPS was further revised in March 2019 to provide for the requirement that a majority of the outside members be present at any meeting of the Investment Advisory Committee (IAC) and that the Board be advised on how each IAC member voted on any vote for any action reported to the Board by the IAC.

### *Real Asset and Private Equity Sales*

Subsequent to year end and prior to the issuance date of the financials, there were 11 sales of Real Estate or Natural Resource properties that totaled $115.9 million in proceeds to DPFP and one Private Equity distribution of $17.1 million.

### *Capital Calls Resulting in the Reduction of Unfunded Commitments*

Subsequent to December 31, 2018, DPFP received and paid the following material capital calls: Real Assets - $738 thousand, Private Equity - $1.2 million and Fixed Income - $740 thousand.

Management has evaluated subsequent events through November 19, 2019, 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 Five Fiscal Years
### (in thousands)

**Combined Pension Plan**

| For fiscal year ending December 31, | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Total pension liability | | | | | |
| Service cost | $ 44,792 | $ 148,552 | $ 167,432 | $ 125,441 | $ 131,312 |
| Interest | 318,536 | 348,171 | 360,567 | 359,023 | 369,408 |
| Changes of benefit terms | 16,091 | (1,167,597) | - | - | (329,794) |
| Differences between expected and actual experience | (46,555) | (134,665) | (77,463) | 379,461 | (4,453) |
| Changes of assumptions | (31,460) | (2,851,241) | (712,003) | 908,988 | - |
| Benefit payments, including refunds of employee contributions | (297,081) | (296,154) | (825,092) | (285,003) | (245,932) |
| Net change in total pension liability | 4,323 | (3,952,934) | (1,086,559) | 1,487,910 | (79,459) |
| Total pension liability - beginning | 4,497,347 | 8,450,281 | 9,536,840 | 8,048,930 | 8,128,389 |
| Total pension liability - ending (a) | $ 4,501,670 | $ 4,497,347 | $ 8,450,281 | $ 9,536,840 | $ 8,048,930 |
| Plan fiduciary net position | | | | | |
| Employer contributions | $ 149,357 | $ 126,318 | $ 119,345 | $ 114,886 | $ 109,792 |
| Employee contributions | 49,332 | 32,977 | 25,518 | 25,676 | 29,333 |
| Net investment income (loss), net of expenses | 42,822 | 98,911 | 164,791 | (235,207) | (138,893) |
| Benefits payments | (297,081) | (296,154) | (825,092) | (285,003) | (245,932) |
| Interest expense | - | (1,279) | (4,532) | (8,417) | (7,361) |
| Administrative expenses | (5,861) | (8,090) | (9,492) | (6,006) | (8,003) |
| Net change in plan fiduciary net position | (61,431) | (47,317) | (529,462) | (394,071) | (261,064) |
| Plan fiduciary net position - beginning | 2,103,345 | 2,150,662 | 2,680,124 | 3,074,195 | 3,335,259 |
| Plan fiduciary net position - ending (b) | $ 2,041,914 | $ 2,103,345 | $ 2,150,662 | $ 2,680,124 | $ 3,074,195 |
| Net pension liability - ending (a) - (b) | $ 2,459,756 | $ 2,394,002 | $ 6,299,619 | $ 6,856,716 | $ 4,974,735 |
| Plan fiduciary net position as a percentage of total pension liability | 45.4% | 46.8% | 25.5% | 28.1% | 38.2% |
| Covered payroll | $ 363,117 | $ 346,037 | $ 357,414 | $ 365,210 | $ 383,006 |
| Net pension liability as a percentage of covered payroll | 677.4% | 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, | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Total pension liability | | | | | |
| Service cost | $ 222 | $ 111 | $ 70 | $ 36 | $ 28 |
| Interest | 2,359 | 2,799 | 2,911 | 2,953 | 2,969 |
| Changes of benefit terms | 888 | (5,305) | - | - | (526) |
| Differences between expected and actual experience | (2,628) | (1,435) | 1,105 | 928 | 336 |
| Changes of assumptions | 28 | (479) | (916) | (600) | - |
| Benefit payments | (2,708) | (2,668) | (5,912) | (2,640) | (3,414) |
| Net change in total pension liability | (1,839) | (6,977) | (2,742) | 677 | (607) |
| Total pension liability - beginning | 33,670 | 40,647 | 43,389 | 42,712 | 43,319 |
| Total pension liability - ending (a) | $ 31,831 | $ 33,670 | $ 40,647 | $ 43,389 | $ 42,712 |
| Plan fiduciary net position | | | | | |
| Employer contributions | $ 1,979 | $ 2,077 | $ 3,064 | $ 2,443 | $ 1,817 |
| Employee contributions | 74 | 66 | 35 | 43 | 49 |
| Net investment income (loss), net of expenses | 1,220 | 740 | 1,141 | (1,689) | (517) |
| Benefit payments | (2,708) | (2,668) | (5,912) | (2,640) | (3,414) |
| Interest expense | - | (11) | (78) | (44) | (51) |
| Administrative expenses | (52) | (69) | (37) | (61) | (56) |
| Net change in plan fiduciary net position | 513 | 135 | (1,787) | (1,948) | (2,172) |
| Plan fiduciary net position - beginning | 17,805 | 17,670 | 19,457 | 21,405 | 23,577 |
| Plan fiduciary net position - ending (b) | $ 18,318 | $ 17,805 | $ 17,670 | $ 19,457 | $ 21,405 |
| Net pension liability - ending (a) - (b) | $ 13,513 | $ 15,865 | $ 22,977 | $ 23,932 | $ 21,307 |
| Plan fiduciary net position as a percentage of total pension liability | 57.6% | 52.9% | 43.5% | 44.8% | 50.1% |
| Covered payroll | $ 622 | $ 916 | $ 525 | $ 725 | $ 557 |
| Net pension liability as a percentage of covered payroll | 2,173.8% | 1,731.6% | 4,376.2% | 3,303.3% | 3,827.3% |

See Notes below related to this schedule.

**Notes to Schedules:**

**Changes of benefit terms:**

***As of December 31, 2018 - None***

***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

# Dallas Police and Fire Pension System

**Required Supplementary Information (Unaudited)**

- 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
- 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 HB 3158, 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.

**Changes of methods and assumptions:**

***As of December 31, 2018***

# Dallas Police and Fire Pension System

**Required Supplementary Information (Unaudited)**

The salary scale assumption was updated to reflect the 2016 Meet and Confer Agreement, as amended in 2018.

The ad-hoc COLA assumption was updated to begin October 1, 2050 based on the updated projection of the unfunded actuarial accrued liability; last year, the COLA was assumed to begin October 1, 2053.

***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 assumptions 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.

# Dallas Police and Fire Pension System

## Required Supplementary Information (Unaudited)

***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 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 (in thousands)

| Measurement Year Ending December 31, | Actuarially Determined Contribution | Actual Contribution | Contribution Deficiency (Excess) | Covered Payroll | Actual Contribution as a % of Covered Payroll |
|---|---|---|---|---|---|
| 2018 | $ 157,100 | $ 149,357 | $ 7,743 | $ 346,037 | 43.2% |
| 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 were used to calculate the actuarial determined contribution:

***As of December 31, 2018***

| | |
|---|---|
| Actuarial cost method | Entry age normal cost method |
| Amortization method | 30-year level percent of pay |
| Remaining amortization period | 45 years as of January 1, 2018 |
| 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 0.00% to 2.25% |

# Dallas Police and Fire Pension System

**Required Supplementary Information (Unaudited)**

| | |
|---|---|
| Post-retirement benefit | COLA assumed to be a 2.00% COLA beginning October 1, 2053 and Increases payable every October 1 thereafter |
| Retirement age | Experienced-based table of rates, based on age |
| Mortality | Pre-retirement: Sex-distinct RP-2014 Employee Mortality Table, set back two years for males, projected generationally using Scale MP-2015<br><br>Post-retirement: Sex-distinct RP-2014 Blue Collar Healthy Annuitant Mortality Table, set forward two years for females, projected generationally using Scale MP-2015<br><br>Disabled: Sex-distinct RP-2014 Disabled Retiree Mortality Table, set back three years for males and females, projected generationally using Scale MP-2015 |
| DROP balance returns | DROP account balances as of September 1, 2017 for active members are based on the United States Department of Commerce Daily Treasury Yield Curve Rates for durations between 5 and 30 years; interest rate is based on the expected lifetime of the members at the time they retire. Interest is only paid on DROP account balances as of September 1, 2017. |
| DROP election | The DROP utilization factor is 0% for new entrants. |

***As of December 31, 2017 that differed from above***

| | |
|---|---|
| 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 |
| 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. |

# Dallas Police and Fire Pension System

## Required Supplementary Information (Unaudited)

***As of December 31, 2016 that differed from above***

| | |
|---|---|
| Post-retirement benefit increases | 4.00% simple COLA, October 1st |
| DROP balance returns | At October 1, 2015 – 7.0%<br>At October 1, 2016 – 6.0%<br>At October 1, 2017 and thereafter – 5.0% |
| DROP election | Age 50 with 5 years of service. Any active member who satisfies 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)

### Schedule of Employer Contributions – Supplemental Plan
### (in thousands)

| Measurement Year Ending December 31, | Actuarially Determined Contribution | Actual Contribution | Contribution Deficiency (Excess) | Covered Payroll | Actual Contribution as a % of Covered Payroll |
|---|---|---|---|---|---|
| 2018 | $ 2,274 | $ 1,979 | $ 295 | $ 916 | 216.0% |
| 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 were used to calculate the actuarial determined contribution for the Supplemental Plan:

***As of December 31, 2018***

| | |
|---|---|
| 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 0.00% to 2.25% |
| Post-retirement benefit increases | COLA assumed to be a 2.00% COLA beginning October 1, 2053 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 | Pre-retirement: Sex-distinct RP-2014 Employee Mortality Table, set back two years for males, projected generationally using Scale MP-2015<br><br>Post-retirement: Sex-distinct RP-2014 Blue Collar Healthy Annuitant Mortality Table, set forward two years for females, projected generationally using Scale MP-2015<br><br>Disabled: Sex-distinct RP-2014 Disabled Retiree Mortality Table, set back three years for males and females, projected generationally using Scale MP-2015 |
| DROP balance returns | DROP account balances as of September 1, 2017 for active members are based on the United States Department of Commerce Daily Treasury Yield Curve Rates for durations between 5 and 30 years; interest rate is based on the expected lifetime of the members at the time they retire. Interest is only paid on DROP account balances as of September 1, 2017. |
| DROP election | The DROP utilization factor is 0% for new entrants. |

***As of December 31, 2017 that differed from above***

| | |
|---|---|
| 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 |
| 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. |

***As of December 31, 2016 that differed from above***

| | |
|---|---|
| Post-retirement benefit increases | 4.00% simple COLA, October 1st |
| DROP balance returns | At October 1, 2015 – 7.0% |

# Dallas Police and Fire Pension System

**Required Supplementary Information (Unaudited)**

| | |
|---|---|
| | At October 1, 2016 – 6.0%<br>At October 1, 2017 and thereafter – 5.0% |
| DROP election | Age 50 with 5 years of service. Any active member who satisfies 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. |

***As of December 31, 2015 and 2014 that differed from above***

| | |
|---|---|
| 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 |
|---|---|
| 2018 | (1.49%) |
| 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, 2018

| | | |
|---|---|---|
| Administrative expenses: | | |
| Information technology | $ | 388,938 |
| Education | | 24,855 |
| Insurance | | 530,507 |
| Personnel | | 2,990,341 |
| Office equipment | | 125,607 |
| Dues and subscriptions | | 145,612 |
| Board meetings | | 3,468 |
| Office supplies | | 27,651 |
| Utilities | | 56,157 |
| Postage | | 13,362 |
| Printing | | 1,977 |
| Facilities | | 600,120 |
| Other | | 16,120 |
| Total administrative expenses | $ | 4,924,715 |
| Investment expenses: | | |
| Investment management | $ | 6,608,763 |
| Custodial | | 224,891 |
| Valuations and audits | | 704,739 |
| Consulting and reporting | | 405,940 |
| Legal | | 54,840 |
| Tail-end advisory | | 91,588 |
| Tax | | 6,896 |
| Other | | (8,074) |
| Total investment expenses | $ | 8,089,583 |
| Professional services expenses: | | |
| Consulting | $ | 9,177 |
| Actuarial | | 146,021 |
| Auditing | | 152,500 |
| Accounting | | 61,882 |
| Medical review | | 7,030 |
| Legal | | 379,000 |
| Mortality records | | 5,800 |
| Legislative | | 126,500 |
| Other | | 101,421 |
| Total professional services expenses | $ | 989,331 |

**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.*

DALLAS POLICE & FIRE PENSION SYSTEM

# DISCUSSION SHEET

## Supplemental

## ITEM #B2

**Topic:** **2018 Comprehensive Annual Financial Report**

**Discussion:** Staff will present a draft of the 2018 Comprehensive Annual Financial Report.

The report is scheduled to be completed following final approval by the Executive Director, as well as BDO. Upon completion, the report will be posted to the DPFP website and provided to the Pension Review Board and the City of Dallas.

**Staff Recommendation:** **Authorize** the Executive Director to issue the 2018 Comprehensive Annual Financial Report upon finalization.

DALLAS POLICE & FIRE PENSION SYSTEM

# DISCUSSION SHEET

## Supplemental

## ITEM #B3

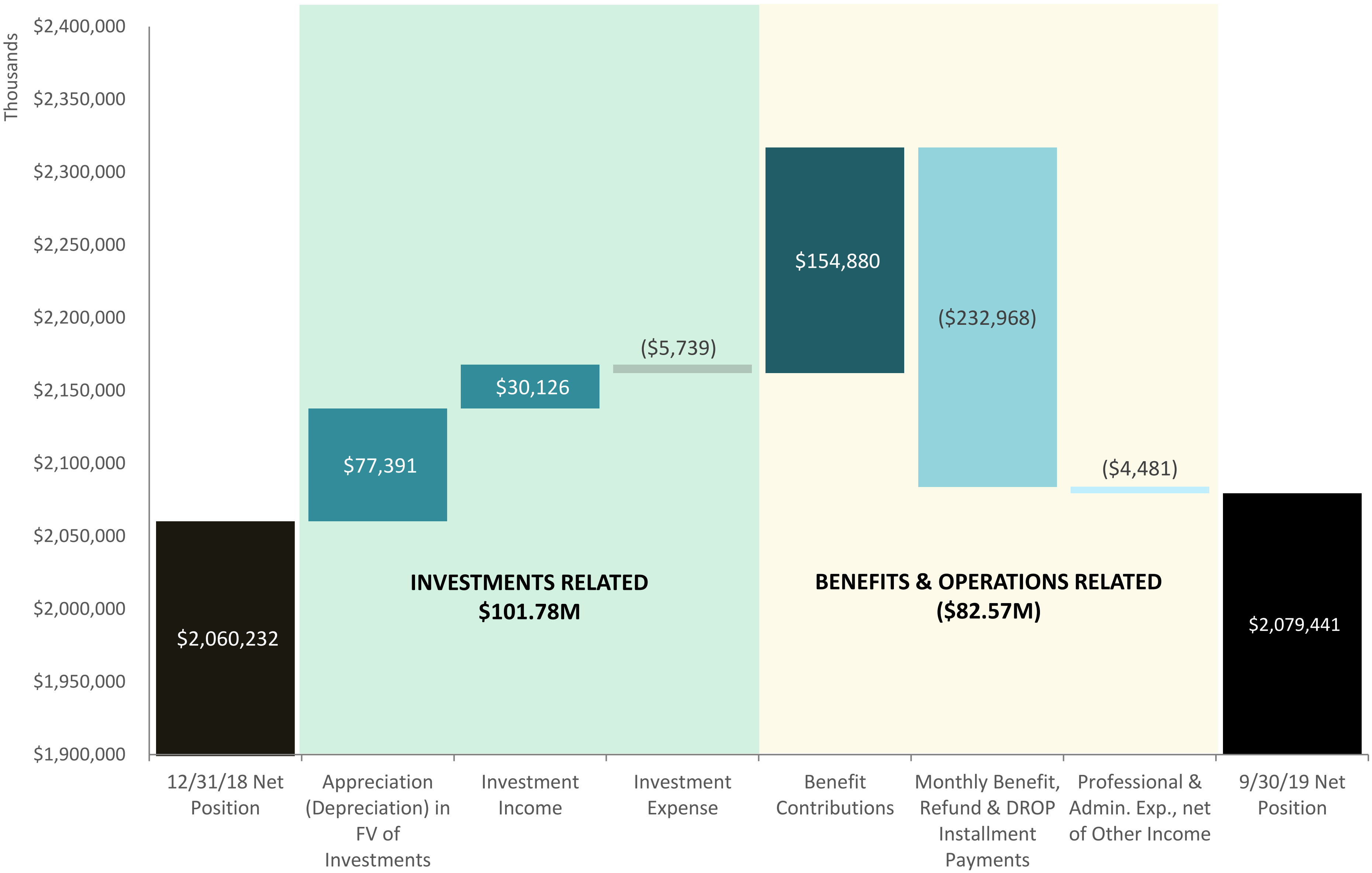
**Topic:** **Quarterly Financial Reports**

**Discussion:** The Chief Financial Officer will present the third quarter 2019 financial statements.

*Supplemental Board Meeting – Tuesday, November 19, 2019*

# Change in Net Fiduciary Position

December 31, 2018 – September 30, 2019



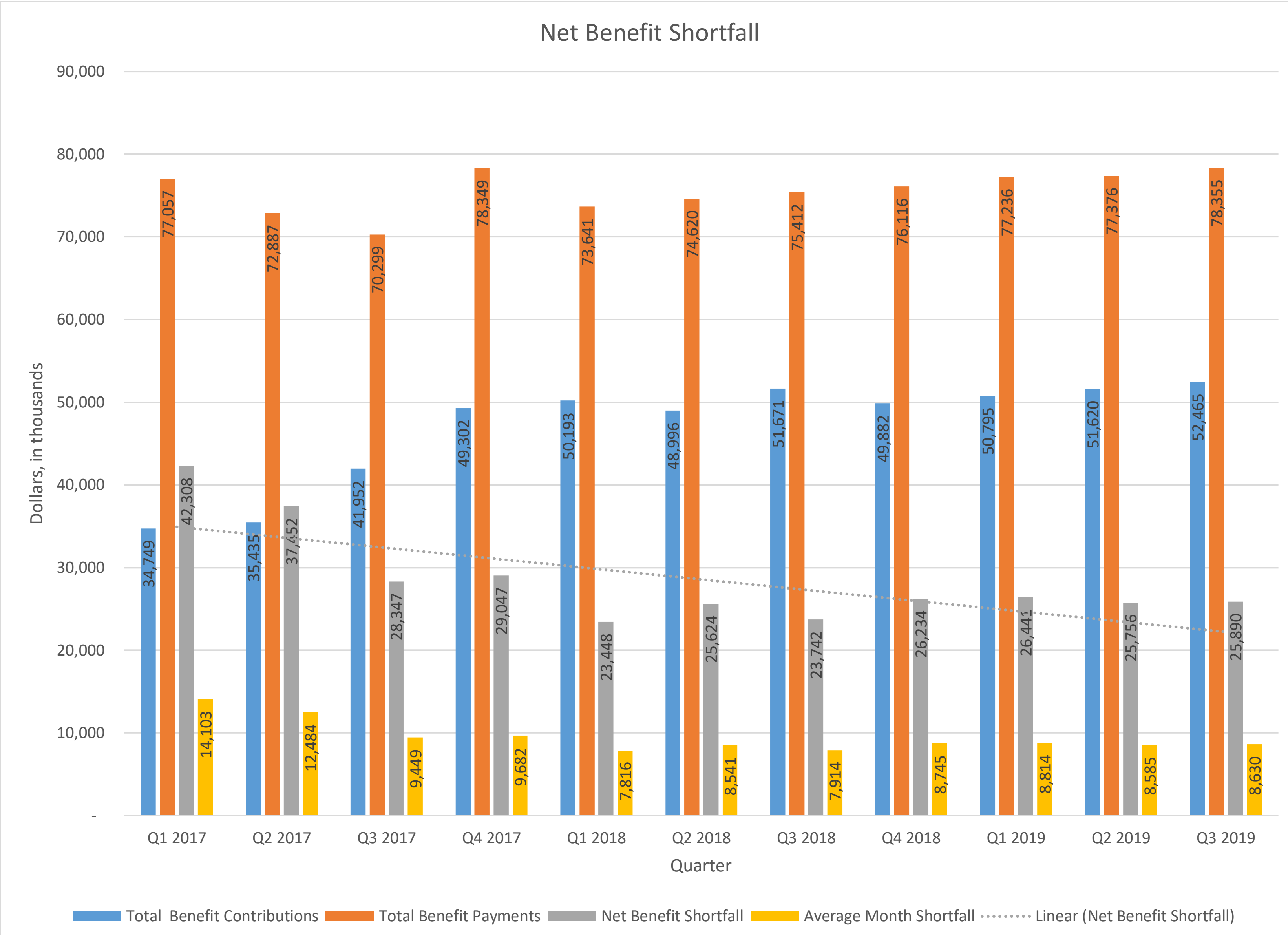

Components may not sum exactly due to rounding.

**DALLAS POLICE & FIRE PENSION SYSTEM**
**Combined Statements of Fiduciary Net Position**

| | September 30, 2019 (unaudited) | December 31, 2018 audited | $ Change | % Change |
|---|---|---|---|---|
| **Assets** | | | | |
| **Investments, at fair value** | | | | |
| Short-term investments | $ 55,626,427 | $ 41,316,915 | $ 14,309,512 | 35% |
| Fixed income securities | 542,463,939 | 515,774,800 | 26,689,139 | 5% |
| Equity securities | 508,774,438 | 435,935,015 | 72,839,423 | 17% |
| Real assets | 576,099,223 | 701,404,876 | (125,305,653) | -18% |
| Private equity | 313,544,433 | 312,874,801 | 669,632 | 0% |
| Alternative investments | - | - | - | 0% |
| Forward currency contracts | (495,237.00) | (270,709) | (224,528) | 83% |
| **Total investments** | 1,996,013,223 | 2,007,035,698 | (11,022,475) | -1% |
| Invested securities lending collateral | 24,510,671 | 20,559,432 | 3,951,239 | 19% |
| **Receivables** | | | | |
| City | 5,637,357 | 2,504,571 | 3,132,786 | 125% |
| Members | 1,882,855 | 803,244 | 1,079,611 | 134% |
| Interest and dividends | 4,841,774 | 4,802,419 | 39,355 | 1% |
| Investment sales proceeds | 51,567,409 | 34,231,149 | 17,336,260 | 51% |
| Other receivables | 216,995 | 292,776 | (75,781) | -26% |
| **Total receivables** | 64,146,390 | 42,634,159 | 21,512,231 | 50% |
| Cash and cash equivalents | 65,103,296 | 50,137,929 | 14,965,367 | 30% |
| Prepaid expenses | 548,653 | 365,515 | 183,138 | 50% |
| Capital assets, net | 12,389,010 | 12,488,943 | (99,933) | -1% |
| **Total assets** | $ 2,162,711,243 | $ 2,133,221,676 | $ 29,489,567 | 1% |
| **Liabilities** | | | | |
| **Payables** | | | | |
| Securities lending obligations | 24,510,671 | 20,559,432 | 3,951,239 | 19% |
| Securities purchased | 55,119,144 | 48,598,173 | 6,520,971 | 13% |
| Accounts payable and other accrued liabilities | 3,640,136 | 3,832,048 | (191,912) | -5% |
| **Total liabilities** | 83,269,951 | 72,989,653 | 10,280,298 | 14% |
| **Net position** | | | | |
| Net investment in capital assets | 12,389,010 | 12,488,943 | (99,933) | -1% |
| Unrestricted | 2,067,052,282 | 2,047,743,080 | 19,309,202 | 1% |
| **Net position held in trust - restricted for position benefits** | $ 2,079,441,292 | $ 2,060,232,023 | $ 19,209,269 | 1% |

**DALLAS POLICE & FIRE PENSION SYSTEM**
**Combined Statements of Changes in Fiduciary Net Position**

| | 9 Months Ended 9/30/2019 (unaudited) | 9 Months Ended 9/30/2018 (unaudited) | Change | Change |
|---|---|---|---|---|
| **Contributions** | | | | |
| City | $ 116,124,677 | $ 113,656,373 | $ 2,468,304 | 2% |
| Members | 38,755,631 | 37,203,175 | 1,552,456 | 4% |
| **Total Contributions** | 154,880,308 | 150,859,548 | 4,020,760 | 3% |
| **Investment income** | | | | |
| Net appreciation (depreciation) in fair value of investments | 77,391,129 | 7,474,805 | 69,916,324 | 935% |
| Interest and dividends | 30,029,029 | 35,843,542 | (5,814,513) | -16% |
| Total gross investment income | 107,420,158 | 43,318,347 | 64,101,811 | 148% |
| less: investment expense | (5,739,070) | (5,910,335) | 171,265 | 3% |
| **Net investment income** | 101,681,088 | 37,408,012 | 64,273,076 | 172% |
| **Securities lending income** | | | | |
| Securities lending income | 738,598 | 218,483 | 520,115 | 238% |
| Securities lending expense | (641,674) | (174,807) | (466,867) | 267% |
| **Net securities lending income** | 96,924 | 43,676 | 53,248 | 122% |
| Other income | 270,866 | 390,934 | (120,068) | -31% |
| **Total additions** | 256,929,186 | 188,702,170 | 68,227,016 | 36% |
| **Deductions** | | | | |
| Benefits paid to members | 231,019,688 | 221,752,256 | 9,267,432 | 4% |
| Refunds to members | 1,948,102 | 1,920,647 | 27,455 | 1% |
| Legal expense | 415,894 | 433,795 | (17,901) | -4% |
| Legal expense reimbursement | (58,584) | - | (58,584) | 0% |
| Legal expense, net of reimbursement | 357,310 | 433,795 | (76,485) | -18% |
| Staff Salaries and Benefits | 2,518,643 | 2,239,659 | 278,984 | 12% |
| Professional and administrative expenses | 1,876,174 | 1,887,171 | (10,997) | -1% |
| **Total deductions** | 237,719,917 | 228,233,528 | 9,486,389 | 4% |
| **Net increase (decrease) in net position** | 19,209,269 | (39,531,358) | | |
| Beginning of period | 2,060,232,023 | 2,121,150,623 | | |
| End of period | $ 2,079,441,292 | $ 2,081,619,265 | | |


Net Benefit Shortfall
Dollars, in thousands
90,000
80,000
70,000
60,000
50,000
40,000
30,000
20,000
10,000
-
Q1 2017
Q2 2017
Q3 2017
Q4 2017
Q1 2018
Q2 2018
Q3 2018
Q4 2018
Q1 2019
Q2 2019
Q3 2019
Quarter
34,749
77,057
42,308
14,103
35,435
72,887
12,484
41,952
70,299
28,347
9,449
49,302
78,349
29,047
9,682
50,193
73,641
23,448
7,816
48,996
74,620
25,624
8,541
51,671
75,412
23,742
7,914
49,882
76,116
26,234
8,745
50,795
77,236
8,814
51,620
77,376
25,756
8,585
52,465
78,355
25,890
8,630
Total Benefit Contributions
Total Benefit Payments
Net Benefit Shortfall
Average Month Shortfall
Linear (Net Benefit Shortfall)

DALLAS POLICE & FIRE PENSION SYSTEM

# DISCUSSION SHEET
## Supplemental

## ITEM #B4

**Topic:** **Second reading and discussion of the 2020 Budget**

**Discussion:** Attached is the budget proposal for Calendar Year 2020.

The budget has been prepared in total for both the Combined Pension Plan and the Supplemental Plan. Total expenses are then allocated to the Supplemental Plan based upon the Group Trust allocation reported by JPMorgan.

Significant changes from the prior year budget and/or projected 2019 actual expenses are explained in the comments accompanying the proposed budget.

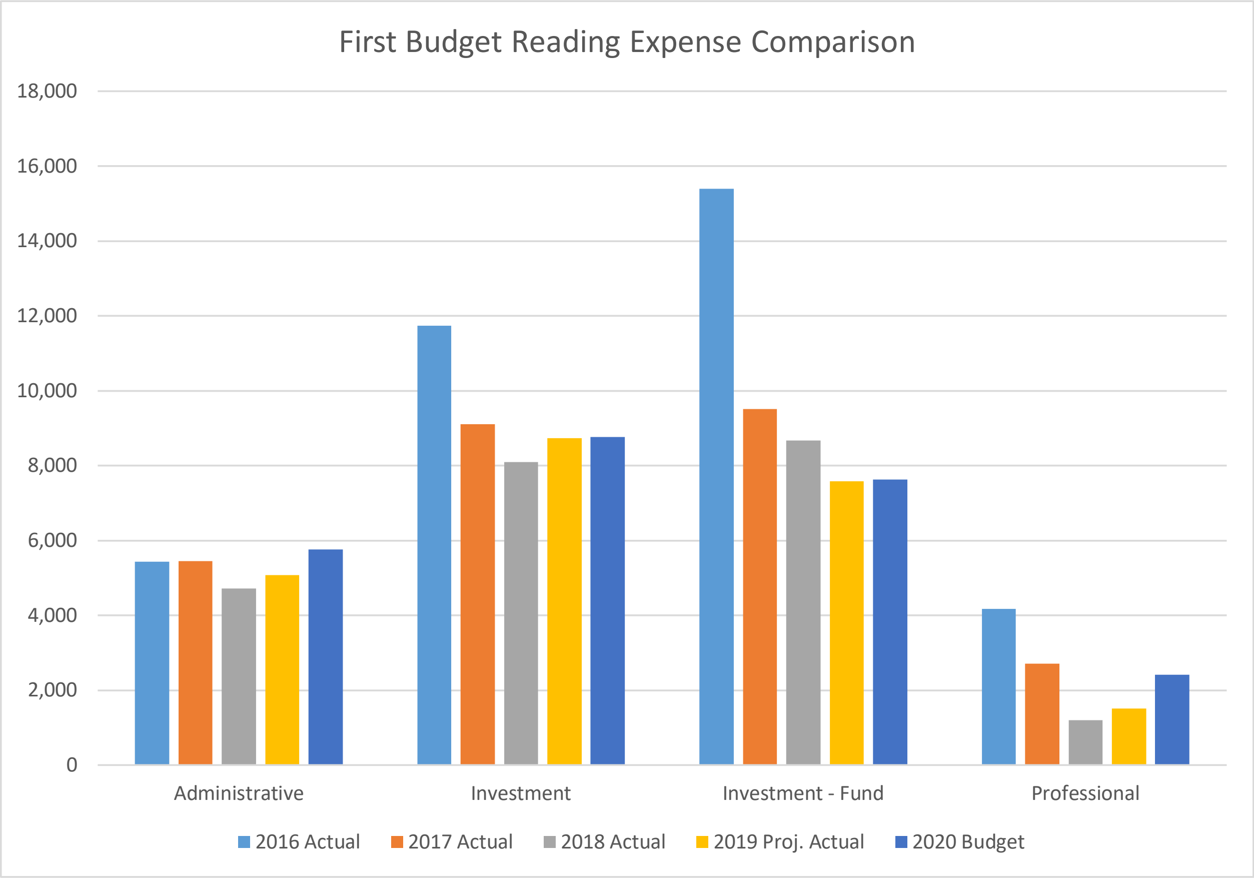
The first reading of the proposed budget was at the October 10, 2019 Board meeting.

The Chief Financial Officer will review any changes to the proposed budget from the first reading.

**Staff Recommendation:** **Direct** staff to reflect any proposed changes and present the amended budget to the Board for consideration at the December 12, 2019 Board meeting. **Authorize** forwarding the 2020 proposed budget to the City of Dallas for comment and the posting of the proposed budget to www.dpfp.org for member review prior to the December meeting.

In thousands

| | 2016 Actual | 2017 Actual | 2018 Actual | 2019 Proj. Actual | 2020 Budget |
|---|---|---|---|---|---|
| **Administrative** | 5,436 | 5,450 | 4,709 | 5,080 | 5,756 |
| **Investment** | 11,739 | 9,101 | 8,090 | 8,739 | 8,765 |
| **Investment - Fund** | 15,394 | 9,516 | 8,670 | 7,582 | 7,621 |
| **Professional** | 4,174 | 2,708 | 1,205 | 1,517 | 2,417 |
| **Total** | 36,743 | 26,775 | 22,674 | 22,918 | 24,559 |



# DALLAS POLICE AND FIRE PENSION SYSTEM
# PROPOSED BUDGET SUMMARY
# FOR THE YEAR 2020
# SECOND READING AT THE NOVEMBER 19, 2019 BOARD MEETING

| | | | | Variances | | Variances | |
|---|---|---|---|---|---|---|---|
| | | | | 2020 Prop. Bud. vs | 2019 Budget | 2020 Prop. Bud. vs | 2019 Proj. Act. |
| **Expense Type** | **2019 Budget** | **2019 Projected Actual** | **2020 Proposed Budget** | **$** | **%** | **$** | **%** |
| Administrative Expenses | 5,814,377 | 5,080,180 | 5,713,266 | (101,111) | (1.7%) | 633,086 | 12.5% |
| Investment Expenses | 16,851,000 | 16,321,090 | 16,285,551 | (565,449) | (3.4%) | (35,539) | (0.2%) |
| Professional Expenses | 2,189,975 | 1,517,027 | 1,581,120 | (608,855) | (27.8%) | 64,093 | 4.2% |
| Total | $ 24,855,352 | $ 22,918,297 | $ 23,579,937 | $ (1,275,415) | (5.1%) | $ 661,640 | 2.9% |

## Dallas Police & Fire Pension System
## Proposed Operating Budget
## Calendar Year 2020

| | Description | 2019 Budget | 2019 Projected Actual* | 2020 Proposed Budget | $ Change 2020 Prop. Bud. vs. 2019 Bud. | % Change 2020 Prop. Bud. vs. 2019 Bud. | $ Change 2020 Prop. Bud. vs. 2019 Proj. Actual | % Change 2020 Prop. Bud. vs. 2019 Proj. Actual |
|---|---|---|---|---|---|---|---|---|
| **Administrative Expenses** | | | | | | | | |
| **1** | Salaries and benefits | 3,831,889 | 3,407,653 | 3,653,766 | (178,123) | (4.6%) | 246,113 | 7.2% |
| **2** | Employment Expense | 52,275 | 1,734 | 15,000 | (37,275) | (71.3%) | 13,266 | 765.1% |
| **3** | Memberships and dues | 19,182 | 20,663 | 19,706 | 524 | 2.7% | (957) | (4.6%) |
| **4** | Staff meetings | 1,000 | 123 | 1,000 | - | 0.0% | 877 | 713.0% |
| **5** | Employee service recognition | 5,000 | 2,436 | 5,000 | - | 0.0% | 2,564 | 105.3% |
| **6** | Member educational programs | 2,500 | 1,500 | 2,750 | 250 | 10.0% | 1,250 | 83.3% |
| **7** | Board meetings | 7,600 | 4,872 | 6,420 | (1,180) | (15.5%) | 1,548 | 31.8% |
| **8** | Conference registration/materials - Board | 14,900 | 2,565 | 11,650 | (3,250) | (21.8%) | 9,085 | 354.2% |
| **9** | Travel - Board | 32,620 | 3,993 | 21,500 | (11,120) | (34.1%) | 17,507 | 438.4% |
| **10** | Conference/training registration/materials - Staff | 37,500 | 5,207 | 34,800 | (2,700) | (7.2%) | 29,593 | 568.3% |
| **11** | Travel - Staff | 37,500 | 15,689 | 44,500 | 7,000 | 18.7% | 28,811 | 183.6% |
| **12** | Liability insurance | 604,553 | 515,940 | 640,571 | 36,018 | 6.0% | 124,631 | 24.2% |
| **13** | Communications (phone/internet) | 55,600 | 68,243 | 56,300 | 700 | 1.3% | (11,943) | (17.5%) |
| **14** | Information technology projects | 70,000 | 82,397 | 140,000 | 70,000 | 100.0% | 57,603 | 69.9% |
| **15** | IT subscriptions/services/licenses | 147,840 | 125,623 | 143,500 | (4,340) | (2.9%) | 17,877 | 14.2% |
| **16** | IT software/hardware | 17,000 | 14,978 | 19,500 | 2,500 | 14.7% | 4,522 | 30.2% |
| **17** | Building expenses | 365,339 | 400,688 | 405,467 | 40,128 | 11.0% | 4,779 | 1.2% |
| **18** | Repairs and maintenance | 108,249 | 92,360 | 97,414 | (10,835) | (10.0%) | 5,054 | 5.5% |
| **19** | Office supplies | 33,100 | 23,768 | 29,350 | (3,750) | (11.3%) | 5,582 | 23.5% |
| **20** | Leased equipment | 23,900 | 22,914 | 24,000 | 100 | 0.4% | 1,086 | 4.7% |
| **21** | Postage | 27,000 | 25,628 | 28,200 | 1,200 | 4.4% | 2,572 | 10.0% |
| **22** | Printing | 5,110 | 1,761 | 14,000 | 8,890 | 174.0% | 12,239 | 695.0% |
| **23** | Subscriptions | 2,140 | 698 | 2,125 | (15) | (0.7%) | 1,427 | 204.4% |
| **24** | Records storage | 1,320 | 1,392 | 1,400 | 80 | 6.1% | 8 | 0.6% |
| **25** | Administrative contingency reserve | 12,000 | 519 | 12,000 | - | 0.0% | 11,481 | 2212.1% |
| **26** | Depreciation Expense | 248,260 | 233,603 | 240,947 | (7,313) | (2.9%) | 7,344 | 3.1% |
| **27** | Bank fees | 3,000 | 3,233 | 3,400 | 400 | 13.3% | 167 | 5.2% |
| **Investment Expenses** | | | | | | | | |
| **28** | Investment management fees | 14,490,000 | 14,729,000 | 14,178,000 | (312,000) | (2.2%) | (551,000) | (3.7%) |
| **29** | Investment consultant and reporting | 430,000 | 327,605 | 365,000 | (65,000) | (15.1%) | 37,395 | 11.4% |
| **30** | Bank custodian services | 237,000 | 221,343 | 222,000 | (15,000) | (6.3%) | 657 | 0.3% |
| **31** | Other portfolio operating expenses (legal, valuation, tax) | 1,694,000 | 1,043,142 | 1,520,551 | (173,449) | (10.2%) | 477,409 | 45.8% |
| **32** | Investment due diligence | 48,000 | - | 39,000 | (9,000) | (18.8%) | 39,000 | 100.0% |
| **Professional Services Expenses** | | | | | | | | |
| **33** | Actuarial services | 120,000 | 182,924 | 240,000 | 120,000 | 100.0% | 57,076 | 31.2% |
| **34** | Accounting services | 59,000 | 59,000 | 60,770 | 1,770 | 3.0% | 1,770 | 3.0% |
| **35** | Independent audit | 180,000 | 165,000 | 165,000 | (15,000) | (8.3%) | - | 0.0% |
| **36** | Legal fees | 1,300,000 | 619,295 | 550,000 | (750,000) | (57.7%) | (69,295) | (11.2%) |

## Dallas Police & Fire Pension System
## Proposed Operating Budget
## Calendar Year 2020

| | Description | 2019 Budget | 2019 Projected Actual* | 2020 Proposed Budget | $ Change 2020 Prop. Bud. vs. 2019 Bud. | % Change 2020 Prop. Bud. vs. 2019 Bud. | $ Change 2020 Prop. Bud. vs. 2019 Proj. Actual | % Change 2020 Prop. Bud. vs. 2019 Proj. Actual |
|---|---|---|---|---|---|---|---|---|
| **37** | Legislative consultants | 159,000 | 157,210 | 126,000 | (33,000) | (20.8%) | (31,210) | (19.9%) |
| **38** | Public relations | - | - | - | - | 100.0% | - | 100.0% |
| **39** | Pension administration software & WMS | 273,000 | 264,977 | 283,000 | 10,000 | 3.7% | 18,023 | 6.8% |
| **40** | Business continuity | 15,500 | 17,909 | 26,600 | 11,100 | 71.6% | 8,691 | 48.5% |
| **41** | Network security review | 15,000 | 17,018 | 10,000 | (5,000) | (33.3%) | (7,018) | (41.2%) |
| **42** | Network security monitoring | - | - | 75,000 | 75,000 | 100.0% | 75,000 | 100.0% |
| **43** | Disability medical evaluations | 29,000 | 2,500 | 9,500 | (19,500) | (67.2%) | 7,000 | 280.0% |
| **44** | Elections | 15,000 | 16,452 | 15,000 | - | 0.0% | (1,452) | (8.8%) |
| **45** | Miscellaneous professional services | 24,475 | 14,742 | 20,250 | (4,225) | (17.3%) | 5,508 | 37.4% |
| | **Total Budget** | 24,855,352 | 22,918,297 | 23,579,937 | (1,275,415) | (5.1%) | 661,640 | 2.9% |
| | Less: Investment management fees | 14,490,000 | 14,729,000 | 14,178,000 | (312,000) | (2.2%) | (551,000) | (3.7%) |
| | **Adjusted Budget Total** | 10,365,352 | 8,189,297 | 9,401,937 | (963,415) | (9.3%) | 1,212,640 | 14.8% |

**SUPPLEMENTAL BUDGET**

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Total Budget ( from above)** | 24,855,352 | 22,918,297 | 23,579,937 | (1,275,415) | (5.1%) | 661,640 | 2.9% |
| | Less: Allocation to Supplemental Plan Budget* | 193,872 | 201,681 | 207,503 | 13,631 | 7.0% | 5,822 | 2.9% |
| | **Total Combined Pension Plan Budget** | **24,661,480** | **22,716,616** | **23,372,434** | **(1,289,046)** | **(5.2%)** | **655,818** | **2.9%** |

** Projected based on preliminary 8/31/19 YTD annualized*

*** Allocation to Supplemental is based on JPM allocation between accounts as of 8/31/19 of .0088%*

**0.88%** per JPM Unitization report as of 8/31/19

## Significant Budget Changes - 2020
## Budget Changes (>5% and $10K)
## SORTED BY THE $ CHANGE FROM 2019 BUDGET TO 2020 PROPOSED BUDGET

| | Item | 2019 Budget | 2019 Projected Actual** | 2020 Proposed Budget | $ Change 2020 Prop. Bud. vs. 2019 Bud. | % Change 2020 Prop. Bud. vs. 2019 Bud. | $ Change 2020 Prop. Bud. vs. 2019 Proj. Act. | % Change 2020 Prop. Bud. vs. 2019 Proj. Act. | Explanation |
|---|---|---|---|---|---|---|---|---|---|
| | **INCREASES:** | | | | | | | | |
| 1 | Actuarial services | 120,000 | 182,924 | 240,000 | 120,000 | 100.0% | 57,076 | 31.2% | Increase primarily related to the 5 year experience study to be completed in 2020 ($70k) along with supplemental and specialized work. |
| 2 | Network security monitoring | - | - | 75,000 | 75,000 | 100.0% | 75,000 | 100.0% | New service to detect, analyze and respond to security events 24x7x365 using advanced security events filtration, de-duplication and correlation technologies. Cost will decrease to $50k beginning in the second year. |
| 3 | Information technology projects | 70,000 | 82,397 | 140,000 | 70,000 | 100.0% | 57,603 | 69.9% | Four projects planned for the year including firewall and phone system replacement and domain upgrade. All projects under the $50k capitalization level. |
| 4 | Building expenses | 365,339 | 400,688 | 405,467 | 40,128 | 11.0% | 4,779 | 1.2% | Increased property taxes for the 3rd and 4th floor expected in 2020. HVAC and leasing expenses not budgeted in 2019, approx. $30k. |
| 5 | Liability insurance | 604,553 | 515,940 | 640,571 | 36,018 | 6.0% | 124,631 | 24.2% | Initial renewal inquiries point to an increase in premiums on all policies. The 2019 actual projection vs. 2020 proposed budget variance is related to a one time change in the premium year resulting in only 11 months of expense in 2019. Additionally, 2019 premiums were lower than initially quoted renewals. |
| 6 | Business continuity | 15,500 | 17,909 | 26,600 | 11,100 | 71.6% | 8,691 | 48.5% | Includes new item of server replication replacing VMware subscription service - $9,600. |
| | **REDUCTIONS:** | | | | | | | | |
| 7 | Legal fees | 1,300,000 | 619,295 | 550,000 | (750,000) | (57.7%) | (69,295) | (11.2%) | Significant decrease in budget from 2019. Continued expenses from the Degan and Actuary cases along with new potential case filings in 2020. |
| 8 | Other portfolio operating expenses (legal, valuation, tax) | 1,694,000 | 1,043,142 | 1,520,551 | (173,449) | (10.2%) | 477,409 | 45.8% | Some tail end expenses forecast in 2019 were not incurred. 2020 expense forecast increased over actual as more tail end services are expected during the year. |
| 9 | Investment consultant and reporting | 430,000 | 327,605 | 365,000 | (65,000) | (15.1%) | 37,395 | 11.4% | HB322 legislature requires an independent investment review in 2020. The initial quote for this review in $30k. |
| 10 | Employment Expense | 52,275 | 1,734 | 15,000 | (37,275) | (71.3%) | 13,266 | 765.1% | Expenses reduced in 2019 because only one position was filled. Only one position forecast for 2020. |
| 11 | Legislative consultants | 159,000 | 157,210 | 126,000 | (33,000) | (20.8%) | (31,210) | (19.9%) | Legislature not planned to be in session 2020. Cost is lower when legislature is not in session. |
| 12 | Disability medical evaluations | 29,000 | 2,500 | 9,500 | (19,500) | (67.2%) | 7,000 | 280.0% | 2019 forecast was for 7 new disabilities, 2 special needs children and 3 recalls. One new disability evaluation so far for 2019. Three disability and one child evaluation forecast for 2020. |
| 13 | Bank custodian services | 237,000 | 221,343 | 222,000 | (15,000) | (6.3%) | 657 | 0.3% | Fewer investment accounts than projected for JPM to manage in 2019 resulted in reduced fees. No significant change for 2020. |
| 14 | Independent audit | 180,000 | 165,000 | 165,000 | (15,000) | (8.3%) | - | 0.0% | Reduced 2020 forecast as cirrent budget has been sufficient to cover the audit, and reviews for appraisals and tail end funds. |
| 15 | Travel - Board | 32,620 | 3,993 | 21,500 | (11,120) | (34.1%) | 17,507 | 438.4% | Less board travel than expected in 2019. Expected travel in 2020 is projected to be less than in prior years. |
| 16 | Repairs and maintenance | 108,249 | 92,360 | 97,414 | (10,835) | (10.0%) | 5,054 | 5.5% | Less equipment (Phone, AV, printers, etc.) repairs than forecast in 2019. Slight Increase in 2020 forecast over 2019 projected expenses as more building repairs are expected. |

*** Projected based on 8/31/19 Prelim YTD annualized*

## Significant Budget Changes - 2020
## Budget Changes (>5% and $10K)
## SORTED BY THE $ CHANGE FROM 2019 PROJECTED ACTUAL TO 2020 PROPOSED BUDGET

| | Item | 2019 Budget | 2019 Projected Actual** | 2020 Proposed Budget | $ Change 2020 Prop. Bud. vs. 2019 Bud. | % Change 2020 Prop. Bud. vs. 2019 Bud. | $ Change 2020 Prop. Bud. vs. 2019 Proj. Act. | % Change 2020 Prop. Bud. vs. 2019 Proj. Act. | Explanation |
|---|---|---|---|---|---|---|---|---|---|
| | **INCREASES:** | | | | | | | | |
| 1 | Other portfolio operating expenses (legal, valuation, tax) | 1,694,000 | 1,043,142 | 1,520,551 | (173,449) | (10.2%) | 477,409 | 45.8% | Some tail end expenses forecast in 2019 were not incurred. 2020 expense forecast increased over actual as more tail end services are expected during the year. |
| 2 | Salaries and benefits | 3,831,889 | 3,407,653 | 3,653,766 | (178,123) | (4.6%) | 246,113 | 7.2% | Four positions forecasted for 2019 were not filled. One position is being forecasted for 2020 along with the 2019 position addition for a full year. |
| 3 | Liability insurance | 604,553 | 515,940 | 640,571 | 36,018 | 6.0% | 124,631 | 24.2% | Initial renewal inquiries point to an increase in premiums on all policies. The 2019 actual projection vs. 2020 proposed budget variance is related to a one time change in the premium year resulting in only 11 months of expense in 2019. Additionally, 2019 premiums were lower than initially quoted renewals. |
| 4 | Network security monitoring | - | - | 75,000 | 75,000 | 100.0% | 75,000 | 100.0% | New service to detect, analyze and respond to security events 24x7x365 using advanced security events filtration, de-duplication and correlation technologies. Cost will decrease to $50k beginning in the second year. |
| 5 | Information technology projects | 70,000 | 82,397 | 140,000 | 70,000 | 100.0% | 57,603 | 69.9% | Four projects planned for the year including firewall and phone system replacement and domain upgrade. All projects under the $50k capitalization level. |
| 6 | Actuarial services | 120,000 | 182,924 | 240,000 | 120,000 | 100.0% | 57,076 | 31.2% | Increase primarily related to the 5 year experience study to be completed in 2020 ($70k) along with supplemental and specialized work. |
| 7 | Investment due diligence | 48,000 | - | 39,000 | (9,000) | (18.8%) | 39,000 | 100.0% | Forecast for software Evestment and due diligence travel. |
| 8 | Investment consultant and reporting | 430,000 | 327,605 | 365,000 | (65,000) | (15.1%) | 37,395 | 11.4% | SB322 legislature requires an independent investment review in 2020. The initial quote for this review in $30k. |
| 9 | Conference/training registration/materia | 37,500 | 5,207 | 34,800 | (2,700) | (7.2%) | 29,593 | 568.3% | Returning to a more normal staff training schedule in 2020 along with some additional cross training planned. |
| 10 | Travel - Staff | 37,500 | 15,689 | 44,500 | 7,000 | 18.7% | 28,811 | 183.6% | Returning to a more normal staff training schedule in 2020 which will require some travel. Additionally, some planned cross training will require some travel. |
| 11 | Pension administration software & WM | 273,000 | 264,977 | 283,000 | 10,000 | 3.7% | 18,023 | 6.8% | Increased maintenance cost for Pension Gold and Web Member Services portal. |
| 12 | IT subscriptions/services/licenses | 147,840 | 125,623 | 143,500 | (4,340) | (2.9%) | 17,877 | 14.2% | YOY budget down slightly. Network security monitoring initiative will require some additional software - $15K. Desktop outsourcing and other subscriptions less than forecast in 2019. |
| 13 | Travel - Board | 32,620 | 3,993 | 21,500 | (11,120) | (34.1%) | 17,507 | 438.4% | Less board travel than expected in 2019. Expected travel in 2020 is projected to be less than in prior years. |
| 14 | Employment Expense | 52,275 | 1,734 | 15,000 | (37,275) | (71.3%) | 13,266 | 765.1% | Expenses reduced in 2019 because only one position was filled. Only one position forecast for 2020. |
| 15 | Printing | 5,110 | 1,761 | 14,000 | 8,890 | 174.0% | 12,239 | 695.0% | Approximately 2,500 updated member handbooks are forecast for printing in 2020. |
| 16 | Administrative contingency reserve | 12,000 | 519 | 12,000 | - | 0.0% | 11,481 | 2212.1% | Contingency reserve. |
| | **REDUCTIONS:** | | | | | | | | |
| 17 | Legal fees | 1,300,000 | 619,295 | 550,000 | (750,000) | (57.7%) | (69,295) | (11.2%) | Significant decrease in budget from 2019. Continued expenses from the Degan and Actuary cases along with new potential case filings in 2020. |
| 18 | Legislative consultants | 159,000 | 157,210 | 126,000 | (33,000) | (20.8%) | (31,210) | (19.9%) | Legislature not planned to be in session 2020. Cost is lower when legislature is not in session. |
| 19 | Communications (phone/internet) | 55,600 | 68,243 | 56,300 | 700 | 1.3% | (11,943) | (17.5%) | LD contract expired in 2019 which resulted in increased costs. New contract signed and 2020 costs are expected to be lower. |

*** Projected based on 8/31/19 Prelim YTD annualized*

In thousands

| | 2016 Actual | 2017 Actual | 2018 Actual | 2019 Proj. Actual | 2020 Budget |
|---|---|---|---|---|---|
| **Administrative** | 5,436 | 5,450 | 4,709 | 5,080 | 5,713 |
| **Investment** | 11,739 | 9,101 | 8,090 | 8,739 | 8,665 |
| **Investment - Fund** | 15,394 | 9,516 | 8,670 | 7,582 | 7,621 |
| **Professional** | 4,174 | 2,708 | 1,205 | 1,517 | 1,581 |
| **Total** | 36,743 | 26,775 | 22,674 | 22,918 | 23,580 |