

**EMPLOYEES' RETIREMENT PLAN OF THE CITY OF
FORT WORTH, TEXAS**

FINANCIAL REPORT

SEPTEMBER 30, 2007

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**WEAVER
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TIDWELL**

L.L.P.

CERTIFIED PUBLIC
ACCOUNTANTS
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Employee's Retirement Plan of the
City of Fort Worth, Texas

We have audited the accompanying statement of net assets available for benefits of the Employees' Retirement Plan of the City of Fort Worth, Texas (the "Plan") as of September 30, 2007, and the related statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Plan as of September 30, 2006 were audited by other auditors whose report dated May 30, 2008 expressed an unqualified opinion on those statements.

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

In our opinion, the 2007 financial statements referred to above present fairly, in all material respects, the Plan net assets available at September 30, 2007, and the changes in Plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 3 to the financial statements, the 2007 financial statements include securities valued at approximately \$537 million (approximately 27.6% of the value of the Plan's net assets available for benefits at September 30, 2007) whose values have been estimated by the trustee in the absence of readily ascertainable market values. We have reviewed the procedures used by the Plan's management in arriving at its estimate of the value of such investments

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To the Board of Directors of the
Employee's Retirement Fund of the
City of Fort Worth, Texas

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and have inspected underlying documentation and, in the circumstances, we believe the procedures are reasonable and the documentation appropriate. However, because of the inherent uncertainty of the valuation, the estimated values may differ significantly from the values that would have been used had a ready market for the securities existed, and the differences could be material.

Management's Discussion and Analysis and the Schedule of Funding Progress and the Schedule of Employer Contributions are not required parts of the financial statements but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Plan's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and we do not express an opinion on it.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Fort Worth, Texas
January 20, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Our discussion and analysis of The Employees' Retirement Plan of the City of Fort Worth, Texas' (the Plan) financial statements provides an overview and analysis of the financial activities of the Plan for the years ended September 30, 2007 and 2006.

FINANCIAL HIGHLIGHTS

- The Plan's total assets available for benefits were \$1,943,603,425 compared to \$1,712,340,514 as of September 30, 2006.
- The Plan's total investment income in 2007 was \$262,158,971, an increase of \$76,389,397 from 2006 to 2007 compared to an increase of \$20,872,763 from 2005 to 2006.
- The Plan's total net assets increased by \$231,262,911 in 2007 compared to an increase of \$158,117,917 in 2006.
- The Plan's employer contributions were \$37,446,707 in 2007 compared to \$37,067,263 in 2006. Employee contributions, net of refunded contributions, were \$25,856,492 for 2007 compared to \$23,530,108 for 2006. The increase of only \$379,444 in employer contributions is the result of a one time settlement between the Plan and the employer during 2006, in the amount of \$2,800,000. Without this settlement, contributions would have increased in line with increased payroll.
- Benefit payments and administrative expenses increased by \$6,289,269 in 2007 compared to an increase of \$6,597,387 in 2006. This increase is the result of increased lump sum distributions and additions to the benefit payroll occurring at higher benefit levels than those leaving the benefit payroll.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the Plan's basic financial statements. The Plan's financial statements are composed of financial statements and notes to the financial statements.

Financial statements. The financial statements are designed to provide readers with an overview of the Plan's finances.

The statements of plan net assets present information on all of the Plan's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Plan is improving or deteriorating.

The statements of changes in plan net assets present information showing how the Plan's net assets changed during the most recent calendar year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows except for benefit payments.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

FINANCIAL ANALYSIS

The Plan's assets include investments reported at fair value as of September 30, 2007 and 2006. These assets are held in trust for pension benefits.

The Plan's net assets increased by \$231,262,911 in 2007 compared to an increase of \$158,117,917 in 2006. The net appreciation in fair value of assets for 2007 totaled \$206,397,061 compared to \$147,264,713 for 2006. The slightly higher appreciation was the result of the Plan's investment return for 2007 (14.9%) compared to 2006 (12.3%). Net assets continued to grow as a result of continued strong earnings. These returns were in line with capital market returns over the same period. The Plan's investments are broadly diversified over multiple assets classes. The broad U.S. equity index, the Russell 3000, posted returns of 16.5% for 2007 and 10.2% for 2006. The international equity index, MSCI EAFE, was up 25.4%. The fixed income indices were up for the one year period ending September 30, 2007. The Lehman Brothers U.S. Aggregate Index was up 5.1%, the Merrill Lynch High Yield Index was up 7.7%, and the JP Morgan EMBI Global Index was up 7.19%. The table below shows a summary of plan net assets.

During fiscal year 2007 the Plan made no significant changes to its asset allocation and investment managers. The Plan saw increased assets in its private equity investment. The Plan committed to this asset class during 2006 and expects assets to increase until allocation target is reached.

Table 1
Net Assets Available for Plan Benefits
Year Ended September 30

	2007	2006	2005
Assets	\$ 1,980,890,986	\$ 1,778,640,748	\$ 1,695,651,183
Liabilities	37,287,561	66,300,234	141,428,586
Net Assets available for benefits	1,943,603,425	1,712,340,514	1,554,222,597

Table 2
Changes in Net Assets Available for Benefits
Year Ended September 30

	2007	2006	2005
Contributions	\$ 66,788,409	\$ 63,743,543	\$ 56,790,474
Investment income	262,158,971	185,769,574	206,642,037
Benefit payments	92,213,517	86,337,914	80,244,618
Refund of Contributions	3,485,210	3,146,172	3,133,794
Administrative expenses	1,985,742	1,911,114	1,407,023
Change in Net Assets	231,262,911	158,117,917	178,647,076

Economic Factors. There have been significant economic and investment related occurrences during 2008. As of November 30, 2008 all equity broad market indices are down for the year. Domestic equity indices S&P 500 and the Russell 3000 are down approximately 38%, while the international equity index MSCI EAFE is down 47%. The fixed income indices are mixed, with the domestic Lehman Brothers US Aggregate Index up 1.7% for the year while the Merrill Lynch High Yield Index is down 31% and the JP Morgan EMBI Global Index is down 17%. As of the end of November 2008, the Plan's calendar year investment performance was down 31%.

Requests for information: This financial report is designed to provide a general overview of the Plan's finances. Questions concerning any of the information provided should be addressed to the Employees' Retirement Plan of the City of Fort Worth, 4100 International Plaza, Suite 730, Fort Worth, TX 76109.

**EMPLOYEES' RETIREMENT FUND OF
THE CITY OF FORT WORTH, TEXAS
STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS
SEPTEMBER 30, 2007 AND 2006**

	2007	2006
ASSETS		
Cash	\$ 189,832	\$ 165,770
Receivables		
Employer contributions	2,147,802	3,115,166
Employee contributions	1,116,915	1,007,424
Interest and dividends	11,783,660	8,061,592
Due from brokers for securities sold	19,680,942	39,642,364
Total receivables	34,919,151	51,992,316
Investments—at fair value (Note 4)		
Short-term investment funds	80,023,679	44,483,000
U.S. government agencies	73,140,083	80,144,582
Corporate and other bonds	142,976,517	154,045,233
Corporate stocks	1,113,092,447	937,183,440
Comingled funds	334,596,597	350,410,823
Alternative investments	202,142,512	160,381,354
Total investments	1,945,971,835	1,726,648,432
TOTAL ASSETS	1,980,890,986	1,778,640,748
LIABILITIES		
Due to brokers for securities purchased	37,108,631	66,082,662
Other	178,930	217,572
Total liabilities	37,287,561	66,300,234
NET ASSETS AVAILABLE FOR BENEFITS	\$ 1,943,603,425	\$ 1,712,340,514

The Notes to Financial Statements are an integral part of these statements.

**EMPLOYEES' RETIREMENT PLAN OF
THE CITY OF FORT WORTH, TEXAS
STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
YEARS ENDED SEPTEMBER 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
ADDITIONS		
Contributions		
Employer contributions	\$ 37,446,707	\$ 37,067,263
Employee contributions	29,341,702	26,676,280
	<hr/>	<hr/>
Total contributions	66,788,409	63,743,543
Investment income		
Net appreciation in fair value of investments	206,397,061	147,264,713
Interest and dividend income	68,864,836	49,317,829
Less investment and management fees	(10,055,253)	(9,084,834)
Less interest expense	(3,047,673)	(1,728,134)
	<hr/>	<hr/>
Total investment income	262,158,971	185,769,574
NET ADDITIONS	328,947,380	249,513,117
DEDUCTIONS		
Benefit payments		
Retirement	74,905,953	69,743,005
Disability	5,221,822	5,148,738
Surviving spouse	11,939,488	11,305,246
Children	146,254	140,925
	<hr/>	<hr/>
Total benefit payments	92,213,517	86,337,914
Refund of contributions	3,485,210	3,146,172
Administrative expenses	1,985,742	1,911,114
	<hr/>	<hr/>
Total deductions	97,684,469	91,395,200
NET INCREASE IN NET ASSETS AVAILABLE FOR BENEFITS	231,262,911	158,117,917
NET ASSETS AVAILABLE FOR BENEFITS		
Beginning of year	1,712,340,514	1,554,222,597
	<hr/>	<hr/>
NET ASSETS AVAILABLE FOR BENEFITS		
End of year	<u>\$ 1,943,603,425</u>	<u>\$ 1,712,340,514</u>

The Notes to Financial Statements are an integral part of these statements.

**EMPLOYEES' RETIREMENT FUND OF
THE CITY OF FORT WORTH, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1. PLAN DESCRIPTION

The following description of the Employees' Retirement Plan of the City of Fort Worth, Texas (the "Plan"), is provided for general information purposes only. Participants (or members) should refer to the Summary Plan Description for more information.

General

The Plan is a single-employer, defined benefit, public employee retirement system plan established and administered by the City of Fort Worth, Texas (the "City"), to provide pension benefits for full-time employees. The City has received a favorable letter of determination from the Internal Revenue Service ("IRS") that the Plan is qualified under Section 401(a) of the Internal Revenue Code. The authority to define or amend employer and employee contribution rates or benefits is given to the Fort Worth City Council (the "City Council"). The Plan is considered part of the City's financial reporting entity and is included in the City's basic financial statements as a pension trust fund. The City's payroll for employees covered by the Plan for the years ended September 30, 2007 and 2006, was approximately \$341 million and \$312 million, respectively, and total payroll was approximately \$359 million and \$331 million, respectively.

Effective June 15, 2007 article 6243i, a new state law governing the Plan changed the structure of the Board and how benefits could be changed by the Plan sponsor. Article 6243i also permitted the Board to create administrative rules that govern the Plan. The administrative rules govern the administration and benefits of the plan. The Board may change the administrative operation of the Plan without the City's approval, while any increases to the benefit structure must be approved by the City, following an actuarial assessment. A reduction in benefits must be proposed by the City, and the City must notify the Board 90 days in advance of such benefit reduction.

During 2006 the Plan moved its actuarial valuation from a fiscal year end to calendar year end to more closely match how the membership's benefits are calculated. As of January 1, 2007 (date of most recent actuarial valuation) and October 1, 2005, the Plan's membership consisted of the following members:

	January 1, 2007	October 1, 2005
	<u> </u>	<u> </u>
Retirees currently receiving benefits	2,341	2,275
Beneficiaries currently receiving benefits	818	808
Terminated employees entitled to benefits but not yet receiving them	199	172
	<u>3,358</u>	<u>3,255</u>
Current employees		
Vested	4,003	3,904
Nonvested	1,904	1,875
	<u>5,907</u>	<u>5,779</u>

**EMPLOYEES' RETIREMENT FUND OF
THE CITY OF FORT WORTH, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1. PLAN DESCRIPTION – CONTINUED

Vesting

Members vest in the Plan after five years of credited service. Vested members are eligible for normal retirement on the last day of the month in which the earlier of the following occurs: the member's age plus years of credited service equals 80 ("Rule of 80"), or the member reaches age 65. Vested members may elect early retirement at age 50 at a reduced pension. The City has adopted a 25-year-and-out program for police officers, which allows for full retirement after 25 years of service, regardless of age. Members terminating employment prior to vesting are entitled to receive their contributions plus interest (currently 5.25% annually). Members who are vested have the option of receiving their contributions plus interest or leaving their contributions in the fund and receiving retirement benefits as described above.

Pension Benefits

A member's annual pension at normal or subsequent retirement date equals 3% of compensation base multiplied by total credited years of service with the City. A member's normal retirement date is determined using the Rule of 80. Police officers who retire after completing 25 years of service receive 3% of compensation base multiplied by total credited years of service with the City. For early retirements or vested terminations, the benefit formula is 2.75% of compensation base multiplied by total years of credited service with the City; however, vested terminations who wait to receive benefits until what would have been their normal retirement date receive a 3% multiplier. Beginning April 1, 1999, compensation base is computed as the employee's highest three calendar years of average annual compensation. Prior to April 1, 1999, compensation base was computed using the employee's highest five calendar years of average annual compensation. Any terminated vested member will have his or her benefits calculated using the method in effect at the time of his or her termination. Members who elect early retirement shall have their benefits reduced by 5/12% for each month that early retirement precedes normal retirement.

During 2007 the City of Fort Worth passed a new ad-hoc Cost of Living Adjustment (COLA) program effective January 1, 2008. All non-vested members as of December 31, 2007 are enrolled in the ad-hoc COLA program. All vested members and retired members were given the opportunity to select if they wanted to change their current guaranteed 2% COLA to participate in the ad-hoc COLA. Members that did not make a selection were treated as if they chose the current 2% COLA. Members that selected the ad-hoc COLA and non-vested members will have their COLAs determined based upon the funding status of the Plan based upon the previous years actuarial valuation. These COLAs are compounded based on the benefit received the previous calendar year and could be 0%, 2%, 3% or 4%.

**EMPLOYEES' RETIREMENT FUND OF
THE CITY OF FORT WORTH, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1. PLAN DESCRIPTION – CONTINUED

Pension Benefits – Continued

If a member continues to work after the normal retirement date, the member is required to make contributions to the Plan until the date of actual retirement. Members continue to accrue credited service until they retire.

In September 2007 the Board voted to allow members that have entered the Deferred Retirement Option Program (DROP) to leave a part or all of their DROP balance with the Plan. Members that elect this option are credited the same earnings as the Plan on a monthly basis, and are subject to losses if the Plan incurs negative earnings on Plan assets.

If any member terminates employment with the City prior to vesting, the member shall be entitled to receive the amount of his or her contributions plus interest at 5.25% compounded annually. If a member terminates employment after vesting, the member shall be entitled to receive full pension benefits at normal retirement or a reduced benefit as early as age 50. Any vested terminating member may elect to receive a refund of contributions, plus interest, in lieu of retirement benefits either at date of termination or at any time thereafter prior to commencement of retirement benefits, but by doing so shall forfeit all rights under the Plan and thereafter be entitled to no further benefits.

Death and Disability Benefits

Upon the death of a retired member, the surviving spouse shall receive a monthly pension equal to 75% of the amount being paid to the retired member. If a vested member dies before retirement, the surviving spouse shall receive a monthly pension equal to 75% of the member's accrued pension, subject to certain minimum benefits. Active employees who become totally disabled while in the line of duty receive annual disability benefits that are equal to normal retirement benefits that would have accrued had the member worked to the normal retirement date. Vested members who become totally disabled while not in the line of duty receive disability benefits that are equal to retirement benefits that have accumulated as of the time they become disabled. Nonvested members who become totally disabled receive a refund of contributions, plus interest.

**EMPLOYEES' RETIREMENT FUND OF
THE CITY OF FORT WORTH, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1. PLAN DESCRIPTION – CONTINUED

Obligation to Contribute to the Plan

The City shall contribute to the Plan an amount equal to 10.74% (11.46% for sworn police officers) of the salaries of members. The City Council, through its budget appropriation, has the right to contribute an additional amount over and above the members' contributions, in accordance with state law, plus the cost of administration of the Plan. No additional contributions were made during 2007 or 2006. During the 2006 fiscal year the City and the Plan settled a dispute arising over the contributions necessary for employees that received temporary income benefits. The settlement agreed to, calls for the City to contribute an additional \$2,800,000 to the Plan over a two-year period. The entire amount of the agreement was included as contributions from the City during the 2006 plan year. Employees of the City, as a condition of employment, commencing on the effective date of their membership in the Plan, shall contribute 8.25% (8.73% for sworn police officers) of their salary to the Plan until the date of their actual retirement or earlier termination of employment.

NOTE 2. FUNDING STATUS

The Plan's actuary conducts an annual valuation to determine the adequacy of the current employer contribution rates, to describe the current financial condition of the Plan, and to analyze changes in the Plan's condition. The January 1, 2007, valuation shows that the unfunded accrued actuarial liability of the Plan decreased by less than a million dollars from the valuation prepared as of October 1, 2005.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies followed by the Plan:

Basis of Accounting

The Plan's financial statements are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as additions in the period in which employee services are performed. Benefits are recognized when paid.

**EMPLOYEES' RETIREMENT FUND OF
THE CITY OF FORT WORTH, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Valuation of Investments

Investments are stated at fair value. Short-term investments are reported at cost, which approximates fair value. Quoted market prices are used to value investments. Investments that do not have quoted market prices are priced by management of the Plan from information received from the external manager. This information includes audited financial statements, quarterly valuation statements, and adjustments for cash receipts, cash disbursements and securities distributions through September 30, 2007. Purchases and sales of investments are recorded on a trade-date basis.

The Plan's investment in limited partnerships are valued at estimated fair value based on the Plan's proportionate share of the partnerships' fair value as recorded in the partnerships' audited financial statements. The limited partnerships allocate gains, losses and expenses to the partners based on the ownership percentage as described in the partnership agreements.

Total fair value of investments without readily determinable fair values was approximately \$537,000,000 and \$511,000,000 at September 30, 2007 and 2006, respectively. Considerable judgment is required to develop the estimated fair value and factors used can be expected to change over time. Accordingly it is possible the fair value of such investments may subsequently be adjusted and the adjustments may be material to the Plan. Because of the inherent uncertainty of valuations, estimated values may differ significantly from the values that would have been used had a ready market for the investments existed.

There are certain market risks, credit risks, foreign exchange currency risks, or events that may subject the Plan's investment portfolio to economic changes occurring in certain industries, sectors, or geographies.

Net investment income includes net appreciation (depreciation) in the fair value of investments, interest income, dividend income, securities lending income, and investment expense. Investment expense includes custodian and management fees, securities lending expense and all other significant investment-related costs.

Interest and Dividends Receivable and Due to/From Broker

Interest income is recorded on an accrual basis. Dividends are recorded on the ex-dividend date. Recording activity in such a manner results in interest and dividends receivable. The balance due to broker securities purchased and due from broker securities sold in 2007 and 2006 represents trades pending settlement and amounts due to foreign currency contracts.

**EMPLOYEES' RETIREMENT FUND OF
THE CITY OF FORT WORTH, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Foreign Currency Transactions

The Plan is a party to financial instruments with off-balance-sheet risk, primarily forward contracts. Forward transactions are contracts or agreements for delayed delivery of commodities, securities, or money market instruments in which the seller agrees to make delivery at a specified future date of a specified commodity or instrument, at a specified price or yield. Entering into these investments 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. Notional, face, or contract amounts often are used to express the volume of these transactions, but the amounts potentially subject to credit risk are smaller.

Gains and losses resulting from foreign exchange contracts (transactions denominated in a currency other than the Plan's functional currency—U.S. dollars) are recorded by the Plan based on changes in market values and are combined with similar transactions in the accompanying statements of changes in net assets available for benefits and are included in net investment income. The Plan structures its foreign exchange contracts and enters into certain transactions to substantially mitigate the Plan's exposure to fluctuations in foreign exchange rates.

Investments and broker accounts denominated in foreign currencies outstanding at September 30, 2007 and 2006, were converted to the Plan's functional currency (U.S. dollar) at the foreign exchange rates quoted at September 30, 2007 and 2006. These foreign exchange gains and losses are included in net appreciation in fair value of investments in the accompanying statements of changes in net assets available for benefits

Use of Estimates

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

Expenses

Prior to the Board passing administrative rules that govern the Plan in September 2007, personnel expenses necessary for the administration of the Plan were initially paid by the City of Fort Worth General Fund. By Plan ordinance dated November 1984, the Plan was obligated to reimburse the General Fund for these general and administrative expenses. The amounts reimbursed for the years ended September 30, 2007 and 2006, were approximately \$650,000 and \$589,000, respectively, and are reflected in administrative expenses in the accompanying financial statements. From September 2007 forward the staff of the Plan is responsible for providing or contracting with vendors to provide all administrative functions necessary for operation of the Plan.

**EMPLOYEES' RETIREMENT FUND OF
THE CITY OF FORT WORTH, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Reclassifications

Certain reclassifications have been made to the 2006 financial statements to conform to the presentation of the 2007 financial statements. The reclassifications had no effect on the previously reported net increase in net assets available for benefits.

NOTE 4. INVESTMENTS

Substantially all of the Plan's investments are held by its trustee/custodian. The Retirement Fund Board of Directors authorizes various portfolio managers to manage investments within certain policies as set forth by the Board. These policies mandate a diversified portfolio, which includes investments, either directly or in commingled accounts, in real estate, fixed income securities, and equity securities.

Governmental Accounting Standards Board Statement No. 40 *Deposit and Investment Risk Disclosures – an amendment to GASB Statement No. 3* (GASB 40), addresses common deposit and investment risks including custodial credit risk, credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Required disclosures related to these risks are presented below:

Custodial Credit Risk

Custodial credit risk is the risk that in the event of failure of the counterparty, the Plan would not be able to recover the value of its investments. The Plan does not have a formal policy for custodial credit risk. As of September 30, 2007 all investments are registered in the name of the Employees' Retirement Fund of the City of Fort Worth or in the name of the Plan's custodian established through a master trust custodial agreement, with the exception of investments in Alternative Investments and Commingled Funds.

Credit Risk of Debt Securities

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Plan's investment policy requires that fixed income securities have a weighted average of no less than Investment Grade, as rated by Moody's or Standard & Poor's (S&P). However, the policy does provide for high yield fixed income managers to invest in securities with S&P ratings between BB+ and CCC. The policy limits 25 % of a manager's portfolio to be rated CCC or lower. Unrated securities should be limited to no more than 20% of a manager's portfolio.

GASB 40 does not require disclosure of U.S. government obligations explicitly guaranteed.

**EMPLOYEES' RETIREMENT FUND OF
THE CITY OF FORT WORTH, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 4. INVESTMENTS – CONTINUED

Below are the Plan's investments as of September 30, 2007

<u>Investment Type</u>	<u>S&P Rating</u>	<u>2007 Fair Value</u>	<u>2006 Fair Value</u>
Asset & Mortgage Backed Obligations	AAA	\$ 2,239,295	\$ 7,790,624
Asset & Mortgage Backed Obligations	NR	<u>343,414</u>	<u> </u>
Total Asset & Mortgage Backed Obl.		2,582,709	7,790,624
Commercial Paper	AA	798,647	10,938,661
Commercial Paper	NR	<u>1,799,808</u>	<u>10,081,823</u>
Total Commercial Paper		2,598,455	21,020,484
Corporate Obligations	AA	1,513,636	2,194,110
Corporate Obligations	AA-		4,303,654
Corporate Obligations	A+		4,502,096
Corporate Obligations	A	2,873,817	2,119,112
Corporate Obligations	BBB	1,823,460	
Corporate Obligations	BBB-		510,075
Corporate Obligations	BB+		505,000
Corporate Obligations	BB	11,016,709	9,317,930
Corporate Obligations	BB-		666,191
Corporate Obligations	B+		9,813,803
Corporate Obligations	B	44,621,302	23,253,755
Corporate Obligations	B-		32,406,103
Corporate Obligations	CCC+		8,015,555
Corporate Obligations	CCC	33,761,357	14,007,182
Corporate Obligations	CCC-		12,369,428
Corporate Obligations	D	3,450	
Corporate Obligations	NR	<u>42,181,622</u>	<u>17,037,317</u>
Total Corporate Obligations		<u>137,795,353</u>	<u>141,021,311</u>

**EMPLOYEES' RETIREMENT FUND OF
THE CITY OF FORT WORTH, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 4. INVESTMENTS – CONTINUED

Below are the Plan's investments as of September 30, 2007 – Continued

<u>Investment Type</u>	<u>S&P Rating</u>	<u>2007 Fair Value</u>	<u>2006 Fair Value</u>
Government Agency Obligations	AAA	65,955,193	75,416,550
Government Agency Obligations	AA	300,186	305,250
Government Agency Obligations	BBB	102,776	1,169,818
Total Government Obligations		<u>66,358,155</u>	<u>76,891,618</u>
International Obligations	NR	486,885	5,233,298
Total International Obligations		<u>486,885</u>	<u>5,233,298</u>
Total Fixed Income Subject to Credit Risk		<u>209,821,557</u>	<u>251,957,335</u>
US Treasuries (No Credit Risk)		6,295,043	3,252,964
Short Term Mutual Fund Investments		80,023,679	23,462,516
Corporate Stock		1,113,092,447	937,183,440
Alternative Investments		202,142,512	160,381,354
Commingled Funds		334,596,597	350,410,823
Total Investments		<u>\$ 1,945,971,835</u>	<u>\$ 1,726,648,432</u>

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Plan's investment policy addresses concentration limits on a manager basis. As of September 30, 2007 the Plan had two investments with investment managers, ERF Hedge Fund (\$176 million) and Ashmore

**EMPLOYEES' RETIREMENT FUND OF
THE CITY OF FORT WORTH, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 4. INVESTMENTS – CONTINUED

Concentration of Credit Risk – Continued

Group (\$115 million), where the underlying assets were not registered in the Plans name that totaled more than 5% of assets of the Plan.

<u>Investment Type</u>	<u>Less Than 1 Year</u>	<u>1-5 Years</u>	<u>6-10 Years</u>	<u>More Than 10 Years</u>	<u>Total Fair Value</u>
Asset & Mortgage	\$ 312,968	\$ 400,031	\$ 30,446	\$ 1,839,264	\$ 2,582,709
Commercial Paper	999,736	1,598,719			2,598,455
Corporate Obligations	297,359	71,951,937	57,229,200	8,316,857	137,795,353
Government Obligations		2,707,296	1,303,708	2,284,039	6,295,043
Government Agency Obligations	6,028,075	193,988	2,362,309	57,773,782	66,358,155
International Obligations		199,206	287,679		486,885
Total Interest Rate Risk Debt Securities	<u>\$ 7,638,138</u>	<u>\$ 77,051,177</u>	<u>\$ 61,213,342</u>	<u>\$ 70,213,942</u>	<u>\$ 216,116,600</u>

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Plan does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

**EMPLOYEES' RETIREMENT FUND OF
THE CITY OF FORT WORTH, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 4. INVESTMENTS – CONTINUED

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The Plan's exposure to foreign currency risk at September 30, 2007 is presented below.

<u>Currency</u>	<u>Debt</u>	<u>Equity</u>	<u>Total</u>
Australian Dollar	\$ -	\$ 7,287,888	\$ 7,287,888
Brazilian Real	-	1,769,235	1,769,235
British Pound Sterling	1,015,766	78,963,923	79,979,689
Canadian Dollar	771	19,998,352	19,999,123
Danish Krone	-	8,193,864	8,193,864
Euro Currency Unit	177,555	123,906,976	124,084,531
Hong Kong Dollar	-	23,450,364	23,450,364
Japanese Yen	-	55,824,740	55,824,740
Mexican New Peso	532	1,520,064	1,520,596
New Zealand Dollar	13,623	-	13,623
Norwegian Krone	-	1,765,579	1,765,579
South Korean Won	-	2,998,658	2,998,658
Swedish Krona	-	6,178,212	6,178,212
Swiss Franc	-	55,590,285	55,590,285
Total securities subject to foreign currency risk	<u>\$ 1,208,247</u>	<u>\$ 387,448,140</u>	<u>\$ 388,656,387</u>

NOTE 5. SECURITIES LENDING

The Plan is authorized to contractually lend securities to borrowers in accordance with policy established by the Board of Trustees. The Plan previously entered into a contract with Mellon Bank N.A. and is currently contracted with Northern Trust to establish, manage and administer a securities lending program. Mellon Bank and Northern Trust facilitates lending the Plan's domestic and international equity and fixed income securities in return for collateral consisting of cash, U.S. government securities, irrevocable letters of credit issued by banks independent of the borrower. At a loan's inception, the value of collateral equal to 102% for securities of United States issuers, and 105% in the case of securities of non-United States issuers, of the market value of any securities to be loaned, plus any accrued interest.

**EMPLOYEES' RETIREMENT FUND OF
THE CITY OF FORT WORTH, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 5. SECURITIES LENDING – CONTINUED

Cash collateral is to be invested in government securities, bank and corporate notes, bank certificates of deposit, time deposits, bankers' acceptances, repurchase agreements, commercial paper and asset backed securities. The contracts with Mellon Bank and Northern Trust specify guidelines for allowable investments, maturities, and diversification. The Plan does not have the ability to pledge or sell collateral securities without borrower default. The amount of collateral held exceeds the value of the assets on loan.

The Plan earns income from fees paid by the borrowers and interest earned from investing the cash collateral. The contract requires the custodian bank to purchase any loaned securities with collateral provided, however, if the collateral is insufficient to cover the loss, the Plan is liable for the loss. As of September 30, 2007 and 2006 the value of the collateral held was \$290,521,957 and \$156,976,172, respectively, and the value of securities out on loan at September 30, 2007 and 2006 was \$282,556,158 and \$150,334,259, respectively. The Plan earned \$943,586 and \$917,611 on its securities lending activity for the fiscal year ended September 30, 2007 and 2006, respectively.

NOTE 6. FOREIGN CURRENCY EXCHANGE TRANSACTIONS

To manage the foreign currency exchange risks associated with foreign investments, the Plan enters into forward currency contracts. The Plan had net foreign currency contracts with fair value of approximately \$1.9 million and \$21.4 million at September 30, 2007 and 2006, respectively, which contractually obligates the Plan to deliver currencies at a specified date. The Plan could be exposed to risk of loss if the counterparty is unable to meet the terms of a contract or if the value of currency changes unfavorably. At September 30, 2007 and 2006, the fair value of these contracts is included in other investments of the Plan.

NOTE 7. TAX STATUS

The City obtained its latest determination letter on December 20, 1990, in which the IRS stated that the Plan, as then designed, was in compliance with the applicable requirements of the Internal Revenue Code (the "Code"). The Plan has been amended since receiving the determination letter to comply with changes in the law. Management believes that the Plan is currently designed and being operated in compliance with the applicable requirements of the Code.

**EMPLOYEES' RETIREMENT FUND OF
THE CITY OF FORT WORTH, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 8. PLAN TERMINATION

While the City has not expressed any intent to discontinue its contributions, it may terminate the Plan at any time. In the event the City terminated the Plan, Article 16, Section 66, of the Texas Constitution would require the City to pay benefits to all members currently receiving benefits and to pay benefits to all vested members upon retirement. Any assets left in the Plan would be allocated among non-vested participants.

NOTE 9. SUBSEQUENT EVENTS

Beginning with the first payroll of fiscal year 2008, occurring on October 19, 2007, the City increased contributions for all members of the plan by 5%. The City shall contribute to the Plan an amount equal to 15.74% (16.46% for sworn police officers) of the salaries of members. The increased contributions to the Plan were made to improve the actuarial funding status of the Plan.

During 2008 the Plan made several changes to the structure of its investment portfolio. The Board voted to change its asset allocation and along with that change made several changes to the Plan's investments. The Plan changed its investment in domestic Real Estate Investment Trusts (REIT) to a global REIT structure. The Plan reduced its investment in dollar denominated global debt while beginning an investment in local currency denominated global debt; this was done with the same investment manager. The Plan also began two new equity investments the first dedicated solely to energy related companies and the second being dedicated to water related companies. In the fixed income space the Plan invested with two global fixed income managers and made its first investment to a dedicated mortgage and asset backed investment manager.

Also during 2008 the Plan moved its hedge fund investments from a custom fund of funds structure to a direct investment structure. This move was facilitated by hiring a new hedge fund only investment consultant.

There have been significant economic and investment related occurrences during 2008. As of November 30, 2008 all equity broad market indices are down for the year. Domestic equity indices S&P 500 and the Russell 3000 are down approximately 38%, while the international equity index MSCI EAFE is down 47%. The fixed income indices are mixed, with the domestic Lehman Brothers US Aggregate Index up 1.7% for the year while the Merrill Lynch High Yield Index is down 31% and the JP Morgan EMBI Global Index is down 17%. As of the end of November 2008, the Plan's calendar year investment performance was down 31%.

**EMPLOYEES' RETIREMENT FUND OF
THE CITY OF FORT WORTH, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 9. SUBSEQUENT EVENTS – CONTINUED

As a result of the economic downturn and credit crisis, there have been several high profile bankruptcies and legal actions. The Plan has had some exposure to some of these high profile cases. In September 2008, Washington Mutual was seized by the government and sold to JP Morgan Chase. During September of 2008, the only investment that the Plan held in Washington Mutual was through a private equity investment in Texas Pacific Group's private equity fund. By allocating the Plan's investment in TPG among all of its investments, the Plans exposure was approximately \$93,000. Also during September 2008, Lehman Brothers filed for bankruptcy. As of August 31, 2008 the plan held investments (stocks & bonds) totaling just over \$2,000,000. As of November 30, 2008 these investments were valued at just over \$150,000. Also impacted by the Lehman Brothers filing was the security lending pool that the Plan was invested in with Northern Trust. Northern Trust charged a payable to the Plan's cash account that currently totals \$2.9 million. This payable currently shows as an unrealized loss.

During December 2008, Bernard Madoff was arrested by the FBI and accused of running a Ponzi scheme. The Plan had invested with Rye Securities Broad Market Fund, which was fully invested with Mr. Madoff's investment management business. During 2008, the Plan redeemed its investment with Rye Securities and received all but \$525,000 of its investment balance. The amount received on redemption in 2008 of \$9.974 million exceeded the amount recorded as fair value of the investment at September 30, 2007 of \$9.955 million. Therefore, the Plan did not make any adjustments to its investment balance at September 2007.

REQUIRED SUPPLEMENTARY INFORMATION

**EMPLOYEES' RETIREMENT FUND OF
THE CITY OF FORT WORTH, TEXAS
SCHEDULE OF FUNDING PROGRESS (Unaudited)
JANUARY 1, 2007
(Dollars in millions)**

<u>Valuation Date</u>	<u>Actuarial Value of Assets (AVA) (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded Actuarial Accrued Liability (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Annual Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
October 1, 2000	\$ 1,299.80	\$ 1,351.50	\$ 51.70	96.2 %	\$ 227.90	22.7 %
October 1, 2001	1,356.30	1,441.60	85.30	94.1	230.30	37.0
October 1, 2002	1,237.00	1,519.40	282.40	81.4	246.80	114.4
October 1, 2003	1,351.20	1,556.90	205.70	86.8	238.50	86.2
October 1, 2004	1,376.34	1,732.17	355.82	79.5	286.70	124.1
October 1, 2005	1,482.90	1,894.30	411.30	78.3	317.10	129.7
January 1, 2007	1,658.20	2,068.80	410.60	80.2	338.50	121.3

**EMPLOYEES' RETIREMENT FUND OF
THE CITY OF FORT WORTH, TEXAS
SCHEDULE OF EMPLOYER CONTRIBUTIONS (Unaudited)
YEAR ENDED SEPTEMBER 30, 2007**

<u>Plan Year Ended</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
September 30, 2000	24,605,002	100 %
September 30, 2001	26,541,610	100
September 30, 2002	27,208,058	100
September 30, 2003	27,891,674	100
September 30, 2004	40,367,474	72
September 30, 2005	43,276,150	73
December 31, 2006	52,057,475	66

**EMPLOYEES' RETIREMENT FUND OF
THE CITY OF FORT WORTH, TEXAS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)
AS OF AND FOR YEAR ENDED SEPTEMBER 30, 2007**

The information presented in the required supplementary schedules was determined as part of the actual valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	January 1, 2007	October 1, 2005
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level Percent Pay—open	Level Percent Pay—open
Payroll growth rate for amortization	3.75%	3%
Remaining amortization period	30 Years	30 Years
Assets valuation method	5-year smoothed market	5-year smoothed market
Actuarial assumptions:		
Investment rate return*	8.5%	8.5%
Projected salary increases	5.25%–29.75%	4.25–10.0%
*Includes inflation	3%	3%
Cost-of-living adjustments	2%	2%