2001 Comprehensive Annual Financial Report

Remembering their spirit. Rewarding their service.

A Component Unit of the City of Houston for the Fiscal Year Ended June 30, 2001

HOUSTON FIREFIGHTERS' RELIEF AND RETIREMENT FUND | HOUSTON, TEXAS

Remembering their spirit.
Rewarding their service.

A PROFILE OF YOUR FUND

At the Houston Firefighters' Relief and Retirement Fund, we believe that spirit and service go hand-in-hand. To that end, we continually strive to create an ideal environment that fosters the needs of the people we serve — our active firefighters and retirees.

To what can we attribute our organization's lasting success? It is our innovative approach to serving our members along with a rich tradition rooted in sound business principles. This includes our vision to work together as a team, with one mission and one focus to meet our members' retirement needs beyond their expectations.

Every day our staff has an opportunity to lay a firm foundation of responsibility with the knowledge that they are dedicated to serving some of the finest men and women in the nation. As of June 30, 2001, the Fund consisted of 3,300 active firefighters, along with more than 1,600 retirees and beneficiaries. The market value of Fund investment assets as of that date totaled approximately $1.7 billion. Each active firefighter contributes 7.7 percent of his or her gross salary to the Fund on an annual basis and, by state law, the city must contribute at least twice that amount, or 15.4 percent. Our time-tested approach to financial strategy has been our commitment to value and a belief that this will, over time, meet the challenges of a difficult market.

The Board of Trustees consists of five active firefighters, one retired firefighter, two citizen members who are Houston residents, the mayor or an appointed representative, and the city treasurer. These dedicated men and women have built a solid reputation on experience and strength of character, priding themselves on making informed choices for the firefighters and their families.

One of life's most persistent and urgent questions is: *"What are you doing for others?"* – Martin Luther King, Jr.

BOARD OF TRUSTEES REPORT

Members of the Houston Firefighters' Relief and Retirement Fund, Houston, Texas:

What a difference a year makes. The beginning of the year 2000 saw the various stock market indices at all-time highs, while the end of the year ushered in an economic slowdown. However, even with the ups and downs of the economic sector, it was yet another great year for the Houston Firefighters' Relief and Retirement Fund. Most notably, the Fund found a new home, created a memorial, saw enhanced benefits, and managed to secure solid investments, all in an effort to serve our members — the active and retired firefighters of the city of Houston.

The Fund succeeds because of the hard work and dedication of our employees. After several years of planning and constructing, we are now in our new home, from which we can provide you with an unprecedented level of service. Our staff has an unwavering commitment to providing superior service to our members. We share a common set of values that are at the heart of every decision and action we take. One such decision resulted in the creation of a memorial that honors the spirit of those firefighters who have lost their lives in the line of duty.

The theme of this year's annual report, *Remembering Their Spirit . . . Rewarding Their Service*, profiles our ability to build lasting relationships with all of our members — retirees as well as actives — as we carry forward the success of the past 64 years. It's a nice way to tie in the spirit of the past while looking toward the future.

We're excited about our prospects for the future. Our leadership role places us in an excellent position to not only respond to the opportunities in the marketplace, but also help shape the future of our organization. We have been and always will be committed to one goal — investing for firefighters and their families. We look with anticipation to the opportunities that will result from the evolution of both our organization and the needs of our members.

We have the dedication of a talented staff as well as the financial strength to continue to grow our organization. We will continue to attract and retain a talented workforce because we are a winning team with a strategy for success. And you will continue to benefit as we deliver on our commitment to consistently create superior service. Thank you for your confidence and continued support.

Respectfully,

Board of Trustees

Board of Trustees

2001 COMPREHENSIVE ANNUAL FINANCIAL REPORT

A Component Unit
of the City of Houston
for the Fiscal Year
Ended June 30, 2001

Prepared by
Marianne Gooch,
Director of Communications
and Public Relations, and
the HFRRF Staff

HOUSTON FIREFIGHTERS' RELIEF AND RETIREMENT FUND | HOUSTON, TEXAS

Section 1

Introductory Section

ADMINISTRATION

The administrative team of the Houston Firefighters' Relief and Retirement Fund is the link that ties everybody together. Whether an active firefighter or a retired firefighter, your reward for years of service shows in our commitment to you, evident through a strong and dedicated staff of professionals who ensure that the Fund operates as smoothly and efficiently as possible on a day-to-day basis. This entails handling the Fund's legal matters, overseeing staff administration, and keeping abreast of the latest technological advancements in order to more fully communicate with our members.

One of these links is the Fund's attorney, who reports to the Executive Director as well as the Board of Trustees. Getting legislative staff in Austin to understand the needs of the Fund is a challenge. It is the role of our counsel to draft legislation and translate the pension benefit enhancements that are passed by the Board and enacted by the Legislature.

In addition to legislative responsibility, the Fund's attorney coordinates requests for federal tax rulings that the Fund needs in order to maintain its tax exempt status as a defined benefit plan; works closely with the Benefits Committee on various benefit issues; maintains responsibility for contract administration; and advises the Executive Director and the Board of Trustees on other federal and state legal requirements.

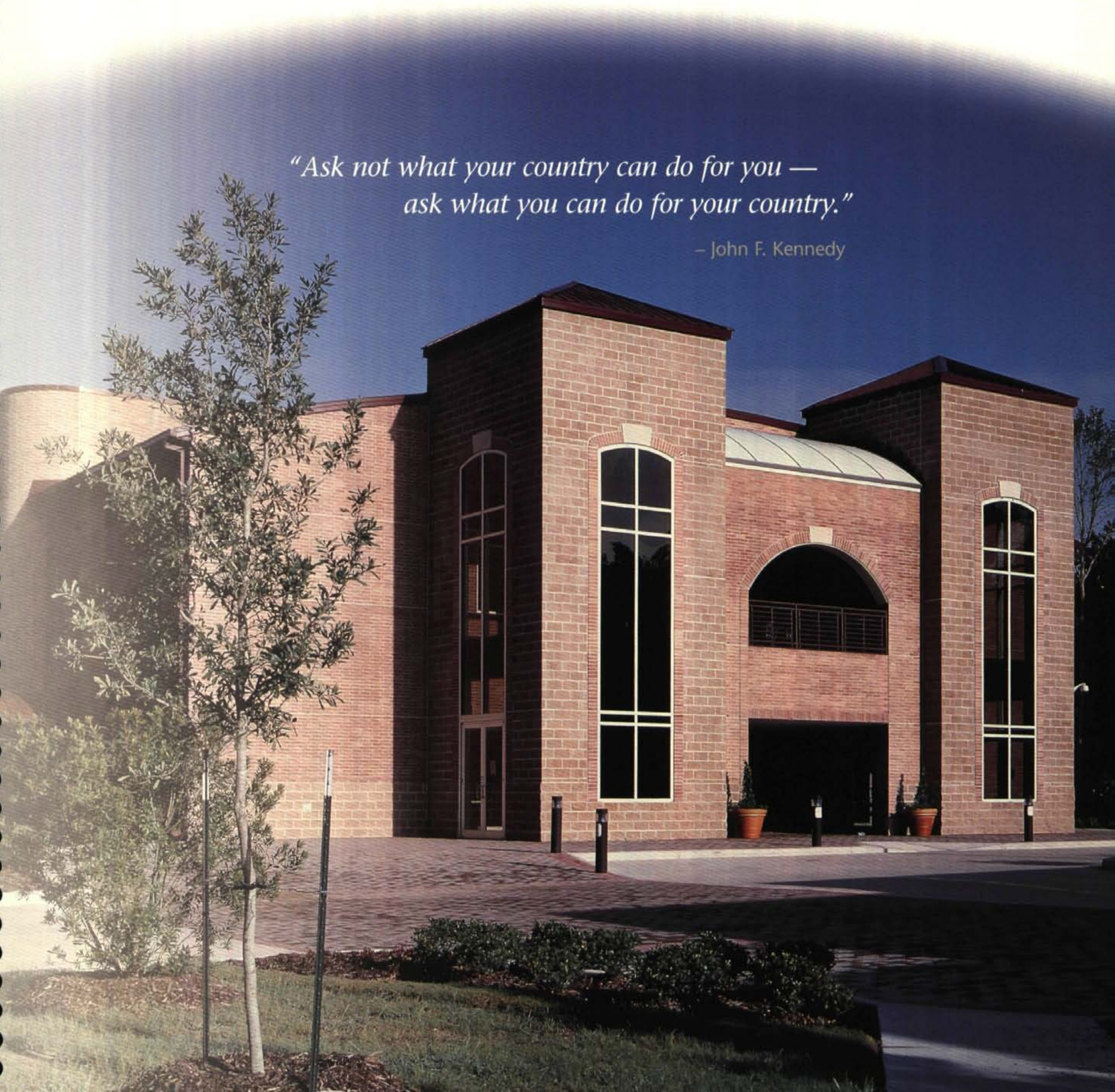
A good plan, flawlessly executed, becomes a perfect foundation on which to construct a building and build a staff. Since staffing is an important component in our effort to give the firefighters the best possible service, we have taken advantage of the architecture of the new administration building to provide our staff with the right tools required to get the job done. Our new administration building is adorned with walls of glass that allow our staff to relate to one another in an open environment. The reception area allows for more interactive communication, not only among our staff, but also with visitors to our building. And the building itself flows easily from one section to another, making it easier to link one thought process and one idea to another.

Behind every successful plan is a successful team with a winning attitude. Our staff's experience, expertise, and access to first-rate technology give them the ability to serve our organization better. One example is technology. We are proud to report that our technology capabilities rival any major corporation. Our facility is equipped with electronic components that allow our staff and visitors easy access to one another both electronically and physically. Also, our building features energy conservation systems that are computer-operated and balanced for more energy efficiency.

From the beginning, we have recognized that efficient service and a desire for excellence lay the foundation for high performance. This belief has helped us attract and retain some of the best and brightest minds in the pension industry — which, we believe, has enabled us to achieve superior results for our firefighters and retirees.

Honoring their fortitude.
Housing their future.

(photo) The administration building is the Fund's new home. Situated near George Bush Intercontinental Airport, the building houses a professional staff whose soul mission is to invest for firefighters and their families.


"Ask not what your country can do for you —
ask what you can do for your country."
– John F. Kennedy

INVESTMENTS

The primary goal and investment objective of the Houston Firefighters' Relief and Retirement Fund is to provide timely and sufficient benefits to plan participants.

This objective is accomplished through a process called asset allocation — determining how much of the funds to invest in stocks, bonds, alternative investments, and cash.

The Board of Trustees oversees these investments, and our investment team consists of truly innovative individuals who are independent, sound thinkers who represent the spirit of the organization. Our analysts work together tightly as a team, sharing vital insights and information that enable our Board of Trustees to make sound investment decisions across a variety of disciplines. They have the foresight to recognize opportunity, coupled with the patience to realize rewards.

The investment group builds the principles that guide our pension fund, and our investments are as structurally sound as our administrative building. Investments shall be made with a high degree of judgment and care with regard to making a permanent disposition of the funds, considering the income and safety of its capital. In today's complex financial markets, success is rarely achieved by individual efforts. Whether we're constructing buildings or building partnerships, teamwork is key because by working together, we are able to ultimately accomplish more.

Despite the uncertainty in the economy over recent months, the Fund remains strong and vigilant in its efforts to reward your years of service with solid investments for a secure future. The Fund outperformed our benchmark for previous Fiscal Year 2000.

We've taken advantage of the nation's largest period of uninterrupted economic growth to build a sound pension system, which continues to protect the Fund during economic swings; therefore, with the economy cooling off during the fiscal year, our investment diversification has minimized the potential impact to our funds as we continue to invest for long-term, high-value performance.

How do we do this? Just as a building is constructed to withstand severe storms and turbulent weather, the Fund is positioned to withstand turbulence in the market while minimizing losses. So, when the market drops, our investment strategy ensures that such correction has much less of a chance of affecting your pension fund. In fact, our funds performed well as compared with other funds in our peer group.

We feel confident that our strategy is sound. The Fund is well suited for a difficult and challenging market. We aim to create a portfolio that is less volatile than the market. This sound strategy has served us well in the past, and we believe that it will continue to serve us well into the future.

Dedicated to **service.**
Dedicated to **success.**

(photo) The Board of Trustees oversees investment decisions and provides guidance for the Fund's staff.

"The price of greatness is responsibility."

– Winston Churchill

BENEFITS

The Houston Firefighters' Relief and Retirement Fund offers a variety of benefits to its members and their survivors. These benefits, when combined with other income, are designed to provide members with financial security during their retirement years.

Providing pension benefit solutions for a lifetime means meeting our members' wants and needs in every phase of their membership cycle. Today, the retirement Fund is uniquely positioned to help our members achieve their pension goals — whether it's protecting the future of family members, saving for retirement, or developing disability and service-related benefits. One measure of our success is our brand-new, state-of-the-art building with enhanced technological features for improved communication with our members.

When one door closes, another one opens, as our members have discovered with our educational financial and retirement-planning seminars. These seminars offer members an opportunity to explore a variety of options for their retirement choices. It's one reason we continue to earn our members' loyalty.

The Fund is an organizational leader in responding to new opportunities in our industry. We are in the forefront in the nation by providing a licensed master social worker to assist our most senior retirees with their special needs. Our social worker interviews members and their beneficiaries to assess social and emotional capabilities, and then networks them into existing local and state social service agencies.

The Board of Trustees is dedicated to providing the best benefits package possible because firefighters have given so much to citizens. Staying a step ahead is something we have always done well. We're committed to providing our members with improved benefits packages year after year.
The distinction among past, present, and future is only a framework away with the establishment of the Houston Firefighters' Memorial — the greatest salute to our firefighters yet. Dedicated in March 2001 and situated in a lovely garden setting just outside the Conference Center, the memorial pays tribute to those firefighters who have lost their lives in the line of duty. The memorial is completely funded from charitable contributions.

In the garden also sits another tribute to the firefighters — a statue that depicts their most heroic efforts. Renowned Houston sculptor, David Adickes, was commissioned to design the statue. The completed statue sits on a massive, four-sided, granite base, and portrays two firefighters on a ladder rescuing a young child.

Whether it's through disability benefits, retirement benefits, or a dedicated memorial, our benefits group represents an architect of new beginnings — beginnings built on solid memories of yesterday and a bright promise for tomorrow.

Service.
Sacrifice.
Solidarity.

(photo) "The Rescue" — a firefighter's most heroic effort. A statue depicting the bravery of firefighters sits in the Memorial Garden at the Fund's Conference Center.

*"The purpose of human life is to serve,
and to show compassion and the will to help others."*

– Albert Schweitzer

COMMUNICATIONS AND PUBLIC RELATIONS

Communication has always been the most basic foundation of any relationship. In an era of instantaneous communications, our relationship with members, retirees, and their survivors continues to be of utmost importance to the Fund. In preparation for construction of the Conference Center, planning was indispensable. Building a framework, like building a reputation for service, is not done overnight. Both take time, effort, and a high degree of teamwork — with everyone focused on the same goal.

The goal of the Conference Center is to enhance our level of service to our members. As such, the Board of Trustees built the Conference Center in order for members to take advantage of educational seminars, informative workshops, and other events. It is also a facility members may use for weddings and other special occasions at a nominal fee. It was specifically designed to sit next to the administration building so that the entire complex would represent a meaningful gathering place for our members, not only for business purposes, but for social settings as well.

In order to maximize the use of our facility, we make the building available to the public as well as to our members in order to generate additional income. As the year progresses, the Conference Center is continually booking engagements for local area businesses.

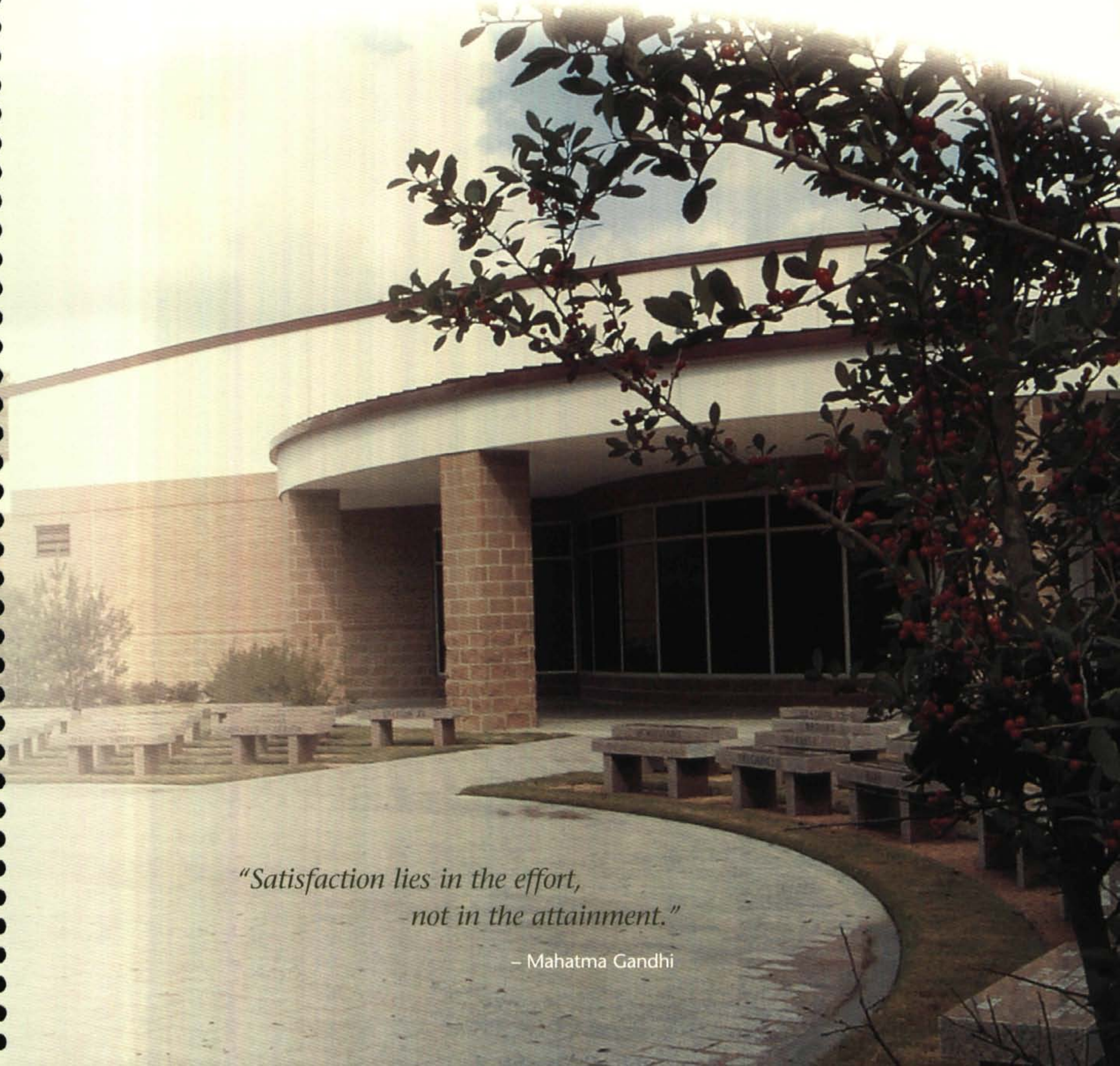
In addition to the Conference Center, we are constantly upgrading our communications, seeking to target messages to specific audiences, and working to bridge communication divides caused by language or generation differences. We aim to keep our language concise in various publications and on our Web site so these tools can remain useful and user-friendly. Information regarding Board meetings and Board news, knowledge about service benefits, and updates on the Fund's staff are found in quarterly newsletters and also on our Web site, which is updated almost weekly.

While the role of communications changes almost daily, the fact is that the Internet, newsletters, and faxes do not take the place of face-to-face contact. Our staff and Board members regularly strive to create an environment that promotes open, candid, effective communication with firefighters and retirees whenever the opportunity presents itself. This type of dialogue is the best way for the Fund and its employees to know what the firefighters think about their pension fund and the level of service the Fund provides.

Our commitment is to communicating with our members. We are dedicated to helping them receive the most up-to-date information as efficiently as possible. This is our way of building a framework that honors their spirit and rewards their service.

Remembering their spirit.
Rewarding their service.

(photo) The Fund's Conference Center is the scene for many functions during the year: galas, retiree luncheons, weddings, reunions, workshops, and seminars.



"Satisfaction lies in the effort,
not in the attainment."

– Mahatma Gandhi

BOARD OF TRUSTEES

BOARD OF TRUSTEES

Albertino Mays
Treasurer

W.W. Hausinger
Member

Maxie L. Patterson
Executive Director

Honorable Helen Huey
Citizen Member

George E. Lowdermilk
Secretary

BENEFITS

Left to right (top row):

Tony L. Pierce
Benefits Counselor
Robin Neyrey
Licensed Master Social Worker

Left to right (bottom row):

Sharon Johnson
Benefits Specialist II
Elizabeth A. Carrizal
Benefits Specialist II
Dalia "Dolly" Montoya, CEBS
Senior Benefits Specialist
Michele Word
Benefits Supervisor
Glenna Hicks
Director of Benefits

COMMUNICATIONS AND PUBLIC RELATIONS

Left to right:

Rosie Torres
Administrative Assistant
Marianne Gooch
Director of Communications and Public Relations
Germaine Washington
Conference Center Director

STAFF MEMBERS

ADMINISTRATION
Left to right:
Kevin Logan
Building Maintenance Supervisor
Judy Leal
Receptionist/Secretary
Jonathan W. Needle
General Counsel
Sarah Harrell
General Accounting Associate
Judy Mae S. Sese
Systems/Software Specialist
John D. Moore II
Systems & Facilities Manager
Lyn A. Goldwater
Senior Secretary
Claudia McInnis
Director of Administration

INVESTMENT
Left to right:
Danny J. Bowers, Jr.
Chief Investment Officer
Marty J. Bredehoft
Investment Analyst
Van Mary Pham
Investment Analyst
Christopher E. Gonzales
Senior Investment Analyst

LETTER OF TRANSMITTAL

HOUSTON FIREFIGHTERS' RELIEF AND RETIREMENT FUND

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Houston, Texas 77032-3866
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1.800.666.9737
www.hfrrf.org

Investing for Firefighters and Their Families®

October 31, 2001

Mr. Albertino Mays
Treasurer
City of Houston
P.O. Box 1562
Houston, Texas 77251-1562

Dear Mr. Mays:

The Comprehensive Annual Financial Report (CAFR) of the Firefighters' Relief and Retirement Fund (the Fund), a component of the City of Houston, for the fiscal year ended June 30, 2001, is submitted herewith.

The Houston Firefighters' Relief and Retirement Fund was created in 1937 with the passage of a state law that provided benefits for firefighters in certain cities in Texas. In 1975, Article 6243e.2 was passed in the Texas Legislature to create a fund for firefighters in cities with a population not less than 1.2 million. This Statute was amended in 1997 into Article 6243e.2(1). Since that time, and currently, Article 6243e.2(1) governs only firefighters employed by the City of Houston. Firefighters in the City of Houston are not covered by Social Security.

Article 6243e.2(1) states that a fund shall be created to provide retirement, disability, and death benefits for firefighters and their beneficiaries, and that it shall be governed by a Board of Trustees, which has sole responsibility for its maintenance. In earlier years, the City of Houston provided staff and financing for the daily administration of the Fund. Effective July 1, 1988, the Board of Trustees assumed full responsibility for its administration. Administration of the Fund includes accurately computing and disbursing retirement benefits, receiving and depositing contributions in a timely manner, accounting for investment activity, monitoring the activity of all external investment managers, auditing all financial activities of the Fund on an ongoing basis, and meeting reporting requirements in a timely manner.

Responsibility for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the Board of Trustees. To the best of the Board's knowledge and belief, the enclosed information is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of Fund operations. All disclosures necessary to enable the reader to gain an understanding of the financial activities of the Fund have been included.

The report consists of five sections:

THE INTRODUCTORY SECTION contains this Letter of Transmittal and identification of the administrative organization and professional services utilized by the Fund;

THE FINANCIAL SECTION contains the opinion of the independent certified public accountants (auditors) and the financial statements of the Fund; * MD&A

THE ACTUARIAL SECTION contains the independent consulting actuary's opinion and results of the July 1, 2000, actuarial valuation;

THE INVESTMENT SECTION describes investment goals and policies, asset allocation, investment results, and other information; and

THE STATISTICAL SECTION contains statistical tables of other significant data pertaining to the Fund.

MILESTONES AND MAJOR INITIATIVES

During fiscal year 2001, the HFRRF achieved several milestones. In March, the staff moved into the newly built administration office building. And later that month, the Conference Center building was completed. Also, March 9 marked the dedication of a Memorial Garden. This entire complex is located at 4225 Interwood North Parkway, Houston, Texas 77032. This is situated near George Bush Intercontinental Airport, southeast of Beltway 8 and John F. Kennedy Boulevard, at the intersection of Interwood North Parkway and Heathrow Forest Parkway.

Benefits milestones

Financial education and retirement-planning seminars were implemented for active and retired members of the Fund.

A licensed master social worker joined the Fund's staff to provide additional service to our retirees.

The 2001 Texas Legislature approved two benefit enhancements as follows:

First is the removal of three criteria that were previously required to issue the Annual Supplemental Benefit. This benefit will now be issued each January.

Post-DROP participants will receive a 2% increase in their monthly benefit amount for each full year of DROP participation, effective September 1, 2001, for members retiring on or after that date.

Investment milestones

During Fiscal Year 2001, the investment markets continued exhibiting weakness that began in Fiscal Year 2000. Most U.S., domestic, and international equities were significantly lower as prior excess valuations adjusted downward. During the course of the fiscal year, the Federal Reserve lowered interest rates six times for a total of 2.75% in an attempt to restimulate the U.S. economy.

The Fund ended the year with a rate of return on investments of (1.12) percent. Although this is a negative return, positive returns were contributed by domestic equities, fixed income, and managed cash.

During the fiscal year, the Board of Trustees continued to build the alternative investment portion of the Fund to a range of 15 to 25%. The Board made new commitments to Centennial Venture Partners; Energy Trust; Hicks, Muse, Tate & Furst; Landmark Partners; Lone Star Funds; and Trust Company of the West.

ADMINISTRATION, STAFF, AND PROFESSIONAL SERVICES

At fiscal year-end, the Fund staff was made up of 20 employees and one contract employee.

The following professionals are employed by the Board of Trustees to provide specialty services. The custodian bank is Mellon Trust. Mir•Fox & Rodriguez, P.C., serves as the auditor. Towers Perrin is the actuary. Strasburger & Price, LLP, serves as legal counsel. Pension Consulting Alliance is the investment consultant.

All investment consultants of the Fund acknowledge that they serve in a fiduciary capacity to the Fund. Most of the professional consultants appointed by the Board are listed on page 20 of this report. Other professionals employed by the Board during the year are listed on page 37.

ACCOUNTING SYSTEMS AND REPORTS

As plan administrator of the Fund, the Board of Trustees maintains the following various internal controls to ensure material accuracy of all data:

- Biweekly control reports are generated by the Fund staff to ensure the accuracy of employee and employer contributions received from the City of Houston;
- Monthly reconciliations are performed on benefit payment information to confirm payment instructions to the custodian bank;
- Monthly reviews are performed on all investment transactions to ensure that dividends and interest on the investments of the Fund are properly credited, all assets are accounted for properly, all market valuations are appropriate, and each investment manager is in compliance with established guidelines;
- The checking account of the Fund, from which administrative payments are made, is reconciled monthly by the staff and wire transfers from the custodian bank are reconciled monthly to the in-house cash account;
- The Budget and Audit Committee of the Board of Trustees, which sets general parameters for spending, meets at least quarterly to review administrative and investment expenditures; and
- The Personnel and Procedures Committee formulates and reviews all procedures of the Fund. These internal controls are reviewed annually by the auditor of the Fund. In turn, the auditor makes a report to the Board. If needed, the Board makes changes in the systems and controls of the Fund.

The financial statements included in this report have been prepared in accordance with generally accepted accounting principles (GAAP) and the principles of governmental accounting and reporting pronounced by the Governmental Accounting Standards Board (GASB). The accrual basis of accounting is used to record assets, liabilities, revenues, and expenses. Revenues for the Fund are taken into account when earned without regard to date of collection. Expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made.

Contributions to the Fund are based on the principles of level cost financing, with current services financed on a current basis and prior services amortized over a 40-year period from January 1, 1983, with 22 years remaining. The Fund has ended its fiscal year on June 30 since 1984. The independent auditors' report from a certified public accountant and certification from the actuary of the Fund are included in this report.

CHANGES IN PLAN NET ASSETS

The reserves needed to finance retirement benefits are accumulated through the collection of employee and employer contributions and through income on investments. These are offset by plan deductions. Plan net assets for Fiscal Year 2001 totaled $1,726,488,181. Plan net assets decreased approximately 2.3% compared with the amount for Fiscal Year 2000.

The decrease in assets resulted from a decline in general investment markets in Fiscal Year 2001 compared to Fiscal Year 2000. The amount contributed by employee members was $12,019,123. Employer contributions accounted for $24,032,828. The balance, $24,229,245, was deducted from net investment income.

Since July 1, 1996, by resolution of the Board of Trustees, the employee contribution rate has been 7.7 percent, and the employer contribution rate 15.4 percent.

DEDUCTIONS FROM PLAN NET ASSETS

Most deductions from plan net assets in a retirement system relate to the purpose for which it has been created — the payment of benefits. Consequently, recurring benefit payments prescribed by the plan, refunds of contributions to members, the cost of investment services, and the cost of administering the Fund comprise the total deductions.

Deductions for Fiscal Year 2001 totaled $52,276,640, an increase of approximately 34.5% over Fiscal Year 2000. Deductions increased primarily from the payment of the supplemental check, as well as a greater number of beneficiaries receiving a benefit and the increased amount of the average benefit payment. This growth in benefit payments is normal for a maturing pension fund. In addition, expenses associated with investment services increased due to more assets under management. In total, professional and administrative deductions increased in Fiscal Year 2001. Total additions to the plan of $11,822,706 did not exceed deductions of $52,276,640, thereby decreasing the net assets by $40,453,934.

FUNDING STATUS

By statute, the amount by which the liabilities for future benefits exceed (or are less than) the Fund balance is being amortized over a 40-year period that started January 1, 1983. The actuarial value of assets exceeds the actuarial accrued liability (used in determining the required funding of the plan) by $136,952,000, according to the actuarial valuation performed by the actuary of the Fund on July 1, 2000. Key results of this actuarial valuation are included in this report.

LETTER OF TRANSMITTAL

INVESTMENTS

The investment portfolio is a major contributor to the Fund. The Board of Trustees created the Investment Committee, consisting of the whole Board, to oversee the investment portfolio, managers, and performance of the Fund. With assistance by the Fund's professional staff, the Investment Committee monitors current investments, as well as potential investment opportunities in light of changing economic conditions, and evaluates the possible impact to the Fund.

The overall goal of the Board's investment program is to provide timely and sufficient benefits to participants and their beneficiaries. Key components of the investment program that enable the Fund to achieve this goal are a diversified investment portfolio, a long-term investment outlook, and prudent risk-taking commensurate with fulfilling the goal of the program. The Fund's assets are invested in short-term instruments ("cash equivalents"), fixed-income securities, domestic and international equity securities, and alternative investments. By investing in different types of assets, the impact that a downturn in one asset class would have on the Fund is minimized and the probability that the Fund will earn an adequate rate of return is improved. The Board maintains an investment outlook that emphasizes stability and long-term planning — because payments to participants and beneficiaries are long-term in nature — and avoids drastic asset shifts and market timing decisions. The Board assumes prudent risk in the investment portfolio to ensure that assets grow at an adequate rate to provide promised benefits to participants and beneficiaries. By adhering to these components, the investment program is characterized by steady growth in ever-changing domestic and international economic environments.

INDEPENDENT AUDIT

An audit was performed by Mir•Fox & Rodriguez, P.C., for the fiscal year ending June 30, 2001, and was conducted in accordance with auditing standards generally accepted in the United States of America. The independent auditors' report is included in this report.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Firefighters' Relief and Retirement Fund, Houston, Texas, for its comprehensive annual financial report for the fiscal year ended June 30, 2000. This was the 18th year that the Fund has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

ACKNOWLEDGMENTS

The compilation of this report reflects the combined effort of the Houston Firefighters' Relief and Retirement Fund staff under the leadership of the Board of Trustees. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means of determining responsible stewardship for the assets contributed by the employee members and the City of Houston.

On behalf of the Board of Trustees, we would like to take this opportunity to express gratitude to staff members, the advisors, and to the many other professionals and participants who have worked so diligently to assure the successful operation of the Fund.

Sincerely,

Donny R. Myers
Chair

Maxie L. Patterson
Executive Director

ADMINISTRATIVE ORGANIZATION

EXECUTIVE DIRECTOR
Maxie L. Patterson

CHIEF INVESTMENT OFFICER
Danny J. Bowers, Jr.

DIRECTOR OF ADMINISTRATION
Claudia McInnis

DIRECTOR OF BENEFITS
Glenna Hicks

DIRECTOR OF COMMUNICATIONS AND PUBLIC RELATIONS
Marianne Gooch

COMMITTEES
Budget and Audit
Corporate Governance
Investment
Legislative
Memorial
Pension Benefits
Personnel and Procedures

ACTUARY
Towers Perrin

ATTORNEY
Strasburger & Price, LLP

AUDITOR
Mir•Fox & Rodriguez, P.C.

CUSTODIAN BANK
Mellon Trust

INVESTMENT ADVISORS
AllianceBernstein, Inc.
Brazos Fund, LP
Brera Capital
CB Richard Ellis Investors
Centennial Venture Partners
Coller Capital
Energy Trust
Gulf Investment Management
GW Capital, Inc.
Hicks, Muse, Tate & Furst, Inc.
Industrial Growth Partners
L&B Real Estate Counsel
Landmark Partners, Inc.
Lexington Partners
Lone Star Funds
Loomis, Sayles & Company, LP
Mellon Bond
Mellon Capital Management
PM Realty Advisors, Inc.
Ranieri & Company
Schroder Investment Management North America, Inc.
SSR Realty Advisors
State Street Research & Management
STW Fixed Income Management
The Blackstone Group
The Mitchell Group, Inc.
The TCW Group
Triad Ventures Limited
Wachovia Timberland Investment Management
Zurich Scudder Investments

INVESTMENT CONSULTANT
Pension Consulting Alliance, Inc.

FINANCIAL STATEMENT PREPARATION

AN OVERVIEW OF FINANCIAL STATEMENT PREPARATION

At the end of each fiscal year, the Board and staff members prepare financial statements showing the financial activity of the Fund. The financial statements include the statements of plan net assets, changes in plan nets assets, and cash flow for the years presented. The notes are essential to the completeness of the information in the financial statements.

After the financial statements are prepared, an independent outside auditor hired by the Board reviews the systems and methods used to arrive at the information in the financial statements. A financial audit is then performed to determine if the financial statements are free of material misstatement. The audit includes examination on a test basis of evidence supporting the amounts and disclosures in the financial statements.

The audit is conducted in accordance with GAAS — generally accepted auditing standards. If the auditor finds the financial statements free of material misstatement, the auditor issues an opinion such as that found on page 24, stating that the statements fairly present the financial position of the Fund in accordance with GAAP — generally accepted accounting principles.

Some of the terms used in this section are defined in the glossary on pages 71-72.

STATEMENTS OF PLAN NET ASSETS

The statements of plan net assets are statements of the financial condition of the Fund that show snapshots of Fund assets and liabilities at a specific point in time. In this case, it's the end of the fiscal year at June 30, 2001 and 2000.

The statements show assets, liabilities, and the remaining Fund balance. An asset is anything having commercial, economic, or exchange value. Assets include cash, receivables (interest and dividends earned by the investments of the Fund and employee/member and employer contributions), investments, collateral on securities lending arrangements, and land and construction in progress.

Fund liabilities include money reserved for members who are entitled to benefits and obligations for professional services the Fund has used — but for which payment has not been made.

STATEMENTS OF CHANGES IN PLAN NET ASSETS

The statements of changes in plan net assets show the financial impact on the Fund of operations and investments during a period of time. In this case, it's the years ended June 30, 2001 and 2000.

Additions to plan net assets represent cash that came into, or is expected to come into, the Fund from events that take place during a fiscal year.

Additions include employee and employer contributions and investment income. Investment gains are included because the increase (decrease) in market value of investments is shown as revenue since the investments are reported at market value.

Deductions from plan net assets represent the money that the Fund paid out or expects to pay out from events that take place during a fiscal year. Deductions include benefit payments to retirees and beneficiaries, refunds of contributions to firefighters who leave the Fire Department, and professional and administrative expenses.

This statement provides useful information about what happened during a single year. Retirement funds, however, operate with a long-term strategy (see the Overview of the Actuarial Valuation on page 50).

Changes in plan net assets at the end of the statement show the previous year's balance, plus revenues after expenses, to total the plan net assets held in trust for pension benefits at fiscal year-end.

STATEMENTS OF CASH FLOWS

The statements of cash flows provide information about the effects of cash receipts and disbursements. When used with other statements, the reasons for differences between changes in plan net assets (from contributions and investments) and cash distributions, and the ability of the Fund to generate positive future net cash flows, are more easily evaluated.

NOTES TO FINANCIAL STATEMENTS

The notes are an integral part of the financial statements. The notes include any information that might be needed to have an adequate understanding of the overall financial status of the Fund.

In this report, the notes include explanations of the payment and refund features of the governing statute of the Fund, the accounting methods used by the Fund, the funding methods used, the methods and assumptions the actuary uses to determine contribution requirements, and any significant changes that take place after fiscal year-end — but before the audit is complete.

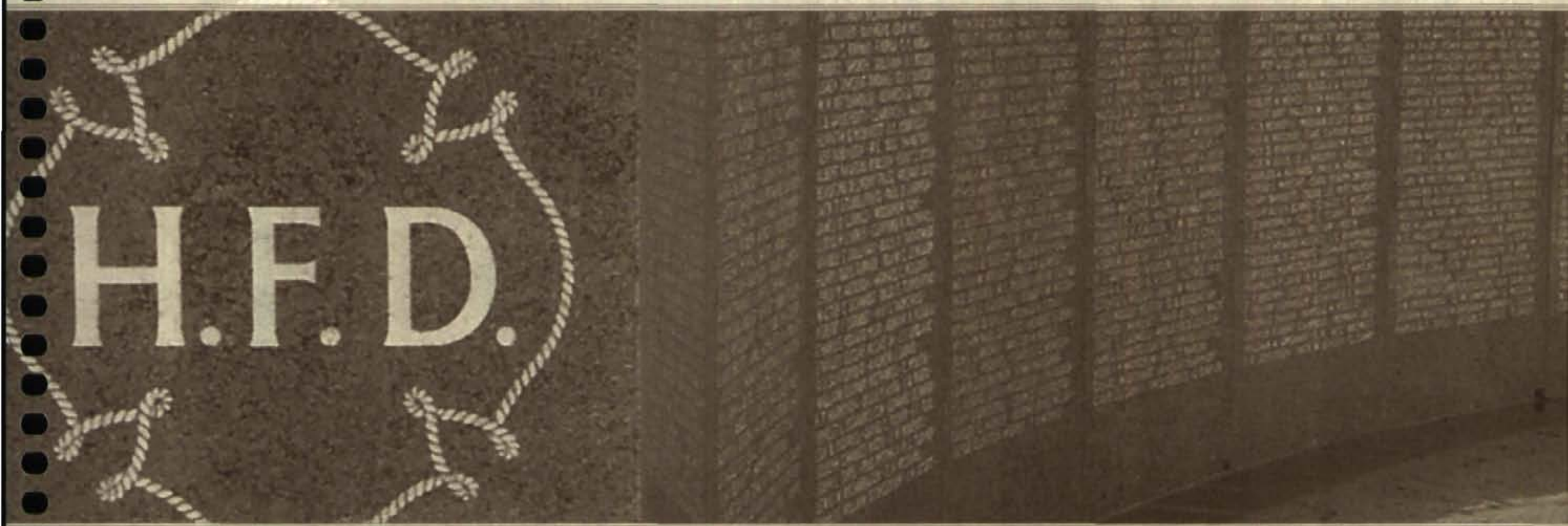
SUPPLEMENTARY INFORMATION

The supplementary 10-year trend information provides additional historical information. These charts show the progress during the past 11 fiscal years toward reaching the goal of being totally funded, as well as sources of revenues and types of expenses of the Fund during the fiscal year.

Other supplementary information provides additional information for analysis.

Section 2

Financial Section



INDEPENDENT AUDITORS' REPORT

Mir•Fox & Rodriguez, P.C.
Certified Public Accountants

Member of the American Institute of Certified Public Accountants

Board of Trustees
Houston Firefighters' Relief and Retirement Fund:

We have audited the accompanying statements of plan net assets of the Houston Firefighters' Relief and Retirement Fund (the Fund) as of June 30, 2001 and 2000, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the Fund as of June 30, 2001 and 2000, and its changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The 2001 supplemental information contained in Schedules 1, 2, 3 and 4 is presented for purposes of additional analysis and is not required for a fair presentation of plan net assets of the Fund and changes in its plan net assets. The supplemental information in Schedules 1, 2, 3 and 4 has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The supplemental information included in Schedules 5 and 6 is presented for purposes of complying with requirements of the Governmental Accounting Standards Board in the United States of America and is not a required part of the basic financial statements. The supplemental Schedules 5 and 6 have not been subjected to the auditing procedures applied in the examination of the basic financial statements and, accordingly, we express no opinion on them.

Mir, Fox & Rodriguez

August 27, 2001

1900 One Riverway
Houston, TX 77056
713 622 1120
713 961 0625 Fax

STATEMENTS OF PLAN NET ASSETS *June 30, 2001 and 2000*

Assets	**2001**	**2000**
Investments, at fair value:		
Money market fund	$ 59,752,957	$ 38,763,371
Commingled equity funds	114,347,979	154,943,701
Commingled international equity funds	181,916,413	154,165,649
Fixed income:		
United States government securities	10,391,534	13,736,383
Corporate bonds	455,764,085	370,897,335
Other fixed-income securities	67,074,122	103,994,880
Common stocks	422,638,053	499,501,129
Preferred stocks	15,737,005	24,937,900
Other investments — partnerships	376,626,171	406,690,915
Total investments	1,704,248,319	1,767,631,263
Receivables:		
Accrued interest	11,653,313	9,489,959
Foreign funds contracts	3,962,140	31,334,033
Receivables for investments sold	7,886,316	10,810,954
Accrued dividends	620,820	821,794
Total receivables	24,122,589	52,456,740
Collateral on securities lending arrangements, at fair value	108,866,018	76,492,246
Land and construction in progress	541,232	4,350,018
Building — net	8,982,806	—
Other assets — net	699,289	—
Total assets	1,847,460,253	1,900,930,267
Liabilities		
Accrued expenses	1,471,367	1,340,092
Construction payable	—	1,466,331
Payable for investments purchased	6,675,185	22,945,369
Foreign taxes payable	13,937	18,278
Foreign funds contracts payable	3,945,565	31,725,836
Collateral on securities lending arrangements, at fair value	108,866,018	76,492,246
Total liabilities	120,972,072	133,988,152
Plan net assets held in trust for pension benefits	$ 1,726,488,181	$ 1,766,942,115

A schedule of funding progress for the plan is presented on page 38.

See accompanying notes to financial statements.

STATEMENTS OF CHANGES IN PLAN NET ASSETS *Years Ended June 30, 2001 and 2000*

	2001	2000
Additions to plan net assets:		
Contributions:		
City of Houston	$ 24,032,828	$ 24,644,897
Members	12,019,123	12,316,994
	36,051,951	36,961,891
Net investment income:		
Net appreciation (depreciation) in fair value of investments	(79,977,341)	112,220,793
Interest:		
Cash equivalent securities	2,925,218	3,093,578
United States government securities	574,688	1,364,680
Corporate bonds	30,767,457	24,769,364
Other fixed income securities	5,260,851	5,922,305
Other	804,359	517,573
	40,332,573	35,667,500
Dividends:		
Common stocks	7,984,735	9,579,034
Preferred stocks	982,196	729,694
Commingled equity funds	4,354,845	3,748,360
	13,321,776	14,057,088
Earnings from other investments — partnerships	7,758,950	2,776,589
Earnings from securities lending arrangements	6,055,282	4,476,149
Rebates and fees from securities lending arrangements	(5,590,445)	(4,134,226)
Gross investment income (loss)	(18,099,205)	165,063,893
Less: investment services expense	6,130,040	5,850,002
Net investment income (loss)	(24,229,245)	159,213,891
Total additions to plan net assets	11,822,706	196,175,782
Deductions from plan net assets:		
Benefits to members	47,875,474	35,502,050
Contribution refunds to members	298,726	186,168
Professional services	631,725	795,644
Administrative expenses	3,470,715	2,372,720
Total deductions from plan net assets	52,276,640	38,856,582
Net increase (decrease) in plan net assets	(40,453,934)	157,319,200
Plan net assets held in trust for pension benefits, beginning of year	1,766,942,115	1,609,622,915
Plan net assets held in trust for pension benefits, end of year	$ 1,726,488,181	$ 1,766,942,115

See accompanying notes to financial statements.

1. DESCRIPTION OF PLAN

The Houston Firefighters' Relief and Retirement Fund (the Fund) was created in 1937 by an act of the 45th Legislature of the State of Texas (Article 6243e). The current governing statute is Article 6243e.2(1), *Vernon's Texas Civil Statutes* (the Act). The Fund is a single employer defined benefit pension plan covering all firefighters employed full time by the City of Houston (the City) and provides for service, disability, and death benefits for eligible members. At June 30, 2001 and 2000, the membership of the Fund consisted of the following:

	2001	2000
Retirees and beneficiaries currently receiving benefits	1,662	1,585
Former members entitled to benefits but not yet receiving them	14	17
Active members:		
Vested	2,370	2,364
Nonvested	946	912
Total members	4,992	4,878

The Fund is a local governmental plan, and therefore is not subject to the Employee Retirement Income Security Act of 1974.

The Fund is a component unit of the City. The operation of the Fund is solely for the City of Houston firefighters. The Fund is governed by a Board of Trustees (the Board) and can only be terminated by an act of the Legislature of the State of Texas. One member of the Board is either the mayor or an appointed representative, five members are elected by active firefighters, one member is elected by retired firefighters, two members are citizen representatives, and one member is the City treasurer.

Contributions

During the years ended June 30, 2001 and 2000, covered members were required by statute to contribute 7.7% of their salary to the Fund. The City is required to contribute a minimum of twice the members' contributions. The City contributed 15.4% of the gross salaries of active members for both years ended June 30, 2001 and 2000.

Pension benefits

Members with 20 or more years of service retiring on or after November 1, 1997, are entitled to a service retirement of 50% of average monthly salary (defined as the monthly average of their highest individual 78 pay periods), plus 3% of average monthly salary for each year of service in excess of 20 years until the member completes 30 years of service, for a total monthly pension not to exceed 80% of the member's average monthly salary for the highest 78 pay periods of the member's participation.

All members who retired prior to November 1, 1997, should consult the Act in effect at the time of retirement to determine pension benefits.

Effective November 1, 1997, pensions are adjusted annually for a fixed annual cost-of-living adjustment of 3%.

Members with 20 or more years of service are eligible to elect to establish a Deferred Retirement Option Plan (DROP) account. When the DROP election becomes effective, a DROP account is established for the member and is credited with the following amounts: the monthly pension allowance determined as if the member had retired at the date the election was made, amounts equal to the deductions made from the DROP member's salary under Section 13(c) of the Act, 7.7% of their salary after June 30, 1996, and interest on those amounts, compounded monthly at an interest rate based on the Fund's actual rate of return on average over the preceding five years. A member may participate in the DROP for a maximum of 10 years. A member may continue to be employed as a firefighter by the City after 10 years of participation in the DROP; however, the 7.7% deducted from their salary, the monthly pension allowance, and the interest calculation would no longer be credited to their account.

Disability benefits

Service-connected disability benefits are 50% of average monthly salary (occupational), or 75% of average monthly salary (general), or the service retirement, if it is greater and if the member is eligible. Nonservice-connected disability benefits amount to 25% of average monthly salary, plus 2.5% of average monthly salary for each year of service, up to a maximum of 50% of average monthly salary, or the service retirement, if it is greater and if the member is eligible.

Death benefits

Death benefits are available to a surviving spouse, dependent children, or dependent parents. In-the-line-of-duty death benefits are 100% of average monthly salaries. Active, on-duty (not-in-the-line-of-duty) related death benefits are the same as benefits for service-connected disability. Active, off-duty related death benefits are the same as benefits for nonservice-connected disability. Post-retirement death benefits are equal to the benefits being paid to the member upon his or her death. If there are no eligible survivors, the Fund will refund to the member's estate the amount of the member's contributions, with interest at 5% per year, not compounded, for members with at least 10 years but less than 20 years of service and without interest for members with less than 10 years of service.

Vesting

Members who terminate employment with at least 10 years of service but prior to becoming eligible for the service retirement are entitled to 1.7% of average monthly salary for each year of service, payable beginning at age 50, or an optional refund of contributions with simple interest at 5%, not compounded. Members who terminate their employment with less than 10 years of service may receive a refund of their contributions to the Fund, without interest. Members who terminated their employment prior to September 1, 1987, and prior to retirement for reasons other than death or disability forfeit their accumulated plan benefits, including their contributions to the Fund.

Members or beneficiaries of members receiving pension or disability benefits (other than a deferred retiree or an active member who has elected the DROP election) shall receive an additional monthly benefit payment of $150 along with their standard monthly benefit payment beginning in July 2001.

In March 1998, a benefit enhancement was enacted under Section 10 of the Act by the Board to allow members or beneficiaries of members receiving pension, disability, or death benefits (other than a deferred retiree, survivors of deferred retirees, or an active member who has elected the DROP election) to receive an additional annual benefit payment, not to exceed $5 million in aggregate per year, if the Fund's plan net assets exceed the actuarially accrued liability as of June 30, the Fund's investment return exceeds 9.25% for the year ended June 30, and the distribution would not increase the City's contribution rate. The Fund did not meet these requirements for the year ended June 30, 2001. The Fund met these requirements for the year ended June 30, 2000, and the benefit in the amount of $5 million was paid to eligible members during 2001. Effective September 1, 2001, the Fund has modified this benefit enhancement. The three requirements are no longer required and the $5 million will be paid each year beginning in 2002.

For additional information on plan benefits, see the Houston Firefighters' Relief and Retirement Fund Summary Plan Description.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

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

Basis of accounting

The basis of accounting is the method by which revenues and expenses are recognized in the accounts and reported in the financial statements. The accrual basis of accounting is used by the Fund. Under the accrual basis of accounting, revenues (which include contributions and investment income) are recognized when they are earned and collection is reasonably assured, and expenses (which include benefits, contribution refunds and other) are recognized when the liability is incurred. Accrued income, when deemed uncollectable, is charged to operations.

Use of estimates

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

Cash

The Fund considers only demand deposits as cash. Cash equivalent securities, which are composed of investments in short-term money market funds, are classified as investments.

Investments

Statutes of the State of Texas authorize the Fund to invest surplus funds in the manner provided by the Government Code, Title 8, Subtitle A, Subchapter C. This subchapter provides for the investment of surplus assets in any investment or investments that are deemed "prudent" by the Board. The investment policy of the Board does not restrict the types of investments authorized to be made on behalf of the Fund; however, the Board seeks to produce a return on investments that is based on prudent and reasonable investment risk and the cash flow requirements of the Fund given prevailing capital market conditions. While the Board recognizes the importance of the preservation of capital, it also adheres to the theory of capital market pricing, which maintains that varying degrees of investment risk should be rewarded with incremental returns. Consequently, prudent risk-taking is justifiable.

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at their estimated fair values.

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

Dividend income is recorded on the ex-dividend date. Income from other investments is recorded as earned.

Furniture, fixtures, and equipment

Furniture, fixtures, and equipment are recorded at cost less accumulated depreciation. Depreciation expense is computed using the straight-line method over the estimated useful lives of the related assets, ranging from three to seven years. Any gain or loss on the retirement of assets is recognized currently. Maintenance and repairs are charged to expense while expenditures for improvements are capitalized.

Administrative expenses

All administrative expenses are paid by the Fund.

Reclassifications

Certain amounts in 2000 have been reclassified to conform to the current year's presentation.

Federal income tax

The Fund received a favorable letter of determination from the Internal Revenue Service stating that the Fund qualifies as a tax-exempt plan and trust as of December 29, 1998. The Fund's management and Board believe that the Fund is currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code.

3. CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE

Funding policy

Contribution rates are established to remain level over time as a percentage of members' salaries. The contribution rate has been determined to provide for normal cost plus the level percentage of members' salaries required to amortize the unfunded actuarial accrued liability (or surplus) over 40 years from January 1, 1983.

The required contribution rate of the City, pursuant to an actuarial study effective July 1, 2000, consists of 15.4% of covered members' salaries to pay normal costs reduced by 4.1% of covered members' salaries to amortize its funding surplus over 40 years and increased by 5.5% of covered members' salaries for an additional statutory requirement. The City is required to contribute at a rate that has been actuarially determined and adopted by the Board, but not less than twice the members' contributions.

Ten-year historical trend information

Historical trend information is provided as supplemental information on page 38. This information is intended to demonstrate progress the Fund has made in accumulating sufficient assets to pay benefits when due and the related actuarial assumptions used in determining the actuarially determined amounts.

ACTUARIALLY DETERMINED CONTRIBUTION REQUIREMENTS

	July 1, 2001	Percentage of covered payroll	July 1, 2000	Percentage of covered payroll
Employer normal cost	$ 21,847,861	14.0%	$ 21,921,122	13.7%
Member normal cost	12,019,123	7.7%	12,320,630	7.7%
Total normal cost	33,866,984	21.7%	34,241,752	21.4%
Additional statutory requirement	8,583,798	5.5%	7,040,360	4.4%
Less: Amortization of surplus actuarial accrued liability	(6,398,831)	(4.1)%	(4,320,221)	(2.7)%
Net contributions required	$ 36,051,951	23.1%	$ 36,961,891	23.1%
Employer contributions actually made	$ 24,032,828	15.4%	$ 24,644,897	15.4%
Member contributions actually made, less returns of contribution refunds	12,019,123	7.7%	12,316,994	7.7%
Net contributions actually made	$ 36,051,951	23.1%	$ 36,961,891	23.1%

4. CASH

The cash balances of the Fund have been categorized to indicate the level of risk assumed by the Fund at year-end. Category 1 includes cash balances insured or collateralized with securities held by the Fund or by its agent in the name of the Fund. Category 2 includes cash balances collateralized with securities held by the pledging financial institution's trust department or agent in the name of the Fund. Category 3 includes uncollateralized cash balances (including any bank balance collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the name of the Fund). The cash balances of the Fund meet the criteria of Category 1 in both years. Cash on deposit with the custodian bank of the Fund is covered by securities held in the Fund's name.

5. INVESTMENTS

The investments of the Fund have been categorized to indicate the level of risk assumed by the Fund at year-end. Category 1 includes investments that are insured or registered, or for which the securities are held by the Fund or its agent in the name of the Fund. Category 2 includes investments which are uninsured and unregistered, with securities held by the counterparty's trust department or agent in the name of the Fund. Category 3 includes investments which are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the name of the Fund. Commingled funds and other investments are not required to be so categorized as they are not evidenced by securities that exist in physical or book entry form.

The following table presents a summary of the Fund's investments at fair value and the related category of custodial credit risk as of June 30, 2001.

	Category 1	Category 3	Not categorized	Total
Money market fund	$ 59,752,957	$ —	$ —	$ 59,752,957
Commingled equity funds	—	—	114,347,979	114,347,979
Commingled international equity funds	—	—	181,916,413	181,916,413
Fixed income:				
United States government securities	10,391,534	—	—	10,391,534
Corporate bonds	455,764,085	—	—	455,764,085
Other fixed-income securities	—	67,074,122	—	67,074,122
Common stocks	—	422,638,053	—	422,638,053
Preferred stocks	—	15,737,005	—	15,737,005
Other investments — partnerships	—	—	376,626,171	376,626,171
Total investments	$ 525,908,576	$ 505,449,180	$ 672,890,563	$ 1,704,248,319

The following table presents a summary of the Fund's investments at fair value and the related category of custodial credit risk as of June 30, 2000.

	Category 1	Category 3	Not categorized	Total
Money market fund	$ 38,763,371	$ —	$ —	$ 38,763,371
Commingled equity funds	—	—	154,943,701	154,943,701
Commingled international equity funds	—	—	154,165,649	154,165,649
Fixed income:				
United States government securities	13,736,383	—	—	13,736,383
Corporate bonds	370,897,335	—	—	370,897,335
Other fixed-income securities	—	103,994,880	—	103,994,880
Common stocks	—	499,501,129	—	499,501,129
Preferred stocks	—	24,937,900	—	24,937,900
Other investments — partnerships	—	—	406,690,915	406,690,915
Total investments	$ 423,397,089	$ 628,433,909	$ 715,800,265	$ 1,767,631,263

The Fund owned the following investments, which exceeded 5% of plan net assets, as of June 30:

	2001	2000
Mellon Capital Management International Country Allocation Fund	$ 94,045,882	$ 101,389,128
EB Stock Index Fund	89,617,979	—

6. LAND, CONSTRUCTION IN PROGRESS, AND BUILDING

In February 1998, the Fund purchased land for use in the construction of a new office building for its operations and its members. As of June 30, 2000, $3,808,786 had been utilized for the construction of the new office building. In March of 2001, the construction of the new building was completed. As of June 30, 2001, all capitalized costs associated with the building have been classified as *Building*. The building amount of $9,059,365 is being depreciated over 30 years. The accumulated depreciation for the building as of June 30, 2001, amounted to $76,559.

7. FURNITURE, FIXTURES, AND EQUIPMENT

Furniture, fixtures, and equipment are comprised as follows as of June 30, 2001:

Office furnishings and equipment	$ 642,710
Computer equipment	90,998
Less accumulated depreciation and amortization	(34,419)
Furniture, fixtures, and equipment — net	$ 699,289

8. SECURITIES LENDING ARRANGEMENTS

The Fund had the following securities on loan and held the following related collateral balances, at fair value, as of June 30:

	2001		2000	
	Securities lent	Collateral held	Securities lent	Collateral held
United States government securities	$ 18,860,696	$ 19,236,903	$ 22,305,238	$ 22,634,460
Corporate bonds	57,726,836	59,300,200	18,688,943	19,652,636
Other fixed-income securities	2,908,948	3,054,480	5,262,237	5,555,100
Common and preferred stocks	25,780,150	27,274,435	28,111,885	28,650,050
	$ 105,276,630	$ 108,866,018	$ 74,368,303	$ 76,492,246

State statutes and Board policies permit the Fund to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The Fund's custodian lends securities of the type on loan for collateral in the form of cash or other securities of 103% to 105%, which varies based on the types of securities lent. The Fund has no credit risk exposure to borrowers because the amounts the Fund owes the borrowers exceed the amounts the borrowers owe the Fund as of June 30, 2001 and 2000. The contract with the Fund's custodian requires it to indemnify the Fund if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the Fund for income distributions by the securities' issuers while the securities are on loan.

All security loans can be terminated on demand by either the Fund or the borrower, although the average term of the loans is approximately 108 days and 79 days for June 30, 2001, and June 30, 2000, respectively. Cash collateral is invested in the lending agent's collateral investment pool, which has a weighted-average maturity of approximately 113 days and 74 days as of June 30, 2001 and 2000, respectively. The relationship between the maturities of the investment pool and the Fund's loans is affected by the maturities of the security loans made by other entities that use the agent's pool, which the Fund cannot determine. The Fund cannot pledge or sell collateral securities received unless the borrower defaults. At June 30, 2001 and 2000, securities lending transactions were collateralized in cash.

9. COMMITMENTS AND CONTINGENCIES

As described in Note 1, certain members of the Fund are entitled to refunds of their accumulated contributions on termination of employment with the City, prior to being eligible for pension benefits. As of June 30, 2001 and 2000, aggregate contributions from active members of the Fund with less than 10 years of service were approximately $11,100,000 and $11,500,000 respectively. The portion of these contributions for employees with 10 to 20 years of service has not been determined. As of June 30, 2001 and 2000, interest payable related to these contributions has not been accrued.

The Fund had outstanding investment commitments to various limited partnerships and international investment advisors of approximately $162,000,000 and $141,000,000 as of June 30, 2001 and 2000, respectively.

Pursuant to the May 23, 1993, revision of Section 2(l), Chapter 432, Acts of the 64th Legislature, 1973 (Article 6243e.2, *Vernon's Texas Civil Statutes*), the Board may, from Fund assets, establish a self-insurance fund to pay certain claims for indemnification. On June 17, 1993, the Board voted to adopt this subsection allowing for the establishment of a self-insurance fund from Fund assets. The self-insurance fund is a designation of plan net assets by the Board. As of June 30, 2001 and 2000, cumulative contributions made to the self-insurance fund by the Fund have been approximately $5,000,000.

The Fund offers its employees a deferred compensation plan (the Plan) created in accordance with Internal Revenue Code 457. The Plan, available to all employees of the Fund, permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The Plan is administered by the Public Employee Benefits Corporation (PEBSCO), a division of Nationwide Retirement Solutions. Amounts deferred are held in trust by PEBSCO and, since the Fund has no fiduciary responsibility for the Plan, these amounts are not reflected in the accompanying financial statements in accordance with GASB Statement No. 32.

The Fund is a party to various claims and legal actions arising in the ordinary course of its business which, in the opinion of management, will not have a material effect on the Fund's financial position.

10. RELATED PARTY

During Fiscal Year 2001, the Plan utilized the services of an investment management company (in which the Plan also owns an interest) in the amount of $253,249.

SCHEDULE 1 INVESTMENT SUMMARY

Year Ended June 30, 2001

Type of investment	June 30, 2000 fair value	Purchases	Sales and redemptions	Net appreciation (depreciation) in fair value	June 30, 2001 fair value	Percentage of market value
Cash equivalent securities	$ 38,763,371	$ 545,354,581	$ (525,416,364)	$ 1,051,369	$ 59,752,957	3.5%
Commingled equity fund	154,943,701	61,634,963	(98,520,918)	(3,709,767)	114,347,979	6.7%
Commingled international equity funds	154,165,649	69,500,375	(3,592,363)	(38,157,248)	181,916,413	10.7%
Fixed income:						
United States government securities	13,736,383	7,589,494	(11,250,651)	316,308	10,391,534	0.6%
Corporate bonds	370,897,335	228,058,658	(141,477,207)	(1,714,701)	455,764,085	26.7%
Other fixed-income securities	103,994,880	12,297,010	(44,825,294)	(4,392,474)	67,074,122	3.9%
Total fixed income	488,628,598	247,945,162	(197,553,152)	(5,790,867)	533,229,741	31.2%
Common stocks	499,501,129	233,457,367	(275,765,036)	(34,555,407)	422,638,053	24.8%
Preferred stocks	24,937,900	3,787,243	(3,545,119)	(9,443,019)	15,737,005	0.9%
Other investments — partnerships	406,690,915	88,848,794	—	(118,913,538)	376,626,171	22.2%
	$1,767,631,263	$1,250,528,485	$(1,104,392,952)	$(209,518,477)	$1,704,248,319	100%

Space and cost restrictions make it impractical to print the entire investment portfolio in this report. A portfolio listing is available for review at the office of the Fund.

Sales and redemptions are presented at cost in the above table.

See accompanying independent auditors' report.

SCHEDULE 2 SUMMARY OF CASH FLOWS

Years Ended June 30, 2001 and 2000

	2001	2000
Cash flows from operating activities:		
Net increase (decrease) in plan net assets	$ (40,453,934)	$ 157,319,200
Adjustments to reconcile net increase (decrease) in plan net assets to net cash provided by operating activities:		
Net appreciation (depreciation) in fair value of investments	79,977,341	(112,220,793)
Depreciation expense	110,978	—
Changes in operating assets and liabilities:		
Increase in accrued interest receivable	(2,163,354)	(262,477)
Increase (decrease) in foreign funds contracts receivable	27,371,893	(24,644,638)
Decrease in accrued dividends receivable	200,974	149,570
Decrease in employer contributions receivable	—	884,998
Decrease in member contributions receivable	—	442,499
Increase (decrease) in receivable for investments sold	2,924,638	(8,036,189)
Increase (decrease) in accrued expenses	131,275	(110,169)
Increase (decrease) in construction payable	(1,466,331)	1,466,331
Increase (decrease) in payable for investments purchased	(16,270,184)	11,683,959
Increase in foreign taxes payable	4,341	—
Increase (decrease) in foreign funds contracts payable	(27,780,271)	25,029,179
Net cash provided by operating activities	22,587,366	51,701,470
Cash flows from capital and related financing activities:		
Payments for construction in progress	(6,352,180)	(3,199,156)
Net cash used by financing activities	(6,352,180)	(3,199,156)
Cash flows from investing activities:		
Investment securities purchased	(1,250,528,485)	(1,228,685,912)
Proceeds from sales and redemptions of investment securities	1,234,293,299	1,177,904,608
Net cash used by investing activities	(16,235,186)	(50,781,304)
Net increase in cash		(2,278,990)
Cash, beginning of year		2,278,990
Cash, end of year	$ —	$ —

See accompanying independent auditors' report.

SCHEDULE 3 INVESTMENT, PROFESSIONAL SERVICES AND ADMINISTRATIVE EXPENSES

Years Ended June 30, 2001 and 2000

	2001	2000
Investment services:		
Custodial services	$ 292,044	$ 322,390
Money management services	5,837,996	5,527,612
Total investment services	$ 6,130,040	$ 5,850,002
Professional services:		
Actuarial services	$ 52,500	$ 141,301
Audit and accounting services	18,500	20,000
Consulting services	305,493	309,041
Legal services	249,435	322,152
Medical examinations	1,450	2,300
Other	4,347	850
Total professional services	$ 631,725	$ 795,644
Administrative expenses:		
Depreciation expense	$ 110,978	$ —
Continuing education	285,218	272,418
Furniture, equipment, and supplies	49,604	119,165
Insurance	532,369	376,414
Investment research	53,651	61,815
Office cost	2,198,494	1,423,745
Rent	135,589	110,364
Facility maintenance	51,533	—
Utilities	53,106	—
Other	173	8,799
Total administrative expenses	$ 3,470,715	$ 2,372,720

See accompanying independent auditors' report.

SCHEDULE 4 SUMMARY OF INVESTMENT AND PROFESSIONAL SERVICES

Year Ended June 30, 2001

Individual or firm name	Official plan position	Payment	Nature of services
Mellon Trust	Custodian	$ 300,492	Custodial
GW Capital	Investment manager	147,617	Money management
Gulf Investment Management, Inc.	Investment manager	468,191	Money management
Hicks, Muse, Tate & Furst, Inc.	Investment manager	46,496	Money management
Loomis, Sayles & Company, Inc.	Investment manager	715,155	Money management
Mellon Capital Management Corporation	Investment manager	444,880	Money management
Alliance Bernstein Institutional Investment Management	Investment manager	824,077	Money management
Schroder Investment Management North America Inc.	Investment manager	656,524	Money management
State Street Research & Management Company	Investment manager	166,441	Money management
STW Fixed Income Management	Investment manager	411,557	Money management
The Mitchell Group	Investment manager	214,851	Money management
Blackstone Domestic Capital	Investment manager	280,903	Money management
Hyperion II Advisors	Investment manager	147,681	Money management
Industrial Growth Partners	Investment manager	120,589	Money management
Mellon Bond Associates	Investment manager	76,470	Money management
Schroder Emerging Markets	Investment manager	500,000	Money management
Energy Trust	Investment manager	253,249	Money management
Zurich Scudder Investments	Investment manager	482,035	Money management
Total payments		6,257,208	
Accrued at June 30, 2000		(1,340,092)	
Accrued at June 30, 2001		1,212,924	
Total investment services		$ 6,130,040	
Towers Perrin	Actuary	$ 52,500	Actuarial
Mir•Fox & Rodriguez, P.C.	Auditors	17,500	Audit and accounting
Joseph Mason	Election auditor	1,000	Audit and accounting
Pension Consulting Alliance	Consultant	31,146	Consulting
Plexus Group	Consultant	15,000	Consulting
Websoft Publishing Company	Computer consultant	1,409	Consulting
The Mitchell Group	Consultant	5,675	Consulting
Vitech Systems Group	Consultant	129,195	Consulting
The Dini Partners Inc.	Consultant	3,500	Consulting
Lloyd Brown Search Consultant, LLC	Consultant	22,500	Consulting
Cushman & Wakefield Valuation Advisory	Consultant	8,000	Consulting
Heckman Business Solutions	Consultant	3,960	Consulting
HCC Employee Benefits, Inc	Consultant	5,575	Consulting
Locke, Lidell, and Sapp	Attorneys	79,278	Consulting
Strasburger and Price, L.L.P.	Attorneys	260,137	Legal
Gilbreth & Associates, P.C.	Attorneys	1,594	Legal
Texas Occupational Medicine	Physicians	1,450	Medical examinations
Other	Other	4,557	Other
Total payments		643,976	
Accrued at June 30, 2000		(15,000)	
Accrued at June 30, 2001		2,749	
Total professional services		$ 631,725	

See accompanying independent auditors' report.

SCHEDULE 5 SCHEDULE OF FUNDING PROGRESS (UNAUDITED)

(dollars in millions)

Valuation date	Actuarial value of assets (AVA)	Actuarial accrued liability (AAL)	AVA as percentage of AAL	Excess funded AAL	Covered payroll	Excess funded AAL as percentage of covered payroll
7-1-91	$ 642.5	$ 621.0	103%	$ (21.5)	$104.4	(21)%
7-1-92	694.1	670.1	104	(24.0)	102.4	(23)
7-1-93	762.8	758.6	101	(4.2)	119.5	(3)
7-1-94	831.7	793.0	105	(38.7)	120.1	(32)
7-1-95	912.4	852.3	107	(60.1)	127.0	(47)
7-1-96	1,024.5	989.3	104	(35.2)	131.6	(27)
7-1-97	1,183.8	1,128.2	105	(55.6)	142.0	(39)
7-1-98	1,347.4	1,271.4	106	(76.0)	149.0	(51)
7-1-99	1,538.5	1,470.6	105	(67.9)	159.0	(43)
7-1-00	1,726.3	1,589.3	109	(137.0)	163.6	(84)

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

See accompanying notes to supplemental information.

See accompanying independent auditors' report.

SCHEDULE 6 SCHEDULE OF EMPLOYER CONTRIBUTIONS (UNAUDITED)

(dollars in thousands)

Year ended June 30	Annual required contribution	Percentage contributed
1992	$17,549	100%
1993	16,716	100
1994	17,670	100
1995	17,600	100
1996	18,847	100
1997	20,312	100
1998	21,720	100
1999	24,084	100
2000	24,645	100
2001	24,033	100

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

See accompanying notes to supplemental information.

See accompanying independent auditors' report.

NOTES TO REQUIRED SUPPLEMENTAL SCHEDULES

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

Valuation date	July 1, 2000
Actuarial cost method	Entry age normal cost
Amortization method	Level percent of payroll, closed
Remaining amortization period	22 years
Asset valuation method	Five-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.5%
Salary increases in excess of inflation	0% to 5%, based on seniority and merit
General inflation rate	5% per year, compounded annually
Cost of living adjustment	3% annually

See accompanying independent auditors' report.

Section 3

Investment Section

REPORT OF THE CHIEF INVESTMENT OFFICER and OUTLINE OF INVESTMENT POLICIES

The primary goal of the Houston Firefighters' Relief and Retirement Fund's investment program is to provide both timely and sufficient benefits to plan participants. The Fund's Board of Trustees seeks to produce a return through its investment program that is adequate to maintain the fully funded actuarial status of the Fund, while minimizing risk through portfolio diversification.

In Fiscal Year 2001, the Fund experienced a rate of return of (1.12%). The Fund's investments performed well among its peer group in increasingly volatile markets.

OUTLINE OF INVESTMENT POLICIES

The Board of Trustees of the Houston Firefighters' Relief and Retirement Fund has adopted the following policies. Authority to amend these policies rests solely with the Board of Trustees, which may delegate authority to act on certain matters to the Investment Committee, a committee consisting of the whole Board of Trustees.

INVESTMENT POLICIES

Investment Philosophy

In developing the investment program, the Investment Committee is guided by a set of precepts from which all investment decisions are made, establishing the foundation and direction for all future activity. The Investment Committee applies these precepts knowing the importance of asset allocation and the benefits of diversification. The guiding precepts consist of the following: long-term focused, value-driven, relationship-driven, opportunistic and contrarian.

Asset Allocation

The Investment Committee completed an asset allocation study during the year, which resulted in new asset classes, strategic allocations, ranges, and benchmarks. The Investment Committee has allocated the assets of the Fund to several asset classes with the objective of optimizing the investment return of the Fund within the framework of acceptable risk and diversification. Each asset class is allowed to operate within its specific range established by the Investment Committee. In addition, a strategic allocation has been established for each asset class for the purpose of semi-annual performance evaluation and asset rebalancing. If an asset class allocation reaches an endpoint of its range, the Investment Committee shall rebalance to within the asset class range, as needed, to meet investment return objectives. Current asset classes, asset class ranges, and strategic allocations are as follows:

Asset class	Asset class range	Strategic allocation
Domestic Equities	15% – 25%	20%
International Equities	19% – 29%	24%
Domestic Fixed Income	30% – 40%	35%
Alternative Investments	15% – 25%	20%
Cash	0.5% – 1.5%	1%

Investment Managers

The Board has adopted policies that govern the investment manager selection process, guidelines applicable to the managers, and review and retention procedures for all managers retained by the Fund.

The Fund's Investment Committee uses a systematic process in the selection of investment managers. This process includes rigorous due diligence by the Investment Committee, with assistance from staff and consultants. Manager guidelines include general guidelines applicable to all managers and specific guidelines unique to each manager. Specific guidelines unique to each manager are developed cooperatively by the Board and manager, and incorporated into the Investment Management Services Contract executed by the Board and manager. The Investment Committee, with assistance from staff, continuously monitors each manager's performance and adherence to style, strategy, and manager-specific guidelines. All active managers are required to present before the Committee annually, while passive and alternative managers are reviewed as necessary.

Investment results were calculated using a time-weighted rate of return based on the market rate of return, which is not materially different from AIMR Performance Presentation Standards.

Performance Objectives

The performance objective of the Fund is to meet or exceed the actuarial rate plus Fund expenses, currently 8.5% plus 75 basis points, over a long-term horizon which is defined as 10 years. To assess the performance of the overall Fund, the Investment Committee has established a target mix portfolio, which is reflective of the most recently approved asset allocation study. The target mix portfolio will consist of the following index weightings, which are representative of the Fund's current asset allocation:

OUTLINE OF INVESTMENT POLICIES *(continued)* and ASSET ALLOCATION

Asset class	Weight	Index
Domestic Equities	20%	Russell 3000
International Equities	24%	MSCI All Country World Ex-US Index
Domestic Fixed Income	35%	Lehman Universal Index
Alternative Investments	20%	Flat Rate 15%
Cash	1%	Merrill Lynch 90-Day Treasury Bill Index

Each manager is assigned an investment performance benchmark relative to his/her style of management. The performance objective for each manager is to provide a five-year rolling alpha in excess of the manager's fees.

Investment results were calculated using a time-weighted rate of return based on the market rate of return, which is not materially different from the AIMR Performance Presentation Standards.

Regarding Corporate Governance

The Board of Trustees recognizes its fiduciary obligation to cast its votes in corporate affairs. The Board adopts a written statement of proxy policies and reviews this statement annually. As a part of this policy, the Board has adopted the shareholder's bill of rights, as adopted by the Council of Institutional Investors. All proxies are to be voted in a timely manner in accordance with expressed policies. Voting practices are documented and reviewed by the Board. Shareholder and management proposals are both entitled to due consideration and are given the same degree of attention. At the present time, the Board of Trustees recognizes that voting *on international corporate affairs is an extremely specialized and* administratively difficult enterprise. The Board of Trustees may, at its discretion and through contractual means, delegate the authority to sign and submit proxy material on behalf of the Fund to international outside managers.

ASSET ALLOCATION *(dollars in millions)*

Fiscal year ended June 30,

	1997		1998		1999		2000		2001	
	Market value	Percent	Market value	Percent	Market value	Percent	Market value	Percent	Market value	Percent
Cash Equivalents	$ 18.4	1.3%	$ 98.8	6.4%	$ 9.7	0.6%	$ 9.3	0.5%	$ 24.1	1.4%
Domestic Equity	568.1	41.4	509.2	33.1	519.8	32.3	460.6	26.1	395.7	23.0
Domestic Fixed Income	245.1	18.0	322.1	21.0	331.6	20.6	542.7	30.7	586.1	34.1
High-Yield Securities	161.2	11.8	179.4	11.7	202.3	12.6	—	—	—	—
International Equities	228.0	16.6	241.9	15.7	278.6	17.3	351.2	19.9	337.7	19.7
Alternative Investments	150.0	10.9	185.9	12.1	266.7	16.6	402.5	22.8	374.1	21.8
	$ 1,370.8	100.0%	$ 1,537.3	100.0%	$ 1,608.7	100.0%	$ 1,766.3	100.0%	$ 1,717.7	100.0%

INVESTMENT RESULTS

TOTAL FUND RETURN

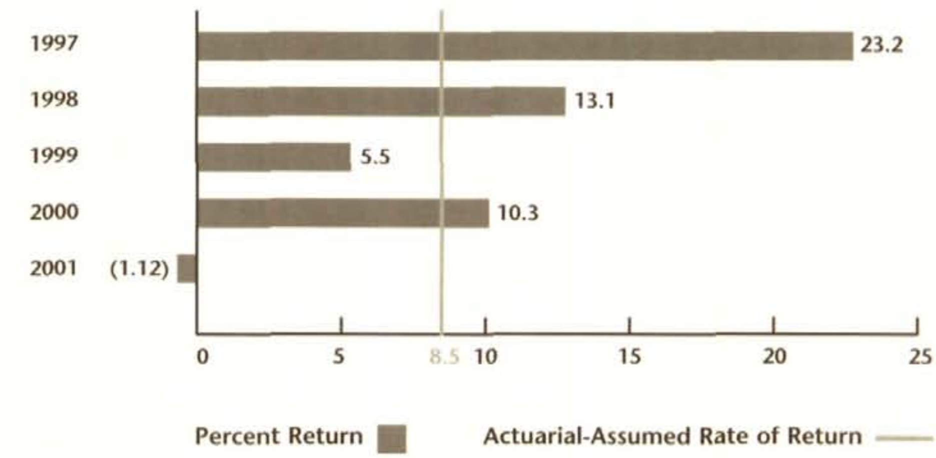
	Period ended June 30,					Annualized period ended 6/30/01	
	1997	1998	1999	2000	2001	3-Year	5-Year
HFRRF	**23.2 %**	**13.1 %**	**5.5 %**	**10.3 %**	**(1.1%)**	**4.8 %**	**9.9 %**

RETURNS BY ASSET CLASS

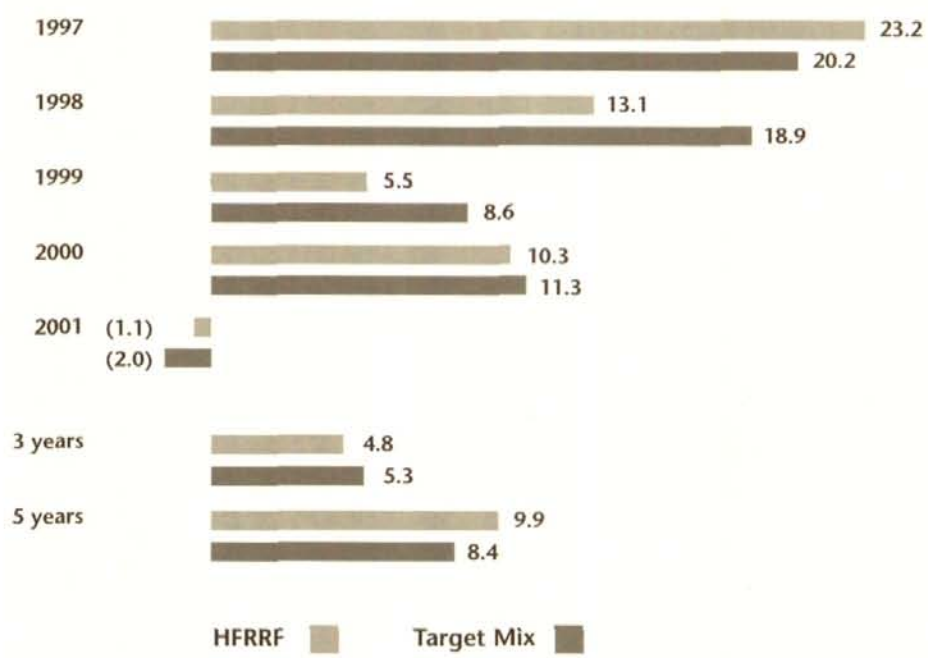
						Annualized period ended 6/30/01	
	1997	**1998**	**1999**	**2000**	**2001**	**3-Year**	**5-Year**
Cash							
HFRRF*	7.3 %	6.3 %	14.8 %	9.9 %	12.2%	10.2 %	8.8 %
Merrill Lynch 90-Day T-Bill	5.4	5.3	4.9	5.5	5.9	5.4	5.4
Domestic Equity							
HFRRF	31.5	14.6	6.7	(1.4)	11.2	5.4	12.0
Russell 3000	30.6	28.8	20.1	9.6	(13.9)	4.2	13.8
Domestic Fixed Income							
HFRRF	14.2	13.2	2.2	4.8	5.2	6.6	9.2
Lehman Universal Index	8.8	10.1	2.6	4.8	10.8	6.0	7.4
International Equities							
HFRRF	15.5	6.1	6.3	22.1	(22.2)	.3	4.4
MSCI All Country World Ex-US Index	13.5	6.3	7.4	18.8	(23.8)	(1.0)	3.2
Alternative Investments							
HFRRF	37.1	22.5	8.5	29.8	(3.1)	19.9	22.0
Flat 15%	15.0	15.0	15.0	15.0	15.0	15.0	15.0

** Includes results from equity distributions into the cash account*

TOTAL FUND RETURN VS. ACTUARIAL-ASSUMED RATE OF RETURN



TOTAL FUND RETURN VS. TARGET MIX RETURN



"Target mix," or target asset mix portfolio, is explained on pages 40-41.

INVESTMENT RESULTS *(continued)*

COMPARISON OF INVESTMENT RETURNS *Years Ended June 30*

Year	Total Fund	Median Total Fund*	Fund Domestic Equity Investments	Russell 3000 Stock Index	S&P500 Stock Index	Fund Fixed-Income (bond) Investments	Lehman Bros. Universal	Lehman Bros. Gov/Credit	Fund International Equity	MSCI All Country World Ex-US	MSCI EAFE
1978	1.9 %	2.1 %	3.0 %	— %	0.1 %	1.2 %	— %	1.0 %	— %	— %	— %
1979	8.9	10.4	14.7	—	13.6	6.7	—	7.7	—	—	—
1980	11.8	11.4	17.5	18.7	17.3	1.1	—	3.8	—	—	—
1981	11.8	12.1	27.1	23.2	20.6	(11.0)	—	(4.1)	—	—	—
1982	3.4	(1.0)	(7.1)	(13.9)	(11.5)	5.6	—	13.3	—	—	—
1983	36.4	44.1	65.9	66.4	61.2	29.5	—	29.1	—	—	—
1984	(3.9)	(3.7)	(11.7)	(8.5)	(4.7)	(0.2)	—	1.8	—	—	—
1985	27.7	27.3	30.6	31.2	30.9	32.3	—	28.7	—	—	—
1986	21.7	26.1	26.5	35.7	35.8	19.1	—	20.7	—	—	—
1987	13.6	12.5	19.6	19.8	25.1	8.3	—	4.7	—	—	—
1988	3.6	0.6	1.2	(6.1)	(7.1)	11.4	—	7.5	—	—	—
1989	12.8	14.6	16.8	19.7	20.5	10.9	—	12.3	—	—	—
1990	9.3	10.2	14.4	13.5	16.4	4.9	—	7.1	—	—	—
1991	3.7	7.4	2.4	7.2	7.4	11.3	10.7	10.2	(10.6)	—	(11.5)
1992	8.4	13.3	7.5	14.7	13.5	24.6	14.2	14.2	0.8	—	(0.7)
1993	16.7	13.6	19.7	16.0	13.6	20.7	12.0	13.2	12.2	—	20.3
1994	5.7	2.4	2.0	1.0	1.3	2.0	(1.1)	(1.5)	19.7	—	17.0
1995	15.5	16.7	22.1	24.9	26.1	17.5	12.4	12.8	4.1	—	1.7
1996	16.9	17.4	21.5	26.0	26.1	12.2	5.7	4.7	17.9	—	13.3
1997	23.2	20.0	31.5	30.6	34.6	14.3	8.8	7.8	15.5	—	12.8
1998	13.1	17.9	14.6	28.8	30.2	13.2	10.1	11.3	6.1	—	6.1
1999	5.5	11.4	6.7	20.1	22.7	2.2	2.6	2.7	6.3	8.3	7.6
2000	10.3	10.0	(1.4)	9.6	7.3	4.8	4.8	4.3	22.1	16.6	17.2
2001	**(1.1)**	**(4.7)**	**11.2**	**(13.9)**	**(14.8)**	**5.2**	**10.8**	**11.1**	**(22.2)**	**(25.4)**	**(24.8)**

* *Trust Universe Comparison Service all master trusts total returns*

COMPOUND ANNUAL RETURN *Years Ended June 30*

	Total Fund	Median Total Fund*	Fund Domestic Equity Investments	Russell 3000 Stock Index	S&P500 Stock Index	Fund Fixed-Income (bond) Investments	Lehman Bros. Universal	Lehman Bros. Gov/Credit
2	4.5 %	2.6 %	4.7 %	(2.9) %	(4.4) %	5.0 %	7.8 %	7.7 %
3	4.8	5.4	5.4	4.2	3.9	4.1	6.0	6.0
5	9.9	11.1	12.0	13.8	14.5	7.8	7.4	7.4
10	11.2	11.9	13.2	15.0	15.1	11.4	7.9	7.9

* *All master trusts total returns*

INVESTMENT HOLDINGS SUMMARY

INVESTMENT HOLDINGS

	Market value at June 30, 2001	Percent of total market value
Cash Equivalents	$ 55,505,877	3.3%
Equities		
Commingled Equity Fund	114,347,979	6.7
Commingled Intl Equity Fund	181,916,413	10.7
Common Stock	422,638,053	24.9
Preferred Stock	15,737,005	0.9
	734,639,450	43.2
Fixed Income		
U.S. Government Securities	10,391,534	0.6
Corporate Bonds	455,764,085	26.8
Other Fixed Income	67,074,122	3.9
	533,229,741	31.4
Other Investments	376,626,171	22.2
Total Market Value	**$ 1,700,001,239**	**100.0%**

Market value represents the value of the investment holdings only and excludes receivables, payables, and foreign currency fluctuations.

TEN LARGEST EQUITY INVESTMENT HOLDINGS *(excluding commingled funds)*

Description	Market value	Percent of total market value*
SOUTHWEST AIRLS CO COM	$6,471,500	0.38%
BAXTER INTL INC COM	5,454,000	0.32
JOHNSON & JOHNSON COM	5,400,000	0.31
AMERICAN EXPRESS CO COM	5,121,600	0.30
WELLS FARGO & CO NEW COM	4,875,150	0.28
CHUBB CORP COM	4,490,940	0.26
J P MORGAN CHASE & CO COM	4,460,000	0.26
RENAISSANCERE HOLDINGS LTD	4,443,000	0.26
BECKMAN COULTER INC COM	4,210,560	0.25
BANK OF AMERICA CORP	3,961,980	0.23

**Total market value represents the value of the investment holdings only and excludes receivables, payables, and foreign currency fluctuations.*

TEN LARGEST FIXED-INCOME HOLDINGS

Description	Market value	Percent of total market value*
DRESDNER FDG SILENT PRTNR 144A	$14,670,230	0.85%
ASIAN DEV BK BDS	13,804,010	0.80
FORD MTR CO DEL DEBS	13,533,448	0.79
DEN NORSKE STATS DEB 144A	12,627,000	0.74
FRANCE TELECOM SA NT 144A	9,935,005	0.58
CALIFORNIA INFRASTRUCTURE 97-1	9,467,492	0.55
AMERITECH CAP FDG CORP DEBS	8,436,246	0.49
VODAFONE AIRTOUCH PLC NT	8,410,000	0.49
TELEFONICA EUROPE BV US NT	7,344,260	0.43
BANC ONE CORP 7.750% 7/15/2025	7,048,018	0.41

**Total market value represents the value of the investment holdings only and excludes receivables, payables, and foreign currency fluctuations.*

FEES FOR INVESTMENT SERVICES

	Fiscal Year 2001			Fiscal Year 2000		
	Assets under management	Fees	Basis points*	Assets under management	Fees	Basis points*
Investment Management Fees						
Cash Equivalents Manager [1]	$ 49,244,038	$ 76,470	16	$ 39,914,688	$ 85,961	18
Domestic Equity Managers	417,277,313	1,713,136	41	453,642,960	2,069,226	45
International Equity Managers	576,722,405	2,043,863	60	402,518,895	1,409,542	41
Fixed-Income Managers [2]	339,135,105	1,274,329	22	542,666,437	1,223,230	23
Alternative Investments [3]	—	848,918	—	—	876,599	—
Other Investment Services						
Custodial	—	300,492	—	—	306,810	—
Consultant	—	31,146	—	—	45,000	—
Total Fees for Investment Services	—	$ 6,288,354	—	—	$ 6,016,368	—

* *Calculated using average quarterly assets under management*

[1] *Includes cash from managers' accounts*

[2] *High-Yield Manager also included*

[3] *Fees presented are only those fees paid directly by the Fund.*

2001 BROKERAGE COMMISSIONS

(in order of commissions received)

Broker name	Base commissions	Shares	Per share
MERRILL LYNCH INTL (MEIT), LONDON	$78,655	3,180,101	0.02
MORGAN GRENFELL, LONDON	75,584	1,861,610	0.04
LYNCH JONES & RYAN INC, HOUSTON*	60,461	1,182,673	0.05
MORGAN STANLEY INTL, LONDON	56,750	2,513,527	0.02
UBS EQUITIES, LONDON	53,891	925,219	0.06
GOLDMAN SACHS INTL, LONDON	45,185	1,495,330	0.03
SALOMON BROS INTL LTD, LONDON	40,794	2,654,652	0.02
CREDIT SUISSE FIRST BOSTON (EUROPE)	32,446	690,821	0.05
KLEINWORT BENSON SECS LTD, LONDON	31,535	1,532,312	0.02
JAMES CAPEL, LONDON	28,641	1,751,488	0.02
MERRILL LYNCH PIERCE FENNER SMITH INC NY	26,043	515,258	0.05
CREDIT SUISSE FIRST BOSTON CORP, NY	24,211	544,025	0.04
LEHMAN BROS, LONDON	23,046	442,478	0.05
MORGAN STANLEY & CO INC, NY	22,106	802,000	0.03
COMMERZBANK, LONDON	17,518	214,760	0.08
UBS BUNTING WARBURG INC, TOR (T015,BWIT)	14,775	231,669	0.06
WEISS PECK & GREER, NEW YORK	12,468	207,794	0.06
FOX-PITT KELTON INC	11,666	208,600	0.06
WARBURG DILLON READ & ASSOC, HONG KONG	11,605	561,100	0.02
ROCHDALE SECURITIES CORP	10,932	182,200	0.06
STANDARD & POORS SEC INC, NEW YORK	10,873	211,510	0.05
LEGG MASON WOOD WALKER INC, BALTIMORE	10,854	202,200	0.05
NOMURA SECURITIES INTL LON	10,320	705,200	0.01
JEFFERIES & CO INC, NEW YORK	10,234	187,900	0.05
COUNTY NATWEST SECS, SYDNEY	10,011	573,700	0.02
WARBURG DILLON READ LLC, NEW YORK	9,592	164,700	0.06
HOARE GOVETT SECS LTD, LONDON	9,481	512,862	0.02
SALOMON BROS INC, NEW YORK	9,467	793,972	0.01
C S FIRST BOSTON, HONG KONG	9,204	330,724	0.03
MONTGOMERY SECURITIES, SAN FRANCISCO	8,983	154,000	0.06
MORGAN J P SECS INC, NEW YORK	8,939	172,800	0.05
J P MORGAN SECS, LONDON	8,809	134,770	0.07
JARDINE FLEMING, HONG KONG	8,627	13,240	0.65
SALOMON BROS ASIA LTD, HONG KONG	8,308	366,000	0.02
MERRILL LYNCH PIERCE FENNER & SMITH, LON	8,299	413,739	0.02
HOWARD WEIL LABOUISSE FRIEDRICHS, NEW OR	7,831	130,515	0.06
LEHMAN BROS INC, NEW YORK	7,764	135,400	0.06
YORKTON SECURITIES INC, TORONTO (T011)	7,219	255,500	0.03
CAZENOVE & CO, LONDON	6,253	359,453	0.02
PETERS & CO LTD, CALGARY	6,000	230,000	0.03
CANTOR FITZGERALD & CO INC, NEW YORK	5,991	116,227	0.05
PARIBAS, LONDON	5,068	31,400	0.16
PRUDENTIAL SEC INC, NEW YORK	5,023	88,300	0.06
GOLDMAN SACHS & CO, NY	4,401	85,100	0.05
TROSTER SINGER STEVENS, JERSEY CITY	4,335	79,400	0.05
SMITH BARNEY INC, NEW YORK*	4,055	73,000	0.06
J B WERE & SON LTD, LONDON	4,047	165,800	0.02
SIMMONS & CO INTL, HOUSTON	3,759	62,650	0.06
ABN AMRO CHICAGO CORP, CHICAGO	3,750	75,000	0.05
BANCBOSTON ROBERTSON STEPHENS, SAN FRAN	3,728	65,600	0.06
DONALDSON LUFKIN AND JENRETTE SECS CORP	3,494	74,041	0.05
CONNING & CO, HARTFORD	3,445	58,500	0.06
ABEL NOSER CORP, NEW YORK	3,378	168,300	0.02
HENDERSON CROSTWAITE, LONDON	3,076	136,370	0.02
SOUTHCOAST CAP LLC, NEW YORK	2,915	49,300	0.06
ROBERT FLEMING AND CO LTD, LONDON	2,780	109,200	0.03
UBS (SYDNEY) LTD, SYDNEY	2,760	56,000	0.05
MORGAN KEEGAN & CO INC	2,747	49,400	0.06
FIRST UNION CAP MKTS, CHARLOTTE	2,705	54,100	0.05
CREDIT SUISSE FIRST BOSTON, LONDON	2,654	215,060	0.01
JANNEY MONTGOMERY SCOTT, PHILADELPHIA	2,645	49,300	0.05
BAIRD, ROBERT W & CO INC, MILWAUKEE	2,534	44,400	0.06
RAYMOND JAMES & ASSOC INC, ST PETERSBURG	2,500	45,000	0.06
CHEVREUX DE VIRIEU SA, PARIS	2,472	33,090	0.07
GOLDMAN SACHS EQUITY SECS, LONDON	2,115	662,810	0.00
RIADA, DUBLIN	2,058	134,549	0.02
SANDERS MORRIS MUNDY, HOUSTON	2,040	34,000	0.06
OTHER BROKERS	45,422	1,911,754	0.02
	$945,856	**30,561,699**	**0.03**

** Commission recapture broker*

Totals may include slight variances due to rounding.

COMMISSION RECAPTURE PROGRAM

Houston Firefighters' Relief and Retirement Fund began a brokerage commission recapture program in 1993. Currently, the brokerage firms of Lynch, Jones & Ryan Inc. and Smith Barney Inc. participate in the program. A portion of any commission generated by trading activity conducted by the Fund's investment managers with these firms is returned or recaptured by the Fund. The amount of the commissions recaptured is defined via contracts with the individual brokerage firms and varies with the type of trading activity. Any commissions recaptured are deposited in the investment manager's account from whom the trading activity originated. The Fund's investment managers are not required to participate in the program, but the Board feels it has provided ample financial incentive for solid participation. During Fiscal Year 2001, approximately 32% of all trading activity was directed toward the commission recapture program.

Section 4

Actuarial Section

AN OVERVIEW OF THE ACTUARIAL VALUATION

There are several types of retirement plans, each designed to provide income security after retirement. How each type of plan is funded varies depending on the type of plan. The Houston Firefighters' Relief and Retirement Fund is a single-employer defined benefit plan, which requires an actuarial valuation to determine the amount of funding required to pay benefits. Another type of plan, a defined contribution plan, does not require an actuarial valuation.

TYPES OF RETIREMENT PLANS

Defined contribution plans accumulate contributions (employee only, or employee and employer). The plan then provides a benefit based on the actual investment growth (or decline) of those contributions. A specific benefit is not promised. Adequate funding is accomplished simply by making the required contributions.

The Houston Firefighters' Relief and Retirement Fund is a defined benefit plan. Defined benefit plans represent a promise to pay specific benefits to employees. The benefit to employees and their survivors is usually much more than the combined contributions of the employee (if specified) and the employer. Determining adequate funding requires making a variety of assumptions to assure full payments can be made from the plan.

FUNDING FOR A DEFINED BENEFIT PLAN

Adequate funding of a defined benefit plan is necessary because employees are promised a specific benefit at retirement (based on the plan formula). Therefore, there must be enough money in the plan to pay the benefits that have been promised.

The exact amount of money required to provide future benefits cannot be determined without making some assumptions. It is necessary for an actuary (a person trained to calculate these types of risks) to make specific assumptions. The actuary must then determine a cost method to assure adequate funding so the Fund can provide promised benefits.

ACTUARIAL COST METHOD

Using an actuarial cost method involves estimating the ultimate cost of the plan, then establishing a systematic way to cover a proportionate part of the estimated cost each year through advance funding. The ultimate cost of a plan includes all specific benefits that are promised to be paid, plus all administrative expenses, less any investment earnings realized over the total life of the plan.

Since the exact ultimate cost of the plan cannot be determined until the last retired member of a plan dies, it must be actuarially estimated by forecasting the plan's expenses and investment return. The necessary funding, or contribution amount, is established from these estimates.

Estimating the total amount of benefits that will be paid to members requires the use of statistical methods, because the estimate depends on assumptions about the actual number of people who will receive benefits and the amount of the benefits. Therefore, assumptions must be made about the number of active members and beneficiaries who will receive benefits or become disabled, the duration of retirement and disability payments, amounts paid at different ages, mortality rates, pay raises, terminations, and layoffs — for all the years the plan is in existence.

Administrative expenses must also be estimated. This requires specific accounting and managerial expertise. Investment analysis and forecasting are also required to estimate earnings on plan assets.

ACTUARY'S REPORT

The information that follows was determined using specific actuarial methods, which have been generally described above. The methods were applied to census data about active firefighters, retirees and beneficiaries of the Fund as of July 1, 2000.

ACTUARY'S CERTIFICATION

October 24, 2001

Towers Perrin

1 Houston Center
1221 McKinney, Suite 2600
Houston, TX 77010-1006
713 754-5400
Fax: 713 754-5462

Board of Trustees
Houston Firefighters' Relief and Retirement Fund

DEAR BOARD MEMBERS:

We certify that the information contained in our July 1, 2000 Actuarial Report for the Houston Firefighter's Relief and Retirement Fund and reproduced in the Fund's 2001 Comprehensive Annual Financial Report (CAFR) has been prepared in accordance with generally accepted actuarial principles and practices. To the best of our knowledge, the information is accurate and fairly presents the actuarial position of the Fund as of July 1, 2000. Actuarial valuations are conducted annually.

All of the tables shown in the Actuarial Section of the CAFR were prepared by Towers Perrin. In preparing the actuarial results, we have relied upon information provided by the Board of Trustees regarding plan provisions, plan participants, plan assets and other matters. Historical information for years prior to 1984 was prepared by the prior actuaries and was not subjected to our actuarial review.

FINANCING OBJECTIVE OF THE FUND

Contribution rates are established that, over time, will remain level as a percentage of payroll. The total contribution rate has been determined to provide for normal cost plus the level percentage of payroll required to amortize the unfunded actuarial accrued liability (or surplus), including the effects of actuarial gains and losses, over 40 years from January 1, 1983. The employee contribution rate is 7.7% of pay. The City contribution rate is the total contribution rate offset by the employee contribution rate, but not less than the statutory minimum of twice the employee contribution rate.

PROGRESS TOWARD REALIZATION OF FINANCING OBJECTIVE

The summary of accrued and unfunded accrued liabilities shown in Section II of the Actuarial Report illustrates the progress toward realization of the financing objective. Certain trend data is also contained in Section II.

DISCLOSURE OF PENSION INFORMATION

Effective for the fiscal year beginning July 1, 1996, the Board of Trustees has adopted compliance with the requirements of Governmental Accounting Standards Board (GASB) Statement No. 25. The information required to be disclosed by GASB No. 25 in the notes to the Fund's financial statements is shown in Sections II and III of the Actuarial Report.

DATA

In preparing the July 1, 2000 actuarial valuation, we relied upon data provided by the Board. As part of this valuation, we tested the data for reasonableness. We did not, however, subject this data to any auditing procedures. The data is reviewed annually by the Fund's auditor.

ACTUARIAL METHODS AND ASSUMPTIONS

The actuarial methods and assumptions described in Section VI of the Actuarial Report were selected by the Board of Trustees based upon our recommendation. The actuarial cost method is the entry age method, with liabilities allocated from date of entry to 30 years of service. The unfunded actuarial accrued liability (surplus), including the effects of actuarial gains and losses, is amortized as a level percentage of payroll ending December 31, 2022. The contribution is increased for interest for one-half of a year to reflect timing of payment. The actuarial value of assets recognizes gains and losses in the market value of assets, based on the difference between the actual rate of return and the assumed rate of return, over five years.

The Board has sole authority to determine the actuarial assumptions. Changes in the actuarial methods and assumptions since the prior valuation are described in Section VI of the report. A study of actuarial experience was last conducted for the years 1983 through 1999. In our opinion, the actuarial assumptions used are appropriate for purposes of the valuation and, in the aggregate, are reasonably related to the experience of the Fund and to reasonable expectations.

PLAN PROVISIONS

The plan provisions used in the actuarial valuation are contained in our report. Changes in the plan provisions since the prior valuation are also contained in our report.

We are available to answer any questions on the information contained in the report, or to provide any additional information you may need.

Sincerely,

Alan S. Taper, F.S.A., M.A.A.A.
Principal

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS *July 1, 2000*

INVESTMENT RETURN

Eight-and-a-half percent per year, net of expenses and supplemental benefits paid to retired members.

PAYROLL GROWTH RATE/INFLATION

Five percent per year, attributable to inflation and work force growth.

INDIVIDUAL SALARY INCREASES

Age	Annual salary increase rate
20	16.6 %
25	9.8
30	5.9
35	4.5
40	4.3
45	4.1
50	3.8
55 and over	3.0

MORTALITY RATES

1994 Group Annuity Mortality Table

	Probability of death within one year after attaining age shown	
Age	Male	Female
20	0.05 %	0.03 %
25	0.07	0.03
30	0.08	0.04
35	0.09	0.05
40	0.11	0.07
45	0.16	0.10
50	0.26	0.14
55	0.44	0.23
60	0.80	0.44

The 1994 Group Annuity Mortality Table is used to determine the mortality assumptions of the plan, including the probability of withdrawal from active service due to death.

WITHDRAWAL RATES

Age	Probability of terminating service (for reasons other than death, disability, or retirement) within one year after attaining age shown
20	1.3 %
25	1.3
30	1.2
35	0.7
40	0.6
45	0.2
50	0.0

The liability for the optional refund of contributions for participants who terminate with at least 10 but less than 20 years of service was determined by assuming that 50% of such participants elect a refund and 50% elect a deferred monthly benefit.

DISABILITY RATES

Age	Probability of becoming totally disabled within one year after attaining age shown
20	0.75 %
25	0.75
30	0.75
35	1.50
40	1.50
45	1.50
50	1.50
55	1.50
60	3.00

The actuarial assumptions and methods were adopted by the Board of Trustees on December 17, 1998, for use in the July 1, 2000, valuation of the Fund.

DISABLED MORTALITY RATES

Age	After becoming disabled, probability of death within one year after attaining age shown — Male	Female
25	2.6 %	1.3 %
35	2.8	2.2
45	3.5	2.3
55	5.3	3.0

PERCENTAGE OF DEATH AND DISABILITY IN LINE OF DUTY

Age	Death	Disability
25	100 %	60 %
35	100	60
45	42	34
55	20	25

One percent of firefighters who become disabled in the line of duty are assumed to be incapable of performing any substantial gainful activity.

RETIREMENT RATES (FOR NON-DROP PARTICIPANTS)

Service	Probability of retiring within one year
20	2.0 %
21	1.0
22 – 23	2.0
24 – 26	3.0
27	4.0
28	5.5
29	7.0
30	10.0

DROP PARTICIPATION RATES

Service	Probability of electing DROP within one year
20	18.0 %
21	9.0
22 – 23	18.0
24 – 26	27.0
27	36.0
28	49.5
29	63.0
30	90.0

DROP duration is assumed to be eight years.

PERCENTAGE MARRIED

Ninety percent married, with husbands assumed to be three years older than wives. No beneficiaries other than spouse.

ACTUARIAL VALUE OF ASSETS

Gains and losses in the market value of assets, based on the difference between the actual rate of return and the assumed rate of return, are recognized in the actuarial value over five years.

ACTUARIAL COST METHOD

Entry Age Method, with liabilities allocated from date of entry to 30 years of service. The Unfunded Actuarial Accrued Liability (Surplus), including the effects of actuarial gains and losses, is amortized as a level percentage of payroll ending December 31, 2022. The contribution is increased for interest for one-half of a year to reflect timing of payment.

CHANGES IN ACTUARIAL METHODS AND ASSUMPTIONS SINCE THE PRIOR YEAR

The actuarial methods and assumptions used in this valuation are the same as those used in prior valuations except for changes in the individual pay increase rates, termination rates, DROP participation and retirement rates, and the average DROP duration.

ACTIVE MEMBER VALUATION DATA

Valuation date	Number	Average age	Average years of service	Annual payroll (millions)	Annual average salary	Percentage increase in average salary
9-1-72	1,930	34.5	N/A	$22.5	$11,676	N/A
1-1-76	2,262	33.0	9.5	34.6	15,318	31.2 %
1-1-78	2,158	33.5	10.0	40.2	18,639	21.7
1-1-80	2,543	32.5	9.5	49.9	19,646	5.4
1-1-82	2,942	32.5	9.5	73.8	25,100	27.8
7-1-84	3,204	34.0	10.5	86.1	26,863	7.0
7-1-86	3,167	33.7	10.7	99.6	31,455	17.1
7-1-87	3,164	35.3	12.4	99.8	31,554	0.3
7-1-88	3,023	36.1	13.1	96.1	31,774	0.7
7-1-89	2,967	36.7	13.8	98.1	33,061	4.1
7-1-90	2,926	37.1	14.1	97.6	33,367	0.9
7-1-91	2,969	37.6	14.3	104.4	35,147	5.3
7-1-92	2,913	38.3	15.1	102.4	35,139	0.0
7-1-93	2,958	38.6	15.3	119.5	40,400	15.0
7-1-94	2,945	39.2	15.5	120.1	40,775	0.9
7-1-95	3,084	39.2	15.3	127.0	41,173	1.0
7-1-96	2,887	39.4	15.4	124.1	42,969	4.4
7-1-97	2,930	39.0	14.8	128.2	43,751	1.8
7-1-98	2,582	38.3	13.7	115.0	44,925	2.7
7-1-99	2,373	37.9	13.0	110.3	46,483	3.5
7-1-00	2,107	37.6	12.4	100.2	47,564	2.3

Data for valuation dates on or after July 1, 1996, is for participants currently accruing benefits (excludes current DROP participants).

MEMBER DATA *(continued)*

RETIREES, BENEFICIARIES, AND DROP PARTICIPANTS ADDED TO AND REMOVED FROM ROLLS

Year ended	Added to rolls No.	Added to rolls Annual allowances	Removed from rolls No.	Removed from rolls Annual allowances	Rolls — end of year** No.	Rolls — end of year** Annual allowances	Percentage increase in annual allowances	Average annual allowances
12-31-77	98	$ 788,117	17	$ 39,925	745	$ 3,708,409	27.0 %	$ 4,978
12-31-78	72	718,977	23	75,501	794	4,293,999	15.8	5,408
12-31-79	67	719,148	21	83,100	840	5,008,309	16.6	5,962
12-31-80	33	472,890	23	83,846	850	5,497,822	9.8	6,468
12-31-81	61	861,880	38	158,666	873	6,096,636	10.9	6,983
12-31-82	63	643,716	26	170,660	910	6,771,929	11.1	7,442
12-31-83	54	604,566	39	206,704	925	7,402,610	9.3	8,003
6-30-84*	41	619,017	17	98,457	949	3,951,927	6.8	8,328
6-30-85	75	968,380	53	290,481	971	8,431,864	6.7	8,684
6-30-86	54	752,428	38	242,932	987	9,550,326	13.3	9,676
6-30-87	76	1,101,011	33	234,719	1,030	10,521,660	10.2	10,215
6-30-88	121	2,002,328	38	310,920	1,113	12,754,223	21.2	11,459
6-30-89	74	1,306,006	42	299,274	1,145	14,031,647	10.0	12,255
6-30-90	111	1,996,310	37	287,713	1,219	16,428,355	17.1	13,477
6-30-91	129	1,784,000	38	401,000	1,310	17,888,000	8.9	13,655
6-30-92	78	1,588,000	44	401,000	1,344	19,866,000	11.1	14,781
6-30-93	82	1,717,000	48	585,000	1,378	21,516,000	8.3	15,614
6-30-94	112	2,006,000	58	660,000	1,432	23,297,000	8.3	16,269
6-30-95	87	1,728,000	28	353,000	1,491	25,142,000	7.9	16,863
6-30-96	219	6,381,000	56	660,000	1,654	31,368,000	24.8	18,965
6-30-97	176	4,914,000	37	487,000	1,793	36,570,000	16.6	20,396
6-30-98	429	12,669,000	43	477,000	2,179	49,451,000	35.2	22,694
6-30-99	335	9,325,000	37	726,000	2,477	59,534,000	20.4	24,035
6-30-00	349	9,615,000	70	1,160,000	2,756	72,437,000	21.7	26,283

** Six-month period*

*** DROP participants are included in the rolls.*

ACTUARIALLY DETERMINED VS. ACTUAL CITY CONTRIBUTION RATES AS A PERCENTAGE OF PAYROLL

Valuation date	Actuarially calculated city contribution rate*	Actual city contribution rate
1-1-76	32.8 %	18.0 %
1-1-78	34.7	18.0
1-1-80	21.7	18.0
1-1-82	16.2	18.0
7-1-84	15.5	16.2
7-1-84	15.7	15.8
7-1-84	15.7	15.7
7-1-86	14.7	15.0
7-1-87	13.0	15.0
7-1-88	13.3	15.0
7-1-89	12.9	15.0
7-1-90	13.2	15.0
7-1-91	15.4	15.0**
7-1-92	15.3	15.3
7-1-93	15.6	15.0
7-1-94	14.9	15.0
7-1-95	13.4***	15.0
7-1-96	14.1***	15.4
7-1-97	14.9***	15.4
7-1-98	11.5	15.4
7-1-99	11.0	15.4
7-1-00	9.9***	15.4

Since 1986, the Board has requested the actuary to perform a valuation annually. These valuations are used, in large part, for management purposes. The authority for adoption of a valuation, for purposes of determining the City's contribution rate, rests with the Board, within the applicable provisions of the governing statutes.

** Before application of statutory minimum contribution*

*** Excluding additional contribution due to settlement of lawsuit*

**** Average for the year*

SOLVENCY TEST AND ANALYSIS OF FINANCIAL EXPERIENCE *July 1, 2000*

SOLVENCY TEST *(dollars in thousands)*

Valuation date*	Active member contributions (without interest)	Actuarial accrued liability for: Retirees, beneficiaries, DROP, and vested terminated members	Actuarial accrued liability for: Active members (city-financed portion)	Actuarial value of assets	Percentage of actuarial accrued liability covered by assets		
		(1)	(2)	(3)	(1)	(2)	(3)
7-1-84	$ 49,367	$ 106,204	$ 93,480	$ 228,032	100%	100%	78%
7-1-86	62,253	133,219	201,137	401,271	100	100	100
7-1-87	68,057	140,330	207,484	453,322	100	100	100
7-1-88	71,001	162,085	206,926	478,460	100	100	100
7-1-89	74,324	176,865	222,242	543,898	100	100	100
7-1-90	77,472	203,190	231,809	598,814	100	100	100
7-1-91	82,301	245,391	293,322	642,499	100	100	100
7-1-92	87,254	270,511	312,358	694,080	100	100	100
7-1-93	92,709	292,558	373,375	762,794	100	100	100
7-1-94	97,583	318,222	377,206	831,741	100	100	100
7-1-95	103,552	342,388	406,387	912,417	100	100	100
7-1-96	101,752	436,730	450,861	1,024,569	100	100	100
7-1-97	101,915	524,677	501,638	1,183,817	100	100	100
7-1-98	121,049	751,868	392,926	1,347,414	100	100	100
7-1-99	104,670	992,221	373,706**	1,538,487	100	100	100
7-1-00	90,670	1,177,484	321,196	1,726,302	100	100	100

** Information for years prior to 1984 is not available.*

*** Reflects amended numbers*

ANALYSIS OF FINANCIAL EXPERIENCE *(dollars in thousands)*

	Year ended July 1, 1996	Year ended June 30, 1997	Year ended June 30, 1998	Year ended June 30, 1999	Year ended July 1, 2000
Gain (or Loss) During Year From Financial Experience					
From Liability Sources	$ (4,536)	$ (6,027)	$ (9,126)	$ (30,772)	$ 21,667
From Asset Sources	14,921	30,894	7,467	(11,189)	3,920
Total	10,385	24,867	(1,659)	(41,961)	25,587
Non-Recurring Items*	(53,550)	0	(11,082)	(34,045)	(15,950)
Composite Gain (or Loss) During Year	$ (43,165)	$ 24,867	$ (12,741)	$ (76,006)	$ 9,637

** Non-recurring items reflect changes in actuarial assumptions, methods, and plan provisions. Changes that took effect September 1, 1995, November 1,1995, and November 1, 1996, were reflected in the year ended June 30, 1996. The November 1, 1996, plan change resulted in a $17,657 loss. Although this change occurred after the year ended June 30, 1996, it was reflected here in order to be consistent with the July 1, 1996, valuation report.*

SUMMARY OF PLAN PROVISIONS *July 1, 2000*

MEMBERSHIP

Any firefighter who has not reached the age of 36 at the time he or she first enters employment shall automatically become a participant in the Fund upon completing the training period. Before October 1, 1990, the eligibility age was 31. Before 1984, participants entered the Fund on January 1 or July 1.

AVERAGE SALARY

The average of the highest 36 months of salary (or 78 pay periods), including base pay and overtime, before reduction for pre-tax employee contributions and salary deferrals.

STANDARD SERVICE PENSION

Eligibility — 20 years of service.

Benefit

- For retirement on or after November 1, 1997, 50% of average monthly salary, plus 3% of average monthly salary per year of service in excess of 20 years.
- For retirement on or after November 1, 1996, and prior to November 1, 1997, 48.334% of average monthly salary, plus 2.834% of average monthly salary per year of service in excess of 20 years.
- For retirement on or after November 1, 1995, and prior to November 1, 1996, 46.667% of average monthly salary, plus 2.667% of average monthly salary per year of service in excess of 20 years.
- For retirement on or after September 1, 1991, and prior to November 1, 1995, 45% of average monthly salary, plus 2.5% of average monthly salary per year of service in excess of 20 years, up to 30 years, plus 1.0% of average monthly salary in excess of 30 years.
- For retirement on or after September 1, 1989, and prior to September 1, 1991, 45% of average monthly salary, plus 2.5% of average monthly salary per year of service in excess of 20 years.
- For retirement on or after September 1, 1987, and prior to September 1, 1989, 45% of average monthly salary, plus 2% of average monthly salary per year of service in excess of 20 years.
- For retirement on or after July 1, 1986, and prior to September 1, 1987, 40% of average monthly salary, plus 2% of average monthly salary per year of service in excess of 20 years.
- For retirement on or after January 1, 1970, and prior to July 1, 1986, 35% of average monthly salary, plus 3% of average monthly salary per year of service in excess of 20 years, up to 25 years, plus 1% of average salary in excess of 25 years.

Maximum

- For retirement on or after September 1, 1991, 80% of average monthly salary.
- For retirement on or after September 1, 1989, and prior to September 1, 1991, 70% of average monthly salary.
- For retirement on or after September 1, 1987, and prior to September 1, 1989, 65% of average monthly salary.
- For retirements on or after January 1, 1970, and prior to September 1, 1987, 60% of average monthly salary.

ALTERNATE SERVICE PENSION

Eligibility — Firefighters who became participants prior to September 1, 1987, and who attain age 50 with 20 years of service will receive the greater of the standard or alternate pension.

Benefit — 50% of average monthly salary plus 1% of average monthly salary per year of service after becoming eligible to retire on an alternate pension.

Maximum — 65% of average monthly salary.

SUPPLEMENTAL BONUS CHECK

Supplemental payments totaling up to $4 million will be payable on a prorated basis determined by the Board of Trustees to all retirees and survivors if all of the three following conditions are met:

- Fund remains fully funded;
- Rate of return on the Fund's investments exceeds 9.25% for the previous fiscal year; and
- Payment of such benefit does not increase the city's contribution rate.

DEFERRED RETIREMENT OPTION PLAN (DROP)

Eligibility — 20 years of service.

Benefit — Effective July 1, 2000, eligible participants may elect to participate in the DROP for up to 10 years or until they leave active service. The member's standard or alternate service pension (whichever is greater) will be calculated based on service and earnings at the time the DROP is elected.

A notional account will be maintained for each DROP participant. This account will be credited with the following amounts while the member is a participant of the DROP:

- The member's monthly retirement pension, including applicable cost-of-living adjustments;
- The member's contribution to the Retirement Fund; and
- Investment earnings/losses at the rate of the Retirement Fund's earnings/losses averaged over a five-year period.

A benefit equal to the DROP account balance would be paid at the time the member leaves active service. The payment would be made as a single lump sum or as three annual installments, if the member chooses.

Effective on July 1, 2000, a three-year Back-DROP is available for all eligible participants. The DROP account would be recalculated based on what the account balance would have been had the participant elected the DROP up to 3 years earlier than he/she actually did. The initial DROP entry date cannot be backdated prior to September 1, 1995, or prior to 20 years of credited service, and must be on the first of the month selected.

The monthly benefit for a participant at actual retirement will increase 1% for every year of DROP participation (phased in at 0.5% effective September 1, 2000, and 0.5% effective September 1, 2001).

If a DROP participant suffers an on-duty disability resulting in the inability to perform any gainful activity or dies in the line of duty, the death or disability annuity benefit would be calculated as though the participant had not entered the DROP. In addition, the DROP account would be payable to the participant or beneficiary.

SERVICE-CONNECTED DISABILITY PENSION

Eligibility — No age or service requirements.

Benefit — 50% of average monthly salary (occupational), or service pension if greater and eligible. Firefighters who are not capable of performing any substantial gainful activity will receive 75% of average monthly salary (general), or service pension if greater and eligible.

NONSERVICE-CONNECTED DISABILITY PENSION

Eligibility — No age or service requirements.

Benefit — 25% of average monthly salary, plus 2.5% of average monthly salary per year of service.

Maximum — 50% of average monthly salary, or service pension if greater and eligible.

DEFERRED VESTED PENSION

Eligibility — At least 10 but less than 20 years of service.

Benefit — 1.7% of average monthly salary per year of service, payable beginning at age 50, or optional refund of contributions with interest at 5%, not compounded.

DEATH BENEFITS

Payable as specified below if survived by a spouse, dependent children or dependent parents. Effective November 1, 1997, dependent children can continue to receive benefits between the ages of 18 and 22 if they are in college, if an election is made by the firefighter.

- **Nonservice-connected** — Monthly benefit that would have been payable had the participant retired for nonservice-connected disability on the date of his or her death, or service pension if greater.
- **Service-connected** — 100% of average monthly salary.
- **Post-retirement** — Monthly benefit that was payable to the participant prior to his or her death. Effective July 1, 1998, a "graded" post-retirement death benefit is payable to a surviving spouse if the retiree was not married at the time of retirement. This "graded" benefit is equal to 20% of the post-retirement death benefit for each year of marriage to a maximum of 100% after five years of marriage.
- **Lump sum** — A one-time $5,000 lump-sum death benefit for any active or retired firefighter. This benefit applies to active members, current retirees, and disabled participants.

ADDITIONAL BENEFIT

Effective on or after July 1, 2000, an extra monthly benefit of $125 ($150 effective July 1, 2001) is payable for life to any retired or disabled member or to an eligible survivor of a deceased member. This benefit is not subject to the post-retirement adjustment.

EXCESS BENEFIT

Benefit equal to the excess of any member's standard service pension benefit over the limit imposed by Section 415 of the Internal Revenue Service code.

ADJUSTMENTS

- Prior to October 1, 1990 — Pensions adjusted each year based on changes in the Consumer Price Index for All Urban Consumers (CPI-U), but not below original amount or above original amount, increased 3% each year, not compounded.

  Pension adjustments for participants who retire after March 1, 1982, begin at age 55.

  Pension adjustments begin immediately for participants whose benefits become payable on or after July 1, 1986, and are based upon 30 or more years of service.

- On or after October 1, 1990, and prior to November 1, 1997 — Pensions adjusted each year based on changes in the CPI-U. The adjustment is based on the amount of benefits payable at the time of adjustment. The maximum annual increase shall be 3% of the benefits payable at the time of adjustment.

  Pension adjustments begin immediately for participants whose benefits become payable on or after July 1, 1986, and are based upon 30 or more years of service.

  On or after November 1, 1997 — Pensions adjusted each year at a fixed rate of 3%. The adjustment is based on the amount of benefits payable at the time of adjustment.

  Pension adjustments for participants who retire or terminate with a vested benefit after March 1, 1982, begin at age 48, effective October 1, 2000. Pension adjustments begin immediately for participants who become disabled and cannot perform any substantial gainful activity (current and future) and who qualify for general on-duty disability benefits. Participants whose benefits become payable on or after July 1, 1986, and are based upon 30 or more years of service are also eligible for pension adjustments to begin immediately.

CONTRIBUTION RATES

Members — 7.7% of salary. Refund of contributions without interest in the event of termination before 10 years of service.

City — Beginning in 1983, the rate required to fund the Retirement Fund on an actuarial reserve basis. However, a minimum contribution of twice the employee contribution rate is required by the governing statute.

CONTRIBUTION REFUNDS

Members are entitled to a refund of their contributions upon separation from the Fire Department.

- Members with less than 10 years of service are entitled to a full refund of their contributions to the Fund.
- Members with at least 10 but less than 20 years of service are entitled to a full refund of their contributions, with interest at 5%, not compounded.

FORM OF PAYMENT

Normal form of payment is a single life annuity for unmarried members and an unreduced joint and survivor annuity for married members.

A more detailed description of plan provisions is available at the Houston Firefighters' Relief and Retirement Fund office.

CHANGES IN PLAN PROVISIONS SINCE THE PRIOR VALUATION

Plan provisions reflected in the July 1, 2000, valuation are the same as those in the prior valuation except for the following changes:

- The additional benefit paid to all retirees and beneficiaries increased from $100 to $150 per month. This benefit does not increase with COLA and is phased in over two years. ($25/month increase July 1, 2000; additional $25/month increase July 1, 2001).*

- Participants are allowed to remain in the DROP for up to 10 years (effective on July 1, 2000). The prior maximum DROP duration was seven years.

- Under the "revised DROP account method," the DROP account can be recalculated based on what the account balance would have been had the participant elected the DROP up to three years earlier than he or she actually did, provided the participant had 20 years of pension service on the Back-DROP effective date and the date is on or after inception of DROP (September 1, 1995). The ongoing monthly annuity is based on the accrued benefit at the revised DROP date with COLA increases if appropriate. Effective on July 1, 2000.

- In the case of on-duty death or on-duty general disability of a participant with a DROP account, the death or disability annuity benefit is calculated as though the participant had not entered the DROP. In addition, the DROP account is payable to the participant or beneficiary. Effective on July 1, 2000.

- The maximum supplemental bonus was increased from $4 million to $5 million, effective with January 2001 check.

- The exiting payroll bonus, the one-time payment upon retirement, death, or disability, was increased from $4,000 to $5,000. Effective on July 1, 2000.

- A proportional retirement program was implemented between the Houston municipal, police, and fire pension funds, allowing for combined service credit from two or more City of Houston pensions.

- The participant's monthly benefit at actual retirement is increased 1% for every year of DROP participation. The additional benefit accrual is applied to his or her original annuity upon actual retirement but is not added to payments into the DROP account. This change is phased in over two years. Effective September 1, 2000.*

- The current 3% COLA begins for all participants at the age of 48 effective October 1, 2000. The COLA currently begins at the earlier of age 50 and 30 years of service.*

** Future plan changes effective after June 30, 2001, have been recognized in determining forecast results only.*

Section 5

Statistical Section (unaudited)

REVENUES BY SOURCE *(dollars in thousands)* — ACCRUAL BASIS

Fiscal year ended June 30,	Employee contributions	Employer contributions	Employer contributions as a percentage of annual covered payroll	Investment income (loss)*	Total
1989	$ 7,215	$ 14,418	15.0 %	$ 43,481	$ 65,114
1990	7,492	14,942	15.0	43,736	66,170
1991	7,707	15,335	15.0	19,168	42,210
1992	8,733	17,549	15.0	40,595	66,877
1993	8,410	16,716	15.0	48,959	74,085
1994	8,715	17,670	15.3	105,088	131,473
1995	8,811	17,600	15.0	46,991	73,402
1996	9,418	18,847	15.0	95,985	124,250
1997	10,156	20,312	15.4	253,901	284,369
1998	10,875	21,720	15.4	173,807	206,403
1999	12,043	24,084	15.4	76,916	113,043
2000	12,317	24,645	15.4	159,214	196,176
2001	**12,019**	**24,032**	**15.4**	**(24,229)**	**11,822**

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

** Investment income amounts since 1997 are net amounts based on market value. Amounts for 1989 through 1996 were calculated on a cost basis.*

EXPENSES BY TYPE *(dollars in thousands)* — ACCRUAL BASIS

Fiscal year ended June 30,	Benefit payments*	Professional and administrative expenses	Contribution refunds	Total
1989	$ 13,693	$ 889	$ 916	$ 15,498
1990	15,361	878	665	16,904
1991	17,598	1,074	451	19,123
1992	20,169	1,220	206	21,595
1993	21,318	1,197	296	22,811
1994	22,935	1,456	293	24,684
1995	24,883	1,455	100	26,438
1996	26,200	1,833	494	28,527
1997	27,377	2,178	658	30,213
1998	43,453	2,461	462	46,376
1999	30,899	2,966	317	34,181
2000	35,502	3,168	187	38,857
2001	**47,875**	**4,102**	**299**	**52,277**

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

** The amount of benefit payments for the fiscal year ended 1998 includes $8 million accrued for two supplemental payments to retirees and $7.1 million for the one-time, lump-sum benefit paid in November 1997 to retirees and beneficiaries.*

BENEFIT EXPENSES BY TYPE *(cash basis)*

Year ending	DROP distributions	Supplemental benefit pmt.	Monthly pension benefits: Service retirees	Deferred retirees*	On-duty disabilities	Off-duty disabilities	Survivors	Refunds of contributions due to: Death	Termination	Total
1992	$ —	—	$ 12,720,546	$ —	$ 2,275,767	$ 1,454,999	$ 3,353,414	$ 0	$ 206,000	$ 20,010,726
1993	—	—	13,906,130	—	2,365,789	1,512,554	3,694,521	0	296,000	21,774,994
1994	—	—	15,092,014	—	2,398,959	1,533,760	4,027,048	55,816	237,000	23,344,597
1995	—	—	16,904,825	—	2,606,972	1,666,753	4,391,192	0	100,000	25,669,742
1996	49,457	—	17,198,964	—	2,642,861	1,674,072	4,838,834	36,238	458,000	26,898,426
1997	385,952	—	17,519,638	—	2,686,301	1,709,433	5,201,535	0	291,000	27,793,859
1998	362,355	—	18,657,516	—	2,801,769	1,645,250	5,521,731	0	83,896	29,072,517
1999	788,368	8,000,000	17,424,507	—	2,776,862	1,605,351	5,661,787	0	316,157	36,573,032
2000	1,887,631	—	21,939,996	333,084	3,215,798	1,741,724	7,243,920	14,305	186,054	36,562,512
2001	**5,426,224**	**4,965,820**	**25,398,338**	**367,503**	**3,236,816**	**1,623,357**	**7,702,694**	**0**	**152,013**	**48,872,765**

** Reporting of deferred retirees began in 2000.*

RETIRED MEMBERS BY TYPE OF BENEFIT *Year Ended June 30, 2001*

Amount	Total number of benefit recipients	Service	Disability	Widows	Children	Deferred (receiving benefits)	Deferred–inactive* (not yet receiving benefits)
$ 1 – 200	4	0	0	0	3	1	0
201 – 400	58	0	0	9	7	42	1
401 – 600	34	0	3	7	7	17	8
601 – 800	56	3	2	32	8	11	4
801 – 1,000	67	18	6	34	8	1	1
1,001 – 1,200	106	33	19	53	1	0	0
1,201 – 1,400	144	62	34	47	1	0	0
1,401 – 1,600	201	90	62	48	1	0	0
1,601 – 1,800	164	96	38	28	2	0	0
1,801 – 2,000	192	126	35	31	0	0	0
Over 2,000	636	499	42	93	2	0	0
Total:	**1,662**	**927**	**241**	**382**	**40**	**72**	**14**

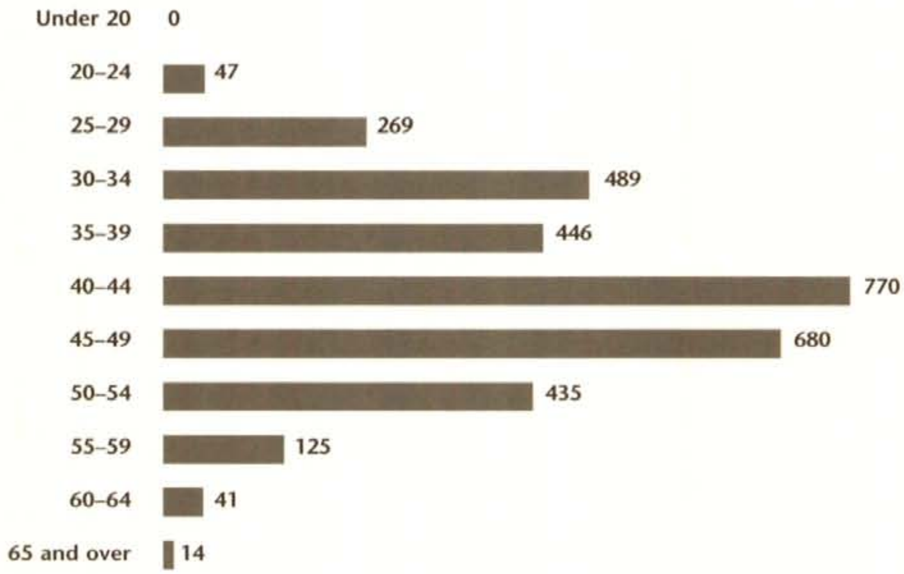
** Deferred–inactive members are not yet included in the total columns, as they are not yet receiving benefits.*

AVERAGE BENEFIT PAYMENTS FOR SERVICE RETIREMENTS

Retirement effective dates July 1, 1991 through June 30, 2001	Years of credited service 10 – 25	 26 – 30	 Over 30
Period 7-1-91 through 6-30-92			
Number of Service Retirements	25	8	9
Average Monthly Benefit	$1,519	$2,454	$3,343
Period 7-1-92 through 6-30-93			
Number of Service Retirements	21	7	12
Average Monthly Benefit	1,639	2,166	2,938
Period 7-1-93 through 6-30-94			
Number of Service Retirements	21	10	11
Average Monthly Benefit	1,893	2,428	2,841
Period 7-1-94 through 6-30-95			
Number of Service Retirements	19	7	11
Average Monthly Benefit	1,616	2,535	2,845
Period 7-1-95 through 6-30-96			
Number of Service Retirements	11	2	5
Average Monthly Benefit	1,642	4,524	2,730
Period 7-1-96 through 6-30-97			
Number of Service Retirements	10	1	0
Average Monthly Benefit	1,930	3,241	0.00
Period 7-1-97 through 6-30-98			
Number of Service Retirements	12	6	2
Average Monthly Benefit	2,001	2,514	2,709
Period 7-1-98 through 6-30-99*			
Number of Service Retirements	6	11	7
Average Monthly Benefit	1,808	2,647	3,308
Period 7-1-99 through 6-30-00			
Number of Service Retirements	18	15	11
Average Monthly Benefit	2,000	3,016	3,549
Period 7-1-00 through 6-30-01			
Number of Service Retirements	22	32	36
Average Monthly Benefit	1,999	2,295	3,159
Summary			
Period 7-1-91 through 6-30-01			
Number of Service Retirements	**165**	**99**	**104**
Average Monthly Benefit (based on averages)	**$1,805**	**$2,782**	**$2,742**

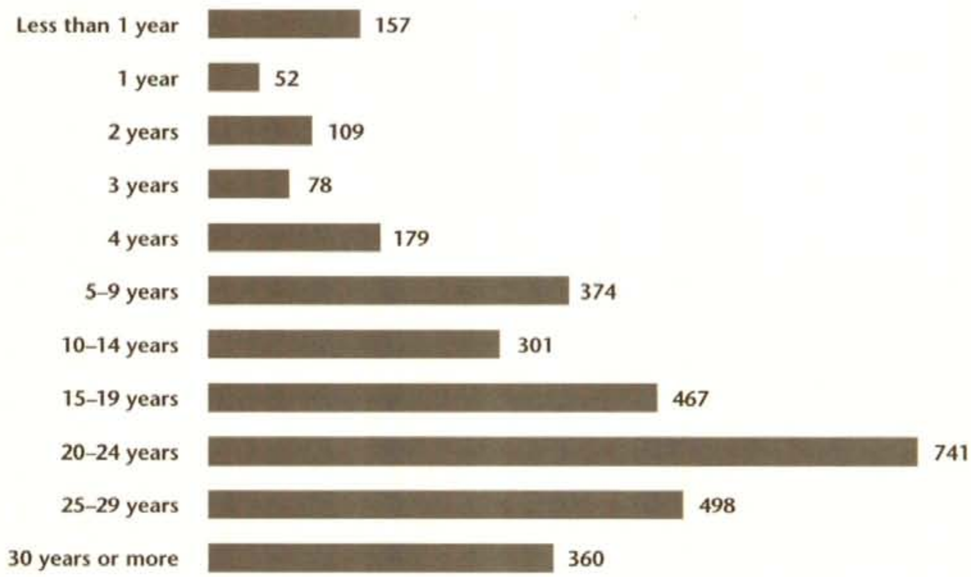
** Reflects amended numbers*

AGE DISTRIBUTION OF ACTIVE FIREFIGHTERS *June 30, 2001*



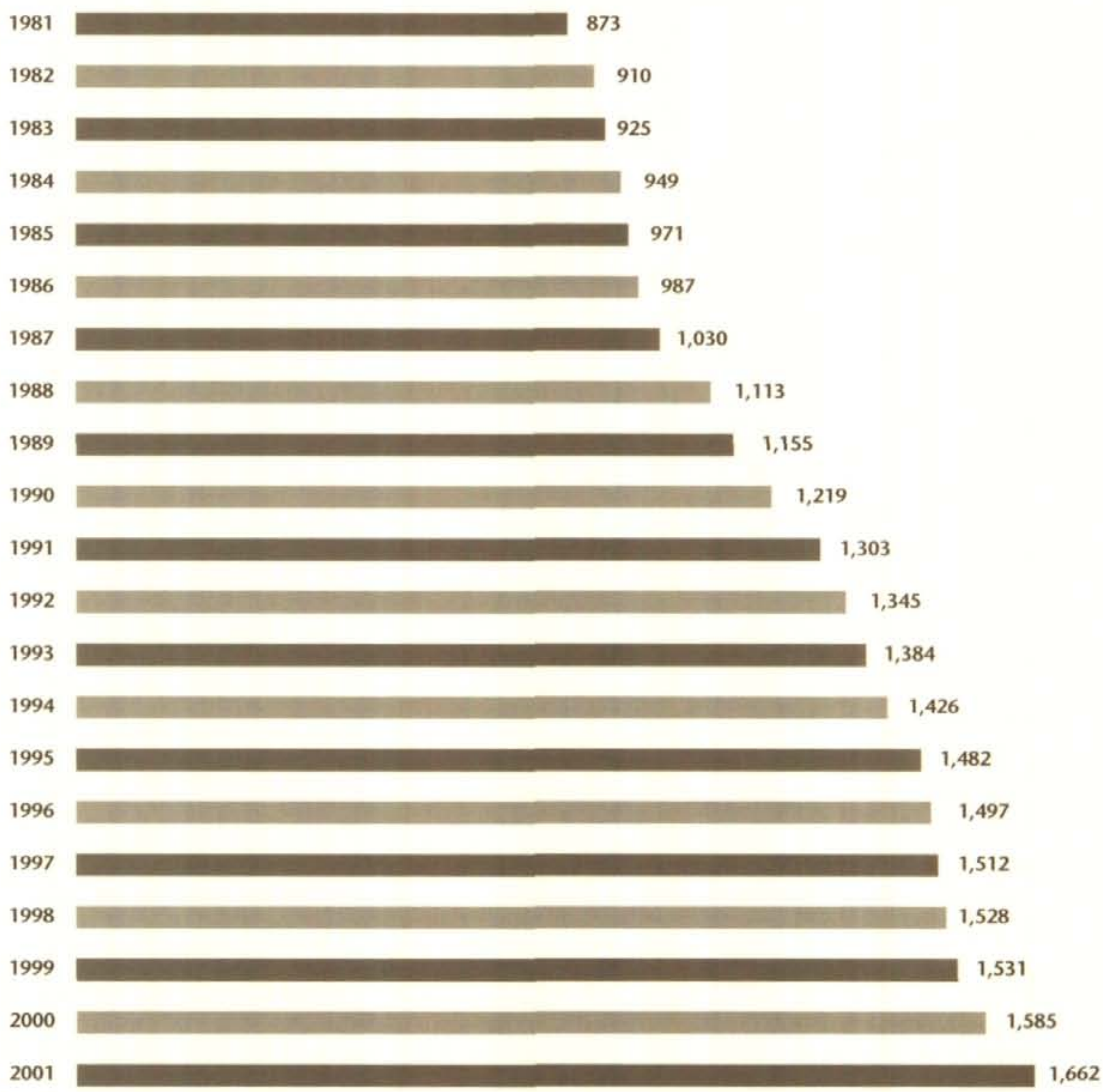
Total Firefighters 3,316

YEARS OF SERVICE FOR ACTIVE FIREFIGHTERS *June 30, 2001*

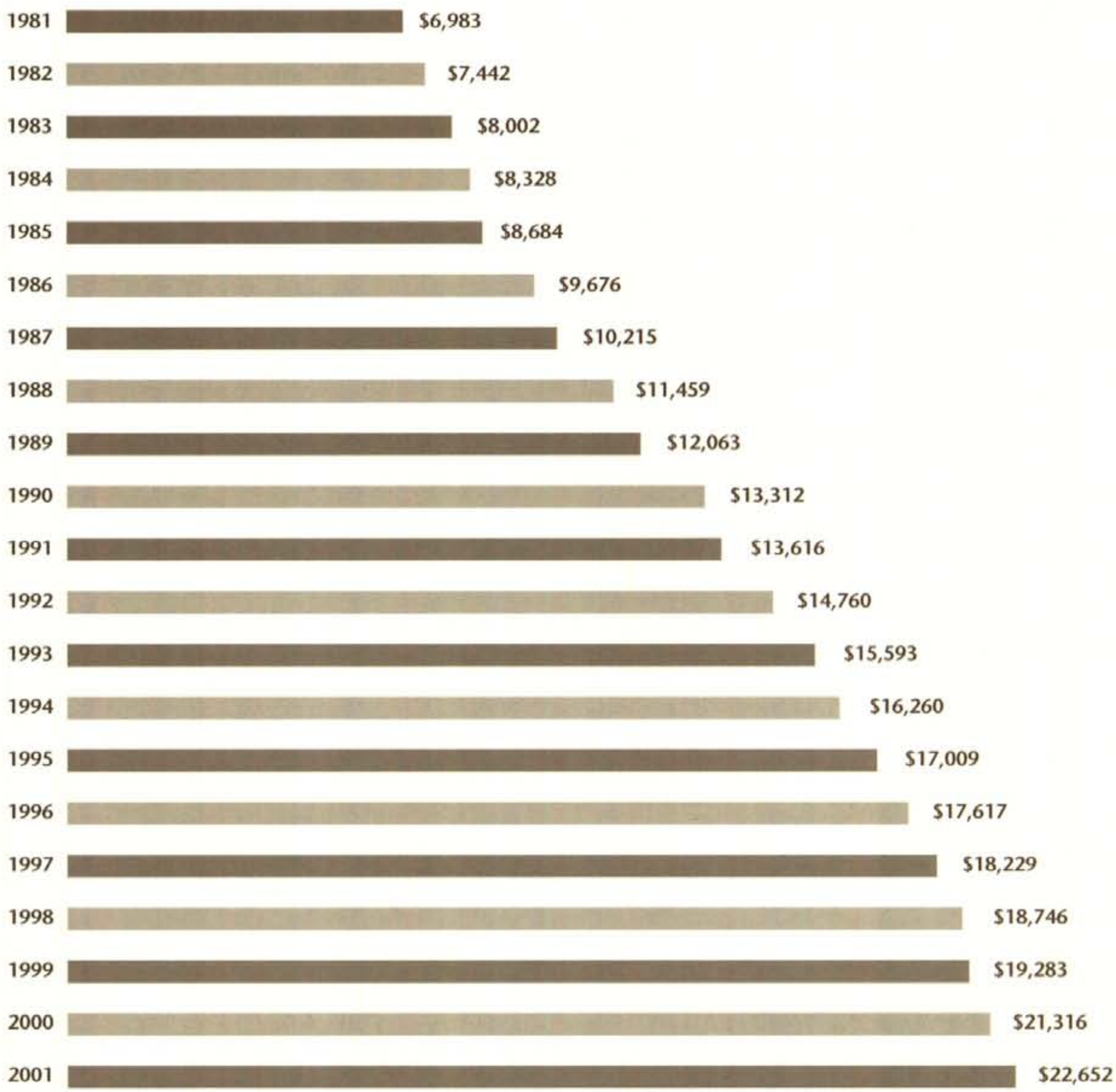


Total Firefighters 3,316

NUMBER OF RETIREES AND BENEFICIARIES RECEIVING MONTHLY BENEFIT PAYMENTS *June 30, 2001*



AVERAGE ANNUAL RETIREE BENEFIT *June 30, 2001*



BREAKDOWN OF DROP PARTICIPANTS *June 30, 2001*

		Years of service		
		20–25	26–30	Over 30
1996	Number of DROP Participants	31	51	68
	Average Monthly Salary	$1,924	$2,487	$3,233
	Exited	0	1	1
1997	Number of DROP Participants	45	89	4
	Average Monthly Salary	$2,047	$2,751	$3,261
	Exited	10	3	1
1998	Number of DROP Participants	200	186	5
	Average Monthly Salary	$2,308	$2,909	$3,271
	Exited	5	9	3
1999	Number of DROP Participants	172	69	0
	Average Monthly Salary	$2,219	$3,011	$3,557
	Exited	5	12	7
2000	Number of DROP Participants	263	37	1
	Average Monthly Salary	$2,268	$3,235	$4,531
	Exited	15	12	14
2001	Number of DROP Participants	239	21	1
	Average Monthly Salary	$2,279	$3,396	$7,800
	Exited	22	35	40
Total	Number of DROP Participants	950	453	79
	Average Monthly Salary	$2,174	$2,965	$4,276
	Exited	57	72	66

Number of DROP participants for each year includes amended numbers.

GLOSSARY

Some of these terms are used in the Investment Section, beginning on page 40. Others are used throughout this report. Definitions are provided as they relate to the Houston Firefighters' Relief and Retirement Fund.

Accrual Basis of Accounting
Accounting method in which income and expense transactions are recognized when they are earned or incurred rather than when they are settled. The Fund uses this method of accounting.

Asset
Anything having commercial or exchange value that is owned by the Fund.

Book Value
The value (cost) at which an asset is carried on a balance sheet.

Cash Basis of Accounting
Accounting method in which revenue and expense transactions are recognized when they are paid for (settled), rather than when they are incurred.

Compound or Compounding
The process of calculating and adding current interest to the principal and interest of a previous period(s). For example, compound interest is the interest earned on the principal plus interest earned earlier. If $100 is deposited in a bank account that earns 10% interest, the account will have $110 at the end of the first year and $121 at the end of the second year. The extra $1, earned on the $10 interest from the first year, is the compound interest. This example assumes interest is compounded annually. Interest can also be compounded on a daily, quarterly, or other-time basis.

Compound Return
Profit on an investment, usually expressed as an annual percentage rate.

Diversification
Spreading of risk by putting assets in several different categories of investments, such as stocks, bonds, cash, high yield, and alternatives. Further diversification is accomplished by using different investment managers with different management styles within each category.

Fund Equity (Stock) Investments
The portion of the total Fund that is invested in ownership interest in corporations, usually in common stock.

Fund Fixed-Income (Bond) Investments
The portion of the total Fund that is invested in debt instruments that usually pay a fixed rate of interest or dividends over a specified period of time — for example, corporate or government bonds.

Institutional Investor Organization
An organization that invests and trades large volumes of securities (stocks and bonds). Some examples are retirement funds, insurance companies, banks, mutual funds, and college endowment funds. Typically, between 50% and 70% of the daily trading at the New York Stock Exchange is on behalf of institutional investors across the country. The Fund is an institutional investor.

The Lehman Universal Index
The union of the Lehman Aggregate Index, the Lehman U.S. High Yield Index, the Lehman 144-A Index, the Lehman Eurodollar Index, and the Lehman Emerging Markets Index. The Aggregate Index covers the U.S. investment-grade, fixed-rate market and includes government and corporate bonds, agency mortgage pass-through securities, and asset-backed issues. The High Yield Index covers the universe of dollar-denominated, fixed-rate, noninvestment-grade debt. The 144-A Index includes fixed-rate, investment-grade, non-convertible, dollar-denominated securities issued under Rule 144-A. The Eurodollar Index encompasses non-SEC registered, as well as global investment-grade, fixed-rate U.S. dollar-denominated issues. The Emerging Markets Index includes dollar-denominated local, corporate, sovereign, and Brady bonds of emerging-markets countries.

Liability
Any debt of the Fund giving a creditor a claim on the assets of the Fund (i.e., the money has not yet been paid, but the event causing the obligation has already occurred).

Market Value
Estimated selling price of an asset on the open market at a specified point in time.

Mean Return
The average return.

Median Return
The midpoint return when all returns are ranked from highest to lowest — and there is an equal number of returns above and below.

Median Total Fund Return
The midpoint return for all assets in all plans in a universe of plans.

Merrill Lynch 90-Day Treasury Bill Index
Generally accepted as a proxy for the return on a risk-free asset, this index links the monthly returns for 90-day U.S. Treasury Bills.

MSCI All Country World Ex-US Index
MSCI (Morgan Stanley Capital International) has 51 country indices and several regional indices, which are formed by aggregating the country indices. MSCI All Country World Ex-US Index includes all countries excluding the United States. MSCI equity indices are constructed in a consistent manner across all countries, encompassing a total of 23 developed markets and 28 emerging markets. The consistent approach to index construction ensures the proper representation of the countries' underlying industry distribution and market capitalization, and allows investors to accurately compare equity performance across the markets, regions, and sectors. MSCI calculates indices by applying full market capitalization weights (price multiplied by the number of shares outstanding) for the constituent securities. MSCI calculates regional indices using GDP weightings for countries.

Portfolio
Combined holding of more than one stock, bond, or other asset by an individual or institutional investor.

Portfolio Management
The process of selecting, monitoring, and changing assets within a portfolio or account to meet defined investment objectives. For the Fund, this management approach describes a universe of assets, determines how assets are to be distributed among security types such as stocks and bonds, and determines a risk/return relationship for investments.

Receivables
Assets to which the Fund is entitled — but has not received.

Russell 3000 Index
Measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market. The Russell 3000 Index is comprised of stocks within the Russell 1000 and the Russell 2000 Indices.

SEI
A service used by the Fund from Fiscal Year 1978 to 1988 to measure total Fund investment return against a universe of other funds that maintains similar investment portfolios. SEI maintains a database of investment portfolio returns for corporate, public, multi-employer, and foundation investment portfolios.

Standard Deviation
A statistical measure of the degree to which an individual value in a probability distribution tends to vary from the mean of the distribution. Standard deviation quantifies the relationship between risk and return, and is often applied in modern portfolio management.

Total Fund
All the investments of the Fund, including stocks, bonds, cash equivalents, high-yield bonds, and alternative investments.

Trust Universe Comparison Service (TUCS)
A service used by the Fund starting in Fiscal Year 1989 to measure the total Fund investment return against a universe of other funds with similar investment portfolios. TUCS maintains a database of investment portfolio returns for hundreds of corporate, public, multi-employer, and foundation investment portfolios.

Universe
A total number of facts or events to which a specific fact or event is compared. For example, a database of investment portfolio returns of organizations, like the Fund, can be used to compare investment performance.

Houston Firefighters'
Relief and Retirement Fund

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