HPOPS

FOR TODAY & TOMORROW

Comprehensive Annual

Financial Report

A Component Unit of

The City of Houston, Texas

July 1, 2006 through

June 30, 2007

HOUSTON POLICE OFFICERS' PENSION SYSTEM
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HPOPS

FOR TODAY & TOMORROW

SECTION ONE

INTRODUCTORY SECTION

December 6, 2006

The Membership
Houston Police Officers' Pension System
Houston, Texas

The Comprehensive Annual Financial Report (CAFR) of the Houston Police Officers' Pension System (the System) for the fiscal year ended June 30, 2007 is submitted herewith. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, rests with the management of the System. This CAFR is divided into five sections:

- Introductory Section – This section contains the administrative organization, the letter of transmittal and Chairman's report.
- Financial Section – This section contains the report of the Independent Auditor, Management's Discussion and Analysis, the financial statements of the System and certain required supplementary information.
- Investment Section – This section contains a report on investment activity, investment policies, investment results, and various investment schedules.
- Actuarial Section – This section contains the Actuary's Certification Letter and the results of the annual actuarial valuation.
- Statistical Section – This section includes significant data pertaining to the System.

We trust that you will find this CAFR helpful in understanding your retirement system, a system that strives to provide responsible stewardship of assets contributed by the members and the City of Houston.

The System was established in 1947, funded by a $100,000 Treasury note, and offered retiring members a pension of $75 per month. Today, the System has investments of $3.4 billion and offers a variety of pension benefits to members and their beneficiaries. Members have the option to defer their benefits, take a proportionate retirement benefit, or retire under a regular service retirement. Members also may access a disability retirement, either duty or non-duty connected.

Major Initiatives

The System is charged with responsibly managing pension assets in the best interests of the members and beneficiaries so that they may have peace of mind knowing their pension benefits are secure. During the fiscal year ended June 30, 2007, the System initiated estate-planning services for all members in addition to the financial planning services already available. This service takes the System's mission one step further, as estate planning and financial planning often go hand in hand.

The System has continued to place communication with its members as a high priority. The financial planning department has conducted ongoing educational seminars to better prepare members for retirement. In addition, the financial planning department has met with and counseled over 400 members and answered close to 1,000 phone calls during the year. Over 400 members attended the System's annual retiree seminar, which hosted speakers who delivered presentation topics ranging from health benefits offered through the City of Houston, benefits accessible through the Social Security Administration as well as providing an opportunity to speak one-on-one with HPOPS' Benefits staff.

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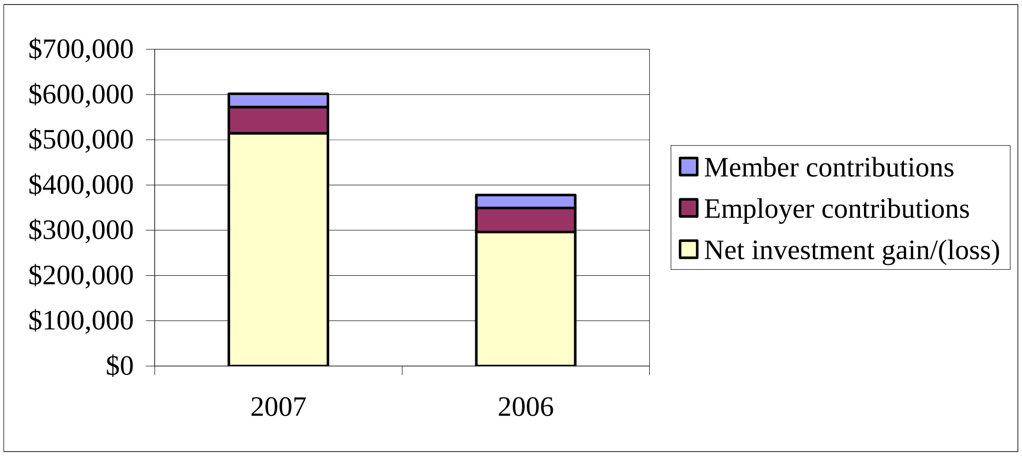
Additions to Plan Net Assets

The System relies on the contributions of members and the City of Houston, as well as income generated from investments, to provide funds needed to finance retirement and disability benefits. The agreement with the City provides for the City's contribution for fiscal year 2007 to be $5 million over the $53 million the City contributed in fiscal year 2006 and increases by $5 million over that amount for fiscal 2008. The number of active members increased in fiscal year 2007 compared to 2006 due to new hires to the Houston Police Department (HPD). Contributions from members increased in fiscal 2007 along with the increase in active members. The System experienced a positive investment return of 17.9% in 2007, which was an increase from the positive return of 11.2% in 2006. This increase is primarily due to strong performance in public and private equity markets during fiscal year 2007.

Active members:	2007	2006	Increase (Decrease)
Fully vested	1,940	1,992	(52)
Nonvested:			
Hired or rehired before October 9, 2004	2,495	2,651	(156)
Hired or rehired after October 9, 2004	447	151	296
	4,882	4,794	88

	$000's 2007	$000's 2006	Increase (Decrease)	Increase (Decrease)
Member contributions	$ 29,489	$ 28,863	$ 626	2%
Employer contributions	58,000	53,068	4,932	9%
Net investment gain/(loss)	514,112	296,067	218,045	74%
Total	$ 601,601	$ 377,998	$ 223,603	59%



Deductions from Plan Net Assets

The System was created to provide retirement benefits to retired Houston Police officers and their dependents. Although this is still the primary purpose of the System, over the course of 60 years the System has also added survivor benefits and disability benefits. The cost of these programs includes benefit payments and refunds of contributions to terminated employees. The cost of administering the System is also paid from System assets.

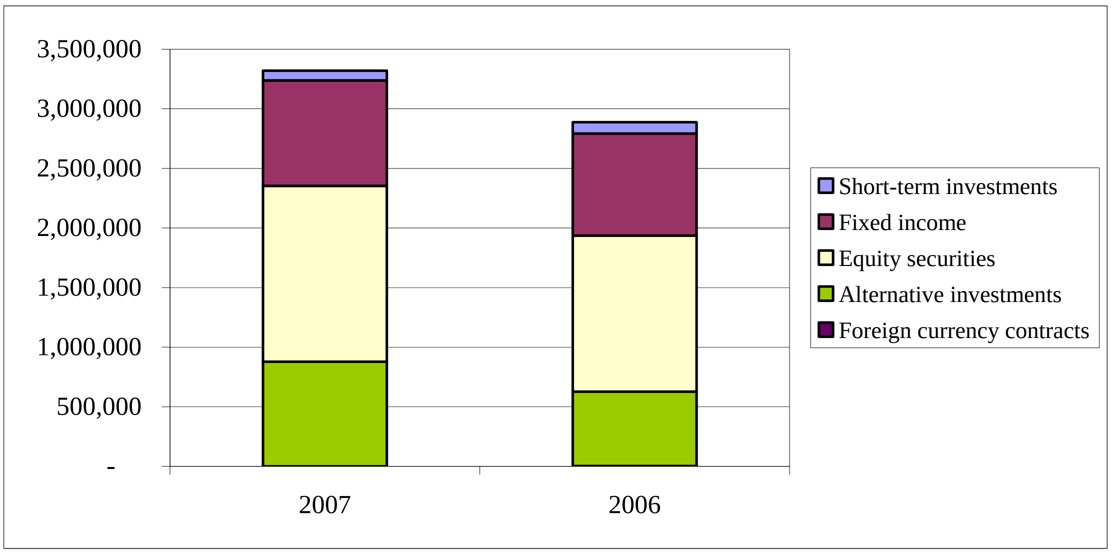
	$000's		Increase (Decrease)	Increase (Decrease)
	2007	2006	Amount	Percentage
Service retirement benefits	$ 112,257	$ 110,579	$ 1,678	1.5%
Survivor benefits	16,482	15,976	506	3.2%
Disability benefits	4,612	3,888	724	18.6%
Refunds paid to members	739	700	39	5.6%
Administrative expenses	2,950	2,958	(8)	(0.3%)
Total	$ 137,040	$ 134,101	$ 2,939	2.2%

Total benefits paid, which include lump sum payments, increased in 2007 as compared to 2006 due mainly to the cost of living increase and an increase in the number of retirees. Administrative expenses decreased mainly as a result of operational efficiencies in the running of the System's administrative office. For further information regarding the System's financial condition, refer to Managements Discussion and Analysis in the financial section of this report.

Investments

The System invests funds entrusted to it exclusively for the benefit of its members. It avows an investment rule commonly known as the "prudent expert" rule, whereby from a procedural as well as substantive standpoint, it acts with the care, skill, prudence and diligence that a "prudent expert" acting in a similar capacity would act under similar circumstances.

	$000's		Increase (Decrease) Amount	Increase (Decrease) Percentage
	2007	2006		
Short-term investments	$ 82,338	$ 95,188	$ (12,850)	(13.5%)
Fixed income	885,284	855,757	29,527	3.5%
Equity securities	1,474,702	1,309,896	164,806	12.6%
Alternative investments	877,750	624,204	253,546	40.6%
Foreign currency contracts	416	2,288	(1,872)	(81.8%)
Total	$ 3,320,490	$ 2,887,333	$ 433,157	15%



The Board of Trustees believes that the System's assets should be managed in a way that reflects the uniqueness of the System, and that the System's assets should be diversified over a spectrum of investment vehicles. The determination of the appropriate asset mix is based on capital market assumptions that incorporate historical returns, volatility and the correlation of various asset classes.

The past year saw the equity market strengthen, with the S&P 500 index up over 20 percent for the year and the non-US equity markets, represented by the EAFE index, up over 27 percent. HPOPS was able to outperform the financial markets in most areas during our fiscal year and on a total fund basis we outperformed our benchmark. The Board firmly believes that by maintaining a disciplined investment approach and with reasonable diversification, the System will meet its long-term investment goals. Further details regarding the System's investments are included in the investment section of this report.

Accounting System and Internal Controls

The financial statements and related information included in the financial section of this report are the responsibility of the Board of Trustees and management of the System. The financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) and presented in accordance with guidance provided by applicable statements issued by the Governmental Accounting Standards Board (GASB). The System's independent auditors have audited the financial statements, and their report is included herein.

In developing and evaluating the System's accounting system, the adequacy of internal accounting controls is a primary concern. The System's controls are designed to provide reasonable assurance regarding the safekeeping of assets and the reliability of financial records. These controls include strategic design of the System's business and accounting systems, the appropriate segregation of duties and responsibilities, sound practices in the performance of those duties, capable personnel, and the structure of the organization.

Funding

It is the System's intention to have enough money in reserve to provide members with promised benefits upon their retirement. The System's actuary conducts a periodic valuation to determine the adequacy of the current employer contribution rates, to describe the current financial condition of the System, and to analyze changes in the System's condition. An actuarial accrued liability is the liability for service already rendered by former and present employees. An actuarial accrued surplus is the excess of the System's actuarial value of assets over the actuarial accrued liability. Any liability or surplus is amortized using a 30-year constant level percent of payroll method.

The most recent actuarial valuation shows the funded position of the System at July 1, 2005 decreased from the funding level at July 1, 2004. The actuarial accrued liability increased $54 million and the actuarial value of assets increased $43 million. As a result, the System's Unfunded Actuarial Accrued Liability increased $185 million to $884 million as of July 1, 2005. The increase in the Unfunded Actuarial Accrued Liability is due to a combination of factors including actuarial losses from liability sources, the recognition of prior asset losses and the under funding of the System as more fully described in the footnotes and schedules to the financial statements. Further details regarding the System's actuarial liability are included in the actuarial section of this report.

Professional Services

The Board of Trustees appoints professional consultants to perform services that are considered essential for the operation of the System. The independent auditor's report, issued by BDO Seidman, LLP, is included on page 16 of this report. The actuarial report, certified by Towers Perrin, is included on page 56. Professional service providers engaged by the System are listed in the following table.

Consulting	**Money Management**
Abbott Capital Management	Arnhold & S. Bleichroeder
Hammond Associates	Ashmore Investment Management Ltd.
	Barclays Global Investors
Custodian	Brandes Investment Partners
The Northern Trust Company	Bridgewater Associates, Inc.
	Causeway Capital Management
Actuarial	The Clifton Group
Towers Perrin	Driehaus Capital Management, Inc.
	FX Concepts/AIG *
Auditing	MacKay-Shields Financial Corp.
BDO Seidman, LLP	NWQ Investment Management Company
Bickley Prescott & Co.	Shenkman Capital Management, Inc.
	State Street Global Advisors
Legal Service	
Gibbs & Bruns, LLP	**Legal Service/Lobbyists**
Godwin Pappas Langley Ronquillo, LLP	HillCo Partners, LLC
Klausner & Kaufman	Locke Liddell Sapp

* Services were terminated December 31, 2006

Certificate of Achievement

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Houston Police Officers' Pension System for its comprehensive annual financial report for the fiscal year ended June 30, 2006. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such a report must also satisfy both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The System has received a Certificate of Achievement for the last 13 consecutive years (fiscal years 1994-2006). We believe our current report continues to conform to the Certificate of Achievement program requirements, and we will be submitting it to the GFOA.

Acknowledgements

The compilation of this report reflects the combined effort of the System's staff under the guidance of the Board of Trustees. Its goal is to provide complete and reliable information as a basis for management decisions and compliance with legal provisions as well as responsible stewardship of funds contributed by its members and the City of Houston.

We would like to take this opportunity to express our gratitude to the staff, System advisors, and to the many other people who have contributed to the successful operation of the System.

Sincerely,

Board of Trustees

Board of Trustees

December 6, 2007

To the Members
Houston Police Officers' Pension System
Houston, Texas

The Houston Police Officers' Pension System is pleased to bring you the fiscal year 2007 Comprehensive Annual Financial Report (CAFR). The CAFR provides a comprehensive picture of HPOPS' finances for the fiscal year ending June 30, 2007, as well as an overview of the year's highlights.

This report demonstrates that HPOPS continues to manage the System's assets responsibly. Fiscal year 2007 is the fourth consecutive year wherein HPOPS has obtained double-digit investment returns. We at HPOPS continue to plan for the future of all of our current members as well as those members to come. We encourage you to read on to learn more about HPOPS.

Sincerely,

J. Larry Doss
Chairman

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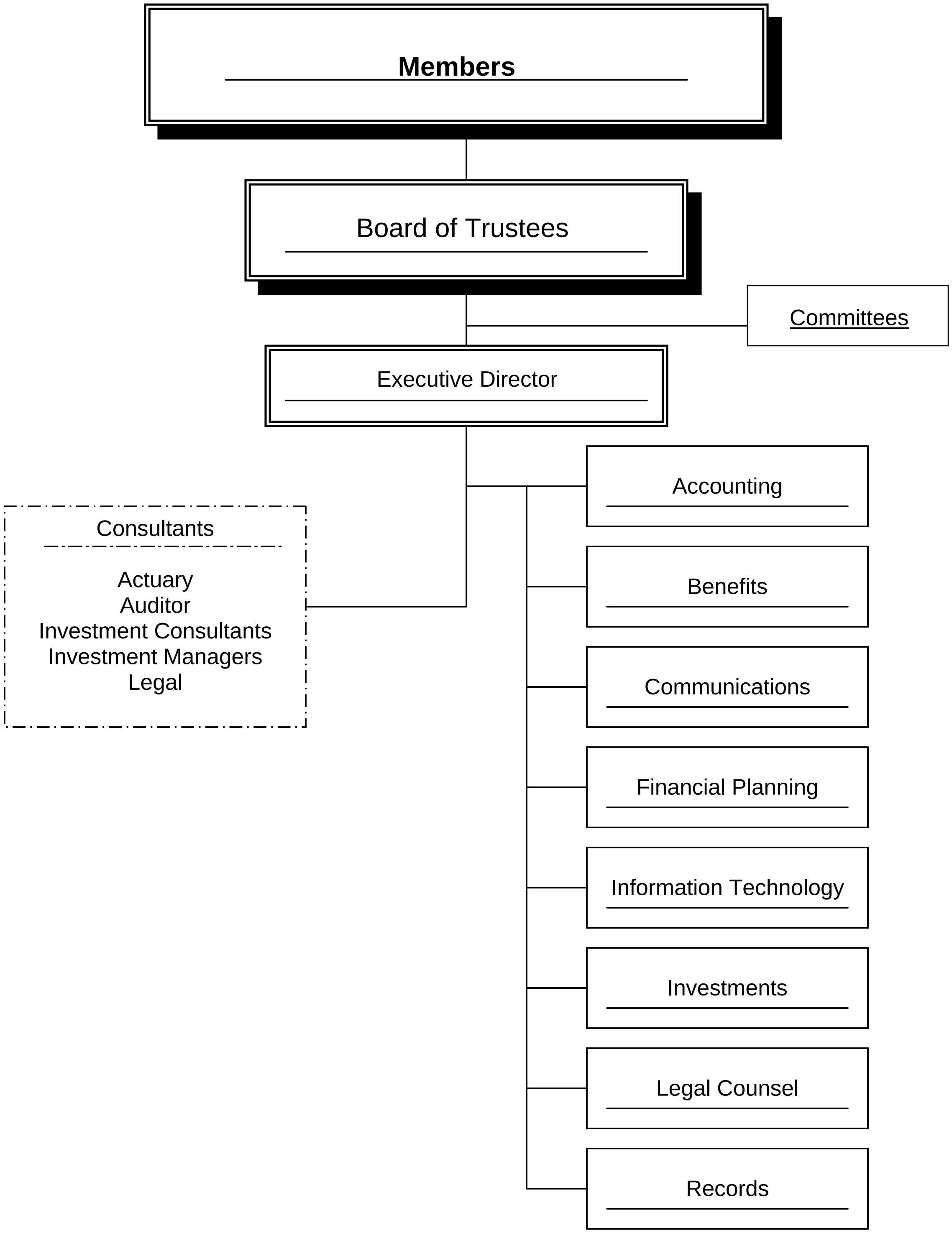
BOARD OF TRUSTEES AND ADMINISTRATIVE STAFF



See Page 41 – Summary of Investment and Professional Services for a list of Consultants

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Police Officers Pension System of the City of Houston, Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2006

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

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SECTION TWO

FINANCIAL SECTION

BDO Seidman, LLP
Accountants and Consultants

333 Clay Street, Suite 4700
Houston, Texas 77002-4180
Telephone: (713) 659-6551
Fax: (713) 659-3238

Independent Auditors' Report

The Board of Trustees
Houston Police Officers' Pension System
Houston, Texas

We have audited the accompanying statements of plan net assets of the Houston Police Officers' Pension System (the System) as of June 30, 2007 and 2006, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate, in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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 position of the System as of June 30, 2007 and 2006, 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 of the basic financial statements were performed for the purposes of forming an opinion on those financial statements taken as a whole. The supplemental information included in Schedules I and II on pages 40 through 41, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

"Management's Discussion and Analysis" and the "Required Supplementary Information" listed on the Table of Contents are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it.

BDO Seidman, LLP.

Houston, Texas
October 24, 2007

Houston Police Officers' Pension System

Management's Discussion and Analysis
Fiscal Year Ended June 30, 2007

The discussion and analysis of the financial performance of the Houston Police Officers' Pension System (the System), provides an overall review of the System's financial activities for the fiscal years ended June 30, 2007, 2006 and 2005. The intent of this discussion and analysis is to look at the System's financial performance as a whole; readers should review the financial statements, notes to the financial statements, required supplementary information and other schedules, in order to enhance their understanding of the System's financial performance.

Financial Statements

These financial statements consist of the Statements of Plan Net Assets, Statements of Changes in Plan Net Assets, Notes to Financial Statements and other required supplementary information. The System is a single employer contributory defined benefit pension plan. The System is a component unit of the City of Houston, Texas (the City) only to the extent the System receives contributions equal to an amount or percentage of the pensionable pay of active members in accordance with Article 6243g-4, Vernon's Texas Civil Statutes, (the Governing Statute) or contracts pursuant to Section 27 thereof, and as such, its reports are included in the Fiduciary Funds of the City as restricted assets.

Financial Highlights

The System presents its financial statements solely on the accounts of the System. The accrual basis of accounting is used by the System, whereby revenues are recognized when they are earned and collection is reasonably assured, and expenses are recognized when the liability has been incurred. Investments are reported at fair value.

A summary of the Statements of Plan Net Assets for the System is as follows ($000's):

Years ended:	**2007**	2006	2005
Assets			
Investments at fair value	**$ 3,320,490**	$ 2,887,333	$ 2,642,693
Invested securities lending collateral	**517,637**	574,793	288,266
Receivables	**52,992**	28,064	28,527
Cash	**184**	158	131
Total Assets	**3,891,303**	3,490,348	2,959,617
Liabilities			
Due to brokers	**11,643**	18,336	17,246
Securities lending collateral	**517,637**	574,793	288,266
Accrued investment and professional fees	**1,952**	1,766	2,578
Other liabilities	**405**	348	319
Total Liabilities	**531,637**	595,243	308,409
Plan net assets held in trust for pension benefits	**$ 3,359,666**	$ 2,895,105	$ 2,651,208

See accompanying independent auditors' report.

Houston Police Officers' Pension System

Management's Discussion and Analysis
Fiscal Year Ended June 30, 2007

The System's net assets increased by approximately $464,561 thousand in fiscal year 2007 over 2006 primarily due to strong performance in public and private equity markets. The System's net assets increased by approximately $243,897 thousand in fiscal year 2006 over 2005 also primarily due to strong performance in public and private equity markets. The System experienced a positive investment return of 17.9% in 2007 as opposed to positive 11.2% in 2006 and a positive return of 13.5% in 2005. These rate of return calculations were prepared using a time-weighted rate of return in accordance with The CFA Institute's Global Investment Performance Standards and, as such, cannot be recalculated from the information provided herein. These investment returns can be seen in the Investment income figures in the accompanying chart. Changes in receivables are primarily a result of the timing of investment transactions.

A summary of the Statements of Changes in Plan Net Assets for the System is as follows ($000's):

Years ended:	**2007**	2006	2005
Contributions:			
City	**$ 58,000**	$ 53,068	$ 37,125
Members	**29,489**	28,863	28,410
Total contributions	**87,489**	81,931	65,535
Investment income	**512,873**	294,966	320,561
Net income from securities lending activities	**1,239**	1,101	876
Total additions	**601,601**	377,998	386,972
Deductions:			
Benefits paid to members	**133,351**	130,443	153,861
Refunds to members	**739**	700	1,198
Professional and administrative expense	**2,950**	2,958	3,473
Total deductions	**137,040**	134,101	158,532
Net increase	**464,561**	243,897	228,440
Plan net assets held in trust for pension benefits, beginning of year	**2,895,105**	2,651,208	2,422,768
Plan net assets held in trust for pension benefits, end of year	**$ 3,359,666**	$ 2,895,105	$ 2,651,208

See accompanying independent auditors' report.

The October 9, 2004 agreement with the City requires contribution payments for fiscal year 2007 equal to the amount contributed in 2006 plus $5,000 thousand, resulting in contribution payments of $58,000 thousand. For fiscal year 2006, the City was contractually required to contribute 16.0% of member compensation but not less than $53,000 thousand as opposed to $36,645 thousand for fiscal year 2005. These contractual provisions account for the increase in City contributions for the years ended June 30, 2007 and June 30, 2006. As discussed in Note 4, the contributions were partially paid from the proceeds of pension obligation bonds.

Total benefits paid in 2007, which includes lump sum payments, increased by approximately $2,908 thousand or 2.2 percent as compared to 2006. This increase was due mainly to the cost of living increase and an increase in the number of retirees. Total benefits paid in 2006, which includes lump sum payments, decreased by approximately $23,418 thousand or 15.2 percent as compared to 2005. This decrease was due mainly to a significant decrease in distributions from lump sum accounts as fewer members retired during 2006 as compared to 2005. Distributions in 2007 from the Deferred Retirement Option Plan (DROP) and the Post Retirement Option Plan (PROP) lump sum accounts decreased $6,887 thousand as compared to 2006 while lump sum distributions in 2006 decreased $34,479 thousand as compared to 2005. Monthly benefits paid in 2007 increased $9,663 thousand as compared to 2006, whereas monthly benefits paid in 2006 increased $11,061 as compared to 2005. The number of new retirees increased by 169 and 160 members in 2007 and 2006, respectively.

There was a slight decrease in professional and administrative expenses during 2007 as compared to 2006 mainly as a result of operational efficiencies. There was a significant decrease in professional and administrative expenses during 2006 as compared to 2005 mainly as a result of a decrease in actuarial, legal and lobbying costs. During 2005, these costs were inflated by the expenses associated with negotiating the October 9, 2004 Agreement as well as by the costs of litigation with the City.

System Highlights

The System's funded ratio pursuant to its most recent actuarial valuation dated July 1, 2005 was 74% representing an unfunded actuarial accrued liability of $884,180 thousand. This 74% funding ratio is the same as the 74% funding ratio as of July 1, 2004.

Contacting the System's Management

This financial report is designed to provide members and other users with a general overview of the System's finances and to show the System's accountability for the funding it receives. If you have questions about this report, you may contact the System's Executive Director at 602 Sawyer, Suite 300, Houston, TX 77007 or by phone at 713-869-8734.

Houston Police Officers' Pension System

Statements of Plan Net Assets ($000's)

June 30,		**2007**		2006
Assets				
Investments, at fair value (Note 2 and 3):				
Short term investments	**$**	**82,338**	$	95,188
Fixed income		**885,284**		855,757
Equity securities		**1,474,702**		1,309,896
Alternative investments		**877,750**		624,204
Foreign currency contracts		**416**		2,288
Total investments		**3,320,490**		2,887,333
Invested securities lending collateral (Note 3):		**517,637**		574,793
Receivables				
Members		**1,235**		1,099
Investments		**17,170**		9,229
Due from brokers		**34,455**		17,607
Other receivables		**132**		129
Total Receivables		**52,992**		28,064
Cash		**184**		158
Total Assets	**$**	**3,891,303**	$	3,490,348
Liabilities and Plan Net Assets				
Liabilities:				
Due to brokers		**11,643**		18,336
Securities lending collateral (Note 3)		**517,637**		574,793
Accrued investment and professional fees		**1,952**		1,766
Other liabilities		**405**		348
Total Liabilities		**531,637**		595,243
Plan net assets held in trust for pension benefits (see Schedule of Funding Progress)	**$**	**3,359,666**	$	2,895,105

See accompanying independent auditors' report and notes to financial statements.

Houston Police Officers' Pension System

Statements of Changes in Plan Net Assets ($000's)

Years ended June 30,		**2007**		2006
Contributions (Notes 1 and 4):				
City	**$**	**58,000**	$	53,068
Members		**29,489**		28,863
Total contributions		**87,489**		81,931
Investment income:				
Net appreciation in fair value of investments		**459,957**		256,825
Interest:				
Short-term investments		**7,722**		5,750
Fixed income		**30,582**		24,451
Total interest income		**38,304**		30,201
Dividends		**27,581**		21,926
Other income		**147**		157
Total investment income		**525,989**		309,109
Less investment expense		**(13,116)**		(14,143)
Net income from investing activities		**512,873**		294,966
Securities lending activities (Note 3):				
Securities lending income		**1,652**		1,478
Securities lending expense		**(413)**		(377)
Net income from securities lending activities		**1,239**		1,101
Total additions	**$**	**601,601**	$	377,998
Deductions:				
Benefits paid to members	**$**	**133,351**	$	130,443
Refunds to members (Note 1)		**739**		700
Professional and administrative expense		**2,950**		2,958
Total deductions		**137,040**		134,101
Net increase		**464,561**		243,897
Plan net assets held in trust for pension benefits, beginning of period		**2,895,105**		2,651,208
Plan net assets held in trust for pension benefits, end of period	**$**	**3,359,666**	$	2,895,105

See accompanying independent auditors' report and notes to financial statements.

1. Plan Description and Contribution Information

General – The Houston Police Officers' Pension System (the System) was created in 1947 by an act of the Fiftieth Legislature of the State of Texas, and is governed by Article 6243g-4, Vernon's Texas Civil Statutes (the Governing Statute) and contracts pursuant to Section 27 thereof. The System is a single employer contributory defined benefit pension plan covering police officers employed full time by the City of Houston (the City) that provides for service, disability and death benefits for eligible members and their beneficiaries. The System is a local governmental plan and, therefore, is not subject to the Employee Retirement Income Security Act of 1974 (ERISA).

At June 30, 2007, the System's membership consisted of the following:

Description	Number
Retirees and beneficiaries:	
Currently receiving benefits	2,683
Not yet receiving benefits	15
Active members:	
Fully vested	1,940
Nonvested:	
Hired or rehired before October 9, 2004	2,495
Hired or rehired after October 9, 2004	447
Total members	7,580

The following sections describe the benefit structure in effect at June 30, 2007. On September 29, 2004 the System and the City entered into an agreement (the October 9, 2004 Agreement) that altered the benefit structure of the System. The contract has a term beginning on October 9, 2004 extending through June 30, 2017 and thereafter renews for one-year terms through June 30, 2034 unless either party terminates the agreement. The benefits described below include those for members hired or rehired on or before October 9, 2004 as well as benefits for members hired or rehired subsequent to October 9, 2004.

Eligibility – Members become eligible to receive a service pension upon retirement with twenty years of service. Members also have the option to select a Delayed Retirement, which allows for vesting after ten years of service with a pension benefit payable at age 60. Members hired or rehired subsequent to October 9, 2004 are eligible to receive a service pension upon attaining age 55 and 10 years of service.

Benefits – Retirement benefits are equal to 2.75 percent of the member's pensionable pay for each of the member's first twenty years of service plus two percent of pensionable pay for each year in excess of twenty years with no maximum percentage. Members hired or rehired subsequent to October 9, 2004 accrue benefits equal to 2.25 percent of the member's pensionable pay for each of the member's first twenty years of service plus two percent of the member's pensionable pay for each year in excess of twenty years subject to a maximum of 80 percent. Retired members and surviving spouses are entitled to receive an additional $150 per month in order to defray group medical insurance costs.

Pensionable Pay - Prior to October 9, 2004 pensionable pay, as referred to herein, was referred to as Average Total Direct Pay (ATDP). ATDP was calculated as the annualized highest biweekly pay received by a member in the last twelve months before retirement or entrance into DROP. Biweekly pay was composed of recurring pay types such as for regular hours worked, plus, ad hoc items of pay such as certain types of overtime and certain types of shift pay. As a part of the October 9, 2004 Agreement eligible members of the System have the option until October 7, 2007 of using either a Locked-In Benefit or a Sliding Average Benefit as pensionable pay in the calculation of their retirement or DROP benefit. The Locked-In Benefit is the ATDP for the twelve months prior to October 9, 2004 and the Sliding Average Benefit is based upon ATDP for the twelve months prior to October 9, 2004 and all pay periods subsequent to that date but prior to the earlier of the member's retirement date or October 7, 2007, excluding all types of overtime pay. Members retiring after October 7, 2007 will have their retirement or DROP benefit calculated on pensionable pay, which is referred to as Final Average Pay, and is defined as the average of all pay types received by a member over the three years prior to retirement or entrance into DROP exclusive of all categories of overtime.

Deferred Retirement Option Plan – The Deferred Retirement Option Plan (DROP) provides for an optional method of accruing pension benefits. Generally, members with at least twenty years of service are eligible to participate in the DROP and upon termination of employment participating members receive their pension benefit in the form of an annuity and a lump sum benefit. The annuity is the member's pension benefit at the time of enrollment in the DROP plus any subsequent cost of living adjustments. The lump sum benefit is the accumulated balance in the member's notional DROP account which is equal to an amount calculated as if the member's annuity, employee contributions and an interest component had been deposited in a separate account in the member's name during the member's participation in DROP. Prior to October 9, 2004, 100 percent of a member's contributions were credited to his or her notional DROP account. Subsequent to that date, 8.75% of pensionable pay is credited to his or her notional DROP account.

A Back-DROP option is also available for all eligible participants. The Back-DROP option allows a DROP member to recalculate his or her DROP notional account by selecting a different entrance date than that originally selected by the member upon entrance into DROP. The Back-DROP entry date cannot be prior to the later of October 21, 1995 or the date the member attained 20 years of credited pension service.

Members hired or rehired subsequent to October 9, 2004 are not eligible to participate in DROP or Back-DROP.

Cost of Living Adjustments – Pension benefits and the monthly DROP benefits are adjusted each year equal to eighty percent of the increase in the Consumer Price Index for all Urban Consumers for the preceding year subject to minimum and maximum increases of 2.4 percent and 8.0 percent, respectively.

Disability Benefits – Duty connected disability benefits are equal to the greater of 55% of pensionable pay or the accrued service pension. Disabled members who qualify for a Catastrophic Disability, as defined, receive a disability benefit equal to 100 percent of pensionable pay. Members hired or rehired subsequent to October 9, 2004 are eligible for a duty connected disability benefit equal to the greater of 45% of the member's pensionable pay or the accrued service pension.

Members determined to be eligible for a non duty-connected disability benefit are entitled to a benefit of either 27.5% of pensionable pay, if the member has ten or fewer credited years of service, or 2.75% per year for credited service in excess of ten years. Members hired or rehired subsequent to October 9, 2004 are eligible for a non-duty connected disability benefit equal to the greater of 22.5% of the member's pensionable pay or 2.25% per year for credited service equal to or in excess of ten years up to twenty years and 2.00% per year for credited service equal to or in excess of twenty years.

Death Benefits – Death benefits are available to a surviving spouse, dependent children or a dependent parent in the event of the death of a member either after disability or service retirement, or prior to retirement.

Refunds of Member Contributions – A member with less than 20 years of credited pension service may elect to obtain a refund of member contributions upon termination of service with the Houston Police Department (HPD). This refund does not include interest. Members with at least ten but less than 20 years of credited pension service, who terminate service with the HPD, have the option of a Delayed retirement. Members hired or rehired subsequent to October 9, 2004 are eligible for a refund of contributions until they attain age 55 and 10 years of service.

Delayed Retirement – A member with at least 10 but less than 20 years of credited pension service at termination of employment with the HPD has the option of either a refund of member contributions, without interest, or a Delayed Retirement benefit. The Delayed benefit is payable at age 60 and is calculated at 2.75% of pensionable pay for each year of credited pension service. Members hired or rehired subsequent to October 9, 2004 are not eligible for a Delayed Retirement.

Supplemental Monthly Benefit (13th check) – In years in which certain investment performance and actuarial funding requirements are met the System issues a supplemental monthly benefit payment to retired members and a supplemental credit to DROP participant's accounts in an amount equal to their normal monthly benefit. Members hired or rehired subsequent to October 9, 2004 are not eligible for this benefit.

Lump Sum Benefit – Members retiring with a service or disability benefit receive a one-time $5,000 lump sum benefit. Members hired or rehired subsequent to October 9, 2004 are not eligible for this benefit.

Reciprocal Retirement Program – Members who have not attained the necessary years of service for retirement are eligible to participate in the System's Reciprocal Retirement Program if they also have pension service with other City departments.

This program allows members with the necessary cumulative years of service to combine their service credit with other City retirement systems and receive a proportionate retirement benefit from the System.

Post Retirement Option Plan – The Post Retirement Option Plan (PROP) allows retired members to have all or a portion of their monthly retirement and DROP lump sum credited to a notional account maintained by the System which accumulates interest and can be disbursed to the member under certain options as designated by the System. Surviving spouses can transfer a DROP or PROP balance to a PROP account of their own but are not eligible to credit all or a portion of their survivor benefit to a PROP account. Members hired or rehired subsequent to October 9, 2004 are not eligible for this benefit.

Partial Lump Sum Option Plan – The Partial Lump Sum Option Plan (PLOP) provides for an optional lump sum payment of a portion of a member's retirement benefit. A lump sum payment of not more than twenty percent (20%) of the actuarial value of the member's accrued pension at retirement shall be made available to persons who become active members of HPOPS subsequent to October 9, 2004. The benefit shall be actuarially neutral. Thus, the value of the pension the member receives shall be reduced actuarially to reflect the lump sum payment.

2. Summary of Significant Accounting Policies

Basis of Presentation – As defined by generally accepted accounting principles established by the Governmental Accounting Standards Board (GASB) the accompanying financial statements include solely the accounts of the System, which include all programs, activities and functions relating to the accumulation and investment of the assets and related income necessary to provide the service, disability and death benefits required under the terms of the Governing Statutes and amendments thereto. The System is a component unit of the City only to the extent the System receives contributions from the City in accordance with the Governing Statute.

Basis of Accounting – Basis of accounting is the method by which revenues and expenses are recognized in the accounts and are reported in the financial statements. The accrual basis of accounting is used for the System. Under the accrual basis of accounting, revenues are recognized when they are earned and collection is reasonably assured, and expenses are recognized when the liability is incurred. Member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Governing Statute.

Investment Valuation - Statutes of the State of Texas authorize the System to invest surplus funds in a manner provided by the Government Code, Title 8, Subtitle A, Subchapter C. Investments are reported at fair value. Securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates. Investments that do not have an established market value are reported at estimated fair value.

Dividend income is recorded on the ex-dividend date. Income from other investments is recorded when earned. Gains and losses on sales of securities are recognized on the trade date. The cost of investments sold is determined using the first-in, first-out cost flow method.

Short-term investments include funds held in the Northern Trust Short Term Investment Fund (STIF) and commercial paper with maturities not exceeding one year. Fixed income investments include government securities such as Treasury securities, Federally sponsored agency issued discount notes, bonds, agency pass-through securities and collateralized mortgage obligations; US corporate bonds such as term bonds and asset backed securities; and foreign securities such as dollar denominated and non-dollar denominated issues of non-US governments and private corporations. Call options on fixed income securities give the holder the right but not the obligation to purchase US Treasury securities during the term of the option contract. The holder pays a premium for this right, which is carried as an asset of the System, subject to daily mark-to-market adjustments, during the contract term. The issuer of the option has an obligation to the holder to settle the option position in cash at the fair value of the underlying security in exchange for the price specified by the option, until the contract is exercised or expires. Equity securities consist of individual shares of equity securities plus units of commingled stock funds of both US and foreign entities. Alternative investments consist of investments in hedge funds, commodities, private equity and a commingled structured beta fund.

Administrative Costs –All administrative costs of the System are paid from the System's assets.

Federal Income Tax - A favorable determination that the System is qualified and exempt from Federal income taxes was received May 26, 2006. The Board believes that the System is designed and continues to operate in compliance with the applicable requirements of the Internal Revenue Code.

Use of Estimates – The preparation of the System's financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make significant estimates and assumptions that affect the reported amounts and net plan assets at the date of the financial statements and the actuarial information included in the required supplementary information as of the benefit information date, the changes in the System's net assets during the reporting period and, when applicable, disclosures of the contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

3. Investments

The System's investments have been categorized to address deposit and investment risks related to custodial credit risk, credit risk, concentration of credit risk, interest rate risk, and foreign currency risk.

Custodial Credit Risk – Custodial credit risk for deposits is the risk that in the event of a bank failure, the System's deposits may not be returned. The System considers only demand deposits as cash. As of June 30, 2007 and 2006, the System had a balance of $184 thousand and $158 thousand, respectively, on deposit at a financial institution.

The Federal Depository Insurance Corporation covered cash on deposit up to $100 thousand at this financial institution. As of June 30, 2007, $84 thousand of the System's bank balance of $184 thousand was exposed to custodial credit risk as it was uninsured and uncollateralized. In addition, at June 30, 2007, the System has approximately $183 thousand on deposit with other financial institutions, which is subject to custodial credit risk, as it is not covered by depository insurance and is uncollateralized.

Credit Risk – Credit risk is the risk that the counterparty will not fulfill its obligations. As of June 30, 2007, the System's fixed income assets that are not government guaranteed represented 66.0% of the System's fixed income portfolio. The following tables summarize the System's fixed income portfolio exposure levels and credit qualities.

Average Credit Quality and Exposure Levels of Non-U.S. Government Guaranteed Securities ($000's)

Fixed Income Security Type	Market Value June 30, 2006	Percent of All Fixed Income Assets	Weighted Average Credit Quality
Corporate Bonds	$ 187,798	21.9%	B
International Government Bonds	53,405	6.2%	AA
Mutual Bond Funds	343,446	40.1%	Not Rated
Total	$ 584,649	68.2%	

Ratings Dispersion Detail
($000's)

Credit Rating Level	Corporate Bonds	International Government Bonds	Mutual Bond Funds
AAA	$ -	$ 18,704	
AA	-	32,690	
A	630	2,011	
BBB	3,224	-	
BB	43,849	-	
B	105,886	-	
CCC	19,457	-	
C	377	-	
D	-	-	
SD	11,598	-	
Not Rated	2,777	-	$ 343,446
Total	$ 187,798	$ 53,405	$ 343,446

The System's investment policy allows Investment managers full discretion in adopting investment strategies to deal with these risks. Unless otherwise provided in the individual investment manager agreement, the average quality rating of each individual fixed income portfolio on a weighted value basis shall be A-rated or higher, and no issue should have a rating below investment grade (Baa or higher). Certain managers, such as high yield managers, may be exempted from these requirements as provided for in their contracts.

Credit risk for derivative instruments held by the System results from counterparty risk, essentially that the counterparty will be unable to fulfill its obligations, assumed by the System. Information regarding the System's credit risk related to derivatives is found under the derivatives disclosures.

Policies regarding credit risk pertaining to credit risk associated with the System's securities lending program are found under the securities lending disclosures.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributable to the magnitude of the System's investment in a single issue. The System's operational guidelines for each specific portfolio limits investments in any one single domestic equity issue to 15% of each portfolio at market value and for any one single international equity issue to 5% of the System's investments. For fixed income investments, the System's policy limits, by each specific portfolio, investment in any one single fixed income security to 10% of each portfolio at market value. As of June 30, 2007, the System did not have any investments in any one organization which represented greater than 5% of plan net assets.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair values of the System's financial instruments. This risk is managed within the portfolio using the modified duration methodology. It is widely used in the management of fixed income portfolios and estimates the sensitivity of a bond's price to interest rate changes. Under the System's policy, all of the System's fixed income portfolios are managed in accordance with guidelines that are specific as to the degree of interest rate risk taken. The reporting of modified duration found in the tables on this and the following page quantifies the interest rate risk of the System's fixed income investments. Interest rate risks associated with derivative instruments are found in the derivatives disclosures of these notes.

Modified Duration of Fixed Income Assets by Security Type ($000's)

Fixed Income Security Type	Market Value June 30, 2007	% of All Fixed Income Assets	Weighted Average Modified Duration (years)
US Treasuries	$ 300,939	34.0%	0.0
Corporate Bonds	148,463	16.8%	5.3
International Government Bonds	71,588	8.1%	6.7
Mutual Bond Funds	364,294	41.1%	4.9
Total	$ 885,284	100.0%	6.5

Modified Duration Analysis - Corporate and International Government Bonds ($000's)

Corporate Bonds	Market Value June 30, 2007	Average Modified Duration	Contribution Modifed Duration
Less than 1 year to maturity	$ 1,564	0.7	0.0
1 to 10 years maturities	132,891	4.9	4.4
10 to 20 years maturities	8,621	8.8	0.5
Greater than 20 years maturities	5,387	10.3	0.4
Total	$ 148,463		5.3

International Government Bonds	Market Value June 30, 2007	Average Modified Duration	Contribution Modifed Duration
Less than 1 year to maturity	$ -	0.0	0.0
1 to 10 years maturities	47,285	3.6	2.4
10 to 20 years maturities	7,856	11.1	1.2
Greater than 20 years maturities	16,447	13.7	3.1
Total	$ 71,588		6.7

Foreign Currency Risk – Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The books and records of the System are maintained in US dollars. Foreign currencies and non-dollar denominated investments are translated into US dollars at the bid prices of such currencies against US dollars at each balance sheet date. Realized and unrealized gains and losses on investments which result from changes in foreign currency exchange rates have been included in the net appreciation in fair value of investments. Net realized foreign currency gains and losses resulting from changes in exchange rates include foreign currency gains and losses between trade date and settlement date of investment securities transactions, foreign currency transactions and the difference between the amounts of interest and dividends recorded on the books of the System and the amount actually received. The System's implementation policy is to allow external managers to decide what action to take regarding their respective portfolio's foreign currency exposures. The System's exposure to foreign currency risk in U.S. dollars as of June 30, 2007, is shown in the table below.

Foreign Currency Exposure by Asset Class
($000's)

Currency	Short Term Investments	Equities	Fixed Income	Alternative Investments	Options on Foreign Currencies	Total
Australian dollar	$ (30)	$ -	$ -	$ -	$ -	$ (30)
British pound sterling	(18)	78,492	$ 5,280	-	(4,170)	79,584
Canadian dollar	(18)	3,332	1,483	-	(1,402)	3,395
Danish krone	-	-	836	-	(884)	(48)
Euro	(786)	147,184	35,113	9,266	(35,083)	155,694
Hong Kong dollar	-	5,992	-	-	-	5,992
Japanese yen	90	86,459	29,326	-	(29,584)	86,291
New Zealand dollar	-	2,166	-	-	-	2,166
Norwegian krone	-	3,546	-	-	-	3,546
South Korean won	-	16,099	-	-	-	16,099
Swedish krona	-	3,220	357	-	(366)	3,211
Swiss franc	442	17,078	-	-	(96)	17,424
	$ (320)	$ 363,568	$ 72,395	$ 9,266	$ (71,585)	$ 373,324

Securities Lending Program – The Board of Trustees' policies permit the System to lend securities (domestic and international equities and fixed income) to securities firms on a temporary basis through its custodian bank. The System receives fees for all loans and retains the right to all interest and dividend payments while the securities are on loan. Cash, letters of credit or various government securities having market values equal to or exceeding 102 and 105 percent of the value of the loaned securities for domestic and international securities, respectively, collateralize all security loan agreements. Whenever market value of the securities on loan changes, the borrower must adjust the collateral accordingly. At June 30, 2007, the System had no credit risk exposure to borrowers because the amount the System owes the borrowers, $517,637 thousand, exceeds the amount the borrowers owe the System, $480,066 thousand, as shown in the table below.

	Fair Value ($000's)	
June 30,	**2007**	2006
Investments held by System's agent in System's name:		
Short term investments	**$ 82,338**	$ 95,188
Fixed income	**537,456**	544,921
Equity	**1,342,464**	1,142,739
Alternative investments	**877,750**	624,204
Foreign currency contracts	**416**	2,288
Securities lending collateral investment pool	**517,637**	574,793
	$ 3,358,061	$ 2,984,133
Investments held by brokers under securities loans with cash collateral:		
Fixed income	**$ 347,828**	$ 310,836
Equity	**132,238**	167,158
	$ 480,066	$ 477,994

The System's bank pools all collateral received from securities lending transactions and invests any cash collateral. The System holds an undivided share of the collateral provided by the borrowers of the securities. At June 30, 2007 the weighted-average maturity of the collateral pool was 35 days. The relationship between the maturities of the collateral pool and the System's loans has not been determined. Cash collateral invested in the custodian bank collateral pool at June 30, 2007 and 2006, was $491,076 thousand and $486,619 thousand, respectively. The balance of the collateral at June 30, 2007 and 2006, of $26,561 thousand and $88,174 thousand, respectively, consists of treasury securities and letters of credit.

The System cannot sell or pledge the collateral unless the borrower fails to return the securities borrowed. The market value of securities on loan at June 30, 2007 and 2006 was $505,883 thousand and $562,760 thousand, respectively.

Derivatives – The System's investment managers may invest in derivatives if permitted by the guidelines established by the System's Board of Trustees. The System's staff monitors guidelines and compliance. From time to time the System's investment managers will invest in foreign currency contracts, options, swaps, reverse repurchase agreements, index linked bonds, collateralized mortgage obligations and mortgage-backed securities. No derivatives are purchased with borrowed funds.

These derivative instruments are subject to the following risks:

- *Credit Risk* – The risk that the counterparty will not fulfill its obligations. The System's investment managers seek to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, and exposure monitoring procedures.

- *Interest Rate Risk* – The risk that changes in interest rates will adversely affect the fair values of the System's financial instruments or cash flows.

- *Basis Risk* – The risk that arises when variable interest rates on a derivative and an associated bond or other interest-paying financial instrument are based on different indexes.

- *Termination Risk* – The risk that a derivative's unscheduled end will adversely affect an investment manager's strategy.

- *Rollover Risk* – The risk that a derivative associated with the System's fixed income investments does not extend to the maturity of those investments.

Foreign currency contracts are used to hedge against the currency risk in the System's investments in foreign equity and fixed income securities and also as part of a total return strategy that seeks absolute returns from relative changes in the prices of foreign currencies. The other derivatives are used to enhance yields and provide incremental income.

Futures on investments are used to take advantage of mis-pricing opportunities. When a position is taken in a futures contract, a margin is posted and the contract is subject to daily mark-to-market adjustments. To liquidate the contract prior to expiration an offsetting position in the same contract must be taken. At expiration the holder of the futures contract accepts delivery of the underlying asset at the agreed-upon price.

The average futures balance outstanding, not including foreign currency contracts, during the fiscal years ending June 30, 2007 and 2006 was $65,064 thousand and $(263,618) thousand, respectively. Futures outstanding, not including foreign currency contracts, at June 30, 2007 and 2006 were $125,043 thousand and $35,032 thousand, respectively.

The contract or notional amounts of these instruments reflect the extent of the System's involvement in each class of financial instrument as of June 30, 2007 as follows ($000's):

Contracts	Description	Notional Value	Exposure
9	Futures on Treasury Bills and equivalents	$ 5,370	$ (76)
4	Equity Futures	58,877	(166)
13	Fixed Income Futures	60,796	(376)
105	Long foreign currency contracts	77,584	5
105	Short foreign currency contracts	(77,167)	411
		$ 125,460	$ (202)

Alternative Investments – As of June 30, 2007 the System was invested in various partnerships, separate accounts and commingled funds across various types of alternative investments as detailed in the following chart ($000's).

	Fair Value ($000's)	
Investment Type	**2007**	2006
Private Equity		
Leveraged Buyouts	$ 120,439	$ 116,741
Special Situations	101,515	93,792
Venture Capital	76,624	73,285
Other Alternatives		
Hedge Funds	201,471	74,777
Real Estate	60	1,260
Structured Beta	304,581	264,349
Commodities	73,059	
	$ 877,749	$ 624,204

Supplemental Information on investment and professional expenses included in Schedule II on page 39 herein does not include the investment management fees and performance fees imbedded in the structure of the private equity investments listed above. Rather, these fees are a component of the Net appreciation in fair value of investments in the accompanying Statement of Changes in Plan Net Assets.

4. Contributions and Reserves

Contributions – Members were required to contribute 8.75% of their pensionable pay to the System through October 9, 2004. Subsequent to that date members are required to contribute 9.0 percent of pay and members hired or rehired subsequent to October 9, 2004 contribute 10.25 percent of pay. Contributions are made on a pre-tax basis pursuant to Governing Statutes.

In the October 9, 2004 Agreement, it was agreed that in lieu of contributions to the System made pursuant to actuarial valuations, the City will make cash payments to the System in accordance with a payment schedule as provided for in such agreement. This cash payment schedule required a payment $58,000 thousand for fiscal 2007. City contributions in the Statements of Changes in Plan Net Assets are greater than the contractually agreed amounts, as members are allowed to contribute accumulated sick and vacation pay to the System upon retirement and such contributions are classified as City contributions.

For fiscal years 2008 through 2012 the City has agreed to pay the amount contributed in 2007 plus an amount increasing by $5,000 thousand each year. Beginning in fiscal year 2013 and until the System's Funded Ratio reaches 100%, the City payments shall increase each fiscal year by the greater of $5,000 thousand or if the scheduled City payment is less that the actuarially required contribution, $10,000 thousand per year.

Pursuant to the terms of the October 9, 2004 Agreement and based on the July 1, 2005 actuarial valuation the City contribution rates and the Actuarial Required Contributions are as shown below for five years ending June 30, 2011.

($000's)

Years Ended June 30,	Actuarial Required Contribution	Cash Payments Required by Agreements	Cash Payments as a Percent of Actuarial Required Contribution	Annual Required Contribution as a Percentage of Pay
2007	$ 107,443	$ 58,000	54.0 %	34.0 %
2008	118,654	63,000	53.1	34.5
2009	119,603	68,000	56.9	33.6
2010	119,368	73,000	61.2	32.4
2011	122,783	78,000	63.5	32.2

The October 9, 2004 Agreement provides that the City may make these cash payments from any source, including pension obligation bonds. Senate Bill 1696 became law on September 1, 2003 and authorized municipalities to issue obligations to fund all or any part of an unfunded liability. This law requires the City to enter into a written agreement with the System that states the date or dates that the System will accept the net proceeds of the obligations to be issued in payment of all or a portion of the unfunded liability.

The October 9, 2004 Agreement was based upon projections wherein the City's annual cash payments would be less than the Actuarial Required Contribution (ARC) in each year through 2017 at which time the payments would begin to exceed the ARC. Scheduled payment amounts in 2007 represent 51.3% of the ARC projection. Subsequent to 2017 the scheduled payments were originally projected to be in excess of the ARC increasing to 200% of the ARC in 2035. Due to these actuarial losses and the resulting increase in the ARC for 2006 and subsequent years, the scheduled payments are not projected to exceed the ARC in 2017 or reach 200% of the ARC in 2035 as originally estimated.

The ARC as a percentage of pay for 2007 is 34.0%. This rate consists of 16.5% to cover Normal Costs and 17.5% to amortize the unfunded actuarial accrued liability over 30 years.

5. Funding Status

The System's actuary conducts periodic valuations to determine the adequacy of the employer contribution rates, to describe the financial condition of the System, and to analyze changes in the System's condition. The most recent valuation shows the funded position of the System at July 1, 2005 decreased from the funding level at July 1, 2004. The actuarial accrued liability increased $53,750 thousand and the actuarial value of assets increased $42,724 thousand. As a result, the System's Unfunded Actuarial Accrued Liability increased $11,026 thousand to $884,180 thousand as of July 1, 2005. The increase in the Unfunded Actuarial Accrued Liability is due to a combination of factors including actuarial losses from liability sources and recognition of prior asset losses.

Assuming the benefit adjustments outlined in Note 1 were effective July 1, 2004, the provisions of the October 9, 2004 Agreement would have reduced the System's unfunded actuarial accrued liability at July 1, 2004 from $873,154 thousand to $698,958 thousand. Actuarial projections used as a basis for the October 9, 2004 Agreement estimated that the provisions of the October 9, 2004 Agreement would have reduced the System's unfunded actuarial liability at July 1, 2005 to $694,819 thousand, so the System's unfunded actuarial liability at July 1, 2005 is $189,361 thousand greater than originally projected. The increase in the actuarial liability is mainly due to liability losses that occurred between June 30, 2003 and July 1, 2004. The System's Unfunded Actuarial Accrued Liability is projected to increase from approximately $884,180 thousand as of July 1, 2005 to $1,378,775 thousand in 2015. These projected Unfunded Actuarial Accrued Liabilities equate to funded ratios of 74% as of the end of both periods. In the projections used as a basis for the October 9, 2004 Agreement the System's Unfunded Actuarial Liability as of July 1, 2015 was originally projected to be $1,145,954 thousand or a funded ratio of 78.0%.

In accordance with the terms of the October 9, 2004 Agreement the City is obligated to make certain cash payments to the System but is no longer obligated to make payments to the System in amounts that have been actuarially determined to be sufficient to cover all future benefit payments of the System. If, however, the

System achieves a funded ratio of 75% or 80% in any year subsequent to 2013 then the City will be required to annually contribute amounts to the System, which are sufficient to maintain such funded ratios.

If the City is unable to meet its funding obligations due to a shortfall of tax revenues, an inability to obtain or raise funds through the issuance of pension obligation bonds or from other sources, or if the System does not achieve the actuarial assumptions inherent in these projections, then the System's unfunded actuarial accrued liability and the City's funding obligations will continue to increase above the rates outlined above and ultimately there could be insufficient assets to cover all future benefit payments of the System.

The financial condition of the System and its ability to meet future obligations is predicated on the funding provisions in the Governing Statute and the October 9, 2004 Agreement, which provides a revenue stream based on a percentage of active members' pensionable pay. If the funding schedule is maintained and adequate earnings and gains are provided on investments, the System is projected to eventually be adequately funded. If the City does not meet its funding obligations, the System's unfunded actuarial accrued liability and the City's future funding obligations will continue to increase above the rates outlined above.

The figures in the accompanying unaudited Schedule of Funding Progress (the Unfunded Actuarial Accrued Liability (UAAL) and the Funded Ratio) are based on actuarial calculations that make use of the actuarial value of assets, not the fair value. Since asset gains and losses (earnings greater or less than the 8.50% investment return assumption for example) are recognized 20% per year for five years in the actuarial value of assets, the July 1, 2005 actuarial value of $2,508,794 thousand is $142,414 thousand less than the fair value $2,651,208 thousand. The $142,414 thousand in deferred gains will continue to be recognized over the next three years and as these gains are recognized, the unfunded liability can be expected to decrease by a corresponding amount, over and above other expected increases or decreases.

6. Commitments and Contingencies

As described in Note 1, there are 2,942 non-vested active members of the System entitled to refunds of their accumulated contributions, without interest, upon termination of employment with the City prior to being eligible for pension benefits. At June 30, 2007 and 2006, aggregate contributions from these members of the System were approximately $106,150 thousand and $100,692 thousand, respectively. The portion of these contributions that might be refunded to members who terminate prior to pension eligibility has not been determined.

At June 30, 2007 and 2006, the total accumulated lump sum benefit due to DROP members was approximately $492,662 thousand and $435,114 thousand, respectively.

At June 30, 2007 and 2006, the total accumulated lump sum benefit due to PROP participants was $192,253 thousand and $146,618 thousand, respectively.

The System has outstanding commitments to various limited partnerships totaling $105,581 thousand and $103,316 thousand, as of June 30, 2007 and 2006, respectively.

Effective August 1, 2004, the System executed an eleven-year office lease renewal through April 30, 2015, with the first 9 months rent-free and monthly base rentals thereafter ranging from $15 thousand to $17 thousand.

7. Subsequent Events

The System is invested in a fully collateralized commodities strategy, which is reported as part of alternative investments on the Statements of Plan Net Assets, that is implemented through the use of commodity swaps with a portion of the collateral held by the swap provider and a portion of the collateral held by the asset manager. At June 30, 2007, the asset manager had their approximately $54,298 thousand share of the collateral invested in their proprietary Limited Duration Bond Fund (the Fund). The asset manager has represented that as of June 30, 2007 the Fund was leveraged 3.5 times and approximately ninety percent of Fund assets were invested in sub-prime mortgage-backed securities.

During July and August of 2007 the sub-prime market experienced difficulties resulting in significant mark-to-market losses in this Fund and substantially all of the Fund participants took a distribution of their investment in the Fund. The asset manager also took in-kind distributions of the proportionate share of the remaining securities in the Fund that were allocable to ownership interests in the Fund attributable to other proprietary bond funds managed by the asset manager. The System continues to be invested in the Fund but the difficulties in the sub-prime market and losses incurred pursuant to the distributions referred to above, have resulted in approximately $20,072 thousand of realized and unrealized losses to the System through October 24, 2007.

Schedule of Funding Progress ($000's) [(1)]

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (Surplus) (UAAL) (b-a)	Funded Ratio (%) (a/b)	Projected Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
July 1, 2000	$ 2,013,491	$ 1,966,404	$ (47,087)	102 %	250,691	(19) %
July 1, 2001	2,226,307	2,306,427	80,120	97	264,226	30
July 1, 2002	2,337,157	2,593,730	256,573	90	286,150	90
July 1, 2003	2,394,411	2,874,738	480,327	83	300,405	160
July 1, 2004 [(2)]	2,466,070	3,339,224	873,154	74	329,840	265
July 1, 2005	2,508,794	3,392,974	884,180	74	321,057	275

(1) The System's actuaries have indicated that these valuation data are "reasonable actuarial results." However, a different set of results could also be considered reasonable actuarial results, since the Actuarial Standards of Practice describe a 'best-estimate range' for each assumption, rather than a single best-estimate value. Thus, reasonable results differing from those presented above could have been developed by selecting different points within the best-estimate ranges for various assumptions.

(2) See Note 4, Funding Status. The July 1, 2004 amounts in this schedule have not been adjusted for the effects of the October 9, 2004 Agreement.

Schedule of Employer Contributions ($000's)

Years Ended June 30,	Actuarial Required Contribution	Cash Payments Required by Agreements [(3)]	Cash Payments as a Percent of Actuarial Required Contribution	Annual Required Contribution as a Percentage of Pay
2002	$ 29,858	$ 32,645	109.3	11.3 %
2003	58,661	34,645	59.1	20.5
2004	73,299	36,645	50.0	24.4
2005	94,004	36,645	14.7 [(4)]	28.5
2006	100,170	53,000	23.0 [(5)]	31.2
2007	107,443	58,000	26.1 [(6)]	34.0

(3) Amounts for 2001 through 2004 represent amounts paid pursuant to various agreements between the System and the City.
(4) The percentage contributed figure for 2005 has been calculated based on $13,780 thousand since the remainder of the fiscal 2005 cash payment was from the proceeds of pension obligation bonds and, as such, must be excluded from such calculations.
(5) The percentage contributed figure for 2006 has been calculated based on $23,000 thousand since the remainder of the fiscal 2006 cash payment was from the proceeds of pension obligation bonds and, as such, must be excluded from such calculations.
(6) The percentage contributed figure for 2007 has been calculated based on $28,000 thousand since the remainder of the fiscal 2007 cash payment was from the proceeds of pension obligation bonds and, as such, must be excluded from such calculations.

See accompanying independent auditors' report.

Houston Police Officers' Pension System

Required Supplementary Information (Unaudited)

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

Valuation date	July 1, 2005
Actuarial cost method	Entry age normal
Amortization method	Level percent of payroll Amortization over a constant open period of 30 years
Remaining amortization period	30 years
Asset valuation method	5 year smoothed market
DROP interest credit rate	8.5% with maximum 5-year average of 7.0%
Actuarial assumptions:	
Investment rate of return	8.5%
Payroll growth rate:	
Attributable to inflation	3.5%
Attributable to merit increases	0.0% to 9.5%
Annual cost of living adjustment	2.8%

See accompanying independent auditors' report.

Houston Police Officers' Pension System

Schedule I - Investment, Professional and Administrative Expenses ($000's)

Year ended June 30,	2007	2006
Investment services:		
Custodial services	$ 213	$ 209
Money management services	11,972	13,289
Consulting services	650	400
Department Operating Expense	281	245
Total investment services	13,116	14,143
Professional services:		
Actuarial services	74	80
Auditing services	54	40
Election audit services	1	1
Legal services	104	131
Lobbyist services	335	321
Total professional services	568	573
Administrative expenses:		
Computers and technology	186	165
Education	30	40
Fiduciary insurance	81	77
Office rent	173	173
Other office costs	1,912	1,930
Total administrative expenses	2,382	2,385
	$ 16,066	$ 17,101

See accompanying independent auditors' report.

Schedule II - Summary of Investment and Professional Services ($000's)

Twelve Months Ended June 30, 2007	Official System Position	Expense	Nature of Services
Abbott Capital Management	Consultant	$ 400	Consulting
Hammond Associates	Consultant	250	Consulting
The Northern Trust Company	Custodian	213	Custodian
Arnhold & S. Bleichroeder	Money Manager	1,164	Money Management
Ashmore Investment Management Limited	Money Manager	2,682	Money Management
Barclays Global Investors	Money Manager	1,383	Money Management
Brandes Investment Partners	Money Manager	1,527	Money Management
Bridgewater Associates, Inc.	Money Manager	1,818	Money Management
Causeway Capital Management	Money Manager	740	Money Management
The Clifton Group	Money Manager	75	Money Management
Driehaus Capital Management, Inc.	Money Manager	345	Money Management
FX Concepts/AIG	Money Manager	470	Money Management
MacKay-Shields Financial Corp.	Money Manager	355	Money Management
NWQ Investment Management Company	Money Manager	972	Money Management
Shenkman Capital Management, Inc.	Money Manager	289	Money Management
State Street Global Advisors	Money Manager	152	Money Management
Towers Perrin	Actuary	74	Actuarial
BDO Seidman, LLP	Auditors	54	Auditing
Gibbs & Bruns, LLP	Attorneys	60	Legal Service
Godwin Pappas Langley Ronquillo, LLP	Attorneys	25	Legal Service
Klausner & Kaufman	Attorneys	5	
HillCo Partners, LLC	Attorneys	157	Lobbyists
Locke Liddell Sapp	Attorneys	157	Lobbyists
Bickley Prescott & Co.	Consultant	1	Election Auditing
Other	Other	35	Other
Total investment and professional services		$ 13,403	

See accompanying independent auditors' report.

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SECTION THREE

INVESTMENT SECTION

Responsibilities of the Board of Trustees

The primary fiduciary fiscal responsibility of the Board of Trustees is to insure that the System's assets are responsibly managed in accordance with the actuarial needs of the System, and also with sound, generally accepted financial investment procedures. The determination of the appropriate asset mix is based on capital market assumptions that incorporate historical returns, volatility and correlation of various asset classes as well as the consideration of current and forward-looking market conditions.

The Standard of Investment for the System in making investments is to exercise the judgment and care in the circumstances then prevailing which persons of prudence, discretion and intelligence exercise in the management of their own affairs. The Trustees' responsibility is to invest the System's funds solely in the interest of the membership and their beneficiaries, and for the exclusive purpose of providing benefits to the membership and their beneficiaries and defraying reasonable expenses of administering the System.

Investment Philosophy and Objectives

The Board of Trustees believes that the System's assets should be managed in a way that reflects the uniqueness of the System and that the System's assets should be diversified over a spectrum of investment vehicles. Specifically, the Board recognizes and adheres to the following philosophical positions:

- Over the long term, the risk of owning equities has been, and should continue to be, rewarded with a somewhat greater return than that available from fixed income investments.

- Fixed income investments provide the System with an investment vehicle that contributes diversification, liquidity and a predictable stream of income; and that dampens volatility in investment returns.

- Diversification into alternative investments provides the System with an opportunity to enhance returns and to achieve broader diversification of the System's assets.

Investment Policy

The Board of the Houston Police Officers' Pension System has established an Investment policy with the following broad guidelines and objectives.

- Establish overall financial objectives and set investment policy
- Select appropriate investment options
- Select qualified investment manager(s) and consultants
- Select a qualified custodian
- Communicate on a structured and ongoing basis with those responsible for investment results; and
- Monitor performance to assure that objectives are being met and that policy and guidelines are being followed.

This Investment Policy represents the formal document for HPOPS, and is to be communicated to the appointed Investment Manager(s) and is their principal source for developing an appropriate investment strategy and, in addition, serves as the basis for these Managers' and the System's future performance evaluation.

Investment Strategy and Performance

The System has an asset allocation strategy in place that was initially designed to meet its overall investment objective of a long-term 8.5% annualized rate of return. This allocation strategy is reviewed periodically by the Board and is changed in anticipation of or in response to changing market conditions. The current target asset allocation and the actual asset allocation of the System at June 30, 2007 was as follows:

	Target % of Fund	Current Actual % of Fund	Dollars Invested (000's)
Domestic Equity	27.50%	28.56%	$ 959,768
International Equity	13.00%	15.77%	529,835
Total Equity	40.50%	44.33%	1,489,603
Fixed Income	21.00%	23.28%	782,386
High Yield	10.00%	4.89%	164,449
Total Fixed Income	31.00%	28.18%	946,835
Private Equity	10.00%	9.09%	305,599
Structured Beta	10.00%	9.06%	304,581
Hedge Funds/Real Estate	5.00%	6.00%	201,531
Currency	1.00%	0.00%	-
Commodities	2.50%	2.18%	73,135
Total Alternatives	28.50%	26.33%	884,846
Total Cash	0.00%	1.15%	38,801
Total Fund	100.00%	100.00%	$ 3,360,085

Fiscal 2007 witnessed strong U.S. and International equity market performance. However, in the last few months of the fiscal year the market provided investors with a reality check when it began to factor in events such as the turmoil in the sub-prime lending market, weakness in durable goods orders, and the Chinese governmental credit tightening. Despite these events equity markets continued to perform well and were the most significant contributor to the funds performance, however fixed income also had solid performance. The private equity portfolio had strong returns for the third year in succession, which significantly improved our total fund investment rate of return.

HPOPS was able to outperform the financial markets in most areas during the fiscal year and on a total fund basis we outperformed our benchmark 17.9 to 15.9 percent. International equity under-performed the MSCI ACWI ex U.S. Index 29.3 to 30.2 percent, however this benchmark was adopted in January and therefore does not accurately represent the full fiscal year's international equity benchmark performance. The MSCI EAFE Index was used as the international equity benchmark from July – December and its return for fiscal year 2007 was 27.5. The MSCI ACWI ex U.S. Index was adopted to better reflect our international equity portfolio since the adoption of an emerging market allocation in January. The only other asset class to not out-perform its benchmark was high yield, and its return of 11.6 matched the return of the Citigroup High Yield Index.

Domestic Equity

The System's domestic equity investments generated a 21.4 percent return, exceeding the 20.1 percent return of its benchmark, the Russell 3000. This out-performance is due to a combination of excess returns from active management and investment weightings that differed from the benchmark. The superior performance of Arnhold & Bleichroeder and Driehaus was offset to a degree by the below-benchmark performance of NWQ and the Barclays Global Investors (BGI) Enhanced S&P 500 Index. NWQ underperformed because of excess exposure to the financial sector, in particular lending institutions while the BGI fund underperformed due to their fundamental stock-picking model. Assets under management, annualized rates of return and fees paid to domestic equity managers for the fiscal year ending June 30, 2007 are as follows (dollars in 000's):

Manager	Style	Assets	% Returns	Fees
Arnhold & Bleichroeder	Large Cap Value	$ 222,947	28.72%	$ 1,164
BGI	Enhanced S&P 500 Index	346,574	17.98%	967
Attalus Capital*	S&P 500 Alpha Transport Strategy	98,584	-1.42%	-
BGI	Russell 2000 Index	67,878	16.41%	19
BGI**	S&P 500 Index	-	19.54%	27
Driehaus Capital Mgmt	Mid Cap Growth	86,120	25.12%	345
NWQ Investment Mgmt	Large Cap Value	137,665	18.01%	972
		$ 959,768		$ 3,494

*Funded on 5/31/2007
** Withdrew from fund on 3/31/2007

	HPOPS	Benchmark
# of holdings	123	3000
Avg Market Cap	$78.08 Billion	$81.63 Billion
Portfolio P/E	16.83	17.24
Portfolio P/Book	2.81	2.84
Portfolio Beta (3-yr)	1.10	1.01

International Equity

International equity markets once again had a performance advantage versus domestic equity markets. The System's international equity investments returned 29.3 percent, slightly underperforming the 30.2 percent return of the MSCI ACWI ex U.S. benchmark for the fiscal year. The System's largest active manager, Brandes, with approximately 55% of HPOPS' International Equity assets slightly outperformed the EAFE index while our second active international equity manager, Causeway International, underperformed. In January the system invested in the BGI Emerging Market Index Fund, which has essentially matched the return of the MSCI Emerging Markets Index during that time. Assets under management, annualized rates of return and fees paid to international equity managers for the fiscal year ending June 30, 2007 are as shown on the following page (dollars in 000's):

Manager	Style	Assets	% Returns	Fees
BGI	EAFE	$ 36,260	27.98%	$ 198
BGI*	Emerging Markets	81,400	20.20%	134
Brandes	EAFE	291,015	27.92%	1,527
Causeway Capital	EAFE	121,160	26.95%	740
		$ 529,835		$ 2,599

* Funded on 1/31/2007

	HPOPS	Benchmark
# of holdings	150	1171
Avg Market Cap	$67.41 Billion	$55.28 Billion
Portfolio P/E	15.56	15.97
Portfolio P/Book	2.01	2.43
Portfolio Beta (3-yr)	1.05	1.05

High Yield

High yield investments are segregated by HPOPS as a separate asset class with a target allocation of 10 percent of the System's total assets. The System has implemented significant tactical changes to its high yield allocation during the last several years as described below.

Beginning in approximately July 2005 the System began reducing its exposure to high yield by liquidating high yield positions and re-investing these proceeds in an emerging market debt strategy. This tactical reallocation reduced high yield assets from 10.0 percent of total assets to 7.5 percent of assets. Then, beginning on June 30, 2006 the System began a systematic reduction of high yield assets wherein $6 million per month was liquidated and invested in a commodities index strategy based upon the Dow Jones-AIG index. This systematic reduction continued until April 2007 when the commodities strategy became fully funded with approximately 2.5 percent of System assets. Assets under management, annualized rates of return and fees paid to high yield managers for the fiscal year ending June 30, 2007 are as follows (dollars in 000's):

Manager	Style	Assets	% Returns	Fees
MacKay Shields	High Yield	$ 101,492	12.15%	$ 355
Shenkman Capital Mgmt	High Yield	62,957	10.24%	289
		$ 164,449		$ 644

	HPOPS	Benchmark
# of securities	451	1,300
Yield to Maturity	8.29	8.04
Effective Duration	2.21	4.64
Quality Rating S&P	B+	B+

Fixed Income

The System's fixed income strategy consists of a passive allocation to the Lehman Brothers Aggregate via an index strategy managed by BGI in combination with separate allocations to a global fixed income mandate, inflation indexed bonds, and two emerging market mandates. During the previous year a tactical re-allocation was initiated to reverse the under-weight to the System's investment grade fixed income portfolio and to extend its duration. The System's fixed income assets out-performed its benchmark with a fiscal year return of 9.8 percent versus the 6.1 percent return on the Lehman Brothers Aggregate Bond Index for the same time period. Assets under management, annualized rates of return and fees paid to fixed income managers for the fiscal year ending June 30, 2007 are as follows (dollars in 000's):

Manager	Style	Assets	% Returns	Base Fee
BGI	Core Bond Index	$ 24,697	6.30%	$ 33
BGI*	Long Duration Gov/Credit	39,209	-0.64%	5
Clifton Group	Passive TIPS	304,332	3.76%	60
Ashmore	Emerging Market Debt	224,340	17.44%	1,190
Ashmore	Local Currency Debt	109,421	15.18%	1,492
Bridgewater	Global Fixed Income	80,387	3.02%	-
		$ 782,386		$ 2,780

* Funded on 1/31/2007

Alternative Investments

The System's alternative investment program consists of allocations to private equity, hedge funds, a structured beta strategy, commodities, real assets, and a currency overlay program. The private equity strategy is managed by Abbott Capital Management and is a relatively mature strategy in that the System has reached its investment target of approximately 10% of total assets while still having over $100 million of outstanding commitments. The System had investments in or commitments to 49 individual private equity partnerships at June 30, 2007. The current allocation within this strategy is approximately 41% in leveraged buyouts, 40% in special situations funds and 19% in venture capital. This program required $44.0 million in additional funding during fiscal 2007 while at the same time generating distributions of $90.0 million for the same period. This private equity program generated returns for the 2007 fiscal year of 20.9% versus a return of 25.6% on its benchmark the S&P 500 plus 5%.

The System also has a 5% allocation to hedge funds and had $201 million actually invested as of June 30, 2007 with approximately $125 million of that amount being funded during April through June of 2007. These strategies generated fiscal year performance of approximately negative 0.6 percent. There is an additional 1% allocation to currency strategies with a $20 million risk limit. The currency strategy managed by FX Concepts has generally under-performed since inception in 2004 and was terminated in December 2006. The System also funded a commodities strategy with State Street Global Advisors during the year. While this strategy matched its Dow Jones AIG benchmark during the fiscal year, the State Street strategy lost over 50 percent of its value subsequent to June 30, 2007 due to the effects of leverage and sub-prime mortgage exposure in the State Street cash collateral vehicle. Assets under management, annualized rates of return and fees paid to alternative investments managers for the fiscal year ending June 30, 2007 are as follows (dollars in 000's):

Manager	Style	Assets	% Returns	Base Fee	Incentive Fee
Abbott Capital	Private Equity	$ 305,599	N/A	$ 400	$ -
Bridgewater All Weather	Structured Beta	304,581	4.16%	594	
Bridgewater Pure Alpha	Hedge Fund	74,266	-3.47%	1,209	15
Hammond Associates*	Hedge Funds	127,205	3.70%	250	
SSGA	Commodities	73,135	2.10%	108	
FX Concepts**	Currency	-	13.28%	470	
Real Estate	Real Assets	60	N/A	N/A	
		$ 884,846		$ 3,031	$ 15

* Funded May 2007 - July 2007
** Withdrew from fund on 12/31/2006

Cash Securitization

The cash securitization program was first funded on February 28, 2007 and is managed by The Clifton Group. Clifton is in charge of securitizing the cash in our accounts by purchasing equity and fixed income futures in order to obtain a higher yield than would otherwise be earned. Since February this program has added nineteen basis points to our total return (dollars in 000's).

Manager	Style	Assets	% Returns	Base Fee
Clifton Group*	Cash Securitization	$ 20,605	0.19%	$ 59
		$ 20,605		$ 59

* Funded 2/28/2007

Securities Lending

The System's master custodian, Northern Trust, operates the Securities Lending program on behalf of HPOPS. Securities are loaned on a short-term basis to brokers in exchange for (generally) cash collateral. Northern Trust then invests this collateral and the investment income is divided between HPOPS and Northern Trust in accordance with agreed-upon percentages.

This program generates incremental income for HPOPS but is subject to certain risks. These risks include (1) the possibility that the borrower cannot return the securities and (2) that the investments in which Northern invests the collateral lose money. This first risk is controlled by strict guidelines on which borrowers will be approved to participate in the program and daily adjustment of the collateral for changes in the market value of the securities that are out on loan. The second risk is controlled by strict quality and duration guidelines on the securities that the collateral can be invested in.

Vendors other than Northern Trust could be used for this program who could generate additional income but this is not likely without what has been determined to be an unacceptable increase in risk. Northern's participation in the Securities Lending program also allows for a reduction in custody fees.

Northern has never experienced a loss due to borrower default or collateral reinvestment in a collateral fund. Following is a chart of securities lending activity for the most recent three fiscal years (dollars in 000's).

	2007	2006	2005
Avg Securities on Loan	$ 495,168	$ 469,879	$ 279,405
Avg Eligible Securities	$ 1,360,986	$ 1,377,965	$ 2,200,131
% on Loan	36%	34%	12.70%
HPOPS Net Earnings	$ 1,239	$ 1,101	$ 876
Duration of Collateral Pool (days)	35	39	29

Report Preparation

This report was prepared by the Investment Department of the Houston Police Officers' Pension System.

Rates of Return by Year (%)
Years Ended June 30th

Year	System Total	Composite Benchmark	Domestic Equity	Russell 3000	Int'l Equity	MSCI ACWI ex U.S.	Fixed Income	Lehman Brothers Aggregate	High Yield	Citigroup HY	Alternative Investments
2003	4.2	4.3	3.4	0.8	-5.3	-4.2	15.1	8.6	17.7	26.4	-16.5
2004	21.6	19.0	22.9	20.4	41.0	32.5	4.6	10.4	11.6	10.3	30.1
2005	13.5	9.7	10.5	8.1	14.4	17.0	19.0	0.3	9.3	10.4	24.8
2006	11.2	10.3	12.6	9.6	26.4	28.4	4.5	6.8	6.3	4.2	16.5
2007	17.9	15.9	21.4	20.1	29.3	30.2	9.8	6.1	11.6	11.6	11.8

Compound Annualized Rates of Return by Year %
Years Ended June 30, 2007

Year	System Total	Composite Benchmark	Domestic Equity	Russell 3000	Int'l Equity	MSCI ACWI ex U.S.	Fixed Income	Lehman Brothers Aggregate	High Yield	Citigroup HY	Alternative Investments
2	14.2	12.0	17.0	14.7	27.9	29.3	7.1	2.6	8.8	7.8	7.6
3	14.0	10.7	14.8	12.4	23.2	25.0	10.9	4.0	9.0	8.7	15.4
5	13.4	10.1	13.9	11.5	20.1	19.9	10.4	4.5	11.2	12.3	10.2
10	9.5	6.6	10.2	7.6	12.3	8.6	7.7	6.0	9.2	6.5	7.0

These calculations were prepared using a time-weighted rate of return in accordance with The CFA Institute's Global Investment Performance Standards. The System's total rates of return are net of fees. All other rates of return are presented gross of fees. Though these standards do not apply to plan sponsors per se, we have used them herein for purposes of presenting investment rates of return.

Schedule of Ten Largest Domestic Equity Holdings

As of June 30, 2007

Shares	Description	Market Value ($000's)	% of Total Domestic Equity
620,000	General Electric	$ 23,734	2.47%
423,700	Citigroup Inc	21,732	2.26%
791,600	Nalco Hldg Co	21,729	2.26%
411,407	Walgreen Co.	17,913	1.87%
449,709	Amphenol Corp	16,032	1.67%
237,000	Raytheon Co.	12,772	1.33%
395,694	Clear Channel	11,214	1.17%
391,730	Comcast Corp.	11,015	1.15%
270,250	Analog Devices	10,172	1.06%
152,500	Wyeth Co.	8,744	0.91%

Schedule of Ten Largest Non-U.S. Equity Holdings

As of June 30, 2007

Shares	Description	Market Value ($000's)	% of Total International Equity
428,597	Glaxosmithkline	$ 11,222	2.12%
135,437	Sanofi-Aventis	10,993	2.07%
783,630	Alcatel-Lucent	10,985	2.07%
587,400	Deutsche Telekom	10,860	2.05%
967	Mitsubishi	10,649	2.01%
2,123	Nippon	9,403	1.77%
1,413,333	Morrison Supermarket	8,578	1.62%
235,335	Unilever	7,625	1.44%
580,000	Mitsui Sumitomo	7,430	1.40%
3,241,000	ITV	7,426	1.40%

A complete list of all individual holdings is available upon request.

Schedule of Ten Largest Domestic Fixed Income Holdings
As of June 30, 2007

Par Value ($000's)	Description	Market Value ($000's)	% of Total U.S. Fixed Income
$ 21,172	US Treas Bds Inflation Index Linked 3.875% 04-15-2029	$ 32,124	6.03%
29,488	US Treas Infl Indexed Bonds 2.375 Due 01-15-2025 Beo	31,077	5.83%
18,836	US Treas Bds Inflation Indexed 3.625 Due 4-15-2028 Reg	27,874	5.23%
23,200	US Treas Bds Infl IX Bond 2% Due 01-15-2026 Reg	21,874	4.11%
20,723	US Treas NTS Inflation .875 Due 4-15-2010 Reg	21,462	4.03%
15,950	US Treas NTS Bond Inflation Indexed 3 Due 7-15-2012 Reg	18,682	3.51%
15,668	US Treas NTS Treas Inflation Indexed Notes 2 Due 1-15-2014	16,836	3.16%
15,150	USTreas Inflation Indexed Bond 1.875 Due 7-15-2013 Beo	16,347	3.07%
14,579	US Treas NTS Inflation Indexed 2.00 Due 7-15-2014 Reg	15,338	2.88%
14,539	US Treas NTS Inflation Lnkd Bond 1.625 Due 1-15-2015 Reg	14,622	2.74%

Schedule of Ten Largest Non-U.S. Fixed Income Holdings
As of June 30, 2007

Par Value ($000's)	Description	Market Value ($000's)	% of Total Non-U.S. Fixed Income
$ 1,300,000	Japan (Govt of) 0.8% Bonds 20/06/2009	$ 10,489	2.53%
600,000	Japan (Govt of) 1.2% Bonds 20/09/11	4,827	1.17%
500,000	Japan (Govt of) 1.4% Bonds 20/12/11	4,051	0.98%
2,600	Italy (Rep of) 6% BTP 1/5/2031	3,992	0.96%
440,000	Japan (Govt of) 2.1% Bonds 20/09/24	3,522	0.85%
1,740	UK (Govt of) 4.75$ STK 07/12/38	3,471	0.84%
380,000	Japan (Govt of) 1.4% Bonds 20/12/13	3,036	0.73%
2,000	France (Govt of) 6.5% OAT 25/4/11	2,882	0.70%
1,850	France (Govt of) 5.75% OAT 25/10/2032	2,861	0.69%
2,000	Italy (Rep of) 4.25% BTP 1/11/2009	2,689	0.65%

A complete list of all individual holdings is available upon request.

Schedule of Brokerage Commissions Paid

Domestic Equity Trading - Ten Largest by Total Commissions Paid

For the year ended June 30, 2007

Brokers	Shares	Commissions	Principal	Commissions Per Share
Driehaus Securities Corp.	13,686,677	$ 681,688	$636,867,067	$ 0.050
Merrill Lynch Pierce Fenner & Smith	4,559,935	198,934	196,884,323	0.044
Goldman Executing & Clearing	7,697,154	77,231	424,505,349	0.010
Bear Stearns	2,756,777	67,872	111,350,114	0.025
Jefferies & Company	1,466,722	39,133	94,071,739	0.027
LEK Securities Corp.	1,966,474	34,413	74,083,931	0.018
Bernstein, Sanford Co.	717,015	31,607	23,393,076	0.044
Lynch Jones & Ryan	876,590	31,323	45,554,145	0.036
Morgan Stanley & Co. Inc.	673,791	28,853	24,133,789	0.043
Citigroup Global Markets Inc/Smith Barney	531,993	26,003	20,955,323	0.049

International Equity Trading - Ten Largest by Total Commissions Paid

For the year ended June 30, 2007

Brokers	Shares	Commissions	Principal	Commissions in Basis Points
Morgan Stanley and Co.	4,592,572	$ 50,627	$ 40,212,958	12.6
UBS	1,603,028	49,854	32,653,268	15.3
Lehman Bros. Inc.	3,486,404	48,401	47,816,241	10.1
Goldman Sachs & Co.	2,148,377	42,595	18,172,967	23.4
Merrill Lynch & Co.	5,598,437	38,423	83,962,532	4.6
CS First Boston Group	2,262,600	33,932	30,959,601	11.0
Citigroup Global	1,040,052	23,615	16,454,203	14.4
Societe Generale London	628,054	20,913	14,611,631	14.3
Deutsche Bank	1,539,583	17,872	12,859,354	13.9
JP Morgan	1,446,394	15,040	16,723,254	9.0

SECTION FOUR

ACTUARIAL SECTION

Actuarial Certification, Reliances and Distribution

This report describes the results of an actuarial valuation of the Houston Police Officers Pension System. The Houston Police Officers Pension System retained Towers Perrin to perform this actuarial valuation for the purposes of determining the funding status for the plan year July 1, 2005 through June 30, 2006.

The consulting actuaries are members of the Society of Actuaries and other professional actuarial organizations and meet their "General Qualification Standard for Prescribed Statements of Actuarial Opinions" relating to pension plans.

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. While the scope of our engagement did not call for us to perform an audit or independent verification of this information, we have reviewed this information for reasonableness but have not audited it. The accuracy of the results presented in this report is dependent upon the accuracy and completeness of the underlying information. Historical information for years prior to 1986 was prepared by the prior actuaries and was not subjected to our actuarial review.

The actuarial methods and assumptions used in this valuation were selected by the Board of Trustees. The Board has sole authority to determine the actuarial assumptions. 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 as of the valuation date.

The funding determination portion of this actuarial valuation has been conducted in accordance with principles of practice prescribed by the Actuarial Standards Board and the requirements of the Texas Government Code. Section 802.101 of the Texas Government Code requires the use of actuarial "assumptions and methods that are reasonable in the aggregate, considering the experience of the program and reasonable expectations, and that, in combination, offer the actuary's best estimate of anticipated experience under the program."

The results shown in this report are reasonable actuarial results. However, a different set of results could also be considered reasonable actuarial results, since the Actuarial Standards of Practice describe a "best-estimate range" for each assumption, rather than a single best-estimate value. Thus, reasonable results differing from those presented in this report could have been developed by selecting different points within the best-estimate ranges for various assumptions.

It should be noted that other than the City agreement to maintain a funded status floor as specified under the 2004 Meet and Confer (see City Contribution Schedule on page 27), the City funding schedule could potentially not be sufficient to cover all future benefit payments of the Houston Police Officers Pension System. Moreover, it is possible that the Houston Police Officers Pension System will fall below the funded status floor as actual experience differs from assumed and/or assumptions change. Towers Perrin has not been provided detailed provisions on how the funded status floor will be maintained if the funded status declines below specified levels.

The information contained in this report was prepared for the internal use of the Houston Police Officers Pension System and its auditors in connection with our actuarial valuation of the pension plan. It is neither intended nor necessarily suitable for other purposes. The Houston Police Officers Pension System may also distribute this actuarial valuation report to the appropriate authorities who have the legal right to require the Houston Police Officers Pension System to provide them with this report, in which case, the Houston Police Officers Pension System will use best efforts to notify Towers Perrin in advance of this distribution. Further distribution to, or use by, other parties of all or part of this report is expressly prohibited without Towers Perrin's prior written consent.

Towers Perrin

Adam S. Berk
ASA, CFA, EA, MAAA

Steven R. Rusher
FSA, EA, MAAA

November, 2006

Historical Unfunded Actuarial Accrued Liability (Surplus) ($000)

Valuation Date	Actuarial Accrued Liability (AAL)	Actuarial Value of Assets (AVA)	AVA as a Percentage of AAL	Unfunded AAL (Surplus)	Covered Payroll	UAAL (Surplus) as a Percentage of Covered Payroll
July 1, 1984	$ 507,883	$ 230,143	45%	$ 277,740	$ 111,489	249%
July 1, 1986	454,067	420,487	93	33,580	125,963	27
July 1, 1987	488,387	505,483	104	(17,096)	126,960	(13)
July 1, 1988	524,894	516,177	98	8,717	121,667	7
July 1, 1989	581,681	585,358	101	(3,677)	122,803	(3)
July 1, 1990	663,278	676,684	102	(13,406)	126,665	(11)
July 1, 1992	853,975	774,785	91	79,190	143,020	55
July 1, 1993	936,674	857,535	92	79,139	159,321	50
July 1, 1994	984,495	947,456	96	37,039	162,143	23
July 1, 1995	1,000,423	1,038,256	104	(37,833)	174,761	(22)
July 1, 1996	1,199,748	1,168,056	97	31,692	182,251	17
July 1, 1997	1,258,217	1,329,570	106	(71,353)	187,134	(38)
July 1, 1998	1,549,341	1,518,081	98	31,260	196,364	16
July 1, 1999	1,773,829	1,746,312	98	27,517	246,569	11
July 1, 2000	1,966,404	2,013,491	102	(47,087)	250,691	(19)
July 1, 2001	2,306,427	2,226,307	97	80,120	264,226	30
July 1, 2002	2,593,730	2,337,157	90	256,573	286,150	90
July 1, 2003	2,874,738	2,394,411	83	480,327	300,405	160
July 1, 2004	3,339,224	2,466,070	74	873,154	329,840	265
July 1, 2005	3,392,974	2,508,794	74	884,154	321,057	275

Prepared by Towers Perrin

Historical Solvency Test ($000)

Valuation Date	Actuarial Accrued Liability for: Employee Contributions	Retirees, Beneficiaries, and Vested Deferreds	Active Participants (City-Financed Portion)	Actuarial Value of Assets	Portion of Actuarial Accrued Liability Covered by Assets		
	(1)	(2)	(3)		(1)	(2)	(3)
July 1, 1989	$ 82,919	$ 222,585	$ 276,177	$ 585,358	100%	100%	100%
July 1, 1990	87,430	261,114	314,734	676,684	100	100	100
July 1, 1991	98,099	338,914	416,962	774,785	100	100	81
July 1, 1992	105,464	372,674	458,536	857,535	100	100	83
July 1, 1993	114,279	401,989	468,227	947,456	100	100	92
July 1, 1994	123,471	416,053	460,899	1,038,256	100	100	100
July 1, 1995	91,687	764,518	343,543	1,168,056	100	100	91
July 1, 1996	95,615	812,498	350,104	1,329,570	100	100	100
July 1, 1998	99,298	1,017,723	432,320	1,518,081	100	100	93
July 1, 1999	107,008	1,157,882	508,939	1,746,312	100	100	95
July 1, 2000	111,099	1,324,079	531,225	2,013,491	100	100	100
July 1, 2001	138,248	707,152	1,461,027*	2,226,307	100	100	95
July 1, 2002	145,255	718,779	1,729,696	2,337,157	100	100	85
July 1, 2003	153,634	838,090	1,883,014	2,394,411	100	100	74
July 1, 2004	153,088	995,841	2,190,295	2,466,070	100	100	60
July 1, 2005	249,804	1,259,841	1,883,927	2,508,794	100	100	53

* Beginning July 1, 2001 the Actuarial Accrued Liability for DROP Participants was included in the Active liability.

Prepared by Towers Perrin

Historical Active Participant Data

Valuation Date	Number of Participants	Average Age	Annual Covered Payroll ($000)	Average Annual Covered Payroll	Percentage Increase in Average Covered Payroll
January 1, 1980	3,029	N/A	$ 58,169	$ 19,204	10.4%
January 1, 1982	3,243	N/A	89,529	27,607	43.8
July 1, 1984	3,997	N/A	111,489	27,893	1.0
July 1, 1986	4,526	33.5	125,963(1)	27,831	(0.2)
July 1, 1987	4,494	34.4	126,960	28,251	1.5
July 1, 1988	4,239	35.0	121,667	28,702	1.6
July 1, 1989	4,105	35.7	122,803	29,915	4.2
July 1, 1990	4,073	36.2	126,665(2)	31,099	4.0
July 1, 1992	4,120	36.8	143,020	34,714	11.6
July 1, 1993	4,498	36.7	159,321	35,420	2.0
July 1, 1994	4,705	36.8	162,143	34,462	(2.7)
July 1, 1995	4,921	36.9	174,761	35,513	3.0
July 1, 1996(3)	4,395	35.1	150,903	34,335	(3.3)
July 1, 1997	4,282	35.5	149,631	34,944	1.8
July 1, 1998	4,247	35.9	153,479	36,138	3.4
July 1, 1999	4,253	36.3	187,967(4)	44,196(4)	22.3(4)
July 1, 2000	4,137	36.7	179,415	43,368	(1.9)
July 1, 2001(5)	5,325	40.2	264,226(6)	49,620(6)	14.4(6)
July 1, 2002	5,352	40.7	286,150	53,466	7.8
July 1, 2003	5,387	41.3	300,405	55,765	4.3
July 1, 2004	5,225	41.7	329,840	63,127	13.2
July 1, 2005	4,867	42.0	321,226(7)	65,966(7)	4.5(7)

(1) Reflects the July 5, 1986 pay decrease.
(2) Reflects the November 1, 1990 pay increase.
(3) Includes those participants currently accruing benefits from the July 1, 1996 to July 1, 2000 valuation dates (i.e. excludes current DROP participants).
(4) Definition of covered payroll changed from base pay to total direct pay less overtime.
(5) Beginning July 1, 2001 includes active participants eligible for DROP.
(6) Beginning July 1, 2001 the definition of total direct pay changed from the average of the last 26 pay periods to the highest bi-weekly pay period.
(7) Beginning October 9, 2004 pensionable pay is the total of the last 26 pay periods, excluding CMEPP and SOSP.

Inactive Participants Added to and Removed from Rolls

Period Ended	Added to Rolls Number	Added to Rolls Annual Benefits ($000)	Removed from Rolls Number	Removed from Rolls Annual Benefits ($000)	Rolls at the End of the Year Number	Rolls at the End of the Year Annual Benefits ($000)	Percentage Increase in Annual Benefits	Average Annual Benefit
December 31, 1981	81	1,191	17	184	666	6,499	20.6	9,759
December 31, 1982	104	1,106	24	240	746	7,842	20.7	10,513
December 31, 1983	82	967	35	362	793	8,931	13.9	11,262
June 30, 1984	53	779	18	150	855	4,760	6.6	11,095
June 30, 1985	83	1,141	42	259	896	10,166	6.8	11,346
June 30, 1986	44	530	37	431	903	10,939	7.6	12,114
June 30, 1987	42	585	36	421	909	11,321	3.5	12,455
June 30, 1988	138	2,668	25	243	1,022	14,069	24.3	13,766
June 30, 1989	89	1,349	46	502	1,065	16,127	14.6	15,142
June 30, 1990	105	1,811	29	457	1,141	18,029	11.8	15,801
June 30, 1992	222	4,662	75	1,127	1,288	22,999	27.6	17,857
June 30, 1993	105	2,012	16	205	1,377	25,474	10.8	18,500
June 30, 1994	106	2,172	64	953	1,419	27,286	7.1	19,229
June 30, 1995	107	2,425	48	847	1,478	29,464	8.0	19,935
June 30, 1996*	893	19,109	36	602	2,335	48,624	65.0	20,824
June 30, 1997	182	3,481	29	618	2,488	52,772	8.5	21,211
June 30, 1998	159	3,483	28	589	2,619	63,957	21.2	24,420
June 30, 1999	150	3,770	46	1,001	2,723	70,432	10.1	25,866
June 30, 2000	233	6,421	36	857	2,920	76,401	8.5	26,165
June 30, 2001**	131	3,755	1,250	33,892	1,801	54,006	(29.3)	29,987
June 30, 2002	104	2,809	46	1,113	1,859	55,013	1.9	29,593
June 30, 2003	106	2,967	47	1,109	1,918	61,531	11.8	32,081
June 30, 2004	220	9,172	33	1,014	2,105	70,307	14.3	33,400
June 30, 2005	353	15,962	55	1,776	2,403	86,933	23.6	36,177

* From June 30, 1996 through June 30, 2001 includes DROP participants.

** Beginning July 1, 2001 excludes active participants eligible for DROP.

Change in Unfunded Actuarial Accrued Liability (Surplus) Since the Prior Valuation ($000)

■ Unfunded Actuarial Accrued Liability (Surplus) as of July 1, 2004[1]	$ 698,958
■ Expected Change Due to Normal Operation	
– Normal Cost (City Portion)	54,366
– City Actuarially Determined Contribution	(92,780)
– Interest [2]	61,493
– Recognition of Prior Asset Losses (Gains)	93,109
– Net Change	116,188
■ Expected Change Due to City Funding Less Than Actuarial Rate	57,972
■ Change Due to Actuarial Experience	
– Actuarial (Gain) Loss From Asset Sources	(23,151)
– Actuarial (Gain) Loss From Liability Sources	34,213
– Net Change	11,062
■ Change in Actuarial Assumptions and Methods	0
■ Unfunded Actuarial Accrued Liability (Surplus) as of July 1, 2005	884,180

(1) After changes in plan provisions effective at October 9, 2004

(2) Excludes interest on the unrecognized investment losses

Summary of Actuarial Methods and Assumptions

The following methods and assumptions were adopted for the Actuarial Valuation Report as of July 1, 2005.

Actuarial Methods

Actuarial Value of Assets	Gains and losses in the market value of assets, based on the difference between the actual and the assumed rate of return, are recognized over five years.
Actuarial Cost Method	Entry Age Normal Method with liabilities allocated from date of entry to assumed retirement age. The Unfunded Actuarial Accrued Liability (Surplus), including effects of actuarial gains and losses, is amortized as a level percentage of pay over 30 years. The contribution is increased for interest for one-half of a year to reflect timing of payments.

Economic Assumptions

Investment Return	8.5% per year, net of expenses
Payroll Growth Rate/Inflation	3.5% per year

Individual Merit Increase Rate

Service	Increase
1	7.00%
2	0.25
3	0.25
4	5.00
5	9.50
6	8.50
7	0.75
8	0.50
9	7.75
10	1.00
11	9.00
12	0.75
13	1.25
14	1.50
15	0.50
16	5.50
17	0.75
18 and over	0.00

Individual Pay Increase Rate	Merit plus 3%
DROP Crediting Rate	Five year average returns using actual return through June 30, 2005 and estimated 8.5% returns thereafter, with a maximum 5−year average of 7.0%.

Summary of Actuarial Methods and Assumptions (continued)

Demographic Assumptions

Entry Age

Date sworn.

DROP Participation Rates

100% of eligible active participants are assumed to elect the DROP. Participants are assumed to elect the maximum duration for the back DROP, up to 20 years, except in cases where the DROP benefit as of October 9, 2004 determined using the highest biweekly pay period during the last 26 pay periods is greater than the back-DROP benefit using the new definition of Final Average Compensation. If the employee is currently participating in the DROP and his current actual DROP benefit is greater than his estimated back-DROP benefit, then his current DROP benefit is used for valuation purposes.

Retirement Rates

► Participants as of October 9, 2004

	Service						
Age	20-21	22-23	24-25	26-27	28-29	30-39	40 and over
40-54	5%	5%	5%	10%	20%	20%	100%
55-59	5	10	10	30	30	40	100
60-64	10	10	25	50	50	50	100
65 and over	100	100	100	100	100	100	100

► New Participants After October 9, 2004

	Service						
Age	20-21	22-23	24-25	26-27	28-29	30-39	40 and over
55-59	5%	10%	10%	30%	30%	40%	100%
60-64	10	10	25	50	50	50	100
65 and over	100	100	100	100	100	100	100

Mortality Rates

► Active participants and nondisabled retirees

1994 Group Annuity Mortality Table (see table below for sample rates).

Disabled retirees

1987 Commissioners Group Disabled Mortality Table (see table below for sample rates).

Summary of Actuarial Methods and Assumptions (continued)

Disability Rates	Graduated rates (see table below for sample rates).
Percentage of Deaths and Disabilities in the Line of Duty	100%.
Termination Rates and Terminated Vested Pension Benefit Election	Graduated rates (see table below for sample rates). 50% of members eligible to receive a terminated vested pension are assumed to elect the pension at age 60 instead of a refund of contributions.
Marital Status at Benefit Eligibility	
► Percentage married	90%. (No beneficiaries other than the spouse assumed).
► Age difference	Husbands assumed to be three years older than wives.
Valuation Earnings	Pay excluding CMEPP and SOSP in the last 26 pay periods preceding the valuation date annualized and increased for one year of assumed pay increases. Grandfathered CMEPP and SOSP amounts were added back in on a prorated basis for determining transition earnings through 2007.

Sample Rates

Sample Rates per 100 Participants

	Non-disabled Mortality		Disabled Mortality (Ultimate)	Termination	Disability	
Age	Male	Female	All	All	Male	Female
20	0.05	0.03	2.82	4.44	0.08	0.10
25	0.07	0.03	2.82	3.99	0.08	0.10
30	0.08	0.04	2.82	3.02	0.08	0.12
35	0.09	0.05	2.82	1.92	0.10	0.16
40	0.11	0.07	2.82	0.92	0.14	0.22
45	0.16	0.10	2.82	0.21	0.21	0.30
50	0.26	0.14	2.82	0.00	0.37	0.54
55	0.44	0.23	2.82	0.00	0.79	1.08
60	0.80	0.44	3.14	0.00	2.15	2.86
65	1.45	0.86	3.98	0.00	0.00	0.00

Changes in Methods and Assumptions Since the Prior Valuation

There were no changes in methods and assumptions since the prior valuation, other than those listed in the July 1, 2004 report as necessary to reflect the plan provision changes as of October 9, 2004.

Summary of Plan Provisions

Covered Members

All police officers sworn before September 1, 1975 are covered under Plan 1, except those who elected by December 31, 1981 to participate in Plan 3.

All police officers sworn on or after September 1, 1975, but before September 1, 1981 are covered under Plan 2, except those who elected by December 31, 1981 to participate in Plan 3 and those from Police Cadet Classes 70 and 71 who elected to transfer to Plan 1.

All other police officers are covered by Plan 3, except those from Police Cadet Classes 70 and 71 who elected to pay additional contributions and transfer to Plan 1.

Final Compensation

Prior to November 28, 1998

Monthly base salary paid to the participant in his/her last month of service. For any participant from a position held for less than 3 years, final compensation is the average monthly base salary for the 3 years prior to retirement.

After November 28, 1998 but prior to July 1, 2001

Monthly total direct pay less overtime paid to the participant in his/her last month of service. For any participant from a position held for less than 3 years, final compensation is the average monthly base pay for the 3 years prior to retirement plus the other current components of total direct pay.

After July 1, 2001 prior to October 9, 2004

Highest biweekly pay period (excluding overtime) during the last 26 pay periods annualized. Amounts not paid on a biweekly basis are deducted from period paid. Annual amounts are divided by 26 and added to the highest pay period, including motorcycle allowances.

After October 9, 2004

Average of the last three years of compensation (excluding exempt time, overtime and strategic officer staffing pay). This average will be phased in beginning with the pay period ending after October 9, 2004 until the new definition is fully phased in after 78 pay periods.

Service Retirement

Eligibility

- Sworn prior to October 9, 2004 — 20 years of service.
- Sworn on or after October 9, 2004 — Age 55 with 10 years of service

Benefit:

- Prior to November 1, 1955 — $75 per month plus $2 per month for each year of service in excess of 25 years.

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Summary of Plan Provisions (cont.)

▸ After November 1, 1955 but prior to January 13, 1968	30% of final compensation plus 1% of final compensation for each year of service in excess of 20 years.
▸ After January 13, 1968 but prior to July 1, 1986	Plans 1 and 2: 30% of final compensation plus 2% of final compensation for each year of service in excess of 20 years. Plan 3: 2% of final compensation for each year of service up to 40 years, reduced 0.42% for each month benefit commencement precedes age 55.
▸ After July 1, 1986 but prior to July 1, 1988	2% of final compensation for each year of service up to 40 years.
▸ After July 1, 1988 but prior to September 1, 1997	45% of final compensation plus 2% of final compensation for each year of service in excess of 20 years; maximum 80% of final compensation. Benefit based on prior formula is payable until July 1, 1991 and recomputed benefit is payable thereafter.
▸ After September 1, 1997 but prior to July 1, 2001	50% of final compensation plus 2% of final compensation for each year of service in excess of 20 years; maximum 80% of final compensation.
▸ After July 1, 2001 but prior to October 9, 2004	55% of final compensation plus 2% of final compensation for service in excess of 20 years. The Pension System recomputed the benefit of each person who retired before July 1, 2001. The retiree's benefit was increased by the result of multiplying the difference between 55% and the percentage used at the time of retirement in computing the retiree's benefit for the first 20 years of service by the base salary of the retiree at the time of retirement. Retroactive cost-of-living increases were not applied to the increased benefit. This recomputed benefit is effective for all payments on or after July 1, 2001.
▸ After October 9, 2004	Participants sworn prior to October 9, 2004 will receive the highest of the following alternatives using Final Average Compensation effective after October 9, 2004, from October 9, 2004 through October 7, 2007: 1) 2.25% of Final Average Compensation for each of the first 20 years of service plus 2% of Final Average Compensation for each year of service in excess of 20 years, with a maximum of 80% of Final Average Compensation. 2) Benefit participant would have received had participant retired or entered the DROP immediately before October 9, 2004 3) Benefit calculated using a sliding average of the pay received for the pay periods elapsed since October 9, 2004.

Summary of Plan Provisions (cont.)

New participants after October 9, 2004:

> 2.25% of Final Average Compensation for each of the first 20 years of service plus 2% of Final Average Compensation for each year of service in excess of 20 years, with a maximum of 80% of Final Average Compensation.

Additional Benefits

An extra monthly benefit of $150.00 is payable for life. Effective November 28, 1998, a $5,000 lump sum is payable upon retirement for members sworn prior to October 9, 2004.

Terminated Vested Pension Benefit

Eligibility

More than 10 but less than 20 years of service. Termination on or after November 28, 1998.

Benefit

2.75% of final compensation times years of service. This benefit commences at age 60 or at termination of service if later.

Deferred Retirement Option Plan (DROP)

Eligibility

20 years of service and sworn in prior to October 9, 2004.

Benefit:

- After September 1, 1995 but prior to September 1, 1997

Eligible participants may elect to participate in the DROP until they leave active service. The member's retirement pension 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 participant of the DROP:

- The member's monthly retirement pension, including applicable cost-of-living adjustments,
- The member's contribution to the Pension System, and
- Investment earnings/losses at the rate of the Pension System's earnings/losses averaged over a five-year period. Effective July 1, 2001, this rate is subject to a minimum of 0%.

A benefit equal to the DROP account balance is paid at the time the member leaves active service. The payment is made as a single lump sum.

If a DROP participant suffers an on-duty disability resulting in the inability to perform his/her usual and customary duties as a police officer or dies in the line of duty, he (or his survivors) are allowed to revoke the DROP election and to receive the more generous on-duty disability or death benefits.

Summary of Plan Provisions (cont.)

▸ After September 1, 1997 but prior to December 1, 1998	The Pension System recomputed the benefit of each person who entered the DROP before September 1, 1997. The benefit was increased in the same manner as the retiree's benefit.
▸ After December 1, 1998 but prior to July 1, 2001	The Pension System recomputed the benefit of each person who entered the DROP before December 1, 1998. The benefit was recalculated based on Total Direct Pay less overtime upon entry to the DROP. This recomputed benefit is effective for all payments on or after December 1, 1998.
▸ After July 1, 2001 but prior to October 9, 2004	The Pension System recomputed the benefit of each person who entered the DROP before July 1, 2001. The member's benefit was increased by the result of multiplying the difference between 55% and the percentage used at the time of DROP entry in computing the member's benefit for the first 20 years of service by the base salary of the member at the time of DROP entry. Retroactive cost-of-living increases were applied to the increased benefit. The account balance for each participant was recomputed as if this new benefit had been effective since DROP entry.
▸ After October 9, 2004	A minimum of 3.00% interest will be credited to existing DROP accounts with a maximum of 7.00%. If the actuary certifies that past service costs are fully funded, the credit may be as high as 10.00%.
Benefit Recalculation	Effective July 1, 2001, monthly benefit at retirement will be recalculated to be the greater of (i) current monthly benefit, or (ii) monthly benefit based on service at DROP entry and Final Compensation at retirement date.
Back DROP Option	Effective on July 1, 2001, a back DROP option is available for all eligible participants. The DROP account is recalculated under the option based on what the account balance would have been had the participant elected the DROP 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.

Postretirement Option Plan (PROP)

Eligibility	Retired from DROP
Benefit:	
▸ After November 28, 1998 but prior to July 1, 2001	A retired member is allowed to leave all or a portion of their DROP account in the System. These accounts are credited every calendar year with the 30-year Treasury bond rate as of June of the preceding year.
▸ After July 1, 2001	The interest rate earned on PROP accounts will be the same as the interest rate credited to DROP accounts, including a minimum credited rate of 0%.

Summary of Plan Provisions (cont.)

Partial Lump Sum Optional Payment (PLOP)

Eligibility	Participant on or after October 9, 2004.
Benefit:	
► After October 9, 2004	Up to 20% of the actuarial value of the accrued pension at retirement.

Disability Retirement

Eligibility	Effective July 1, 2001, participant partially or totally disabled is eligible for Disability Retirement as defined below: — Total: Disability is defined as "unable to perform his/her usual and customary duties as a police officer". — Partial: Disability is an impairment which renders the participant unable to work as a police officer and which is expected to last 12 months.
Benefit:	
► Duty-connected	Total: The service retirement benefit accrued to date of disability (or 20 years, if greater). Partial: 35% of final compensation is payable for life or as long as he remains incapacitated.
► Not duty-connected	Total or partial: The disability benefit is 2.75% of final compensation times years of service up to 20, minimum 27.5% of final compensation.
Additional benefits	For participants before October 9, 2004, an education allowance equal to 100% of final compensation less disability benefit is payable for up to four years for off-duty or duty-related disability. Proportionate members injured while on-duty as a municipal worker will receive immediate off-duty benefit upon Board approval.

Survivor Benefits

Eligibility	Surviving spouses and dependent children and parents of participants, including surviving spouses of retired or disabled participants who were not married at the time of retirement or disability, provided the spouse was married to the participant for at least 5 years at the time of death:
Benefit	Spouse's benefit upon death before retirement:
► Prior to September 1, 1997	If duty-connected: Monthly lifetime benefit equal to 100% of final compensation at date of death. If not duty-connected: Monthly lifetime benefit equal to 100% of the service retirement benefit the participant had accrued at the time of death.

Summary of Plan Provisions (cont.)

	Spouse's benefit upon death after retirement monthly lifetime benefit equal to actual benefit payable at time of death.
	Dependent children's benefit if no surviving spouse, the benefit that would have been payable to the spouse is divided equally among the dependent children.
	If there is a surviving spouse, the dependent children of Plan 1 and Plan 2 participants receive $25 per month. Dependent children include unmarried children who are under age 18, and for Plan 3, full-time students under age 22, or permanently disabled children.
	Dependent parent's income if no surviving spouse or children, but there is a dependent parent, the benefit that would have been payable to the spouse will be paid to the dependent parent.
▸ After September 1, 1997 but prior to July 1, 2001	The Pension System recomputed the benefit of each survivor whose original benefit was computed prior to September 1, 1997. The benefit was increased in the same manner as the retiree's benefit.
▸ After July 1, 2001	The Pension System recomputed the benefit of each survivor whose original benefit was computed prior to July 1, 2001. The benefit was increased in the same manner as the retiree's benefit.
Additional benefits	Effective December 1, 1998, a $5,000 lump sum is paid upon the death of an active member.
	Effective July 1, 2001, an extra monthly benefit of $150.00 is payable for life. Children receiving equivalent of the spouse's benefit do not receive this additional benefit.

Benefit Adjustments

Cost-of-living

▸ Prior to October 9, 2004	Monthly benefits for participants receiving payments are increased each April 1 by 2/3 of the increase in the Consumer Price Index for All Urban Consumers (CPI-U) for the preceding calendar year. Effective September 1, 1997 this increase is subject to a minimum of 3.0% per year compounded and a maximum increase of 8.0% per year compounded.
▸ After October 9, 2004	Monthly benefits for participants receiving payments are increased each April 1 by 80% of the increase in the Consumer Price Index for All Urban Consumers (CPI-U) for the preceding year, with a minimum of 2.4% and a maximum of 8%.

Summary of Plan Provisions (cont.)

13th benefit check	Effective November 28, 1998, a 13th benefit check is paid to current retirees and DROP members when: — The assets on the fund equal or exceed the liabilities after the 13th benefit check is paid. — The return on investments for the preceding fiscal year exceeds 9.25%. — The payment of the benefit will not cause the City of Houston's contribution to the System to increase. — Effective October 9, 2004, the funded ratio of the plan must be at least 120% for the 13th check to be paid out.
Service Adjustments	Effective November 28, 1998, participants with previous service with the City in non-classified positions may use that service to satisfy the service requirement of 20 years for retirement purposes only. Effective July 1, 2001, participants who have service credit in more than one City of Houston Pension Plan may use their combined service to qualify for DROP participation. Effective July 1, 2001, participants involuntarily transferred to the System from the Houston Municipal Employees System will receive service under this plan for years worked while serving as a City Marshall, Airport Police or Park Police.

Contributions

Employee Contributions

▸ Prior to December 1, 1998	Each participant contributes 8.75% of base salary
▸ After December 1, 1998 but before October 9, 2004	Each participant contributes 8.75% of average total direct pay less overtime.
▸ After October 9, 2004	
— Members sworn in prior to October 9, 2004	Each participant contributes 9.00% of pay. The additional 0.25% will be credited to the Plan's general fund.
— Others	Each participant contributes 10.25% of pay, which will be credited to the Plan's general fund.

Prepared by Towers Perrin

Summary of Plan Provisions (cont.)

Refunds

Refunds of contributions are made if

(1) The participant dies before 10 years of service and the death is not duty-connected,

(2) The participant dies with no eligible survivor,

(3) A Plan 1 or 2 participant leaves service before eligibility for retirement after completing 5 years of service, or

(4) A Plan 3 participant leaves service with less than 20 years of service.

Contributions are refunded without interest.

Employer Contribution

The city will follow the following contribution schedule:

Fiscal Year Ending (June 30)	City Contribution Amount
2001	$ 30,645,000
2002	32,645,000
2003	34,645,000
2004	36,645,000
2005	36,645,000
2006	16% of total compensation, with a minimum of $53,000,000
2007-2012	$5,000,000 above the prior year's payment

Beginning in Fiscal Year 2013 and continuing until the plan's funded ratio is 100%, payments will increase each year by $5,000,000 or, if the scheduled payment is less than the actuarial rate, $10,000,000. In addition, once the plan's funded ratio is 100%, the city will pay the actuarially required rate, but not less than 16% of covered pay.

Additionally, beginning in Fiscal Year 2013 and once the funded ratio reaches 75%, if the funded ratio drops below 75%, the City will pay additional amounts in the following fiscal year to return the plan to 75% funded. Once the fund ratio reaches 80%, the City will contribute additional amounts to return the plan to 80% funded.

Changes in Plan Provisions from Since the Prior Valuation

There were no changes to the plan provisions from the prior valuation to the date of the current valuation, other than those listed in the July 1, 2004 report to be effective October 9, 2004.

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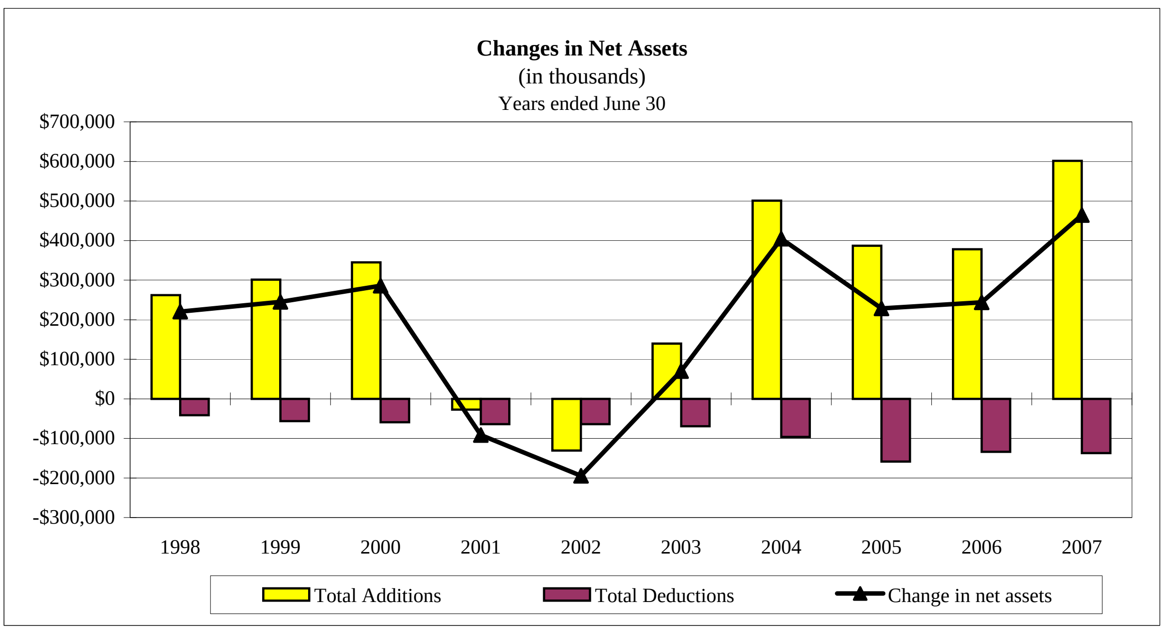
SECTION FIVE

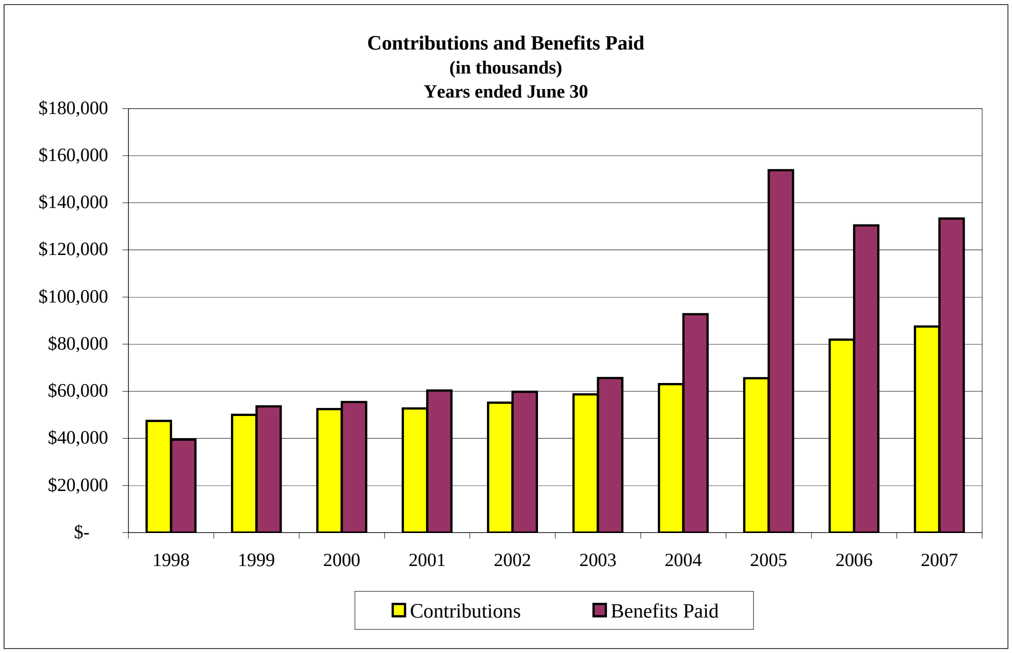
STATISTICAL SECTION

Changes in Plan Net Assets
Previous Ten Fiscal Years
($000's)

Fiscal Year	1998	1999	2000	2001	2002
Additions					
City contributions	$ 30,564	$ 30,645	$ 30,645	$ 30,645	$ 32,645
Members contributions	16,832	19,347	21,761	22,043	22,484
Investment income (net of expenses)	213,743	250,709	291,777	(80,864)	(186,657)
Securities lending income (net of expenses)	705	703	826	832	855
Total additions to plan net assets	261,844	301,404	345,009	(27,344)	(130,673)
Deductions:					
Benefits paid to members	39,440	53,626	55,421	60,328	59,783
Refunds to members	986	1,127	1,545	884	1,194
Professional and administrative expense	1,166	1,678	2,216	2,854	2,881
Total deductions from plan net assets	41,592	56,431	59,182	64,066	63,858
Change in net assets	$ 220,252	$ 244,973	$ 285,827	$ (91,410)	$ (194,531)

Fiscal Year	2003	2004	2005	2006	2007
Additions					
City contributions	$ 34,645	$ 36,645	$ 37,125	$ 53,068	$ 58,000
Members contributions	24,008	26,393	28,410	28,863	29,489
Investment income (net of expenses)	80,202	437,007	320,561	294,966	512,873
Securities lending income (net of expenses)	583	741	876	1,101	1,239
Total additions to plan net assets	139,438	500,786	386,972	377,998	601,601
Deductions:					
Benefits paid to members	65,649	92,697	153,861	130,443	133,351
Refunds to members	992	852	1,198	700	739
Professional and administrative expense	2,746	2,768	3,473	2,958	2,950
Total deductions from plan net assets	69,387	96,317	158,532	134,101	137,040
Change in net assets	$ 70,051	$ 404,469	$ 228,440	$ 243,897	$ 464,561





Contribution Rates
Previous Ten Fiscal Years

	Percent of Payroll	
Fiscal Year	City	Members
1998	16.33%	8.99%
1999	15.61%	9.85%
2000	12.43%	8.83%
2001	12.22%	8.79%
2002	12.35%	8.51%
2003	12.11%	8.39%
2004	12.20%	8.79%
2005	11.26%	8.61%
2006	16.53%	8.99%
2007	18.35%	9.33%

Deductions from Net Assets for Benefits and Refunds by Type
Previous Ten Fiscal Years
($000's)

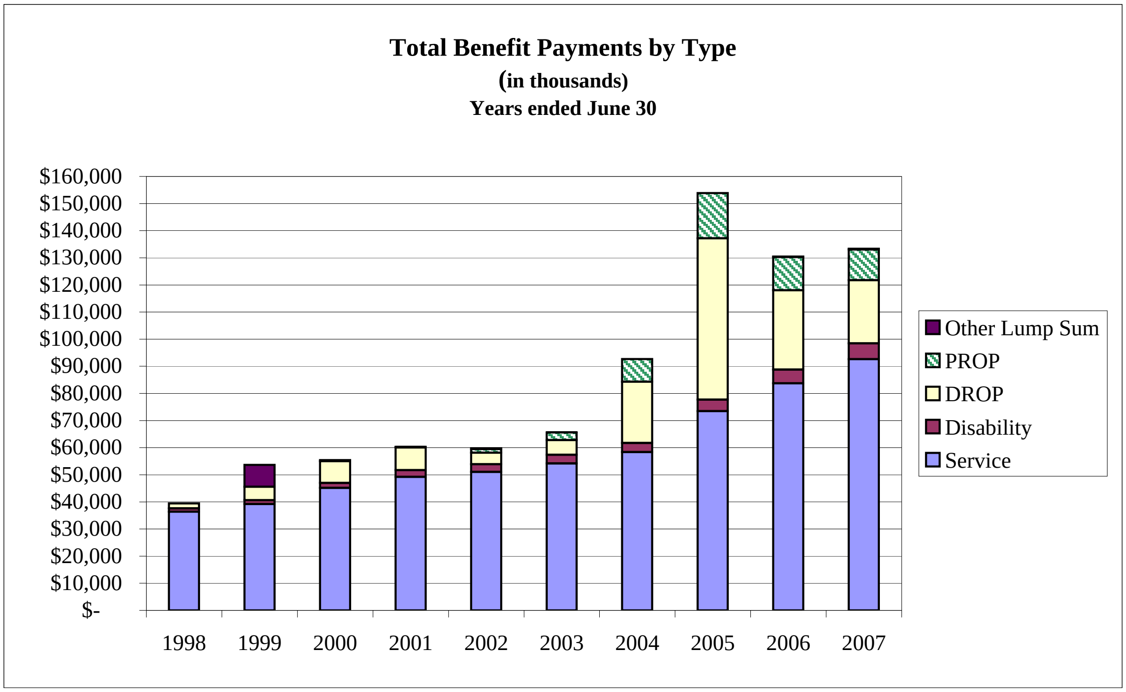
Fiscal Year	1998	1999	2000	2001	2002
Type of Benefit					
Service					
Retirees	$ 28,783	$ 31,023	$ 35,747	$ 38,557	$ 40,126
Survivors	7,591	8,182	9,406	10,641	10,934
Disability					
Retirees - duty	762	809	1,002	1,337	1,572
Retirees - nonduty	183	189	268	304	310
Survivors	321	441	548	836	941
Lump Sum					
DROP distributions	1,801	4,949	8,020	8,381	4,263
PROP distributions (1)				97	1,348
Other (2)		8,033	430	175	288
Total benefits	$ 39,441	$ 53,626	$ 55,421	$ 60,328	$ 59,783
Type of Refund					
Death	$ -	$ 34	$ 1	$ 49	$ -
Separation	986	1,093	1,544	835	1,194
Total refunds	$ 986	$ 1,127	$ 1,545	$ 884	$ 1,194

Fiscal Year	2003	2004	2005	2006	2007
Type of Benefit					
Service					
Retirees	$ 42,566	$ 45,912	$ 59,709	$ 69,074	$ 77,639
Survivors	11,640	12,466	13,733	14,612	14,965
Disability					
Retirees - duty	1,646	1,787	2,604	3,378	4,003
Retirees - nonduty	323	313	358	347	313
Survivors	1,178	1,238	1,310	1,364	1,517
Lump Sum					
DROP distributions	5,441	22,603	59,493	29,272	23,315
PROP distributions	2,815	8,352	16,649	12,233	11,303
Other (2)	40	25	5	163	296
Total benefits	$ 65,649	$ 92,697	$ 153,861	$ 130,443	$ 133,351
Type of Refund					
Death	$ 20	$ -	$ -	$ -	$ -
Separation	972	852	1,198	700	739
Total refunds	$ 992	$ 852	$ 1,198	$ 700	$ 739

(1) PROP was established as a benefit option in 1998 with the first distributions made in 2001.

(2) Lump Sum, Other: Under the provisions of Article 6243g-4, Vernon’s Annotated Texas Statutes (VATS), Sec. 12(b) and Sec. 15(c) a member who retires, including a member who was a DROP participant, and begins to receive a monthly service pension shall receive a one-time lump sum payment of $5,000. This benefit became effective November 23, 1998 with the first payments in 1999. From 2003 through May, 2005, the amount reported represents those payments to members who were not DROP participants. Payments to DROP participants are reported with the DROP distributions, because they are processed and recorded together for administrative purposes. Starting in June 2006, all one-time lump sum payments of $5,000 are reported with the DROP distributions.

Article 6243g-4, Vernon’s Annotated Texas Statutes (VATS), Sec. 15(h) provides for the payment of an additional monthly disability benefit to assist members retired due to disability with the costs of an education or training program. Effective January 1, 2006, payment of the additional monthly disability benefit will occur only after the member successfully completes each semester in the form of a lump sum. The first payments totaling $118 thousand were made in June 2006.



DROP Activity
(dollars in thousands)
Years ended June 30

	DROP Accounts			DROP Participants		
Fiscal Year	Accumulations	Distributions	Total	Entrants	Withdrawals	Total
1998	$ 31,751	$ (1,801)	$ 65,625	133	(31)	1,007
1999	40,262	(4,949)	100,938	115	(56)	1,072
2000	51,892	(8,020)	144,810	178	(59)	1,191
2001	104,768	(8,381)	241,197	159	(52)	1,298
2002	72,527	(4,263)	309,461	212	(74)	1,436
2003	74,268	(5,441)	378,288	297	(62)	1,671
2004	48,487	(22,603)	404,172	285	(185)	1,771
2005	46,126	(59,493)	390,805	372	(298)	1,845
2006	73,581	(29,272)	435,114	296	(168)	1,973
2007	80,863	(23,315)	492,662	120	(157)	1,936

Note: DROP Activity data for 2001 has been restated for the effect of the recalculation of DROP accounts pursuant to the 2001 Meet and Confer Agreement with the City of Houston.

PROP Activity
(dollars in thousands)
Years ended June 30

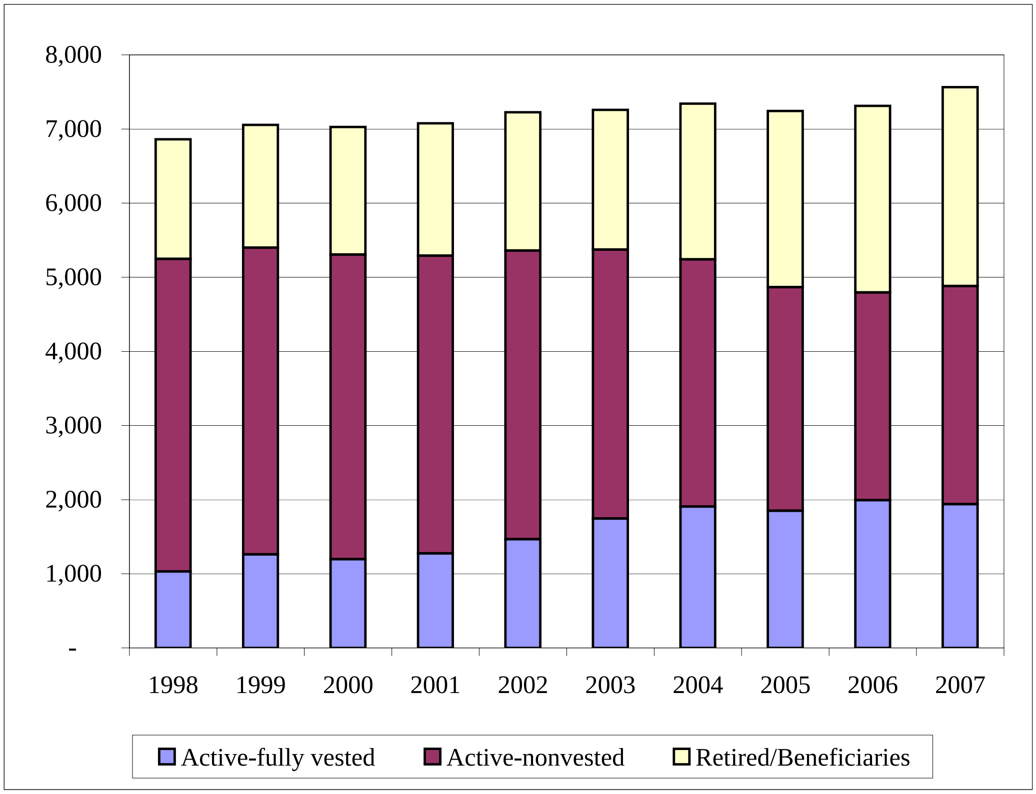
	PROP Accounts			PROP Participants		
Fiscal Year	Accumulations	Distributions	Total	Entrants	Withdrawals	Total
2000	$ 385	$ -	$ 385	8	-	8
2001	918	(97)	1,206	8	(1)	15
2002	14,935	(1,348)	14,793	95	(1)	109
2003	17,034	(2,815)	29,012	48	(4)	153
2004	45,144	(8,352)	65,804	119	(15)	257
2005	66,659	(16,649)	115,814	159	(32)	384
2006	43,037	(12,233)	146,618	88	(24)	448
2007	56,938	(11,303)	192,253	115	(16)	547

Average Monthly Benefit Amounts
Previous Four Fiscal Years

		Years Credited Service							
Member Retiring During Fiscal Years		**<5**	**5-10**	**10-15**	**15-20**	**20-25**	**25-30**	**30+**	**All Members**
2004	Average monthly benefit	$ -	$ 1,892	$ 1,875	$ 2,402	$ 3,096	$ 3,369	$ 4,023	$ 3,456
	Average final average salary	$ -	$ 3,970	$ 4,024	$ 4,577	$ 5,661	$ 6,043	$ 6,006	$ 5,820
	Average DROP Balance	$ -	$ 5,000	$ 5,000	$ 5,000	$ 88,499	$ 391,141	$ 536,444	$ 340,555
	Number of retirees	-	4	4	3	52	61	70	194
2005	Average monthly benefit	$ 3,582	$ 1,367	$ 2,213	$ 2,970	$ 3,278	$ 3,558	$ 4,134	$ 3,668
	Average final average salary	$ 3,582	$ 3,468	$ 4,779	$ 5,322	$ 5,970	$ 6,428	$ 6,293	$ 6,152
	Average DROP Balance	$ 5,000	$ 5,026	$ 5,000	$ 41,719	$ 103,644	$ 395,811	$ 583,494	$ 378,705
	Number of retirees	1	5	3	7	84	81	134	315
2006	Average monthly benefit	$ -	$ 2,432	$ 2,666	$ 2,809	$ 3,289	$ 3,455	$ 3,897	$ 3,510
	Average final average salary	$ -	$ 4,250	$ 4,848	$ 5,112	$ 5,952	$ 6,306	$ 6,190	$ 6,027
	Average DROP Balance	$ -	$ 5,000	$ 5,000	$ 5,000	$ 79,836	$ 382,006	$ 620,961	$ 355,204
	Number of retirees	-	7	3	4	55	44	71	184
2007	Average monthly benefit	$ -	$ 2,463	$ 2,742	$ -	$ 3,272	$ 3,472	$ 3,693	$ 3,447
	Average final average salary	$ -	$ 4,478	$ 4,930	$ -	$ 5,841	$ 6,284	$ 6,097	$ 6,004
	Average DROP Balance	$ -	$ 5,000	$ 5,000	$ -	$ 131,167	$ 379,358	$ 631,452	$ 367,727
	Number of retirees	-	1	7	-	58	46	61	173
Four Years Ended June 30, 2007									
	Average Monthly Benefit	$ 3,582	$ 1,994	$ 2,431	$ 2,802	$ 3,240	$ 3,472	$ 3,981	$ 3,542
	Average Final Average Salary	$ 3,582	$ 3,968	$ 4,676	$ 5,102	$ 5,871	$ 6,275	$ 6,176	$ 6,022
	Average DROP Balance	$ 5,000	$ 5,008	$ 5,000	$ 23,360	$ 101,633	$ 388,703	$ 590,316	$ 362,972
	Number of Retirees	1	17	17	14	249	232	336	866

The above chart includes all Service, Proportionate and Disability retirements. It does not include Delayed Retirements or Survivor benefits due to Active member deaths. The DROP Balance includes $5,000 lump sum benefit.

Membership
Last Ten Fiscal Years



Fiscal Year	Active Fully Vested	Active Nonvested	Retired/ Beneficiaries	Terminated Vested *	Totals
1998	1,032	4,215	1,614		6,861
1999	1,261	4,138	1,657		7,056
2000	1,198	4,107	1,723		7,028
2001	1,275	4,015	1,786		7,076
2002	1,466	3,895	1,864	5	7,230
2003	1,745	3,628	1,886	7	7,266
2004	1,907	3,335	2,100	10	7,352
2005	1,851	3,016	2,376	3	7,246
2006	1,992	2,802	2,517	15	7,326
2007	1,940	2,942	2,683	15	7,580

* Terminated Vested members were not separately reported until fiscal year 2002.

Pensions Awarded in Current Year by Type and by Age
Year Ended June 30, 2007

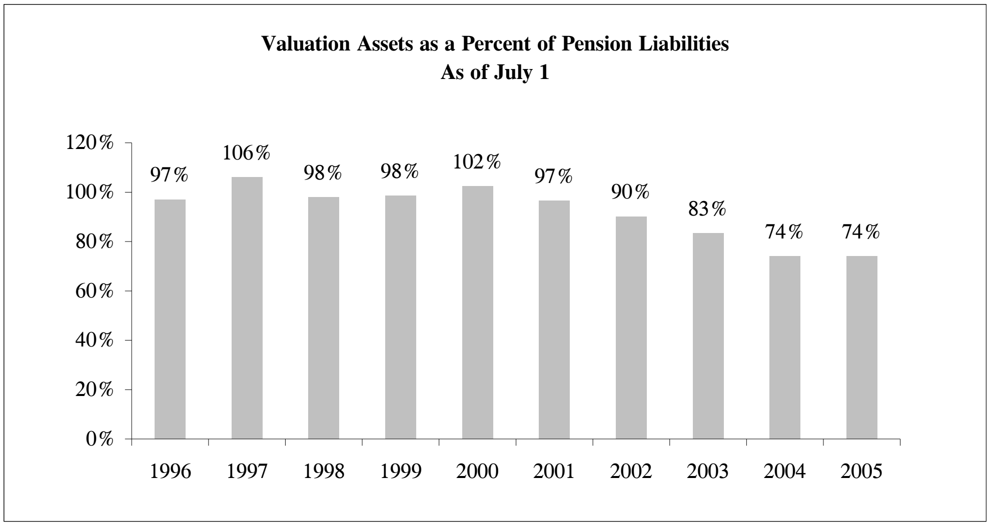
Age on June 30,	Total	Type of Pension: Service	Disability	Survivor
Under 40	3	-	3	-
40-44	16	11	2	3
45-49	31	28	3	-
50-54	58	57	-	1
55-59	50	49	-	1
60-64	12	12	-	-
65-69	3	3	-	-
70-74	-	-	-	-
75 and over	-	-	-	-
Total	173	160	8	5

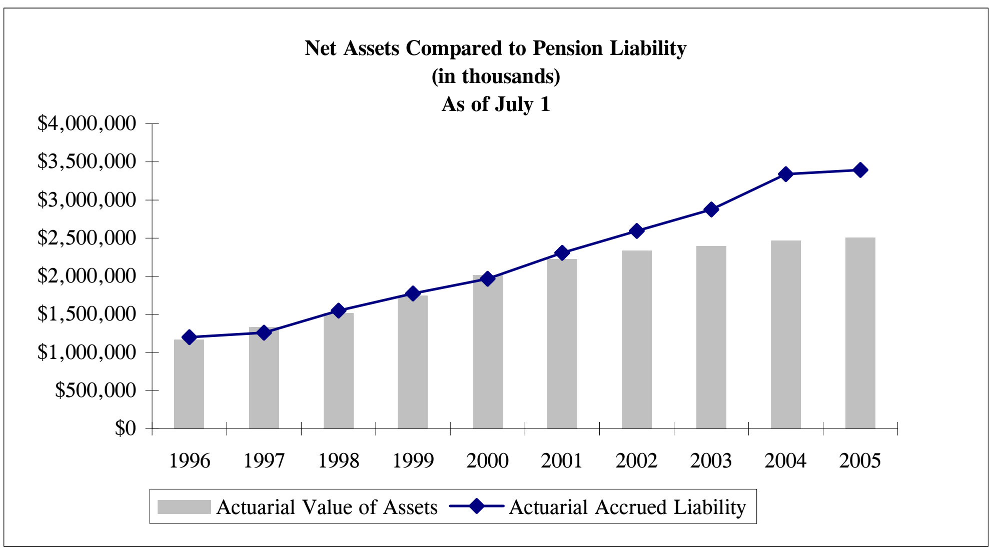
Total Pensions in Force by Type and by Age
Year Ended June 30, 2007

Age on June 30,	Total	Type of Pension: Service	Disability	Survivor
Under 40	47	-	18	29
40-44	63	29	20	14
45-49	180	134	26	20
50-54	361	309	18	34
55-59	594	519	19	56
60-64	470	407	8	55
65-69	315	243	5	67
70-74	303	231	5	67
75-79	183	121	-	62
80-84	123	58	1	64
85 and over	44	12	1	31
Total	2,683	2,063	121	499

Pensions Awarded in Current Year by Type and by Monthly Amount
Year Ended June 30, 2007

Monthly Amount	Total	Type of Pension: Service	Disability	Survivor
Under $1000	-	-	-	-
$1000-$2000	2	1	-	1
$2000-$3000	9	3	6	-
$3000-$4000	129	124	2	3
$4000-$5000	28	27	-	1
$5000-$6000	4	4	-	-
$6000-$7000	-	-	-	-
$7000 and over	1	1	-	-
Total	173	160	8	5





Charts through most recent actuarial valuation dated July 1, 2005.

HPOPS

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