Comprehensive Annual

Financial Report

A Component Unit of

The City of Houston, Texas

July 1, 2008 through

June 30, 2009

HOUSTON POLICE OFFICERS' PENSION SYSTEM
John E. Lawson, Executive Director
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LIFE • CYCLE • PLANNING

HPOPS

FOR TODAY & TOMORROW

SECTION ONE

INTRODUCTORY SECTION

HPOPS
FOR TODAY & TOMORROW

December 10, 2009

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, 2009 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 summary results of the annual actuarial valuation.
- Statistical Section – This section includes historical financial and benefits related 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 $2.7 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 continues to provide a high level of service to our members. The Financial Planning and Estate Planning services allow members to meet one on one with System professional staff to discuss financial issues and work to prepare different legal documents in order to protect the member's estate. These services are free of charge and appear to be highly valued by System members.

The System's staff is still engaged in multiple projects to update and enhance the technology and infrastructure used to administer the System. A new Pension Administration System (PAS) was brought online in May 2009. This system did not just replace the previous legacy system but also brought many updates and enhancements. In June, a new Document Management System with workflow management capabilities was implemented that integrates with the new PAS. For fiscal year 2010, additional changes will be made to the PAS to encompass tracking and reporting for Investments as well as implementing a new Web site. All of these new systems and technology enhancements enable HPOPS to provide a higher level of service to members.

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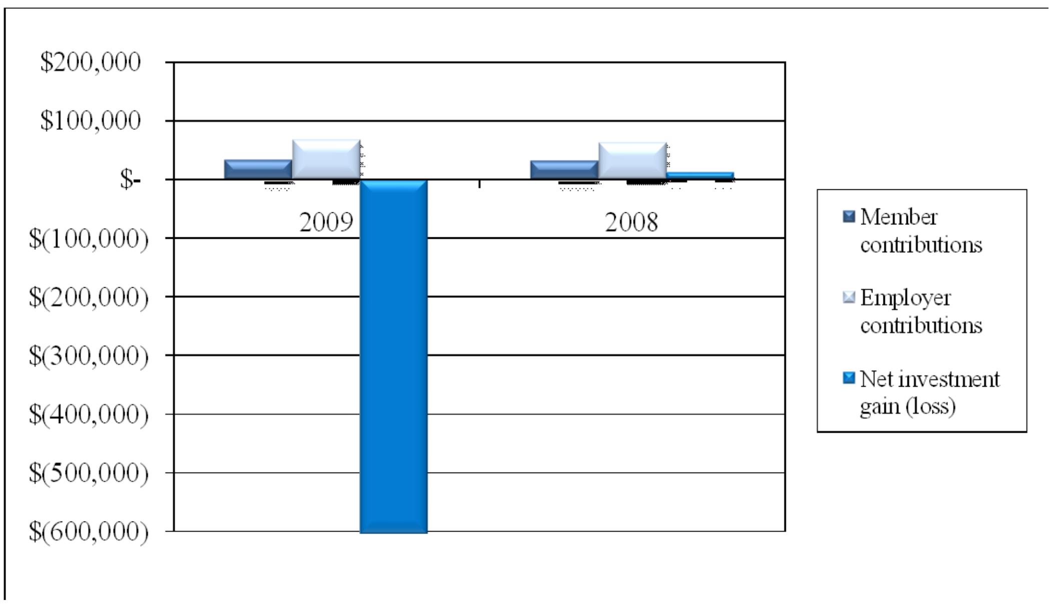
Additions to Plan Net Assets

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 2009 to be $5 million over the $63 million the City contributed in fiscal year 2008 and increases by $5 million over that amount for fiscal 2010. The number of active members increased in fiscal year 2009 compared to 2008 due to new hires to the Houston Police Department (HPD). Contributions from members increased in fiscal 2009 along with the increase in active members. The System experienced a negative investment return of (18.2)% in 2009, which was a decrease from the positive return of 0.3% in 2008. This decrease is primarily due to weakening performance in nearly all financial markets during the much of fiscal year 2009 brought on by instability in the credit markets and resulting investor concerns over the slowing economy.

Active members:	2009	2008	Increase (Decrease)
Fully vested	1,735	1,849	(114)
Nonvested:			
Hired or rehired before October 9, 2004	2,430	2,458	(28)
Hired or rehired after October 9, 2004	1,086	753	333
	5,251	5,060	191

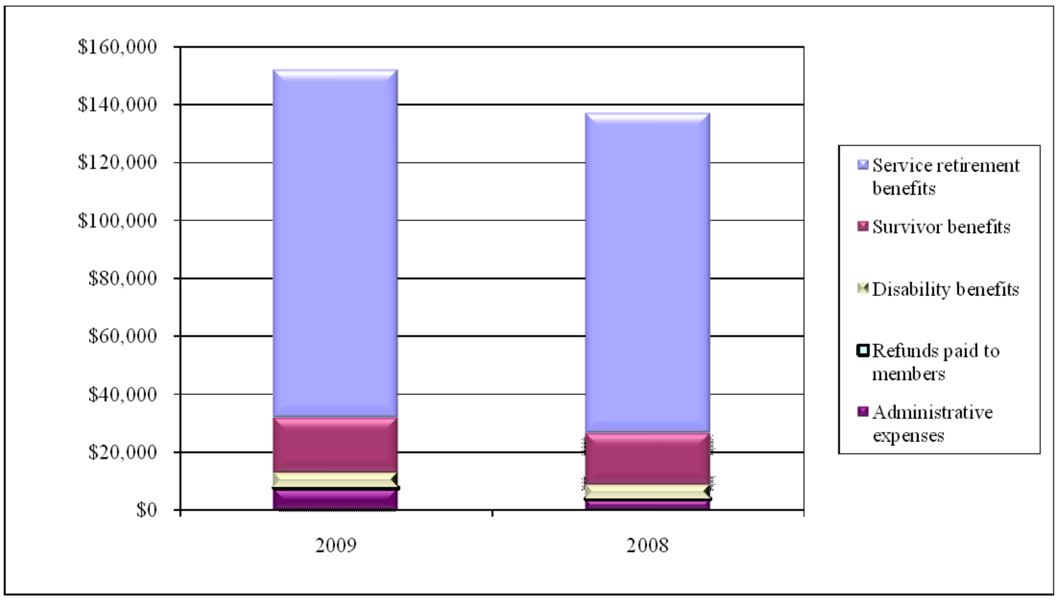
	$000's		Increase	Increase
	2009	2008	(Decrease)	(Decrease)
Member contributions	$ 32,519	$ 31,003	$ 1,516	5%
Employer contributions	68,000	63,000	5,000	8%
Net investment gain (loss)	(606,055)	11,742	(617,797)	-5,261%
Total	$ (505,536)	$ 105,745	$ (611,281)	-578%



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 62 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) Amount	Increase (Decrease) Percentage
		2009		2008			
Service retirement benefits	$	120,155	$	110,542	$	9,613	8.7%
Survivor benefits		19,006		17,734		1,272	7.2%
Disability benefits		4,951		4,773		178	3.7%
Refunds paid to members		618		500		118	23.6%
Administrative expenses		7,311		3,564		3,747	105.1%
Total	$	152,041	$	137,113	$	14,928	10.9%

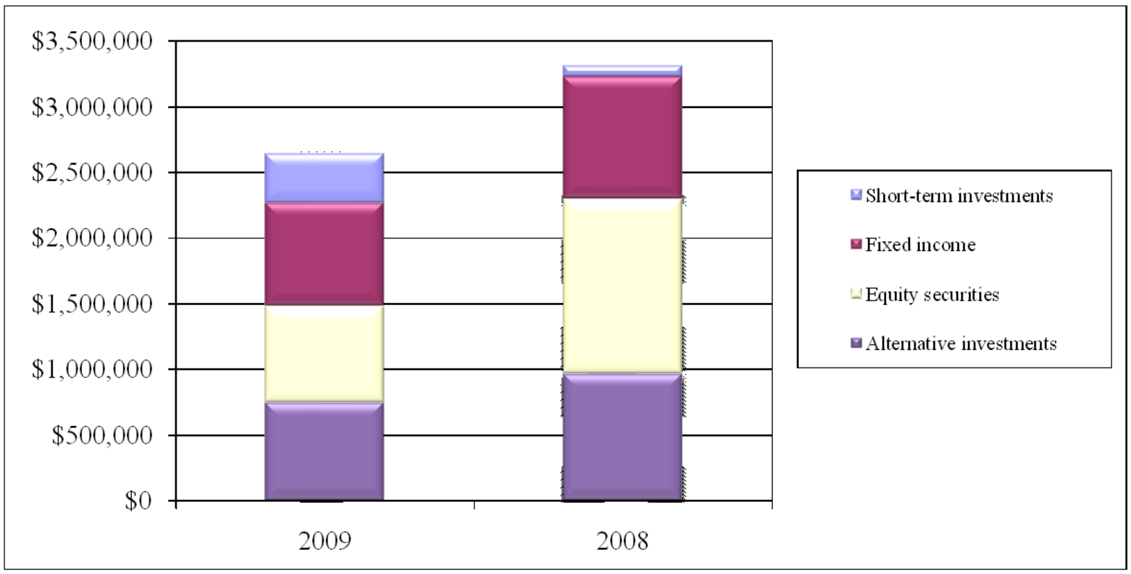


Total benefits paid, which include lump sum payments, increased in 2009 as compared to 2008 due mainly to the cost of living increase and an increase in the number of retirees. Administrative expenses increased mainly due to in the non-recurring costs of both legal expenses arising from a lawsuit the System brought against a former investment manager and development expenses for the System's new enterprise software system. For further information regarding the System's financial condition, refer to Management's 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
	2009	2008		
Short-term investments	$ 379,182	$ 85,625	$ 293,557	342.8%
Fixed income	786,010	933,536	(147,526)	(15.8%)
Equity securities	732,446	1,327,892	(595,446)	(44.8%)
Alternative investments	749,388	968,618	(219,230)	(22.6%)
Total	$ 2,647,026	$ 3,315,671	$ (668,645)	(20.2%)



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 System significantly underperformed its benchmark rate of return in this environment, which was also in negative territory at (14.7)%. This underperformance was due to the poor performance of our active public equity strategies, an underweight to sovereign debt in our fixed income strategies, and the absolute return structure of the alternative asset component of 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, 2008 increased from the funding level at July 1, 2007. The actuarial accrued liability increased $221 million and the actuarial value of assets increased $332 million. As a result, the System's Unfunded Actuarial Accrued Liability decreased $111 million to $741 million as of July 1, 2008. The decrease in the Unfunded Actuarial Accrued Liability is due to a combination of factors including actuarial gains from liability sources and the recognition of prior asset gains 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 17 of this report. The actuarial report, certified by Gabriel Roeder Smith & Company, is included on page 60. Professional service providers who provided services to the System during the year are listed in the following table.

Consulting

Abbott Capital Management
Catapult Systems Inc.
Hammond Associates

Custodian

The Northern Trust Company

Actuarial

Gabriel Roeder Smith & Company

Auditing

BDO Seidman, LLP
Bickley Prescott & Co.

Legal Service/Lobbyists

HillCo Partners, LLC
Locke Lord Bissell & Liddell LLP

Money Management

Arnhold & S. Bleichroeder
Ashmore Investment Management Ltd.
Barclays Global Investors
Brandes Investment Partners
Bridgewater Associates, Inc.
Causeway Capital Management
The Clifton Group
Driehaus Capital Management, Inc.
MacKay-Shields Financial Corp.
NWQ Investment Management Company
Shenkman Capital Management, Inc.

Legal Service

Burford & Maney, PC
Gibbs & Bruns, LLP
Klausner & Kaufman
Strasburger & Price, LLP
Accumyn, LLC
Navigant Consulting, Inc.
Pye Legal Group

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, 2008. 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 15 consecutive years (fiscal years 1994-2008). 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

HPOPS
FOR TODAY & TOMORROW

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December 10, 2009

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

The Houston Police Officers' Pension System (HPOPS) is pleased to bring you the fiscal year 2009 Comprehensive Annual Financial Report (CAFR). The CAFR provides a comprehensive picture of HPOPS' finances for the fiscal year ending June 30, 2009, as well as an overview of the year's highlights.

This past fiscal year was extremely difficult for the System as indeed it was for all of us here in the United States. But we have to remember that we have been through difficult times before and that our country and HPOPS are already well on the way to recovering from the recent crisis. Accordingly, we must continue to diligently work within the system that has served us in the past and to also remember to keep everything in perspective.

My comment on keeping things in perspective comes from a review of our investment history, which shows that the two fiscal years at the beginning of this decade cumulatively were just as difficult as the period of strain that we are currently recovering from. Just as that previous period of financial market stress was followed by a period of robust market returns, last year's crisis is also being followed up with a strong market recovery. While our negative investment rate of return for the fiscal year is certainly disappointing, the financial markets have since rebounded sharply, and our investment rate of return since the beginning of the 2010 fiscal year through the end of November 2009 is better than twelve percent.

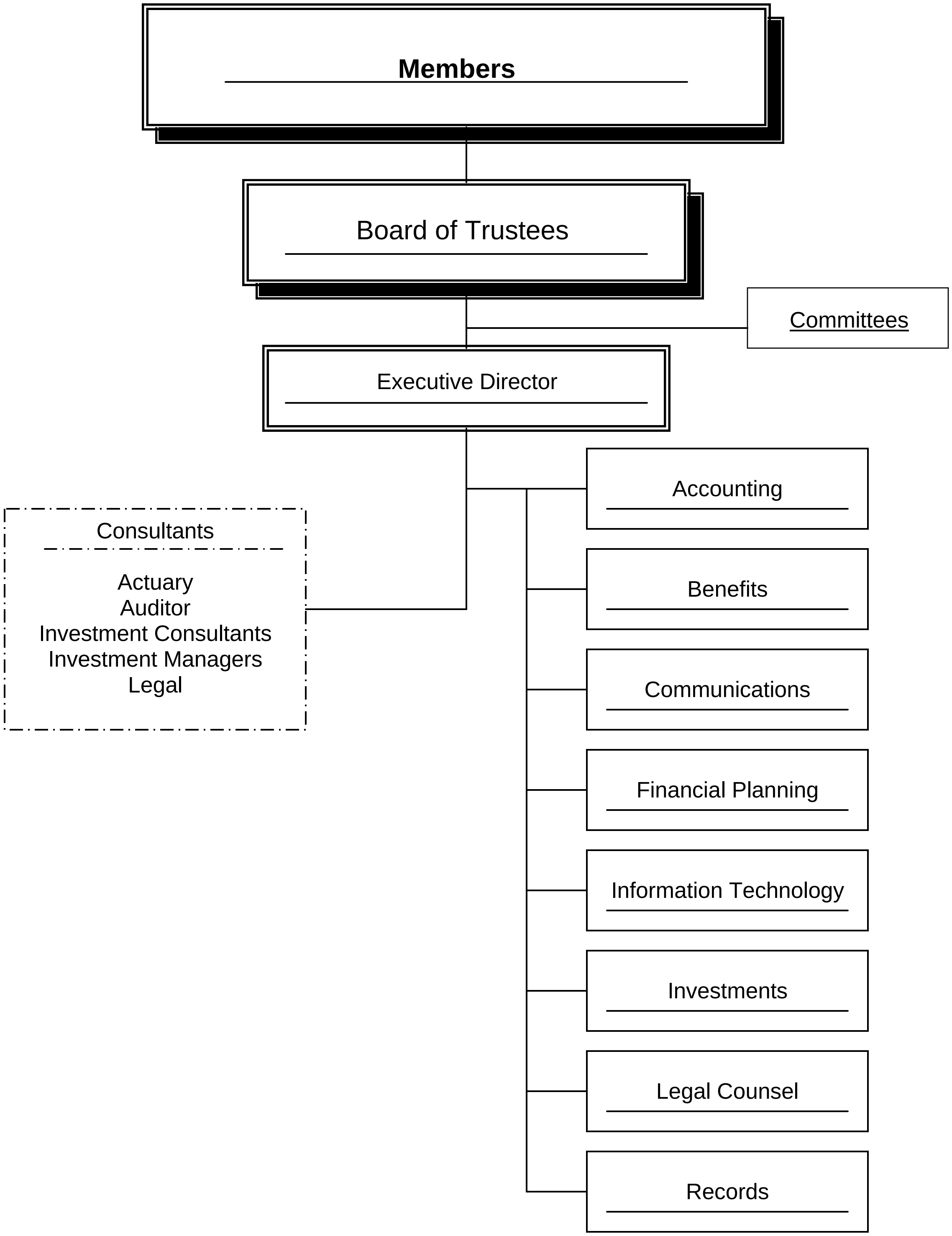
We at HPOPS continue to plan for the future of all of our current members as well as those members to come. We encourage you to read on to learn more about HPOPS.

Sincerely,

J. Larry Doss
Chairman

BOARD OF TRUSTEES AND ADMINISTRATIVE STAFF

ORGANIZATION CHART



See Page 43 – 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, 2008

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

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BDO Seidman, LLP
Accountants and Consultants

333 Clay St., Suite 4700
Houston, Texas 77002
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, 2009 and 2008, 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, 2009 and 2008, 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 accompanying schedules of "Investment, Professional, and Administrative Expenses" and "Summary of Investments and Professional Services" are 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 are 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 1, 2009

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, 2009, 2008 and 2007. 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 a fixed 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 June 30:	**2009**	2008	2007
Assets			
Investments at fair value	**$ 2,647,026**	$ 3,315,671	$ 3,320,490
Invested securities lending collateral	**297,146**	368,008	491,076
Receivables	**27,943**	38,189	52,992
Cash	**283**	123	184
Total Assets	**2,972,398**	3,721,991	3,864,742
Liabilities			
Foreign currency contracts	**382**	312	-
Due to brokers	**2,250**	23,425	11,643
Securities lending collateral	**297,146**	368,008	491,076
Accrued investment and professional fees	**1,025**	1,506	1,952
Other liabilities	**874**	442	405
Total Liabilities	**301,677**	393,693	505,076
Plan net assets held in trust for pension benefits	**$ 2,670,721**	$ 3,328,298	$ 3,359,666

See accompanying independent auditors' report.

The System's net assets decreased by approximately $657,577 thousand in fiscal year 2009 over 2008 primarily due to weakening performance in nearly all financial markets mainly throughout the first two quarters of the fiscal year brought on by investor concerns over the slowing economy and credit market instability. The domestic and international equity markets and fixed income markets have either stabilized or improved during the last quarter, but concerns remain that the recovery may be slowing. Alternative investments markets saw weak gains during the last quarter on somewhat less volatility. The System's net assets decreased by approximately $31,368 thousand in fiscal year 2008 over 2007 primarily due to weakening performance in both domestic and international equity markets mainly in the last quarter and fixed income markets that saw modest gains throughout the year only to give back some of those gains by the end of the year. The System experienced a negative investment return of (18.2)% in 2009 as opposed to positive 0.3% in 2008 and a positive return of 17.9% in 2007. 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. Changes in receivables are primarily a result of the timing of investment transactions.

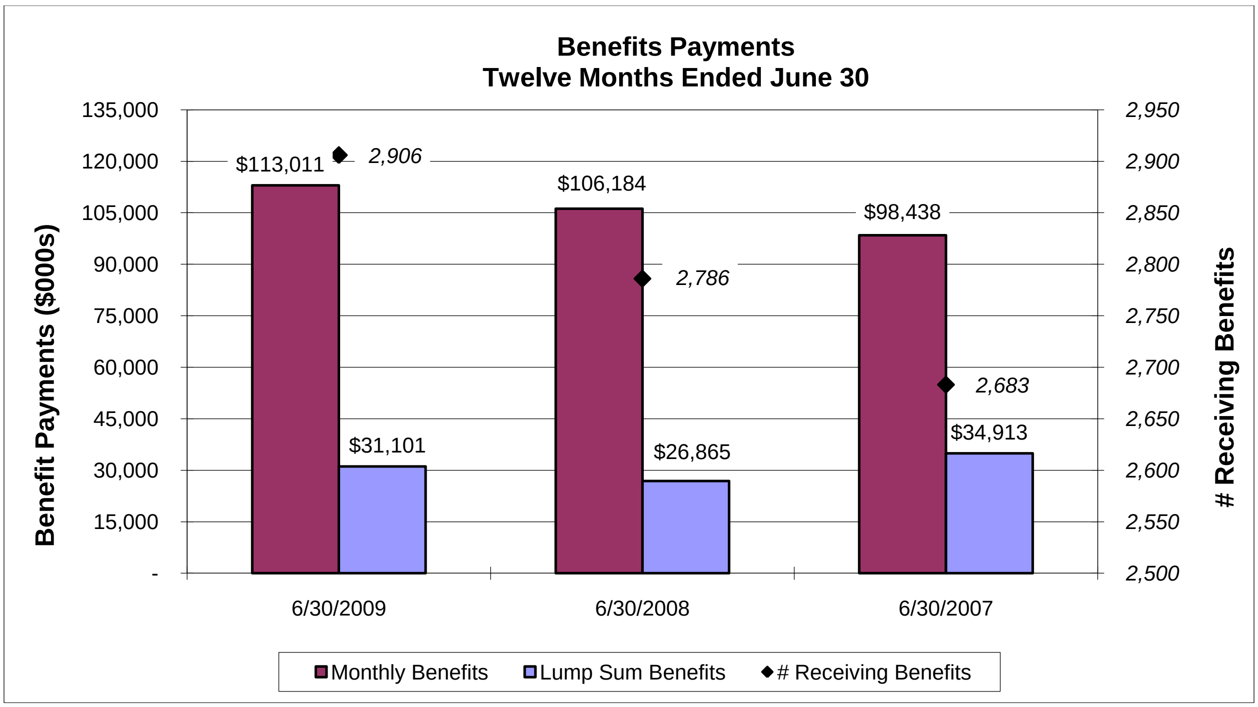
A summary of the Statements of Changes in Plan Net Assets for the System is as follows ($000's):

Years ended June 30:	**2009**	2008	2007
Contributions:			
City	**$ 68,000**	$ 63,000	$ 58,000
Members	**32,519**	31,003	29,489
Total contributions	**100,519**	94,003	87,489
Investment income (loss)	**(607,482)**	9,350	512,873
Net income from securities lending activities	**1,427**	2,392	1,239
Total additions (deductions)	**(505,536)**	105,745	601,601
Deductions:			
Benefits paid to members	**144,112**	133,049	133,351
Refunds to members	**618**	500	739
Professional and administrative expense	**7,311**	3,564	2,950
Total deductions	**152,041**	137,113	137,040
Net increase (decrease)	**(657,577)**	(31,368)	464,561
Plan net assets held in trust for pension benefits, beginning of year	**3,328,298**	3,359,666	2,895,105
Plan net assets held in trust for pension benefits, end of year	**$ 2,670,721**	$ 3,328,298	$ 3,359,666

See accompanying independent auditors' report.

The October 9, 2004 Agreement with the City requires contribution payments for fiscal year 2009 equal to the amount contributed in 2008 of $63,000 thousand plus $5,000 thousand, resulting in contribution payments of $68,000 thousand. For fiscal year 2008, the City was contractually required to contribute an amount equal to the amount contributed in 2007 of $58,000 thousand plus $5,000 thousand, resulting in contribution payments of $63,000 thousand. These contractual provisions account for the increase in City contributions for the years ended June 30, 2009 and June 30, 2008. As discussed in Note 4, the contributions were partially paid from the proceeds of pension obligation bonds.

"Benefits paid to members" consist of both lump sum payments and monthly payments of retirement, disability, and survivor benefits. The System's benefit payment structure provides that members and survivors have the option to receive distributions from their lump sum accounts either on or after the date they begin receiving monthly benefit payments. Due to this ad hoc nature of lump sum distributions the summary results in the accompanying Statements of Changes in Plan Net Assets will not show any distinct trends in the "Benefits paid to members" category. The chart below compares the components of benefits paid to members for the years ended June 30, 2009, 2008, and 2007. Total benefits paid in 2009 increased by approximately $11,063 thousand or 8.3% compared to 2008, mainly due to the annual cost of living adjustment (COLA), a larger number of benefit recipients, and an increase in lump sum benefits. Total benefits paid in 2008 decreased by approximately $302 thousand or (0.2)% compared to 2007, due mainly to a decrease in lump sum benefits. Average monthly benefit payments increased from approximately $8, 849 thousand per month during 2008 to $9,418 thousand per month during 2009, as the number of members and survivors receiving benefits increased by 120 during this time period. Average monthly benefit payments increased from approximately $8,203 thousand per month during 2007 to $8,849 thousand per month during 2008, as the number of members and survivors receiving benefits increased by 103 during this time period.



There was an increase of $3,747 thousand in professional and administrative expenses during 2009 as compared to 2008. This increase is mainly due to an increase in legal expenses arising from a lawsuit the System brought against a former investment manager (see footnote 6) and expense for the System's new enterprise software system. This System-wide integrated software project, which began in January 2008, will manage all aspects of benefits administration, investment tracking, accounting and financial reporting. The first phase of the project was near completion as of June 30, 2009, as the software development for benefits administration was completed and data migration is to be accomplished over the next several months. Meanwhile, the second phase of the project, investment tracking, has begun. There was an increase of $614 thousand in professional and administrative expenses during 2008 as compared to 2007 mainly due to the beginning of the System enterprise software system project.

System Highlights

The System's funded ratio pursuant to its most recent actuarial valuation dated July 1, 2008 was 82% representing an unfunded actuarial accrued liability of $741,351 thousand. The System's funded ratio as of July 1, 2007 was 78% representing an unfunded actuarial accrued liability of $852,753 thousand. Volatility in the investment markets subsequent to the date of the most recent actuarial valuation has caused additional investment losses for the System which have not been recognized in the actuarial valuation data included in the footnotes and unaudited schedules of required supplementary information. Actuarial estimates provided to the System indicate that a fiscal year 2010 investment rate of return of approximately 50% would be required in order to return the System to the July 1, 2008 funded level. In absence of such a significant recovery in the investment markets, the unfunded actuarial accrued liability (UAAL) will likely increase significantly. According to the July 1, 2008 actuarial valuation, based on the recent performance in the investment markets since July 1, 2008, there is a potential that the current funding policy will not be sufficient to sustain all of the future benefit payments expected to be paid in accordance with the System's governing statutes.

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,		**2009**		2008
Assets				
Investments, at fair value (Note 2 and Note 3):				
Short term investments	**$**	**379,182**	$	85,625
Fixed income		**786,010**		933,536
Equity securities		**732,446**		1,327,892
Alternative investments		**749,388**		968,618
Total investments		**2,647,026**		3,315,671
Invested securities lending collateral (Note 3):		**297,146**		368,008
Receivables				
Members		**1,651**		1,486
Investments		**8,700**		13,309
Due from brokers		**17,329**		23,261
Other receivables		**263**		133
Total Receivables		**27,943**		38,189
Cash		**283**		123
Total Assets	**$**	**2,972,398**	$	3,721,991
Liabilities and Plan Net Assets				
Liabilities:				
Foreign currency contracts	**$**	**382**	$	312
Due to brokers		**2,250**		23,425
Securities lending collateral (Note 3)		**297,146**		368,008
Accrued investment and professional fees		**1,025**		1,506
Other liabilities		**874**		442
Total Liabilities		**301,677**		393,693
Plan net assets held in trust for pension benefits (see unaduited Schedule of Funding Progress, pg. 40)	**$**	**2,670,721**	$	3,328,298

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,		**2009**		2008
Contributions (Note 1 and Note 4):				
City	**$**	**68,000**	$	63,000
Members		**32,519**		31,003
Total contributions		**100,519**		94,003
Investment income (loss):				
Net depreciation in fair value of investments		**(643,053)**		(26,749)
Interest:				
Short-term investments		**6,155**		6,524
Fixed income		**25,297**		28,079
Total interest income		**31,452**		34,603
Dividends		**13,170**		19,540
Other income		**57**		142
Total investment income (loss)		**(598,374)**		27,536
Less investment expense		**(9,108)**		(18,186)
Net income (loss) from investing activities		**(607,482)**		9,350
Securities lending activities (Note 3):				
Securities lending income		**1,903**		3,189
Securities lending expense		**(476)**		(797)
Net income from securities lending activities		**1,427**		2,392
Total additions (deductions)	**$**	**(505,536)**	$	105,745
Deductions:				
Benefits paid to members	**$**	**144,112**	$	133,049
Refunds to members (Note 1)		**618**		500
Professional and administrative expense		**7,311**		3,564
Total deductions		**152,041**		137,113
Net decrease		**(657,577)**		(31,368)
Plan net assets held in trust for pension benefits, beginning of period		**3,328,298**		3,359,666
Plan net assets held in trust for pension benefits, end of period	**$**	**2,670,721**	$	3,328,298

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). The System is a component unit of the City only to the extent the System receives contributions equal to an amount or percentage of the total direct pay of active members in accordance with the Governing Statute.

At June 30, 2009, the System's membership consisted of the following:

June 30,	2009	2008
Retirees and beneficiaries:		
Currently receiving benefits	2,876	2,768
Not yet receiving benefits	19	16
Active members:		
Fully vested	1,735	1,849
Nonvested:		
Hired or rehired before October 9, 2004	2,430	2,458
Hired or rehired after October 9, 2004	1,086	753
Total members	8,146	7,844

The following sections describe the benefit structure in effect at June 30, 2009. 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 20 years of service. Members also have the option to select a Delayed Retirement, which allows for vesting after 10 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% of the member's pensionable pay for each of the member's first 20 years of service plus 2.00% of pensionable pay for each year in excess of 20 years with no maximum percentage. Members hired or rehired subsequent to October 9, 2004 accrue benefits equal to 2.25% of the member's pensionable pay for each of the member's first 20 years of service plus 2.00% of the member's pensionable pay for each year in excess of 20 years subject to a maximum of 80%. 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 12 months before retirement or entrance into DROP (see below). 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 had the option until October 7, 2008 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 12 months prior to October 9, 2004 and the Sliding Average Benefit is based upon ATDP for the 12 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, 2008, excluding all types of overtime pay. Members retiring after October 7, 2008 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 20 years of service are eligible to participate in the DROP. Members hired or rehired subsequent to October 9, 2004 are not eligible to participate in DROP or Back-DROP. 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% 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 benefit 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.

Cost of Living Adjustments – Pension benefits and the monthly DROP benefits are adjusted each year equal to 80% 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 % and 8.0%, 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% 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 10 or fewer credited years of service, or 2.75% per year for credited service in excess of 10 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 10 years up to 20 years and 2.00% per year for credited service equal to or in excess of 20 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 10 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 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.

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. 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 average cost method.

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. These statutes stipulate that the governing body of the System is responsible for the management and administration of the funds of the System and shall determine the procedure it finds most efficient and beneficial for the management of the reserve fund of the System. The governing body may directly manage the investments of the System or may choose and contract for professional investment management services. Investments are reported at fair value in accordance with GASB 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements and is consistent with valuations required by GASB 31. The System elected to include the SFAS 157 disclosures as of July 1, 2008.

SFAS 157 establishes a hierarchal disclosure framework which prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is impacted by a number of factors, including the type of investment and the specific characteristics of the investment. Fair value represents the amount at which an investment could be exchanged in a current transaction between willing parties, other than a forced or liquidation sale. Investments with readily available actively quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and lesser degree of judgment used in measuring fair value.

Investments measured and reported at fair value are classified and disclosed in one of the following categories:

> Level I – Securities traded in an active market with available quoted prices for identical assets as of the reporting date.
>
> Level II – Securities not traded on an active market but for which observable market inputs are readily available or Level I securities where there is a contractual restriction as of the reporting date.
>
> Level III – Securities not traded in an active market and for which no significant observable market inputs are available as of the reporting date.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The System's assessment of the significance of a particular input to the fair value measurement requires judgment and considers factors specific to the investment.

Short-term investments include funds held in short-term investment funds of the System's custodian and asset managers.

Fixed income investments include government securities such as Treasury securities, bank loans, US corporate bonds, foreign securities such as dollar denominated and non-dollar denominated issues of non-US governments and private corporations, plus units of commingled fixed income funds of both US and foreign securities.

Equity securities consist of individual shares of equity securities plus units of commingled stock funds of both US and foreign entities.

Alternative investments consist of investments in hedge funds, commodities, private equity and a structured beta fund. These investments are in various investment vehicles including limited partnerships and commingled funds.

The System's custodian bank provides security valuations for equity and fixed income securities utilizing vendor supplied pricing. Vendor supplied pricing data for equity securities is based upon the daily closing price from the primary exchange of each security while vendor supplied pricing data for fixed income securities is based upon a combination of market maker quotes, recent trade activity, and observed cash flows. To minimize the potential for inaccurate valuations, multiple price types are obtained from multiple providers and whenever possible prices are put through tolerance checks with exceptions researched and resolved on a same day basis as part of the pricing process. An integral part of the custodian's pricing process is to allow portfolio managers and interested third parties to challenge custodian provided prices which provides additional validation to the custodian's pricing. The evaluation process is handled by the custodian's internal pricing system, which automatically validates substantially all of our securities, leaving only exceptions and missing prices for human intervention. The rules this system applies are multi-dimensional and can be applied at a number of different levels, ranging from general to security specific in nature. Consistent with the System's valuation policy, the System's staff maintains and documents an understanding of the custodian's and underlying manager's valuation process and has implemented a program to review and evaluate the reconciliation process and the fair value estimates provided by the custodian and the investment manager. Based upon the procedures described above, and pursuant to FAS 157, equity securities that are valued based on quoted prices in active markets are generally classified as Level I while fixed income securities are generally considered to be Level II or Level III.

The System's custodian values commingled funds at the net asset value provided by the commingled fund's custodian or administrator, as is applicable. The unit values of commingled funds are calculated by the custodian or administrator by dividing the commingled fund's net asset value on the calculation date by the number of units of the commingled fund that are outstanding on the calculation date. The commingled fund's net asset value is calculated by the commingled fund's custodian or administrator by using Level I, Level II or Level III prices, as appropriate, to value each security and/or other asset held by the commingled fund on the calculation date, pursuant to the commingled fund's valuation policy. In short, the net asset value of the commingled fund is calculated based on a compilation of primarily observable market information. The number of units of a commingled fund that are outstanding on the calculation date is derived from observable purchase and redemption activity in the commingled fund. Consistent with the System's valuation policy, the System's staff maintains and documents an understanding of the underlying fund's valuation process and has implemented a program to review and evaluate the fair value estimates provided by the commingled fund. Based upon the procedures described above and pursuant to FAS 157, the unit value for these commingled funds is considered to be a Level II price unless such commingled fund is traded in an active market with available quoted prices, in which case it is considered to be Level I.

The System's custodian values the System's investment in limited partnerships at the dollar value provided by the general partners. The fair value of securities held by limited partnerships has been estimated by the general partners in the absence of readily ascertainable fair values. The general partners utilize valuation methods which rely on significant assumptions and inputs of the portfolio company's most recent financial information such as EBITDA and debt and the equity structure of the portfolio company. Valuations may be derived by reference to observable valuation measures for comparable companies and may be adjusted for differences between the investment and the referenced comparables. General partners also utilize relevant information such as discounted cash flow analysis, pending recent transactions and potential initial public offering values in the determination of fair value. Consistent with the System's valuation policy, the System's staff maintains and documents an understanding of the general partner's valuation process and has implemented a program to review and evaluate the fair value estimates provided by each partnership. Based upon the procedures described above and pursuant to FAS 157, these limited partnerships are generally considered to be Level III assets.

The System has established a framework to consistently measure the fair value of the System's assets and liabilities in accordance with applicable accounting, legal, and regulatory guidance. This framework has been provided by establishing valuation policy and procedures that will provide reasonable assurance that assets and liabilities are carried at fair value as described above.

The following table summarizes the valuation of the System's investments in accordance with the above SFAS 157 fair value hierarchy levels as of June 30, 2009.

	6/30/2009	
	Fair Value ($000's)	**Percent of Net Assets**
Level I	$ 434,788	16.4 %
Level II	1,893,440	71.5
Level III	318,798	12.0
	$ 2,647,026	**100.0 %**

The following table presents a reconciliation of the beginning and ending balances of the fair value measurements using significant unobservable inputs (Level III).

	Fair Value ($000's)
Balance June 30, 2008	**$ 344,403**
Total Receipts	80,529
Total Disbursements	(48,201)
Expenses Paid	(21)
Income Received	1,424
Unrealized Gain/Loss	(65,199)
Realized Gain/Loss	5,859
Accrued Income Change	4
Transfers in/(out) of level III	-
Balance June 30, 2009	**$ 318,798**

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, 2007. 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.

Reclassification – Amounts previously reported as a component of invested securities lending collateral and the corresponding liability for securities lending collateral in the amount of $128,418 thousand for the year ended June 30, 2008, represent the System's securities lending transactions collateralized by letters of credit or by securities that the System does not have the ability to pledge or sell unless the borrower defaults. GASB Statement No. 28, Accounting and Financial Reporting for Securities Lending Transactions (GASB 28), prescribes that these amounts should not be reported as a component of the securities lending related asset and liability in the Statements of Plan Net Assets. Accordingly, amounts reported in the 2008 financial statements have been adjusted to reflect the provisions of GASB 28. This reclassification had no effect on net plan assets held in trust for pension benefits.

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 to them. The System considers only demand deposits as cash. As of June 30, 2009 and June 30, 2008, the System had a balance of $283 thousand and $123 thousand, respectively, on deposit at a financial institution. The Federal Depository Insurance Corporation (FDIC) covered cash on deposit up to $250 thousand at this financial institution. As of June 30, 2009, $33 thousand of the System's bank balance of $283 thousand was exposed to custodial credit risk. Prior to June 30, 2008, FDIC coverage was $100 thousand per account at this financial institution. In addition, at June 30, 2009, the System had approximately $964 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, 2009, the System's fixed income assets that are not government guaranteed represented 80.5% of the System's fixed income portfolio. The tables below and on the next page 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
June 30, 2009

Fixed Income Security Type	Market Value ($000's)	Percent of Total	Weighted Average Credit Quality
Corporate Bonds	$ 202,641	17.4 %	BB
International Government Bonds	69,438	6	AA
Bank Loans	69,125	5.9	B
Mutual Bond Funds	217,746	18.7	Not Rated
Short Term Investment Funds	379,182	32.5	Not Rated
Total	$ 938,132	80.5 %	

Ratings Dispersion Detail
June 30, 2009
($000's)

Credit Rating Level	Corporate Bonds	Government Bonds	Bank Loans	Mutual Bond Funds	Short Term Investment Funds
AAA	$ 1,187	$ 21,940	$	$	$
AA	5,145	35,290			
A	15,807	9,624			
BBB	52,665	904	2,089		
BB	50,806		13,932		
B	55,690		22,627		
CCC	15,409		1,780		
CC	670				
D	769		1,755		
Not Rated	4,493	1,680	26,942	217,746	379,182
Total	$ 202,641	$ 69,438	$ 69,125	$ 217,746	$ 379,182

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, 2009, 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. 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 the next 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 by Security Type
June 30, 2009

Security Type		Market Value ($000's)	Percent of Total	Weighted Average Modified Duration (years)
US Treasuries	$	227,060	19.5 %	14.9
Corporate Bonds		202,641	17.4	5.8
International Government Bonds		69,438	6	6.2
Bank Loans		69,125	5.9	0.5
Mutual Bond Funds		217,746	18.7	3.0
Short Term Investment Funds		379,182	32.5	0.2
Total	$	1,165,192	100.0 %	4.9

Modified Duration Analysis by Security Type
June 30, 2009

Corporate Bonds		Market Value ($000's)	Average Modified Duration	Contribution Modifed Duration
Less than 1 year to maturity	$	2,312	0.9	0.0
1 to 10 years maturities		155,296	4.5	3.4
10 to 20 years maturities		11,402	8.2	0.5
Greater than 20 years maturities		33,631	11.5	1.9
Total	$	202,641		5.8
International Government Bonds				
1 to 10 years maturities		46,868	3.2	2.2
10 to 20 years maturities		10,407	10.9	1.6
Greater than 20 years maturities		12,163	13.5	2.4
Total	$	69,438		6.2
Bank Loans				
Less than 1 year to maturity	$	151	0.5	0.0
1 to 10 years maturities		68,746	0.5	0.5
Greater than 20 years maturities		228	0.5	0.0
Total	$	69,125		0.5

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-US dollar denominated investments are translated into US dollars at the bid prices of such currencies against US dollars at each balance sheet date. Realized and unrealized gains and losses on investments which result from changes in foreign currency exchange rates have been included in 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 exposure to foreign currency risk in U.S. dollars as of June 30, 2009, is shown in the table below.

Foreign Currency Exposure by Asset Class ($000's)
June 30, 2009

Currency	Short Term Investments	Equities	Fixed Income	Alternative Investments	Options on Foreign Currencies	Total
Australian dollar	$ (10)	$	$	$	$	$ (10)
British pound sterling	(25)	39,583	5,186		(5,601)	39,143
Canadian dollar	(21)	3,263	888		(879)	3,251
Danish krone			897		(892)	5
Euro	1,769	93,300	32,552	$ 14,764	(32,009)	110,376
Hong Kong dollar		2,322				2,322
Japanese yen	192	64,761	29,501		(29,266)	65,188
New Zealand dollar		984				984
Norwegian krone		1,539				1,539
Singapore dollar		1,195				1,195
South Korean won		1,541				1,541
Swedish krona	7	6,207	333		(323)	6,224
Swiss franc	673	9,893				10,566
	$ 2,585	$ 224,588	$ 69,357	$ 14,764	$ (68,970)	$ 242,324

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% 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. 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, 2009 the weighted-average maturity of the collateral pool was 16 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, 2009 and 2008, was $297,146 thousand and $368,008 thousand, respectively. The System also has non-cash collateral at June 30, 2009 and 2008, of $47 thousand and $128,418 thousand, respectively, consisting 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, 2009 and 2008 was $290,240 thousand and $483,249 thousand, respectively. At June 30, 2009, the System had no credit risk exposure to borrowers because the amounts the System owes the borrowers, $297,192 thousand, exceeds the amounts the borrowers owe the System, $290,240 thousand.

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. 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.

The average futures balance outstanding, not including foreign currency contracts, during the fiscal years ending June 30, 2009 and 2008 was $168,016 thousand and $154,327 thousand, respectively. Futures outstanding, not including foreign currency contracts, at June 30, 2009 and 2008 were $202,381 thousand and $190,880 thousand, respectively.

The notional values associated with derivative instruments are generally not recorded on the financial statements; however, the amounts for the exposure (unrealized gains/losses) on these instruments are recorded. 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, 2009 as follows ($000's):

June 30,		**2009**			2008	
Description	Contracts	Notional Value	Exposure	Contracts	Notional Value	Exposure
Futures on Treasury Bills and equivalents	7	$ 4,485	$ 12	7	$ 4,208	$ (33)
Commodity Futures	0	-	-	20	82,634	(306)
Equity Futures	3	173,791	(2,674)	4	48,834	(1,964)
Fixed Income Futures	9	24,104	339	12	55,204	209
Long foreign currency contracts	74	71,067	(5)	80	180,893	638
Short foreign currency contracts	74	(71,449)	(377)	80	(181,205)	(951)
Total		$ 201,998	$ (2,705)		$ 190,568	$ (2,407)

Alternative Investments – As of June 30, 2009, 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	**June 30, 2009**	June 30, 2008
Private Equity		
Leveraged Buyouts	$ 94,847	$ 111,459
Special Situations	85,010	99,656
Venture Capital	61,845	77,407
Other Alternatives		
Hedge Funds	252,895	236,114
Real Estate Funds	7,131	4,415
Structured Beta	247,660	356,627
Commodities	-	82,940
	$ 749,388	$ 968,618

Supplemental Information on investment and professional expenses included in Schedule II on page 43 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

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 9.00% of pay and members hired or rehired subsequent to October 9, 2004 contribute 10.25% 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 requires a payment of $68,000 thousand for fiscal 2009. For fiscal years 2010 through 2012 the City has agreed to pay the amount contributed in 2009 plus an amount increasing by $5,000 thousand each year. Beginning in fiscal year 2013, the City payments shall increase each fiscal year by the greater of $5,000 thousand or if the scheduled City payment is less than the actuarially required contribution, $10,000 thousand per year. If the System's Funded Ratio reaches 100%, then the City's contributions will remain at the amount contributed in the fiscal year immediately preceding the year in which such Funded Ratio reaches 100%. City contributions in the Statements of Changes in Plan Net Assets may be 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.

Pursuant to the terms of the October 9, 2004 Agreement and based on the July 1, 2008 actuarial valuation the City contribution rates and the Actuarial Required Contributions are as shown in the table on the following page for five years ending June 30, 2014.

($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
2010	$ 107,257	$ 73,000	68.1 %	30.2 %
2011	108,404	78,000	72.0	30.2
2012	110,578	83,000	75.1	30.3
2013	116,002	93,000	80.2	31.2
2014	118,028	103,000	87.3	31.1

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. 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 actuarial and investment losses and the resulting increase in the ARC, 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 2009 is 30.9%. This rate consists of 17.5% to cover Normal Costs and 13.4% 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 System engaged a new actuary to perform the most recent valuation. The System's previous actuary made a business decision to no longer include DROP in their actuarial calculations and thus would no longer be able to value the DROP benefits for which members are eligible. There were no issues or disagreements with the System's previous actuary.

The most recent valuation shows the funded position of the System at July 1, 2008 increased from the funding level at July 1, 2007. The actuarial accrued liability increased $221,283 thousand and the actuarial value of assets increased $332,685 thousand. As a result, the System's Unfunded Actuarial Accrued Liability decreased $111,402 thousand to $741,351 thousand as of July 1, 2008, which equates to a funded ratio of 82%. The decrease in the Unfunded Actuarial Accrued Liability is due to a combination of factors including actuarial gains from liability sources and recognition of prior asset gains. The funded status of the System as of July 1, 2008, the most recent actuarial valuation date, is as follows:

Actuarial Funded Status as of Actuarial Valuation Date July 1, 2008 ($000's)

Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (Surplus) (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
$ 3,337,612	$ 4,078,963	$ 741,351	82 %	$ 351,525	211 %

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

Additional information as of the latest actuarial valuation follows:

Valuation date	July 1, 2008	
Actuarial cost method	Entry age normal	
Amortization method	Entry age normal	
	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	80% of increase in CPI for All Urban Consumers (CPI-U), minimum of 2.4% and maximum of 8.0%

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. In addition, beginning in 2013, once the Funded Ratio reaches 75%, if it should ever be subsequently determined that the Funded Ratio has declined below such 75%, then in the fiscal year next following such determination, the City shall pay such additional amounts to the System as shall be necessary to increase the Funded Ratio to 75%. In addition, beginning in 2013, once the Funded Ratio reaches 80%, this becomes the new floor and if it should ever decline below such 80% level, in the fiscal year next following such determination, the City shall pay such additional amounts to the System as shall be necessary to increase the Funded Ratio to 80%. If this floor provision had been in effect in 2008, and the decline in the System's assets due to the investment market volatility during the 2009 fiscal year had resulted in the System's funded level declining to 60%, this provision of the Agreement would have resulted in a payment due from the City during 2009 of approximately $815,000 thousand.

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 increase 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 recent volatility in the investment markets during fiscal 2009 referred to above has caused additional investment losses for the System which have not been recognized in the actuarial valuation data included in these footnotes and unaudited schedules of required supplementary information. Actuarial estimates provided to the System indicate that a fiscal year 2010 investment rate of return of approximately 50% would be required in order to return the System to the July 1, 2008 funded level. In absence of such a significant recovery in the investment markets, the unfunded actuarial accrued liability (UAAL) will likely increase significantly. According to the July 1, 2008 actuarial valuation, based on the recent performance in the investment markets since July 1, 2008, there is a potential that the current funding policy will not be sufficient to sustain all of the future benefit payments expected to be paid in accordance with the System's governing statutes.

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, 2008 actuarial value of $3,337,612 thousand is $9,314 thousand less than the fair value $3,328,298 thousand. The $9,314 thousand in deferred gains will be recognized over the next five 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. Litigation

From June 2006 through December 2007, the System was invested in a fully collateralized commodities strategy which was implemented through the use of commodity swaps with 25% of the collateral held by the swap provider and 75% of the collateral held by the asset manager, who was given full discretion to manage the collateral. The cash collateral managed by the asset manager was invested in the manager's proprietary Limited Duration Bond Fund (the Fund), which was represented to the System to be an unleveraged enhanced cash collateral vehicle of well diversified, high quality securities that would provide daily liquidity and had an objective to exceed the one-month LIBOR index by 50 basis points. Although never previously disclosed to the System prior to the difficulties encountered by the sub-prime market described below, the System subsequently discovered that the Fund was leveraged 3.3 times and that virtually all of the Fund's assets (upwards of 90 plus %) were invested in sub-prime residential mortgage-backed securities.

By the summer of 2007, the sub-prime market securities market was encountering severe, negative market conditions, and as a result, the Fund experienced significant mark-to-market losses. Without notice to the System, during this time, substantially all of the Fund participants, including other proprietary funds managed by the asset manager that had also invested in the Fund, liquidated and/or had decided to take in-kind distributions of their investment in the Fund that were allocable to ownership interests in the Fund. The System terminated the commodities strategy after suffering realized losses of over $30 million as a result of its investment in the Limited Duration Bond Fund and has filed a lawsuit against the asset manager seeking to recover its losses, plus management and legal fees and expenses. The lawsuit is still in progress and the System cannot estimate the ultimate outcome of these proceedings at this time.

7. Commitments and Contingencies

As described in Note 1, there are 3,516 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, 2009 and 2008, aggregate contributions from these members of the System were approximately $140,179 thousand and $122,354 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, 2009 and 2008, the total accumulated lump sum benefit due to DROP members was approximately $648,969 thousand and $578,268 thousand, respectively.

At June 30, 2009 and 2008, the total accumulated lump sum benefit due to PROP participants was $275,829 thousand and $220,269 thousand, respectively.

The System has outstanding commitments to various limited partnerships totaling $240,856 thousand and $219,783 thousand, as of June 30, 2009 and 2008, respectively.

The System has a lease for the office it occupies through April 30, 2015. The monthly base rental and outstanding lease commitment is as detailed in the following chart ($000's).

Period	Monthly Base Rent
July 2008 - April 2012	$ 16
May 2012 - April 2015	17

Fiscal Year	Total Rent
2009	$ 190
2010	190
2011	190
2012	192
2013	203
Beyond 2013	372
	$ 1,337

Required Supplementary Information (Unaudited)

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, 2003	$ 2,394,411	$ 2,874,738	$480,327	83 %	$ 300,405	160 %
July 1, 2004	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
July 1, 2006	2,681,375	3,633,145	951,770	74	327,080	291
July 1, 2007	3,004,927	3,857,680	852,753	78	336,029	254
July 1, 2008	3,337,612	4,078,963	741,351	82	351,525	211

(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.

Schedule of Employer Contributions ($000's)

Years Ended June 30,	Actuarial Required Contribution	Cash Payments Required by Agreements [(2)]	Cash Payments as a Percent of Actuarial Required Contribution	Annual Required Contribution as a Percentage of Pay
2004	$ 73,299	$ 36,645	50.0 %	24.4 %
2005	94,004	36,645	14.7 [(3)]	28.5
2006	100,170	53,000	23.0 [(4)]	31.2
2007	107,443	58,000	26.1 [(5)]	34.0
2008	107,865	63,000	26.0 [(6)]	32.1
2009	108,621	68,000	44.2 [(7)]	30.9

(2) Amounts for 2004 represent amounts paid pursuant to previous agreements between the System and the City.
(3) 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.
(4) 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.
(5) 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.
(6) The percentage contributed figure for 2008 has been calculated based on $28,000 thousand since the remainder of the fiscal 2008 cash payment was from the proceeds of pension obligation bonds and, as such, must be excluded from such calculations.
(7) The percentage contributed figure for 2009 has been calculated based on $48,000 thousand since the remainder of the fiscal 2009 cash payment was from the proceeds of pension obligation bonds and, as such, must be excluded from such calculations.

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, 2008
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	80% of increase in CPI for All Urban Consumers (CPI-U), minimum of 2.4% And maximum of 8.0%

Houston Police Officers’ Pension System

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

Year ended June 30,	2009	2008
Investment services:		
Custodial services	$ 219	$ 216
Money management services	7,642	16,736
Consulting services	886	900
Department Operating Expense	361	334
Total investment services	9,108	18,186
Professional services:		
Actuarial services	99	48
Auditing services	80	67
Election audit services	-	1
Legal services	1,984	246
Lobbyist services	316	307
Total professional services	2,479	669
Administrative expenses:		
Computers and technology	2,451	637
Education	42	37
Fiduciary insurance	83	83
Office rent	176	177
Other office costs	2,080	1,961
Total administrative expenses	4,832	2,895
	$ 16,419	$ 21,750

See accompanying independent auditors' report.

Houston Police Officers' Pension System

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

Twelve Months Ended June 30, 2009	Official System Position	Expense	Nature of Services
Abbott Capital Management	Consultant	$ 200	Consulting
Hammond Associates	Consultant	685	Consulting
The Northern Trust Company	Custodian	219	Custodian
Arnhold & S. Bleichroeder	Money Manager	570	Money Management
Ashmore Investment Management Limited	Money Manager	2,053	Money Management
Barclays Global Investors	Money Manager	618	Money Management
Brandes Investment Partners	Money Manager	840	Money Management
Bridgewater Associates, Inc.	Money Manager	1,779	Money Management
Causeway Capital Management	Money Manager	448	Money Management
The Clifton Group	Money Manager	278	Money Management
Driehaus Capital Management, Inc.	Money Manager	154	Money Management
MacKay-Shields Financial Corp.	Money Manager	451	Money Management
NWQ Investment Management Company	Money Manager	157	Money Management
Shenkman Capital Management, Inc.	Money Manager	294	Money Management
Gabriel, Roeder, Smith & Co.	Actuary	80	Actuarial
Towers Perrin	Actuary	19	Actuarial
BDO Seidman, LLP	Auditors	80	Auditing
Burford & Maney, PC	Attorneys	198	Legal Service
Gibbs & Bruns, LLP	Attorneys	1,141	Legal Service
Klausner & Kaufman	Attorneys	13	Legal Service
Strasburger & Price, LLP	Attorneys	120	Legal Service
Accumyn, L.L.C.	Consultant	147	Legal Service
Navigant Consulting, Inc.	Consultant	88	Legal Service
Pye Legal Group	Consultant	259	Legal Service
HillCo Partners, LLC	Attorneys	157	Lobbyists
Locke Lord Bissell & Liddell LLP	Attorneys	150	Lobbyists
Other	Other	28	Other
Total investment and professional services		$ 11,226	

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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 asset allocation and the actual asset allocation of the System at June 30, 2009 are as follows:

	Target % of Fund	Current Actual % of Fund	Dollars Invested (000's)
Domestic Equity	18.0%	16.0%	$ 426,092
International Equity	18.0%	18.2%	486,959
Total Equity	36.0%	34.2%	913,051
Fixed Income	21.0%	22.2%	592,248
High Yield	7.5%	8.4%	223,193
Total Fixed Income	28.5%	30.5%	815,441
Private Equity	10.0%	9.1%	241,805
Structured Beta	10.0%	10.0%	267,661
Hedge Funds	8.0%	9.8%	262,895
Real Assets	5.0%	0.3%	7,131
Commodities	2.5%	0.0%	-
Total Alternatives	35.5%	29.2%	779,491
Total Cash	0.0%	6.1%	162,552
Total Fund	100.0%	100.0%	$ 2,670,535

Fiscal 2009 witnessed severe and broad market declines with the Credit Crunch and the beginnings of the Great Recession starting in September 2008 followed by a nearly unprecedented market rally beginning in early March 2009. These volatile markets significantly impacted the System's investment performance leading to a negative return for the fiscal year of 18.2%.

The System significantly under-performed its benchmark rate of return in this environment which was also in negative territory at 14.7%. This underperformance was due to the poor performance of our active public equity strategies, an underweight to sovereign debt in our fixed income strategies, and the absolute return structure of the alternative asset component of our benchmark.

Domestic Equity

The System's domestic equity investments generated a negative 33.8% return, underperforming the negative 26.6% return of its benchmark, the Russell 3000. The System's domestic equity portfolio is structured to closely follow the capitalization and style weightings of the Russell 3000 Index, so this underperformance is primarily due to underperformance in our actively managed strategies.

NWQ maintained numerous positions in out of favor financial stocks which lead to significant underperformance and their eventual termination in October of 2008. Additionally, overweights to energy, steel and gold also contributed to significant underperformance relative to their benchmark, the Russell 3000 Value Index.

Arnhold Bleichroeder underperformed in both the first and second half of the fiscal year falling short of their Russell 1000 benchmark by approximately 7.1%. In the first half of the year, they underperformed due to poor sector selection as overweights to technology and financials hurt their performance. They were underweight financial stocks during the second half of the year; therefore they did not fully participate in the market rally beginning in March 2009.

Driehaus dramatically underperformed in both the first and second half of the fiscal year. Energy, materials, and IT holdings hurt them in the first half of the year, while in the second half of the year, an underweight to consumer discretionary and industrial stocks hurt their performance. In addition, while Driehaus had an overweight in financial stocks in the second half of the year, poor stock selection more than offset being in this favorable sector.

Assets under management, annualized rates of return and fees paid to domestic equity managers for the fiscal year ending June 30, 2009 are as follows (dollars in 000's):

Attalus Capital[1]	S&P 500 Alpha Transport Strategy	-	-42.7%	414[4]
BGI	S&P 500 Index	132,866	-26.1%	33
BGI	Russell 2000 Index	20,969	-24.8%	19
Clifton Group[2]	S&P 500 Futures[5]	131,773	2.1%	80
Driehaus Capital Mgmt	Large Cap Growth	40,219	-37.2%	154
NWQ Investment Mgmt[3]	Large Cap Value	-	-37.4%	157
		$ 426,092		$ 1,427

[1]Delevered and converted to a stand-alone hedge fund strategy on 11/30/2008

[2]Funded on 10/31/2008

[3]Terminated manager on 10/31/2008

[4]Fees paid indirectly out of portfolio assets

[5]Futures are fully funded

	HPOPS	**Benchmark**
Avg Market Cap	$60.22 Billion	$58.62 Billion
Portfolio P/E	13.26	13.44
Portfolio P/Book	2.06	1.86
Portfolio Beta (3-yr)	1.01	1.01

International Equity

The System's international equity investments returned negative 27.7%, outperforming the negative 30.5% return of the MSCI ACWI ex U.S. benchmark for the fiscal year. This overall outperformance was due to a combination of active management and asset allocation, including an overweight to emerging market equity in the second half of the fiscal year.

Brandes outperformed its benchmark, the MSCI EAFE Index, by approximately 6.6%. This outperformance was due to significant overweights to telecommunications and pharmaceuticals, which still experienced significant declines but to a lesser degree than other sectors. Additionally, Brandes has been underweight oil and gas for several years, which has hurt their performance in prior years but was a significant contributor in 2009.

Causeway essentially matched the return of its benchmark, the MSCI EAFE Index, during fiscal year 2009. Strong stock selection led to slight outperformance during the first half of the year, however when the market started to rally in March, Causeway underperformed due to underweighting the banking and financial sectors.

Assets under management, annualized rates of return and fees paid to international equity managers for the fiscal year ending June 30, 2009 are as shown below (dollars in 000's):

Manager	Style	Assets	% Returns	Fees
BGI	EAFE Small Cap Index	$ 63,898	-28.1%	$ 70
BGI[1]	Emerging Markets Active	-	-53.2%	313
BGI	Emerging Markets Passive	31,887	-28.1%	86
BGI	World Equity ex-US Index	48,038	-30.4%	71
Brandes	EAFE	175,658	-24.3%	840
Causeway Capital	EAFE	72,580	-30.6%	448
Clifton Group[2]	World Equity ex-US Futures[5]	43,891	18.8%	22
DFA[3]	Emerging Markets Equity	51,008	56.4%	118[4]
		$ 486,959		$ 1,968

[1]Liquidated allocation on 2/28/2009

[2]Funded on 11/30/2008

[3]Funded strategy on 12/31/2008

[4]Fees estimated based on month-end market values. Fees are paid indirectly out of portfolio assets.

[5]Futures are fully funded

	HPOPS	Benchmark
Avg Market Cap	$26.05 Billion	$37.82 Billion
Portfolio P/E	11.22	15.84
Portfolio P/Book	1.13	1.49
Portfolio Beta (3-yr)	0.99	1.00

High Yield

High yield investments are segregated by HPOPS as a separate investment category with a target allocation of 7.5% of the System's total assets.

The System implemented a tactical overweight to high yield beginning in December 2008 in order to take advantage of historically large credit spreads and this tactical overweight was still in place as of the fiscal year-end. Assets under management, annualized rates of return and fees paid to high yield managers for the fiscal year ending June 30, 2009 are as shown on the following page:

(dollars in 000's)

Manager	Style	Assets	% Returns	Fees
MacKay Shields	High Yield	$ 128,048	-0.4%	$ 393
Shenkman Capital Mgmt	High Yield	95,145	1.1%	294
		$ 223,193		$ 686

	HPOPS	Benchmark
# of securities	642	1,281
Yield to Maturity	9.65	12.54
Effective Duration	3.49	4.14
Quality Rating S&P	B+	B+

Fixed Income

The System's fixed income strategy consists of a passive strategy benchmarked to the Barclay's Long Government/Credit Bond Index in combination with separate allocations to a global fixed income mandate, inflation indexed bonds, two emerging market mandates and an investment grade bond strategy. The investment grade strategy is a tactical allocation put in place beginning in January 2009 and is another component of the System's effort to take advantage of historically large credit spreads. The System's fixed income portfolio underperformed its benchmark with a fiscal year return of negative 1.3% versus the positive 6.1% return on the Barclay's 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, 2009 are as follows (dollars in 000's):

Manager	Style	Assets	% Returns	Base Fee
BGI	Long Duration Gov/Credit	$ 65,883	4.9%	$ 26
Clifton Group	Long Duration TIPS	229,412	0.4%	74
Ashmore	Emerging Market Fixed Income	85,686	-11.5%	905
Ashmore	Local Currency Debt	66,177	-12.3%	1,148
MacKay Shields[1]	Investment Grade Fixed Income	67,967	13.4%	58
Bridgewater[2]	Global Fixed Income, Hedged	77,123	9.7%	-
		$ 592,248		$ 2,211

[1] *Funded on 1/31/2009*

2 Fees for this strategy are commingled with the fee struture for the Bridgewater hedge fund strategy disclosed elsewhere in this document

Alternative Investments

The System's alternative investment program consists of allocations to private equity, hedge funds, a structured beta strategy and real assets. The System has a 2.5% strategic allocation to commodities which was liquidated on a tactical basis during November 2008 and this allocation has not yet been restored. The private equity program has been managed by Abbott Capital since 1997, however due to a change in their business model the client/advisory relationship was terminated by mutual consent in December 2008. Since that date, Hammond Associates has been overseeing our private equity effort. The private equity program is a relatively mature strategy in that the System has reached its investment target of approximately 10% of total assets while still having $181 million of outstanding commitments. The System had investments in or commitments to 67 individual private equity partnerships with 38 general partners at June 30, 2009. The current allocation within this strategy is approximately 39% in leveraged buyouts, 35% in special situations funds and 26% in venture capital. This program required $32.4 million in additional funding during fiscal 2009 while at the same time generating distributions of $29.6 million for the same period. This private equity program generated returns for the 2009 fiscal year of negative 17.6% versus a return of negative 21.2% of its benchmark, the S&P 500 plus 5%.

The System also has an 8.0% allocation to hedge funds and had $263 million actually invested as of June 30, 2009. These strategies generated fiscal year performance of approximately negative 11.8%. Assets under management, annualized rates of return and fees paid to alternative investments managers for the fiscal year ending June 30, 2009 are as shown below (dollars in 000's):

Manager	Style	Assets	% Returns	Base Fee
Abbott Capital[1]	Private Equity	$ -	N/A	$ 200
Bridgewater	Structured Beta	267,661	-21.6%	592
Bridgewater	Hedge Fund	66,108	-13.1%	1,187
Hammond	Hedge Funds	156,650	-9.3%	550
Hammond	Private Equity	7,031	N/A	135
Attalus[2]	Hedge Fund	40,136	6.0%*	353
Hammond	Real Assets	7,131	N/A	-
Clifton Group	Commodities	-	-46.4%**	
Private Equity (Legacy)	Private Equity	234,774	N/A	N/A
		$ 779,491		$ 3,017

[1] *Client/Advisor relationship terminated effective 12/31/08*

[2] *Converted from Portable Alpha Strategy to stand alone hedge fund strategy on 11/30/08*

**Return reflects the performance in only the hedge fund strategy from 12/1/08 - 6/30/09*

*** Liquidated 11/30/08*

Cash

During September 2008, the System switched to a "government only" STIF fund at its custodian bank, thereby avoiding many of the liquidity issues experienced by many STIF funds during the credit crisis. The System has a cash securitization program which was initiated in order to more closely track our strategic asset allocation through securitization of excess cash. During late 2008, the financial markets became extremely volatile, and as a result, the cash securitization program was suspended in November 2008 and the program was not re-initiated until subsequent to our fiscal year-end. Assets under management, annualized rates of return and fees paid to cash securitization managers for the fiscal year ending June 30, 2009 are as shown below (dollars in 000's):

Manager	Style	Assets	% Returns	Base Fee
Clifton Group	Cash Securitization	$ -		$ 102
		$ -	-24.2%	$ 102

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. In June 2008, the System switched to the custodian's lowest risk collateral pool, thus avoiding exposure to the liquidity issues experienced by many securities lending collateral pools during the credit crisis.

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

Following is a chart of securities lending activity for the most recent three fiscal years (dollars in 000's).

	2009	2008	2007
Avg Securities on Loan	$ 331,878	$ 492,463	$ 495,168
Avg Eligible Securities	$ 823,736	$ 1,242,246	$ 1,360,986
% on Loan	40.3%	39.6%	36.4%
HPOPS Net Earnings	$ 1,427	$ 2,392	$ 1,239
Duration of Collateral Pool (days)	36	34	35

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	Barclays Aggregate	High Yield	Citigroup HY	Alternative Investments
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	21.5	20.0	29.3	30.2	9.8	6.1	11.6	11.6	11.8
2008	0.3	-0.3	-10.4	-12.7	-15.2	-6.2	12.9	7.1	-0.6	-2.3	9.5
2009	-18.2	-14.6	-33.8	-26.6	-27.7	-30.5	-1.3	6.1	-0.3	-3.2	-20.3

Compound Annualized Rates of Return by Year (%)
Years Ended June 30, 2009

Year	System Total	Composite Benchmark	Domestic Equity	Russell 3000	Int'l Equity	MSCI ACWI ex U.S.	Fixed Income	Barclays Aggregate	High Yield	Citigroup HY	Alternative Investments
2	-9.4	-6.0	-23.0	-19.9	-21.7	-19.3	5.5	6.6	-0.5	-2.8	-6.3
3	-1.1	2.1	-10.4	-8.4	-7.4	-5.4	6.9	6.4	3.4	1.8	-0.2
5	4.1	7.5	-2.2	-1.8	2.8	5.0	8.8	5.0	5.1	3.9	6.9
10	4.5	7.4	0.3	-1.5	4.6	2.9	7.6	6.0	6.5	4.6	6.2

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. The Composite Benchmark returns are calculated as if the System's current asset allocation had been in place for all time periods.

Schedule of Ten Largest Domestic Equity Holdings

As of June 30, 2009

Shares	Description	Market Value ($000's)	% of Total Domestic Equity
197,106	Wyeth	$ 8,947	2.1%
103,617	Lockheed Martin	8,357	2.0%
177,210	Qualcomm Inc.	8,010	1.9%
209,821	CSX Corp.	7,266	1.7%
45,040	Goldman Sachs	6,641	1.6%
184,638	Amphenol Corp.	5,842	1.4%
201,798	Wells Fargo & Co.	4,896	1.1%
119,061	Newmont Mining	4,866	1.1%
99,059	Wal-Mart Stores	4,798	1.1%
83,438	General Dynamics	4,622	1.1%

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

As of June 30, 2009

Shares	Description	Market Value ($000's)	% of Total International Equity
113,337	Sanofi-Aventis	$ 6,656	1.4%
635,256	Ericsson	6,207	1.3%
167,646	Barrick Gold Corp.	5,625	1.2%
896,300	Mitsubishi	5,555	1.1%
117,864	Astrazeneca	5,184	1.1%
439,700	Deutsche Telekom	5,181	1.1%
118,200	Nippon Telegraph	4,802	1.0%
211,040	Telefonica	4,772	1.0%
323,100	Centrais Eletricas	4,711	1.0%
193,677	Unilever	4,663	1.0%

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

Schedule of Ten Largest Domestic Fixed Income Holdings

As of June 30, 2009

Par Value ($000's)	Description	Market Value ($000's)	% of Total U.S. Fixed Income
$ 39,308	US Treas Infl Indexed Bonds 2.375 Due 01-15-2025	$ 45,701	12.6%
27,572	US Treas Infl Indexed Bonds 3.875 Due 04-15-2029	45,373	12.5%
23,436	US Treas Bds Inflation Indexed 3.625 Due 4-15-2028	37,596	10.3%
28,200	US Treas Bds Infl IX Bond 2% Due 01-15-2026	29,661	8.2%
23,100	US Treas Bds Infl IX 2.375 Due 1-15-2027	25,286	7.0%
21,800	US Treas Bds 1.75 Due 1-15-2028	20,940	5.8%
11,000	US Treas Bds DTD 1-15-2029	11,607	3.2%
7,228	US Treas Infl IX Bonds 3.375 Due 4-15-2032	10,897	3.0%
1,777	Energy East Corp 6.75% Due 7-15-2036	1,752	0.5%
1,750	Sungard Data Sys Inc SR NT 9.125% Due 8-15-2013	1,654	0.5%

Schedule of Ten Largest Non-U.S. Fixed Income Holdings

As of June 30, 2009

Par Value ($000's)	Description	Market Value ($000's)	% of Total Non-U.S. Fixed Income
$ 850,000	Japan (Govt of) 1.4% Bonds 20/12/13 JPY'256'	$ 9,102	4.0%
600,000	Japan (Govt of) 1.2% Bonds 20/09/11 JPY'60"	6,338	2.8%
530,000	Japan (Govt of) 2.1% Bonds 20/09/24 JPY'72"	5,710	2.5%
500,000	Japan (Govt of) 1.4% Bonds 20/12/11 JPY'235'	5,314	2.3%
1,840	UK (Govt of) 4.75% STK 7/12/38 GBP100	3,207	1.4%
2,100	France (Govt of) 4% OAT 25/04/2013 EUR1	3,120	1.4%
2,000	Italy (Rep of) 6% BTP 1/5/2031 EUR1000	3,067	1.3%
2,000	France (Govt of) 6.5% OAT 25/4/11 EUR1(MAIN)	3,064	1.3%
1,600	Italy REP T-Bond 4.25% 01/08/2014	2,352	1.0%
1,250	France (Govt of) 5.75% OAT 25/10/2032 EUR1	2,101	0.9%

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, 2009

Brokers	Shares	Commissions	Principal	Commissions Per Share
Driehaus Securities Corp.	7,197,480	$ 206,823	$ 254,044,727	$ 0.029
Merrill Lynch Pierce Fenner & Smith	1,648,203	75,830	59,513,616	0.046
Goldman Executing & Clearing	5,112,094	49,326	103,946,656	0.010
Investment Technology Group	3,034,834	44,377	38,694,703	0.015
LiquidNet Inc.	3,274,729	43,987	47,511,363	0.013
Griswold Company	1,783,824	28,744	54,473,964	0.016
LEK Securities	1,495,767	23,227	43,492,627	0.016
Bear, Stearns, Securities Corp.	1,905,332	21,534	21,420,797	0.011
BayPoint Trading LLC	1,407,291	21,143	16,456,488	0.015
Jefferies & Company	1,098,520	19,938	36,140,699	0.018

International Equity Trading - Ten Largest by Total Commissions Paid

For the year ended June 30, 2009

Brokers	Shares	Commissions	Principal	Commissions in Basis Points
Citigroup Global Ltd.	1,680,839	$ 22,156	$ 14,319,576	13.2
UBS	1,361,231	18,180	13,480,312	13.4
Morgan Stanley	738,586	14,873	10,485,954	20.1
Credit Suisse First Boston	1,424,166	12,233	16,488,708	8.6
JP Morgan Chase	480,878	12,074	7,438,556	25.1
Merrill Lynch	604,907	8,643	7,004,668	14.3
Cheuvreaux De Virieu Paris	131,967	5,290	3,266,788	40.1
Deutsche Bank Securities	209,598	5,116	3,897,611	24.4
Goldman Sachs	242,044	4,715	4,782,565	19.5
Sanford C. Bernstein	367,027	4,541	2,725,020	12.4

SECTION FOUR

ACTUARIAL SECTION

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Gabriel Roeder Smith & Company
Consultants & Actuaries

HOUSTON POLICE OFFICERS' PENSION SYSTEM

ACTUARIAL VALUATION REPORT

FOR THE YEAR BEGINNING JULY 1, 2008

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June 11, 2009

Board of Trustees
Houston Police Officers' Pension System
602 Sawyer
Suite 300
Houston, TX 77007

Dear Members of the Board:

Subject: Actuarial Valuation as of July 1, 2008

We are pleased to present our Report of the actuarial valuation of the Houston Police Officers' Pension System ("HPOPS" or "the System") for the plan year commencing July 1, 2008. This report describes the current actuarial condition of HPOPS, determines the calculated employer contribution rate (the actuarially required rate), and analyzes changes in this contribution rate. Valuations are prepared annually, as of July 1, the first day of the HPOPS plan year.

Financing objectives and funding policy

Under the HPOPS statute, the employer contribution rate is determined actuarially, based on the Board's funding policy and HPOPS' governing law. The contribution rate determined by a given actuarial valuation and implemented by the Board becomes effective twelve months after the valuation date, i.e., the rates determined by this July 1, 2008 actuarial valuation will be used by the Board when determining the employer contribution rate for the year beginning July 1, 2009 and ending June 30, 2010.

Under the 2004 Meet & Confer Agreement between the Board and the City of Houston, a funding schedule was implemented resulting in a minimum $53 million employer contribution for the fiscal year ending June 30, 2006, increasing by $5 million each year thereafter until HPOPS' funded ratio reaches 100%. In addition, beginning in fiscal year 2013, the city contribution will increase by an additional $5 million per year ($10 million in total) if the contribution levels are still less than the actuarially determined rate. Once the System reaches a 100% funded ratio, the City will pay the actuarially required rate, but not less than 16.00% of payroll.

Given the above schedule, the employer contribution amount for the fiscal year ending June 30, 2010 is not set by this actuarial valuation as of July 1, 2008. Therefore, the actuarially calculated contribution rate from this valuation will not be contributed. Instead, City contributions of $68 million for FY 2009 and $73 million for FY 2010 are to be made under the terms of the above funding schedule.

Houston Police Officers' Pension System
June 11, 2009
Page 2

The amortization period is set by statute, and was modified under the Meet and Confer. The contribution rate and liabilities are computed using the Entry Age Normal (EAN) actuarial cost method. The employer contribution rate is the sum of two pieces: the employer normal cost rate and the amortization rate. The normal cost rate is determined as a percent of pay. The employer normal cost is the difference between this and the weighted member contribution rate. The amortization rate is determined as a level percent of pay. It is the amount required to amortize the unfunded actuarial accrued liability (UAAL) over an open period (30 years as of July 1, 2008).

Progress toward realization of financing objectives

The funded ratio (the ratio of the actuarial value of assets to the actuarial accrued liability) is a standard measure of a plan's funded status. In the absence of benefit improvements, it should increase over time, until it reaches 100%. The funded ratio as of July 1, 2008 is 81.83%. In the 2007 valuation the funded ratio was 77.89%.

The calculated employer contribution rate for FY 2010 is 30.91%. This rate is less than the 32.10% rate calculated in the 2007 valuation, mostly due to recognition of the deferred investment gains from FY 2005, 2006, and 2007. Please see Table 6 under Section III of our Report for a detailed analysis of the change in the calculated employer contribution rate from the prior year to this year.

It should be noted that the above information is based on the measurement of the System as of June 30, 2008. As the Board of Trustees well knows, the investment markets have suffered tremendous losses since this date. If this actuarial valuation had been performed at the end of October instead of the end of June, the results would have been dramatically different. The actuarial gains discussed above would have been completely eliminated by the additional investment losses that have occurred since the valuation date of June 30th.

In the absence of a significant recovery in the investment markets during the next few years, the contribution rate needed to amortize the UAAL over 30 years will increase because of these markets losses.

It should be noted that other than the City of Houston's agreement to maintain a funded status floor as specified under the 2004 Meet & Confer, the City funding schedule could potentially not be sufficient to cover all future benefit payments of HPOPS. Moreover, it is possible that the System will fall below the funded status floor as actual experience differs from what is assumed and/or assumptions change.

Benefit provisions

The benefit provisions reflected in this valuation are those which were in effect on July 1, 2008. There were no changes in the benefit provisions since the prior valuation.

Gabriel Roeder Smith & Company

Houston Police Officers' Pension System
June 11, 2009
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The benefit provisions are summarized in Appendix B of our Report.

Assumptions and methods

Actuarial assumptions and methods are set by the Board of Trustees, based upon recommendations made by the plan's actuary. The current assumptions used in the valuation were adopted by the Board based on the recommendations from the prior actuary, Towers Perrin.

The results of the actuarial valuation are dependent upon the actuarial assumptions used. Actual results can and almost certainly will differ, as actual experience deviates from the assumptions. Even seemingly minor changes in the assumptions can materially change the liabilities, calculated contribution rates and funding periods. The actuarial calculations presented in our Report are intended to provide information for rational decision making.

The actuarial assumptions and methods used in this report comply with the parameters for disclosure that appear in Governmental Accounting Standards Board (GASB) Statement Number 25.

All assumptions and methods are described in Appendix A of our Report.

Data

Member data for retired, active and inactive members was supplied as of July 1, 2008 by the HPOPS staff. We did not audit this data, but we did apply a number of tests to the data, and we concluded that it was reasonable and consistent with the prior year's data.

Asset and financial information as of July 1, 2008 was supplied to us by the HPOPS staff.

Plan Experience

As part of each valuation, we examine the System's experience relative to the assumptions. The aggregate results of these analyses are disclosed in Tables 5 & 6 under Section III of our Report. This past fiscal year the System had a total liability loss of approximately $7.54 million.

Actuarial Certification

All of the tables contained in this actuarial valuation report and in the actuarial section of the HPOPS Comprehensive Annual Financial Report (CAFR) were prepared by Gabriel, Roeder, Smith & Company. Historical information for years prior to 2008 was prepared by the prior actuarial firm and was not subjected to our actuarial review. We certify that the information presented herein is accurate and fairly portrays the actuarial position of HPOPS as of July 1, 2008.

Gabriel Roeder Smith & Company

Houston Police Officers' Pension System
June 11, 2009
Page 4

All of our work conforms with generally accepted actuarial principles and practices, and with the Actuarial Standards of Practice issued by the Actuarial Standards Board. In our opinion, our calculations also comply with the requirements of state law and, where applicable, the Internal Revenue Code, ERISA, and the Statements of the Governmental Accounting Standards Board. The undersigned are independent actuaries and consultants. Both are Enrolled Actuaries and Members of the American Academy of Actuaries, and both meet the Qualification Standards of the American Academy of Actuaries. Finally, both of the undersigned are experienced in performing valuations for large public retirement systems.

Respectfully submitted,
Gabriel, Roeder, Smith & Company

Mark R. Randall, FCA, EA, MAAA
Executive Vice President

Joseph P. Newton, FSA, EA, MAAA
Senior Consultant

Executive Summary (dollar amounts are in thousands)

Item	July 1, 2008	July 1, 2007
Membership		
• Number of:		
- Active members	5,065	4,879
- Retirees and beneficiaries	2,790	2,724
- Inactive members	19	18
- Total	7,874	7,621
• Annualized Payroll supplied by HPOPS	$ 339,638	$ 323,293
Calculated Contribution rates		
• Employer	30.91%	32.10%
• Member [1]	9.12%	9.07%
Assets		
• Market value	$ 3,328,298	$ 3,359,666
• Actuarial value	3,337,612	3,004,927
• Estimation of return on market value	0.2%	17.8%
• Estimation of return on actuarial value	12.5%	13.9%
• Employer contribution	$ 63,000	$ 58,000
• Member contribution	$ 31,003	$ 29,489
• Ratio of actuarial value to market value	100.3%	89.4%
• Member		
Actuarial Information		
• Employer normal cost	17.54%	16.00%
• Unfunded actuarial accrued liability (UAAL)	$ 741,351	$ 852,753
• Amortization rate	13.37%	16.10%
• Funding period	30.0 years	30.0 years
• GASB funded ratio	81.8%	77.9%
Projected employer contribution based on calculated rate		
• Fiscal year ending June 30,	2009	2008
• Projected payroll (millions)	$ 351.5	$ 336.0
• Projected employer contribution (millions) (actual contribution rate set by Meet & Confer)	$ 108.7	$ 107.9

[1] Employee contribution rate is 9.00%. Members hired after October 9, 2004 contribute 10.25% of pay.

Schedule of Funding Progress ($000)

Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL) (3) - (2)	Funded Ratio (2)/(3)	Annual Payroll	UAAL as a % of Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
July 1, 1993	$ 947,456	$ 984,495	$ 37,039	96.2%	$ 162,143	22.8%
July 1, 1994	1,038,256	1,000,423	(37,833)	103.8%	174,761	(21.6%)
July 1, 1995	1,168,056	1,199,748	31,692	97.4%	182,251	17.4%
July 1, 1996	1,329,570	1,258,217	(71,353)	105.7%	187,134	(38.1%)
July 1, 1998	1,518,081	1,549,341	31,260	98.0%	196,364	15.9%
July 1, 1999 *	1,746,312	1,773,829	27,517	98.4%	246,569	11.2%
July 1, 2000	2,013,491	1,966,404	(47,087)	102.4%	250,691	(18.8%)
July 1, 2001	2,226,307	2,306,427	80,120	96.5%	264,226	30.3%
July 1, 2002	2,337,157	2,593,730	256,573	90.1%	286,150	89.7%
July 1, 2003	2,394,411	2,874,738	480,327	83.3%	300,405	159.9%
July 1, 2004	2,466,070	3,339,224	873,154	73.9%	329,840	264.7%
July 1, 2005	2,508,794	3,392,974	884,154	73.9%	321,057	275.4%
July 1, 2006	2,681,375	3,633,145	951,770	73.8%	327,080	291.0%
July 1, 2007	3,004,927	3,857,680	852,753	77.9%	336,029	253.8%
July 1, 2008	3,337,612	4,078,963	741,351	81.8%	351,525	210.9%

* Definition of covered payroll changed from base pay to total direct pay less overtime

Historical Solvency Test ($000)

Valuation Date	Aggregated Accrued Liability for: Active Members Contributions	Retirees, Beneficiaries, and Vested Terminations [1]	Members (City Financed Portion)	Actuarial Value of Assets	By Reported Assets: (5)/(2)	[(5)-(2)]/(3)	[(5)-(2)-(3)]/(4)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
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, 2004	153,088	995,841	2,190,295	2,466,070	100	100	60%
July 1, 2006	262514	1,421,330	1,949,301	2,681,375	100	100	51%
July 1, 2007	275,990	1,575,900	2,005,790	3,004,927	100	100	57%
July 1, 2008	294,678	1,726,121	2,058,165	3,337,612	100.0%	100.0%	64%

Note: Dollar amounts in $000

[1] Column (3) included AAL for DROP Participants until 2000, now in Column (4)

Historical Active Participant Data

Valuation Date	Active Count	Average Age	Average Svc	Covered Payroll	Average Salary	Percent Changes
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1988	4,239	35.0	N/A	$121,667	$28,702	1.6%
1989	4,105	35.7	N/A	$122,803	$29,915	4.2%
1990	4,073	36.2	N/A	$126,665 (1)	$31,099 (1)	4.0% (1)
1992	4,120	36.8	N/A	$143,020	$34,714	11.6%
1993	4,498	36.7	N/A	$159,321	$35,420	2.0%
1994	4,705	36.8	N/A	$162,143	$34,462	-2.7%
1995	4,921	36.9	N/A	$174,761	$35,513	3.0%
1996 (2)	4,395	35.1	N/A	$150,903	$34,335	3.3%
1997	4,282	35.5	N/A	$149,631	$34,944	1.8%
1998	4,247	35.9	N/A	$153,479	$36,138	3.4%
1999	4,253	36.3	N/A	$187,967 (3)	$44,196 (3)	22.3% (3)
2000	4,137	36.7	N/A	$179,415	$43,368	-1.9%
2001 (4)	5,325	40.2	N/A	$264,226 (5)	$49,620 (5)	14.4% (5)
2002	5,352	40.7	N/A	$286,150	$53,466	7.8%
2003	5,387	41.3	N/A	$300,405	$55,765	4.3%
2004	5,225	41.7	N/A	$329,840	$63,127	13.2%
2005	4,867	42.0	N/A	$321,226 (6)	$65,966 (6)	4.5% (6)
2006	4,785	42.3	N/A	$327,080	$68,355	3.6%
2007	4,879	42.1	N/A	$336,029	$68,873	0.8%
2008	5,065	42.0	15.7	$351,525	$69,403	0.8%

(1) Reflects the November 1, 1990 pay increase.

(2) For the July 1, 1996 to July 1, 2000 valuations, includes those participants currently accruing benefits (i.e. excludes current DROP participants).

(3) Definition of covered payroll changed from base pay to total direct pay less overtime.

(4) Beginning July 1, 2001 includes active participants eligible for DROP.

(5) 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.

(6) Beginning October 9, 2004 pensionable pay is the total of the last 26 pay periods, excluding CMEPP and SOSP.

Retirees, Beneficiaries, and Disabled Participants Added to and Removed from Rolls

Valuation July 1,	Added to Rolls		Removed from Rolls		Rolls-End of Year		% Increase in Annual Allowances	Average Annual Allowances
	Number	Annual Allowances	Number	Annual Allowances	Number	Annual Allowances		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1993	106	$ 2,172	64	$ 953	1,419	$ 27,286	7.1%	$ 19,229
1994	107	2,425	48	847	1,478	29,464	8.0%	19,935
1995	893	19,109	36	602	2,335	48,624	65.0%	20,824
1996 *	182	3,481	29	618	2,488	52,772	8.5%	21,211
1998	159	3,483	28	589	2,619	63,957	21.2%	24,420
1999	150	3,770	46	1,001	2,723	70,432	10.1%	25,866
2000	233	6,421	36	857	2,920	76,401	8.5%	26,165
2001 **	131	3,755	1,250	33,892	1,801	54,006	(29.3%)	29,987
2002	104	2,809	46	1,113	1,859	55,013	1.9%	29,593
2003	106	2,967	47	1,109	1,918	61,531	11.8%	32,081
2004	220	9,172	33	1,014	2,105	70,307	14.3%	33,400
2005	353	15,962	55	1,776	2,403	86,933	23.6%	36,177
2006	254	10,195	66	2,197	2,549	96,812	11.4%	37,980
2007	175	8,056	49	1,809	2,717	105,481	9.0%	38,823
2008	149	11,889	57	1,995	2,809	115,375	9.4%	41,073

* From June 30, 1996 through June 30, 2001 includes DROP participants.
** Beginning July 1, 2001 excludes active participants eligible for DROP.

Note: Dollar amounts in $000

Calculation of Total Actuarial Gain or Loss

1.	Unfunded actuarial accrued liability (UAAL) as of July 1, 2007	$ 852,753
2.	Total normal cost for year	84,242
3.	Actuarially calculated contribution requirement	(138,343)
4.	Interest on UAAL for one year	72,484
5.	Interest on Item 2 and Item 3 for one-half year	(2,252)
6.	Actuarially expected UAAL as of July 1, 2008 (1+2+3+4+5)	$ 868,884
7.	Actual UAAL as of July 1, 2008	741,351
8.	Actuarial gain/(loss) for the period (6 - 7)	$ 127,533
	SOURCE OF GAINS/(LOSSES)	
9.	Asset gain/(loss) (See Table 13)	$ 118,458
10.	Impact of contributions less than actuarially required	(44,340)
11.	Assumption changes (Includes Transition to New Actuary)	60,960
12.	Changes to Benefit Provisions	0
13.	Total liability gain/(loss) for the period	(7,545)
14.	Actuarial gain/(loss) for the period127,533$ Note: Dollar amounts in $000	$ 127,533

Note: Dollar amounts in $000

Summary of Actuarial Methods and Assumptions

The following methods and assumptions were used in preparing the July 1, 2008 actuarial valuation report.

1. Valuation Date

   The valuation date is as of July 1st, the first day of each plan year. This is the date as of which the actuarial present value of future benefits and the actuarial value of assets are determined.

2. Actuarial Cost Method

   The actuarial valuation uses the Entry Age Normal (EAN) actuarial cost method. Under this method, the employer contribution rate is the sum of (i) the employer normal cost rate, and (ii) a rate that will amortize the unfunded actuarial accrued liability (UAAL).

   a. The valuation is prepared on the projected benefit basis, under which the present value, at the investment return rate assumed to be earned in the future (currently 8.50%), of each participant's expected benefit payable at retirement or death is determined, based on his/her age, service, sex and compensation. The calculations take into account the probability of a participant's death or termination of employment prior to becoming eligible for a benefit, as well as the possibility of his/her terminating with a service, disability, or survivor's benefit. Future salary increases are also anticipated. The present value of the expected benefits payable for the active participants is added to the present value of the expected future payments to retired participants and beneficiaries to obtain the present value of all expected benefits payable from the System on account of the present group of participants and beneficiaries.

   b. The employer contributions required to support the benefits of the System are determined using a level funding approach, and consist of a normal cost contribution and an accrued liability contribution.

   c. The normal cost contribution is determined using the "entry age normal" actuarial cost method. Under this method, a calculation is made to determine the average uniform and constant percentage rate of employer contribution which, if applied to the compensation of each new participant during the entire period of his/her anticipated covered service, would be required to meet the cost of all benefits payable on his/her behalf based on the benefits provisions applicable for the individual member.

Summary of Actuarial Methods and Assumptions (cont.)

d. The unfunded actuarial accrued liability contributions are determined by subtracting the actuarial value of assets from the actuarial accrued liability and amortizing the result over 30 years from the valuation date.

The contribution rate determined by this valuation will not be effective until one year later, but the determination of the rate does not reflect this deferral. It is assumed that there will be no change in the employer normal cost rate due to the deferral, and it is assumed that payments are made uniformly throughout the year.

3. Actuarial Value of Assets

The actuarial value of assets is based on the market value of assets with a five-year phase-in of actual investment return in excess of (less than) expected investment income. Expected investment income is determined using the assumed investment return rate and the market value of assets (adjusted for receipts and disbursements during the year). The returns are computed net of administrative and investment expenses.

Summary of Actuarial Methods and Assumptions (cont.)

4. Economic Assumptions

a. Investment return: 8.50% per year, compounded annually, composed of an assumed 3.50% inflation rate and a 5.00% net real rate of return. This rate represents the assumed return, net of all investment and administrative expenses.

b. Salary increase rate: A service-related component, plus a 3.50% inflation component, as follows:

Years of Service	Service-related Component	Total Annual Rate of Increase Including 3.50% Inflation Component
(1)	(2)	(3)
1	0.00%	3.00%
2	0.00%	3.00%
3	0.00%	3.00%
4	0.00%	3.00%
5	0.00%	3.00%
6	0.00%	3.00%
7	0.00%	3.00%
8	0.00%	3.00%
9	0.00%	3.00%
10	0.00%	3.00%
11	0.00%	3.00%
12	0.00%	3.00%
13	0.00%	3.00%
14	0.00%	3.00%
15	0.00%	3.00%
16	0.00%	3.00%
17	0.00%	3.00%
18 and Over	0.00%	3.00%

c. Payroll growth rate: In the amortization of the unfunded actuarial accrued liability, payroll is assumed to increase 3.50% per year. This increase rate is solely due to the effect of inflation on salaries, with no allowance for future membership growth.

Summary of Actuarial Methods and Assumptions (cont.)

5. Demographic Assumptions

a. Retirement Rates

Participants as of October 9, 2004							
	Service						
Age	20-21	22-23	23-24	26-27	28-29	30-39	40 and Over
40-54	5.0%	5.0%	5.0%	10.0%	20.0%	20.0%	100.0%
55-59	5.0%	10.0%	10.0%	30.0%	30.0%	40.0%	100.0%
60-64	10.0%	10.0%	25.0%	50.0%	50.0%	50.0%	100.0%
Participants sworn in after October 9, 2004							
Age	20-21	22-23	23-24	26-27	28-29	30-39	40 and Over
55-59	5.0%	10.0%	10.0%	30.0%	30.0%	40.0%	100.0%
60-64	10.0%	10.0%	25.0%	50.0%	50.0%	50.0%	100.0%

100% of members age 65 and over are expected to retire

b. DROP Participation

100% of eligible active participants are assumed to elect the DROP.

c. DROP Entry Date

Active members (not already in DROP) are assumed to take advantage of the DROP and enter when first eligible. Participants are assumed to elect the maximum duration for the back DROP, up to 20 years.

Summary of Actuarial Methods and Assumptions (cont.)

d. DROP Interest Credit

A minimum of 3.00% interest will be credited to existing DROP accounts with a maximum of 7.00%. If the System's actuary certifies that past service costs are fully funded, the credit may be as high as 10.00%. For this actuarial valuation, the drop interest credit is assumed to be 7.00%

e. Mortality rates (for active and retired members)

- Healthy males – Based on the 1994 Group Annuity Mortality Table for males.
- Healthy females - Based on the 1994 Group Annuity Mortality Table for females.
- Disabled males and females – 1987 Commissioners Group Disabled Mortality Table.

Sample rates are shown below:

Age	Healthy Males	Healthy Females	Disabled Males	Disabled Females
(1)	(2)	(3)	(4)	(5)
25	0.07%	0.03%	2.82%	2.82%
30	0.08%	0.04%	2.82%	2.82%
35	0.09%	0.05%	2.82%	2.82%
40	0.11%	0.07%	2.82%	2.82%
45	0.16%	0.10%	2.82%	2.82%
50	0.26%	0.14%	2.82%	2.82%
55	0.44%	0.23%	2.82%	2.82%
60	0.80%	0.44%	3.14%	3.14%
65	1.45%	0.86%	3.98%	3.98%
70	2.37%	1.37%	5.71%	5.71%
75	3.72%	2.27%	8.19%	8.19%
80	6.20%	3.94%	11.84%	11.84%

Summary of Actuarial Methods and Assumptions (cont.)

f. Termination Rates and Disability Rates

Termination rates (for causes other than death, disability or retirement):

Termination rates are a function of the member's age. Termination rates are not applied after a member becomes eligible for a retirement benefit. Rates at selected ages are shown below.

Rates of disability are reduced to zero once a member becomes eligible for retirement.

Service Connected Deaths and Disabilities are assumed to be 10% of decrement.

Age Based Rates of Termination		
Age	Male	Female
20	4.4395%	4.4395%
25	3.9958%	3.9958%
30	3.0221%	3.0221%
35	1.9177%	1.9177%
40	0.9211%	0.9211%
45	0.2166%	0.2166%
50	0.0012%	0.0012%
55	0.0012%	0.0012%
60	0.0012%	0.0012%

Age Based Rates of Disability		
Age	Male	Female
20	0.0800%	0.1000%
25	0.0800%	0.1000%
30	0.0800%	0.1240%
35	0.1040%	0.1640%
40	0.1440%	0.2160%
45	0.2080%	0.3000%
50	0.3660%	0.5400%
55	0.7900%	1.0800%
60	2.1520%	2.8600%

Summary of Actuarial Methods and Assumptions (cont.)

6. Other Assumptions

a. Percent married: 90% of employees are assumed to be married. (No beneficiaries other than the spouse assumed.)

b. Age difference: Male members are assumed to be three years older than their spouses, and female members are assumed to be three years younger than their spouses.

c. Percent electing annuity on death (when eligible): All of the spouses of vested, married participants are assumed to elect an annuity.

d. Percent electing deferred termination benefit: Vested terminating members are assumed to elect a refund or a deferred benefit, whichever is more valuable at the time of termination.

e. There will be no recoveries once disabled.

f. No surviving spouse will remarry.

g. Assumed age for commencement of deferred benefits: Members electing to receive a deferred benefit are assumed to commence receipt at the first age at which unreduced benefits are available.

h. Administrative expenses: The assumed investment return rate represents the anticipated net return after payment of all investment and administrative expenses.

i. Pay increase timing: Beginning of (fiscal) year. This is equivalent to assuming that reported pays represent amounts paid to members during the year ended on the valuation date.

j. Decrement timing: Decrements of all types are assumed to occur mid-year.

k. Eligibility testing: Eligibility for benefits is determined based upon the age nearest birthday and service nearest whole year on the date the decrement is assumed to occur.

l. Decrement relativity: Decrement rates are converted to probabilities in order to account for multiple decrements.

m. Incidence of Contributions: Contributions are assumed to be received continuously throughout the year based upon the computed percent of payroll shown in our Report, and the actual payroll payable at the time contributions are made.

Summary of Actuarial Methods and Assumptions (cont.)

n. Benefit Service: All members are assumed to accrue one year of service each year. Exact fractional service is used to determine the amount of benefit payable.

7. Participant Data

Participant data was supplied in electronic files. There were separate files for (i) active members, (ii) inactive members, and (iii) members and beneficiaries receiving benefits.

The data for active members included birth date, sex, most recent hire date, salary paid during last fiscal year, hours worked by the employee, and employee contribution amounts. For retired members and beneficiaries, the data included date of birth, sex, amount of monthly benefit, and date of retirement. Also included was the member's Group and for members participating in DROP, their account balances and monthly DROP income.

All healthy and disabled retirees are assumed to have 100% joint and survivor annuities, prorated by the 90% marriage assumption and reflecting the three year spousal age differential described above. All beneficiaries are assumed to have life annuity only benefits.

Salary supplied for the current year was based on the earnings for the year preceding the valuation date. This salary was adjusted by the salary increase rate for one year.

In fiscal years when a 27th pay period occurs the individual pays for employees who were employed throughout the year will be adjusted by multiplying their reported pay by the ratio of 26/27. In years that have only 26 pay periods no adjustment would be needed.

Assumptions were made to correct for missing, bad, or inconsistent data. These had no material impact on the results presented.

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

Summary of Plan Provisions (cont.)

Benefit:

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

Summary of Plan Provisions (cont.)

► 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. 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.

Summary of Plan Provisions (cont.)

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.

- **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%.

Summary of Plan Provisions (cont.)

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 and sworn in prior to October 9, 2004.
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%.

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.

Summary of Plan Provisions (cont.)

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	
► 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. 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.

Summary of Plan Provisions (cont.)

	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 who was sworn in prior to October 9, 2004..
	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%.

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.

Summary of Plan Provisions (cont.)

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.
Refunds	Refunds of contributions are made if (i) The participant dies before 10 years of service and the death is not duty-connected, (ii) The participant dies with no eligible survivor, (iii) A Plan 1 or 2 participant leaves service before eligibility for retirement after completing 5 years of service, or (iv) A Plan 3 participant leaves service with less than 20 years of service. Contributions are refunded without interest.

Summary of Plan Provisions (cont.)

Employer Contribution — The City of Houston 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 System 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.

SECTION FIVE

STATISTICAL SECTION

Summary

This part of the System's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the System's overall financial health. All information presented was derived from the comprehensive annual financial reports for the relevant year and/or the Systems benefits administration system.

Financial Trends

The **Changes in Plan Net Assets** schedule on page 89 shows the additions and deductions from plan net assets and the resulting changes in plan net assets for the ten years ending June 30, 2009. While contributions from members and the City have grown slowly and steadily, it is the System's investment income that provides the most impact on additions to plan net assets. Deductions to plan net assets are primarily for benefits paid to members.

City and member contributions to the System are external sources of the additions to plan net assets. **Contribution Rates** on page 90 shows what percent the City's and the members' contributions are of payroll for the ten years ending June 30, 2009. The accompanying chart of **Contributions and Benefits Paid** compares the total contributions made and the benefits paid for the ten years ending June 30, 2009. The growth in benefits paid exceeds the growth in contributions in recent years, however the City's contributions under the October 9, 2004 agreement are scheduled to increase over the coming years.

Contributions are not the only source from which benefits are paid. Earnings from the System's investments are the fund's internal sources of and, in most years, the largest component of additions to plan net assets. The **Investment income** chart on page 91 provides the details of the System's net investment gain/loss for the ten years ending June 30, 2009.

Deductions from Net Assets for Benefits and Refunds by Type on page 92 presents a detailed view of the benefits paid to members and refunds for the ten years ending June 30, 2009, and the chart on page 93 graphically represents this data. Service retirements account for the majority of benefit payments, growing over the last several years as the number of retirees has increased. Lump sum benefits have also grown in recent years.

On page 94, **Valuation of Assets as a Percent of Pension Liabilities** shows the percentage of the pension liability that is funded and **Net Assets Compared to Pension Liability** compares the actuarial value of the System's assets to the actuarial accrued liability. These charts graphically represent the funding progress of the System for the ten years ending June 30, 2009. The existence of an unfunded actuarial liability does not necessarily indicate financial problems. The System and the City entered into an agreement on October 9, 2004, which if maintained and adequate earnings and gains are provided on investments, the System is projected to eventually be adequately funded.

Participant Information

The **Membership** schedule on page 95 provides a breakdown of the plan membership for the ten years ending June 30, 2009. For fiscal year 2009, active members increased by 191, retired members and their beneficiaries increased by 108, and terminated vested members increased by three.

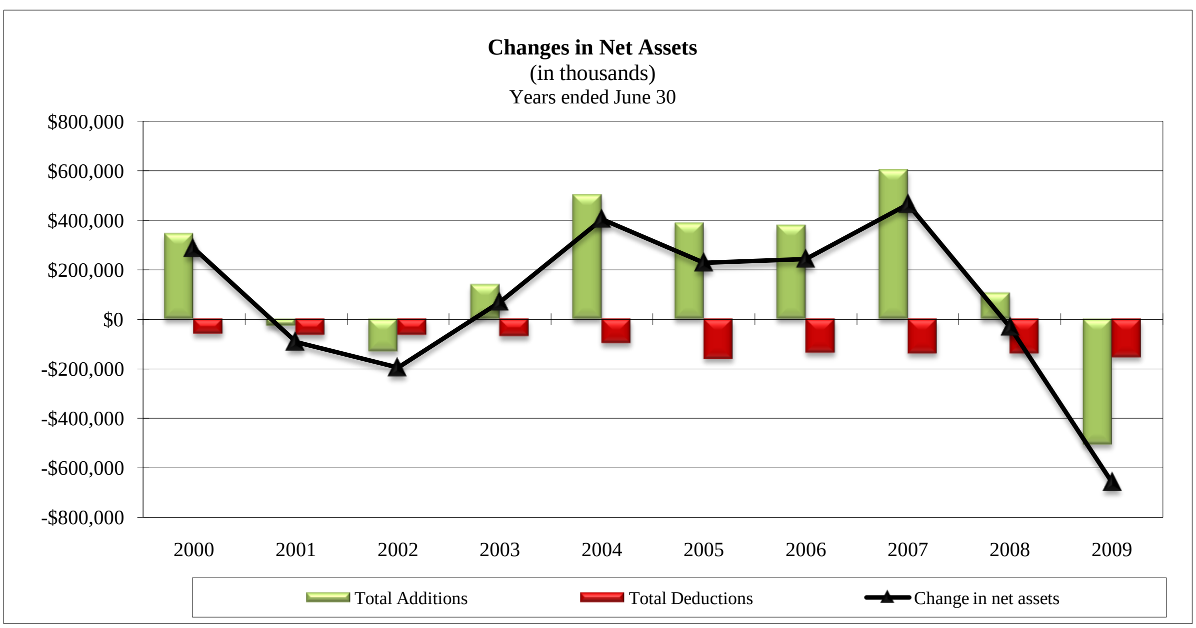
Operating Information

The **Pensions in Force** and **Pensions Awarded** schedules on page 96 provide the number of pensions by type, age and payment amount. The **Average Monthly Benefit Amounts by Years Credited Service** on page 97 presents the average final average salary and the number of retired members, in five-year increments of credited service, for the six years ended June 30, 2009. The **DROP and PROP Activity** schedules on page 98 provide information about the total amount in DROP and PROP accounts and the total number of participants as well as the changes to those totals for the ten years ending June 30, 2009.

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

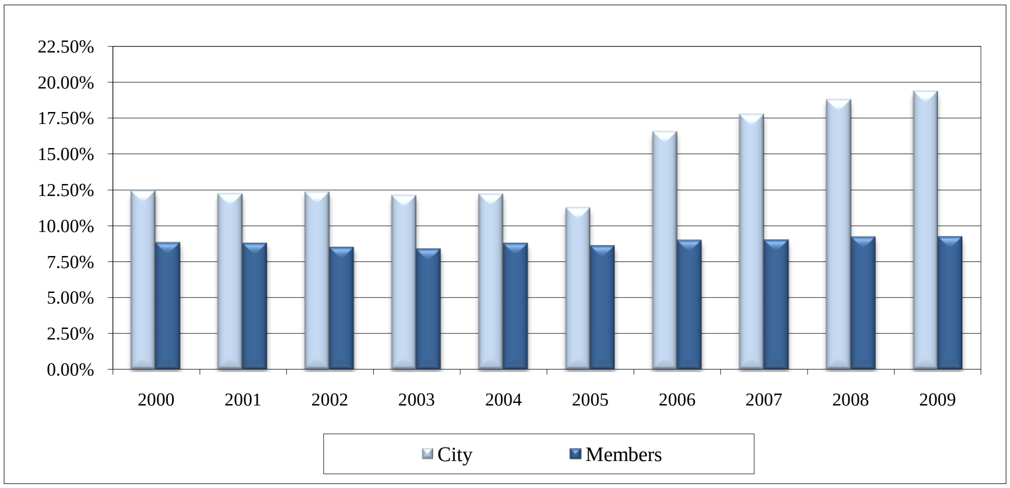
Fiscal Year	2000	2001	2002	2003	2004
Additions					
City contributions	$ 30,645	$ 30,645	$ 32,645	$ 34,645	$ 36,645
Members contributions	21,761	22,043	22,484	24,008	26,393
Investment income (net of expenses)	291,777	(80,864)	(186,657)	80,202	437,007
Securities lending income (net of expenses)	826	832	855	583	741
Total additions to plan net assets	345,009	(27,344)	(130,673)	139,438	500,786
Deductions:					
Benefits paid to members	55,421	60,328	59,783	65,649	92,697
Refunds to members	1,545	884	1,194	992	852
Professional and administrative expense	2,216	2,854	2,881	2,746	2,768
Total deductions from plan net assets	59,182	64,066	63,858	69,387	96,317
Change in net assets	$ 285,827	$ (91,410)	$ (194,531)	$ 70,051	$ 404,469

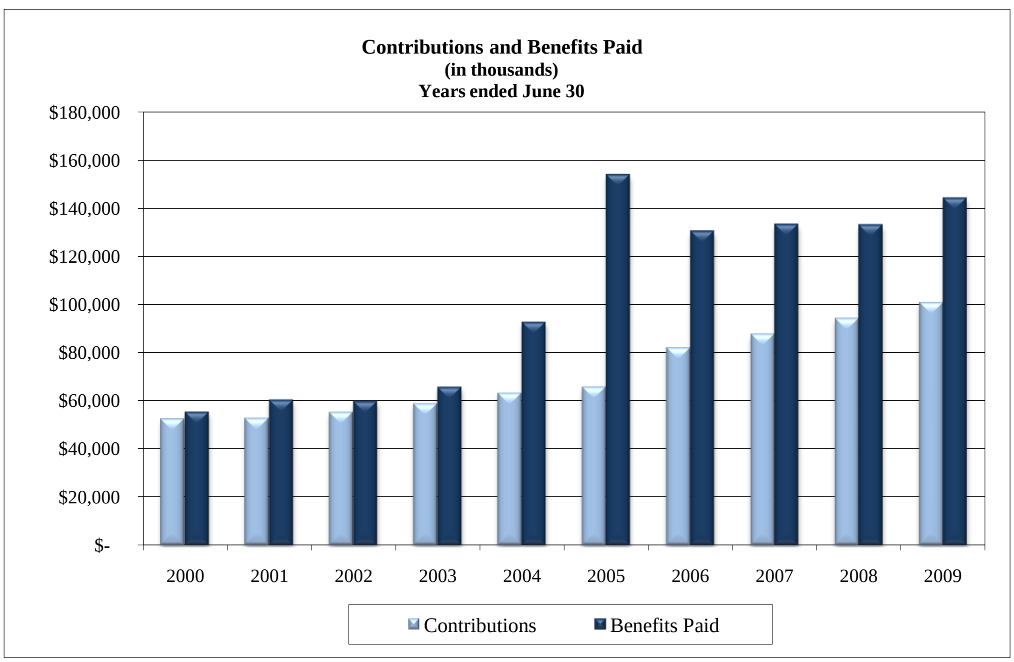
Fiscal Year	2005	2006	2007	2008	2009
Additions					
City contributions	$ 37,125	$ 53,068	$ 58,000	$ 63,000	$ 68,000
Members contributions	28,410	28,863	29,489	31,003	32,519
Investment income (net of expenses)	320,561	294,966	512,873	9,350	(607,482)
Securities lending income (net of expenses)	876	1,101	1,239	2,392	1,427
Total additions to plan net assets	386,972	377,998	601,601	105,745	(505,536)
Deductions:					
Benefits paid to members	153,861	130,443	133,351	133,049	144,112
Refunds to members	1,198	700	739	500	618
Professional and administrative expense	3,473	2,958	2,950	3,564	7,311
Total deductions from plan net assets	158,532	134,101	137,040	137,113	152,041
Change in net assets	$ 228,440	$ 243,897	$ 464,561	$ (31,368)	$ (657,577)



Contribution Rates
Previous Ten Fiscal Years

	Percent of Payroll	
Fiscal Year	City	Members
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	17.73%	9.02%
2008	18.75%	9.23%
2009	19.34%	9.25%





Investment Income
Previous Ten Fiscal Years
($000's)

Fiscal Year	2000	2001	2002	2003	2004
Investing activities					
Net appreciation (depreciation) in fair value of investments	$ 252,445	$ (130,063)	$ (232,652)	$ 37,084	$ 401,591
Interest	33,843	41,312	37,678	35,918	29,477
Dividends	12,880	14,293	13,672	12,659	15,897
Alternative investments (1)	440	1,107	2,361	1,606	1,598
Other income	160	326	541	306	333
Total	299,768	(73,025)	(178,400)	87,573	448,896
Less investment expense	(7,991)	(7,839)	(7,827)	(7,371)	(11,889)
Net income from investing activities	291,777	(80,864)	(186,227)	80,202	437,007
Securities lending activities					
Securities lending income	1,284	1,283	1,308	914	1,153
Securities lending expense	(458)	(451)	(453)	(331)	(412)
Net income from securities lending activities	826	832	855	583	741
Total investment income	292,603	(80,032)	(185,372)	80,785	437,748

Fiscal Year	2005	2006	2007	2008	2009
Investing activities					
Net appreciation (depreciation) in fair value of investments	$ 275,205	$ 256,825	$ 459,957	$ (26,749)	$ (643,053)
Interest	35,006	30,201	38,304	34,603	31,452
Dividends	26,314	21,926	27,581	19,540	13,170
Alternative investments (1)					
Other income	157	282	147	142	57
Total	336,682	309,234	525,989	27,536	(598,374)
Less investment expense	(16,246)	(14,143)	(13,116)	(18,186)	(9,108)
Net income from investing activities	320,436	295,091	512,873	9,350	(607,482)
Securities lending activities					
Securities lending income	1,332	1,478	1,652	3,189	1,903
Securities lending expense	(456)	(377)	(413)	(797)	(476)
Net income from securities lending activities	876	1,101	1,239	2,392	1,427
Total investment income	$ 321,312	$ 296,192	$ 514,112	$ 11,742	$ (606,055)

(1) Income reported under alternative investments for 2000 - 2004 consists of distributions from private equity partnership investments of the System. These private equity partnerships use various methods to invest in private companies, usually loans or an equity investment. Distributions from these partnerships represent interest earned on loans, stock distributions or returns on equity investments. Prior to fiscal year 2005, the income portion of these distributions were recorded as income from alternative investments. Starting in fiscal year 2005, this income was reclassified to interest or dividends according to the nature of the underlying investment.

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

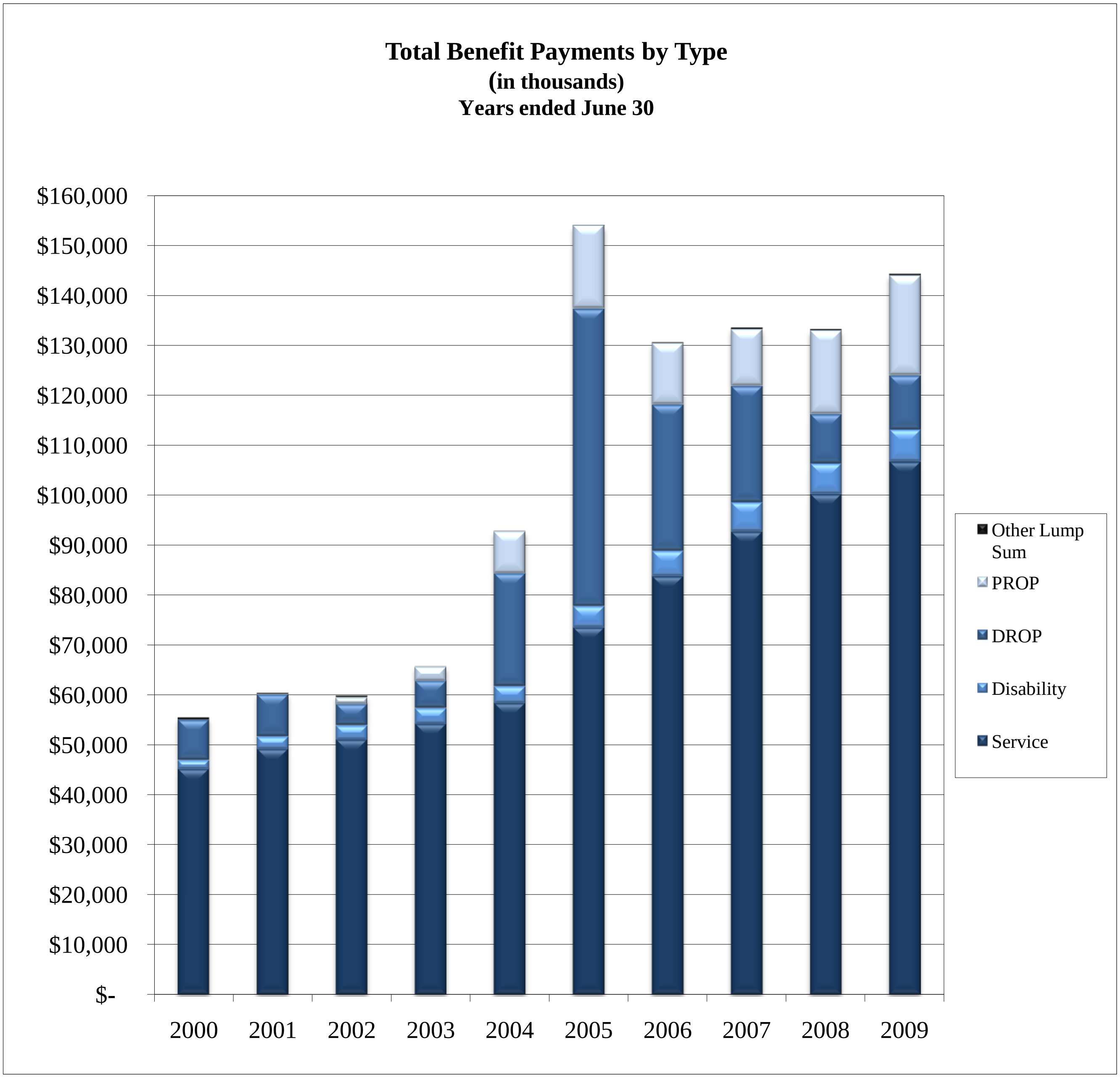
Fiscal Year	2000	2001	2002	2003	2004
Type of Benefit					
Service					
Retirees	$ 35,747	$ 38,557	$ 40,126	$ 42,566	$ 45,912
Survivors	9,406	10,641	10,934	11,640	12,466
Disability					
Retirees - duty	1,002	1,337	1,572	1,646	1,787
Retirees - nonduty	268	304	310	323	313
Survivors	548	836	941	1,178	1,238
Lump Sum					
DROP distributions	8,020	8,381	4,263	5,441	22,603
PROP distributions (1)		97	1,348	2,815	8,352
Other (2)	430	175	288	40	25
Total benefits	$ 55,421	$ 60,328	$ 59,783	$ 65,649	$ 92,697
Type of Refund					
Death	$ 1	$ 49	$ -	$ 20	$ -
Separation	1,544	835	1,194	972	852
Total refunds	$ 1,545	$ 884	$ 1,194	$ 992	$ 852

Fiscal Year	2005	2006	2007	2008	2009
Type of Benefit					
Service					
Retirees	$ 59,709	$ 69,074	$ 77,639	$ 83,925	$ 89,344
Survivors	13,733	14,612	14,965	16,203	17,291
Disability					
Retirees - duty	2,604	3,378	4,003	4,154	4,334
Retirees - nonduty	358	347	313	371	326
Survivors	1,310	1,364	1,517	1,531	1,715
Lump Sum					
DROP distributions	59,493	29,272	23,315	9,937	10,889
PROP distributions (1)	16,649	12,233	11,303	16,680	19,922
Other (2)	5	163	296	248	291
Total benefits	$ 153,861	$ 130,443	$ 133,351	$ 133,049	$ 144,112
Type of Refund					
Death	$ -	$ -	$ -	$ -	$ -
Separation	1,198	700	739	500	618
Total refunds	$ 1,198	$ 700	$ 739	$ 500	$ 618

(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 occurs 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.


Total Benefit Payments by Type
(in thousands)
Years ended June 30
$160,000
$150,000
$140,000
$130,000
$120,000
$110,000
$100,000
$90,000
$80,000
$70,000
$60,000
$50,000
$40,000
$30,000
$20,000
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2000
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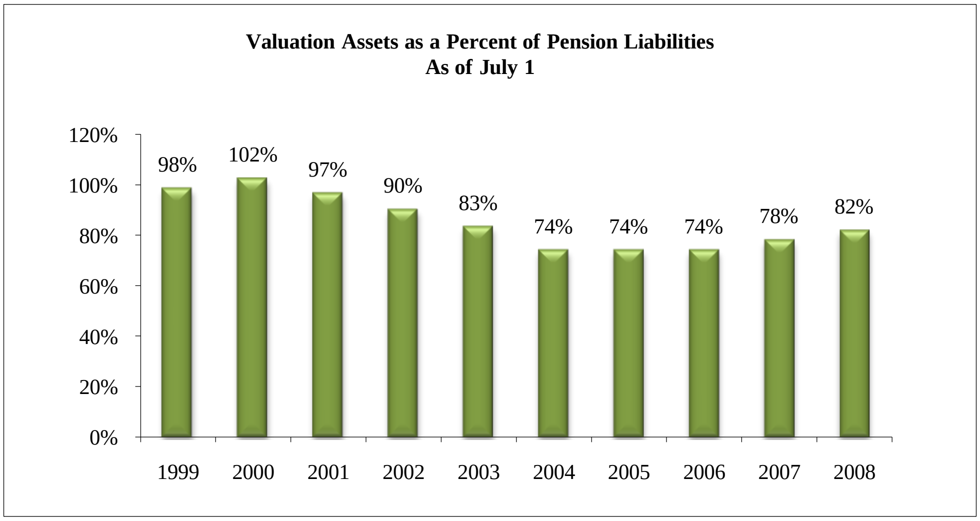
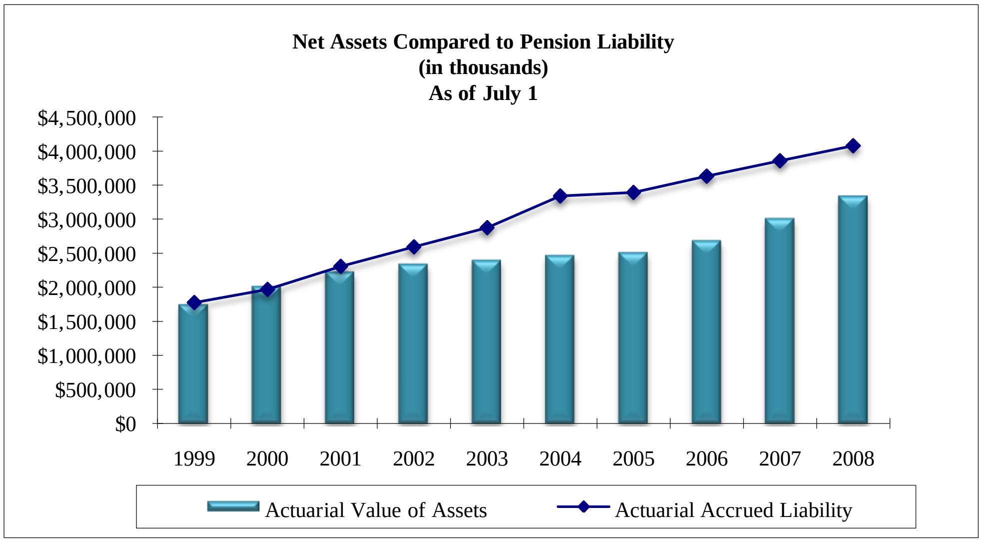
PROP
DROP
Disability
Service



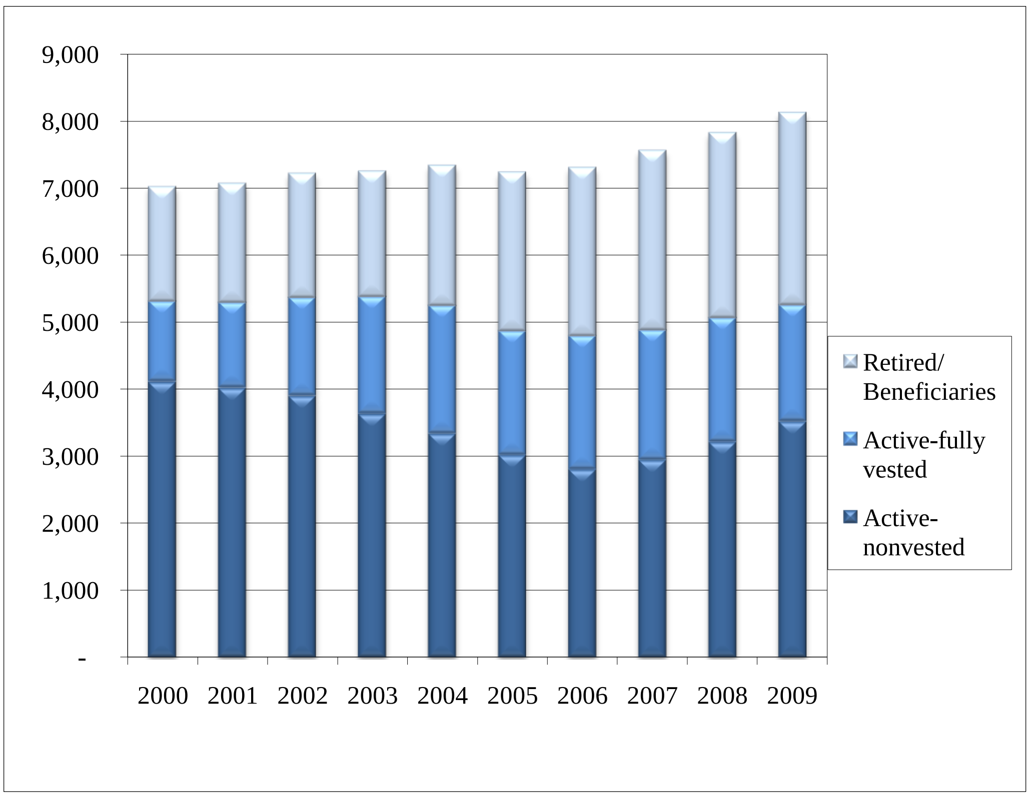


Charts through most recent actuarial valuation dated July 1, 2008.

Membership
Last Ten Fiscal Years

Fiscal Year	Active Nonvested	Active Fully Vested	Retired/ Beneficiaries	Terminated Vested *	Totals
2000	4,107	1,198	1,723		7,028
2001	4,015	1,275	1,786		7,076
2002	3,895	1,466	1,864	5	7,230
2003	3,628	1,745	1,886	7	7,266
2004	3,335	1,907	2,100	10	7,352
2005	3,016	1,851	2,376	3	7,246
2006	2,802	1,992	2,517	15	7,326
2007	2,942	1,940	2,683	15	7,580
2008	3,211	1,849	2,768	16	7,844
2009	3,516	1,735	2,876	19	8,146

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



Total Pensions in Force by Type and by Age
Year Ended June 30, 2009

		Type of Pension		
Age on June 30,	Total	Service	Disability	Survivor
Under 40	33		15	18
40-44	40	9	19	12
45-49	187	139	29	19
50-54	331	273	23	35
55-59	583	508	21	54
60-64	620	538	12	70
65-69	344	272	4	68
70-74	313	228	7	78
75-79	218	149		69
80-84	149	73		76
85 and over	58	12	2	44
Total	2,876	2,201	132	543

Pensions Awarded in Current Year by Type and by Age
Year Ended June 30, 2009

		Type of Pension		
Age on June 30,	Total	Service	Disability	Survivor
Under 40	4		1	3
40-44	3	1	1	1
45-49	22	21	1	
50-54	46	42	1	3
55-59	48	42	2	4
60-64	22	14		8
65-69	9	2		7
70-74	9			9
75-79	2			2
80-85	2			2
85 and over	1			1
Total	168	122	6	40

Pensions Awarded in Current Year by Type and by Monthly Amount
Year Ended June 30, 2009

		Type of Pension		
Monthly Amount	Total	Service	Disability	Survivor
Under $1000	1			1
$1000-$2000	4			4
$2000-$3000	14	4		10
$3000-$4000	107	86	5	16
$4000-$5000	36	28	1	7
$5000-$6000	3	1		2
$6000 and over	3	3		
Total	168	122	6	40

Average Monthly Benefit Amounts
Previous Six Fiscal Years

Member Retiring During Fiscal Years		Years Credited Service <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
2008	Average monthly benefit	$ -	$ 1,665	$ 2,502	$ 3,803	$ 3,498	$ 3,359	$ 3,918	$ 3,520
	Average final average salary	$ -	$ 4,405	$ 5,037	$ 6,914	$ 5,910	$ 3,021	$ 6,439	$ 6,052
	Average DROP Balance	$ -	$ 5,000	$ 5,000	$ 5,000	$ 144,905	$ 399,403	$ 704,850	$ 381,261
	Number of retirees	-	3	3	1	39	29	35	110
2009	Average monthly benefit	$ -	$ -	$ -	$ 3,064	$ 3,698	$ 3,560	$ 3,872	$ 3,669
	Average final average salary	$ -	$ -	$ -	$ 6,415	$ 2,559	$ 5,531	$ 6,548	$ 5,150
	Average DROP Balance	$ -	$ -	$ -	$ 5,000	$ 221,852	$ 414,500	$ 828,194	$ 477,574
	Number of retirees	-	-	-	2	29	62	35	128
Six Years Ended June 30, 2009									
	Average Monthly Benefit	$ 3,582	$ 1,944	$ 2,442	$ 2,892	$ 3,314	$ 3,478	$ 3,966	$ 3,555
	Average Final Average Salary	$ 3,582	$ 4,033	$ 4,730	$ 5,363	$ 5,573	$ 5,840	$ 6,230	$ 5,924
	Average DROP Balance	$ 5,000	$ 5,006	$ 5,000	$ 20,120	$ 117,955	$ 394,615	$ 620,696	$ 378,082
	Number of Retirees	1	20	20	17	317	323	406	1,104

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.

DROP Activity
(dollars in thousands)
Years ended June 30

	DROP Accounts			DROP Participants		
Fiscal Year	Accumulations	Distributions	Total	Entrants	Withdrawals	Total
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
2008	95,543	(9,937)	578,268	15	(100)	1,851
2009	81,590	(10,889)	648,969	13	(126)	1,738

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
2008	44,696	(16,680)	220,269	73	(19)	601
2009	75,482	(19,922)	275,829	113	(14)	700

HPOPS

FOR TODAY & TOMORROW

HOUSTON POLICE OFFICERS' PENSION SYSTEM
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