



Comprehensive Annual

Financial Report

A Component Unit of

The City of Houston, Texas

July 1, 2012 through

June 30, 2013



HOUSTON POLICE OFFICERS' PENSION SYSTEM

John E. Lawson, Executive Director

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Houston, TX 77007

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www.hpops.org



The mission of the Houston Police Officers' Pension System is to responsibly manage the System in the best interests of the members and beneficiaries so that they may have peace of mind knowing their pension benefits are secure.

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**HOUSTON POLICE OFFICERS'
PENSION SYSTEM**

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HPOPS

FOR TODAY & TOMORROW



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December 12, 2013

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, 2013 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. 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. This CAFR is divided into five sections:

PENSION BOARD

Ralph D. Marsh
CHAIRMAN

Terry A. Bratton
VICE CHAIRMAN

J. Larry Doss
SECRETARY

Joe Glezman
TRUSTEE

George Guerrero
TRUSTEE

Craig T. Mason
CITY TREASURER

Fletcher Thorne-
Thomsen, Jr.
MAYOR'S
REPRESENTATIVE

- **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.

EXECUTIVE DIRECTOR

John E. Lawson

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 auditor, BDO, conducted an independent audit of the basic financial statements in accordance with U.S. generally accepted auditing standards. This audit is described in the *Independent Auditors' Report* found in the *Financial Section*. Management has provided the external auditors with full and unrestricted access to the System's staff to discuss their audit and related findings to facilitate independent validation of the integrity of the plan's financial reporting.

The *Financial Section* also contains *Management's Discussion and Analysis*, which serves as an introduction to and an overview of the financial statements. The System is considered a component unit of the City of Houston for financial reporting purposes and, as such, the financial statements in this report are also included in the *City of Houston's Comprehensive Annual Financial Report*.

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. There are limits to internal control, such as the cost to mitigate some risks may outweigh the risk itself, internal controls may be overridden, or collusion may thwart control design. We believe the System's internal controls are adequate and are working as designed.

Houston
Police Officers'
Pension System

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TRANSMITTAL LETTER

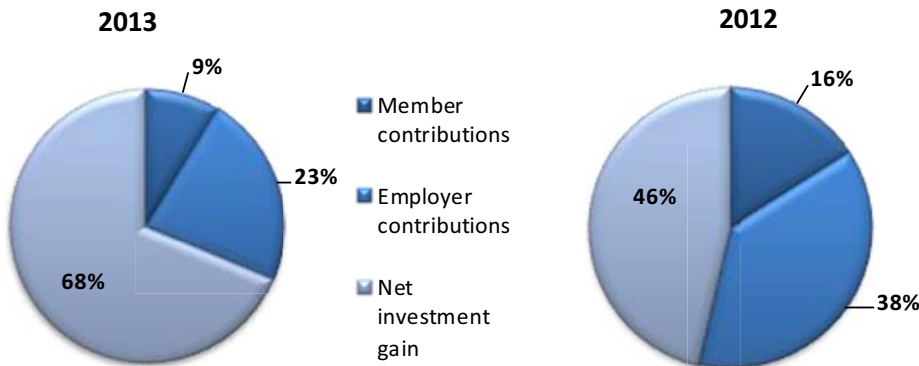
The System was established in 1947, funded by a \$100,000 Treasury note, and offered retiring members a pension of \$75 per month. Today, the System has investments of over \$3.8 billion and offers a variety of pension benefits to members and their beneficiaries. Members have the option to defer their 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.

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 2013 to be \$93 million with a shortfall of \$8.5 million, which combined with the \$17 million shortfall from fiscal year 2012 results in a total of \$25.5 million as a contribution receivable. The City gave the System an undivided interest in the Houston Police Department Headquarters and a parking garage, both owned by the City, to secure the contribution receivable. For fiscal year 2014, the City’s contribution is to be a fixed payment of \$103 million, which will increase by \$10 million each subsequent year until the funded ratio reaches 100%. The number of active members increased slightly in fiscal year 2013 compared to 2012 as the number of new hires to the Houston Police Department (HPD) outpaced retirements. Contributions from members increased in fiscal 2013 as the number of active members hired or rehired after October 9, 2004 increased. These members contribute 10.25% of pay while members hired prior to October 9, 2004 contribute 9.00% of pay. The System experienced a positive investment return of 7.9% in 2013, as opposed to a positive return of 3.0% in 2012. While this increase is due primarily due to the markets’ reaction to stabilizing efforts by the Federal Reserve and European Central Bank early in the year, concerns during the last quarter that the Federal Reserve might taper its quantitative easing program caused interest rates to rise and stock prices to fall, taking back some of the gains the market saw earlier in the year.

	2013	2012	Increase (Decrease)
Active members:			
Fully vested	1,885	1,758	127
Nonvested:			
Hired or rehired before October 9, 2004	1,676	1,955	(279)
Hired or rehired after October 9, 2004	1,805	1,617	188
	<u>5,366</u>	<u>5,330</u>	<u>36</u>

	\$000's		Increase (Decrease) Amount	Increase (Decrease) Percentage
	2013	2012		
Member contributions	\$ 35,586	\$ 35,151	\$ 435	1.2%
Employer contributions	93,392	83,027	10,365	12.5%
Net investment gain	281,993	102,580	179,413	174.9%
Total	<u>\$ 410,971</u>	<u>\$ 220,758</u>	<u>\$ 190,213</u>	<u>86.2%</u>



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 66 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
	2013	2012		
Service retirement benefits	\$ 169,408	\$ 151,137	\$ 18,271	12.1%
Survivor benefits	23,706	22,841	865	3.8%
Disability benefits	6,141	6,036	105	1.7%
Refunds paid to members	641	704	(63)	(8.9%)
Administrative expenses	3,668	3,689	(21)	(0.6%)
Total	\$ 203,564	\$ 184,407	\$ 19,157	10.4%



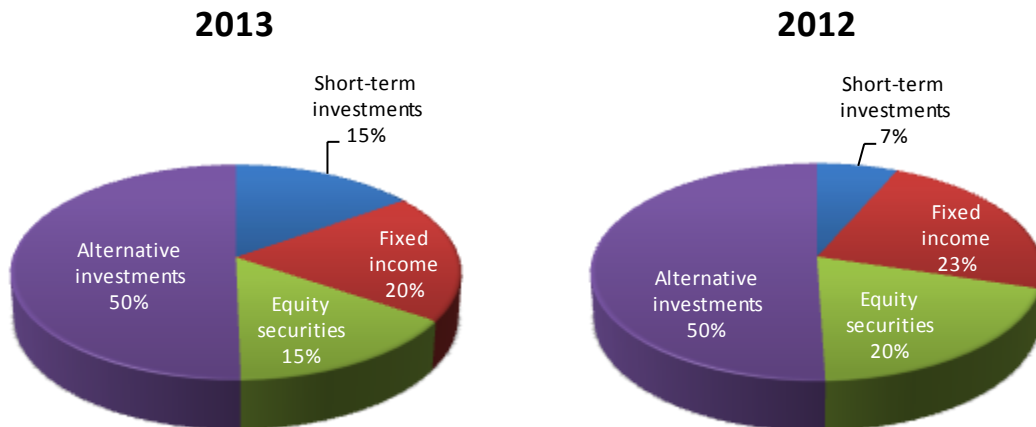
Total benefits paid, which include lump sum payments, increased in 2013 as compared to 2012 due mainly to the cost of living increase and an increase in the number of retirees. Administrative expenses decreased mainly due to a decrease in legal expenses arising from a lawsuit the System brought against a former investment manager. 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.

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 both historical and projected returns, volatility, liquidity and correlations of various asset classes.

	\$000's		Increase (Decrease) Amount	Increase (Decrease) Percentage
	2013	2012		
Short-term investments	\$ 564,835	\$ 234,171	\$ 330,664	141.2%
Fixed income	725,732	815,920	(90,188)	(11.1%)
Equity securities	568,962	699,993	(131,031)	(18.7%)
Alternative investments	1,881,097	1,785,987	95,110	5.3%
Foreign currency contracts	589	(352)	941	267.3%
Total	\$ 3,741,215	\$ 3,535,719	\$ 205,496	5.8%



The growth that started during the second half of fiscal year 2012 continued during the first three quarters of fiscal year 2013. Markets rallied as the Federal Reserve announced the continuation of the stimulus program, the fiscal cliff was averted, the European Central Bank pledged unlimited support to stabilize and grow Eurozone economies, and the Bank of Japan announced significant increases in monetary policy. However, during the last quarter, concerns that the Federal Reserve might taper its quantitative easing program battered U.S. Treasuries. The year ended with interest rates rising and stock prices falling based on stronger than expected economic data, which sparked concerns that the Federal Reserve would cease its support based on its view that the economy is improving.

TRANSMITTAL LETTER

While the System had a solid return of 7.9% during fiscal year 2013, the System under-performed its benchmark rate of return by 4.2%, primarily due to the risk parity and private equity allocations. The System's international equity allocation, returning 11.9%, also underperformed compared to the 13.6% return of its benchmark. The System's domestic equity and fixed income allocations essentially matched their respective benchmarks.

The Board firmly believes that by maintaining a disciplined investment approach and with reasonable diversification, the System will enhance the likelihood of meeting its long-term investment goals. Further details regarding the System's investments are included in the Investment Section of this report.

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 decreased slightly from 82.8% at July 1, 2011 to 81.9% at July 1, 2012. The actuarial accrued liability increased \$259 million and the actuarial value of assets increased \$170 million. As a result, the System's Unfunded Actuarial Accrued Liability increased \$89 million to \$859 million as of July 1, 2012. The increase in the Unfunded Actuarial Accrued Liability is due to a combination of factors including the increase in the actuarial value of assets less than assumed and contributions below the actuarially required amount 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.

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 continue 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. Most of the new systems are already implemented and the staff is working to maintain and further enhance these systems to provide greater efficiencies and reduce costs. The new Member Website continues to grow and provide Members and Survivors more information on their benefits and provide them a self-service for standard processes. The System continues to receive positive feedback and increased participation through the Member Website.

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 USA, LLP, is included on page 17 of this report. The actuarial report, certified by Gabriel Roeder Smith & Company, is included on page 61. Professional service providers who provided services to the System during the year are listed on the next page.

TRANSMITTAL LETTER

Actuarial	Gabriel Roeder Smith & Company	Money Management	AQR Capital Management LLC Ashmore Investment Management Limited BlackRock Institutional Trust Company Brandes Investment Partners Bridgewater Associates, Inc. Causeway Capital Management The Clifton Group Dimensional Fund Advisors Driehaus Capital Management, Inc. First Eagle Investment Mgmt, LLC First Quadrant LP MacKay-Shields Financial Corp. The Northern Trust Company PanAgora Asset Management, Inc. Shenkman Capital Management, Inc.
Auditing	BDO USA, LLP Bickley Prescott & Co.		
Consulting	Mercer Investment Consulting Inc. Franklin Park Associates, LLC		
Custodian	The Northern Trust Company		
Legal Service	Burford Law Firm Gibbs & Bruns, LLP Hawash, Meade & Gaston LLP Strasburger & Price, LLP		
Legal Service/Lobbyists	HillCo Partners, LLC Locke Lord LLP		

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Houston Police Officers' Pension System for its comprehensive annual financial report for the fiscal year ended June 30, 2012. This was the 19th consecutive year that the System has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.


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

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



December 12, 2013

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 2013 Comprehensive Annual Financial Report (CAFR). The CAFR provides a comprehensive picture of HPOPS' finances for the fiscal year ending June 30, 2013, as well as an overview of the year's highlights.

PENSION BOARD

Ralph D. Marsh
CHAIRMAN

Terry A. Bratton
VICE CHAIRMAN

J. Larry Doss
SECRETARY

Joe Glezman
TRUSTEE

George Guerrero
TRUSTEE

Craig T. Mason
CITY TREASURER

Fletcher Thorne-Thomsen, Jr.
MAYOR'S REPRESENTATIVE

During the first three quarters of the year, markets saw good growth based on monetary policies for stimulus by the Federal Reserve, the European Central Bank, and the Bank of Japan. Mid-year, Congress averted the fiscal cliff bolstering the stability of our economy. However, the financial concerns of the past few years are still lingering, and during the last quarter of the year, fears that the Federal Reserve might taper its quantitative easing program caused interest rates to rise and stock prices to fall. This reduced the growth seen earlier in the year, and HPOPS ended the year with a return of 7.9 percent.

HPOPS will continue to diligently maintain perspective with an ever vigilant eye on the horizon for signs of continued recovery. The lessons learned over the past few years and our stewardship allow us to fulfill our mission to responsibly manage the System in the best interests of the members and beneficiaries so that they may have peace of mind knowing their pension benefits are secure.

EXECUTIVE DIRECTOR

John E. Lawson

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,

Ralph D. Marsh
Chairman

**Houston
Police Officers'
Pension System**

602 Sawyer, Suite 300
Houston, Texas 77007
(713) 869-8734 phone
(713) 869-7657 fax
www.hpops.org



BOARD OF TRUSTEES AND ADMINISTRATIVE STAFF

TRUSTEES ELECTED BY ACTIVE, INACTIVE AND RETIRED POLICE OFFICERS



RALPH D. MARSH
Chairman



TERRY BRATTON
Vice-Chairman



J. LARRY DOSS
Secretary



JOSEPH GLEZMAN
Trustee



GEORGE GUERRERO
Trustee

TRUSTEES BY STATE STATUTE



CRAIG T. MASON
City Treasurer



FLETCHER THORNE-THOMSEN, JR.
Mayor's Representative

POLICE PENSION OFFICE PERSONNEL

JOHN E. LAWSON
Executive Director

TONI DEWILLIS
Administrative Assistant

ANGELA CARTWRIGHT
Receptionist

CLARK OLINGER
Benefits Director

SHERYL BAINES
Benefits Assistant

REGINA WARD
Benefits Assistant

JUDY G. BAKER
Benefits Manager

TIFFANY WILLIAMSON
Benefits Assistant

RICHARD GABLE
Financial Planner

BRIAN POER
IT Director

RON VANTREESE
Developer

FREDDIE KING
Systems Administrator

PATRICK S. FRANNEY
Chief Investment Officer

STACEY GALO
Investment Analyst

NEAL WALLACH
Investment Analyst/Strategist

NICK DANG
General Counsel

CHRISTOPHER FLORES
Attorney

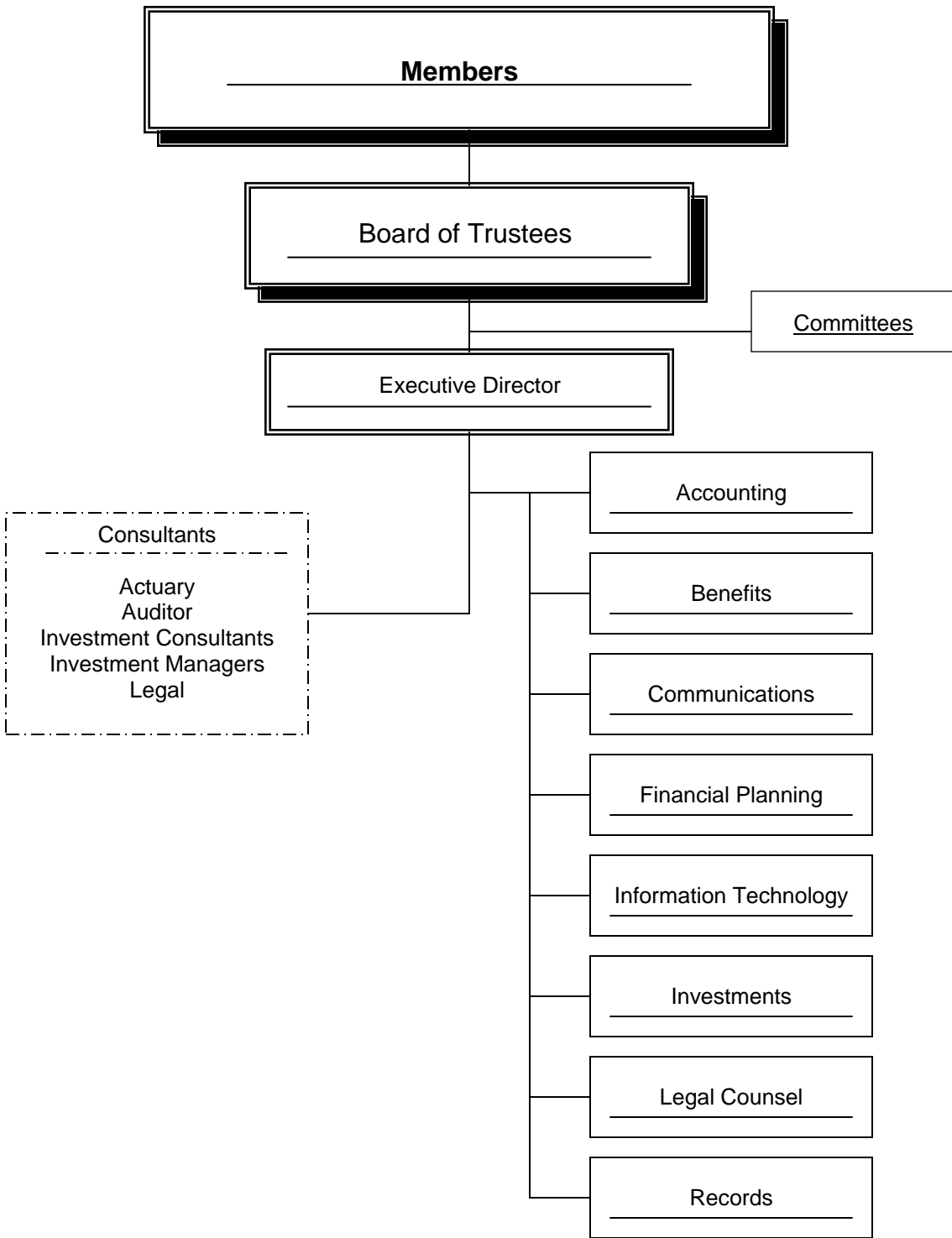
KEVIN T. O'TOOLE
Accounting Manager

LAJUANA WINTERS
Accountant

STEPHEN SHALAGAN
Records Manager

STEPHANIE SEGURA
Records Assistant

ORGANIZATION CHART



See Page 45 – Summary of Investment and Professional Services for a list of Consultants



Government Finance Officers Association

**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, 2012

A handwritten signature in black ink, reading "Jeffrey R. Emer". The signature is written in a cursive, flowing style.

Executive Director/CEO

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FINANCIAL SECTION





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Houston, TX 77002

Independent Auditor's Report

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

We have audited the accompanying financial statements of Houston Police Officers' Pension System (the System), which comprise the statements of net position as of June 30, 2013 and 2012, and the related statements of changes in net position for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2013 and 2012, and the changes in its financial position for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

BDO USA, LLP, a New York limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

BDO is the brand name for the BDO network and for each of the BDO Member Firms.



Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that "Management's Discussion and Analysis" and the "Required Supplementary Information" listed on the Table of Contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to these required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying supplemental schedules of "Investment, Professional and Administrative Expenses" and "Summary of Investments and Professional Services" are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of the System's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

BDO USA, LLP

October 15, 2013

Houston Police Officers' Pension System

Management's Discussion and Analysis Fiscal Year Ended June 30, 2013

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, 2013, 2012 and 2011. 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 Net Position, Statements of Changes in Net Position, Notes to Financial Statements, Schedules, and other unaudited 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 Net Position for the System is as follows (\$000's):

As of June 30:	2013	2012	2011
Assets			
Investments at fair value	\$ 3,741,215	\$ 3,536,071	\$ 3,580,945
Prepaid management fees	-	-	150
Invested securities lending collateral	190,616	113,063	368,331
Receivables	36,687	40,050	21,396
Cash	234	309	172
Total Assets	3,968,752	3,689,493	3,970,994
Liabilities			
Foreign currency contracts	-	352	-
Due to brokers	2,634	7,660	70,195
Securities lending collateral	190,616	113,063	368,331
Accrued investment and professional fees	552	878	1,154
Other liabilities	575	572	697
Total Liabilities	194,377	122,525	440,377
Net position restricted for pensions	\$ 3,774,375	\$ 3,566,968	\$ 3,530,617

See accompanying independent auditor's report.

Houston Police Officers' Pension System

Management's Discussion and Analysis Fiscal Year Ended June 30, 2013

The System's net assets increased by approximately \$207,407 thousand in fiscal year 2013 over 2012 during a year that saw markets grow during the first three quarters only to give back some gain in the last quarter. The year started with continued optimism regarding the Federal Reserve's and European Central Bank's ability to continue to stabilize and grow the world's two largest economies. Mid-year, markets responded favorably to Congress' compromise to avert the fiscal cliff and rallied based on monetary moves by the Federal Reserve and the Bank of Japan. However, during the last quarter concerns that the Federal Reserve might taper its quantitative easing program battered U.S. Treasuries, and the year ended with interest rates rising and stock prices falling based on markets concerns that the Federal Reserve would cease its support based on its view that the economy is improving. The System's net assets increased by approximately \$36,351 thousand in fiscal year 2012 over 2011 as world markets continued to experience significant periods of volatility due to concerns regarding Eurozone sovereign debt issues. These concerns lessened during the second half of the year as European nations apparently agreed to recapitalize debt-laden banks and to bolster several nearly insolvent governments. The System experienced a positive investment return of 7.9% in 2013 as opposed to a positive return of 3.0% in 2012 and a positive return of 21.1% in 2011. These rates 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 and of the accrual of the \$25,500 thousand contributions shortfall (see further discussion below).

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

Years ended June 30:	2013	2012	2011
Contributions:			
City	\$ 93,392	\$ 83,027	\$ 78,287
Members	35,586	35,151	35,122
Total contributions	128,978	118,178	113,409
Investment income	281,724	102,095	621,557
Net income from securities lending activities	269	485	449
Total additions	410,971	220,758	735,415
Deductions:			
Benefits paid to members	199,255	180,014	172,041
Refunds to members	641	704	420
Professional and administrative expense	3,668	3,689	4,364
Total deductions	203,564	184,407	176,825
Net increase	207,407	36,351	558,590
Net position restricted for pensions			
Beginning of period	3,566,968	3,530,617	2,972,027
End of period	\$ 3,774,375	\$ 3,566,968	\$ 3,530,617

See accompanying independent auditor's report.

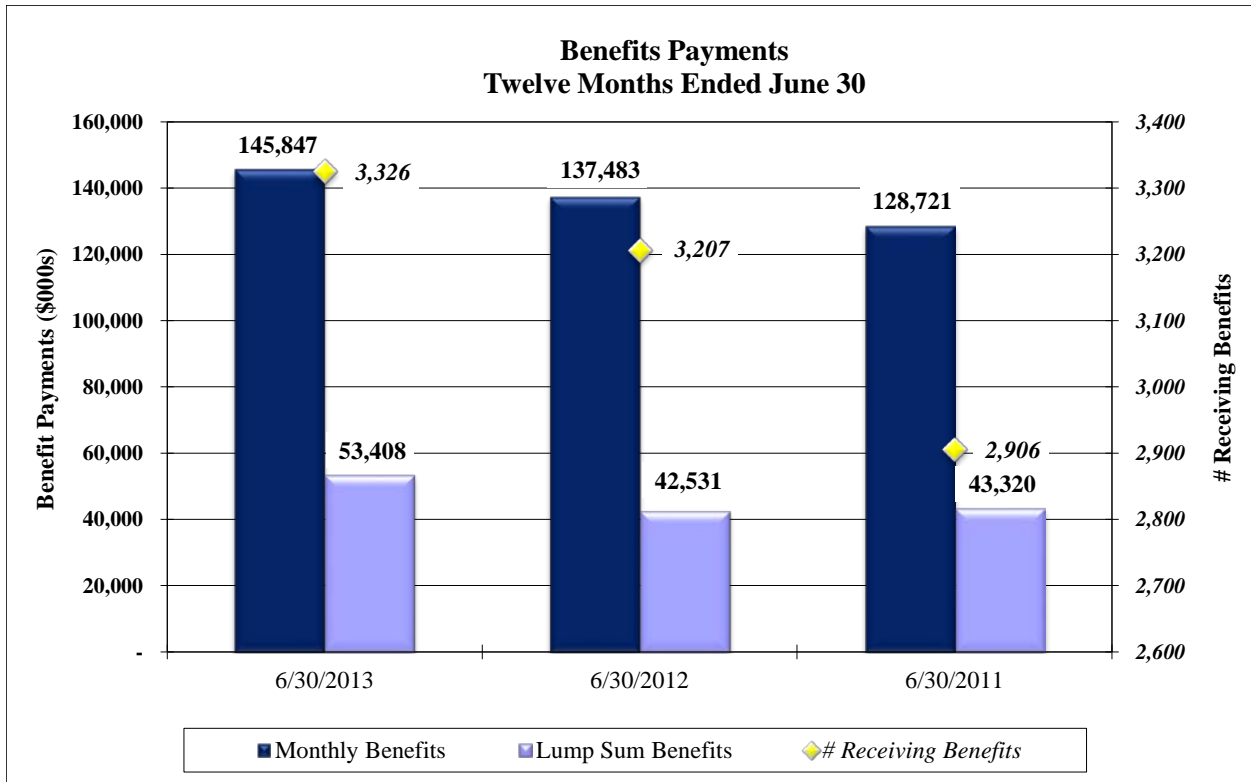
The June 30, 2011 Agreement with the City requires contribution payments for fiscal year 2013 equal to a \$93,000 thousand fixed payment, with any shortfall in the fixed payment not to exceed \$8,500 thousand. For fiscal year 2012, the City was contractually required to contribute an \$83,000 thousand fixed payment, with any shortfall in the fixed payment not to exceed \$17,000 thousand. These contractual provisions account for the increase in City

Houston Police Officers' Pension System

Management's Discussion and Analysis Fiscal Year Ended June 30, 2013

contributions for the years ended June 30, 2013 and June 30, 2012. As discussed in Note 4, the contributions were paid in its entirety from the City budget in 2011, only \$66,000 thousand were paid from the City budget in 2012 with the remaining \$17,000 thousand allowed shortfall as a secured contributions receivable, and only \$84,500 thousand were paid from the City budget in 2013 with the remaining \$8,500 thousand allowed shortfall as a secured contributions receivable.

“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 Net Position 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, 2013, 2012, and 2011.



For each year, the annual cost of living adjustment (COLA) along with the increase in the number of benefit recipients accounts for the majority of the increase in benefit payments. Total benefits paid in 2013 increased from 2012 by approximately \$19,241 thousand or 10.7% compared to an increase of approximately \$7,973 thousand or 4.6% between 2011 and 2012. The increase in 2013 is also due to a \$10,877 thousand increase in lump sum benefits compared to a \$789 thousand decrease in 2012. Average monthly benefit payments were \$12,150 thousand and \$11,457 per month for 2013 and 2012 respectively. The increase of \$693 thousand or 6.1% in 2013 was less than the increase of \$730 thousand or 6.8% in 2012 as the number of members and survivors who are receiving benefits increased by 119 in 2013 and 301 in 2012.

Houston Police Officers' Pension System

Management's Discussion and Analysis Fiscal Year Ended June 30, 2013

There was a decrease of \$21 thousand in professional and administrative expenses during 2013 as compared to 2012. This decrease is mainly due to a decrease in legal expenses arising from a lawsuit the System brought against a former investment manager (see footnote 6). There was a decrease of \$675 thousand in professional and administrative expenses during 2012 as compared to 2011. This decrease is mainly due to a decrease in legal expenses arising from a lawsuit the System brought against a former investment manager (see footnote 6).

System Highlights

The System's funded ratio pursuant to its most recent actuarial valuation dated July 1, 2012 was 82% representing an unfunded actuarial accrued liability of \$858,669 thousand. The System's funded ratio as of July 1, 2011 was 83% representing an unfunded actuarial accrued liability of \$770,090 thousand. The System's Agreement with the City provides that 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%.

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 Net Position (\$000's)

<i>June 30,</i>	2013	2012
Assets		
Investments, at fair value (Note 2 and Note 3):		
Short term investments	\$ 564,835	\$ 234,171
Fixed income investments	725,732	815,920
Equity securities	568,962	699,993
Alternative investments	1,881,097	1,785,987
Foreign currency contracts	589	-
Total Investments	3,741,215	3,536,071
Invested securities lending collateral (Note 3):	190,616	113,063
Receivables		
City (Note 3 and Note 4)	25,500	17,000
Members	902	760
Investments	4,891	7,120
Due from brokers	5,370	14,890
Other receivables	24	280
Total Receivables	36,687	40,050
Cash	234	309
Total Assets	\$ 3,968,752	\$ 3,689,493
Liabilities and Plan Net Assets		
Liabilities:		
Foreign currency contracts	\$ -	\$ 352
Due to brokers	2,634	7,660
Securities lending collateral (Note 3)	190,616	113,063
Accrued investment and professional fees	552	878
Other liabilities	575	572
Total Liabilities	194,377	122,525
Net position restricted for pensions	\$ 3,774,375	\$ 3,566,968

See accompanying independent auditor's report and notes to financial statements.

Houston Police Officers' Pension System

Statements of Changes in Net Position (\$000's)

<i>Years ended June 30,</i>	2013	2012
Contributions (Note 1 and Note 4):		
City	\$ 93,392	\$ 83,027
Members	35,586	35,151
Total contributions	128,978	118,178
Investment income:		
Net appreciation in fair value of investments	241,324	53,935
Interest:		
Short-term investments	865	387
Fixed income investments	31,465	46,734
Total interest income	32,330	47,121
Dividends	20,238	19,200
Other income	2,550	1,135
Total investment income	296,442	121,391
Less: investment expense	(14,718)	(19,296)
Net income from investing activities	281,724	102,095
Securities lending activities (Note 3):		
Securities lending income	359	646
Securities lending expense	(90)	(161)
Net income from securities lending activities	269	485
Total additions	\$ 410,971	\$ 220,758
Deductions:		
Benefits paid to members	\$ 199,255	\$ 180,014
Refunds to members (Note 1)	641	704
Professional and administrative expense	3,668	3,689
Total deductions	203,564	184,407
Net increase	207,407	36,351
Net position restricted for pensions		
Beginning of period	3,566,968	3,530,617
End of period	\$ 3,774,375	\$ 3,566,968

See accompanying independent auditor's report and notes to financial statements.

Houston Police Officers' Pension System

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 Pay of active members in accordance with the Governing Statute.

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

June 30,	2013	2012
Retirees and beneficiaries:		
Currently receiving benefits	3,326	3,207
Not yet receiving benefits	24	22
Active members:		
Fully vested	1,885	1,758
Nonvested:		
Hired or rehired before October 9, 2004	1,676	1,955
Hired or rehired after October 9, 2004	1,805	1,617
Total members	8,716	8,559

The following sections describe the benefit structure in effect at June 30, 2013 and 2012. 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. On June 30, 2011 the System and the City entered into an agreement (the June 30, 2011 Agreement) that altered the City payment schedule and extended the contract term which began on October 9, 2004, through June 30, 2023 and thereafter renews for one-year terms through June 30, 2040 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.

Houston Police Officers' Pension System

Notes to Financial Statements

Pensionable Pay - Eligible members of the System will have their retirement or DROP benefit (see below) 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 benefit. 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 with more than 10 years of service are eligible for a Delayed Retirement payable at age 55.

Houston Police Officers' Pension System

Notes to Financial Statements

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 participants' 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 the System 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.

Houston Police Officers' Pension System

Notes to Financial Statements

Under the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC or Codification), ASC 820, Fair Value Measurements and Disclosures, defines fair value, establishes a framework for measuring fair value, expands disclosures about fair value measurements, and is consistent with valuations required by GASB 31. The System elected to include the ASC 820 disclosures as of July 1, 2008.

ASC 820 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, real estate, private equity and structured beta or "risk parity" funds. 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

Houston Police Officers' Pension System

Notes to Financial Statements

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 the System's 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 ASC 820, 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 investments.

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 ASC 820, 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 a Level I price.

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 ASC 820, 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.

Houston Police Officers' Pension System

Notes to Financial Statements

The following table summarizes the valuation of the System's investments in accordance with the above mentioned ASC 820 fair value hierarchy levels as of June 30, 2013 and 2012.

(\$000's)	6/30/2013		6/30/2012	
	Fair Value	Percent of Net Assets	Fair Value	Percent of Net Assets
Level I	\$ 337,127	9.0 %	\$ 503,107	14.2 %
Level II	3,022,236	80.8	2,681,540	75.9
Level III	381,852	10.2	351,424	9.9
	\$ 3,741,215	100.0 %	\$ 3,536,071	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, 2012	\$ 351,424
Purchases	81,902
Sales	(84,062)
Realized Gain/Loss	29,296
Unrealized Gain/Loss Change	3,292
Transfers in/(out) of Level III	-
Balance, June 30, 2013	\$ 381,852

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 on June 20, 2012. The Board believes that the System is designed and continues to operate in compliance with the applicable requirements of the Internal Revenue Code.

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

3. Investments

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

Custodial Credit Risk – Custodial credit risk for deposits is the risk that in the event of a bank failure, the System's deposits may not be returned to them. The System considers only demand deposits as cash. The System does not have a deposit policy regarding custodial credit risk. As of June 30, 2013 and June 30, 2012, the System had a balance of \$234 thousand and \$309 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. Therefore, as of June 30, 2013, none of the System's bank balance of \$234 thousand was exposed to custodial credit

Houston Police Officers' Pension System

Notes to Financial Statements

risk. In addition, at June 30, 2013, the System had approximately \$1,437 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, 2013, the System's fixed income assets that are not U.S. government guaranteed represented 82.1% of the System's fixed income plus short term investments portfolio. The tables below 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, 2013

Fixed Income Security Type	Market Value		Weighted Average Credit Quality
	(\$000's)	Percent of Total	
Corporate Bonds	\$ 114,964	8.9	B
Corporate Convertible Bonds	146	-	Not Rated
International Government Bonds	91,287	7.1	AA
Mutual Bond Funds	287,175	22.3	Not Rated
Short Term Investment Funds	564,835	43.8	Not Rated
Total	\$ 1,058,407	82.1	

Ratings Dispersion Detail June 30, 2013 (\$000's)

Credit Rating Level	Corporate Bonds	Corporate Convertible Bonds	International Government Bonds	Mutual Bond Funds	Short Term Investment Funds
AAA	\$ -	\$ -	\$ 26,258	\$ -	\$ -
AA	-	-	65,029	-	-
BBB	2,428	-	-	-	-
BB	40,192	-	-	-	-
B	49,813	-	-	-	-
CCC	1,348	-	-	-	-
C	348	-	-	-	-
NR	20,835	146	-	287,175	564,835
Total	\$ 114,964	\$ 146	\$ 91,287	\$ 287,175	\$ 564,835

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.

Houston Police Officers' Pension System

Notes to Financial Statements

Credit risk for derivative instruments held by the System results from counterparty risk, which is essentially that the counterparty will be unable to fulfill its obligations, which are then 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 investment policy 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, 2013, the System did not have any single investment 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. The System does not have an investment policy specifically regarding interest rate risk. Investment managers have full discretion in adopting investment strategies to deal with these risks, and 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 below and 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, 2013

<u>Security Type</u>	<u>Market Value (\$000's)</u>	<u>Percent of Total</u>	<u>Weighted Average Modified Duration (years)</u>
US Treasuries	\$ 232,160	17.9 %	7.3
Corporate Bonds	114,964	8.9	5.1
Corporate Convertible Bonds	146	0.0	2.8
International Government Bonds	91,287	7.1	8.4
Mutual Bond Funds	287,175	22.3	4.0
Short Term Investment Funds	564,835	43.8	0.2
Total	\$ 1,290,567	100.0 %	3.4

Houston Police Officers' Pension System

Notes to Financial Statements

Modified Duration Analysis by Security Type June 30, 2013

	Market Value (\$000's)	Average Modified Duration	Contribution to Modified Duration
U.S. Treasuries			
1 to 10 years maturities	\$ 163,078	4.3	3.0
10 to 20 years maturities	46,989	11.7	2.4
Greater than 20 years maturities	22,093	19.5	1.9
Total	\$ 232,160		7.3
Corporate Bonds			
1 to 10 years maturities	\$ 109,935	5.1	4.8
10 to 20 years maturities	4,406	8.2	0.3
Greater than 20 years maturities	623	7.1	0.0
Total	\$ 114,964		5.1
Corporate Convertible Bonds			
1 to 10 years maturities	\$ 146	2.8	2.8
Total	\$ 146		2.8
International Government Bonds			
1 to 10 years maturities	\$ 59,317	4.7	3.0
10 to 20 years maturities	19,901	12.7	2.8
Greater than 20 years maturities	12,069	19.7	2.6
Total	\$ 91,287		8.4

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. International and global managers have the permission to use currency forward and futures contracts to hedge currency against the U.S. dollar. Currency forwards and futures used for the purpose of hedging currency shall be subject to the following guidelines: 1) net forward and futures sales of any currency may not exceed total market value of the assets denominated in that currency. This limitation does not apply to global fixed income managers and currency overlay managers if provided for in their contracts, 2) foreign currency exchange contracts with a maturity exceeding 12 months are not permitted, 3) currency options may be entered into in lieu of or in conjunction with forwards sales of currencies with the same limitations as currency forwards and futures. Cross hedging, the selling of one foreign currency for another foreign currency, which may or may not be the base currency of the portfolio, is permitted. The System's exposure to foreign currency risk in U.S. dollars as of June 30, 2013, is shown in the table on the next page.

Houston Police Officers' Pension System

Notes to Financial Statements

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

June 30, 2013

Currency	Short Term Investments	Equities	Fixed Income	Alternative Investments	Foreign Currency Contracts	Total
Australian dollar	\$ 43	\$ -	\$ -	\$ 744	\$ -	\$ 787
British pound sterling	(4)	14	7,057	-	(7,049)	18
Canadian dollar	809	-	-	-	-	809
Euro	1,392	-	42,622	28,089	(42,507)	29,596
Japanese yen	(23)	-	42,533	-	(42,508)	2
Swiss franc	159	-	-	-	-	159
Total	\$ 2,376	\$ 14	\$ 92,212	\$ 28,833	\$ (92,064)	\$ 31,371

Contributions Receivable – The June 30, 2011 Agreement with the City provided that for fiscal year 2013 the amount to be contributed would be a \$93,000 thousand fixed payment, with any shortfall in the fixed payment not to exceed \$8,500 thousand, and for fiscal year 2012, an \$83,000 thousand fixed payment, with any shortfall in the fixed payment not to exceed \$17,000 thousand. Therefore, the total contribution receivable is \$25,500 thousand, which is secured by an undivided interest (Property Interest) in real property owned by the City known as the Houston Police Department Headquarters located at 1200 Travis Street, Houston, Texas, and a parking garage located at 801 Polk Street, Houston, Texas (Real Property) and is further discussed in footnote 4.

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 the 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, 2013 the weighted-average maturity of the collateral pool was 46 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, 2013 and 2012, was \$190,616 thousand and \$113,063 thousand, respectively. The System also had non-cash collateral at June 30, 2013 and 2012, of \$302 thousand and \$90 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, 2013 and 2012 was \$186,818 thousand and \$111,525 thousand, respectively. At June 30, 2013, the System had no credit risk exposure to borrowers because the amounts the System owes the borrowers, \$190,918 thousand, exceeds the amounts the borrowers owe the System, \$186,818 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 equity, fixed income and short term futures contracts along with foreign currency forward contracts. No derivatives are purchased with borrowed funds.

Houston Police Officers' Pension System

Notes to Financial Statements

The fair value balance and notional amounts of derivative instruments outstanding at June 30, 2013, classified by type, and the changes in fair value of such derivative instruments for the year then ended is shown in the table below.

	Changes in Fair Value *	Fair Value at June 30, 2013		(\$000's)	
		Classification	Amount	Notional Value	
Investment derivatives:					
Short Term Investments	\$ 872	Short term investments	\$ 872	\$	(69,452)
Futures contracts					
Fixed Income Futures contracts	\$ (5)	Fixed income	\$ (5)	\$	24,047
Equity Futures contracts	\$ (928)	Equity	\$ (928)	\$	566,393
Foreign currency contracts:					
British pound sterling	\$ 73	Foreign currency contracts	\$ 73	£	(4,696)
Euro	\$ 374	Foreign currency contracts	\$ 374	€	(32,989)
Japanese yen	\$ 143	Foreign currency contracts	\$ 143	¥	(4,236,673)

* All changes in fair value are reported in Net appreciation in fair value of investments in the Statements of Changes in Net Position.

The Change in Fair Value figures in the preceding table represent amounts due to or due from derivative counterparties as of June 30, 2013. Such amounts are reported as a component of Net appreciation (depreciation) in the Statement of Changes in Net Position and are reported in the Statement of Net Position as Due to or Due from brokers for futures contracts and as Foreign currency contracts for currency forward contracts.

Futures are used to obtain market exposure and 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. Foreign currency contracts are used to hedge against the currency risk in the System's investments in foreign equity and fixed income securities. To liquidate the contract prior to expiration an offsetting position in the same contract must be taken. These derivatives are used to enhance yields and provide incremental income.

These derivative instruments are subject to the following risks:

- *Custodial Credit Risk* – Custodial credit risk for derivative instruments is the risk that, in the event of the failure of the counterparty to a transaction, the System will not be able to recover the value of the derivative instruments or collateral securities that are in the possession of an outside party. Consistent with the System's investment policy, the System's derivative instruments were held by the counterparty that was acting as the System's agent.
- *Credit Risk* – Credit risk is the risk that the counterparty will not fulfill its obligations. The System does not have an investment policy specifically regarding credit risk for derivative instruments. The System's investment policy allows investment managers full discretion in adopting investment strategies to deal with this risk. The System's investment managers seek to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, and exposure monitoring procedures.

Houston Police Officers' Pension System

Notes to Financial Statements

- *Interest Rate Risk* – Interest rate risk is the risk that changes in interest rates will adversely affect the fair values of the System's derivative instruments.
- *Foreign Currency Risk* – Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of derivative instruments. The System's derivative instruments exposure to foreign currency risk in U.S. dollars as of June 30, 2013, is shown in the table below.

Currency	(\$000's)			
	Short Term	Equity	Fixed	Foreign
	Investments	Equity	Income	Currency
	Futures	Futures	Futures	Contracts
Australian dollar	\$ 43	\$ -	\$ -	\$ -
British pound sterling	187	-	337	(7,049)
Canadian dollar	809	23,379	-	-
Euro	(51)	-	3,609	(42,507)
Japanese yen	984	-	141	(42,508)
Total	\$ 1,972	\$ 23,379	\$ 4,087	\$ (92,064)

Alternative Investments – As of June 30, 2013 and 2012, the System was invested in various partnerships, separate accounts and commingled funds across various types of alternative investments as detailed in the table below.

Investment Type	Fair Value (\$000's)	
	June 30, 2013	June 30, 2012
<i>Private Equity</i>		
Leveraged Buyouts	\$ 134,112	\$ 128,402
Special Situations	99,956	107,418
Venture Capital	61,155	64,868
<i>Other Alternatives</i>		
Hedge Funds	615,862	535,857
Real Estate Funds	86,629	50,736
Risk Parity	883,383	898,706
Total	\$ 1,881,097	\$ 1,785,987

Supplemental Information on investment and professional expenses included in Schedule II on page 30 herein does not include the investment management fees and performance fees embedded in the structure of the private equity and other limited partnership 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 Net Position.

Houston Police Officers' Pension System

Notes to Financial Statements

4. Contributions and Reserves

Contributions – Members hired prior to October 9, 2004 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. In the June 30, 2011 Agreement, it was agreed that for fiscal year 2012 the amount to be contributed was an \$83,000 thousand fixed payment, with any shortfall in the fixed payment not to exceed \$17,000 thousand. For fiscal year 2013, the amount to be contributed was a \$93,000 thousand fixed payment, with any shortfall in the fixed payment not to exceed \$8,500 thousand, and for fiscal year 2014, it requires a \$103,000 thousand fixed payment. To finance the allowed shortfalls, the City in the June 30, 2011 Agreement, gave the System an undivided interest (Property Interest) in real property owned by the City known as the Houston Police Department Headquarters located at 1200 Travis Street, Houston, Texas, and a parking garage located at 801 Polk Street, Houston, Texas (Real Property). The percentage of the Property Interest is the ratio of the unpaid shortfall debt (plus any unpaid interest) to the appraised value of the Real Property on June 21, 2012, plus an extra 10% to allow for differing valuations and changes in value during the period the Property Interest is held by the System. The City will make quarterly interest payments to the System based on the shortfall at a rate of 8.5% per annum, not compounded, until the shortfall is repaid. For the fiscal year 2013, the quarterly interest payments total \$542 thousand, comprised of \$361 thousand for the fiscal year 2012 shortfall plus \$181 thousand for the fiscal year 2013 shortfall.

In accordance with the June 30, 2011 Agreement, the City on December 29, 2011, placed the Real Property on the market for sale and lease back, the proceeds of which sale will be allocated between the City and the System according to their respective Property Interests. Until any sale takes place, the City shall have, at its sole option and discretion, the right to purchase the System's Property Interest for the amount of the unpaid shortfall debt and the prorated amount of interest due as of the date of repurchase. If the Real Property has not been sold by July 1, 2015, the City shall buy back on that date the System's Property Interest for the amount of the unpaid shortfall debt plus any accrued interest. As of June 30, 2013, the Real Property remains unsold.

For all subsequent fiscal years, and until the funded ratio reaches 100%, City payments shall increase each fiscal year by \$10,000 thousand until said 100% funding is reached. Once the System reaches a 100% funded ratio, the City will pay the actuarially required rate, but not less than 16.00% of payroll. In addition, 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%. At the System's current asset level, a 5% decline in the funded ratio below the floor would require the City to pay approximately \$237,359 thousand. During the 2010 fiscal year, the System changed the Actuarial Cost Method and Amortization Method from the Entry Age Normal Method to the Projected Unit Credit Method to be effective July 1, 2010. This change decreased the System's Actuarial Accrued Liability by approximately \$308,621 thousand.

City contributions in the Statements of Changes in Net Position 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.

Houston Police Officers' Pension System

Notes to Financial Statements

Pursuant to the terms of the June 30, 2011 Agreement and based on the July 1, 2012 actuarial valuation, the City contribution rates and the Actuarial Required Contributions are as shown below for the current year and the ten years ending June 30, 2023.

($\$000$'s)	Actuarial	Cash Payments	Cash Payments	Annual Required
Years	Required	Cash Payments	as a Percentage	Contribution as a
Ended June	Contribution	Required by	of ARC	Percentage of Pay
30,	(ARC)	Agreements		
2013	\$ 134,510	\$ 93,000	69.1	34.5
2014	141,850	103,000	72.6	35.7
2015	148,028	113,000	76.3	36.8
2016	153,567	123,000	80.1	37.6
2017	158,440	133,000	83.9	38.1
2018	162,418	143,000	88.0	38.3
2019	165,618	153,000	92.4	38.2
2020	168,046	163,000	97.0	37.9
2021	169,567	173,000	102.0	37.4
2022	170,228	183,000	107.5	36.6
2023	170,035	193,000	113.5	35.6

The October 9, 2004 Agreement provided 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 Agreement provides that the City shall have sole responsibility to obtain approval for issuance of the bonds from the Texas Attorney General, and that the System shall have no involvement or responsibility in such process other than to provide the City with certain documents facilitating the annual transfer of funds. The City has issued pension obligation bonds in each year from 2005 through 2009 totaling \$137,865 thousand in conjunction with its obligations under the Agreement and financed \$20,000 thousand of its fiscal 2010 obligations utilizing a revenue bond financing facility. To the best of the System's knowledge, none of the City's fiscal 2012 or 2013 obligations were financed utilizing bonds or other financing facility.

The ARC as a percentage of pay for 2013 is 34.5%. This rate consists of 20.5% to cover Normal Costs and 14.0% to amortize the unfunded actuarial accrued liability over 30 years.

5. Funding Status

The System's actuary conducts periodic valuations to determine the adequacy of the employer contribution rates, to describe the financial condition of the System, and to analyze changes in the System's condition. The most recent valuation shows the funded position of the System decreased from 82.8% at July 1, 2011 to 81.9% at July 1, 2012. The actuarial accrued liability increased \$259,031 thousand and the actuarial value of assets increased \$170,452 thousand. As a result, the System's Unfunded Actuarial Accrued Liability increased \$88,579 thousand to \$858,669 thousand as of July 1, 2012. The increase in the Unfunded Actuarial Accrued Liability is due to a combination of factors including the increase in the actuarial value of assets less than assumed and contributions below the actuarially required amount.

Houston Police Officers' Pension System

Notes to Financial Statements

The funded status of the System as of July 1, 2012, the most recent actuarial valuation date, is as follows:

Actuarial Funded Status as of Actuarial Valuation Date of July 1, 2012 (\$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)
\$ 3,888,504	\$ 4,747,173	\$ 858,669	82 %	\$ 389,884	220 %

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits. 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 actuary. 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 the actuarial valuation and reproduced in these financial statements are intended to provide information for rational decision making. The actuarial assumptions and methods used comply with the parameters for disclosure that appear in Governmental Accounting Standards Board (GASB) Statement Number 25.

Additional information as of the latest actuarial valuation follows:

Valuation date	July 1, 2012	
Actuarial cost method	Projected unit credit	
Amortization method	Level percent of payroll Amortization over a constant open period of 30 years	
Remaining amortization period	30 years	
Asset valuation method	20% adjustment method	
DROP interest credit rate	7.0%	
Actuarial assumptions:	Investment rate of return:	8.5%
	Attributable to inflation	3.0%
	Attributable to real rate of return	5.5%
	Payroll growth rate:	
	Attributable to inflation	2.5%
	Attributable to merit increases	0.0% to 12.0%
	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%

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 above the rates outlined above and ultimately there could be insufficient assets to cover all future benefit payments of the System. In addition, actuarial projections based upon the System's funded status as of July 1, 2012 indicated that if the System achieves its 8.5% actuarial investment return assumption over the period ending in 2022, the System's funded ratio will decline to below 72% during that period absent increases in contribution rates or adjustments to the System's benefit structure.

Houston Police Officers' Pension System

Notes to Financial Statements

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 June 30, 2011 Agreement, which provides a revenue stream based on the previously described funding schedule and a percentage of active members' pensionable pay. If the funding schedule is maintained and adequate earnings and gains annually are provided on investments, the System is projected to eventually be adequately funded. If the City does not meet its funding obligations or if the System's earnings and gains from investments are not sufficient, the System's unfunded actuarial accrued liability and the City's future funding obligations will continue to increase above the rates outlined above.

The figures in the accompanying unaudited Schedule of Funding Progress (the Unfunded Actuarial Accrued Liability (UAAL) and the Funded Ratio) are based on actuarial calculations that make use of the actuarial value of assets, not the fair value. Since asset gains and losses (earnings greater or less than the 8.50% investment return assumption for example) are recognized 20% per year in the actuarial value of assets, the July 1, 2012 actuarial value of \$3,888,504 thousand is \$321,536 thousand greater than the fair value of \$3,566,968 thousand. The \$321,536 thousand in deferred losses will be recognized in future years offset by any deferred gains, and as these losses are recognized, the unfunded liability can be expected to increase over and above other expected increases or decreases. In the absence of significant asset gains during the next few years, the contribution rate needed to amortize the UAAL over 30 years will increase due to the recognition of these deferred losses.

6. Litigation

In August 2008, the System filed a lawsuit against State Street Bank and Trust Co. ("State Street") relating to State Street's management and oversight of a commodities strategy investment on behalf of the System. The lawsuit focused on the investment and loss of System funds in an investment product referred to as the Limited Duration Bond Fund, which was a component of the commodities strategy. The lawsuit was resolved and dismissed pursuant to the terms of a confidential settlement reached in October 2012 between State Street and the System.

7. Commitments and Contingencies

As described in Note 1, there are 3,481 non-vested active members of the System who are 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, 2013 and 2012, aggregate contributions from these members of the System were approximately \$164,136 thousand and \$167,920 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, 2013 and 2012, the total accumulated lump sum benefit due to DROP members was approximately \$868,267 thousand and \$819,967 thousand, respectively.

At June 30, 2013 and 2012, the total accumulated lump sum benefit due to PROP participants was \$515,672 thousand and \$441,137 thousand, respectively.

The System has outstanding commitments to various limited partnerships totaling \$249,059 thousand and \$215,768 thousand, as of June 30, 2013 and 2012, respectively.

Houston Police Officers' Pension System

Notes to Financial Statements

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).

<u>Period</u>	<u>Monthly Base Rent</u>	<u>Fiscal Year</u>	<u>Total Rent</u>
July 2012 - April 2015	\$ 17	2014	\$ 203
		2015	169
		<u>Beyond 2015</u>	<u>-</u>
			<u>\$ 372</u>

Houston Police Officers' Pension System

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, 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
July 1, 2009	3,430,946	4,368,501	937,555	79	366,924	256
July 1, 2010	3,526,703	4,232,732	706,029	83	377,779	187
July 1, 2011	3,718,052	4,488,142	770,090	83	388,409	198
July 1, 2012	3,888,504	4,747,173	858,669	82	389,884	220

- (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 (ARC)	Cash Payments Required by Agreements ⁽²⁾	Cash Payments as a Percentage of ARC	ARC as a Percentage of Pay
2008	\$ 107,865	\$ 63,000	26.0 % ⁽³⁾	32.1 %
2009	108,621	68,000	44.2 ⁽⁴⁾	30.9
2010	116,315	73,000	45.6 ⁽⁵⁾	31.7
2011	121,040	78,000	64.4	32.0
2012	126,932	66,000 ⁽⁶⁾	52.0	32.7
2013	134,510	84,500 ⁽⁷⁾	62.8	34.5

- (2) The amounts listed are in accordance with a payment schedule as provided for in the October 9, 2004 and the June 30, 2011 Agreements between the System and the City.
- (3) 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.
- (4) 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.
- (5) The percentage contributed figure for 2010 has been calculated based on \$53,000 thousand since the remainder of the fiscal 2010 cash payment was from the proceeds of revenue bonds and, as such, must be excluded from such calculations.
- (6) The cash payment amount for 2012 was to be \$83,000 thousand, but per the June 30, 2011 Agreement between the System and the City, the City was allowed a shortfall of \$17,000 thousand.
- (7) The cash payment amount for 2013 was to be \$93,000 thousand, but per the June 30, 2011 Agreement between the System and the City, the City was allowed a shortfall of \$8,500 thousand.

Houston Police Officers' Pension System

Required Supplementary Information (Unaudited)

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

Valuation date	July 1, 2012
Actuarial cost method	Projected Unit Credit
Amortization method	Level percent of payroll Amortization over a constant open period of 30 years
Remaining amortization period	30 years
Asset valuation method	20% adjustment method
DROP interest credit rate	7.0%
Actuarial assumptions:	
Investment rate of return	8.5%
Attributable to inflation	3.0%
Attributable to real rate of return	5.5%
Payroll growth rate:	
Attributable to inflation	2.5%
Attributable to merit increases	0.0% to 12.0%
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)

<i>Year ended June 30,</i>	2013	2012
Investment services:		
Custodial services	\$ 246	\$ 239
Money management services	12,879	17,764
Consulting services	600	600
Department Operating Expense	427	433
Total investment services	14,152	19,036
Professional services:		
Actuarial services	71	48
Auditing services	102	97
Election audit services	23	15
Legal services	585	651
Lobbyist services	355	338
Total professional services	1,136	1,149
Administrative expenses:		
Computers and technology	73	92
Education	61	32
Fiduciary insurance	79	79
Office rent	184	170
Other office costs	2,135	2,167
Total administrative expenses	2,532	2,540
	\$ 17,820	\$ 22,725

See accompanying independent auditor's report.

Houston Police Officers' Pension System

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

<i>Twelve Months Ended June 30, 2013</i>	Official System Position	Expense	Nature of Services
Mercer	Consultant	\$ 600	Consulting
The Northern Trust Company	Custodian	246	Custodian
AQR Capital Management LLC	Money Manager	1,188	Money Management
Ashmore Investment Management Limited	Money Manager	3,460	Money Management
BlackRock	Money Manager	243	Money Management
Brandes Investment Partners	Money Manager	127	Money Management
Bridgewater Associates, Inc.	Money Manager	5,110	Money Management
Causeway Capital Management	Money Manager	127	Money Management
The Clifton Group	Money Manager	423	Money Management
Dimensional Fund Advisors	Money Manager	186 *	Money Management
Driehaus Capital Management, Inc.	Money Manager	83	Money Management
First Eagle Investment Mgmt, LLC	Money Manager	194	Money Management
First Quadrant LP	Money Manager	567	Money Management
Franklin Park Associates, LLC	Money Manager	400	Money Management
MacKay-Shields Financial Corp.	Money Manager	268	Money Management
The Northern Trust Company	Money Manager	134	Money Management
PanAgora Asset Management, Inc.	Money Manager	161	Money Management
Shenkman Capital Management, Inc.	Money Manager	208	Money Management
Gabriel Roeder Smith & Co.	Actuary	71	Actuarial
BDO USA, LLP	Auditors	102	Auditing
Burford Law Firm	Attorneys	126	Legal Service
Gibbs & Bruns, LLP	Attorneys	222	Legal Service
Hawash, Meade & Gaston LLP	Attorneys	127	Legal Service
Strasburger & Price, LLP	Attorneys	90	Legal Service
HillCo Partners, LLC	Attorneys	156	Lobbyists
Locke Lord LLP	Attorneys	180	Lobbyists
Bickley Prescott & Co.	Consultant	23	Election Auditing
Other	Other	39	Other
Total investment and professional services		\$ 14,861	

See accompanying independent auditor's report.

* The System invests in a mutual fund managed by Dimensional Fund Advisors. This figure represents estimated annual fees incurred by the System based upon the System's average monthly balance.

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SECTION THREE

INVESTMENT SECTION

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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 strategies. Specifically, the Board recognizes and adheres to the following philosophical positions:

- Diversification should be based upon the prudent allocation of risk rather than solely the allocation of capital.
- Asset classes are priced to have long-term expected returns above cash and their return above cash is proportional to their risk (they have similar Sharpe Ratios). Since asset classes have similar expected Sharpe Ratios, they can be made competitive through the prudent use of leverage or leverage-like techniques.
- 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 strategy 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 (HPOPS) 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's asset 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 target and the actual asset allocation of the System at June 30, 2013 are as follows:

	Target % of Fund	Current Actual % of Fund	Dollars Invested (000's)
Domestic Equity ¹	14.3%	16.3%	\$ 657,461
International Equity	11.0%	13.3%	492,202
Total Equity	25.3%	29.6%	1,149,663
Fixed Income	18.0%	17.0%	627,463
Credit	7.5%	8.5%	313,973
Total Fixed Income	25.5%	25.5%	941,436
Private Equity	10.0%	8.1%	298,536
Risk Parity	25.0%	23.8%	883,384
Hedge Funds	10.5%	11.4%	422,147
Real Assets	5.0%	2.3%	86,629
Total Alternatives	50.5%	45.6%	1,690,696
Total Cash	0.0%	0.6%	20,220
Total Fund	101.3%	101.3%	\$ 3,802,015

¹ The System leverages the Clifton US Futures account by a factor of approximately 1.3.

Performance during fiscal year 2013 hinged on announcements made by the Federal Reserve and other central banks. During the first three quarters, risk assets rallied as the Federal Reserve announced the continuation of the stimulus program, the fiscal cliff was averted, the European Central Bank pledged unlimited support to stabilize and grow Eurozone economies, and the Bank of Japan announced significant increases in monetary policy. This prolonged rally quickly came to a halt in May when stronger than expected economic data sparked fears the Federal Reserve Bank would begin tapering. The System returned 7.9% during fiscal year 2013.

The System under-performed its benchmark rate of return by 4.2%, primarily due to the risk parity and private equity allocations. Risk parity strategies allocate assets based on risk instead of capital. In order to achieve a diversified portfolio, the lower volatility fixed income assets are levered to achieve volatility commensurate with equities and commodities, and then allocations are adjusted based on manager views. The levered exposure to nominal bonds and inflation linked bonds detracted meaningfully from performance when rates unexpectedly rose in May. Additionally, exposures to emerging market equities and commodities in the risk parity portfolios also contributed to the strategies underperformance vs. its benchmark, 60% S&P 500 / 40% BC Aggregate. The private equity portfolio had a solid return of 13.1% for the year; however it underperformed its benchmark, the S&P 500 + 5% by 12.6%. The private equity portfolio is expected to lag broad market indexes during bull markets, but outperform its benchmark over a full market cycle.

INVESTMENT SECTION

Domestic Equity

The System's domestic equity investments generated a 21.5% return, essentially matching the performance of its benchmark, the Russell 3000. During the year, the System terminated its active equity managers due to their higher fees and less favorable liquidity structures versus that of futures or index funds.

Any divergence in the returns of the System's domestic equity portfolio from the benchmark will likely be due to the System's allocation to the MLP fund. MLP's are significant owners of energy infrastructure, controlling substantial assets involved in the transportation, processing, refining, and storage of energy resources. MLP's are listed on the major U.S. stock exchanges and thus classified as domestic equity. The System began investing in the MLP fund during October, and for the nine months ended June 30th it matched the Russell 3000 index's return of 14.3% over the same period. MLP's have a low historical correlation to equity markets; therefore deviation from the equity benchmark return should be anticipated going forward.

Assets under management, annualized rates of return and fees paid to domestic equity managers for the fiscal year ending June 30, 2013 are as follows (dollars in 000's):

Manager	Style	Assets	% Returns	Fees
BlackRock	S&P 500 Index	79,572	20.7%	22
Clifton Group	Russell 3000 Futures	224,055	25.9%	117
Clifton Group	Defensive Equity ¹	17,700	na	na
Northern Trust MLP	Energy Infrastructure ^{2,3}	118,665	14.3%	134
Panagora	Quality Stock Portfolio	217,469	17.5%	161
		<u>\$ 657,461</u>		<u>\$ 434</u>

¹ Funded 6/27/2013

² Funded 10/12/2012

³ Nine month return, not annualized

	<u>HPOPS</u>	<u>Benchmark</u>
# of holdings	3636	3000
Avg Market Cap	\$98.0 Billion	\$84.8 Billion
Portfolio P/E	17.71	16.95
Portfolio P/Book	2.82	2.36
Portfolio Beta (3-yr)	0.80	1.00

International Equity

The System's international equity investments returned 11.9%, underperforming the 13.6% return of the MSCI ACWI ex U.S. benchmark for the fiscal year. This underperformance was primarily due to the overweight to emerging markets in the System's non-U.S. equity portfolio versus the benchmark. During the year, the System terminated its active equity managers due to their higher fees and less favorable liquidity structures versus that of futures or index funds.

INVESTMENT SECTION

Any divergence in the returns of the System's non-U.S. equity portfolio from the benchmark will likely be due to a tactical tilt in the emerging markets exposure or a result of the currency hedging program.

Assets under management, annualized rates of return and fees paid to international equity managers for the fiscal year ending June 30, 2013 are as follows (dollars in 000's):

Manager	Style	Assets	% Returns	Fees
BlackRock	Emerging Markets Passive	71,467	2.8%	189
BlackRock	World Equity ex-US	32,212	13.9%	32
Clifton Group	World Equity ex-US Futures ¹	328,787	14.3%	150
Clifton Group	Currency Hedge	9,757	6.2%	59
Brandes	EAFE ²	897	5.1%	127
Causeway Capital	EAFE ²	446	5.1%	127
DFA	Emerging Markets Equity	48,636	2.0%	186
		<u>\$ 492,202</u>		<u>\$ 870</u>

¹ Futures are fully funded

² Liquidated 10/31/2012

	HPOPS	Benchmark
# of holdings	9432	1869
Avg Market Cap	\$14.1 Billion	\$48.1 Billion
Portfolio P/E	11.35	14.71
Portfolio P/Book	1.00	1.51
Portfolio Beta (3-yr)	1.20	1.00

Credit

HPOPS has a dedicated allocation to credit strategies designed to take advantage of perceived opportunities in the credit markets. Credit investments are segregated by HPOPS as a separate investment category with a target allocation of 7.5% of the System's total assets.

Beginning in October 2011, the System reduced its allocation to high yield to 2.5% in favor of opportunistic strategies. The environment appeared more favorable for investing in opportunistic credit due to, among other factors, continued dislocations in the credit markets and required credit derivative unwinds resulting from regulatory capital changes. Assets under management, annualized rates of return and fees paid to high yield managers for the fiscal year ending June 30, 2013 are on the next page (dollars in 000's):

INVESTMENT SECTION

Manager	Style	Assets	% Returns	Fees
MacKay Shields	High Yield	\$ 73,020	9.7%	\$ 268
Shenkman Capital Mgmt	High Yield	46,556	6.3%	208
Brevan Howard	Opportunistic Credit	35,869	13.8%	1,552
Silver Point	Opportunistic Credit	40,954	22.1%	2,572
Elliott	Opportunistic Credit	35,011	14.5%	1,882
Och Ziff	Opportunistic Credit	52,945	21.7%	3,168
Anchorage	Opportunistic Credit	29,618	8.0%	948
		<u>\$ 313,973</u>		<u>\$ 10,597</u>

	HPOPS	Benchmark
# of securities¹	447	1,744
Yield to Maturity	6.72	7.07
Effective Duration	1.14	4.22
Quality Rating S&P	B+	B+

¹Opportunistic credit portfolio positions not included.

Fixed Income

The System's fixed income strategy consists of a separate allocation to a global fixed income mandate, inflation indexed bonds, an emerging market sovereign debt mandate, an emerging markets local currency strategy and an emerging markets corporate high yield bond fund. The System's fixed income portfolio outperformed its benchmark with a fiscal year return of 0.6% versus the negative 0.7% 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, 2013 are as follows (dollars in 000's):

Manager	Style	Assets	% Returns	Base Fee
Clifton	TIPS	\$ 187,310	-5.2%	\$ 62
Ashmore	Emerging Market Fixed Income	27,893	0.2%	225
Ashmore	Local Currency Mutual Fund	28,346	2.9%	311
Ashmore	Emerging Markets High Yield	32,820	10.7%	513
Ashmore	Total Return Fund	198,116	4.1%	2,412
Bridgewater ¹	Global Fixed Income, Hedged	152,978	0.6%	-
		<u>\$ 627,463</u>		<u>\$ 3,523</u>

¹ Fees are commingled with the fee structure for the Bridgewater hedge fund strategy disclosed elsewhere in this document

INVESTMENT SECTION

Alternative Investments

The System's alternative investment program consists of allocations to private equity, hedge funds, risk parity strategies and real assets. The private equity program is now managed by Franklin Park, although the portfolio still contains funds recommended by Abbott Capital who managed the asset class from 1997 – 2008, as well as funds recommended by Mercer (formerly Hammond Associates) who served as the interim manager between Abbott Capital and Franklin Park. Although the private equity program is a relatively mature strategy, it remains underfunded by approximately 1.9% due primarily to distributions exceeding drawdowns over the last few years. The System had investments in, or commitments to, 72 individual private equity partnerships with 46 general partners at June 30, 2013. The current allocation within this strategy is approximately 45% in leveraged buyouts, 34% in special situation funds and 21% in venture capital. This program required \$43.5 million of additional funding during fiscal 2013 while at the same time generating distributions of \$82.0 million for the same period. This private equity program generated returns for the 2013 fiscal year of 13.1% versus a return of 25.7% of its benchmark, the S&P 500 plus 5%.

The System also has a 10.5% allocation to hedge funds and had \$422 million actually invested as of June 30, 2013. These strategies generated fiscal year performance of approximately 9.3%.

The System maintained its 25% allocation to risk parity during the year. These risk parity strategies are designed to address the issue of the traditional over-allocation of risk to equities and to take full advantage of the powers of diversification. The diversification of the risk parity strategies hampered returns during the year, as no other asset classes' performance kept pace with the returns of US equity. The levered exposure to nominal bonds and inflation linked bonds detracted meaningfully from performance when rates unexpectedly rose in May. These strategies generated a fiscal year performance of approximately negative 1.1%, underperforming the benchmark, a 60% S&P 500 / 40% BC Aggregate blend, by 12.8%.

Assets under management, annualized rates of return and fees paid to alternative investments managers for the fiscal year ending June 30, 2013 are shown below (dollars in 000's):

Manager	Style	Assets	% Returns	Base Fee
Bridgewater	Risk Parity	\$ 414,714	-1.3%	\$ 984
AQR	Risk Parity	241,220	2.8%	1,188
First Quadrant	Risk Parity	227,450	-4.8%	567
Bridgewater	Hedge Funds ¹	202,936	5.3%	4,126
Mercer	Hedge Funds	219,210	13.2%	600
Mercer	Real Assets ²	86,629	14.7%	-
Franklin Park	Private Equity	298,536	13.1%	400
		<u>\$ 1,690,696</u>		<u>\$ 7,865</u>

¹ Includes the Pure Alpha and Pure Alpha Major Markets (PAMM) funds.

² Fees included in the \$600 thousand annual fee listed for Mercer Hedge Funds.

Cash

The System has a cash securitization program which was initiated in order to more closely track our strategic asset allocation through the securitization of excess 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.

Manager	Style	Assets (000s)	% Returns	Base Fee (000s)
Clifton Group	Cash Securitization	\$ 10,980	8.7%	\$ 35
		<u>\$ 10,980</u>		<u>\$ 35</u>

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 a “government only” 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'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).

	2013	2012	2011
Avg Securities on Loan	\$ 182,586	\$ 229,535	\$ 270,426
Avg Eligible Securities	\$ 698,177	\$ 939,576	\$ 1,057,458
% on Loan	26.2%	24.4%	25.6%
HPOPS Net Earnings	\$ 269	\$ 557	\$ 491
Duration of Collateral Pool (days)	43	40	32

Report Preparation

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

INVESTMENT SECTION

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

Year	System Total	Composite Benchmark	Domestic Equity	Russell 3000	Int'l Equity	MSCI		Fixed Income	Barclays Aggregate	High Yield	Citigroup HY	Alternative Investments
						ACWI ex U.S.	U.S.					
2009	-18.2	-14.6	-33.8	-26.6	-27.7	-30.9	-1.3	6.1	-0.3	-3.2	-20.3	
2010	13.7	12.1	14.8	15.7	11.6	10.4	11.6	9.5	18.5	25.7	15.1	
2011	21.1	20.2	33.3	32.4	29.1	29.7	9.4	3.9	13.3	15.3	20.1	
2012	3.0	3.3	2.8	3.8	-14.2	-14.6	4.2	7.5	8.6	7.6	8.0	
2013	7.9	12.1	21.5	21.5	11.9	13.6	0.6	-0.7	13.4	9.2	4.1	

Compound Annualized Rates of Return by Year (%)
Periods Ended June 30, 2013

Year	System Total	Composite Benchmark	Domestic Equity	Russell 3000	Int'l Equity	MSCI		Fixed Income	High Yield	Citigroup HY	Alternative Investments
						ACWI ex U.S.	U.S.				
2	5.4	8.5	11.8	12.3	-2.0	-1.5	2.3	3.3	10.9	8.4	6.1
3	10.4	12.0	18.5	18.6	7.4	8.0	4.7	3.5	11.7	10.6	10.6
5	4.6	6.3	4.8	7.2	0.0	-0.8	4.8	5.2	10.5	10.5	5.7
10	8.6	7.5	7.8	7.8	8.2	8.6	7.4	4.5	9.0	8.6	11.3

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, 2013

Shares	Description	Market Value (\$000's)	% of Total Domestic Equity
181,483	Exxon Mobil Corp.	\$ 16,397	2.7%
310,389	Microsoft Corp.	10,718	1.8%
116,699	Johnson & Johnson	10,020	1.7%
428,837	General Electric Co.	9,945	1.6%
80,072	Chevron Corp.	9,476	1.6%
113,898	Procter & Gamble	8,769	1.5%
43,049	Int'l Business Machs	8,227	1.4%
157,675	Coca Cola Co.	6,324	1.0%
63,751	Pepsico Inc.	5,214	0.9%
69,490	Wal-Mart Stores Inc.	5,176	0.9%

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

INVESTMENT SECTION

Schedule of Ten Largest Domestic Fixed Income Holdings

As of June 30, 2013

Par Value (\$000's)	Description	Market Value (\$000's)	% of Total U.S. Fixed Income
\$ 9,650	US Treas NTS DTD 00399 04-15-2017	\$ 10,137	5.4%
4,190	US Treas BDS Inflation Index Linked 3.875% 04-15-2029	8,542	4.6%
7,220	USA Treasury NTS 1.125% TIPS 15/1/21	8,209	4.4%
5,548	US Treas Infl Indexed Bonds 2.375% Due 1-15-2025 BEO	8,154	4.4%
7,420	USA Treasury NTS TIPS DTD 4-15-2016	8,018	4.3%
7,460	US Treas NTS TIPS DTD 7-15-2021	7,944	4.2%
7,800	US Treas NTS Index Linked Note .125 Due 1-15-2022 REG	7,850	4.2%
6,480	US Treas NTS 1.25% TIPS 15/4/20	7,506	4.0%
3,356	US of Amer Treas Bonds 5.0808725 4-15-2028	6,697	3.6%
5,130	US Treas Bds 2.125 2-15-2041	6,633	3.5%

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

As of June 30, 2013

Par Value (\$000's)	Description	Market Value (\$000's)	% of Total Non-U.S. Fixed Income
6,200	Japan (Govt of) 1.4% Bonds 20/12/13 JPY'256'	\$ 6,705	1.5%
4,000	Japan (Govt of) 2.1% Bonds 20/09/24 JPY'72"	4,455	1.0%
400,000	Japan Govt Bond 1.7% 20 SEP 2017	4,273	1.0%
350,000	Japan (Govt of) 1.3% Bds 20/12/19 JPY100000	3,703	0.8%
3,300	France (Govt of) 2.5% Bds 12/01/2014 EUR1	3,247	0.7%
3,200	France (Govt of) 4% OAT 25/04/2013 EUR1	3,201	0.7%
300,000	France (Govt of) 3.75% OAT 25/04/21 EUR1	3,042	0.7%
3,000	UK (Govt of) 4.75% STK 07/12/38 GBP100	2,995	0.7%
2,500	France (Govt of) 3.75% BDS 25/04/17 EUR1	2,801	0.6%
1,900	Japan (Govt of) 2.1% Bds 20/12/26 JPY100000000	2,555	0.4%

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, 2013

Brokers	Shares	Commissions	Principle	Commissions Per Share
Northern Trust	5,967,314	59,673	277,715,577	0.010
Cap Institutional Services Inc.	467,873	18,568	17,120,504	0.040
Merrill Lynch	702,236	14,759	33,038,036	0.021
Liquidnet Inc.	477,829	9,603	11,274,694	0.020
Bernstein, Sanford C. & Co.	555,086	8,535	27,593,040	0.015
Goldman Sachs & Co.	994,206	8,192	36,535,982	0.008
J.P. Morgan	395,153	6,179	15,419,552	0.016
Jefferies & Co.	137,990	4,182	5,772,026	0.030
Morgan Stanley & Co.	95,115	3,136	3,799,192	0.033
Deutsche Bank	102,069	3,090	5,037,250	0.030

International Equity Trading - Ten Largest by Total Commissions Paid

For the year ended June 30, 2013

Brokers	Shares	Commissions	Principle	Commissions Per Share
Goldman Sachs & Co.	3,114,608	90,921	149,680,547	0.029
Northern Trust	1,512,422	8,493	11,628,220	0.006
Merrill Lynch	222,503	5,217	3,811,552	0.023
Morgan Stanley & Co.	1,119,228	4,631	3,126,420	0.004
UBS	1,867,956	2,779	2,180,459	0.001
Citigroup	241,335	2,598	1,745,866	0.011
J.P. Morgan	24,932	2,426	1,341,398	0.097
Barclays Capital	222,312	2,063	1,368,442	0.009
Credit Suisse	2,528,214	2,040	2,225,060	0.001
Societe Generale	629,926	1,811	1,153,540	0.003

SECTION FOUR
ACTUARIAL SECTION

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HOUSTON POLICE OFFICERS' PENSION SYSTEM
ACTUARIAL VALUATION REPORT
FOR THE YEAR BEGINNING JULY 1, 2012



May 7, 2013

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

Subject: Actuarial Valuation Report as of July 1, 2012

Dear Members of the Board:

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, 2012. 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 from the prior year. Valuations are prepared annually, as of July 1st, 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, 2012 actuarial valuation will be used by the Board when determining the employer contribution rate for the year beginning July 1, 2013 and ending June 30, 2014.

Under the 2011 Meet & Confer Agreement between the Board and the City of Houston, a funding schedule was implemented resulting in a minimum \$83 million employer contribution for the fiscal year ending June 30, 2012, increasing by \$10 million each year thereafter until HPOPS' funded ratio reaches 100%. However, for FY2013, the City of Houston may contribute \$8.5 million less than required with any shortfall to be financed at an annual interest rate of 8.5% and made up for in FY2015. A fixed payment of \$103 million is to be made by the City for its fiscal year ending June 30, 2014. In addition, once the System reaches an 80% funded status (the ratio of the actuarial value of assets to the actuarial accrued liability), the City will make additional payments in the fiscal year following a determination that the System has fallen below this 80% threshold. Finally, once the System reaches the actuarially required rate, the City will pay the actuarially required rate, but not less than 16.0% of payroll.

Houston Police Officers' Pension System

May 7, 2013

Page 2

Given the above schedule, the actual employer contribution amount for the fiscal year ending June 30, 2014 will not be set by this actuarial valuation as of July 1, 2012. Therefore, the actuarially calculated contribution rate determined by this valuation will not be contributed by the City of Houston. Based upon a projected active member payroll of approximately \$390 million, the City's calculated contribution amount should be about \$135 million. Instead, City contributions of \$84.5 million (\$93 million *less the above mentioned loan amount of \$8.5 million*) for FY2013 and a fixed payment of \$103 million for FY2014 are to be made under the terms of the above funding schedule, as detailed in the 2011 Meet & Confer Agreement.

The contribution rate and liabilities are computed using the Projected Unit Credit (PUC) 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 percentage of active member payroll, with the employer normal cost being the difference between the total normal cost and the weighted member contribution rate. The amortization rate is determined as a level percentage of active member payroll. It is the amount required to amortize the unfunded actuarial accrued liability (UAAL) over an open period (30 years as of July 1, 2012). The amortization period is set by statute, and was modified under the Meet and Confer Agreement.

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, 2012 is 81.9%. The funded ratio measured on the market value of assets drops to 75.1% as of July 1, 2012.

The calculated employer (City of Houston) contribution rate for FY 2014 is 34.50%. This rate is greater than the 32.68% rate calculated in the prior July 1, 2011 actuarial valuation report. This is primarily due to the asset loss in FY 2012 on an actuarial value basis (6.32% versus the 8.5% assumed annual rate-of-return), but it also stems from the calculated contribution rate not being consistently contributed to the System by the City of Houston. These losses were partially offset by liability gains driven primarily by salary increases being less than assumed and fewer retirements than expected. 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.

As you know, the contribution rate is determined using an actuarial value of assets rather than market value. The actuarial value of assets recognizes 20% of the difference (typically referred to as "five year smoothing") between the market value of assets and the expected actuarial value of assets, based upon the assumed valuation rate of return of 8.50% per annum. There are currently \$321.5 million in asset losses being deferred that will be recognized in the future and continue to drive decreases in the System's funded ratio and increases in the rate required to amortize the UAAL over 30 years unless offset by future gains. As can be seen in Table 7 of Section III, in the absence of any future gains or losses the employer contribution rate is expected to increase to more

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than 38% of payroll before beginning a slow decline as the System's estimated funded ratio also steadily declines over the next ten years. Our projections show the System not reaching a funded ratio of 80% again until approximately 2034 based upon the current \$10 million annual increase contribution schedule.

Benefit provisions

The benefit provisions reflected in this valuation are those which were in effect on July 1, 2012. There were no changes in the benefit provisions since the prior valuation. 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 assumptions used in this valuation were adopted by the Board based on the recommendations from GRS during the Experience Investigation Study review following the July 1, 2009 actuarial valuation and there were no changes from those assumptions used in the prior valuation (July 1, 2011).

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 all comply with the parameters for financial 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, 2012 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. GRS is not responsible for the accuracy or completeness of the information provided to us.

Asset and all financial information as of July 1, 2012 were supplied to us by the HPOPS staff, as well.

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.

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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, 2012.

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 the Statements of the Governmental Accounting Standards Board. The undersigned are independent actuaries and consultants. All of the undersigned are Enrolled Actuaries, Members of the American Academy of Actuaries, and meet the Qualification Standards of the American Academy of Actuaries. Finally, all 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



Bradley E. Stewart, ASA, EA, MAAA
Consultant

Executive Summary (dollar amounts are in millions)

Item	July 1, 2012	July 1, 2011
Membership <ul style="list-style-type: none"> • Number of: <ul style="list-style-type: none"> - Active members - Retirees and beneficiaries - Inactive members - Total • Annualized Payroll supplied by HPOPS 	5,326 3,199 <u>31</u> 8,556 \$ 376,699	5,312 3,088 <u>33</u> 8,433 \$ 375,275
Calculated Contribution rates <ul style="list-style-type: none"> • Employer • Member¹ 	34.50% 9.29%	32.68% 9.26%
Assets (\$000s) <ul style="list-style-type: none"> • Market value • Actuarial value • Estimation of return on market value • Estimation of return on actuarial value • Employer contribution • Member contribution • Ratio of actuarial value to market value 	\$ 3,566,968 3,888,504 2.8% 6.3% \$ 83,027 \$ 35,151 109.0%	\$ 3,530,617 3,718,052 21.0% 7.2% \$ 78,287 \$ 35,122 105.3%
Actuarial Information <ul style="list-style-type: none"> • Employer normal cost % • Unfunded actuarial accrued liability (UAAL) • Amortization rate • Funding period • GASB funded ratio 	20.54% \$ 858,669 13.96% 30.0 years 81.9%	20.11% \$ 770,090 12.57% 30.0 years 82.8%
Projected employer contribution based on calculated rate <ul style="list-style-type: none"> • Fiscal year ending June 30, • Projected payroll (millions) • Projected employer contribution (millions) <p>(actual contribution rate set by Meet & Confer)</p>	2013 \$ 389.9 \$ 134.5	2012 \$ 388.4 \$ 126.9

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 % 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	884,180	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%
July 1, 2009	3,430,946	4,368,501	937,556	78.5%	366,924	255.5%
July 1, 2010**	3,526,703	4,232,732	706,029	83.3%	377,779	186.9%
July 1, 2011	3,718,052	4,488,142	770,090	82.8%	388,409	198.3%
July 1, 2012	3,888,504	4,747,173	858,669	81.9%	389,884	220.2%

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

** Change to Projected Unit Credit cost method. Prior results were provided based on Entry Age Normal.

Historical Solvency Test (\$000)

Valuation Date	Aggregated Accrued Liabilities for				Actuarial Value of Assets	by Reported Assets		
	Active Members Contributions	Retirees Beneficiaries and Vested Terminations ¹	Members (City Financed Portion)			(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	100.0%	100.0%	92%	
July 1, 1994	123,471	416,053	460,899	1,038,256	100.0%	100.0%	100%	
July 1, 1995	91,687	764,518	343,543	1,168,056	100.0%	100.0%	91%	
July 1, 1996	95,615	812,498	350,104	1,329,570	100.0%	100.0%	100%	
July 1, 1998	99,298	1,017,723	432,320	1,518,081	100.0%	100.0%	93%	
July 1, 1999	107,008	1,157,882	508,939	1,746,312	100.0%	100.0%	95%	
July 1, 2000	111,099	1,324,079	531,225	2,013,491	100.0%	100.0%	100%	
July 1, 2001	138,248	707,152	1,461,027	2,226,307	100.0%	100.0%	95%	
July 1, 2002	145,255	718,779	1,729,696	2,337,157	100.0%	100.0%	85%	
July 1, 2003	153,634	838,090	1,883,014	2,394,411	100.0%	100.0%	74%	
July 1, 2004	153,088	995,841	2,190,295	2,466,070	100.0%	100.0%	60%	
July 1, 2005	249,804	1,259,243	1,883,927	2,508,794	100.0%	100.0%	53%	
July 1, 2006	262,514	1,421,330	1,949,301	2,681,375	100.0%	100.0%	51%	
July 1, 2007	275,990	1,575,900	2,005,790	3,004,927	100.0%	100.0%	57%	
July 1, 2008	294,678	1,726,121	2,058,165	3,337,612	100.0%	100.0%	64%	
July 1, 2009	312,489	1,872,226	2,183,786	3,430,946	100.0%	100.0%	57%	
July 1, 2010	149,252	1,998,683	2,084,797	3,526,703	100.0%	100.0%	66%	
July 1, 2011	160,828	2,146,222	2,181,093	3,718,052	100.0%	100.0%	65%	
July 1, 2012	167,739	2,320,239	2,259,195	3,888,504	100.0%	100.0%	62%	

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	4.0%
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	\$321,057 ⁽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%
2009	5,245	41.8	15.4	\$366,924	\$69,957	0.8%
2010	5,347	41.9	15.3	\$377,779	\$70,652	1.0%
2011	5,312	42.3	15.7	\$388,409	\$73,119	3.5%
2012	5,326	42.5	15.7	\$389,884	\$73,204	0.1%

⁽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, (1)	Added to Rolls		Removed from Rolls		Rolls-End of Year		% Increase in Annual Allowances (8)	Average Annual Allowances (9)
	Number (2)	Annual Allowances (3)	Number (4)	Annual Allowances (5)	Number (6)	Annual Allowances (7)		
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
2009	154	9,639	63	2,275	2,900	122,738	6.4%	42,324
2010	165	8,891	56	2,355	3,009	129,274	5.3%	42,963
2011	171	10,567	59	2,218	3,121	137,623	6.5%	44,096
2012	180	11,934	71	2,820	3,230	146,737	6.6%	45,429

* 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

Membership Data

	July 1, 2012 (1)	July 1, 2011 (2)	July 1, 2010 (3)
1. Active members			
a. Number	5,326	5,312	5,347
b. Number in DROP	1,751	1,728	1,740
c. Total payroll (\$000)	\$ 389,883,887	\$ 388,409,256	\$ 377,778,615
Payroll in DROP (\$000)	\$ 150,041,249	\$ 147,732,433	\$ 145,454,000
d. Average salary	73,204	73,119	70,652
e. Average age	42.5	42.3	41.9
f. Average service	15.7	15.7	15.3
2. Inactive participants			
a. Vested	31	33	24
b. Total annual benefits (deferred)	\$ 842,031	\$ 898,045	\$ 601,844
c. Average annual benefit	27,162	27,213	25,077
3. Service retirees			
a. Number	2,478	2,378	2,290
b. Total annual benefits	\$ 116,585,404	\$ 108,763,539	\$ 102,021,476
c. Average annual benefit	47,048	45,737	44,551
d. Average age	63.6	63.3	62.9
4. Disabled retirees			
a. Number	147	144	140
b. Total annual benefits	\$ 6,039,796	\$ 5,774,687	\$ 5,489,800
c. Average annual benefit	41,087	40,102	39,213
d. Average age	53.6	53.3	52.6
5. Beneficiaries and spouses			
a. Number	574	566	555
b. Total annual benefits	\$ 23,269,735	\$ 22,186,944	\$ 21,161,225
c. Average annual benefit	40,540	39,200	38,128
d. Average age	68.9	68.3	67.9

Summary of Actuarial Assumptions and Methods

The following methods and assumptions were used in preparing the July 1, 2012 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 Projected Unit Credit (PUC) 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 is the present value of the portion of projected benefits that is attributable to service accrued in the current year. Under the PUC cost method, if actual plan experience is close to assumptions, the normal cost will increase each year for each employee as he or she approaches retirement age. However, if the age/service/gender characteristics of the active group remain relatively constant, the total normal cost can be expected to remain somewhat level as a percentage of payroll.

- d. The accrued liability is the portion of the present value of projected benefits attributable to service credited prior to the valuation date. 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 recognizes 20% of the difference between the expected actuarial value based on the assumed rate of return and the market value at the valuation date. The returns are computed net of administrative and investment expenses.

4. Economic Assumptions

- a. Investment return: 8.50% per year, compounded annually, composed of an assumed 3.00% inflation rate and a 5.50% 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 2.50% inflation and productivity component, as follows:

Years of Service	Service-related Component	Total Annual Rate of Increase Including 2.50% Inflation & Productivity Component
(1)	(2)	(3)
1	12.00%	14.50%
2	9.00%	11.50%
3	7.25%	9.75%
4	6.00%	8.50%
5	5.50%	8.00%
6	5.00%	7.50%
7	4.25%	6.75%
8	4.00%	6.50%
9	3.50%	6.00%
10	3.25%	5.75%
11	3.00%	5.50%
12	2.75%	5.25%
13	2.50%	5.00%
14	2.25%	4.75%
15	2.00%	4.50%
16	1.75%	4.25%
17	1.50%	4.00%
18 and Over	0.00%	2.50%

- 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.

5. Demographic Assumptions

a. Retirement Rates

Age	Service	
	<25	25+
40-49	3.0%	6.0%
50-54	5.0%	10.0%
55-59	12.0%	24.0%
60-64	15.0%	30.0%
65 +	100.0%	100.0%

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.

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. Multiplied by 75% for Active members
- Healthy females - Based on the 1994 Group Annuity Mortality Table for females. Multiplied by 75% for Active members
- Disabled males and females – 1987 Commissioners Group Disabled Mortality Table.

Sample rates are shown below:

Age	Healthy Retired Males	Healthy Retired Females	Disabled Males	Disabled Females	Healthy Active Males	Healthy Active Females
(1)	(2)	(3)	(4)	(5)	(7)	(8)
25	0.07%	0.03%	2.82%	2.82%	0.05%	0.02%
30	0.08%	0.04%	2.82%	2.82%	0.06%	0.03%
35	0.09%	0.05%	2.82%	2.82%	0.06%	0.04%
40	0.11%	0.07%	2.82%	2.82%	0.08%	0.05%
45	0.16%	0.10%	2.82%	2.82%	0.12%	0.07%
50	0.26%	0.14%	2.82%	2.82%	0.19%	0.11%
55	0.44%	0.23%	2.82%	2.82%	0.33%	0.17%
60	0.80%	0.44%	3.14%	3.14%	0.60%	0.33%
65	1.45%	0.86%	3.98%	3.98%	1.09%	0.65%
70	2.37%	1.37%	5.71%	5.71%	1.78%	1.03%
75	3.72%	2.27%	8.19%	8.19%	2.79%	1.70%
80	6.20%	3.94%	11.84%	11.84%	4.65%	2.95%

Mortality Improvement: To account for future mortality improvement, the tables for healthy retiree mortality selected above were chosen so that the assumed

mortality rates are smaller than the rates observed in the last experience study, covering experience for FY 2005 – FY 2009.

f. Termination Rates and Disability Rates

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

Termination and disability rates are a function of the member’s service. Termination rates are not applied after a member becomes eligible for a retirement benefit, and disability rates are not applied for members in the DROP. Rates at selected ages and service levels are shown below.

Service Based Rates of Termination		
Service	Male	Female
1	2.46%	2.46%
3	2.22%	2.22%
5	1.98%	1.98%
7	1.74%	1.74%
9	1.50%	1.50%
11	1.26%	1.26%
13	1.02%	1.02%
15	0.78%	0.78%
17	0.54%	0.54%
19	0.30%	0.30%
20 +	0.25%	0.25%

Age Based Rates of Disability		
Age	Male	Female
20	0.1622%	0.1893%
25	0.1616%	0.1886%
30	0.1690%	0.1971%
35	0.1865%	0.2176%
40	0.2141%	0.2498%
45	0.2520%	0.2940%
50	0.3001%	0.3501%
55	0.3583%	0.4180%
60	0.4268%	0.4980%

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: 50% of vested terminating members are assumed to elect a refund rather than take a deferred benefit at age 60.
- 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.

- 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, gender, 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, gender, 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 but prior to October 9, 2004

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

After October 9, 2004

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

Service Retirement

Eligibility

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

Benefit

- ▶ Prior to November 1, 1955 \$75 per month plus \$2 per month for each year of service in excess of 25 years.
- ▶ After November 1, 1955 but prior to January 13, 1968 30% of final compensation plus 1 % of final compensation for each year of service in excess of 20 years.
- ▶ After January 13, 1968 but prior to July 1, 1986 Plans 1 and 2: 30% of final compensation plus 2% of final compensation for each year of service in excess of 20 years.
Plan 3: 2% of final compensation for each year of service up to 40 years, reduced 0.42% for each month benefit commencement precedes age 55.
- ▶ After July 1, 1986 but prior to July 1, 1988 2% of final compensation for each year of service up to 40 years.
- ▶ After July 1, 1988 but prior to September 1, 1997 45% of final compensation plus 2% of final compensation for each year of service in excess of 20 years; maximum 80% of final compensation. Benefit based on prior formula is payable until July 1, 1991 and recomputed benefit is payable thereafter.
- ▶ After September 1, 1997 but prior to July 1, 2001 50% of final compensation plus 2% of final compensation for each year of service in excess of 20 years; maximum 80% of final compensation.
- ▶ After July 1, 2001 but prior to October 9, 2004 55% of final compensation plus 2% of final compensation for service in excess of 20 years.

The Pension System recomputed the benefit of each person who retired before July 1, 2001. The retiree's benefit was increased by the result of multiplying the difference between 55% and the percentage used at the time of retirement in computing the retiree's benefit for the first 20 years of service by the base salary of the retiree at the time of retirement. Retroactive cost-of-living increases were not applied to the increased benefit. This recomputed benefit is effective for all payments on or after July 1, 2001.

- ▶ After October 9, 2004 Participants sworn prior to October 9, 2004 will receive the highest of the following alternatives using Final Average Compensation effective after October 9, 2004, from October 9, 2004 through October 7, 2007:
 - 1) 2.25% of Final Average Compensation for each of the first 20 years of service plus 2% of Final Average Compensation for each year of service in excess of 20 years, with a maximum of 80% of Final Average Compensation.
 - 2) Benefit participant would have received had participant retired or entered the DROP immediately before October 9, 2004
 - 3) Benefit calculated using a sliding average of the pay received for the pay periods elapsed since October 9, 2004.

New participants after October 9, 2004:
 2.25% of Final Average Compensation for each of the first 20 years of service plus 2% of Final Average Compensation for each year of service in excess of 20 years, with a maximum of 80% of Final Average Compensation.

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

Terminated Vested Pension Benefit

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

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

Deferred Retirement Option Plan (DROP)

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

Benefit
 ▶ After September 1, 1995 but prior to September 1, 1997 Eligible participants may elect to participate in the DROP until they leave active service. The member's retirement pension will be calculated based on service and earnings at the time the DROP is elected.

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

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

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

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

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

Benefit Recalculation Effective July 1, 2001, monthly benefit at retirement will be recalculated to be the greater of (i) current monthly benefit, or (ii) monthly benefit based on service at DROP entry and Final Compensation at retirement date.

Back DROP Option Effective on July 1, 2001, a back DROP option is available for all eligible participants. The DROP account is recalculated under the option based on what the account balance would have been had the participant elected the DROP earlier than he/she actually did. The initial DROP entry date cannot be backdated prior to September 1, 1995 or prior to 20 years of credited service, and must be on the first of the month selected.

**Postretirement
Option Plan (P R O P)**

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 (P L O P)**

Eligibility Participant on or after October 9, 2004.

Benefit

▶ After October 9, 2004

Up to 20% of the actuarial value of the accrued pension at retirement.

Disability Retirement

Eligibility Effective July 1, 2001, participant partially or totally disabled is eligible for Disability Retirement as defined below:

- Total: Disability is defined as “unable to perform his/her usual and customary duties as a police officer”.
- Partial: Disability is an impairment which renders the participant unable to work as a police officer and which is expected to last 12 months.

Benefit

▶ **Duty-connected**

Total: The service retirement benefit accrued to date of disability (or 20 years, if greater).

Partial: 35% of final compensation is payable for life or as long as he remains incapacitated.

▶ **Not duty-connected**

Total or partial: The disability benefit is 2.75% of final compensation times years of service up to 20, minimum 27.5% of final compensation.

Additional Benefits

For participants before October 9, 2004, an education allowance equal to 100% of final compensation less disability benefit is payable for up to four years for off-duty or duty-related disability.

Proportionate members injured while on-duty as a municipal worker will receive immediate off-duty benefit upon Board approval.

Survivor Benefits

Eligibility

Surviving spouses and dependent children and parents of participants, including surviving spouses of retired or disabled participants who were not married at the time of retirement or disability, provided the spouse was married to the participant for at least 5 years at the time of death.

Benefit

▶ **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.

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. 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.

Additional Benefits

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.

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
- ▶ After December 1, 1998 but before October 9, 2004
- ▶ After October 9, 2004

Each participant contributes 8.75% of base salary.

Each participant contributes 8.75% of average total direct pay less overtime.

– 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.

Employer Contribution	The City of Houston will follow the following contribution schedule:	
Fiscal Year Ending (June 30 th)		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
	2007-2011	\$5,000,000 above the prior year's payment
	2012	83,000,000 fixed payment with any shortfall not to exceed 17,000,000*
	2013	93,000,000 fixed payment with any shortfall not to exceed 8,500,000*
	2014	103,000,000 fixed payment

*Any shortfall shall be financed at 8.5% interest and paid in FYE 2015.

For all subsequent Fiscal Years, and until the Funded Ratio reaches 100%, City payments shall increase each City Fiscal Year by \$10,000,000 until said 100% of funding is reached. Once the Funded Ratio has reached 100%, City payments each City Fiscal Year shall be in amounts equivalent to the greater of 16% of pay, as defined herein, or the ARC. The 2011 Meet & Confer Agreement is to remain in effect until June 30, 2023.

In addition, on the first day of City Fiscal Year 2012, once the Funded Ratio reaches 80%, if it should ever be subsequently determined that the Funded Ratio has declined below such 80%, then in the City Fiscal Year next following such determination, the City shall pay such additional amounts to the Houston Police Officers' Pension System as necessary to increase the Funded Ratio to 80%.

Changes in Plan Provisions from the Prior Valuation

There were no changes to the plan provisions from the prior actuarial valuation.

STATISTICAL SECTION

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STATISTICAL SECTION

Summary

This section 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 System's benefits administration system.

Financial Trends

The **Changes in Plan Net Assets** schedule on page 91 shows the additions and deductions from plan net assets and the resulting changes in plan net assets for the ten years ending June 30, 2013. Contributions from members and the City have grown steadily during this time, doubling in amount, but the System's investment income, even with a loss in 2009, provides the most impact on additions to plan net assets. Deductions from plan net assets are primarily for benefits paid to members, which have also doubled during this ten year period.

City and member contributions to the System are external sources of the additions to plan net assets. **Contribution Rates** on page 92 show what percent the City's and the members' contributions are of payroll for the ten years ending June 30, 2013. The accompanying chart of **Contributions and Benefits Paid** compares the total contributions made and the benefits paid for the ten years ending June 30, 2013. While the growth in benefits paid exceeds the growth in contributions in recent years, the City's contributions under the June 30, 2011 Agreement are scheduled to continue 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** schedule on page 93 provides details of the System's net investment gain/loss for the ten years ending June 30, 2013.

Deductions from Net Assets for Benefits and Refunds by Type on page 94 presents a detailed view of the benefits paid to members and refunds for the ten years ending June 30, 2013, and the chart on page 95 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 are payments members and survivors receive at their discretion from their lump sum accounts either on or after the date they begin receiving monthly benefit payments, and therefore vary from year to year.

On page 96, **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, 2012. The existence of an unfunded actuarial liability does not necessarily indicate financial problems. The System and the City entered into an agreement on June 30, 2011, which if maintained and adequate earnings and gains are provided on investments, the System is projected to improve its funded status.

Participant Information

The **Membership** schedule on page 97 provides a breakdown of the plan membership for the ten years ending June 30, 2013. For fiscal year 2013, active members increased by 36 to 5,366, retired members and their beneficiaries increased by 119, and terminated vested members increased by two.

Operating Information

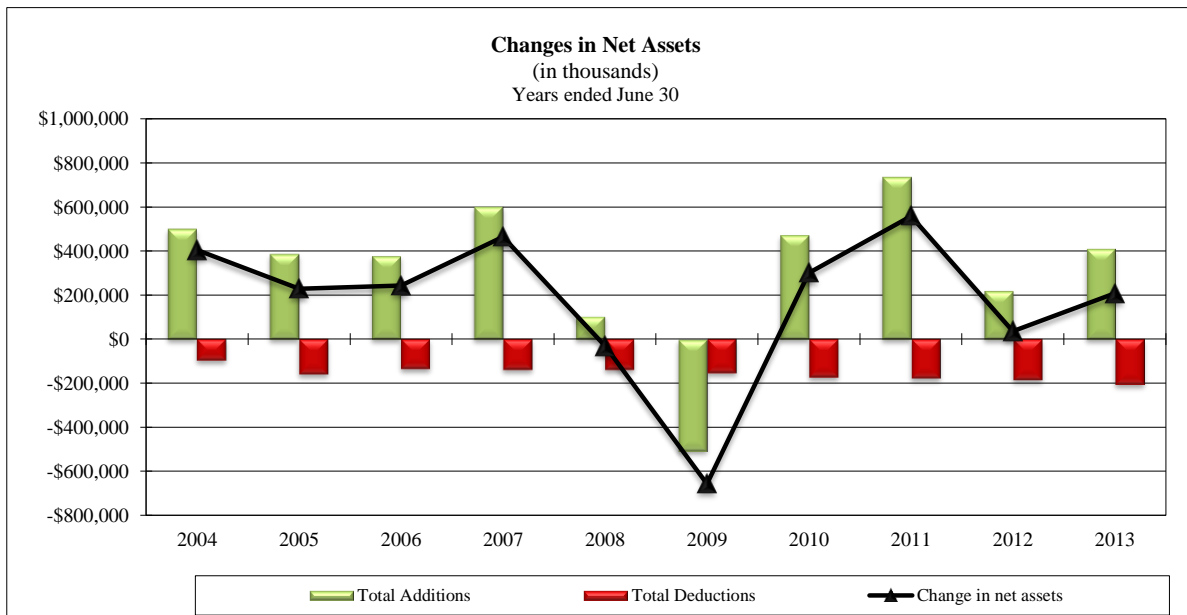
The **Pensions in Force** and **Pensions Awarded** schedules on page 98 provide the number of pensions by type, age and payment amount. The **Average Monthly Benefit Amounts by Years Credited Service** on page 99 presents the average final average salary and the number of retired members, in five-year increments of credited service, for the nine years ended June 30, 2013. The **DROP and PROP Activity** schedules on page 100 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, 2013.

STATISTICAL SECTION

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

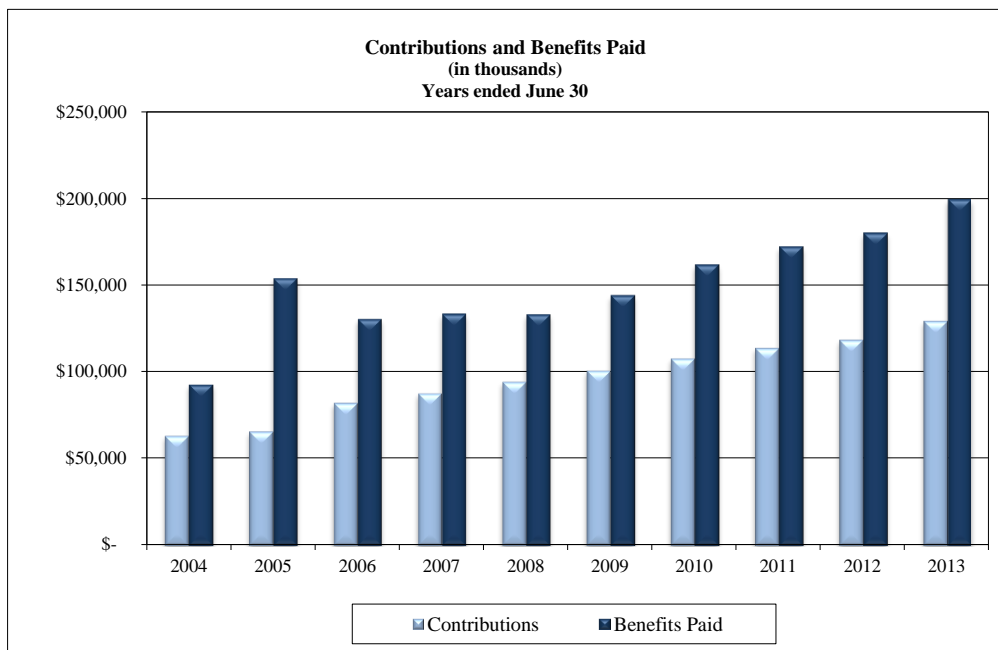
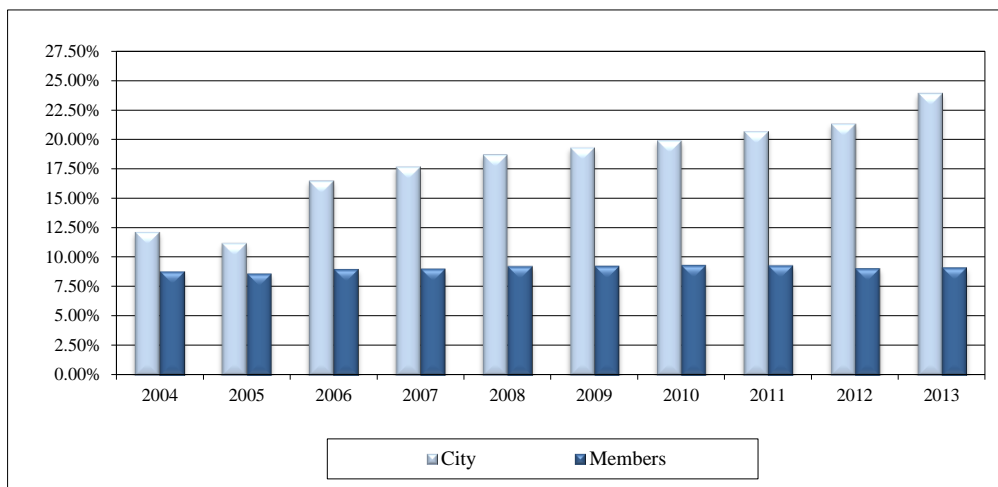
Fiscal Year	2004	2005	2006	2007	2008
Additions					
City contributions	\$ 36,645	\$ 37,125	\$ 53,068	\$ 58,000	\$ 63,000
Members contributions	26,393	28,410	28,863	29,489	31,003
Investment income (net of expenses)	437,007	320,561	294,966	512,873	9,350
Securities lending income (net of expenses)	741	876	1,101	1,239	2,392
Total additions to plan net assets	500,786	386,972	377,998	601,601	105,745
Deductions:					
Benefits paid to members	92,697	153,861	130,443	133,351	133,049
Refunds to members	852	1,198	700	739	500
Professional and administrative expense	2,768	3,473	2,958	2,950	3,564
Total deductions from plan net assets	96,317	158,532	134,101	137,040	137,113
Change in net assets	\$ 404,469	\$ 228,440	\$ 243,897	\$ 464,561	\$ (31,368)

Fiscal Year	2009	2010	2011	2012	2013
Additions					
City contributions	\$ 68,000	\$ 73,192	\$ 78,287	\$ 83,027	\$ 93,392
Members contributions	32,519	34,218	35,122	35,151	35,586
Investment income (net of expenses)	(607,482)	364,650	621,557	102,095	281,724
Securities lending income (net of expenses)	1,427	473	449	485	269
Total additions to plan net assets	(505,536)	472,533	735,415	220,758	410,971
Deductions:					
Benefits paid to members	144,112	161,735	172,041	180,014	199,255
Refunds to members	618	547	420	704	641
Professional and administrative expense	7,311	8,945	4,364	3,689	3,668
Total deductions from plan net assets	152,041	171,227	176,825	184,407	203,564
Change in net assets	\$ (657,577)	\$ 301,306	\$ 558,590	\$ 36,351	\$ 207,407



STATISTICAL SECTION
Contribution Rates
Previous Ten Fiscal Years

Fiscal Year	Percent of Payroll	
	City	Members
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%
2010	19.95%	9.33%
2011	20.72%	9.30%
2012	21.38%	9.05%
2013	23.95%	9.13%



STATISTICAL SECTION

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

Fiscal Year	2004	2005	2006	2007	2008
Investing activities					
Net appreciation (depreciation) in fair value of investments	\$ 401,591	\$ 275,205	\$ 256,825	\$ 459,957	\$ (26,749)
Interest	29,477	35,006	30,201	38,304	34,603
Dividends	15,897	26,314	21,926	27,581	19,540
Alternative investments ⁽¹⁾	1,598				
Other income	333	282	157	147	142
Total	448,896	336,807	309,109	525,989	27,536
Less investment expense	(11,889)	(16,246)	(14,143)	(13,116)	(18,186)
Net income (loss) from investing activities	437,007	320,561	294,966	512,873	9,350
Securities lending activities					
Securities lending income	1,153	1,332	1,478	1,652	3,189
Securities lending expense	(412)	(456)	(377)	(413)	(797)
Net income from securities lending activities	741	876	1,101	1,239	2,392
Total investment income (loss)	437,748	321,437	296,067	514,112	11,742

Fiscal Year	2009	2010	2011	2012	2013
Investing activities					
Net appreciation (depreciation) in fair value of investments	\$ (643,053)	\$ 330,724	\$ 594,052	\$ 53,935	\$ 241,324
Interest	31,452	30,029	31,180	47,121	32,330
Dividends	13,170	16,608	18,998	19,200	20,238
Other income ⁽²⁾	57	72	365	1,135	2,550
Total	(598,374)	377,433	644,595	121,391	296,442
Less investment expense	(9,108)	(12,783)	(23,038)	(19,296)	(14,718)
Net income (loss) from investing activities	(607,482)	364,650	621,557	102,095	281,724
Securities lending activities					
Securities lending income	1,903	631	599	646	359
Securities lending expense	(476)	(158)	(150)	(161)	(90)
Net income from securities lending activities	1,427	473	449	485	269
Total investment income (loss)	\$ (606,055)	\$ 365,123	\$ 622,006	\$ 102,580	\$ 281,993

(1) Income reported under alternative investments for 2003 - 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.

(2) The June 30, 2011 Agreement with the City allowed for a shortfall in the City's fixed payment for contributions for fiscal years 2012 and 2013, for which the City started making quarterly interest payments of \$361 thousand in fiscal year 2012 and \$542 thousand in fiscal year 2013. These payments are included in Other income.

STATISTICAL SECTION

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

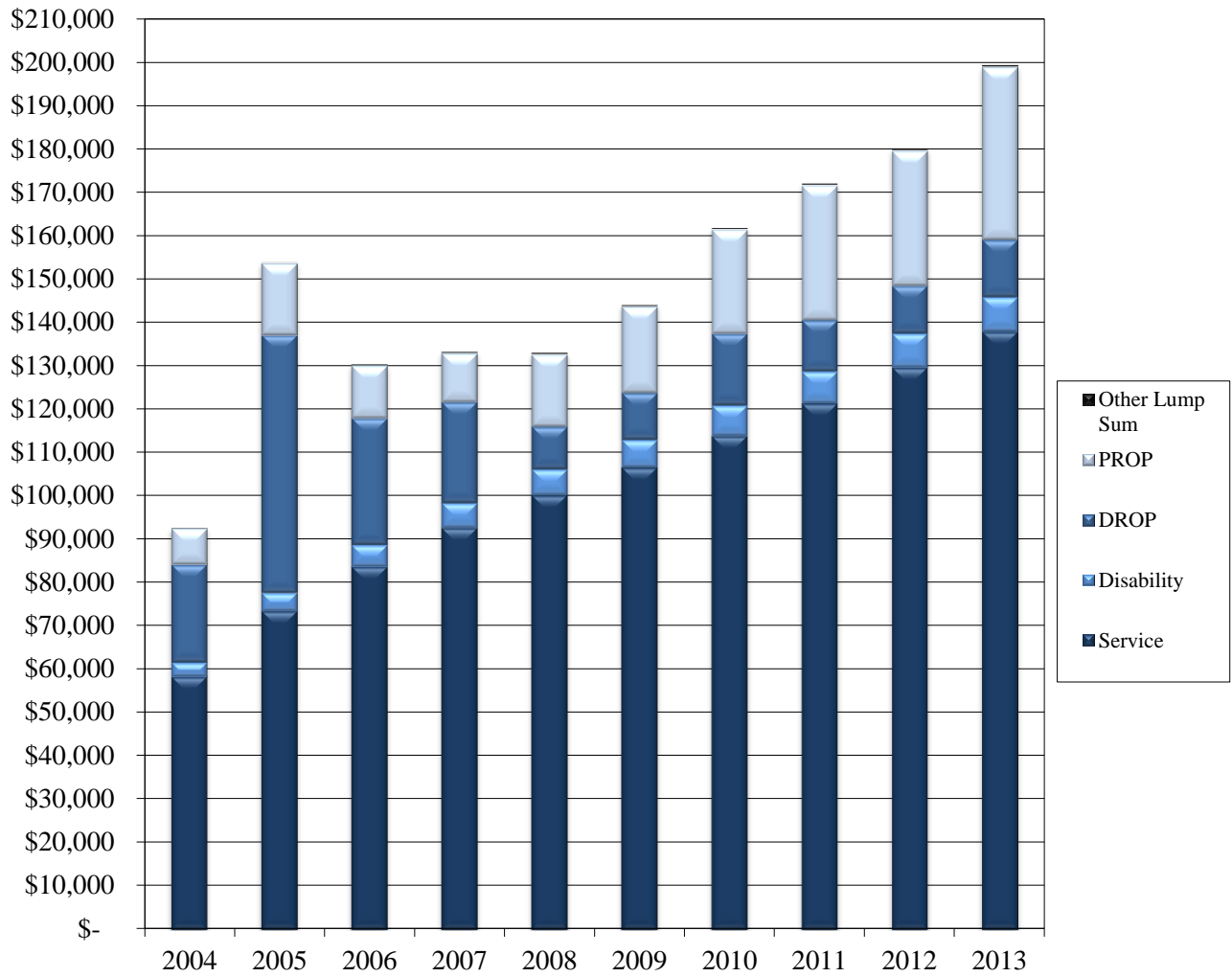
Fiscal Year	2004	2005	2006	2007	2008
Type of Benefit					
Service					
Retirees	\$ 45,912	\$ 59,709	\$ 69,074	\$ 77,639	\$ 83,925
Survivors	12,466	13,733	14,612	14,965	16,203
Disability					
Retirees - duty	1,787	2,604	3,378	4,003	4,154
Retirees - nonduty	313	358	347	313	371
Survivors	1,238	1,310	1,364	1,517	1,531
Lump Sum					
DROP distributions	22,603	59,493	29,272	23,315	9,937
PROP distributions	8,352	16,649	12,233	11,303	16,680
Other *	25	5	163	296	248
Total benefits	\$ 92,697	\$ 153,861	\$ 130,443	\$ 133,351	\$ 133,049
Type of Refund					
Death	\$ -	\$ -	\$ -	\$ -	\$ -
Separation	852	1,198	700	739	500
Total refunds	\$ 852	\$ 1,198	\$ 700	\$ 739	\$ 500

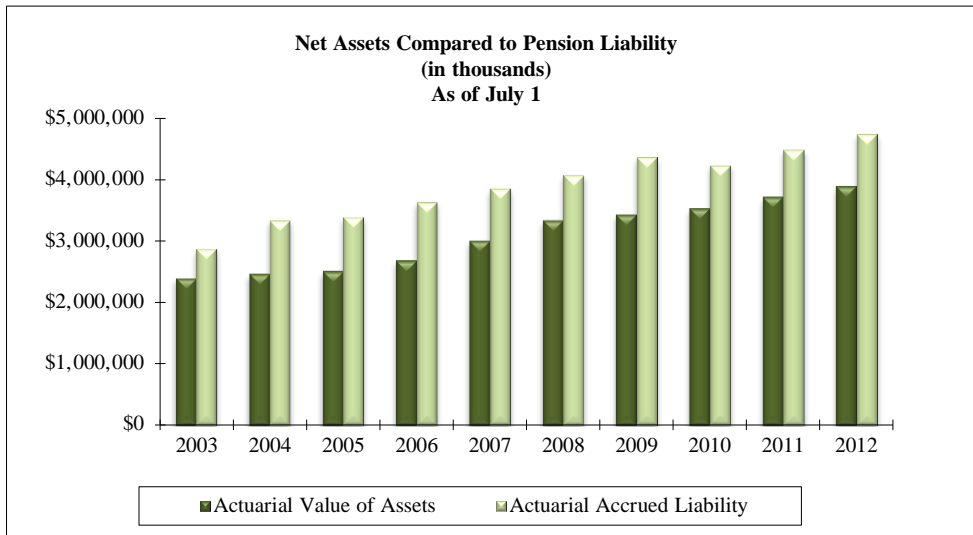
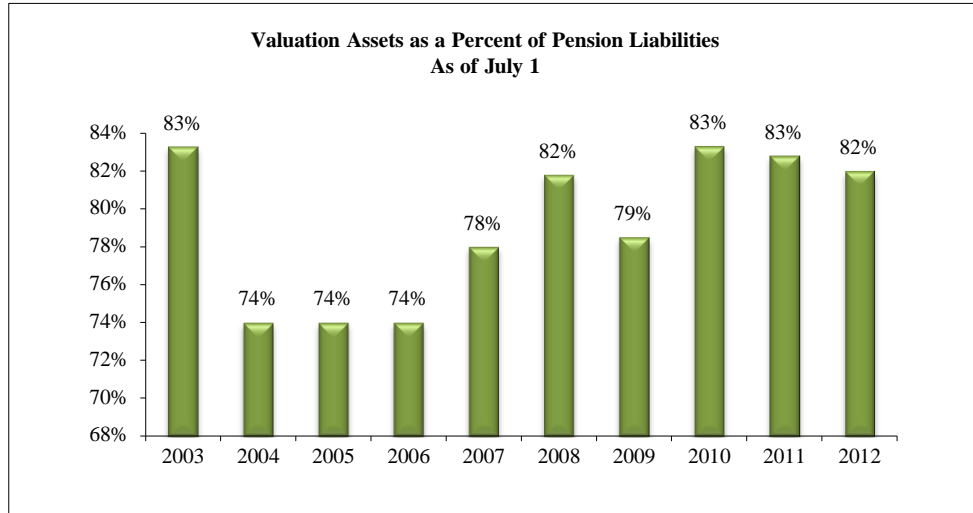
Fiscal Year	2009	2010	2011	2012	2013
Type of Benefit					
Service					
Retirees	\$ 89,226	\$ 95,198	\$ 101,854	\$ 108,886	\$ 116,217
Survivors	17,291	18,612	19,425	20,694	21,586
Disability					
Retirees - duty	4,334	4,675	4,989	5,218	5,378
Retirees - nonduty	444	516	493	538	546
Survivors	1,715	1,868	1,960	2,147	2,120
Lump Sum					
DROP distributions	10,889	16,682	11,941	11,078	13,334
PROP distributions	19,922	24,035	31,125	31,180	39,857
Other *	291	149	254	273	217
Total benefits	\$ 144,112	\$ 161,735	\$ 172,041	\$ 180,014	\$ 199,255
Type of Refund					
Death	\$ 3	\$ -	\$ -	\$ -	\$ -
Separation	615	547	420	704	641
Total refunds	\$ 618	\$ 547	\$ 420	\$ 704	\$ 641

* 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



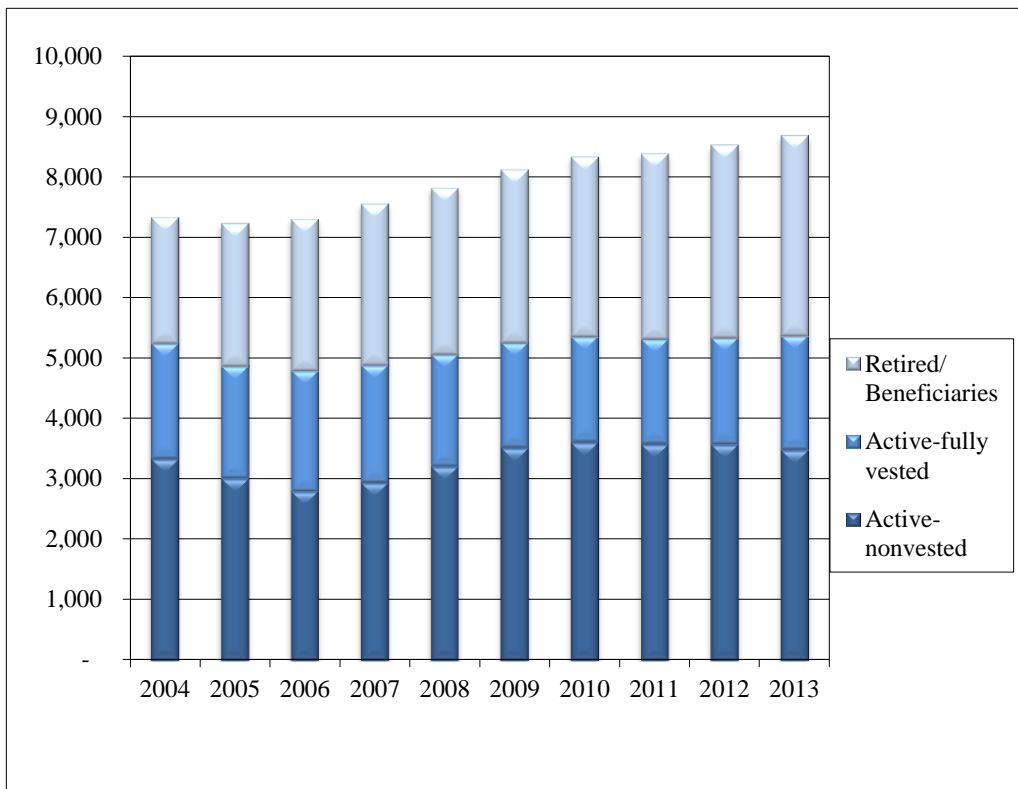


Charts through most recent actuarial valuation dated July 1, 2012.

STATISTICAL SECTION

**Membership
Last Ten Fiscal Years**

Fiscal Year	Active		Retired/ Beneficiaries	Terminated Vested	Totals
	Nonvested	Fully Vested			
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
2010	3,609	1,745	2,989	20	8,363
2011	3,578	1,733	3,087	23	8,421
2012	3,572	1,758	3,207	22	8,559
2013	3,481	1,885	3,326	24	8,716



STATISTICAL SECTION

**Total Pensions in Force by Type and by Age
Year Ended June 30, 2013**

Age on June 30,	Total	Type of Pension		
		Service	Disability	Survivor
Under 40	30	-	9	21
40-44	27	6	13	8
45-49	100	56	28	16
50-54	380	317	31	32
55-59	575	509	25	41
60-64	736	641	21	74
65-69	591	501	10	80
70-74	316	226	6	84
75-79	299	199	2	98
80-84	182	111		71
85 and over	90	30	1	59
Total	3,326	2,596	146	584

**Pensions Awarded in Current Year by Type and by Age
Year Ended June 30, 2013**

Age on June 30,	Total	Type of Pension		
		Service	Disability	Survivor
Under 40	4	-	-	4
40-44	5	5	-	-
45-49	15	15	-	-
50-54	46	43	1	2
55-59	50	49	-	1
60-64	28	28	-	-
65-69	10	5	-	5
70-74	8	-	-	8
75-79	3	-	-	3
80-85	7	-	-	7
85 and over	6	-	-	6
Total	182	145	1	36

**Pensions Awarded in Current Year by Type and by Monthly Amount
Year Ended June 30, 2013**

Monthly Amount	Total	Type of Pension		
		Service	Disability	Survivor
Under \$1000	-	-	-	-
\$1000-\$2000	3	1	-	2
\$2000-\$3000	19	8	-	11
\$3000-\$4000	82	71	-	11
\$4000-\$5000	63	55	-	8
\$5000-\$6000	8	5	-	3
\$6000 and over	7	5	1	1
Total	182	145	1	36

STATISTICAL SECTION

**Average Monthly Benefit Amounts
Previous Nine Fiscal Years**

Member Retiring During Fiscal Years	Years Credited Service										All Members
	<5	5-10	10-15	15-20	20-25	25-30	30-35	35-40	40-45	>45	
2004 Avg monthly benefit	\$ -	\$ 1,892	\$ 1,875	\$ 2,402	\$ 3,096	\$ 3,369	\$ 3,961	\$ 4,089	\$ 4,236	\$ -	\$ 3,456
Avg final Avg salary	\$ -	\$ 3,970	\$ 4,024	\$ 4,577	\$ 5,661	\$ 6,043	\$ 6,252	\$ 5,735	\$ 5,190	\$ -	\$ 5,820
Avg DROP Balance	\$ -	\$ 5,000	\$ 5,000	\$ 5,000	\$ 88,499	\$ 391,141	\$ 514,956	\$ 562,247	\$ 598,254	\$ -	\$ 340,555
Number of retirees	-	4	4	3	52	61	42	23	5	-	194
2005 Avg monthly benefit	\$ 3,582	\$ 1,367	\$ 2,213	\$ 2,970	\$ 3,278	\$ 3,558	\$ 3,782	\$ 4,778	\$ 4,922	\$ 5,043	\$ 3,668
Avg final Avg salary	\$ 3,582	\$ 3,468	\$ 4,779	\$ 5,322	\$ 5,970	\$ 6,428	\$ 6,181	\$ 6,682	\$ 6,279	\$ 5,736	\$ 6,152
Avg DROP Balance	\$ 5,000	\$ 5,026	\$ 5,000	\$ 41,719	\$ 103,644	\$ 395,811	\$ 532,399	\$ 657,685	\$ 731,751	\$ 795,771	\$ 378,705
Number of retirees	1	5	3	7	84	81	89	33	7	5	315
2006 Avg monthly benefit	\$ -	\$ 2,432	\$ 2,666	\$ 2,809	\$ 3,289	\$ 3,455	\$ 3,612	\$ 4,290	\$ 5,204	\$ -	\$ 3,510
Avg final Avg salary	\$ -	\$ 4,250	\$ 4,848	\$ 5,112	\$ 5,952	\$ 6,306	\$ 6,063	\$ 6,404	\$ 6,638	\$ -	\$ 6,027
Avg DROP Balance	\$ -	\$ 5,000	\$ 5,000	\$ 5,000	\$ 79,836	\$ 382,006	\$ 586,394	\$ 677,856	\$ 761,724	\$ -	\$ 355,204
Number of retirees	-	7	3	4	55	44	46	23	2	-	184
2007 Avg monthly benefit	\$ -	\$ 2,463	\$ 2,742	\$ -	\$ 3,272	\$ 3,472	\$ 3,450	\$ 4,329	\$ 4,219	\$ -	\$ 3,447
Avg final Avg salary	\$ -	\$ 4,478	\$ 4,930	\$ -	\$ 5,841	\$ 6,284	\$ 5,977	\$ 6,455	\$ 5,676	\$ -	\$ 6,004
Avg DROP Balance	\$ -	\$ 5,000	\$ 5,000	\$ -	\$ 131,167	\$ 379,358	\$ 578,912	\$ 739,378	\$ 740,515	\$ -	\$ 367,727
Number of retirees	-	1	7	-	58	46	44	16	1	-	173
2008 Avg monthly benefit	\$ -	\$ 1,665	\$ 2,502	\$ 3,803	\$ 3,498	\$ 3,359	\$ 3,771	\$ 4,031	\$ 5,045	\$ -	\$ 3,520
Avg final Avg salary	\$ -	\$ 4,405	\$ 5,037	\$ 6,914	\$ 5,910	\$ 3,021	\$ 6,461	\$ 6,286	\$ 6,949	\$ -	\$ 6,052
Avg DROP Balance	\$ -	\$ 5,000	\$ 5,000	\$ 5,000	\$ 144,905	\$ 399,403	\$ 654,515	\$ 772,141	\$ 947,241	\$ -	\$ 381,261
Number of retirees	-	3	3	1	39	29	23	10	2	-	110
2009 Avg monthly benefit	\$ -	\$ -	\$ -	\$ 3,064	\$ 3,698	\$ 3,518	\$ 3,677	\$ 4,396	\$ 4,266	\$ -	\$ 3,669
Avg final Avg salary	\$ -	\$ -	\$ -	\$ 6,415	\$ 2,559	\$ 5,242	\$ 6,623	\$ 6,635	\$ 6,165	\$ -	\$ 5,150
Avg DROP Balance	\$ -	\$ -	\$ -	\$ 5,000	\$ 221,852	\$ 359,788	\$ 720,598	\$ 980,656	\$ 969,869	\$ -	\$ 477,574
Number of retirees	-	-	-	2	29	50	36	8	3	-	128
2010 Avg monthly benefit	\$ -	\$ -	\$ 2,832	\$ 3,909	\$ 3,474	\$ 3,779	\$ 3,851	\$ 4,130	\$ 3,973	\$ -	\$ 3,770
Avg final Avg salary	\$ -	\$ -	\$ 5,149	\$ 5,888	\$ 6,016	\$ 6,382	\$ 6,932	\$ 6,895	\$ 5,871	\$ -	\$ 6,457
Avg DROP Balance	\$ -	\$ -	\$ 5,000	\$ 5,000	\$ 194,752	\$ 382,059	\$ 759,037	\$ 988,599	\$ 987,988	\$ -	\$ 501,842
Number of retirees	-	-	2	4	26	48	32	15	3	-	130
2011 Avg monthly benefit	\$ 926	\$ -	\$ 2,562	\$ 3,009	\$ 3,679	\$ 3,929	\$ 3,640	\$ 4,062	\$ 3,941	\$ -	\$ 3,816
Avg final Avg salary	\$ 4,117	\$ -	\$ 4,658	\$ 5,472	\$ 6,457	\$ 6,572	\$ 6,581	\$ 7,107	\$ 6,063	\$ -	\$ 6,584
Avg DROP Balance	\$ -	\$ -	\$ 5,000	\$ 5,000	\$ 131,819	\$ 442,433	\$ 698,025	\$ 1,065,857	\$ 1,047,127	\$ -	\$ 536,243
Number of retirees	1	-	1	1	15	68	28	17	1	-	132
2012 Avg monthly benefit	\$ 972	\$ 4,489	\$ -	\$ 2,605	\$ 3,681	\$ 4,011	\$ 3,696	\$ 4,148	\$ 4,008	\$ 5,642	\$ 3,908
Avg final Avg salary	\$ 4,320	\$ 4,489	\$ -	\$ 5,920	\$ 6,606	\$ 6,844	\$ 6,663	\$ 7,047	\$ 6,047	\$ 5,961	\$ 6,726
Avg DROP Balance	\$ -	\$ -	\$ -	\$ -	\$ 146,704	\$ 466,282	\$ 729,916	\$ 1,066,076	\$ 1,179,404	\$ 1,536,548	\$ 584,831
Number of retirees	1	1	-	1	17	70	33	15	3	2	143
2013 Avg monthly benefit	\$ -	\$ -	\$ -	\$ -	\$ 3,900	\$ 4,024	\$ 4,167	\$ 4,076	\$ 3,983	\$ 5,535	\$ 4,068
Avg final Avg salary	\$ -	\$ -	\$ -	\$ -	\$ 6,728	\$ 6,554	\$ 7,171	\$ 7,208	\$ 6,113	\$ 7,236	\$ 6,860
Avg DROP Balance	\$ -	\$ -	\$ -	\$ -	\$ 59,940	\$ 514,240	\$ 775,272	\$ 1,161,766	\$ 1,318,435	\$ 1,674,363	\$ 653,105
Number of retirees	-	-	-	-	19	58	43	23	2	1	146
Ten Years Ended June 30, 2013											
Avg Monthly Benefit	\$ 1,827	\$ 2,065	\$ 2,481	\$ 3,061	\$ 3,383	\$ 3,678	\$ 3,765	\$ 4,274	\$ 4,448	\$ 5,255	\$ 3,669
Avg Final Avg Salary	\$ 4,006	\$ 4,055	\$ 4,763	\$ 5,484	\$ 5,736	\$ 6,158	\$ 6,432	\$ 6,637	\$ 6,045	\$ 5,980	\$ 6,170
Avg DROP Balance	\$ 1,667	\$ 4,768	\$ 5,000	\$ 15,958	\$ 121,993	\$ 415,369	\$ 633,921	\$ 837,612	\$ 874,750	\$ 1,090,789	\$ 442,544
Number of Retirees	3	21	23	23	394	555	416	183	29	8	1,655

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

Fiscal Year	DROP Accounts			DROP Participants		
	Accumulations	Distributions	Total	Entrants	Withdrawals	Total
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
2010	75,874	(16,682)	708,161	106	(117)	1,727
2011	67,927	(11,941)	764,147	128	(112)	1,743
2012	66,898	(11,078)	819,967	148	(129)	1,762
2013	61,634	(13,334)	868,267	253	(143)	1,872

PROP Activity
(dollars in thousands)
Years ended June 30

Fiscal Year	PROP Accounts			PROP Participants		
	Accumulations	Distributions	Total	Entrants	Withdrawals	Total
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
2010	71,913	(24,035)	323,707	95	(22)	773
2011	80,849	(31,125)	373,431	115	(29)	859
2012	98,886	(31,180)	441,137	144	(23)	980
2013	114,392	(39,857)	515,672	135	(33)	1,082



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