A Component Unit of

The City of Houston, Texas

Comprehensive Annual Financial Report

for the years ended June 30, 2014 and June 30, 2013

HOUSTON POLICE OFFICERS' PENSION SYSTEM
John E. Lawson, Executive Director
602 Sawyer, Suite 300
Houston, TX 77007
713.869.8734
713.869.7657 Fax
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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FOR TODAY & TOMORROW

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INTRODUCTORY SECTION

HPOPS

FOR TODAY & TOMORROW

December 11, 2014

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, 2014 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:

- 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.

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

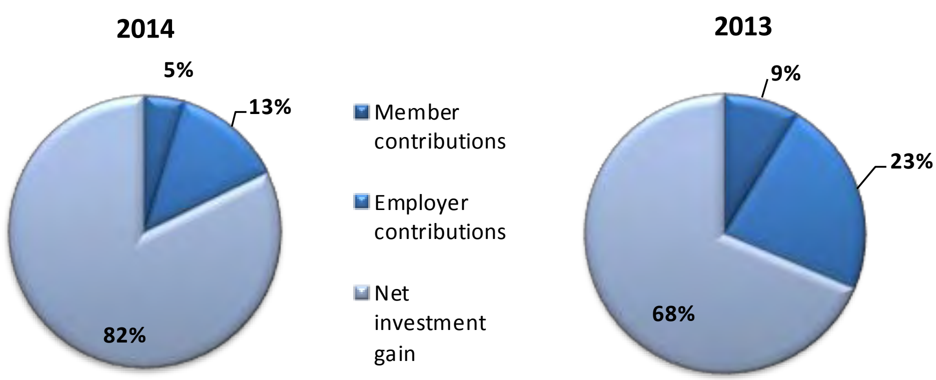
The System was established in 1947, funded by a $100,000 Treasury note, and offered retiring members a pension of $75 per month. Today, the System has investments of over $4.3 billion and offers a variety of pension benefits to members and their beneficiaries. Members have the option to defer their benefits, 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 2014 to be $103 million and a contribution receivable of $25.5 million for contribution shortfalls from fiscal years 2012 and 2013. 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 2015, the City's contribution is to be a fixed payment of $113 million, which will increase by $10 million each subsequent year until the funded ratio reaches 100%. The number of active members decreased slightly in fiscal year 2014 compared to 2013 as the number of retirements outpaced new hires to the Houston Police Department (HPD). Contributions from members increased in fiscal 2014 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 17.4% in 2014, as opposed to a positive return of 7.9% in 2013. This increase was mainly due to strong economic reports and corporate earnings that continued to beat expectations throughout the year, in spite of concerns over the Federal Reserve's monetary policy and geopolitical risks throughout the year of U.S. military strikes in the Middle East, economic concerns in China and the Ukraine situation.

Active members:	2014	2013	Increase (Decrease)
Fully vested	1,931	1,885	46
Nonvested:			
Hired or rehired before October 9, 2004	1,447	1,676	(229)
Hired or rehired after October 9, 2004	1,969	1,805	164
	5,347	5,366	(19)

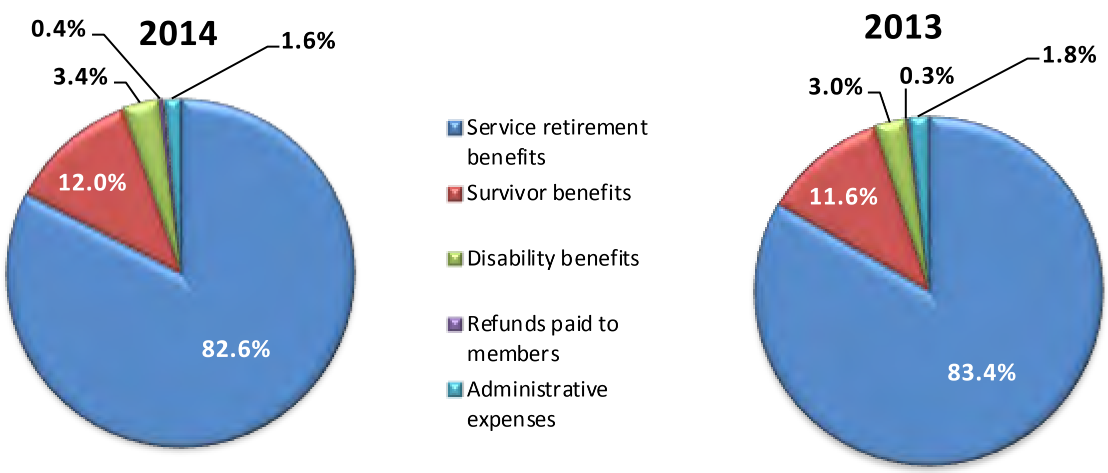
	$000's		Increase (Decrease)	Increase (Decrease)
	2014	2013	Amount	Percentage
Member contributions	$ 37,012	$ 35,586	$ 1,426	4.0%
Employer contributions	103,372	93,392	9,980	10.7%
Net investment gain	649,153	281,993	367,160	130.2%
Total	$ 789,537	$ 410,971	$ 378,566	92.1%



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 67 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 2014	$000's 2013	Increase (Decrease) Amount	Increase (Decrease) Percentage
Service retirement benefits	$ 178,348	$ 169,686	$ 8,662	5.1%
Survivor benefits	25,953	23,520	2,433	10.3%
Disability benefits	7,389	6,049	1,340	22.2%
Refunds paid to members	906	641	265	41.3%
Administrative expenses	3,439	3,668	(229)	(6.2%)
Total	$ 216,035	$ 203,564	$ 12,471	6.1%



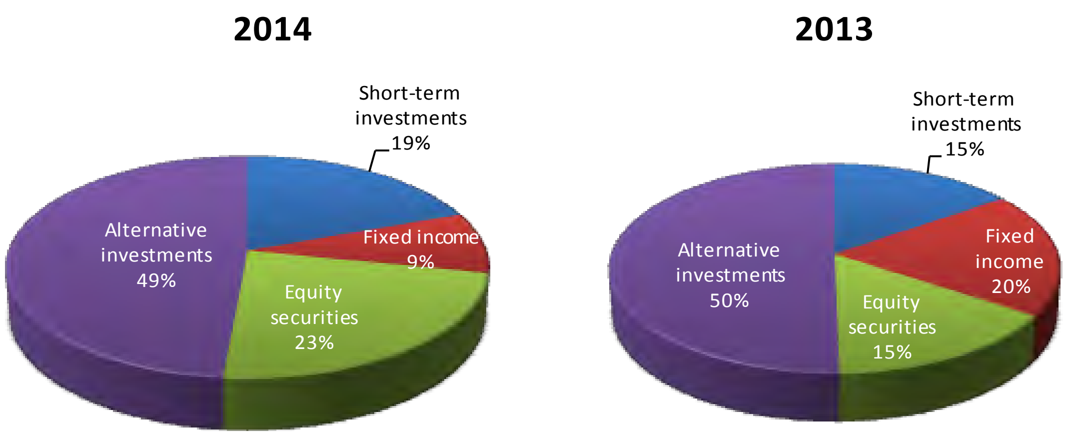
Total benefits paid, which include lump sum payments, increased in 2014 as compared to 2013 due mainly to the cost of living increase and an increase in the number of retirees. Administrative expenses decreased mainly due to a decrease in legal expenses as a lawsuit the System brought against a former investment manager was settled in 2013. 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
	2014	2013		
Short-term investments	$ 831,028	$ 564,835	$ 266,193	47.1%
Fixed income	383,346	725,732	(342,386)	(47.2%)
Equity securities	997,732	568,962	428,770	75.4%
Alternative investments	2,090,767	1,881,097	209,670	11.1%
Foreign currency contracts	-	589	(589)	100.0%
Total	$ 4,302,873	$ 3,741,215	$ 561,658	15.0%



Markets started the year concerned that the Federal Reserve would begin to tighten monetary policy, which it did not. After dealing with the U.S. federal government shutdown and posting moderate growth, markets weathered geopolitical risks throughout the year of U.S. military strikes in the Middle East, economic concerns in China and the Ukraine situation. In spite of these concerns, markets hit record highs, mainly due to strong economic reports and corporate earnings that continued to beat expectations throughout the year.

The System had a solid return of 17.4% during fiscal year 2014, however the System under-performed its benchmark rate of return by 1.3%, primarily due to the private equity allocations and to a lesser extent the non-U.S. equity and real estate portfolios. The System's international equity allocation, returning 20.5%, also underperformed compared to the 21.8% return of its benchmark. The System's fixed income allocation outperformed its benchmark by 2.1% and the System's domestic equity allocation essentially matched its respective benchmark.

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 81.9% at July 1, 2012 to 81.3% at July 1, 2013. The actuarial accrued liability increased $263 million and the actuarial value of assets increased $183 million. As a result, the System's Unfunded Actuarial Accrued Liability increased $80 million to $939 million as of July 1, 2013. 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 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 59. Professional service providers who provided services to the System during the year are listed on the next page.

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

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, 2013. This was the 20th 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

Board of Trustees

HPOPS
FOR TODAY & TOMORROW

December 11, 2014

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 2014 Comprehensive Annual Financial Report (CAFR). The CAFR provides a comprehensive picture of HPOPS' finances for the fiscal year ending June 30, 2014, as well as an overview of the year's highlights.

The year started right where fiscal year 2013 left off, with markets unsure about whether the Federal Reserve would taper its quantitative easing program and dealing with the U.S. Federal Government shutdown. Corporate earnings that exceeded expectations helped markets post moderate growth during the first half of the year. Tempering this growth were geopolitical risks around the world, such as the possibility of U.S. military action in the Middle East, concerns about continued growth in the Chinese economy, and the situation in Ukraine. Even so, stronger economic reports and corporate earnings growth that continued to beat expectations helped markets hit record highs by year end and the System posted a strong return of 17.4%, which is an improvement over last fiscal year's return of 7.9%.

HPOPS will continue to diligently maintain perspective with an ever vigilant eye on the opportunities and risks in the coming year. 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. I wish to express appreciation to the staff and professional consultants who work so effectively to ensure the continued successful operation of HPOPS.

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,

Terry A. Bratton
Chairman

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

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J. LARRY DOSS
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JOSEPH GLEZMAN
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CLARK OLINGER
Benefits Director

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Benefits Manager

PATRICK S. FRANEY
Chief Investment Officer

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BRIAN POER
IT Director

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TIFFANY WILLIAMSON
Benefits Assistant

STACEY GALO
Investment Analyst

LAJUANA WINTERS
Accountant

RON VANTREESE
Developer

CHRISTOPHER FLORES
Attorney

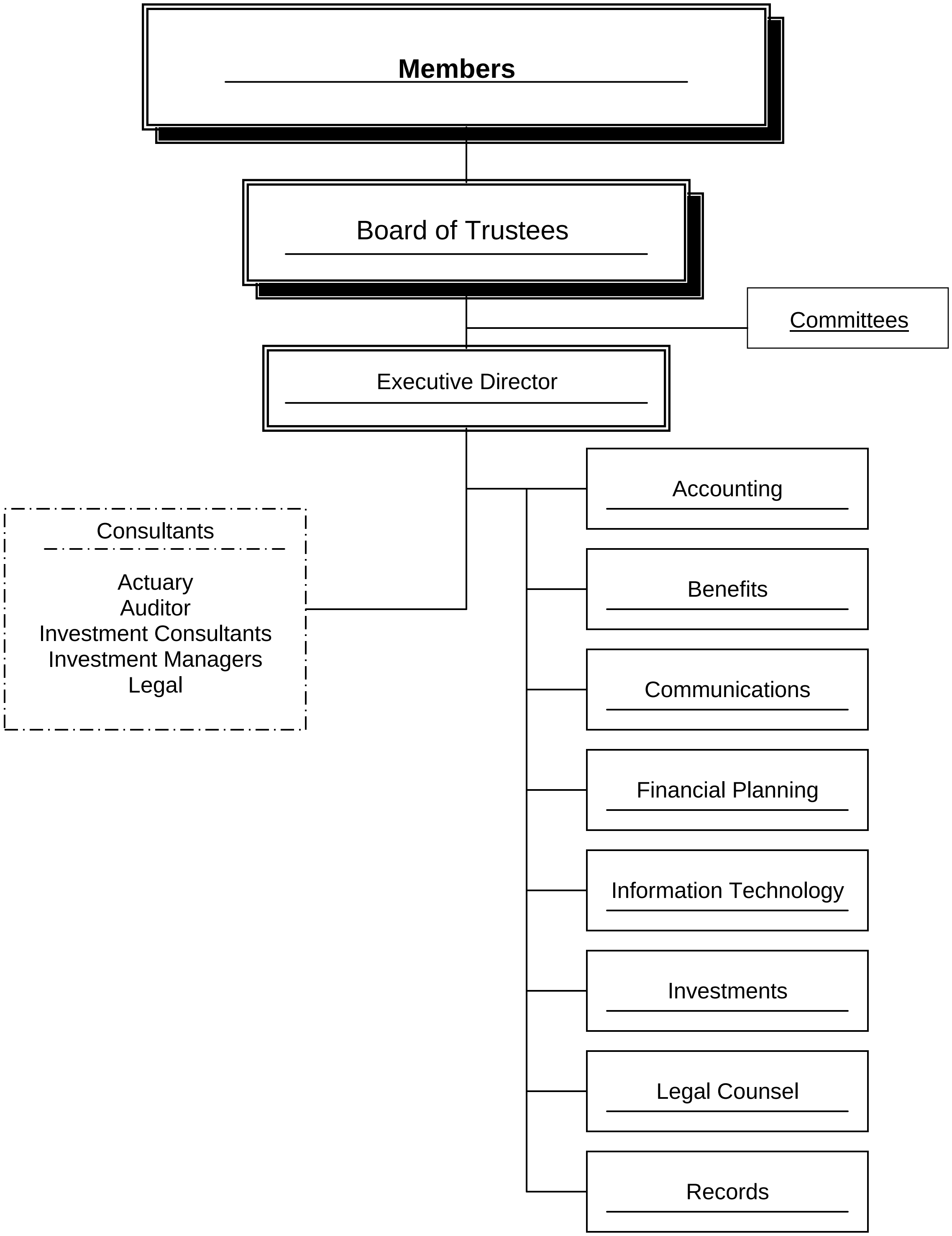
ANGELA CARTWRIGHT
Receptionist

REGINA WARD
Benefits Assistant

RICHARD GABLE
Financial Planner

NEAL WALLACH
Investment Analyst/Strategist

STEPHANIE SEGURA
Records Manager



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, 2013

Executive Director/CEO

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SECTION TWO

FINANCIAL SECTION

FINANCIAL SECTION

Tel: 713-659-6551
Fax: 713-659-3238
www.bdo.com

333 Clay St., Suite 4700
Houston, TX 77002

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Houston Police Officers' Pension System (the System), a component unit of the city of Houston, Texas, which comprise the statements of fiduciary net position as of June 30, 2014 and 2013, and the related statements of changes in fiduciary 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, 2014 and 2013, 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

Tel: 713-659-6551
Fax: 713-659-3238
www.bdo.com

333 Clay St., Suite 4700
Houston, TX 77002

Emphasis of Matter

The System has adopted the disclosure requirements of GASB 67, Financial Reporting for Pension Plans in 2014. The provisions of the additional disclosure requirements are discussed in Note 7 to the financial statements. Our opinion is not modified with respect to this matter.

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 basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole.

Houston, Texas
November 17, 2014

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, 2014, 2013 and 2012. 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 Fiduciary Net Position, Statements of Changes in Fiduciary 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 Fiduciary Net Position for the System is as follows ($000's):

As of June 30:	**2014**	2013	2012
Assets			
Investments at fair value	**$ 4,302,873**	$ 3,741,215	$ 3,536,071
Invested securities lending collateral	**41,986**	190,616	113,063
Receivables	**90,422**	36,687	40,050
Cash	**701**	234	309
Total Assets	**4,435,982**	3,968,752	3,689,493
Liabilities			
Foreign currency contracts	**-**	-	352
Due to brokers	**44,602**	2,634	7,660
Securities lending collateral	**41,986**	190,616	113,063
Accrued investment and professional fees	**931**	552	878
Other liabilities	**586**	575	572
Total Liabilities	**88,105**	194,377	122,525
Net position restricted for pensions	**$ 4,347,877**	$ 3,774,375	$ 3,566,968

See accompanying independent auditor's report.

The System's net assets increased by approximately $573,502 thousand in fiscal year 2014 over 2013 during a year that started with markets concerned that the Federal Reserve might begin to tighten monetary policy and with the prospect of a U.S. military strike in the Middle East. Neither occurred as we moved into the second quarter and markets rallied, weathering the U.S. federal government shutdown to post moderate growth. However, in January, the Federal Reserve began tapering its stimulus program and stock markets dropped across the board. The markets rebounded in February, reacting to corporate earnings that beat expectations, but increased volatility returned to the markets with the manifestation of geopolitical risk in the emerging markets, including bad news about the Chinese economy and the Ukraine situation in April. Stronger economic reports in May and continued earnings growth helped markets rebound, finishing the year hitting new records. 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 on optimism regarding the continued stabilization of and growth of the world's two largest economies. 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. The System experienced a positive investment return of 17.4% in 2014 as opposed to a positive return of 7.9% in 2013 and a positive return of 3.0% in 2012. 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).

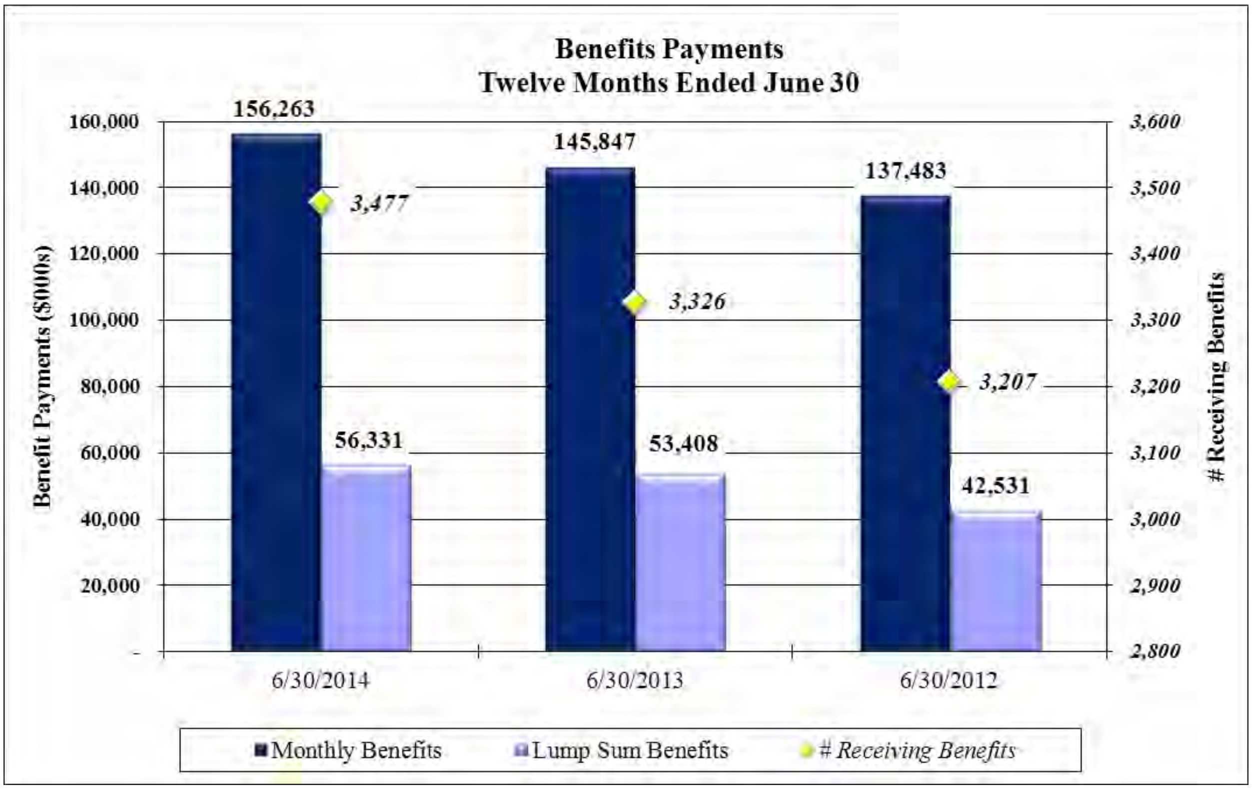
A summary of the Statements of Changes in Fiduciary Net Position for the System is as follows ($000's):

Years ended June 30:	**2014**	2013	2012
Contributions:			
City	**$ 103,372**	$ 93,392	$ 83,027
Members	**37,012**	35,586	35,151
Total contributions	**140,384**	128,978	118,178
Net income from investing activities	**649,022**	281,724	102,095
Net income from securities lending activities	**131**	269	485
Total additions	**789,537**	410,971	220,758
Deductions:			
Benefits paid to members	**211,690**	199,255	180,014
Refunds to members	**906**	641	704
Professional and administrative expenses	**3,439**	3,668	3,689
Total deductions	**216,035**	203,564	184,407
Net increase	**573,502**	207,407	36,351
Net position restricted for pensions			
Beginning of period	**3,774,375**	3,566,968	3,530,617
End of period	**$ 4,347,877**	$ 3,774,375	$ 3,566,968

See accompanying independent auditor's report.

The June 30, 2011 Agreement with the City requires contribution payments for fiscal year 2014 equal to a $103,000 thousand fixed payment. For fiscal year 2013, the City was contractually required to contribute 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 contributions for the years ended June 30, 2014; June 30, 2013; and June 30, 2012. As discussed in Note 2, the contributions were paid in their entirety from the City budget in 2014. Only $84,500 thousand was paid from the City budget in 2013 with the remaining $8,500 thousand allowed shortfall as a secured contribution receivable, and only $66,000 thousand was paid from the City budget in 2012 with the remaining $17,000 thousand allowed shortfall as a secured contribution 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 Fiduciary 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, 2014, 2013, and 2012.



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 2014 increased from 2013 by approximately $13,339 thousand or 6.7% compared to an increase of approximately $19,241 thousand or 10.7% between 2012 and 2013. The increase in 2014 is due to an $8,364 thousand increase in monthly benefits and a $2,923 thousand increase in lump sum benefits compared to a $10,416 thousand increase in monthly benefits and a $10,877 thousand increase in lump sum benefits in 2013. Average monthly benefit payments were $13,022 thousand and $12,154 per month for 2014 and 2013 respectively. The increase of $868 thousand or 7.1% in 2014 was greater than the increase of $697 thousand or 6.1% in 2013 as the number of members and survivors who are receiving benefits increased by 151 in 2014 and 119 in 2013.

There was a decrease of $229 thousand in professional and administrative expenses during 2014 as compared to 2013. This decrease is mainly due to a decrease in legal expenses of $486 thousand as a lawsuit the System brought against a former investment manager was settled in 2013 and an increase of $133 thousand for needed upgrades to our information technology infrastructure. The decrease of $21 thousand in professional and administrative expenses during 2013 as compared to 2012 was mainly due to a decrease in legal expenses arising from a lawsuit the System brought against a former investment manager.

System Highlights

The System’s funded ratio pursuant to its most recent actuarial valuation dated July 1, 2013 was 81% representing an unfunded actuarial accrued liability of $939,010 thousand. The System’s funded ratio as of July 1, 2012 was 82% representing an unfunded actuarial accrued liability of $858,669 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 Fiduciary Net Position ($000's)

June 30,		**2014**		2013
Assets				
Investments, at fair value (Note 3 and Note 4)				
Short term investments	**$**	**831,028**	$	564,835
Fixed income investments		**383,346**		725,732
Equity securities		**997,732**		568,962
Alternative investments		**2,090,767**		1,881,097
Foreign currency contracts		**-**		589
Total Investments		**4,302,873**		3,741,215
Invested securities lending collateral (Note 4)		**41,986**		190,616
Receivables				
City (Notes 2 and 5)		**25,500**		25,500
Members		**1,039**		902
Investments		**2,181**		4,891
Due from brokers		**61,695**		5,370
Other receivables		**7**		24
Total Receivables		**90,422**		36,687
Cash		**701**		234
Total Assets	**$**	**4,435,982**	$	3,968,752
Liabilities				
Payables				
Due to brokers		**44,602**		2,634
Securities lending collateral (Note 4)		**41,986**		190,616
Accrued investment and professional fees		**931**		552
Other liabilities		**586**		575
Total Liabilities (Note 8)		**88,105**		194,377
Net position restricted for pensions	**$**	**4,347,877**	$	3,774,375

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

Houston Police Officers' Pension System

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

Years ended June 30,		**2014**		2013
Contributions (Notes 2 and 5)				
City	**$**	**103,372**	$	93,392
Members		**37,012**		35,586
Total contributions		**140,384**		128,978
Investment income				
Net appreciation in fair value of investments		**625,973**		241,324
Interest:				
Short-term investments		**848**		865
Fixed income investments		**24,440**		31,465
Total interest income		**25,288**		32,330
Dividends		**18,119**		20,238
Other income		**2,167**		2,550
Total investment income		**671,547**		296,442
Less: investment expense		**(22,525)**		(14,718)
Net income from investing activities		**649,022**		281,724
Securities lending activities (Note 4)				
Securities lending income		**175**		359
Securities lending expense		**(44)**		(90)
Net income from securities lending activities		**131**		269
Total additions		**789,537**		410,971
Deductions				
Benefits paid to members		**211,690**		199,255
Refunds to members (Note 1)		**906**		641
Professional and administrative expenses		**3,439**		3,668
Total deductions		**216,035**		203,564
Net increase in net position		**573,502**		207,407
Net position restricted for pensions				
Beginning of period		**3,774,375**		3,566,968
End of period	**$**	**4,347,877**	$	3,774,375

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

1. Plan Description and Contribution Information

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

The System's Board of Trustees in accordance with the Governing Statute is responsible for the general administration, management, and operation of the pension system, including the direction of investment and oversight of the fund's assets. The System's Board of Trustees is composed of seven members as follows: (1) the administrative head of the City or the administrative head's authorized representative; (2) three employees of the police department having membership in the pension system, elected by the active, inactive, and retired members of the pension system; (3) two retired members who are receiving pensions from the system and are not officers or employees of the City, elected by the active, inactive, and retired members of the pension system; and (4) the treasurer of the City or the person discharging the duties of the City treasurer.

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

June 30,	2014	2013
Retirees and beneficiaries:		
Currently receiving benefits	3,477	3,326
Not yet receiving benefits	24	24
Active members:		
Fully vested	1,931	1,885
Nonvested:		
Hired or rehired before October 9, 2004	1,447	1,676
Hired or rehired after October 9, 2004	1,969	1,805
Total members	8,848	8,716

The following sections describe the benefit structure in effect at June 30, 2014 and 2013. 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.

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, an eligible member contributes 9.00% of pensionable pay with 8.75% of pensionable pay credited to his or her notional DROP account and the additional 0.25% credited to the System’s general fund.

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.

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. This benefit is not available for any year in which the System's funded ratio is less than 120%. 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. 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 2014 the amount to be contributed was a $103,000 thousand fixed payment. 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 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 2015, it requires an $113,000 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, 2013, 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 2014, the quarterly interest payments totaled $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, 2014, 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 $250,498 thousand.

City contributions in the Statements of Changes in Fiduciary 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.

Pursuant to the terms of the June 30, 2011 Agreement and based on the July 1, 2013 actuarial valuation, the City contribution rates and the Actuarial Determined Contributions (ADC) are as shown below for the current year and the ten years ending June 30, 2023.

($000's)

Years Ended June 30,	Actuarial Determined Contribution (ADC)	Cash Payments Required by Agreements	Cash Payments as a Percentage of ADC	Actuarial Determined Contribution as a Percentage of Pay
2014	$ 141,144	$ 103,000	73.0	36.0
2015	146,795	113,000	77.0	37.2
2016	152,226	123,000	80.8	38.1
2017	156,932	133,000	84.7	38.6
2018	160,875	143,000	88.9	38.9
2019	164,055	153,000	93.3	39.0
2020	166,481	163,000	97.9	38.7
2021	168,182	173,000	102.9	38.3
2022	168,945	183,000	108.3	37.6
2023	168,864	193,000	114.3	36.6

3. 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 legally required 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.

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, 2013. The System's Board of Trustees 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 footnotes to the financial statements 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.

4. Investments

Investment Policy – The System's policy in regard to the allocation of invested assets is established and may be amended by the System's Board of Trustees by a majority vote of its members. It is the policy of the System's Board of Trustees to pursue an investment strategy with a view toward the long term that maximizes the return on the System's assets with acceptable target levels of leverage, loss of capital, and volatility risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The System's investment policy discourages the use of cash equivalents, except for liquidity purposes. The following was the Board's adopted asset allocation policy as of June 30, 2014:

Asset Class	Target Allocation
Domestic equity	21.50 %
International equity	17.50
Fixed income	3.75
High yield fixed income	7.50
Alternative investments:	
Private equity	15.00
Real estate	7.50
Risk parity	15.00
Hedge funds	23.00
Cash	0.00
Total	110.75 %

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.

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.

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 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.

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, 2014 and 2013. There have been no changes in the methodologies used at June 30, 2014 and 2013.

($000's)	6/30/2014 Fair Value	6/30/2014 Percent of Net Assets	6/30/2013 Fair Value	6/30/2013 Percent of Net Assets
Level I	$ 293,428	6.8 %	$ 337,127	9.0 %
Level II	3,545,695	82.4	3,022,236	80.8
Level III	463,750	10.8	381,852	10.2
	$ 4,302,873	**100.0 %**	**$ 3,741,215**	**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, 2013	$	381,852
Purchases		114,583
Sales		(100,782)
Realized Gain/Loss		36,760
Unrealized Gain/Loss Change		31,337
Transfers in/(out) of Level III		-
Balance, June 30, 2014	$	463,750

Concentrations – As of June 30, 2014, the System did not have any single investment in any one organization which represented greater than 5% of plan net assets.

Rate of return – For the year ended June 30, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 17.4%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Investment Risk – 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 for Deposits and Investments* – Custodial credit risk for investments is the risk that in the event of a failure of the counterparty, the System will not be able to recover the value of the investment or collateral in possession of the counterparty. The System does not have an investment policy regarding custodial credit risk. The System considers only demand deposits as cash. As of June 30, 2014 and June 30, 2013, the System had a balance of $701 thousand and $234 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, 2014, $451 thousand of the System's bank balance of $701 thousand was exposed to custodial credit risk. At June 30, 2014, the System did not have any other investments with other financial institutions subject to custodial credit risk.

- *Credit Risk* – Credit risk is the risk that the counterparty will not fulfill its obligations. As of June 30, 2014, the System's fixed income assets that are not U.S. government guaranteed represented 100.0% of the System's fixed income plus short term investments portfolio. The tables below and on the following page summarize the System's fixed income portfolio exposure levels and credit qualities.

Average Credit Quality and Exposure Levels of Non-U.S. Government Guaranteed Securities
June 30, 2014

Fixed Income Security Type		Market Value ($000's)	Percent of Total	Weighted Average Credit Quality
Corporate Bonds	$	84,612	7	BB
Corporate Convertible Bonds		177	-	Not Rated
Mutual Bond Funds		298,557	24.6	Not Rated
Short Term Investment Funds		831,028	68.4	Not Rated
Total	$	1,214,374	100.0	

Ratings Dispersion Detail
June 30, 2014
($000's)

Credit Rating Level	Corporate Bonds	Corporate Convertible Bonds	Mutual Bond Funds	Short Term Investment Funds
BBB	$ 1,064	$ -	$ -	$ -
BB	40,035	-	-	-
B	26,029	-	-	-
CCC	-	-	-	-
NR	17,484	177	298,557	831,028
Total	$ 84,612	$ 177	$ 298,557	$ 831,028

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

Credit risk for derivative instruments held by the System results from counterparty risk, 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, 2014, 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 on the following page quantifies the interest rate risk of the System's fixed income investments. Interest rate risks associated with derivative instruments are found in the derivatives disclosures of these notes.

Modified Duration by Security Type
June 30, 2014

Security Type	Market Value ($000's)	Percent of Total	Weighted Average Modified Duration (years)
Corporate Bonds	$ 84,612	7.0 %	5.3
Corporate Convertible Bonds	177	0.0	2.4
Mutual Bond Funds	298,557	24.6	4.8
Short Term Investment Funds	831,028	68.4	0.1
Total	$ 1,214,374	100.0 %	0.4

Modified Duration Analysis by Security Type
June 30, 2014

Corporate Bonds	Market Value ($000's)	Average Modified Duration	Contribution to Modifed Duration
Less than 1 year	$ 100	0.5	0.0
1 to 10 years maturities	82,724	5.0	4.9
10 to 20 years maturities	1,788	19.0	0.4
Total	$ 84,612		5.3
Corporate Convertible Bonds			
1 to 10 years maturities	$ 177	2.4	2.4
Mutual Bond Funds			
Less than 1 year	$ 8,909	4.8	0.1
1 to 10 years maturities	280,328	4.8	4.5
10 to 20 years maturities	9,320	4.8	0.2
Total	$ 298,557		4.8
Short Term Investment Funds			
Less than 1 year	$ 746,679	0.1	0.1
1 to 10 years maturities	84,349	0.1	0.0
Total	$ 831,028		0.1

- *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, 2014, is shown in the table below.

Foreign Currency Exposure by Asset Class ($000's)
June 30, 2014

Currency	Short Term Investments	Fixed Income	Equities	Alternative Investments	Total
Euro	$ 82,021	$ -	$ 224,388	$ 29,872	$ 336,281
British pound sterling	(48,828)	-	133,341	-	84,513
Japanese yen	(45,942)	-	127,673	-	81,731
Australian dollar	-	-	48,469	4,163	52,632
Hong Kong dollar	-	-	44,976	-	44,976
Canadian dollar	1,484	-	30,019	-	31,503
Brazilian real	-	9,655	21,695	-	31,350
South Korean won	-	-	31,316	-	31,316
New Taiwan dollar	-	-	26,358	-	26,358
Swiss franc	-	-	25,758	-	25,758
Mexican peso	-	11,148	11,502	-	22,650
South African rand	-	5,698	15,200	-	20,898
Indian rupee	-	4,678	15,081	-	19,759
Swedish krona	-	-	18,815	-	18,815
Russian ruble	-	7,170	8,063	-	15,233
Malaysian ringgit	-	5,800	7,946	-	13,746
Thai baht	-	5,479	4,769	-	10,248
Danish krone	-	-	9,529	-	9,529
Turkish lira	-	5,479	3,821	-	9,300
Polish zloty	-	5,683	3,485	-	9,168
Singapore dollar	-	-	9,027	-	9,027
Chinese yuan renminbi	-	-	8,202	-	8,202
Norwegian krone	-	-	5,326	-	5,326
Indonesian rupiah	-	-	5,049	-	5,049
Other (less than $5 milliion)	-	49,224	13,170	-	62,394
Total	$ (11,265)	$ 110,014	$ 852,978	$ 34,035	$ 985,762

Securities Lending Program – The System's 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, 2014 the weighted-average maturity of the collateral pool was 50 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, 2014 and 2013, was $41,986 thousand and $190,616 thousand, respectively. The System also had non-cash collateral at June 30, 2014 and 2013, of $123 thousand and $302 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, 2014 and 2013 was $41,230 thousand and $186,818 thousand, respectively. At June 30, 2014, the System had no credit risk exposure to borrowers because the amounts the System owes the borrowers, $42,109 thousand, exceeds the amounts the borrowers owe the System, $41,230 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.

The fair value balance and notional amounts of derivative instruments outstanding at June 30, 2014, classified by type, and the changes in fair value of such derivative instruments for the year then ended is shown in the table below. The Change in Fair Value figures are reported as a component of net appreciation (depreciation) in the Statement of Changes in Fiduciary Net Position.

($000's)	Year ending June 30, 2014	As of June 30, 2014		
	Changes in Fair Value	Posted Margin	Collateral Held at Custodian Bank	Notional Value
Equity Futures	$ 69,367	$ 56,951	$ 727,626	$ 1,035,979
Currency Futures	(7,756)	2,760	3,357	247,572
Fixed Income Future	(241)	-	-	-
Options	5,621	-	16,428	143,731

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. For options, no margin is posted. Instead, options are purchased at a premium, which is either forfeited or recouped, depending on the gain or loss on the contract. 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.
- *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 exposure to foreign currency risk derives from its positions in foreign currency denominated international equity and fixed income investments as outlined in the following schedule. The System has a currency hedging program in place that hedges fifty percent of the exposure to the Euro, Pound, and Yen exposure in these investment programs. This hedging program is disclosed elsewhere in this footnote. The System's derivative instruments exposure to foreign currency risk in U.S. dollars as of June 30, 2014, is shown in the table below.

	($000's)		
Currency	**Equity Derivatives**	**Currency Derivatives**	**Total**
British pound sterling	$ 75,641	$ (48,828)	$ 26,813
Japanese yen	73,206	(45,942)	27,264
Euro	139,222	79,277	218,499
Australian dollar	27,676	-	27,676
Hong Kong dollar	11,528	-	11,528
Swedish krona	10,624	-	10,624
Danish krone	5,504	-	5,504
Singapore dollar	5,258	-	5,258
Other (less than $5 milliion)	11,864	1,123	12,987
Total	$ 360,523	$ (14,370)	346,153

Alternative Investments – As of June 30, 2014 and 2013, the System was invested in various partnerships, separate accounts and commingled funds across various types of alternative investments as detailed in the table below.

	Fair Value ($000's)	
Investment Type	June 30, 2014	June 30, 2013
Private Equity		
Leveraged Buyouts	$ 155,087	$ 134,112
Secondary Funds	4,864	-
Special Situations	95,388	99,956
Venture Capital	60,051	61,155
Other Alternatives		
Hedge Funds	485,198	421,464
Real Estate Funds	148,359	86,629
Risk Parity	833,634	883,383
Opportunistic Credit	232,843	194,398
Opportunistic Funds	75,343	-
Total	$ 2,090,767	$ 1,881,097

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 Fiduciary Net Position.

5. 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 2.

6. Deferred Retirement Option Program (DROP) Balances

The Deferred Retirement Option Plan (DROP) is an optional method of accruing pension benefits under the System's benefit structure. Members with at least 20 years of service and who were hired prior to October 9, 2004, are eligible to participate in the DROP. 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, an eligible member contributes 9.00% of pensionable pay with 8.75% of pensionable pay credited to his or her notional DROP account and the additional 0.25% credited to the System's general fund. The following table shows the change in DROP accounts during the year ended June 30, 2014.

DROP Activity

Year ended June 30, 2014

	DROP Accounts ($000's)		DROP Participants
Balance at June 30, 2013	$ 868,267	Participants at June 30, 2013	1,872
Accumulations	33,171	Entrants	232
Distributions	(13,526)	Withdrawals	(183)
Balance at June 30, 2014	$ 887,912	Participants at June 30, 2014	1,921

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. The table on the following page shows the change in PROP accounts during the year ended June 30, 2014.

PROP Activity
Year ended June 30, 2014

		PROP Accounts ($000's)		PROP Participants
Balance at June 30, 2013	$	515,672	Participants at June 30, 2013	1,109
Accumulations		144,224	Entrants	176
Distributions		(40,529)	Withdrawals	(28)
Balance at June 30, 2014	$	619,367	Participants at June 30, 2014	1,257

7. Net Pension Liability

The net pension liability is measured as the total pension liability, less the amount of the pension plan's fiduciary net position. The components of the net pension liability at June 30, 2014 were as follows ($000's):

Total pension liability	$	5,998,578
Plan fiduciary net position		4,347,877
System's net pension liability	$	1,650,701
Plan fiduciary net position as a percentage of the total pension liability		72.48%

Actuarial assumptions – The total pension liability was determined by an actuarial valuation as of July 1, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary Increases	0.00% to 12.00% , plus a 2.00% inflation and productivity component
Investment Rate of Return	8.00%, net of pension plan investment expense, including inflation

The actuarial assumptions used in the July 1, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2009 – June 30, 2013.

The long-term expected rate of return on the System's investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014 (see the discussion of the pension plan's investment policy) are summarized in the table on the following page:

Asset Class	Long-Term Expected Real Rate of Return
Domestic equity	5.50 %
International equity	5.50
Fixed income	4.25
High yield fixed income	3.00
Alternative investments:	
Private equity	6.25
Real estate	5.75
Risk parity	6.00
Hedge funds	6.00
Cash	-0.75

Discount rate – The discount rate used to measure the total pension liability was 8.00%. This rate was based on the expected rate of return on pension plan investments of 8.00%. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates specified in the 2011 Meet & Confer Agreement. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate – The following table presents the net pension liability, calculated using the discount rate of 8.00 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00 percent) or 1-percentage-point higher (9.00 percent) than the current rate:

($000's)	**1% Decrease (7.00%)**	**Current Discount Rate (8.00%)**	**1% Increase (9.00%)**
Net pension liability	$ 2,363,184	$ 1,650,701	$ 1,069,356

8. Commitments and Contingencies

As described in Note 1, there are 3,416 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, 2014 and 2013, aggregate contributions from these members of the System were approximately $163,348 thousand and $164,136 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, 2014 and 2013, the total accumulated lump sum benefit due to DROP members was approximately $887,912 thousand and $868,267 thousand, respectively.

At June 30, 2014 and 2013, the total accumulated lump sum benefit due to PROP participants was $619,367 thousand and $515,672 thousand, respectively.

The System has outstanding investment commitments to various limited partnerships totaling $597,730 thousand and $249,059 thousand, as of June 30, 2014 and 2013, respectively.

The System has a lease for the office it occupies through April 30, 2015. The monthly base rental and outstanding lease commitment is $169 thousand for fiscal year 2015.

Schedule of Changes in the Net Pension Liability and Related Ratios
For Fiscal Year Ending June 30, 2014
($000's)

Total Pension Liability	
Service Cost	$ 52,844
Interest	466,649
Benefit Changes	-
Difference between Expected and Actual Experience	(41,034)
Assumption Changes	162,849
Benefit Payments	(211,690)
Refunds	(906)
Net Change in Total Pension Liability	428,712
Total Pension Liability - Beginning	5,569,866
Total Pension Liability - Ending (a)	$5,998,578
Plan Fiduciary Net Position	
Employer Contributions	$ 103,372
Employee Contributions	37,012
Pension Plan Net Investment Income	649,153
Benefit Payments	(211,690)
Refunds	(906)
Pension Plan Administrative Expense	(3,439)
Other	-
Net Change in Plan Fiduciary Net Position	573,502
Plan Fiduciary Net Position - Beginning	3,774,375
Plan Fiduciary Net Position - Ending (b)	$4,347,877
Net Pension Liability - Ending (a) - (b)	$1,650,701
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	72.48%
Covered Employee Payroll	$ 388,756
Net Pension Liability as a Percentage of Covered Employee Payroll	424.61%

Schedule of Employer Contributions
($000's)

Measurement Year Ending June 30,	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a % of Covered Payroll
2014	$ 139,991	$ 103,372	$ 36,619	$ 388,756	26.59%

Notes to Schedule

Valuation Date: July 1, 2014

Actuarially determined contribution rates are determined in accordance with the Meet and Confer Agreement of 2011. Under the terms of the 2011 Meet and Confer Agreement, the FY 2016 contribution is already set at $123 million preceded by a City contribution of $113 million for FY 2015. For more information regarding the actuarially determined Contribution, refer to the July 1, 2014 HPOPS Valuation Report.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percentage of Payroll, Open
Remaining Amortization Period	30 years
Asset Valuation Method	The actuarial value of assets is equal to the market value of assets less a five-year phase in of the excess (shortfall) between expected investment return and actual income.
Inflation	2.75%
Salary Increases	0.00% to 12.00% , plus a 2.00% inflation and productivity component
Investment Rate of Return	8.00%
Retirement Age	Experience-based table of rates based on age and years of service. The assumption was last updated in the July 1, 2014 valuation pursuant to an experience study of the five-year period ending June 30, 2013.
Mortality	Healthy retirees - The Gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. Disabled males and females – The gender-distinct RP2000 Disabled Retiree Mortality Tables are used without adjustment. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. Active members - The Gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 54% and female rates multiplied by 51%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. An additive factor of .0003 is applied to all active mortality rates.

Schedule of Investment Returns

Fiscal Year Ended June 30,	Annual Money-weighted Rate of Return, net of Investment Expense
2014	17.4%

Houston Police Officers' Pension System

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

Year ended June 30,	2014	2013
Investment services:		
Custodial services	$ 225	$ 246
Money management services	20,844	12,479
Consulting services	1,000	1,000
Department Operating Expense	456	427
Total investment services	22,525	14,152
Professional services:		
Actuarial services	171	71
Auditing services	95	102
Election audit services	35	23
Legal services	99	585
Lobbyist services	374	355
Total professional services	774	1,136
Administrative expenses:		
Information technology	191	73
Education	36	61
Fiduciary insurance	83	79
Office rent	185	184
Other office costs	2,170	2,135
Total administrative expenses	2,665	2,532
	$ 25,964	$ 17,820

See accompanying independent auditor's report.

Houston Police Officers' Pension System

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

Twelve Months Ended June 30, 2014	Official System Position	Expense	Nature of Services
Franklin Park Associates, LLC	Consultant	$ 400	Consulting
Mercer	Consultant	600	Consulting
The Northern Trust Company	Custodian	225	Custodian
AQR Capital Management LLC	Money Manager	2,468	Money Management
Ashmore Investment Management Limited	Money Manager	2,358	Money Management
BlackRock	Money Manager	373	Money Management
Bridgewater Associates, Inc.	Money Manager	12,227	Money Management
The Clifton Group	Money Manager	990	Money Management
Dimensional Fund Advisors	Money Manager	259 *	Money Management
First Quadrant LP	Money Manager	594	Money Management
MacKay-Shields Financial Corp.	Money Manager	248	Money Management
The Northern Trust Company	Money Manager	961	Money Management
PanAgora Asset Management, Inc.	Money Manager	167	Money Management
Shenkman Capital Management, Inc.	Money Manager	199	Money Management
Gabriel Roeder Smith & Co.	Actuary	171	Actuarial
BDO USA, LLP	Auditors	95	Auditing
Gibbs & Bruns, LLP	Attorneys	58	Legal Service
Strasburger & Price, LLP	Attorneys	35	Legal Service
HillCo Partners, LLC	Attorneys	157	Lobbyists
Locke Lord LLP	Attorneys	208	Lobbyists
Bickley Prescott & Co.	Consultant	35	Election Auditing
Other	Other	15	Other
Total investment and professional services		$ 22,843	

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

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 targets and the actual asset allocation of the System at June 30, 2014 are as follows:

	Target % of Fund	Current Actual % of Fund	Dollars Invested (000's)
Domestic Equity	21.5%	26.9%	$ 981,159
International Equity	17.5%	19.4%	809,990
Total Equity	39.0%	46.3%	1,791,149
Fixed Income	3.8%	3.7%	161,492
Credit	7.5%	10.7%	461,109
Total Fixed Income	11.3%	14.4%	622,601
Private Equity	12.5%	7.0%	300,489
Risk Parity	15.0%	19.3%	833,634
Hedge Funds	23.0%	13.0%	561,116
Real Estate	7.5%	2.4%	104,134
Energy	2.5%	1.4%	59,202
Total Alternatives	60.5%	43.0%	1,858,575
Total Cash	0.0%	1.1%	49,212
Total Fund	110.8%	104.9%	$ 4,321,537

Performance during fiscal year 2014 was one for the record books. Financial markets hit all-time highs powered by the Federal Reserve's easy money policies and strong economic reports, both fueling positive consumer sentiment. The System returned 17.4% during fiscal year 2014.

The System under-performed its benchmark rate of return by 1.3% due primarily to its allocation to private equity, while the non-U.S. equity and real estate portfolios also contributed to the System's underperformance, but to a lesser degree. The private equity portfolio had a solid return of 22.0% for the year; however it underperformed its benchmark, the S&P 500 + 5% by 7.9%. The private equity portfolio is expected to lag the broad market indexes during bull markets, but outperform its benchmark over a full market cycle.

Emerging markets equities under-performed developed non-U.S. equity markets by approximately 9.4% during the year. This discrepancy in performance led to the non-U.S. equity portfolio under-performance as the System had a larger allocation to emerging markets for most of the fiscal year versus its benchmark.

HPOPS' real estate portfolio out-performed the NCREIF Property Index by 13.0%, however the funded allocation to the asset class was approximately 2.0% when compared to the target allocation that ranged between 5.0% - 7.5% during the year.

Domestic Equity

The System's domestic equity investments generated a 24.9% return, marginally underperforming its benchmark, the Russell 3000, by 0.3%. 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. 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, 2014 are as follows (dollars in 000's):

Manager	Style	Assets	% Returns	Fees
BlackRock	S&P 500 Index	209,641	24.0%	38
Parametric Clifton [1]	Russell 3000 Futures	457,807	31.7%	253
Parametric Clifton	Defensive Equity	19,382	10.2%	319
Northern Trust MLP	Energy Infrastructure	114,921	21.4%	208
Panagora	Quality Stock Portfolio	179,408	20.6%	167
		$ 981,159		$ 985

1 - See footnote 4 to the finacial statements for disclosure of leverage in this strategy

International Equity

The System's international equity investments returned 20.5%, underperforming the 21.8% 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.

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, 2014 are as follows (dollars in 000's):

Manager	Style	Assets	% Returns	Fees
BlackRock	Emerging Markets Passive	60,568	14.0%	161
BlackRock	World Equity ex-US	378,095	21.6%	173
Clifton Group	World Equity ex-US Futures[1]	309,569	23.1%	223
Clifton Group	Currency Hedge	5,567	-5.9%	19
Causeway Capital	EAFE[2]	15	6.5%	na
DFA	Emerging Markets Equity	56,176	15.5%	259
		$ 809,990		$ 835

[1] See footnote 4 to the financial statements for disclosure of leverage in this strategy.

[2] Terminated 10/31/2012

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 credit-oriented managers for the fiscal year ending June 30, 2014 are as follows (dollars in 000's):

Manager	Style	Assets	% Returns	Fees
MacKay Shields	High Yield[1]	$ 38,077	10.3%	$ 249
Shenkman Capital Mgmt	High Yield	84,123	11.3%	199
Northern Trust	High Yield[2]	106,066	6.1%	206
Brevan Howard	Opportunistic Credit	41,425	15.5%	1,885
Silver Point	Opportunistic Credit	45,029	10.0%	1,880
Elliott	Opportunistic Credit	38,888	11.1%	1,335
Och Ziff	Opportunistic Credit	63,058	19.1%	3,110
Anchorage	Opportunistic Credit	44,442	19.6%	2,421
		$ 461,109		$ 11,285

[1] Terminated May 30, 2014

[2] Strategy funded January 2, 2014, return not annualized.

Fixed Income

The System's fixed income strategy consists of an allocation to an emerging markets fixed income fund which tactically invests in emerging markets local currency, emerging markets debt and emerging markets corporate high yield. During the year, the System terminated its investments in domestic TIPS and global bonds in favor of the public equity markets. The System's fixed income portfolio outperformed its benchmark with a fiscal year return of 6.5% versus the 4.4% return of the Barclays' Aggregate Index for the same time period. Assets under management, annualized rates of return and fees paid to the fixed income manager for the fiscal year ending June 30, 2014 is as follows (dollars in 000's):

Ashmore	Total Return Fund	161,492	5.8%	1,823
		$ 161,492		$ 1,823

Alternative Investments

The System's alternative investment program consists of allocations to private equity, energy assets, real estate, hedge funds, and risk parity strategies. 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. During the year, the System increased its allocation to private equity by 2.5% and separated the energy funds creating a dedicated 2.5% allocation to energy assets. Although the private equity program is a relatively mature strategy, it remains underfunded by approximately 5.5% due primarily to the increased allocation to the asset class and also to distributions exceeding drawdowns over the last few years. The System had investments in, or commitments to, 92 individual private equity and energy partnerships with 59 general partners as of June 30, 2014. The current allocation within this strategy is approximately 43% leveraged buyouts, 22% special situation funds, 17% venture capital, 1% secondary and 17% in energy funds. This program required $67.0 million of additional funding during fiscal 2014, while generating distributions of $89.6 million for the same period. The private equity program generated a 22.0% return for the 2014 fiscal year versus a return of 29.9% for its benchmark, the S&P 500 + 5%. The System's energy allocation returned 19.8%, underperforming its benchmark, the S&P 500 Energy Index by 8.9%. The underperformance in the energy portfolio is due to the J-Curve effect, which is prevalent in the first few years of a funds life as capital is used to pay fees and expenses, while investments have yet to appreciate.

During fiscal year 2014, the System increased its real estate allocation to 7.5% of assets, an increase of 2.5%. As of June 30, 2014 the market value of real estate assets comprised 2.4% of the System's total assets. The 5.1% shortfall between the target allocation and the current allocation is due to the increased target allocation during the year, in addition to the timing and relatively immature nature of the portfolio. The System began committing to the asset class during 2007, immediately prior to the great recession. During the recession, capital was not called due to extreme market uncertainty, essentially delaying investment into the asset class for approximately two years. The System's real estate portfolio returned 24.1% during fiscal year 2014, outperforming its benchmark the NCREIF Property Index by 13.0%.

The System also has a 23.0% allocation to hedge funds and had $561.1 million invested as of June 30, 2014. These strategies generated fiscal year performance of approximately 14.2%, outperforming the HFR Fund of Funds Composite Index by 6.5%. The hedge fund portfolio benefitted most from its global macro managers who were able to successfully express their views through directional or relative value trades.

The System reduced its allocation to risk parity from 25.0% to 15.0% during the year. These risk parity strategies are designed to address the issue of traditional over-allocation of risk to equities and to take full advantage of the powers of diversification. Capital is invested in order to gain exposures to equity, nominal rates, inflation and credit / currency holdings. Each underlying asset class had positive performance over the fiscal year period, with the strong performance being driven by developed equity. The risk parity funds outperformed their benchmark, a 60% S&P 500 / 40% BC US Aggregate mix, by returning 20.6% vs. 16.2%, respectively.

Assets under management, annualized rates of return and fees paid to alternative investments managers for the fiscal year ending June 30, 2014 are shown on below (dollars in 000's):

Manager	Style	Assetss	% Returns	Fees
Bridgewater	Risk Parity	$ 265,336	18.0%	$ 792
AQR	Risk Parity	293,669	21.8%	2,468
First Quandrant	Risk Parity	274,629	27.4%	594
Bridgewater	Hedge Funds[1]	242,436	19.5%	11,435
Mercer	Hedge Funds	318,680	10.2%	600
Mercer	Real Assets[2]	104,134	24.1%	-
Franklin Park	Private Equity	300,489	22.0%	400
Franklin Park	Energy[3]	59,202	19.8%	-
		$ 1,858,575		$ 16,289

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

[2] *Fees consist of the Mercer $600 thousand annual fee.*

[3] *Fees consist of the Franklin Park $400 thousand annual fee.*

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)
Parametric Clifton	Cash Securitization	$ 49,212	14.6%	$ 26
		$ 49,212		$ 26

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).

	2014	2013	2012
Avg Securities on Loan	$ 76,375	$ 182,586	$ 229,535
Avg Eligible Securities	$ 373,065	$ 698,177	$ 939,576
% on Loan	20.5%	26.2%	24.4%
HPOPS Net Earnings	$ 131	$ 269	$ 557
Duration of Collateral Pool (days)	44	43	40

Report Preparation

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

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

Year	System Total	Composite Benchmark	Domestic Equity	Russell 3000	Int'l Equity	MSCI ACWI ex U.S.	Fixed Income	Barclays Aggregate	Credit	Citigroup HY	Alternative Investments
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
2014	17.4	18.7	24.9	25.2	20.5	21.8	6.5	4.4	13.5	11.3	18.5

Compound Annualized Rates of Return by Year (%)
Periods Ended June 30, 2014

Year	System Total	Composite Benchmark	Domestic Equity	Russell 3000	Int'l Equity	MSCI ACWI ex U.S.	Fixed Income	Barclays Aggregate	High Yield	Citigroup HY	Alternative Investments
2	12.6	15.2	23.2	23.3	16.1	17.6	3.5	1.8	13.5	10.2	11.1
3	9.3	11.1	16.0	16.5	4.9	5.7	3.7	3.7	11.8	9.4	10.1
5	12.4	13.1	19.0	19.3	10.7	11.1	6.4	4.9	13.4	13.6	13.0
10	8.2	7.8	7.9	8.2	6.6	7.8	7.5	4.9	9.2	8.7	10.8

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, 2014

Shares	Description	Market Value ($000's)	% of Total Domestic Equity
129,086	Exxon Mobil Corp.	$ 12,996	1.3%
227,116	Microsoft Corp.	9,471	1.0%
85,212	Johnson & Johnson	8,915	0.9%
302,028	General Electric Co.	7,937	0.8%
57,042	Chevron Corp.	7,447	0.8%
81,503	Procter & Gamble	6,405	0.7%
30,239	Int'l Business Machs	5,481	0.6%
112,748	Coca Cola Co.	4,776	0.5%
103,069	Oracle Corp.	4,177	0.4%
48,688	Walt Disney Co.	4,175	0.4%

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

Schedule of Brokerage Commissions Paid

Domestic Equity Trading - Total Commissions Paid
For the year ended June 30, 2014

Brokers	Shares	Commissions	Principle	Commissions Per Share
Bernstein, Sanford C. & Co.	1,192,847	15,412	76,235,384	0.013
Merrill Lynch	170,784	2,189	10,724,415	0.013
ITG Inc.	29,070	387	1,776,966	0.013
Barclays Capital	8,850	111	592,395	0.013
Instinet	3,280	44	231,354	0.013

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SECTION FOUR

ACTUARIAL SECTION

Gabriel Roeder Smith & Company
Consultants & Actuaries

HOUSTON POLICE OFFICERS' PENSION SYSTEM

ACTUARIAL VALUATION REPORT

FOR THE YEAR BEGINNING JULY 1, 2013

GRS Gabriel Roeder Smith & Company
Consultants & Actuaries
5605 N. MacArthur Blvd.
Suite 870
Irving, TX 75038-2631
469.524.0000 phone
469.524.0003 fax
www.gabrielroeder.com

November 12, 2013

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

Subject: Actuarial Valuation Report as of July 1, 2013

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, 2013. 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, 2013 actuarial valuation will be used by the Board when determining the employer contribution rate for the year beginning July 1, 2014 and ending June 30, 2015.

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 was allowed to contribute $8.5 million less than required bringing the total contribution receivable to $25.5 million which is 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.

Given the above schedule, the actual employer contribution amount for the fiscal year ending June 30, 2015 will not be set by this actuarial valuation as of July 1, 2013. Therefore, the actuarially calculated contribution rate determined by this valuation will not be contributed by the City of Houston. Based upon projected active member payroll of approximately $390 million for FY2014, the City's calculated contribution amount should be about $141 million. Instead, the City will only contribute $103 million for FY2014 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, 2013). 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, 2013 is 81.3%. The funded ratio measured on the market value of assets drops to 75.3% as of July 1, 2013.

The calculated employer (City of Houston) contribution rate for FY 2015 is 36.01%. This rate is greater than the 34.50% rate calculated in the July 1, 2012 actuarial valuation report. This is primarily due to the asset loss in FY 2013 on an actuarial value basis (6.58% 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, fewer retirements than expected, and the annual cost of living adjustment (COLA) being less than assumed. 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 $296.6 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 than 40% 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, 2013. 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, 2012).

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, 2013 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, 2013 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.

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, 2013.

All of our work conforms with generally accepted actuarial principles and practices, and to 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

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, 2013	July 1, 2012
Membership		
• Number of:		
- Active members	5,364	5,326
- Retirees and beneficiaries	3,323	3,199
- Inactive members	26	31
- Total	8,713	8,556
• Annualized Payroll supplied by HPOPS	$ 378,702	$ 376,699
Calculated Contribution rates		
• Employer	36.01%	34.50%
• Member[1]	9.33%	9.29%
Assets ($000s)		
• Market value	$ 3,774,375	$ 3,566,968
• Actuarial value	4,070,951	3,888,504
• Estimation of return on market value	7.9%	2.8%
• Estimation of return on actuarial value	6.6%	6.3%
• Employer contribution	$ 93,392	$ 83,027
• Member contribution	$ 35,586	$ 35,151
• Ratio of actuarial value to market value	107.9%	109.0%
Actuarial Information		
• Employer normal cost %	20.83%	20.54%
• Unfunded actuarial accrued liability (UAAL)	$ 939,010	$ 858,669
• Amortization rate	15.18%	13.96%
• Funding period	30.0 years	30.0 years
• GASB funded ratio	81.3%	81.9%
Projected employer contribution based on calculated rate		
• Fiscal year ending June 30,	2014	2013
• Projected payroll (millions)	$ 392.0	$ 389.9
• Projected employer contribution (millions) (actual contribution rate set by Meet & Confer)	$ 141.1	$ 134.5

[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%
July 1, 2013	4,070,951	5,009,961	939,010	81.3%	391,957	239.6%

* 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)

	Aggregated Accrued Liabilities for				by Reported Assets		
Valuation Date	Active Members Contributions	Retirees Beneficiaries and Vested Terminations[1]	Members (City Financed Portion)	Actuarial Value of Assets	(5)/(2)	[(5)-(2)]/(3)	[(5)-(2)-(3)]/(4)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
July 1, 1993	$ 114,279	$ 401,989	$ 468,227	$ 947,456	100.0%	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%
July 1, 2013	163,660	2,501,745	2,344,556	4,070,951	100.0%	100.0%	60%

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 (1)	Active Count (2)	Average Age (3)	Average Svc (4)	Covered Payroll (5)	Average Salary (6)	Percent Changes (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%
2013	5,364	42.6	15.7	$391,957	$73,072	(0.2%)

(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

	Added to Rolls		Removed from Rolls		Rolls-End of Year			
Valuation July 1,	Number	Annual Allowances	Number	Annual Allowances	Number	Annual Allowances	% Increase in Annual Allowances	Average Annual Allowances
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1993	106	$ 2,172	64	$ 953	1,419	$ 27,286	7.1%	$ 19,229
1994	107	2,425	48	847	1,478	29,464	8.0%	19,935
1995	893	19,109	36	602	2,335	48,624	65.0%	20,824
1996 *	182	3,481	29	618	2,488	52,772	8.5%	21,211
1998	159	3,483	28	589	2,619	63,957	21.2%	24,420
1999	150	3,770	46	1,001	2,723	70,432	10.1%	25,866
2000	233	6,421	36	857	2,920	76,401	8.5%	26,165
2001 **	131	3,755	1,250	33,892	1,801	54,006	(29.3%)	29,987
2002	104	2,809	46	1,113	1,859	55,013	1.9%	29,593
2003	106	2,967	47	1,109	1,918	61,531	11.8%	32,081
2004	220	9,172	33	1,014	2,105	70,307	14.3%	33,400
2005	353	15,962	55	1,776	2,403	86,933	23.6%	36,177
2006	254	10,195	66	2,197	2,549	96,812	11.4%	37,980
2007	175	8,056	49	1,809	2,717	105,481	9.0%	38,823
2008	149	11,889	57	1,995	2,809	115,375	9.4%	41,073
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
2013	183	11,674	64	2,345	3,349	156,066	6.4%	46,601

* 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, 2013	July 1, 2012	July 1, 2011
	(1)	(2)	(3)
1. Active members			
a. Number	5,364	5,326	5,312
b. Number in DROP	1,871	1,751	1,728
c. Total payroll ($000)	$ 391,957,035	$ 389,883,887	$ 388,409,256
Payroll in DROP ($000)	$ 160,525,437	$ 150,041,249	$147,732,433
d. Average salary	73,072	73,204	73,119
e. Average age	42.6	42.5	42.3
f. Average service	15.7	15.7	15.7
2. Inactive participants			
a. Vested	26	31	33
b. Total annual benefits (deferred)	$ 700,082	$ 842,031	$ 898,045
c. Average annual benefit	26,926	27,162	27,213
3. Service retirees			
a. Number	2,592	2,478	2,378
b. Total annual benefits	$ 124,620,427	$ 116,585,404	$ 108,763,539
c. Average annual benefit	48,079	47,048	45,737
d. Average age	64.0	63.6	63.3
4. Disabled retirees			
a. Number	146	147	144
b. Total annual benefits	$ 6,308,203	$ 6,039,796	$ 5,774,687
c. Average annual benefit	43,207	41,087	40,102
d. Average age	54.3	53.6	53.3
5. Beneficiaries and spouses			
a. Number	585	574	566
b. Total annual benefits	$ 24,437,628	$ 23,269,735	$ 22,186,944
c. Average annual benefit	41,774	40,540	39,200
d. Average age	69.3	68.9	68.3

Summary of Actuarial Assumptions and Methods

The following methods and assumptions were used in preparing the July 1, 2013 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, gender 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. Cost of Living Adjustment (COLA): 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%. For this valuation, the annual COLA is assumed to be 2.80%.

c. 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%

d. 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

	Service	
Age	<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%

For members hired after October 9, 2004, the retirement rate at age 55 is increased by 50% (adjusted rate is 18% if service <25 and 36% if service is 25+).

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) are a function of the member's service and are not applied after a member becomes eligible for a retirement benefit. Disability rates are age-based and not applied for members in the DROP or those members eligible to back 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 (D R O P)

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 (PROP)

Eligibility	Retired from DROP and sworn in prior to October 9, 2004.
Benefit	
‣ After November 28, 1998 but prior to July 1, 2001	A retired member is allowed to leave all or a portion of their DROP account in the System. These accounts are credited every calendar year with the 30-year Treasury bond rate as of June of the preceding year.
‣ After July 1, 2001	The interest rate earned on PROP accounts will be the same as the interest rate credited to DROP accounts, including a minimum credited rate of 0%.

Partial Lump Sum Optional Payment (PLOP)

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

Disability Retirement

Eligibility	Effective July 1, 2001, participant partially or totally disabled is eligible for Disability Retirement as defined below: – Total: Disability is defined as “unable to perform his/her usual and customary duties as a police officer”. – Partial: Disability is an impairment which renders the participant unable to work as a police officer and which is expected to last 12 months.

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.

Additional Benefits

Effective December 1, 1998, a $5,000 lump sum is paid upon the death of an active member who was sworn in prior to October 9, 2004.

Effective July 1, 2001, an extra monthly benefit of $150.00 is payable for life. Children receiving equivalent of the spouse's benefit do not receive this additional benefit.

Benefit Adjustments

Cost-of-Living

- Prior to October 9, 2004

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

- After October 9, 2004

Monthly benefits for participants receiving payments are increased each April 1 by 80% of the increase in the Consumer Price Index for All Urban Consumers (CPI-U) for the preceding year, with a minimum of 2.4% and a maximum of 8%.

13th Benefit Check

Effective November 28, 1998, a 13th benefit check is paid to current retirees and DROP members when:

– The assets on the fund equal or exceed the liabilities after the 13th benefit check is paid.

– The return on investments for the preceding fiscal year exceeds 9.25%.

– The payment of the benefit will not cause the City of Houston's contribution to the System to increase.

– Effective October 9, 2004, the funded ratio of the plan must be at least 120% for the 13th check to be paid out.

Service Adjustments	Effective November 28, 1998, participants with previous service with the City in non-classified positions may use that service to satisfy the service requirement of 20 years for retirement purposes only. Effective July 1, 2001, participants who have service credit in more than one City of Houston Pension Plan may use their combined service to qualify for DROP participation. Effective July 1, 2001, participants involuntarily transferred to the System from the Houston Municipal Employees System will receive service under this plan for years worked while serving as a City Marshall, Airport Police or Park Police.

Contributions

Employee Contributions

▸ Prior to December 1, 1998	Each participant contributes 8.75% of base salary.
▸ After December 1, 1998 but before October 9, 2004	Each participant contributes 8.75% of average total direct pay less overtime.
▸ After October 9, 2004	
– Members sworn in prior to October 9, 2004	Each participant contributes 9.00% of pay. The additional 0.25% will be credited to the Plan’s general fund.
– Others	Each participant contributes 10.25% of pay, which will be credited to the Plan’s general fund.
Refunds	Refunds of contributions are made if (i) The participant dies before 10 years of service and the death is not duty-connected, (ii) The participant dies with no eligible survivor, (iii) A Plan 1 or 2 participant leaves service before eligibility for retirement after completing 5 years of service, or (iv) A Plan 3 participant leaves service with less than 20 years of service. Contributions are refunded without interest.

Employer Contribution The City of Houston will follow the following contribution schedule:

Fiscal Year Ending (June 30th)	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.

SECTION FIVE

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 89 shows the additions and deductions from plan net assets and the resulting changes in plan net assets for the ten years ending June 30, 2014. Contributions from members and the City have grown steadily, increasing 114% during this ten year period, while deductions from plan net assets, which are primarily for benefits paid to members, have increased 38% during this time. The System's investment income, even with a loss in 2009, provides 71% of additions to plan net assets.

City and member contributions to the System are external sources of the additions to plan net assets. **Contribution Rates** on page 90 show what percent the City's and the members' contributions are of payroll for the ten years ending June 30, 2014. The accompanying chart of **Contributions and Benefits Paid** compares the total contributions made and the benefits paid for the ten years ending June 30, 2014. 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 91 provides details of the System's net investment gain/loss for the ten years ending June 30, 2014.

Deductions from Net Assets for Benefits and Refunds by Type on page 92 presents a detailed view of the benefits paid to members and refunds for the ten years ending June 30, 2014, and the chart on page 93 graphically represents this data. Service retirements account for the majority of benefit payments, growing over the last several years as the number of retirees has increased. Lump sum benefits 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 94, **Valuation of Assets as a Percent of Pension Liabilities** shows the percentage of the pension liability that is funded and **Net Assets Compared to Pension Liability** compares the actuarial value of the System's assets to the actuarial accrued liability. These charts graphically represent the funding progress of the System for the ten years ending June 30, 2013. 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 95 provides a breakdown of the plan membership for the ten years ending June 30, 2014. For fiscal year 2014, active members decreased by 19 to 5,347 and retired members and their beneficiaries increased by 151.

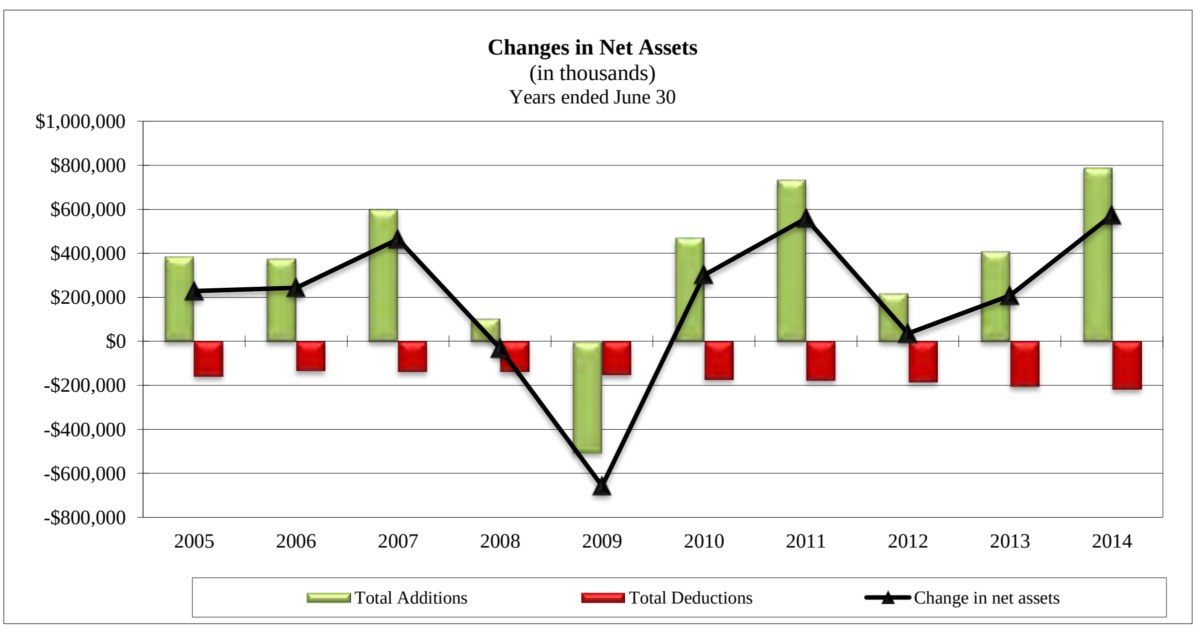
Operating Information

The **Pensions in Force** and **Pensions Awarded** schedules on page 96 provide the number of pensions by type, age and payment amount. The **Average Monthly Benefit Amounts by Years Credited Service** on page 97 presents the average final average salary and the number of retired members, in five-year increments of credited service, for the ten years ended June 30, 2014. The **DROP and PROP Activity** schedules on page 98 provide information about the total amount in DROP and PROP accounts and the total number of participants as well as the changes to those totals for the ten years ending June 30, 2014.

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

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

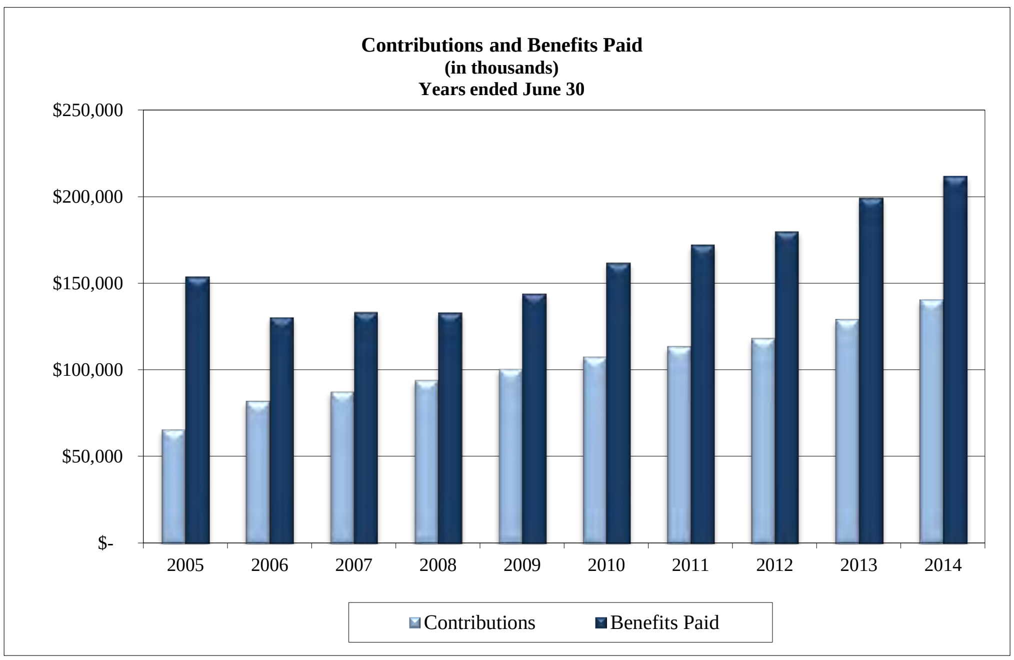
Fiscal Year	2010	2011	2012	2013	2014
Additions					
City contributions	$ 73,192	$ 78,287	$ 83,027	$ 93,392	$ 103,372
Members contributions	34,218	35,122	35,151	35,586	37,012
Investment income (net of expenses)	364,650	621,557	102,095	281,724	649,022
Securities lending income (net of expenses)	473	449	485	269	131
Total additions to plan net assets	472,533	735,415	220,758	410,971	789,537
Deductions:					
Benefits paid to members	161,735	172,041	180,014	199,255	211,690
Refunds to members	547	420	704	641	906
Professional and administrative expense	8,945	4,364	3,689	3,668	3,439
Total deductions from plan net assets	171,227	176,825	184,407	203,564	216,035
Change in net assets	$ 301,306	$ 558,590	$ 36,351	$ 207,407	$ 573,502



Contribution Rates

Previous Ten Fiscal Years

	Percent of Payroll	
Fiscal Year	City	Members
2005	12.20%	8.79%
2006	11.26%	8.61%
2007	16.53%	8.99%
2008	17.73%	9.02%
2009	18.75%	9.23%
2010	19.34%	9.25%
2011	19.95%	9.33%
2012	20.72%	9.30%
2013	21.38%	9.05%
2014	26.59%	9.52%



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

Fiscal Year	2005	2006	2007	2008	2009
Investing activities					
Net appreciation (depreciation) in fair value of investments	$ 275,205	$ 256,825	$ 459,957	$ (26,749)	$ (643,053)
Interest	35,006	30,201	38,304	34,603	31,452
Dividends	26,314	21,926	27,581	19,540	13,170
Other income	282	157	147	142	57
Total	336,807	309,109	525,989	27,536	(598,374)
Less investment expense	(16,246)	(14,143)	(13,116)	(18,186)	(9,108)
Net income (loss) from investing activities	320,561	294,966	512,873	9,350	(607,482)
Securities lending activities					
Securities lending income	1,332	1,478	1,652	3,189	1,903
Securities lending expense	(456)	(377)	(413)	(797)	(476)
Net income from securities lending activities	876	1,101	1,239	2,392	1,427
Total investment income (loss)	321,437	296,067	514,112	11,742	(606,055)

Fiscal Year	2010	2011	2012	2013	2014
Investing activities					
Net appreciation (depreciation) in fair value of investments	$ 330,724	$ 594,052	$ 53,935	$ 241,324	$ 625,973
Interest	30,029	31,180	47,121	32,330	25,288
Dividends	16,608	18,998	19,200	20,238	18,119
Other income *	72	365	1,135	2,550	2,167
Total	377,433	644,595	121,391	296,442	671,547
Less investment expense	(12,783)	(23,038)	(19,296)	(14,718)	(22,525)
Net income (loss) from investing activities	364,650	621,557	102,095	281,724	649,022
Securities lending activities					
Securities lending income	631	599	646	359	175
Securities lending expense	(158)	(150)	(161)	(90)	(44)
Net income from securities lending activities	473	449	485	269	131
Total investment income (loss)	$ 365,123	$ 622,006	$ 102,580	$ 281,993	$ 649,153

* 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.

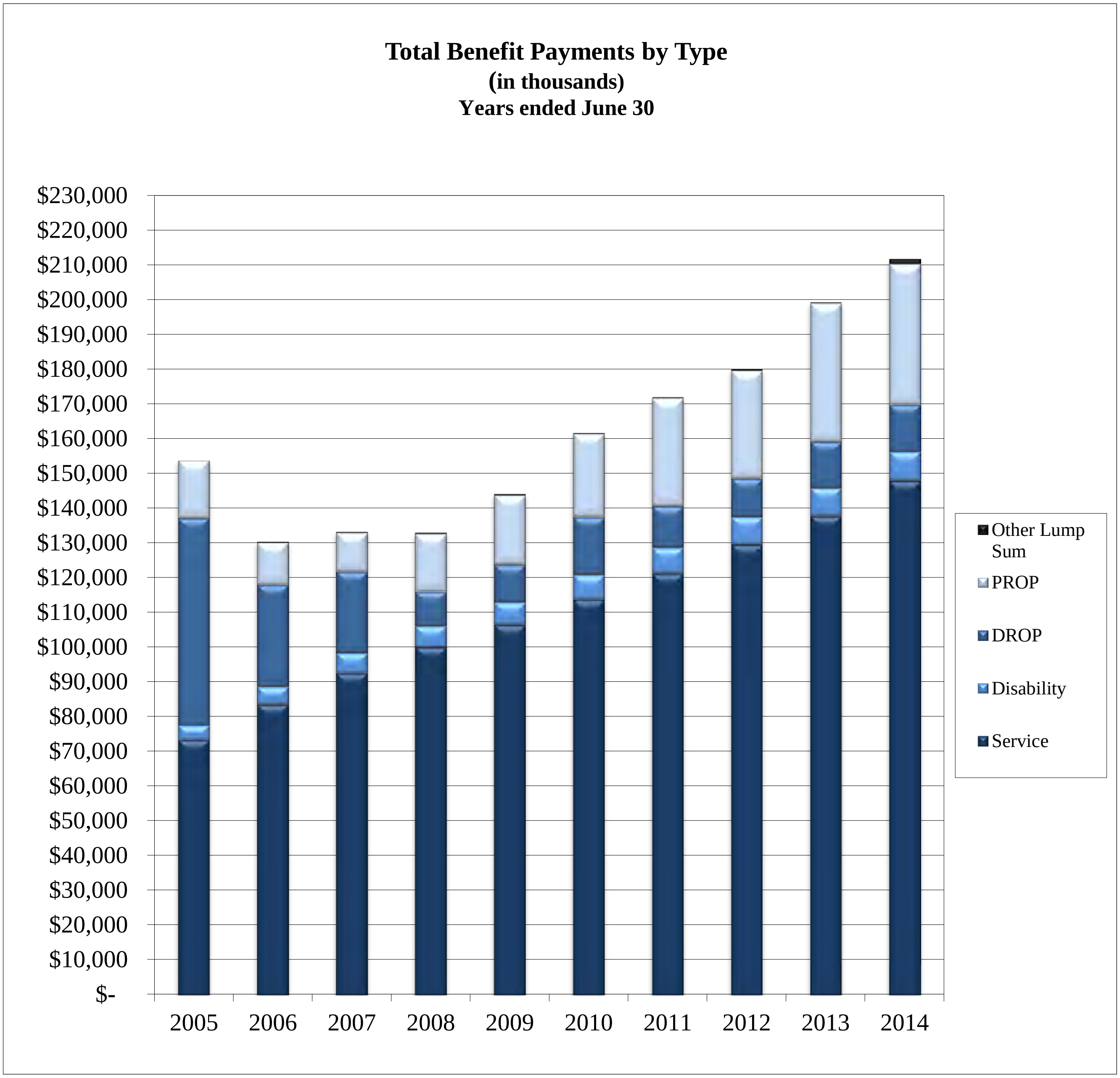
Deductions from Net Assets for Benefits and Refunds by Type
Previous Ten Fiscal Years
($000's)

Fiscal Year	2005	2006	2007	2008	2009
Type of Benefit					
Service					
Retirees	$ 59,709	$ 69,074	$ 77,639	$ 83,925	$ 89,226
Survivors	13,733	14,612	14,965	16,203	17,291
Disability					
Retirees - duty	2,604	3,378	4,003	4,154	4,334
Retirees - nonduty	358	347	313	371	444
Survivors	1,310	1,364	1,517	1,531	1,715
Lump Sum					
DROP distributions	59,493	29,272	23,315	9,937	10,889
PROP distributions	16,649	12,233	11,303	16,680	19,922
Other *	5	163	296	248	291
Total benefits	$ 153,861	$ 130,443	$ 133,351	$ 133,049	$ 144,112
Type of Refund					
Death	$ -	$ -	$ -	$ -	$ 3
Separation	1,198	700	739	500	615
Total refunds	$ 1,198	$ 700	$ 739	$ 500	$ 618

Fiscal Year	2010	2011	2012	2013	2014
Type of Benefit					
Service					
Retirees	$ 95,198	$ 101,854	$ 108,886	$ 116,217	$ 125,616
Survivors	18,612	19,425	20,694	21,586	22,333
Disability					
Retirees - duty	4,675	4,989	5,218	5,378	5,517
Retirees - nonduty	516	493	538	546	598
Survivors	1,868	1,960	2,147	2,120	2,195
Lump Sum					
DROP distributions	16,682	11,941	11,078	13,334	13,526
PROP distributions	24,035	31,125	31,180	39,857	40,529
Other *	149	254	273	217	1,376
Total benefits	$ 161,735	$ 172,041	$ 180,014	$ 199,255	$ 211,690
Type of Refund					
Death	$ -	$ -	$ -	$ -	$ -
Separation	547	420	704	641	906
Total refunds	$ 547	$ 420	$ 704	$ 641	$ 906

* 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
$230,000
$220,000
$210,000
$200,000
$190,000
$180,000
$170,000
$160,000
$150,000
$140,000
$130,000
$120,000
$110,000
$100,000
$90,000
$80,000
$70,000
$60,000
$50,000
$40,000
$30,000
$20,000
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2005
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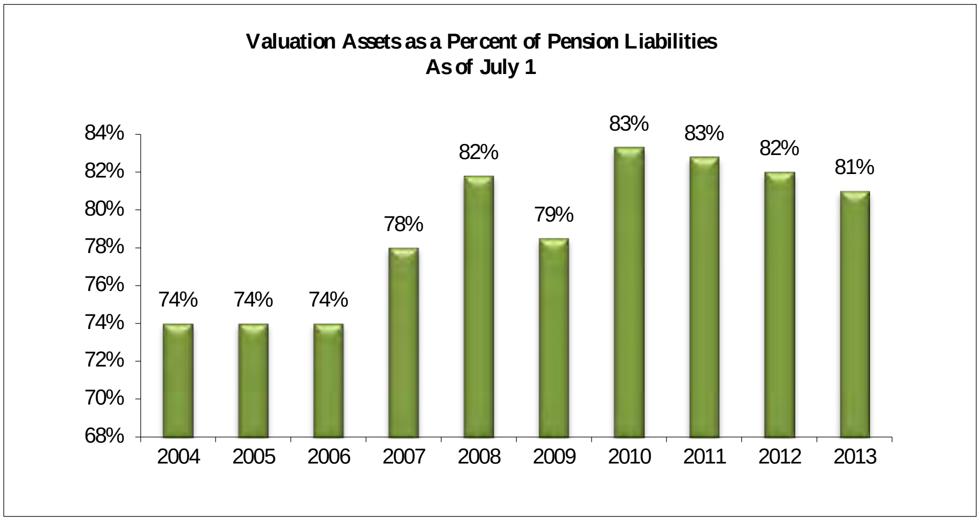
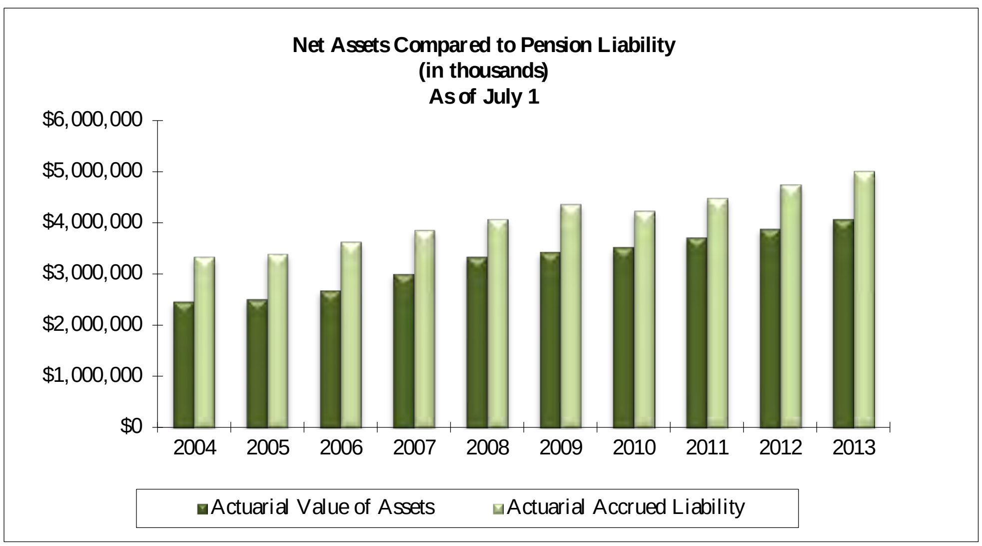
PROP
DROP
Disability
Service

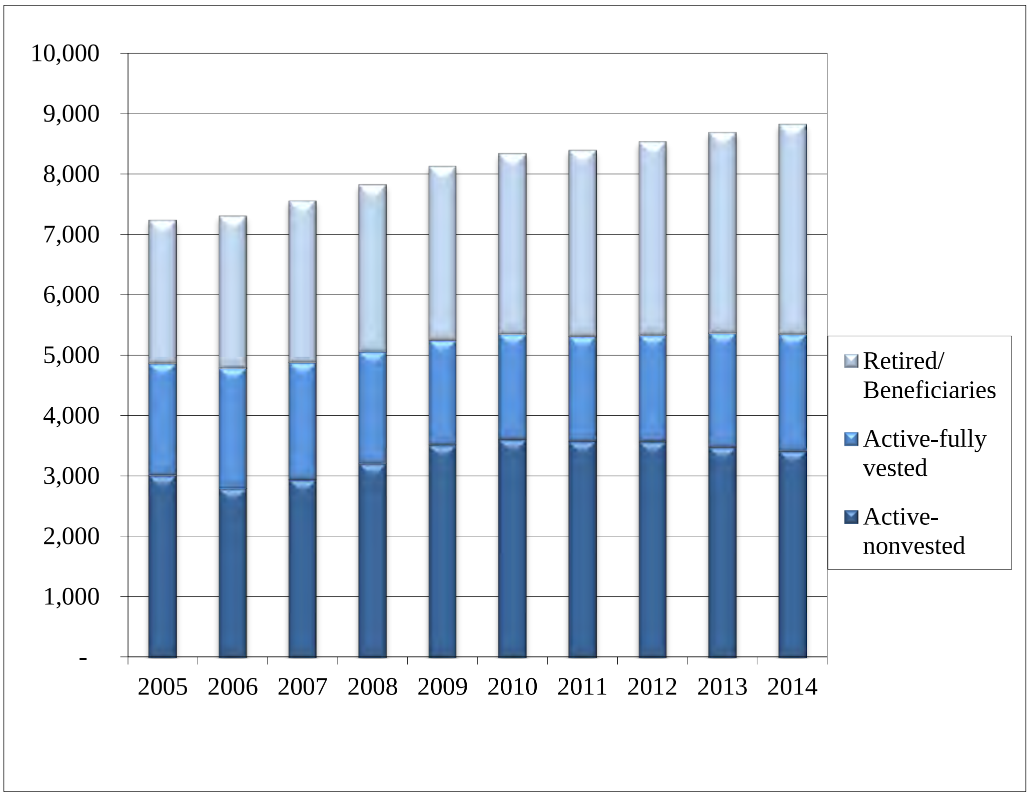




Charts through most recent actuarial valuation dated July 1, 2013.

Membership
Last Ten Fiscal Years

Fiscal Year	Active Nonvested	Active Fully Vested	Retired/ Beneficiaries	Terminated Vested	Totals
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
2014	3,416	1,931	3,477	24	8,848



Total Pensions in Force by Type and by Age
Year Ended June 30, 2014

		Type of Pension		
Age on June 30,	Total	Service	Disability	Survivor
Under 40	29	-	6	23
40-44	25	3	13	9
45-49	90	48	26	16
50-54	393	330	35	28
55-59	580	510	27	43
60-64	769	681	22	66
65-69	650	551	11	88
70-74	353	257	3	93
75-79	293	195	5	93
80-84	169	115		54
85 and over	126	48		78
Total	3,477	2,738	148	591

Pensions Awarded in Current Year by Type and by Age
Year Ended June 30, 2014

		Type of Pension		
Age on June 30,	Total	Service	Disability	Survivor
Under 40	2	-	-	2
40-44	3	2	-	1
45-49	12	10	1	1
50-54	71	66	2	3
55-59	57	51	1	5
60-64	46	44	-	2
65-69	10	3	-	7
70-74	10	2	-	8
75-79	4	-	-	4
80-85	1	-	-	1
85 and over	-	-	-	-
Total	216	178	4	34

Pensions Awarded in Current Year by Type and by Monthly Amount
Year Ended June 30, 2014

		Type of Pension		
Monthly Amount	Total	Service	Disability	Survivor
Under $1000	1	-	-	1
$1000-$2000	-	-	-	-
$2000-$3000	9	1	1	7
$3000-$4000	115	97	3	15
$4000-$5000	73	66	-	7
$5000-$6000	11	8	-	3
$6000 and over	7	6	-	1
Total	216	178	4	34

Average Monthly Benefit Amounts
Previous Nine Fiscal Years

Member Retiring During Fiscal Years		Years Credited Service <5	5-10	10-15	15-20	20-25	25-30	30-35	35-40	40-45	>45	All Members
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
2014	Avg monthly benefit	$ -	$ -	$ -	$ 2,375	$ 3,769	$ 4,117	$ 4,162	$ 4,029	$ 3,802	$ -	$ 4,073
	Avg final Avg salary	$ -	$ -	$ -	$ 5,106	$ 6,713	$ 6,728	$ 6,841	$ 7,217	$ 6,019	$ -	$ 6,834
	Avg DROP Balance	$ -	$ -	$ -	$ -	$ 87,531	$ 578,735	$ 762,664	$ 1,135,941	$ 1,309,578	$ -	$ 689,150
	Number of retirees	-	-	-	1	21	51	82	26	1	-	182
Ten Years Ended June 30, 2014												
	Avg Monthly Benefit	$ 1,827	$ 2,106	$ 2,609	$ 3,123	$ 3,446	$ 3,754	$ 3,819	$ 4,262	$ 4,465	$ 5,255	$ 3,739
	Avg Final Avg Salary	$ 4,006	$ 4,075	$ 4,919	$ 5,595	$ 5,804	$ 6,225	$ 6,523	$ 6,830	$ 6,214	$ 5,980	$ 6,285
	Avg DROP Balance	$ 1,667	$ 4,713	$ 5,000	$ 16,764	$ 124,798	$ 433,572	$ 668,029	$ 913,364	$ 947,442	$ 1,090,789	$ 481,904
	Number of Retirees	3	17	19	21	363	545	456	186	25	8	1,643

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

DROP Activity
(dollars in thousands)
Years ended June 30

	DROP Accounts			DROP Participants		
Fiscal Year	Accumulations	Distributions	Total	Entrants	Withdrawals	Total
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
2014	33,171	(13,526)	887,912	232	(183)	1,921

PROP Activity
(dollars in thousands)
Years ended June 30

	PROP Accounts			PROP Participants		
Fiscal Year	Accumulations	Distributions	Total	Entrants	Withdrawals	Total
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	162	(33)	1,109
2014	144,224	(40,529)	619,367	176	(28)	1,257

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