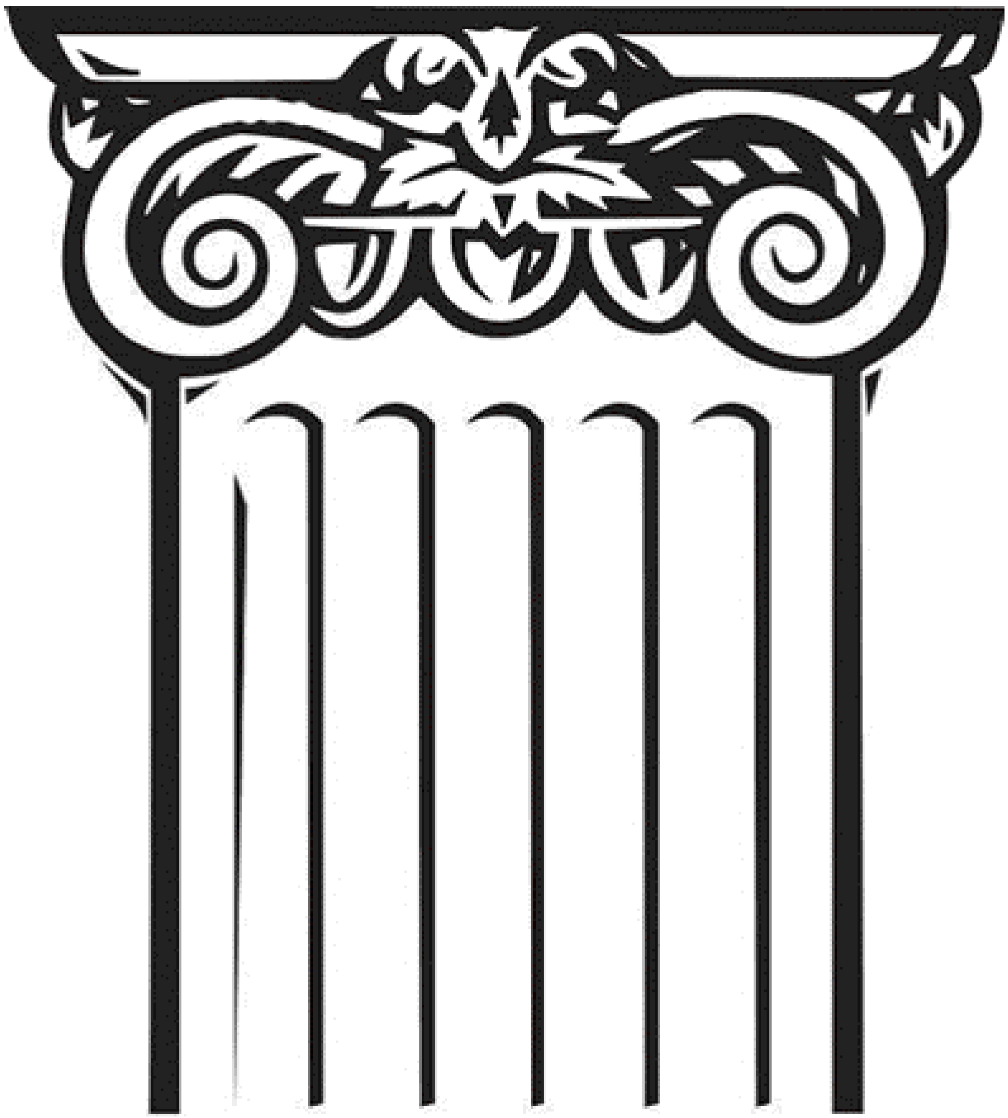
COMPREHENSIVE ANNUAL FINANCIAL REPORT



City of Austin
Employees' Retirement System

For the Year Ended December 31, 2005

Austin, Texas

City of Austin
Employees' Retirement System
2005 Annual Report

Comprehensive Annual Financial Report
for the Year ended December 31, 2005

Prepared by: City of Austin Employees' Retirement System, 418 E. Highland Mall Blvd., Austin, Texas 78752-3720

Our Mission

The mission of the
City of Austin Employees' Retirement System
is to provide reliable retirement benefits.

We Value:

Accessibility
Accountability
Cooperation
Ethical Behavior
Fairness
Innovation
Integrity
Open Communication
Respect
Responsiveness

TABLE OF CONTENTS

(This page intentionally left blank.)

Introductory Section

coaers

City of Austin Employees' Retirement System

June 30, 2006

Board of Trustees
City of Austin Employees' Retirement System
Austin, Texas

Ladies and Gentlemen:

It is our pleasure to submit to you the Comprehensive Annual Financial Report of the City of Austin Employees' Retirement System (COA ERS or System) for the year ended December 31, 2005. The content of this report is designed to provide a complete and accurate review of operations during the year and is the responsibility of COA ERS management. It has been prepared in accordance with generally accepted principles for accounting and reporting as established by the Governmental Accounting Standards Board (GASB) for governmental organizations and public employee retirement systems.

Structure of the Report

This report is divided in five sections:

- **Introductory Section** includes this letter, a listing of professional service providers and investment managers, describes COA ERS management and organizational structure, and provides a summary and history of plan benefits.
- **Financial Section** contains the opinion of the independent auditor, KPMG LLP, Management's Discussion and Analysis, the financial statements and footnotes of COA ERS, and various supplemental schedules.
- **Investment Section** contains a report from the independent investment consultant, Summit Strategies Group, information on COA ERS' asset allocation, performance, and other schedules.
- **Actuarial Section** includes an actuarial valuation by the independent actuary, Gabriel, Roeder, Smith, & Company.
- **Statistical Section** contains general statistical information regarding System participants and financial data.

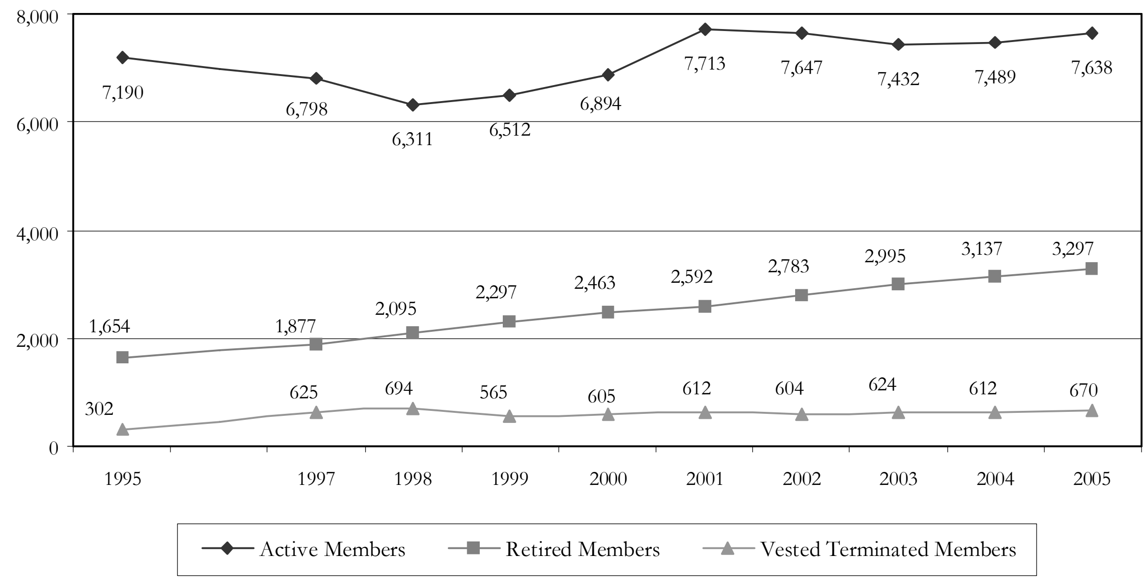
Plan Profile and Demographic Highlights

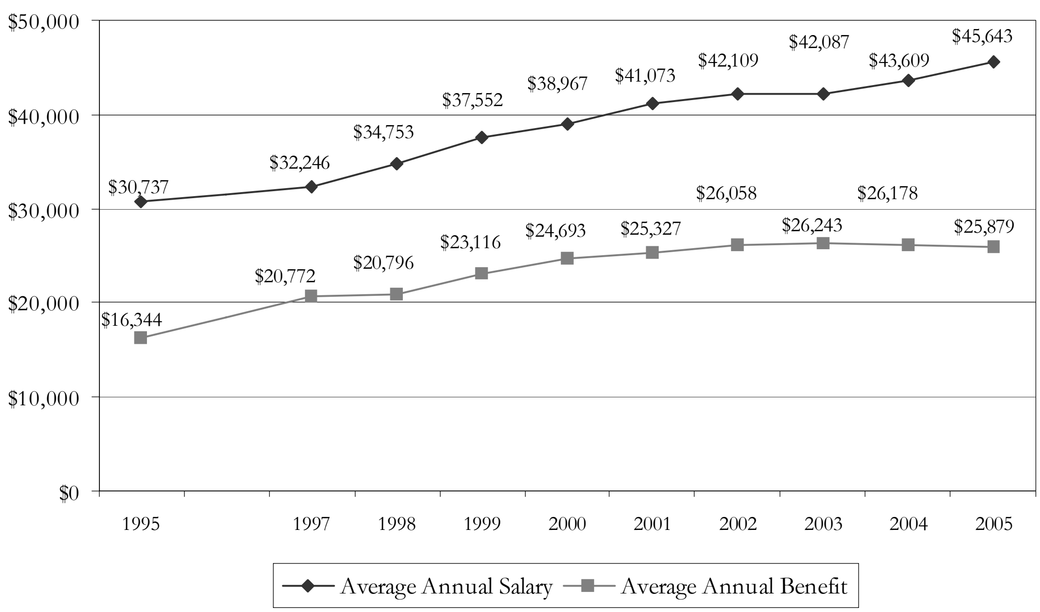
COA ERS was established in 1941 and has provided retirement benefits to eligible City of Austin employees since that time. Though originally created by city ordinance, the System is now governed by state law and administered by an eleven-member board of trustees.

The Plan provides retirement, disability and death benefits to eligible employees of the City of Austin. Both employees and the City of Austin make contributions to the System. Members qualify for normal retirement benefits at age 62; age 55 with 20 years of creditable service; or any age with 23 years of creditable service. Vesting occurs at five years of creditable service. Generally, benefits are determined at 3% of the final average earnings, as defined, multiplied by the number of years of creditable service. Disability retirement is also available pursuant to specific criteria established by statute. Additional information concerning COA ERS plan provisions is contained in the Summary of Plan Provisions later in this section of the report.

The following charts depict the growth in the System membership and the changes in average salaries and benefits. The number of both active and retired members has increased for the past three years. The average salary of active members has increased over the past two years while the average retirement benefit has declined slightly.

Membership Profile





4.0% average increase in average annual salary since 1995

4.7% average increase in average annual benefit since 1995

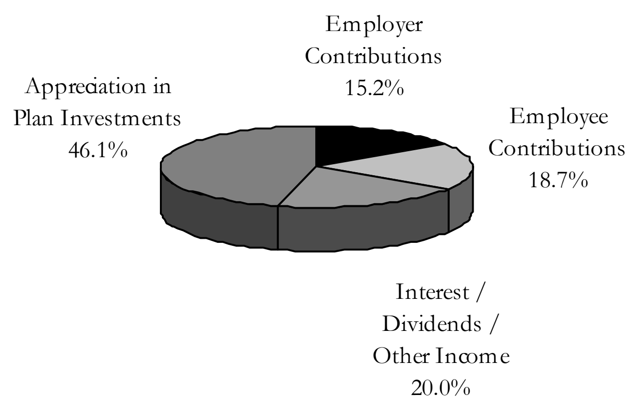
Financial Summary

Internal controls have been established by COA ERS management to provide reasonable assurance that the assets are properly safeguarded, the financial records are fairly and accurately maintained, and the governing statute and policies are correctly followed. The governing statute requires an annual audit of the System's accounts by a Certified Public Accountant. The Board of Trustees has retained KPMG LLP as independent external auditor since 1997. KPMG's 2005 financial audit was conducted in accordance with generally accepted auditing standards and resulted in an unqualified opinion on the financial statements. The Financial Section contains KPMG's audit opinion letter and additional information including Management's Discussion and Analysis (MD&A) which provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

The ***Additions to Plan Net Assets*** consist of employer and employee contributions, investment income, and realized and unrealized gain or loss on investments. For 2005, employer and employee contributions totaled $60.5 million, investment, securities lending, and other income was $36.0 million, and net appreciation in plan investments net of investment expenses totaled $82.1 million, resulting in net additions to Plan Net Assets of $178.6 million. The ***Deductions from Plan Net Assets,*** totaling $92.9 million, consist of $84.0 million in annuity payments, refunds of $3.8 million, Deferred Retirement Option Program (DROP) disbursements of $1.7 million, retiree lump-sum annuity disbursements of $0.1 million, death benefits of $1.8 million, and administrative expenses of $1.5 million. The net increase of $85.7 million results in total assets held in trust of $1.461 billion.

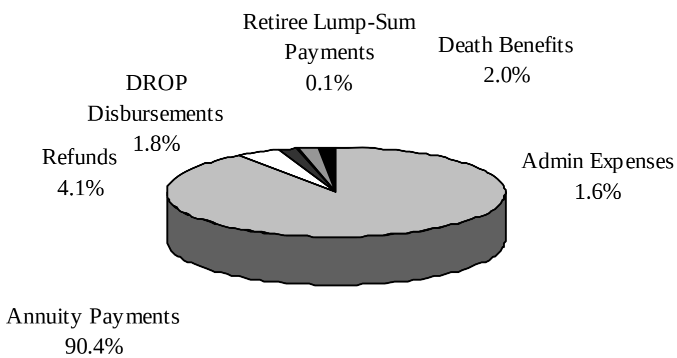
Additions to Plan Net Assets

Employer Contributions	$	27,168,155
Employee Contributions		33,333,966
Interest / Dividends / Other Income		36,039,076
Appreciation in Plan Investments (net of investment expenses)		82,115,215
Total Additions	**$**	**178,656,412**



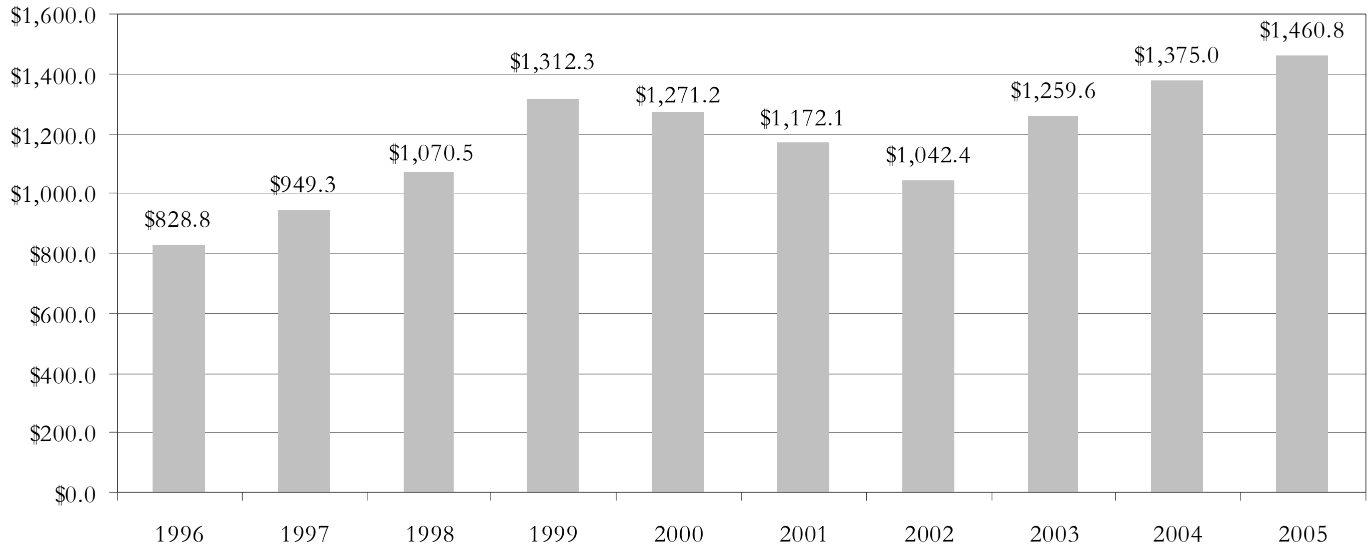
Deductions from Plan Net Assets

Annuity Payments	$	84,002,523
Refunds		3,775,042
DROP Disbursements		1,650,223
Retiree Lump-Sum Payments		147,838
Death Benefits		1,848,379
General & Administrative Expenses		1,497,461
Total Deductions	**$**	**92,921,466**



The following chart shows the ***Total Plan Net Assets*** at the end of each year since 1996. Net Assets increased by $85.7 million during 2005, resulting in Total Plan Net Assets of $1,460,766,603 at December 31, 2005. Despite three years of net asset loss (2000-2002), the Plan has increased significantly in Total Plan Net Assets over a ten-year period.

Total Plan Net Assets (in millions)



Investments

Essential to the COA ERS' mission is the responsibility to ensure long-term assets will meet long-term liabilities. This ensures retirement and other benefits will be available for both current and future members. Investments are made with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. Funds of COA ERS are invested solely in the interest of the membership and their beneficiaries, and for the exclusive purpose of providing benefits to such membership and their beneficiaries and defraying reasonable expenses of administering COA ERS. The Board of Trustees has established an investment policy and guidelines which provide for the delegation of investment authority to professional investment advisors.

COA ERS assets are strategically allocated to maximize income and reduce risk by using diverse and complementary portfolio structures. The COA ERS Board has consistently followed a long-range, conservative investment philosophy. The Board employs Summit Strategies Group for independent investment consulting and long-range asset liability analysis.

At December 31, 2005, the investment portfolio of COA ERS was managed by 11 investment managers. The Board has directed an asset allocation strategy as follows: Domestic Fixed Income (30%), International Equities (16.25%), US Equities (Large) (32.5%), US Equities (Non-Large) (16.25%), and Real Estate (5%).

Investment performance for the year ending 12/31/05 was 8.8%, net of fees, compared to a Policy Benchmark of 6.8%. For the three-year period, COA ERS' portfolio returned 14.7%, net of fees, compared to 13.7% for the Policy Benchmark. For the five-year period, COA ERS' portfolio returned 5.0%, net of fees, compared to 4.8% for the Policy Benchmark. For actuarial purposes, the System's annual investment performance is measured over a five-year period, thereby smoothing annual variations in return. COA ERS is a long-term investor with a permanent fund, so performance over longer periods of time is the most important.

Funding and Actuarial Overview

In addition to investment income, the System is funded by contributions equal to eight percent of basic compensation by the City of Austin employees and eight percent of basic compensation by the City of Austin. State law requires that any change to the plan of benefits adopted by the System be approved by a qualified actuary. The actuary certifies whether or not the contribution commitment by the participants and the City provides an adequate financing arrangement. Using the entry age actuarial cost method, the System's normal cost is determined as a percentage of payroll. The excess of the total contribution rate over the normal cost rate is used to amortize the System's unfunded actuarial accrued liability (UAAL), if any, and the number of years needed to amortize the System's UAAL is determined using a level percentage of payroll method.

As certified in this report by Gabriel, Roeder, Smith & Company, due to the significant asset losses that occurred in recent years, COA ERS contributions are not currently sufficient to amortize the unfunded liability of the System. In the absence of significant actuarial gains, the current contribution rates are not sufficient to support the current benefit structure of the Plan. The overall funded position of the System is 78.0%, down from 80.8% in 2004. The actuarial accrued liability and the actuarial value of assets of COA ERS as of December 31, 2005, amounted to $1,794.2 million and $1,398.8 million, respectively. A detailed discussion of funding is provided in the Actuarial Section of this report.

A significant development in 2005 was the adoption of a formal strategy to address the long-term financial stability of the System. In partnership, the COA ERS Board of Trustees and the City Manager developed what is known as the "Supplemental Funding Plan". This plan was adopted by the City Council in May 2005, and is expected to eventually accomplish a 30-year amortization of the unfunded liability of the System. Starting in October 2006, and subject to certain conditions, the City of Austin will provide an additional one percent of covered payroll as a subsidy, which will be in addition to the regular eight percent that the City of Austin currently contributes. The subsidy will increase by one percent each year up to a total subsidy of four percent of covered payroll. If in any year the investment earnings are 12 percent or greater, the increase in the subsidy will be delayed by a year. The subsidy (up to four percent) will stay in effect as long as it is needed to keep a 30-year amortization period. As part of the plan, the City Manager and City Council will become part of the process for consideration of future benefit enhancements, including cost-of-living increases.

Certificate of Achievement

For the seventh consecutive year, COA ERS was awarded a Certificate of Achievement for Excellence in Financial Reporting for its Comprehensive Annual Financial Report for the fiscal year ended December 31, 2004 by the Government Finance Officers' Association of the United States and Canada (GFOA). COA ERS is pleased to have achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both 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.

Acknowledgments

This report reflects the combined effort of the COA ERS staff under the leadership of the Board of Trustees. We would like to express our gratitude to the staff, advisors, and members of the Board who have contributed to the preparation of this report and to the continued successful operation of the City of Austin Employees' Retirement System.

Respectfully Submitted,

Reagan David	Stephen C. Edmonds	Donna Durow Boykin, CPA
Board Chair	Executive Director	Finance Manager

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Austin

Employees' Retirement System, Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2004

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

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

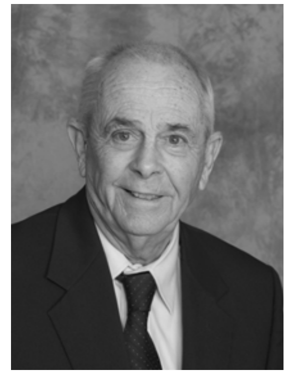
Executive Director

COA ERS 2005 BOARD OF TRUSTEES

Reagan David
Board Chair

Mark Monteith
Board Vice Chair

Janet Bartles
Trustee



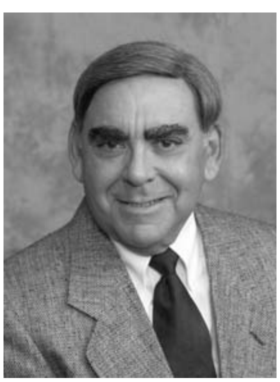
Francis E. Benoit
Trustee

Leslie Browder
Trustee

Eyna Canales-Zarate
Trustee

Betty Dunkerley
Trustee

Francine Gertz
Trustee



Ed Golden
Trustee

Elizabeth S. Gonzales
Trustee

Cathy Rodgers
Trustee

Note: In January 2006, Anthony B. Ross, Sr. took office as Trustee, having been elected by the Active membership.

COA ERS STAFF

Stephen C. Edmonds
Executive Director

Rhonda Helm
Operations Manager

Donna Durow Boykin
Finance Manager

Jesse Ortega
Administrative Supervisor

Melissa Adams
IT Coordinator

Johne Behner
Member Services Specialist

Teresa Cantu
Member Services Specialist

Bertie Corsentino
Financial Analyst

Craig Finkelstein
Member Services Coordinator

Laura L. Fugate
Member Services Specialist

Errin Garcia
Member Services Coordinator

Korrie Hoskins
Accounting Technician

Rosaree Koepsel
Executive Assistant

Cheryl Nelson
Office Coordinator





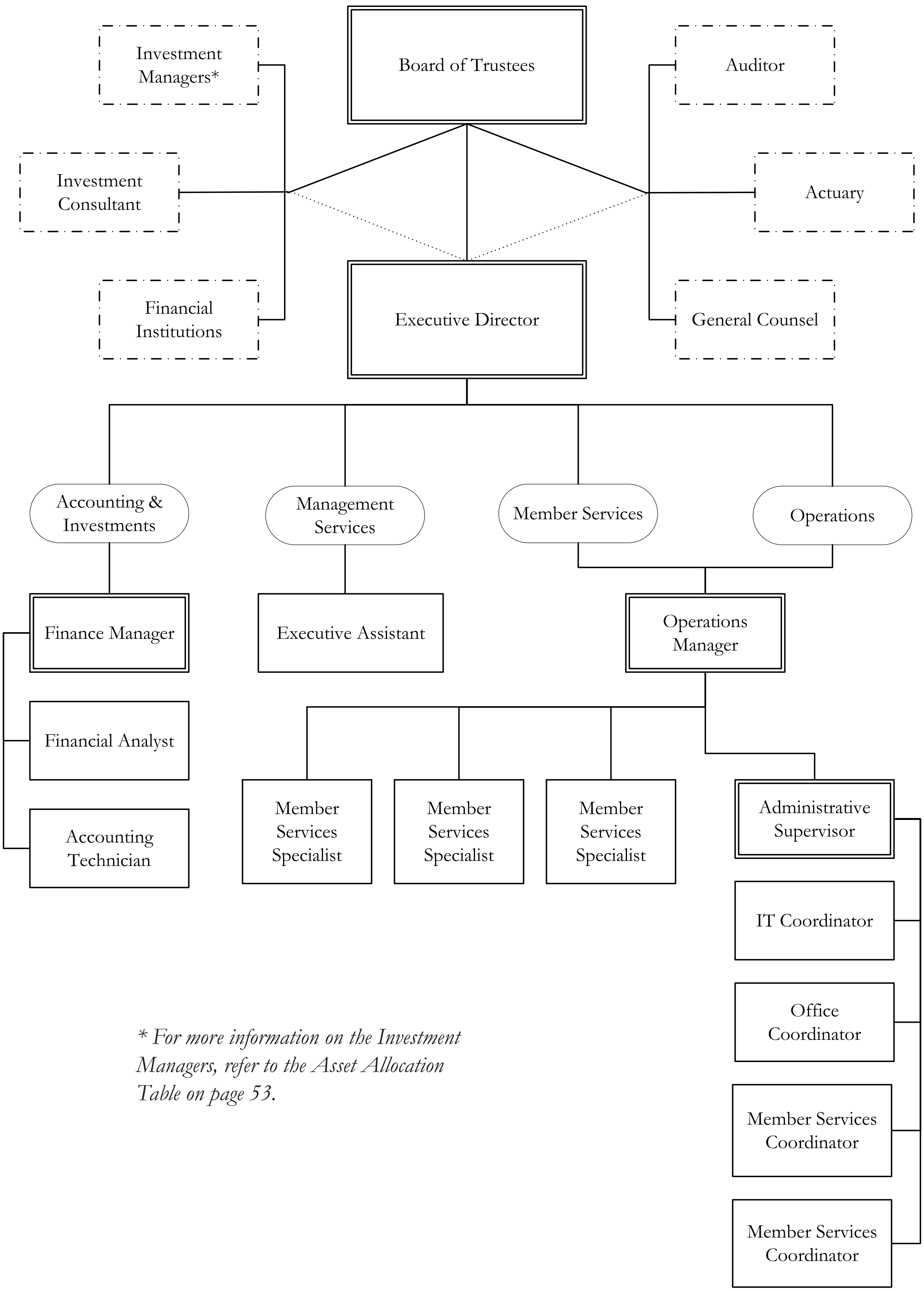









ORGANIZATIONAL CHART



** For more information on the Investment Managers, refer to the Asset Allocation Table on page 53.*

PROFESSIONAL SERVICE PROVIDERS

Investment Consultant
Summit Strategies Group

Custodial Bank
Northern Trust

Independent Auditor
KPMG, LLP

Actuary
Gabriel, Roeder, Smith & Company

General Counsel
Knight & Partners

Operating Bank
JPMorgan Chase Bank, N.A.

INVESTMENT MANAGERS

Fixed Income
Agincourt Capital Management LLC
NTGI QM Aggregate Bond Index Fund

International Equity
Sprucegrove Investment Management LTD
Walter Scott & Partners LTD

Real Estate
Principal Global Investors

US Equity
AQR Capital Management
AllianceBernstein
Aronson + Johnson + Ortiz
Driehaus Capital Management LLC
Eubel Brady & Suttman Asset Management
NTGI QM S&P 500 Equity Index Fund
Sterling Capital Management LLC
Wall Street Associates

SUMMARY OF PLAN PROVISIONS

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM (COA ERS)

Introduction

COA ERS is:
An IRS tax qualified 401(a) defined benefit plan
Governed by State Statute Art. 6243n

COA ERS Board of Trustees:
Provides oversight
Sets policy

COA ERS Staff:
Provides service to all Members
Ensures compliance with policies and procedures

Members of COA ERS:
Are the reason we are here
Are welcome to attend all Board Meetings

Membership Requirements

City of Austin regular employees working 30 or more hours per week become Members of COA ERS on the date of employment as mandated by Statute.

Members do not include:
Temporary employees
Part-time employees working less than 30 hours per week
Civil service employees of the Fire Department and the Police Department
The Mayor and Members of the City Council

Contributions

Employee: Members of COA ERS currently contribute 8% of their base pay, calculated on a 40-hour work week. Contributions are made through payroll deduction each pay period (every two weeks). Overtime and special pay are not included.

Employer: Each pay period, the employer contributes an amount equal to the amount contributed by Member employees. These funds do not become a part of the Member's account. Pursuant to the 2005 COA ERS Supplemental Funding Plan, City contributions could increase 1% per year, beginning in October 2006, if certain criteria are met.

RETIREMENT BENEFITS

Retirement Eligibility

Members are eligible for retirement when they meet one of the following age and service requirements:

- Any number of years Creditable Service at age 62*
- 20 years Creditable Service at age 55
- 23 years Creditable Service at any age

*To meet this retirement eligibility, a Member must either be an Active Contributing Member at age 62, a Terminated Vested Member or a Proportionate Member with five years combined Creditable Service.

Vesting

Members become vested with COA ERS as soon as they have five years of Creditable Service. This includes any combination of the below described types of Creditable Service. The Member is not entitled to receive the employer contribution at any time. Instead, vesting means that a Member is entitled to receive a lifetime benefit as long as their contributions are on deposit in the System upon reaching retirement eligibility.

Creditable Service

In order for COA ERS to calculate retirement benefits, it is important to know the total number of years of Creditable Service a Member has with COA ERS. Creditable Service is a combination of Membership service and other types of Creditable Service described below.

Active/Vested Members, as of October 1, 1995, receive service credit for up to one six-month probationary period at retirement. All Members hired on or after October 1, 1995 become Members on their date of hire or on their date of regular employment at 30 or more hours per calendar week.

In some cases, Members may purchase Creditable Service. A Member may make such purchases twice each calendar year by lump-sum payment. Purchases must be made prior to retirement. Service credit must be purchased in minimum increments of one month and may be subject to other guidelines. To purchase this service, Members may pay by personal check, cashier's check, or money order, or roll over funds from other qualified plans.

The Board of Trustees adopts policies and guidelines governing the purchase of service credit.

Types of Creditable Service

Membership Service - The employment period during which a Member makes payroll contributions to the System is considered the "Membership Service" period.

Reinstated Membership Service (Prior COA Service) - If a Member has left City employment, withdrawn his/her deposits, and later returned to City employment, he/she may purchase and reinstate the earlier time with the City. To purchase this service, he/she must become a Member of COA ERS or another proportionate system. The cost to purchase prior service credit is based on the amount previously withdrawn and an actuarial multiplier.

Non-contributory Service Credit - Members may purchase service credit for the following non-contributory categories:

- Non-contributory service, such as temporary or part-time service (less than 30 hours per week)
- Approved leave of absence
- Workers' compensation leave due to an injury sustained in the course and scope of employment with the City of Austin

Credit for Federal Active Duty Military Service:

Prior Federal Active Duty Military Service - Members may establish up to 48 months Creditable Service for prior military service. Prior military service eligible for purchase is full-time active duty service in the armed forces of the United States performed before the first day of the most recent period of active membership in COA ERS. Military service in the reserves, a service academy, or for less than 90 consecutive days is not eligible for purchase. To purchase prior military service, Members must present an original DD214 showing honorable discharge.

Military Leave of Absence - Members may establish Creditable Service for an authorized leave of absence from employment for military service. The Member may establish such Creditable Service during the authorized leave of absence by continuing to make retirement contributions during the period of service. Alternatively, if the Member returns to employment within the applicable period (that varies from 14 days to 90 days depending on the length of service) after the completion of the military service, the Member and the employer may secure such Creditable Service by making a lump-sum payment within five years of the date the Member returns to employment and Active-Member status.

Permissive Time - Members may purchase up to five years of Creditable Service to advance their retirement eligibility date and/or increase the amount of their monthly annuity upon retirement. Only Vested Members (five or more years of Creditable Service) are eligible to purchase Permissive Time. Age, salary, earliest retirement date, and a combination of actuarial data determine the cost. There may be federal limitations on cash purchases.

Sick Leave Conversion - Retiring Members may convert sick leave hours to increase Creditable Service time. Converted sick leave hours cannot be used to reach retirement eligibility. Sick leave must be converted in pay period (80-hour) increments. Both the Member and the City must pay the current contribution rate at the time of retirement to convert hours. Members must begin the conversion process 60 days prior to their retirement date.

Service prior to 1941 - Additional service credit is allowed for Members with service performed before 1941, when the System came into existence. Two percent is applied for the number of years (prior to 1941) times the average salary for the years 1946 – 1950.

Proportionate Service

In 1991 the Texas Legislature established a Proportionate Retirement Program for the benefit of members of participating public retirement systems. A member of two or more of the following participating retirement systems may be eligible for proportionate benefits:

- City of Austin Employees' Retirement System
- The El Paso City Employees' Pension Fund
- El Paso Firemen and Policemen's Pension Fund
- Employees Retirement System of Texas (ERS)
- Judicial Retirement System of Texas I & II
- Texas Municipal Retirement System (TMRS)
- Texas County and District Retirement System (TCDRS)
- Teacher Retirement System of Texas (TRS)
- Other Texas retirement systems covering municipal employees who have qualified plans and have elected to participate in the Proportionate Retirement Program

Participating systems recognize service from other participating systems. A member with service credit in more than one participating retirement system may be eligible to combine that service in order to satisfy the length of service requirements used to determine eligibility for service retirement. Retirement benefits will be paid separately from each system, based only on the service performed in that system. Military service purchases may only be used once in determining the amount of the member's combined service credit.

A member of a participating retirement system who forfeited membership service by withdrawing their deposits may re-establish credit for service earned in another participating proportionate retirement system. A member must contact the system in which he/she previously had membership in order to determine eligibility requirements to re-establish service credit and/or membership. A member should determine his/her proportionate retirement benefits before withdrawing member deposits in any of these systems.

Calculation of Retirement Benefits

Factors used to calculate COA ERS retirement benefits:

Total Creditable Service – Total years and months of Creditable Service, including:

- Regular membership service
- Reinstated membership service
- Military service purchased
- Non-contributory service purchased
- Permissive Time purchased
- Converted sick leave
- Up to one six-month probationary period granted at retirement to Members hired before October 1, 1995
- Note: Proportionate service is only used to reach eligibility; it is not used to calculate retirement benefits.

Multiplier – As of January 2002, COA ERS' multiplier is 3.0%.

Final Average Earnings (FAE) – FAE is the average annual salary for the highest 36 months of contributory service during the last ten years. For most Members, this is the average of the last three years worked. This can be calculated as either a monthly FAE or an annual FAE. Purchases of service credit do not affect FAE.

Retirement Date

The effective date of retirement is always the last working day of the month. For example, if a Member is eligible to retire, applies for retirement, and terminates his/her employment on March 15, the effective date of retirement will be March 31, and the Member will receive the first annuity payment on the last business day of April. If a terminated Vested Member does not withdraw his/her accumulated deposits, the retirement annuity payment may begin the last day of the month after normal retirement eligibility is reached and the Member applies for retirement from COA ERS.

Retirement Options

COA ERS provides several options for payment of monthly benefits. All payment options are actuarially equivalent to the basic Life Annuity benefit. A Member should choose a payment option that best meets his/her individual needs.

The options that include benefits to a survivor are calculated according to the ages of both the Member and the surviving beneficiary included in the plan. The Member's benefits are reduced if an option is chosen that provides survivor benefits. This reduction is applied to the Member's basic benefit relative to the option the Member chooses. Some restrictions may apply to non-spouse survivor benefits.

If the Member is married, spousal consent is required. A Member cannot change options or the survivor beneficiary after retirement. Even if a Retiree and the beneficiary spouse later divorce, the survivor beneficiary cannot be changed. Only the survivor beneficiary named at retirement will receive survivor benefits.

Life Annuity - A basic monthly benefit payable to the Retiree only for life. Any balance of the Retiree's deposits (including interest) remaining at the Retiree's death will be paid in a lump-sum to the Retiree's beneficiary.

Option I: 100% Joint and Survivor - A reduced monthly benefit payable throughout the Retiree's life. At the Retiree's death, the survivor beneficiary will continue to receive this benefit throughout his/her life.

Option II: 50% Joint and Survivor - A reduced monthly benefit payable throughout the Retiree's life. At the Retiree's death, the survivor beneficiary will continue to receive 50% of this benefit throughout his/her life.

Option III: 66 2/3% Joint and Survivor - A reduced monthly benefit payable throughout the Retiree's life. At the Retiree's death, the survivor beneficiary will continue to receive 66 2/3% of this benefit throughout his/her life.

Option IV: Joint and 66 2/3% Last Survivor - A reduced monthly benefit payable until the death of either the Retiree or the survivor beneficiary. After the death of the Retiree or the survivor beneficiary, the last survivor of the two will receive 66 2/3% of the benefit as long as he/she lives.

Option V: Fifteen Year Certain and Life Annuity (180 payments) - A benefit payable to the Retiree only for life. If the Retiree's death occurs before 180 payments are made, the Retiree's beneficiary or the Retiree's estate will receive the remaining monthly payments until all 180 payments have been made. If the Retiree is still living after receiving 180 payments, payments will continue until the Retiree's death.

Option VI: Actuarial Equivalent of Life Annuity - This option allows the Member to develop his/her own benefit payment plan with the assistance and approval of the System's actuary. The Member has flexibility to design a benefit option that is most appropriate for the Member and the beneficiary's needs after retirement, subject to limitations established in Board Policy. All options are subject to approval by the Board of Trustees.

A "Pop-up" Benefit is provided for Retirees choosing Options I, II, or III. The "Pop-up" increases the Retiree's benefits to the Life Annuity level if the survivor beneficiary predeceases the Retiree on or after October 1, 1999.

Backward DROP Program

The Deferred Retirement Option Program (DROP) allows the Member to receive a lump-sum payment in addition to receiving a monthly annuity based on Final Average Earnings and years of Creditable Service at the beginning of the DROP period.

Members who have already reached retirement eligibility, excluding proportionate service, and who continue to work and contribute to COA ERS, may elect to "DROP-Back" a portion of their Creditable Service time. The amount of time a Member can "DROP-Back" is limited by the most recent of the following events:

- The date of first retirement eligibility
- The date of the last purchase of Creditable Service of any type other than Sick Leave Conversion
- No earlier than 60 months (in one-month increments) prior to the retirement date

The DROP account is credited with 90% of the monthly benefit based on the Life Annuity option. DROP accounts may be rolled over to other qualified plans, paid in one lump-sum to the Member, or a combination of both. DROP payments made directly to the Member are subject to a mandatory 20% federal tax withholding, and if the Member is under age 55 at the time of disbursement, this payment is subject to an additional tax for early withdrawal. The DROP payment is issued at the same time as the first monthly benefit check.

Cost-of-living adjustments (COLA's), interest, and Member or City contributions do not increase the monthly amount credited to the DROP.

IRS Section 415 Restoration of Retirement Income Plan

Certain highly compensated Members may have their retirement annuity limited because of Section 415(b)(1) of the Internal Revenue Code. A plan amendment, effective January 1, 2000, provides for COA ERS to pay a benefit payment that exceeds the limitation imposed by the Internal Revenue Code from a separate, non-qualified and unfunded "Restoration of Retirement Income Plan". Additional details are made available to affected Members during the retirement process.

DISABILITY RETIREMENT BENEFITS

Disability Retirement Requirements

Members may apply for disability retirement benefits if:

They are mentally or physically incapacitated for the performance of any type of employment duties, AND
The incapacity is likely to be permanent.

Disability Retirement Eligibility

Active Members with less than five years Creditable Service may only apply for disability retirement if the disability is a result of an on-the-job accident or injury. Active Members with five or more years of Creditable Service may apply for disability retirement even if the disability is not job related. Members who are already eligible to retire may not apply for disability retirement.

Members are considered to remain in the same membership category in effect on the date of termination for 90 days following termination. This allows Members to apply for disability retirement for up to 90 days following termination for inability to perform all employment duties.

Disability Retirees are periodically required to provide proof of continued disability and are annually required to provide employment and income documentation to the Board of Trustees.

Disability Retirement Options

A Member approved for disability retirement may choose a Life Annuity benefit or a benefit described in Options I, II, III, or IV. Disability Retirees are not eligible for any type of lump-sum payment.

DEATH AND SURVIVOR BENEFITS

Retired Members

At the death of a Retiree, a death benefit of $10,000 is paid by COA ERS to the designated beneficiary(ies) of the deceased. This $10,000 death benefit is paid to the beneficiary(ies) in addition to any of the following benefits that are applicable:

If the Retired Member chose the Life Annuity Option, the monthly benefit stops the month following the death of the Retiree. However, if death occurs before the Retiree's accumulated deposits have been paid out, the Retiree's remaining deposits will be paid in a lump-sum to the Retiree's designated beneficiary(ies) or estate.

If the Retired Member chose an option providing benefits to a survivor beneficiary, at the Retiree's death, such benefits will be paid to the designated survivor. If the survivor beneficiary does not survive the Retiree, monthly benefits cease. However, if the survivor beneficiary does not survive the Retiree, and the Retiree's deposits have not been paid out, the Retiree's remaining deposits will be paid in a lump-sum to the Retiree's designated beneficiary(ies) or estate.

Active Members

At the death of an Active Member who was not yet eligible for retirement, the designated beneficiary(ies) is entitled to a lump-sum payment of the Member's accumulated deposits (contributions and interest) matched by a death benefit from COA ERS equal to the Member's deposits. If the Active Member also had un-matched contributions, e.g. purchases for Non-contributory time, prior military service purchases or Permissive Time purchases, these purchases will be refunded but will not be matched by the System.

If the Active Member was eligible for retirement prior to death and had not yet retired, a surviving spouse may choose any retirement option that would have been available to the Member. Alternatively, a surviving spouse may choose to receive a lump-sum payment of the Member's accumulated deposits and a death benefit from COA ERS equal to the deposits.

If there is no spouse, the deceased Member's designated beneficiary(ies) may elect to receive payments under Option V, Fifteen Year Certain and Life Annuity, or receive a lump-sum payment as described above.

Whether a spouse or non-spouse, the beneficiary selecting a retirement option will also receive the $10,000 death benefit. This benefit is not paid to the beneficiaries electing a one-time lump-sum payment.

Inactive Vested Members

Beneficiaries of inactive Vested Members receive the same death benefits as beneficiaries of Active Members as described above.

OTHER INFORMATION

Compliance with Applicable Law

State Statute Art. 6243n., the Internal Revenue Code, and other state and federal laws are applicable to the operation and management of, and the benefits provided by, the System. Such laws place restrictions and limitations on retirement systems, including COA ERS, and directly or indirectly affect Member benefits and options. Such requirements and limitations protect the Members and their benefits. The retirement benefit options available to Members are established by Statute and may provide for beneficiaries and survivors. Deposits or retirement benefits may not be transferred or assigned except pursuant to a Qualified Domestic Relations Order (QDRO). All QDRO's are subject to approval and must meet all statutory requirements. In addition, funds actually due and payable to a Member, beneficiary, or alternate payee may be subject to IRS seizure.

Determining Interest on Members' Contributions

The Board of Trustees annually determines the amount of interest paid on Members' accumulated deposits, taking into consideration the current yield of the most recently issued 10-year U.S. Treasury notes and recommendations of the System's actuary. The actuary considers what funds are necessary to pay all the benefits to which Retirees and their surviving beneficiaries are entitled, as well as the expected liability for current employees who will someday retire.

Retirement interest is accrued on the last day of the calendar year based on the amount that each Member had in the System on the first day of the calendar year. The money must remain on deposit for the entire calendar year in order to accrue interest.

Because COA ERS is a defined benefit, and not a defined contribution plan, interest is set conservatively based on typical fixed-income returns, not on actual returns of the Fund or more aggressive investment vehicles.

Retirement Fund Investments

COA ERS' funds are invested according to the requirement of state law and the COA ERS Board of Trustees' Investment Policy. The investments provide returns that help fund the monthly retirement annuity and other benefits paid by the System to its Members and beneficiaries.

Prohibition on COA ERS Loans and Withdrawals

State and Federal law does not allow Active Members to make a partial withdrawal of deposits or to receive loans from their retirement funds.

HISTORY OF BENEFIT ENHANCEMENTS

1941

City Council established the City of Austin Employees' Retirement System.

Original City Ordinance provided a maximum annuity of $100 per month at age 65.

Set contributions to retirement system at 4.0%.

No survivor options, no early retirement eligibility, no vesting, no disability benefits, and no death benefits.

1951

Established two options for survivor benefits:

Option I – 100% Joint and Survivor

Option II – 66 2/3% Joint and Survivor

Established eligibility for early retirement.

Established for vested benefits after 15 years of Creditable Service.

Established disability retirement benefits.

Increased contribution rate to 5.0%.

1962

Established additional options for survivor benefits:

Option III – 50% Joint and Survivor

Option IV – 66 2/3% Joint and Last Survivor

1967

Increased multiplier from 1.125% to 1.25%.

Set Active Member death benefits at $2,000.

1969

Established provisions for cost-of-living adjustment (COLA).

Set Retired Member death benefits at $2,000.

1971

Increased multiplier from 1.25% to 1.5%.

Established for unreduced retirement benefits at age 62 (lowered from age 65) with any number of years of service.

Provided free health insurance benefits, ages 62 – 65.

Increased contribution rate to 6.0%.

1972

Established for vested benefits after ten years of Creditable Service.

Established for employees working 30 or more hours to make retirement contributions.

Established for Members eligible for early retirement benefits to choose Option I to provide survivor benefits.

1973

Increased multiplier from 1.5% to 1.75%.

Established for Final Average Earnings based on highest 60 months of contributing service.

Allowed for Members eligible for retirement to select option to provide survivor benefit before actually retiring.

Established disability retirement for line-of-duty disabilities regardless of Creditable Service. Disability retirement available for any disability after ten years of service. Disability retirement benefits based on age and years of service at time of disability retirement; no penalty based on age.

December 1977

Deletion of $2,000 death benefit for Active Members; continued for Retirees.

Established for Active Member's Designated Beneficiary(ies) to receive contributions and interest plus an equal amount from the System if the Member dies prior to retirement eligibility.

September 1978

Established additional retirement options.

December 1979

Discontinued medical insurance payment for retirees between ages 62 – 65.

July 1981

Established for contributions to be required after age 62 until retirement. Members older than age 62 have option to make up missed contributions to benefit from higher salary averaging for retirement benefits.

Reduced Final Average Earnings period from 60 to 36 months.

October 1982

Increased contribution rate to 6.6%, matched by City.

November 1982

Established retirement benefits for Members age 55 or older with 20 years service.

March 1984

Adopted unisex option factors. The sex of the Member and the beneficiary no longer considered in the determination of any System benefits.

December 1984

Increased Member contribution rate from 6.6% to 7.0%, matched by the City.

Increased multiplier from 1.75% to 1.85%.

Granted special increase to Retirees based on the number of years retired. The increase recognized actual increases in the cost-of-living above cost-of-living adjustments (COLA's) granted previously.

Established for surviving spouse to select an optional benefit if Active Member dies who was already eligible to retire and had not yet selected a benefit option.

Qualified Plan with Internal Revenue Service under IRS Code Section 401(a). Member contributions after January 1, 1985 not taxed until time when benefits are paid to the Member.

Limited "Prior Service" Buy-Back – Former Members who forfeited membership service by taking a refund when they left City employment may purchase their prior Creditable Service. Current Members allowed six months to reinstate former credit by repaying withdrawn deposits plus interest. Only former Members who had been reemployed by the City before December 20, 1984 eligible.

Established that the 36 months of salary used to calculate monthly benefits need not be consecutive. Highest 36 months of salary during last ten years of Creditable Service are averaged to determine Final Average Earnings.

October 1985

Increased multiplier from 1.85% to 2.0%.

February 1986

Designated one Board Member position for Retired Member to be elected by Retired Members.

May 1987

Established that Members laid-off during the period from September 30, 1986 through October 1, 1989, who are eligible for retirement, received an unreduced current service annuity.

October 1987

Reduced Member and City contribution rates to the System temporarily from 7.0% to 6.2% of basic compensation for the period from October 1, 1987 to September 30, 1988.

March 1988

Established survivor benefit options for Disability Retirees effective March 13, 1988.

August 1988

Established for vested benefits after five years of Creditable Service.

Extension of "Prior Service Buy-Backs" – Former Members who forfeited membership service by taking a refund of their retirement contributions when they left City employment and have returned to City employment, may purchase and reinstate their prior Creditable Service.

Provided that for purposes of calculating benefits and determining eligibility, three years were added to both age and service for all Members retiring between September 1, 1988 and December 31, 1988.

September 1988

Restored Member and Employer contribution rates to 7.0% from 6.2% of basic earnings effective September 30, 1988.

December 1989

Established for Retiree Member of the Board elected by Retired Members to a four-year term.

February 1990

Established unreduced retirement benefits for Members at any age with 30 years service.

Increased multiplier from 2.0% to 2.1%.

October 1990

Adopted limits on income of Social Security disability benefits for System Disability Retirees.

August 1991

Established System governance by Article 6243n. of Texas State Law effective August 26, 1991. All changes to the System made by the Texas State Legislature.

Became a member of Proportionate Retirement Program with five other statewide retirement systems. Membership service may be combined with other participating systems for meeting service requirements for retirement eligibility.

July 1993

Increased multiplier from 2.1% to 2.2% and commensurate increase for previous Retirees.

Established for unreduced retirement benefits for Members at any age with 25 years of service.

Allowed purchases for up to 24 months of former active duty U.S. military service.

October 1995

Increased multiplier from 2.2% to 2.3% and commensurate increase for previous Retirees.

Established that new City of Austin employees become Members of COA ERS at date of employment and current employees be given retirement service credit for one six-month probationary period at time of retirement.

Change in composition of Board of Trustees; Place 3, Director of Finance Designee, replaced with additional Retired Member to be elected by Retired Members.

Increased death benefit for Retirees from $2,000 to $10,000.

October 1997

Increased multiplier from 2.3% to 2.6% and commensurate increase for previous Retirees.

Established for unreduced retirement benefits for Members at age 55 with 20 years service.

Increased purchases of former active duty U.S. military service from 24 to 48 months.

Allowed new purchase option of Creditable Service for Non-contributory time including time spent on workers' compensation, leaves of absence, part-time and temporary service.

Allowed for the City of Austin to purchase service credit for Members.

October 1999

Increased multiplier from 2.6% to 2.7% and commensurate increase for previous Retirees.

Increased Member contribution rate from 7.0% to 8.0% following vote by Active Members.

Established for unreduced retirement benefits for Members at any age with 23 years of service.

Set new limits on Retirees returning to work for the City.

Added "Pop-Up" benefit for Retirees choosing Option I, II, or III (Joint and Survivor Annuities) to increase Retiree benefits if the survivor beneficiary predeceased the Retiree on, or after, October 1, 1999.

Granted Board authority to authorize certain benefit improvements subject to Statute guidelines.

Gave Board the ability to grant an additional payment to Members in payment status in the form of a 13th check. The additional payment would be a percentage of the current monthly payment with a maximum percentage of 100%.

Established for Disability retirement benefits for off-the-job injury/illness after five years Creditable Service (previously ten years).

January 2000

Established IRS Section 415 Restoration of Retirement Income Plan.

April 2000

Increased multiplier from 2.7% to 2.98% and commensurate increase for previous Retirees.

Increased employer contribution rate from 7.0% to 8.0%, matching Member contribution rate.

July 2000

Extended "Pop-Up" benefit to Retirees who selected the actuarial equivalent of Life Annuity Option with underlying options of I, II, or III.

January 2002

Increased multiplier from 2.98% to 3.0% and commensurate increase for previous Retirees.

Established for purchases of Permissive Time to Active and Inactive Vested Members, based on EGTRRA federal law with a minimum purchase of one month and a maximum of 60 months (5 years) or the number of months needed to reach first eligibility for retirement, whichever is less.

Amended Proportionate Retirement Program provided by Texas Government Code 803 to allow former members of participating proportionate systems to re-establish Creditable Service previously forfeited in that system without returning to membership in that system.

April 2002

Established Sick Leave Conversion benefit. Allows Members to convert sick leave balances to Creditable Service at time of retirement with purchase paid by Member and City of Austin.

Established Backward DROP (Deferred Retirement Option Program) benefit up to five years for Members working beyond retirement eligibility.

January 2003

Extended "Pop-Up" benefit to any Joint and Survivor option other than Joint and Last Survivor.

Amended Permissive Time resolution removing provision which restricts Members from purchasing Permissive Time in excess of the amount needed to reach first eligibility for retirement.

(This page intentionally left blank.)

Financial Section

KPMG LLP
Suite 1900
111 Congress Ave
Austin, TX 78701

Telephone 512 320 5200
Fax 512 320 5100
Internet www.*us*.kpmg.com

Independent Auditors' Report

The Board of Trustees of
The City of Austin Employees' Retirement System:

We have audited the accompanying statements of plan net assets of the City of Austin Employees' Retirement System (the System) as of December 31, 2005 and 2004, and the related statements of changes in plan net assets for the years then ended which comprise the basic financial statements of the System. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, and assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the City of Austin Employees' Retirement System as of December 31, 2005 and 2004, and the changes in plan assets for the years then ended in conformity with United States generally accepted accounting principles.

As described in Note 3, the System adopted the provisions of Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, in 2005.

The management's discussion and analysis on pages 24 through 27 and the schedules of funding progress and employer contributions on pages 47 through 48 are not a required part of the basic financial statements of the System, but are supplementary information required by United States generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the system. The introductory section on pages 1 through 22, other supplementary information on page 49, investment section on pages 50 through 59, actuarial section on pages 60 through 103, and statistical section on page 104 through 112 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section, other supplementary information investment section, actuarial section, and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly we express no opinion on them.

KPMG LLP

March 24, 2006

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Management's Discussion and Analysis

December 31, 2005 and 2004

This section of the City of Austin Employees' Retirement System's (COA ERS or the System) financial report presents our discussion and analysis of the System's financial performance during calendar years 2005 and 2004. We encourage readers to consider the information presented here in conjunction with our financial statements that follow.

Financial Highlights

- Plan net assets held in trust by the System increased by $85.7 million or 6.2% in 2005 and increased by $115.5 million, or 9.2%, in 2004. The increases in 2005 and 2004 were due to positive investment returns.
- Contributions increased by $1.2 million, or 2.1% in 2005 and increased by $3.9 million, or 7.1% in 2004. The 2005 increase was primarily due to an approximate $0.9 million increase in employee creditable service purchases. The 2004 increase was primarily due to an additional pay period in 2004.
- The amount of benefits paid to retired members and beneficiaries and refunded to terminating employees increased approximately $3.5 million, or 4%, during 2005 and $5.2 million, or 6.3%, during 2004. This is the result of the increase in the number of System retirees. Benefit payments exceeded employee and City contributions by $30.9 million in 2005 and by $28.6 million in 2004. This is characteristic of a mature fund.
- The System's rate of return on investments for the year ended December 31, 2005 was 9.1% gross of fees, and 8.8% net of fees, on a market value basis which was less than the return of 11.8% for the year ended December 31, 2004. The actuarial assumed rate of return is 7.75%.
- The funding objective of COA ERS is to meet long-term benefit obligations through contributions and investment income. As of December 31, 2005, the date of the most recent actuarial valuation, the System's funding ratio of actuarial assets as a percentage of actuarial liabilities is 78.0%, which is down from the 80.8% level at December 31, 2004 primarily due to higher than expected salary increases for City employees and lower than expected turnover. See further discussion at footnote 4.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the COA ERS' financial statements, which are comprised of the following:

- Statement of Plan Net Assets
- Statement of Changes in Plan Net Assets
- Notes to the Financial Statements

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Management's Discussion and Analysis

December 31, 2005 and 2004

Collectively, this information presents the net assets held in trust for pension benefits as of the end of each year, and summarizes the changes in net assets held in trust for pension benefits for the year. The information available in each of these components is briefly summarized below:

- **Financial Statements**

  The *Statement of Plan Net Assets* presents the System's assets and liabilities and the resulting net assets, which are held in trust for pension benefits. This statement reflects a year-end snapshot of the Plan's investments, at fair value, along with cash and short-term investments, receivables and other assets and liabilities.

  The *Statement of Changes in Plan Net Assets*, on the other hand, provides a view of current year additions to and deductions from the plan.

  These two statements report the System's net assets held in trust for pension benefits (net assets) – the difference between assets and liabilities – as one way to measure the COA ERS' financial position. Over time, increases and decreases in net assets are one indicator of whether its financial health is improving or deteriorating.

- **Notes to the Financial Statements** provide additional information that is essential to a full understanding of the data provided in the financial statements.

Financial Analysis

Summary of Plan Net Assets
December 31, 2005, 2004 and 2003

Assets		**2005**	**2004**	**2003**
Cash, receivables and prepaids	$	8,711,486	8,886,396	6,778,351
Investments		1,454,399,446	1,367,901,934	1,255,601,924
Invested securities lending collateral		165,721,413	156,774,590	103,030,695
Capital assets, net		1,236,529	1,288,925	1,315,624
Total assets		1,630,068,874	1,534,851,845	1,366,726,594
Liabilities				
Total liabilities		169,302,271	159,820,188	107,170,426
Net assets held in trust for pension benefits	$	1,460,766,603	1,375,031,657	1,259,556,168

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Management's Discussion and Analysis

December 31, 2005 and 2004

Assets. As shown in the table, COA ERS' net assets increased by $85.7 in 2005 and $115.5 million in 2004. The 2005 and 2004 increases primarily reflect investment returns in the financial markets. The decrease in cash, receivables, and prepaids of approximately $175,000 in 2005 is primarily due to a reduction in the amount of cash held in the System's operating bank account. The increase in cash, receivables, and prepaids of approximately $2,108,000 in 2004 is primarily due to cash held in the operating account and City and Employee Contributions receivable for the last week of December. The increase in securities lending collateral of $8.9 million in 2005 and $53.7 million in 2004 is relative to the net change in the number of securities on loan at each fiscal year end. There were minimal additions to and no retirements of capital assets in 2005 and 2004, so the decrease reflects depreciation.

Liabilities. Liabilities increased $9.5 million in 2005 and $52.6 million in 2004. These increases are primarily due to increases in securities lending collateral.

Summary of Changes in Plan Net Assets
Years Ended December 31, 2005, 2004 and 2003

		2005	2004	2003
Additions:				
Contributions	$	60,502,121	59,279,793	55,356,724
Investment income		121,766,026	149,649,746	249,033,646
Investment expenses		3,613,695	4,020,717	2,966,952
Net investment income		118,152,331	145,629,029	246,066,694
Other income		1,960	2,376	2,636
Total additions		178,656,412	204,911,198	301,426,054
Deductions:				
Benefit payments and contributions		91,424,005	87,880,845	82,693,239
General and administrative expenses		1,497,461	1,554,864	1,552,770
Total deductions		92,921,466	89,435,709	84,246,009
Net increase		85,734,946	115,475,489	217,180,045
Net assets held in trust for pension beginning of year		1,375,031,657	1,259,556,168	1,042,376,123
Net assets held in trust for pension end of year	$	1,460,766,603	1,375,031,657	1,259,556,168

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Management's Discussion and Analysis

December 31, 2005 and 2004

Additions. Additions needed to fund benefits are accumulated through contributions and returns on invested funds. Member and City of Austin contributions for 2005 and 2004 totaled $60.5 million and $59.3 million, respectively. The 2005 contributions represent an increase of $1.2 million, or approximately 2.1% above 2004. The 2005 increase was primarily due to an increase in employee creditable service purchases. In 2004, contributions based on payroll were $3.9 million above the 2003 level attributable to an additional pay period in 2004 and the accrual of contributions receivable for the last week of the year. Creditable Service Purchases in 2004 were equal to the amount in 2003.

COA ERS incurred a positive return on the market value of its investments during 2005. Net investment gain of $118.2 million was due to performance of the equity markets, although $27.5 million less than in 2004. Interest, dividends and net securities lending income generated 2005 income of $36.0 million, an increase from the $32.4 million received in 2004. The total rate of return for the System's investment portfolio in 2005 was 8.8% (net of fees) as compared to 11.8% for 2004.

Deductions. The expenses paid by COA ERS include benefit payments, refunds of member contributions, and administrative expenses. Benefits paid to retirees in 2005 were $87.6 million, an increase of $4.9 million from payments made in 2004, consistent with the increase in the number of retirees to 3,297 in 2005 from 3,137 in 2004. Refunds to terminating employees decreased by $1.3 million. Administrative expenses in 2005 were $1.5 million, slightly less than those incurred in 2004.

Benefits paid to retirees in 2004 were $82.7 million, an increase of $4.6 million from payments made in 2003, consistent with the increase in the number of retirees to 3,137 in 2004 from 2,995 in 2003. Refunds to terminating employees increased by $0.6 million. Administrative expenses in 2004 were $1.6 million, approximately the same as those incurred in 2003.

Investment managers are paid based on their performance, and the calculation for an outperforming manager hired in 2003 became fully effective in 2004, increasing fees paid to that manager by over $1 million. Accordingly, in 2005, as returns were lower, so were the amounts of investment manager fees paid.

Overall Analysis. Overall, as of December 31, 2005, net assets increased by $85.7 million or 6.2% from the prior year, and over the five-year period ending December 31, 2005, net assets increased by 14.9%. Although we have experienced positive market returns in the last three years, the overall growth over the last five-year period reflects the negative market returns in the investment portfolio in the first two years.

Request for Information

This financial report is designed to provide a general overview of the finances of the City of Austin Employees' Retirement System for all parties with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Finance Manager, City of Austin Employees' Retirement System, 418 E. Highland Mall Blvd., Austin, Texas 78752.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Statement of Plan Net Assets

December 31, 2005

Assets	Retirement Plan	Restoration Plan	Total
Cash and cash equivalents (note 3)	$ 2,866,111	15,000	2,881,111
Interest and dividends receivable	2,652,884	—	2,652,884
Trades pending settlement	2,081,639	—	2,081,639
Employer contributions receivable	547,926	—	547,926
Employee contributions receivable	547,926	—	547,926
Investments, at fair value (note 3):			
United States Government securities	362,467,392	—	362,467,392
Corporate bonds	59,916,345	—	59,916,345
Real Estate Commingled Fund	78,507,966	—	78,507,966
Corporate stocks	691,883,229	—	691,883,229
Municipal bonds	758,348	—	758,348
International stocks and bonds	235,613,344	—	235,613,344
Short-term investment funds	25,252,822	—	25,252,822
Total investments	1,454,399,446	—	1,454,399,446
Invested securities lending cash collateral (note 3)	165,721,413	—	165,721,413
Capital assets, net (note 5)	1,236,529	—	1,236,529
Total assets	1,630,053,874	15,000	1,630,068,874
Liabilities			
Accrued expenses	963,294	—	963,294
Trades pending settlement	1,620,242	—	1,620,242
Securities lending collateral (note 3)	165,721,413	—	165,721,413
Refunds and death benefits payable	997,322	—	997,322
Total liabilities	169,302,271	—	169,302,271
Net assets held in trust for pension benefits (a schedule of funding progress is presented on page 47)	$ 1,460,751,603	15,000	1,460,766,603

See accompanying notes to financial statements.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Statement of Plan Net Assets

December 31, 2004

Assets	Retirement Plan	Restoration Plan	Total
Cash and cash equivalents (note 3)	$ 3,853,892	15,000	3,868,892
Interest and dividends receivable	2,584,447	—	2,584,447
Trades pending settlement	1,390,813	—	1,390,813
Employer contributions receivable	508,991	—	508,991
Employee contributions receivable	508,991	—	508,991
Prepaid Insurance	24,262	—	24,262
Investments, at fair value (note 3):			
United States Government securities	294,604,722	—	294,604,722
Corporate bonds	68,193,413	—	68,193,413
Real Estate Commingled Fund	37,149,273	—	37,149,273
Corporate stocks	706,933,652	—	706,933,652
Municipal bonds	987,205	—	987,205
International stocks and bonds	245,609,725	—	245,609,725
Short-term investment funds	14,423,944	—	14,423,944
Total investments	1,367,901,934	—	1,367,901,934
Invested securities lending cash collateral (note 3)	156,774,590	—	156,774,590
Capital assets, net (note 5)	1,288,925	—	1,288,925
Total assets	1,534,836,845	15,000	1,534,851,845
Liabilities		—	
Accrued expenses	747,180	—	747,180
Trades pending settlement	1,823,483	—	1,823,483
Securities lending collateral (note 3)	156,774,590		156,774,590
Refunds and death benefits payable	474,935	—	474,935
Total liabilities	159,820,188	—	159,820,188
Net assets held in trust for pension benefits (a schedule of funding progress is presented on page 47)	$ 1,375,016,657	— — 15,000	1,375,031,657

See accompanying notes to financial statements.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Statement of Changes in Plan Net Assets

Year Ended December 31, 2005

		Retirement Plan	Restoration Plan	Total
Additions:				
Contributions:				
Employer contributions (note 4)	$	27,129,892	38,263	27,168,155
Employee contributions (note 4)		33,333,966	—	33,333,966
		60,463,858	38,263	60,502,121
Investment income:				
Net appreciation in plan investments		85,564,874	—	85,564,874
Interest		19,398,813	—	19,398,813
Dividends		16,279,651	—	16,279,651
Investment income before expenses and securities lending		121,243,338	—	121,243,338
Securities lending income		522,688	—	522,688
Securities lending fees		(164,035)	—	(164,035)
Net securities lending income		358,653	—	358,653
Investment expenses		3,449,660	—	3,449,660
Net investment income		118,152,331	—	118,152,331
Other income		1,960	—	1,960
Total additions		178,618,149	38,263	178,656,412
Deductions:				
Benefit payments		83,964,260	38,263	84,002,523
Contributions refunded to terminating employees		3,775,042	—	3,775,042
DROP disbursements		1,650,223	—	1,650,223
Retiree lump-sum annuity		147,838	—	147,838
Death benefits		1,848,379	—	1,848,379
General and administrative expenses		1,497,461	—	1,497,461
Total deductions		92,883,203	38,263	92,921,466
Net increase		85,734,946	—	85,734,946
Net assets held in trust for pension benefits, beginning of year		1,375,016,657	15,000	1,375,031,657
Net assets held in trust for pension benefits, end of year	$	1,460,751,603	15,000	1,460,766,603

See accompanying notes to financial statements.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Statement of Changes in Plan Net Assets

Year Ended December 31, 2004

	Retirement Plan	Restoration Plan	Total
Additions:			
Contributions:			
Employer contributions (note 4)	$ 26,940,941	66,674	27,007,615
Employee contributions (note 4)	32,272,178	—	32,272,178
	59,213,119	66,674	59,279,793
Investment income:			
Net appreciation in plan investments	117,074,818	—	117,074,818
Interest	16,982,236	—	16,982,236
Dividends	15,181,119	—	15,181,119
Investment income before expenses and securities lending	149,238,173	—	149,238,173
Securities lending income	411,573	—	411,573
Securities lending fees	(198,826)	—	(198,826)
Net securities lending income	212,747	—	212,747
Investment expenses	3,821,891	—	3,821,891
Net investment income	145,629,029	—	145,629,029
Other income	2,376	—	2,376
Total additions	204,844,524	66,674	204,911,198
Deductions:			
Benefit payments	80,085,204	66,674	80,151,878
Contributions refunded to terminating employees	5,112,109	—	5,112,109
DROP disbursements	1,037,623	—	1,037,623
Retiree lump-sum annuity	305,290	—	305,290
Death benefits	1,273,945	—	1,273,945
General and administrative expenses	1,554,864	—	1,554,864
Total deductions	89,369,035	66,674	89,435,709
Net increase	115,475,489	—	115,475,489
Net assets held in trust for pension benefits, beginning of year	1,259,541,168	15,000	1,259,556,168
Net assets held in trust for pension benefits, end of year	$ 1,375,016,657	15,000	1,375,031,657

See accompanying notes to financial statements.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2005 and 2004

(1) Plan Description

Retirement Plan

The Board of Trustees of the City of Austin Employees' Retirement System (the System) is the administrator of a single-employer defined benefit pension plan (the Plan). Participating employees include all regular, full time employees, except for civil service firefighters and civil service police officers, who work at least 30 hours per week. At December 31, 2005 and 2004, membership consisted of the following:

	2005	**2004**
Retirees and beneficiaries currently receiving benefits	3,297	3,137
Terminated members entitled to but not yet receiving benefits	670	612
Current employees	7,638	7,489
Total	11,605	11,238

The System provides service retirement, death, disability and withdrawal benefits. Benefits vest after 5 years of credited service. Participants may retire with 23 years of service regardless of age, or at age 62. Prior to October 1, 1999, active member contributions to the Plan were 7 percent. Effective October 1, 1999, active member contributions increased to 8 percent. Prior to October 1, 1999, the monthly benefit was equal to 2.6 percent of the highest 36-month average annual salary of the last ten years multiplied by years and months of service. Effective October 1, 1999, the monthly benefit multiplier was increased to 2.7 percent. Effective April 1, 2000, the monthly benefit multiplier was increased to 2.98 percent. Effective January 1, 2002, the monthly benefit multiplier was increased to 3.0 percent. Effective January 1, 2001, the System approved a 3.5 percent ad hoc retiree increase and a 2.5 percent increase effective January 1, 2002.

Effective in 2002, a member may elect to retroactively participate in the System's DROP (Deferred Retirement Option Program). DROP programs benefit employees by allowing a lump sum payment in lieu of additional credible service time after reaching retirement eligibility. The member would receive a lump sum payment equal to 90% of the sum of the monthly annuities the participant would have received if the member had retired at the DROP entry date.

The Lump-Sum Death Benefit payable upon the death of a retiree is $10,000.

Participants are required to contribute 8 percent of their basic compensation to the Plan. The City of Austin (the City) also contributes 8 percent of basic compensation. The benefit and contribution provisions of this plan are governed by state law. Amendments may be made by the Legislature of the State of Texas. Should the Plan fully terminate at some future time, the retirement allowance of a member would be determined by reference to the member's average final compensation as if the member had attained normal retirement age on that date.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2005 and 2004

The System is participating in the Proportionate Retirement Program through which a member of the System may combine his membership service with service credit in a participating entity in any of the state-wide retirement systems covering state employees, teachers, county and district employees, and municipal employees, or, any of the El Paso public employee pension funds, for meeting service requirements for service retirement eligibility.

Under the terms of the Plan, the System's employees obtain membership in the Plan on the same basis as City employees. The System contributes to the Plan the same amount of 8 percent of basic compensation, as described above, for its fourteen current employees as the City does for its 7,624 current employees. The System's employees are also required to contribute 8 percent of their basic compensation to the Plan. Since there is only one Plan, all actuarial calculations are provided on an aggregate basis. The System's annual pension cost for its employees and related contributions made for the past three years are:

		Annual pension cost	Contributions made
2005	$	51,970	51,970
2004		49,957	49,957
2003		43,234	43,234

Restoration Plan

On December 19, 2000, the Board adopted a resolution to establish a "Restoration of Retirement Income Plan for Certain Participants in the City of Austin Employees' Retirement System" (Restoration Plan). This Restoration Plan is effective as of January 1, 2000 and is intended to be a "qualified governmental excess benefit arrangement" within the meaning of Section 415(m) of the Internal Revenue Code, and shall be construed, interpreted and administered in accordance with such provision. The Restoration Plan shall be administered as an unfunded plan which is not intended to meet the qualification requirements of Section 401 of the Internal Revenue Code. Eligible members are those who are members in the Plan whose pension or pension-related benefits under the Plan are limited due to the provision of Section 415 of the Internal Revenue Code.

All benefits payable under this Restoration Plan shall be paid by the City of Austin Employees' Retirement System from contributions provided by the Employer and not from the Fund or any other trust unless such trust is maintained solely for the purpose of providing benefits from this Restoration Plan. No contribution receivable is due for the years ended December 31, 2005 and 2004 for this Restoration Plan. Net assets remaining in this plan as of December 31, 2005 and 2004 were $15,000.

The Restoration Plan's annual pension cost and related contributions for the past three years are:

		Annual Pension Cost	Contributions Made
2005	$	38,263	38,263
2004		66,674	66,674
2003		55,980	55,980

(Continued)

At December 31, 2005 and 2004, membership in the Restoration Plan included the following:

	2005	2004
Retirees and beneficiaries currently receiving benefits	3	2
Terminated members entitled to but not yet receiving benefits	—	—
Current employees	—	—
Total	3	2

Other Information

The System is required by statute to maintain three separate funds in its internal accounting records. The first fund, defined in the statute as "Fund 1", shall be maintained to account for all accumulated deposits (contributions and interest) of members who have not withdrawn from the System. The second fund, defined as "Fund 2", shall be maintained to account for all other net assets of the System less the amount held in the third fund, defined as "Fund 3", which shall be maintained to account for accumulated contributions by the employer for the Restoration Plan. At December 31, 2005, the balances of Fund 1, Fund 2 and Fund 3 were $280,994,642; $1,179,756,961 and $15,000, respectively. At December 31, 2004, the balances of Fund 1, Fund 2 and Fund 3 were $261,905,526; $1,113,111,131 and $15,000, respectively.

(2) Summary of Significant Accounting Policies and System Asset Matters

(a) Basis of Accounting

The System's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting except for the recognition of actuarial liabilities. Contributions are recognized as revenues in the period in which employer reports compensation for their employees. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

The System is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board (GASB).

(b) Cash and Cash Equivalents

Cash and cash equivalents include demand deposit accounts and money market checking accounts. As of December 31, 2005 and 2004, the book balances of the money market checking accounts totaled $2,911,152 and, $3,938,444 respectively, and demand deposit accounts totaled ($30,341) and ($69,852) respectively.

(c) Investments

The System's investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair value. The System's real estate commingled fund, an open-end investment fund, includes properties that are valued monthly. All properties within this fund are appraised externally by nationally recognized appraisers.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2005 and 2004

Investment income is recognized in the period earned and purchases and sales of investments are recorded on a trade-date basis. Net appreciation / depreciation in Plan investments includes both realized and unrealized gains and losses.

(d) Contributions Receivable

The employee and City contributions for the year ended December 31, 2005 and 2004 were not deposited with the System by year-end and are shown as contributions receivable.

(e) Capital Assets

Capital assets are recorded at cost. Depreciation is computed using the straight-line method over the assets' estimated useful lives of:

Furniture and fixtures	3-12 Years
Building	40 Years

(f) System Expenses

Substantially all System administrative costs are the responsibility of the System. The administrative costs are funded through the investment income.

(g) Use of Estimates

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

(h) Comparability

Certain items on the 2004 financial statements have been reclassified to conform to the 2005 presentation.

(3) Cash, Investments, and Securities Lending

Deposit and investment resources are exposed to risks that have the potential to result in losses that could impact delivery of System services. In March 2003, GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures*. Disclosure of custodial credit risk under GASB 3 is updated and reporting enhanced by this new standard that also addresses other common risks, including credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. The provisions of Statement No. 40, effective with this reporting period, require the additional disclosures presented in these notes, but have no impact on the System's net assets.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2005 and 2004

The Board has adopted a Statement of Investment Policies (Investment Policy) to set forth the factors involved in the management of investment assets for the System and the investment policy is included in every investment management agreement. The System's investment policy seeks to mitigate risk by investing in compliance with the System's Investment Policy, qualifying the broker and financial institution with whom the System will transact, sufficient collateralization, portfolio diversification, and limiting maturity. The System's Board, in accordance with the power and authority conferred under the Texas Statutes, employed Northern Trust as custodian of the assets of the System.

The following summary of total investments by type as of December 31, 2005 and 2004 confirms that the System has maintained fairly consistent investment mixes. Consequently, management believes it is acceptable that the detailed securities risk analyses that follow the summary focuses only on the year-end holdings for fiscal year 2005.

Summary of Investments by Type	2005	2004
United States Government securities	$ 362,467,392	294,604,722
Corporate bonds	59,916,345	68,193,413
Real Estate Commingled Fund	78,507,966	37,149,273
Corporate stocks	691,883,229	706,933,652
Municipal bonds	758,348	987,205
International stocks and bonds	235,613,344	245,609,725
Short-term investment funds	25,252,822	14,423,944
	$ 1,454,399,446	1,367,901,934

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the System will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. While the Board has no formal policy specific to custodial credit risk, operating bank account deposits in excess of Federal Deposit Insurance Corporation (FDIC) insured amounts are covered by pledged securities held as collateral.

As of December 31, 2005, the System's operating bank balance of $2,880,811 was not exposed to custodial credit risk.

Custodial credit risk for investments 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 its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial risk if the securities are uninsured, are not registered in the name of the System, and are held by the counterparty, its trust or agent, but not in the System's name. The System's investment securities are not exposed to custodial credit risk because all securities are held by the System's custodial bank in the System's name and securities on loan with brokers are fully insured for cash collateral. The cash at Northern Trust is not exposed to custodial credit risk because it is invested in the Short-Term Collective Government STIF (short-term investment fund) composed of short-term high quality money market instruments structured to generate a competitive yield while preserving principal.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2005 and 2004

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the System's investment in a single issuer. The System is authorized to invest in the following:

(a) Domestic Fixed Income Investments

Total fixed income investments may be no less than twenty-seven percent (27 percent) and no more than thirty-three percent (33 percent) of the investment portfolio measured at fair value. No single issuer's securities shall represent more than four percent (4 percent) of portfolio value at purchase cost, or six percent (6 percent) of the market value of any manager's portfolio. This restriction applies to asset-backed securities, non-agency mortgage-backed securities (including commercial mortgage-backed securities) and taxable municipal securities. The total holdings of an agency-issued mortgage-backed security of the same coupon and maturity series of the same agency shall not exceed twenty percent (20 percent) of the portfolio at cost (agency-issued mortgage-backed securities include Government National Mortgage Association (GNMA) securities.

Section 144(a) securities shall be limited to no more than five percent (5 percent) of the portfolio at market value of any manager's portfolio. This does not apply to obligations of the U.S. Government (treasury bonds, bills and notes).

The assets of the System are to be invested only in the following fixed income securities:

1. United States Treasury notes, bonds, and bills;

2. United States government agency obligations;

3. Investment grade corporate bonds (however, the average rating of all corporate bonds held in any investment portfolio, taken together, may not fall below AA);

4. Preferred stocks;

5. Investment grade foreign bonds payable in United States dollars;

6. Cash equivalents in the form of commercial paper rated as A1 by Moody's or P1 by Standard & Poor's;

7. Other corporate obligations with an equivalent or higher rating than items 1 through 6 above; or

8. Obligations backed by United States government and investment grade municipal funds.

(b) Domestic Equity Investments

While not exposed to concentration of credit risk, total investments in domestic common stock may be no less than thirty-nine percent (39 percent) and no more than fifty-nine percent (59 percent) of the total investment portfolio measured at fair value less international equities. No single company's securities shall represent more than four percent (4 percent) of portfolio value at purchase cost or six percent (6 percent) of the market value of any manager's portfolio.

(Continued)

The assets of the System are invested only in the domestic common stocks listed on the following exchanges:

1. The New York Stock Exchange;

2. The American Stock Exchange; or

3. The National Association of Securities Dealers Automated Quotation (NASDAQ) System.

(c) International Investments

Any international investments must be investment grade and payable in United States dollars. However, such international investments should total no less than eleven percent (11 percent) and no more than twenty-one percent (21 percent) of total value of the System's investments at fair value.

(d) Real Estate Open-ended Commingled Fund

While not exposed to concentration of credit risk, total investments in real estate open-ended commingled funds may be up to five percent (5 percent) of the total investment portfolio measured at fair value.

(e) Other Investment Information

As of December 31, 2005 and 2004, respectively, investments in any one organization, other than investments backed by the full faith and credit of the United States Government and the real estate open end commingled fund, did not represent five percent or more of net assets available for benefits.

As of December 31, 2005, the following was the composition of the System's portfolio:

United States Government securities	24.6%
Corporate bonds	3.2%
Real Estate Commingled Fund	5.3%
Corporate stocks	44.6%
Municipal bonds	0.1%
International stocks	19.5%
Short-term investment funds	2.7%

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The System does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2005 and 2004

As of December 31, 2005, the System had the following investments and maturities:

Investment Type	Fair value	Less than 1 year	1 to 6 years	6 to 10 years	10+ years
Asset-backed securities	$ 3,935,247	—	121,723	—	3,813,524
Commercial mortgage-backed	13,031,583	—	1,652,992	—	11,378,591
Corporate bonds	59,916,345	—	21,501,455	26,083,869	12,331,021
Government agencies	15,534,284	—	5,747,758	9,786,526	—
Government bonds	12,210,129	—	47,701	—	12,162,428
Government mortgage-backed securities	86,489,873	—	—	—	86,489,873
Municipal/Provincial bonds	758,348	—	—	—	758,348
Non-government backed C.M.O.'s	12,878,282	—	—	—	12,878,282
Other fixed income					
(NTGI Aggregate Bond Fund)	218,387,993	—	—	218,387,993	—
	$ 423,142,084	—	29,071,629	254,258,388	139,812,067

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the System. To control credit risk, credit quality guidelines are incorporated into the Investment Policy, as follows:

- Fixed income securities shall not be rated lower than investment grade (Baa3 by Moody's or BBB- by Standard & Poor's or Fitch) by either rating agency unless specific written permission is granted by the Board to a manager.

- Split-rated securities in which the middle rating is below investment grade shall not comprise more than five percent (5 percent) of the market value of any manager's portfolio unless specific authority has been granted.

- Unless specific authority has been granted by the Board, in the event of a bond's downgrade below investment grade by Moody's, Standard & Poor's, and Fitch, the Board shall be notified in writing and the manager shall include a recommended course of action in response to the event in the way it deems most prudent for the Fund in the long term.

- The issues of individual entities rated AAA to Aa3 (Moody's) or AA- (Standard & Poor's, and Fitch) may have a five percent (5 percent) position of portfolio value at purchase cost and a seven percent (7 percent) position at market value.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2005 and 2004

- Issues of individual entities rated below Aa3 (Moody's) or AA- (Standard & Poor's and Fitch) may have a two percent (2 percent) position of portfolio value at purchase cost or three percent (3 percent) position at market value.
- The ratings issue does not apply to direct obligations of the U.S. Government and its agencies, but the securities issued by any one issuer shall not otherwise, in the aggregate, exceed the foregoing limitations.
- If specific managers are given international flexibility, the same quality restrictions apply.
- Money market instruments shall have a minimum quality rating comparable to an A3 (Moody's) or A- (Standard & Poor's and Fitch) bond rating and commercial paper shall be rated A1/P1 unless held in a diversified short-term commingled fund.

The quality ratings of investments in fixed income securities as described by nationally recognized statistical rating organizations at December 31, 2005, are as follows:

Standard & Poor's Quality Rating	Total fair value	Asset backed securities	Commercial mortgage-backed	Corporate bonds	Municipal bonds	Non-gov't backed CMO's	NTGI Aggregate Bond Fund
AAA	$ 32,542,800	3,813,524	13,031,583	2,819,411	—	12,878,282	—
AA+	524	524	—	—	—	—	—
AA-	1,691,800	—	—	1,691,800	—	—	—
A+	5,953,952	—	—	5,953,952	—	—	—
A	12,953,358	121,199	—	12,832,159	—	—	—
A-	5,578,386	—	—	5,578,386	—	—	—
BBB+	11,022,072	—	—	11,022,072	—	—	—
BBB	14,454,268	—	—	13,695,920	758,348	—	—
BBB-	6,322,645	—	—	6,322,645	—	—	—
AA1/AA2 **	218,387,993	—	—	—	—	—	218,387,993
Total credit risk of debt securities	308,907,798	$ 3,935,247	13,031,583	59,916,345	758,348	12,878,282	218,387,993
U.S. gov't & agencies*	114,234,286						
Total	$ 423,142,084						

* Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not have purchase limitations.

* * Weighted average rating

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2005 and 2004

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit.

The System's currency risk exposure, or exchange rate risk, primarily resides within the System's international equity investment holdings. The Systems investment policy is to allow its external managers to decide what action to take regarding their respective portfolio's foreign currency exposures using currency forward contracts.

The System's exposure to foreign currency risk includes the following international securities (all equity):

Currency		Fair Value
Japanese Yen	$	74,474,633
British Pound Sterling		46,842,192
EURO Currency		44,288,631
Hong Kong Dollar		21,022,045
Swiss Franc		15,434,021
Australian Dollar		10,152,552
Canadian Dollar		8,515,721
Singapore Dollar		4,567,732
Danish Krone		3,959,040
Swedish Krona		2,962,456
South African Rand		1,028,616
Mexican Peso		854,832
Malaysian Ringgit		812,536
Hungarian Forint		499,475
Norwegian Krone		198,862
Total securities subject to foreign currency risk	$	235,613,344

Foreign Currency Options

The System periodically invests in foreign currency options in order to hedge the value of a portion of its investments denominated in foreign currencies. Financial options are an agreement that gives one party the right, but not the obligation, to buy or sell a specific amount of an asset for a specified price on or before a specified expiration date. The foreign currency options held by the System entitle the System to convert the value of certain foreign equities into U.S. Dollars at an agreed rate. At December 31, 2005, the System held a foreign currency option with a fair value of $429,870 (USD) and a book cost of $511,980. The expiration date of this option is May 7, 2006. There were no foreign currency options at December 31, 2004.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2005 and 2004

Securities Lending

The System is authorized under its investment policy to participate in securities lending programs through Northern Trust Corporation under which, for an agreed-upon fee, system-owned investments are loaned to a borrowing financial institution. Under this agreement, when the loan closes, the borrowed securities are returned to the System and the collateral is returned to the borrower. The lending agreement requires securities on loan to be collateralized by cash, U.S. Government securities, or irrevocable letters of credit with a total market value of at least 102 percent of the loaned System securities. For global securities pledged as collateral, total market value shall not be less than 105 percent.

The System is not exposed to credit risk at December 31, 2005 and 2004, respectively, as the collateral held exceeded the market value of the securities lent. The System cannot sell or pledge the non-cash collateral unless a default of the securities lending agreement has occurred.

Cash collateral can be invested in a short-term investment pool or in term loans. The term loans can be terminated on demand by either lender or borrower. At December 31, 2005 and 2004, System investments that were in possession of a borrowing financial institution were collateralized by cash and irrevocable letters of credit. The cash collateral was invested in a short-term investment pool with an average weighted maturity less than the maturity of the loaned securities.

There were no significant violations of legal or contractual provisions and no borrower or lending agent default for fiscal years 2005 and 2004.

As of December 31, 2005 and 2004, respectively, the System owned the following investments that were in possession of a borrowing financial institution:

2005	Fair Value of Loaned Securities	Cash/Securities Collateral Value	Cash Collateral Investment Value
Cash collateral:			
U.S. Agencies	$ 4,637,958	4,755,026	4,755,026
Corporate bonds	9,320,069	9,562,388	9,562,388
Corporate stocks	110,814,901	113,827,115	113,827,115
International stocks	23,931,753	25,355,958	25,355,958
U.S. Government Securities	11,954,784	12,220,926	12,220,926
	160,659,465	165,721,413	165,721,413
Letters of credit collateral:			
U.S. Government securities	402,803	412,777	—
U.S. Agencies	9,888,327	10,133,169	—
	10,291,130	10,545,946	—
Total	$ 170,950,595	176,267,359	165,721,413

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2005 and 2004

2004		Fair Value of Loaned Securities	Cash/Securities Collateral Value	Cash Collateral Investment Value
Cash collateral:				
U.S. Agencies	$	7,529,426	7,681,884	7,681,884
Corporate bonds		6,072,008	6,206,426	6,206,426
Corporate stocks		98,658,120	100,870,468	100,870,468
International stocks		31,031,964	32,614,232	32,614,232
U.S. Government Securities		9,237,775	9,401,580	9,401,580
		152,529,293	156,774,590	156,774,590
Letters of credit collateral:				
U.S. Government securities		460,622	467,239	—
U.S. Agencies		10,027,474	10,230,409	—
Corporate stocks		3,092,821	3,161,320	—
		13,580,917	13,858,968	—
Total	$	166,110,210	170,633,558	156,774,590

The maturities of the investments made with cash collateral generally match the maturities of their securities loans.

(4) Contributions Required and Contributions Made

As of December 31, 2005 and 2004, the System's funding policy as guided by state law requires contributions equal to 8 percent of basic compensation, by the participants and by the City.

While the contribution requirements are not actuarially determined, state law requires that each plan of benefits adopted by the System must be approved by a qualified actuary. The actuary certifies that the contribution commitment by the participants and the City provides an adequate financing arrangement. Using the entry age actuarial cost method, the System's normal cost is determined as a percentage of payroll. The excess of the total contribution rate over the normal cost rate is used to amortize the System's unfunded actuarial accrued liability, if any exists, and the number of years needed to amortize the System's unfunded actuarial accrued liability is determined using a level percentage of payroll method.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2005 and 2004

Significant actuarial assumptions used to assess the adequacy of the financing arrangement are the same as those used to compute the unfunded actuarial accrued liability below. The latest actuarial valuation was as of December 31, 2005. In that valuation, the Plan had an unfunded actuarial accrued liability of $395,382,953 as of December 31, 2005. At December 31, 2005 and 2004, employer and employee contributions totaling $60,463,858 and $59,213,119, respectively, were required by the Plan and paid into the System. The funding objective of the System is for contribution rates to be sufficient to cover the normal cost of the Plan and to amortize any unfunded actuarial accrued liabilities over a period not to exceed 30 years. Due to significant net depreciation in the fair value of the Plan investments during 2000, 2001 and 2002, caused by the downturn in the financial markets, the System's Actuary has reported that the Plan's contribution rate is not sufficient to amortize the System's unfunded liabilities as of December 31, 2005; therefore, the System's funding objective is not being met. In 2005, the City of Austin City Council approved a Supplemental Funding Plan (Plan) relating to the System. The basic elements of this plan provide for an initial one percent subsidy from the City beginning in 2007 and increase up to one percent each year until it reaches a cap of four percent in 2010. A subsidy would continue as long as necessary and in an amount necessary up to four percent to sustain a 30 year funding period. The initial subsidy or any increase will be delayed by a year if the System earns twelve percent or more net of fees in any calendar year. The supplemental funding is subject to annual City Council budget approval.

(5) Capital Assets

Capital assets for the years ended December 31, 2005 and 2004 consisted of:

		2005	2004
Land	$	249,964	249,964
Furniture and fixtures		499,603	481,669
Building		1,184,560	1,184,560
Total		1,934,127	1,916,193
Accumulated depreciation		(697,598)	(627,268)
Net capital assets	$	1,236,529	1,288,925

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2005 and 2004

The following summarizes the change in capital assets for the year ended December 31, 2005:

Capital assets, not being depreciated:

		Balance December 31, 2004	Additions	Transfers/ Deletions	Balance December 31, 2005
Land	$	249,964	—	—	249,964
Total	$	249,964	—	—	249,964

Capital assets, being depreciated:

		Balance December 31, 2004	Additions	Transfers/ Deletions	Balance December 31, 2005
Furniture and fixtures	$	481,669	17,934	—	499,603
Building		1,184,560	—	—	1,184,560
Total	$	1,666,229	17,934	—	1,684,163

Less accumulated depreciation for:

		Balance December 31, 2004	Additions	Transfers/ Deletions	Balance December 31, 2005
Furniture and fixtures	$	375,672	42,902	—	418,574
Building		251,596	27,428	—	279,024
Total	$	627,268	70,330	—	697,598

The following summarizes the change in capital assets for the year ended December 31, 2004:

Capital assets, not being depreciated:

		Balance December 31, 2003	Additions	Transfers/ Deletions	Balance December 31, 2004
Land	$	249,964	—	—	249,964
Total	$	249,964	—	—	249,964

Capital assets, being depreciated:

		Balance December 31, 2003	Additions	Transfers/ Deletions	Balance December 31, 2004
Furniture and fixtures	$	430,976	50,693	—	481,669
Building		1,184,560	—	—	1,184,560
Total	$	1,615,536	50,693	—	1,666,229

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2005 and 2004

Less accumulated depreciation for:

		Balance December 31, 2003	Additions	Transfers/ Deletions	Balance December 31, 2004
Furniture and fixtures	$	327,894	47,778	—	375,672
Building		221,982	29,614	—	251,596
Total	$	549,876	77,392	—	627,268

(6) Federal Income Taxes

The Plan is a Public Employee Retirement System and is exempt from Federal income taxes. A favorable determination letter from the Internal Revenue Service was issued in November 1984, with additional letters received December 1999 and March 2003.

(7) Risk Management

The System is exposed to various risks of loss related to torts, errors and omission, violation of civil rights, theft of, damage to, and destruction of assets, and natural disaster. These risks are covered by insurance purchased by the System. This coverage is in compliance with the workers' compensation laws of the State of Texas with no accident or aggregate deductibles. Property physical damage is insured to replacement value with a $250 deductible and a building limit of $888,600 with contents of $203,931. Automobile limits are set at $1,000,000 per occurrence. Insurance coverage by major category of risk has remained relatively constant as compared to the prior fiscal year. Insurance settlements have not exceeded insurance coverage for any of the past three years. The System obtains Workers Compensation and Employers Liability coverage through Texas Mutual Insurance Company.

The System maintains a pension and welfare fund fiduciary responsibility insurance policy with an aggregate limit of liability of $20,000,000, and officers and directors liability coverage of $5,000,000.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Required Supplementary Information

For the Years Ended December 31, 2005 and 2004

The following schedules and the accompanying notes are presented in compliance with the financial reporting standards established by Governmental Accounting standards Board (GASB) Statement No. 25. This actuarially determined information provides information about the funded status of the plan and the progress being made in accumulating sufficient assets to pay benefits when due:

Schedule of Funding Progress (Unaudited) **

For the Years Ended December 31, 1993 through 2005

Actuarial Valuation Date (*)	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL) (3)-(2)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
12/31/1993	$ 579.1	541.2	(37.9)	107.0	235.2	(16.1)
12/31/1995	707.3	623.0	(84.3)	113.5	221.0	(38.1)
12/31/1997	856.4	832.1	(24.3)	102.9	219.2	(11.1)
12/31/1998	952.6	877.8	(74.8)	108.5	219.3	(34.1)
12/31/1999	1,105.1	1,044.5	(60.6)	105.8	244.5	(24.8)
12/31/2000	1,231.0	1,212.6	(18.4)	101.5	268.6	(6.8)
12/31/2001	1,311.3	1,360.3	49.0	96.4	316.8	15.5
12/31/2002	1,250.9	1,440.2	189.3	86.9	322.0	58.8
12/31/2003	1,348.8	1,551.8	203.0	86.9	312.8	64.9
12/31/2004	1,356.8	1,678.2	321.4	80.8	326.6	98.4
12/31/2005	1,398.8	1,794.2	395.4	78.0	348.6	113.4

Note: Dollar amounts in millions.

* Valuations were generally performed on a biennial basis through fiscal year 1998. Beginning in fiscal year 1999, valuations are performed on an annual basis.

** The values provided concur with those presented by the Fund's actuary, Gabriel Roeder Smith & Co, in their 2005 report.

Schedule of Employer Contributions (Unaudited) ***

For the Years Ended December 31, 1998 through 2005

Fiscal Year	Annual Required Contribution	Employer Contributions	Percentage Contributed
(1)	(2)	(3)	(2/3)
1998	$ 16,126,014	$ 16,126,014	100.0%
1999	$ 18,224,558	$ 18,224,558	100.0%
2000	$ 21,531,859	$ 21,531,859	100.0%
2001	$ 24,831,016	$ 24,831,016	100.0%
2002	$ 26,375,274	$ 26,375,274	100.0%
2003	$ 30,660,538	$ 24,851,500	81.05%
2004	$ 32,733,243	$ 26,940,941	82.3%
2005	$ 41,610,470	$ 27,129,892	65.2%

*** This schedule discloses the annual contribution required to provide benefits to retirees and their beneficiaries in accordance with the terms of the Plan. The Percentage Contributed is the current contribution rate for the fiscal year as a percentage of the Annual Required Contribution (ARC) as determined by the prior year's actuarial valuation. For fiscal year 2005 this percentage is 8.0%/12.27%=65.2%. The current year ARC is calculated by dividing the actual dollar contribution to the Fund by the Percentage Contributed ($27,129,892/65.2%), which produces a 2005 ARC of $41,610,470.

See accompanying independent auditor's report.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Required Supplementary Information (Unaudited)

For the Years Ended December 31, 2005 and 2004

(1) Description of Funding Progress

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the actuarial accrued liability as a factor. Isolated analysis of the dollar amounts of actuarial value of assets, actuarial accrued liability and unfunded actuarial accrued liability can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability provides an indication of the System's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the System is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the public employee retirement system. Expressing the funded ratio and unfunded actuarial accrued liability (UAAL) as a percentage of covered payroll approximately adjusts for the effects of inflation and aids analysis of the progress made in accumulating sufficient assets to pay benefits when due. Generally, the higher this percentage, the stronger the public employee retirement system.

(2) Actuarial Assumptions and Methods

Funding Method - An entry age normal actuarial cost method of valuation is used in determining benefit liabilities and normal cost. Differences between assumed and actual experience (actuarial gains and losses) become part of unfunded actuarial accrued liabilities. The System has a fixed contribution rate greater than the normal cost and the System is currently unfunded. Therefore, the contributions received in excess of the normal cost are used to amortize the unfunded liabilities. Due to the significant asset losses caused by the downturn in the 2000 – 2002 financial markets, the plan's contribution rate is not sufficient to amortize the System's unfunded liabilities; therefore, the funding objective is not being met. In the absence of significant actuarial gains, the current contribution rates will not be sufficient to support the current benefit structure of the Plan. The System negotiated a Supplemental Funding Plan with the City of Austin that was approved by the Austin City Council. This Plan is described in footnote 4 to the financial statements. The supplemental funding is subject to annual City of Austin budget approval. Significant actuarial assumptions employed by the actuary as of December 31, 2005, the date of the latest actuarial study, include:

Amortization method	Level percent of Pay, open
Payroll growth rate for amortization	3.5%
Remaining amortization period	30 years *
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases	4.0% to 14.0%
Includes inflation at	3.5%
Cost-of-living adjustments	None assumed
Post retirement benefit increases	None assumed

* GASB No. 25 prescribes that the Annual Required Contribution (ARC) shall have a funding period of thirty years or less. Since the contributions currently being received by COA ERS are less than the amount necessary to produce a thirty year funding period, the ARC was determined with the maximum thirty year period.

See accompanying independent auditors' report.

OTHER SUPPLEMENTARY INFORMATION

Investment Expenses

		2005	2004
Custodial Fees			
Northern Trust	$	**185,000**	**211,250**
Investment Manager Fees			
Agincourt Capital Management LLC		290,712	294,770
AllianceBernstein		168,416	0
Aronson +Johnson + Ortiz		213,151	150,054
Driehaus Capital Management LLC		802,049	1,222,164
Eubel Brady & Suttman Asset Mgmt.		109,492	414,587
Northern Trust NTGI QM Funds		112,880	112,139
Sprucegrove Investment Mgmt LTD		575,018	564,768
Sterling Capital Management LLC		52,510	57,033
Wall Street Associates		170,392	105,264
Walter Scott & Partners LTD		577,697	545,191
Miscellaneous		17,343	4,671
		3,089,660	**3,470,641**
Investment Consulting Fees			
Summit Strategies Group		**175,000**	**140,000**
Total	$	**3,449,660**	**3,821,891**

Note: These expenses are presented on an accrual basis.

General & Administrative Expenses

	2005	2004
Actuary	52,199	83,470
Attorney	58,736	70,119
Auditing	47,900	56,739
Banking Services	9,983	11,909
Computer Services	101,081	94,668
Consultants	6,957	11,041
Administrative	1,010,801	999,553
Depreciation	70,329	77,393
Insurance	70,302	56,521
Member Communications	34,308	29,135
Continuing Education & Site Visits	34,865	64,316
Total	**1,497,461**	**1,554,864**

Consultant Expenses

		2005	2004
Actuary			
Gabriel, Roeder, Smith & Co.	$	**52,199**	**83,470**
Attorney			
Knight & Partners		52,596	63,376
Godwin Gruber LLP (formerly Lawson & Fields, PC)		6,140	6,743
		58,736	**70,119**
Auditing			
KPMG, LLP		**47,900**	**56,739**
Banking Services			
JPMorgan Chase Bank, N.A.		9,221	11,116
National Payment Corporation		762	793
		9,983	**11,909**
Computer Services			
Austin Web Design		6,850	0
DeRosa Mangold		1,075	1,075
Levi, Ray & Shoup		77,346	74,651
Riata Technologies Inc.		3,246	10,482
Other		12,564	8,460
		101,081	**94,668**
Other Consultants			
Robert A. Dennison MD		3,375	2,025
Corky Hilliard		0	2,800
Waters Consulting Group		3,150	6,000
Other		432	216
		6,957	**11,041**
Total	$	**276,856**	**327,946**

Investment Section

Summit Strategies Group

January 1, 2006

The Board of Retirement
City of Austin Employees' Retirement System
418 E. Highland Mall Boulevard
Austin, TX 78752-3720

The COA ERS investment portfolio performed very well this past year, posting a positive return of 9.1% gross of fees for the fiscal year ending December 31, 2005. The portfolio grew from a beginning value of $1.37 billion to its current value of $1.46 billion thanks to investment gains of $122 million which were partially offset by net outflows of $34 million. This represents the third positive year after a period containing three consecutive below average years.

As detailed earlier, the COA ERS investment portfolio gained 9.1% for the year ending December 31, 2005. This exceeded the fund's Passive and Policy Benchmark and the Median Public Fund in the ICC sample. Specifically, the investment portfolio beat its Passive Benchmark return of 6.2% by 2.9% and its Policy Benchmark return of 6.8% by 2.3%, and exceeded the Median Public Fund return of 6.9% by 2.2%, ranking in the 11th percentile. This is partially attributable to COA ERS' larger weighting or percentage of equities, which includes international equities, versus other Public Funds. During the fiscal year, all COA ERS investment portfolio asset class composites exceeded their benchmarks. Strong performance by real estate, small cap, and international equities and value added by several managers played a role in the strength at the Total Fund level. Longer-term results are good as well and in fact quite impressive. For the 3-year period, the fund returned 15.0% annualized. In this case, the return exceeded the Policy Benchmark and more than 82% of the public funds in our sample. All rates of return were calculated in accordance with AIMR performance presentation standards and are gross of fees.

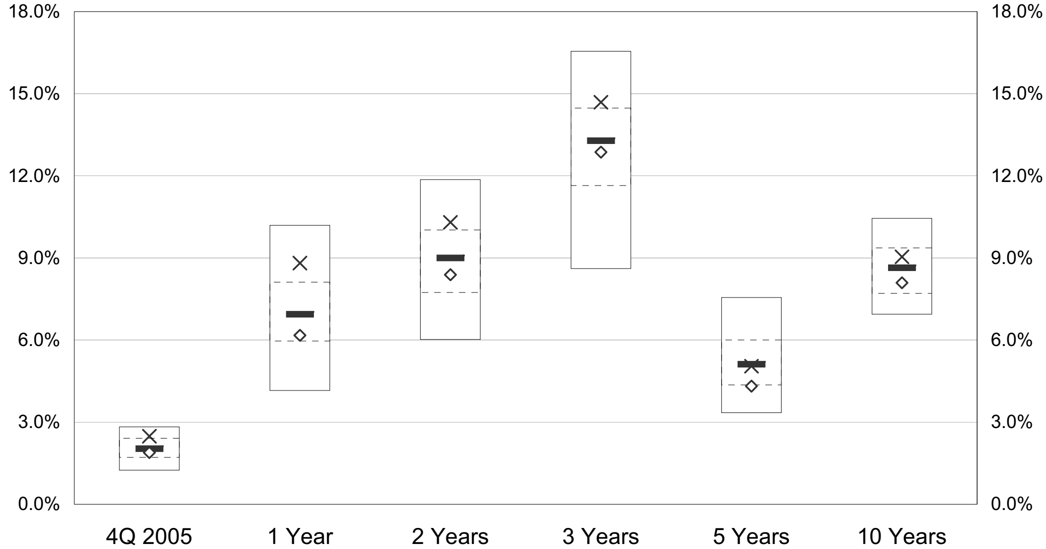
In fiscal year 2005, the funding to Principal Real Estate was completed in the first quarter. Real estate, as an asset class, was added in 2004 to diversify the fund's exposure to fixed income and in 2005 its inclusion continued to have a positive impact on the fund. Early in the year underperformance and organizational and process changes at the fund's small cap value manager, Sterling Capital Management, culminated in their termination and replacement by AQR Capital Management by year end. Summit provided Board members a review of derivatives currently used by alternative strategies and other investment programs. A review of and recommendation for enhanced indexing was provided to the Investment Committee.

The results for the past year achieved the fund's actuarial assumption for long-term investment results. The investment markets, however while not collapsing, are not expected to reward investors as handsomely for taking risk in the future as they have in the past. We are heartened to see a third year of positive returns, but look to the future with a tempered perspective. The long-term results are excellent and the hard work of the Board and staff during the trying times of the past few years are to be commended. We continue to believe that the fund is in a very good position to capture consistent, quality results in the years to come. All of us at Summit Strategies Group have enjoyed our COA ERS experience and look forward to continued service and success. Thank you.

Sincerely,

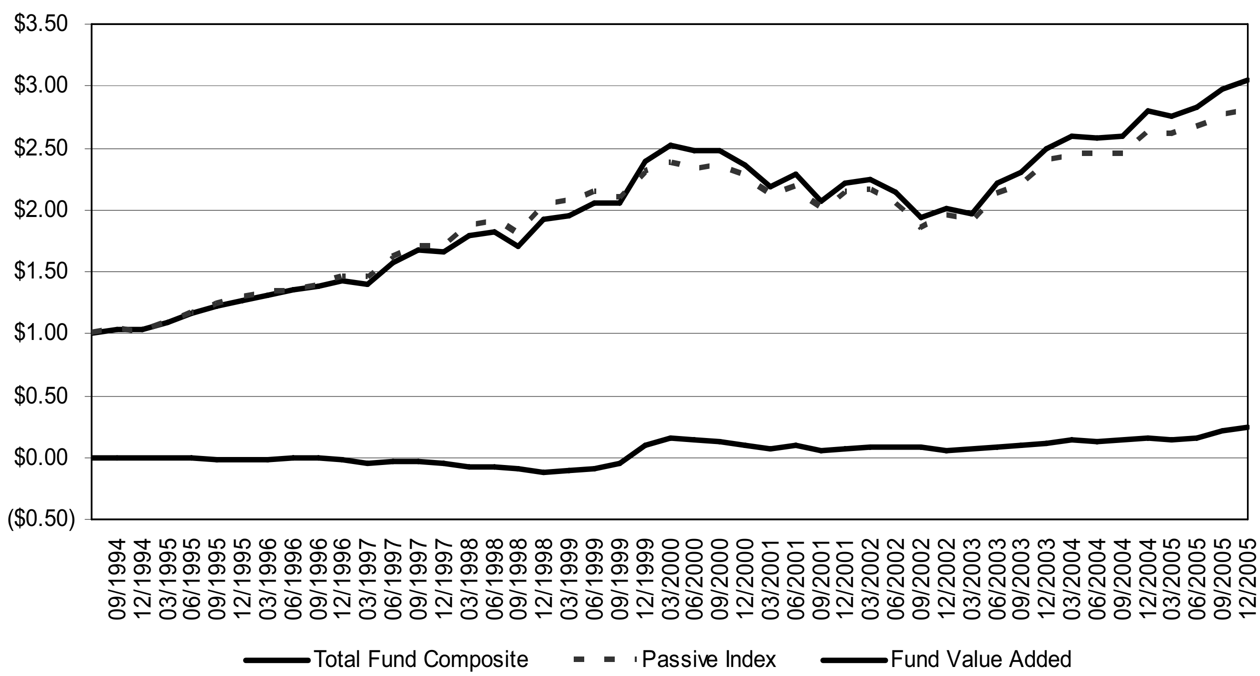
Eric J. Ralph, CFA
Senior Vice President

TOTAL FUND AND PASSIVE INDEX VS. ICC PUBLIC FUND UNIVERSE



	4Q 2005	1 Year	2 Years	3 Years	5 Years	10 Years
COAERS	2.49%	8.81%	10.30%	14.69%	5.04%	9.04%
Passive Index	1.89%	6.17%	8.39%	12.87%	4.32%	8.09%
5th Percentile	2.83%	10.19%	11.86%	16.55%	7.55%	10.45%
25th Percentile	2.41%	8.12%	10.02%	14.48%	6.00%	9.37%
Median	2.03%	6.94%	9.00%	13.28%	5.12%	8.64%
75th Percentile	1.71%	5.96%	7.73%	11.64%	4.36%	7.70%
95th Percentile	1.24%	4.15%	6.02%	8.61%	3.34%	6.94%
Observations	151	150	148	143	136	101

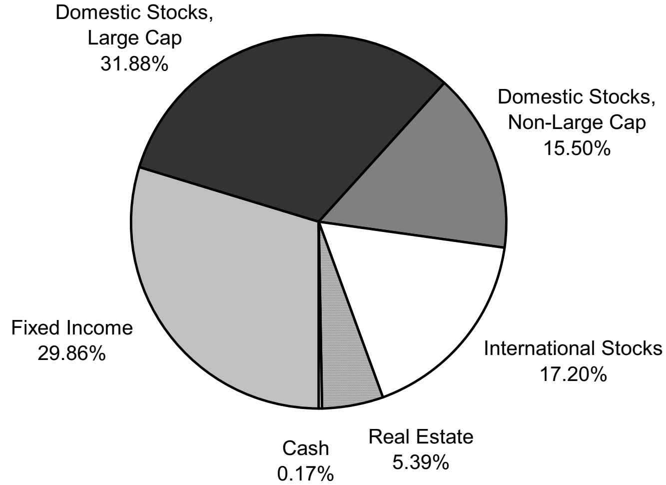
TOTAL GROWTH OF $1.00 VS. PASSIVE INDEX



Note: Passive Index is currently comprised of 33% S&P 500, 16% Russell 2500, 16% EAFE, 30% Lehman Aggregate, and 5% NCREIF.

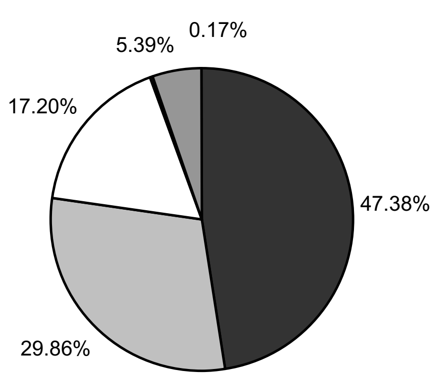
INVESTMENT SUMMARY AT FAIR MARKET VALUE

Asset Class by Fund Manager	Fair Value	Percentage of Total Fair Value
Fixed Income	$435,153,290	29.86%
Domestic Stocks, Large Cap	464,704,043	31.88%
Domestic Stocks, Non-Large Cap	225,889,278	15.50%
International Stocks	250,724,541	17.20%
Real Estate	78,507,966	5.39%
Cash	2,534,607	0.17%
	$1,457,513,725	100.00%



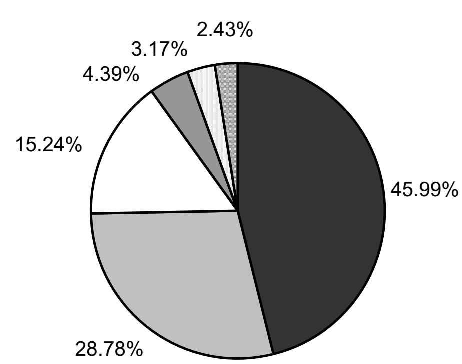
ALLOCATION BY SECTOR

COA ERS Asset Allocation



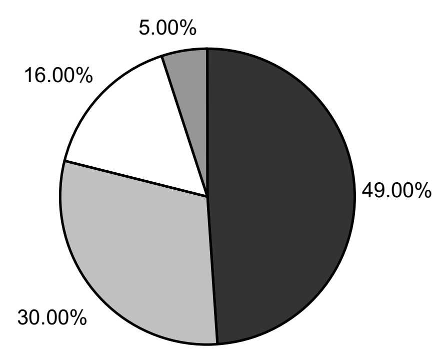
Market Value: $1.458 Billion

ICC Median Public Fund Asset Allocation



Market Value: $792 Billion

Target Allocation



US Equity | US Fixed | Intl Equity
Real Estate | Private Invest | Cash

ASSET ALLOCATION

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM
ASSET ALLOCATION
12/31/2005

INVESTMENT POLICY REBALANCING GUIDELINES:	12/31/2005 Value	% OF FUND	ASSET ALLOCATION		VARIANCE FROM TARGET	
			TARGET %	TARGET AMOUNT	AMOUNT	%
Common Stocks	**$ 941,317,862**	**64.58%**	**65.00%**	**947,383,921**	**(6,066,059)**	**-0.42%**
Domestic Large Cap Equities	464,704,043	31.88%	32.50%	473,691,961	(8,987,918)	
Domestic Non-Large Cap Equities	225,889,278	15.50%	16.25%	236,845,980	(10,956,702)	
International Equities	250,724,541	17.20%	16.25%	236,845,980	13,878,561	
Fixed Income	**435,153,290**	**29.86%**	**30.00%**	**437,254,117**	**(2,100,827)**	**-0.14%**
Real Estate	**78,507,966**	**5.39%**	**5.00%**	**72,875,686**	**5,632,280**	**0.39%**
Subtotal Fixed Income & Real Estate	513,661,256	35.24%	35.00%	510,129,804	3,531,452	
Cash	**2,534,607**	**0.17%**	**0.00%**	**-**	**2,534,607**	**0.17%**
TOTAL	**1,457,513,725**	**100.00%**	**100.00%**			

ASSET CLASS / MANAGER					
US EQUITIES (Large)	**464,704,043**	**31.88%**	**32.50%**	**473,691,961**	**(8,987,918)**
NTGI QM S&P 500 INDEX FUND	231,517,702	15.88%	16.250%	236,845,980	**(5,328,279)**
ALLIANCEBERNSTEIN (large cap - growth)	115,628,722	7.93%	8.125%	118,422,990	**(2,794,268)**
ARONSON+JOHNSON+ORTIZ (large cap - value)	117,557,619	8.07%	8.125%	118,422,990	**(865,372)**
US EQUITIES (Non-Large)	**225,889,278**	**15.50%**	**16.25%**	**236,845,980**	**(10,956,702)**
DRIEHAUS CAPITAL MGMT LLC(small cap - growth)	57,212,883	3.93%	4.0625%	59,211,495	**(1,998,612)**
STERLING CAPITAL MGMT (small cap - value)	22,466	0.00%	0.0000%	0	**22,466**
AQR CAPITAL MGMT (small cap - value)	57,056,631	3.91%	4.0625%	59,211,495	**(2,154,864)**
WALL STREET ASSOCIATES (mid cap - growth)	57,121,025	3.92%	4.0625%	59,211,495	**(2,090,470)**
EUBEL BRADY & SUTTMAN (mid cap - value)	54,476,273	3.74%	4.0625%	59,211,495	**(4,735,222)**
INTERNATIONAL EQUITIES	**250,724,541**	**17.20%**	**16.25%**	**236,845,980**	**13,878,561**
WALTER SCOTT & PARTNERS LTD (intl - growth)	126,759,948	8.70%	8.125%	118,422,990	**8,336,958**
SPRUCEGROVE INVESTMENT MGMT LTD (intl - value)	123,964,593	8.51%	8.125%	118,422,990	**5,541,603**
DOMESTIC FIXED INCOME	**435,153,290**	**29.86%**	**30.00%**	**437,254,117**	**(2,100,827)**
AGINCOURT CAPITAL MGMT LLC	216,762,467	14.87%	15.00%	218,627,059	**(1,864,592)**
NTGI QM AGGREGATE BOND FUND	218,390,823	14.98%	15.00%	218,627,059	**(236,236)**
REAL ESTATE	**78,507,966**	**5.39%**	**5.00%**	**72,875,686**	**5,632,280**
PRINCIPAL GLOBAL INVESTORS	78,507,966	5.39%	5.00%	72,875,686	**5,632,280**
CASH	**2,534,607**	**0.17%**	**0.00%**	**0**	**2,534,607**
CASH	2,534,607	0.17%	0.00%	0	**2,534,607**
TOTAL	**$ 1,457,513,725**	**100.00%**			

TOP TEN EQUITY HOLDINGS

Shares	Stock	Fair Value	% of Fund
205,409	Exxon Mobil Corp	$11,537,833	0.79%
310,957	General Electric Co	10,922,407	0.75%
195,807	CitiGroup Inc	9,502,509	0.65%
151,030	Proctor & Gamble Co	8,741,610	0.60%
167,418	Bank of America Corp	7,726,363	0.53%
149,366	QualComm Inc	6,446,233	0.44%
274,132	Pfizer Inc	6,392,769	0.44%
92,635	American Intl Group Inc Com	6,320,519	0.43%
85,721	Apple Computer Inc	6,162,488	0.42%
83,327	Merrill Lynch & Co Inc	5,643,713	0.39%
	Top 10 Stock Holdings	**$79,396,444**	**5.45%**
	Total Investments	**$1,457,513,725**	**100.00%**

Full listing available upon request.

TOP TEN BOND HOLDINGS

Par	Bond	Fair Value	Fund
$ 8,420,000	US Treasury Bonds 6% 2-15-2026	$9,929,024	0.68%
9,905,000	FNMA 4.625% 10-15-2013	9,786,526	0.67%
8,045,667	FNMA 5.5% 02-01-2035	7,974,623	0.55%
7,812,691	FHLMC 4.5% 07-01-2019	7,614,092	0.52%
6,020,583	FHLMC 5.5% 12-01-2034	5,971,215	0.41%
5,509,576	FNMA 6% 10-01-2035	5,561,801	0.38%
5,400,035	Bear Stearns CMO 10-25-2035	5,295,782	0.36%
5,062,448	FHLMC 5% 12-01-2018	5,019,215	0.34%
4,773,338	FHLMC 4.5% 08-01-2020	4,644,983	0.32%
4,589,844	FHLMC 5.5% 06-01-2035	4,548,719	0.31%
	Top 10 Bond Holdings	**$66,345,980**	**4.55%**
	Total Investments	**$1,457,513,725**	**100.00%**

BROKER COMMISSIONS OVER $10,000

Broker Name	Commissions Paid	# of Shares Traded	Cost per Share
BEAR, STEARNS, SECURITIES CORP	$ 14,089	320,585	$ 0.044
BROCKHOUSE & COOPER MONTREAL	12,855	1,293,190	0.010
CANTOR FITZGERALD	16,064	547,915	0.029
CITIGROUP GLOBAL MARKETS INC	23,004	1,153,368	0.020
CREDIT SUISSE FIRST BOSTON CORPORATION	17,287	471,712	0.037
DEUTSCHE BANK SECURITIES INC	16,629	1,273,731	0.013
DRIEHAUS SECURITIES CORP	1,566,128	20,306,396	0.077
GOLDMAN SACHS & COMPANY	29,573	1,457,950	0.020
IMPERIAL CAPITAL LLC	32,005	640,100	0.050
INVESTMENT TECHNOLOGY GROUP	15,873	727,952	0.022
JEFFERIES & COMPANY	10,106	252,505	0.040
JP MORGAN SECURITIES INC	13,896	315,930	0.044
LEHMAN BROTHERS INC	34,990	1,722,260	0.020
LIQUIDNET INC	11,730	586,507	0.020
LYNCH JONES & RYAN	31,862	775,008	0.041
MERRILL LYNCH PIERCE FENNER & SMITH	66,702	1,823,714	0.037
MORGAN STANLEY & CO INC	10,359	240,450	0.043
UBS SECURITIES LLC NEW YORK	15,594	341,654	0.046
WEEDEN & CO	11,892	519,805	0.023
Minor Brokers - 124 total	239,655	7,656,863	0.031
Total Broker Commissions	**$ 2,190,294**	**42,427,595**	**$ 0.052**

COMPARISON OF INVESTMENT MANAGER PERFORMANCE

	Balance 12/31/04	Balance 12/31/05	2005 Gross Return (%)	2005 Mgmt Fees (Cash Basis)	After-Fees Return (%) 2005	3 Years	5 Years
FIXED INCOME GROUP	**$368,617,443**	**$435,153,290**	2.6 %	$341,832	2.5 %	3.8 %	6.1 %
Agincourt Capital Mgmt LLC	185,097,244	216,762,467	2.6 %	289,872	2.5 %	3.9 %	6.3 %
Lehman Aggregate			2.4 %		2.4 %	3.6 %	5.9 %
NTGI QM Bond Index Fund	183,520,199	218,390,823	2.5 %	51,960	2.5 %	3.6 %	5.9 %
Lehman Aggregate			2.4 %		2.4 %	3.6 %	5.9 %
INTERNATIONAL	256,572,311	250,724,541	16.3 %	1,150,150	15.8 %	22.3 %	7.3 %
Walter Scott & Partners LTD	121,719,231	126,759,948	18.1 %	573,286	17.5 %	20.8 %	5.9 %
EAFE			14.0 %		14.0 %	24.2 %	4.9 %
Sprucegrove Investment Mgmt Inc	134,853,080	123,964,593	14.5 %	576,864	14.0 %	23.5 %	N/A
EAFE			14.0 %		14.0 %	24.2 %	4.9 %
DOMESTIC EQUITY	707,199,717	690,593,321	9.2 %	1,351,150	8.9 %	18.9 %	2.7 %
US EQUITIES LARGE	**462,541,348**	**464,704,043**	**9.8 %**	**236,873**	**9.7 %**	**16.9 %**	**1.5 %**
NTGI QM S&P 500 Index Fund	226,401,802	231,517,702	5.0 %	60,917	4.9 %	14.4 %	0.6 %
S&P 500			4.9 %		4.9 %	14.4 %	0.6 %
AllianceBernstein	108,499,492	115,628,722	17.7 %	10,045	17.7 %	16.7 %	N/A
Russell 1000 Growth			5.3 %		5.3 %	13.2 %	(3.6)%
Aronson+Johnson+Ortiz	127,640,054	117,557,619	12.0 %	165,911	11.8 %	21.8 %	N/A
Russell 1000 Value			7.1 %		7.1 %	17.5 %	5.3 %
US EQUITIES NON-LARGE	**244,658,369**	**225,889,278**	**8.0 %**	**1,114,277**	**7.5 %**	**22.9 %**	**5.3 %**
Wall Street Associates	56,761,555	57,121,025	18.2 %	150,348	17.9 %	23.3 %	N/A
Russell Mid Cap Growth			12.1 %		12.1 %	22.7 %	1.4 %
Eubel Brady & Suttman Asset Mgmt	62,008,592	54,476,273	(2.5)%	110,645	(2.6)%	13.0 %	N/A
Russell Mid Cap Value			12.7 %		12.7 %	24.4 %	12.2 %
Driehaus Capital Management LLC	61,061,142	57,212,883	12.7 %	798,455	11.2 %	N/A	N/A
Russell 2000 Growth			4.1 %		4.1 %	20.9 %	2.3 %
Sterling Capital Management LLC	64,827,080	22,466	N/A	54,829	N/A	N/A	N/A
Russell 2000 Value			4.7 %		4.7 %	23.2 %	13.6 %
AQR Capital Management	N/A	57,056,631	N/A	N/A	N/A	N/A	N/A
Russell 2000 Value			4.7 %		4.7 %	23.2 %	13.6 %
REAL ESTATE	37,149,273	78,507,966	20.0 %	683,590	18.8 %	N/A	N/A
Principal Global Investors	37,149,273	78,507,966	20.0 %	683,590	18.8 %	N/A	N/A
NCREIF Property			20.1 %		20.1 %	14.4 %	11.4 %
CASH	514,946	2,534,607	3.4 %		3.4 %	2.5 %	3.5 %
90 Day T-Bills			3.1 %		3.1 %	1.8 %	2.3 %
TOTAL FUND	$1,370,053,690	$1,457,513,725	9.1 %	$3,526,722	8.8 %	14.7 %	5.0 %
****Policy Index***			6.8 %		6.8 %	13.7 %	4.8 %

* Policy Allocation: 33% S&P 500, 14% Russell 2500 Growth, 15% FTAWI Ex-US, 38% Lehman Aggregate, thru 8/00.
33% S&P 500, 14% Russell 2500 Growth, 15% EAFE, 38% Lehman Aggregate, 9/00 thru 9/01.
33% S&P 500, 14% Russell 2500, 15% EAFE, 38% Lehman Aggregate, 10/01 thru 12/02.
33% S&P 500, 16% Russell 2500, 16% EAFE, 35% Lehman Aggregate, 1/03 thru 3/05.
33% S&P 500, 16% Russell 2500, 16% EAFE, 30% Lehman Aggregate, 5% NCREIF, 4/05 to present.

Note: The basis for calculation is the Modified Dietz Method applied monthly, which is in accordance with the Performance Presentation Standards of the Association for Investment and Research (AIMR_PPS®).

SUMMARY OF INVESTMENT POLICY

The City of Austin Employees' Retirement System Board of Trustees, which has the fiduciary duty of overseeing the pension fund investments, has adopted a Statement of Investment Policy and Objectives. This summary includes the major elements of this annually reviewed document. A copy, in its entirety, is available upon request.

INVESTMENT GOALS

The purpose of the Fund is to accumulate the financial reserves necessary to provide for the retirement and pensioning of eligible Members of the City of Austin Employees' Retirement System and their beneficiaries. Given this purpose, the System's liquidity requirement, and the source and predictability of contributions, the Board elects to assume normal pension fund risk in pursuing an investment program. A primary objective of the investment management of the Fund is to emphasize consistency of growth in a manner that protects the Fund from excessive volatility in market value from year to year.

The Board, with consultation, advice, and assistance from the investment consultant, will use the Fund's asset allocation as the primary tool to achieve this goal. As this is a long-term projection and investments are subject to short-term volatility, the main investment review focus of the Board will be to emphasize total return of the Fund versus its absolute and relative targets, each asset segment's composite performance versus appropriate market benchmarks, and each money manager's performance versus a specified asset class style benchmark and style peer comparison over relevant time periods. Each manager is expected to maintain a consistent philosophy and style, perform well versus others utilizing the same style, add incremental value after costs and provide investment management in compliance with this document and the manager's contract with the System.

INVESTMENT PHILOSOPHY

The Fund is a permanent one.

The benefit obligations of the System must be met on a timely and regular basis.

There is currently no expectation of a need for significant liquidity from the Fund's portfolio.

The Fund shall be considered a total return fund, with appropriate recognition given to both current income and capital appreciation. Taxes shall not be a consideration. As such, market value will be the only relevant basis for investment value.

In the long run, ownership (equity investment) is a prudent investment vehicle for preservation of real values. The purpose of fixed income investments is to protect principal and provide a measure of stability to the portfolio.

As a long-term fund with a commitment to funding the full benefits of the participants, cash flow considerations shall take precedence over the liability stream when considering overall asset allocation of Fund assets.

IDENTIFICATION OF DUTIES

There are several parties acting as fiduciaries regarding the investment program for the Fund. This document will set out specific duties and responsibilities for the investment-related parties as they carry out their specific roles towards achieving the objectives of the Fund.

PERMISSIBLE INVESTMENTS

Listed below are the investment vehicles specifically permitted currently under this Statement of Investment Policies and Objectives. They are categorized as equity or fixed income to indicate how they are classified for purposes of the asset-mix guidelines in a subsequent section. Unless given authorization in writing, managers are allowed to invest only in the security types listed below for the asset class for which they have been hired.

Equities	*Fixed Income*	*Real Estate*
Common Stocks	Domestic and Yankee Bonds	Open-ended Commingled Funds
Convertible Bonds	Mortgages and Mortgage-Backed Securities	
Preferred Stocks	Asset-Backed Securities	
	Cash-Equivalent Securities	
	Money Market Funds, Bank STIF and STEP Funds	

1. The above assets can be held in commingled (mutual) funds as well as privately managed separate accounts. If held in a commingled account or mutual fund, the prospectus or Declaration of Trust takes precedence over this document.

2. Private placement bonds are not permitted. Section 144(a) fixed income securities are allowable.

3. Investments may not be made in any investment that is prohibited by the Internal Revenue Service, the Department of Labor or statutory restriction.

4. For purposes of definition, cash equivalent securities are any fixed income investment with less than one year to maturity or reset date.

5. The securities representing equity of any one company shall not exceed 4% of the cost basis or 6% of the market value of any manager's portfolio. Fixed income securities of any one corporation shall be limited to 4% at cost of a portfolio and may not exceed 6% at market. This restriction also applies to asset-backed securities, non-agency mortgage-backed securities (including commercial mortgage-backed securities) and taxable municipals. The total holdings of an agency-issued mortgage-backed security of the same coupon and maturity series of the same agency shall not exceed 20% of the portfolio at cost (agency-issued mortgage-backed securities to include GNMA's). The direct debt of the federal government (treasury bonds, bills and notes) shall not be restricted as a percentage of the portfolio.

6. The Fund will be invested in a manner consistent with all applicable local, state and federal laws.

7. International equity managers may invest in depository receipts as long as the underlying security is permissible within these guidelines and the investment does not expose the Fund to any greater risk than the risk from holding the underlying security.

8. Domestic equity managers are allowed to invest in dollar-denominated, SEC registered stock of foreign domiciled companies traded on the NYSE, AMEX or OTC markets. Concentration restrictions for the above securities are the same as for any other security.

TOTAL PENSION FUND INVESTMENT OBJECTIVES

Both relative and absolute results will be considered in the evaluation of the total Fund's performance. The following are the performance expectations for the Fund:

The Fund's total return after fees should exceed the total return of an index composed of a mix of asset class benchmarks in proportions set out in the Statement of Investment Policies and Objectives.

The time period for this objective is on the market cycle or five years, whichever is shorter.

ASSET CLASS DIVERSIFICATION

Within the broad definition of equities and fixed income for allocation purposes, the Board with advice from the consultant, believe it is prudent to diversify within asset classes. The intra-asset class categories and their proportion of the total asset class allocation shall be:

Equities:	65%	Fixed Income:	30%	Real Estate:	5%
Large Cap Domestic	50%	Core Fixed Income	100%	Real Estate	100%
Non-Large Cap Domestic	25%	Cash	0%		
International	25%				

While the Board with advice from the consultant believes that diversification is prudent, they also believe that over-diversification is detrimental to the System. Therefore, the Board shall not consider an asset segment for inclusion in the portfolio that does not warrant a 5% allocation of the total fund.

Rebalancing will take place when the broad asset class trigger percentages have been reached.

(This page intentionally left blank.)

Actuarial Section

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

April 18, 2006

Mr. Stephen Edmonds
Executive Director
City of Austin Employees' Retirement System
418 E. Highland Mall Blvd.
Austin, TX 78752

Dear Mr. Edmonds:

Subject: Actuarial Valuation as of December 31, 2005

We are pleased to present our report on the actuarial valuation of the City of Austin Employees' Retirement System. Based upon this actuarial valuation as of December 31, 2005, it is our opinion that these results reasonably reflect the funded status of the System.

As you know, the employee and employer contribution rates are set by statute. It is expected that these contribution rates will remain level as a percentage of payroll. The funding objective of the plan is for the contribution rates to be sufficient to cover the normal cost of the plan and to amortize any unfunded actuarial accrued liabilities over a period not to exceed 30 years. Due to continued recognition of the significant asset losses from 2000, 2001 and 2002, the plan's contribution rate is not sufficient to amortize the System's unfunded liabilities. Therefore, the funding objective is not currently being met.

In 2005 the City of Austin adopted the Supplemental Funding Plan (SFP). The SFP will increase the City contribution rate in 1% increments annually over the next several years until the rate reaches a maximum of 12.0%. The rates will increase on October 1st of each year, therefore the City contribution rate will increase to 9.0% effective October 1, 2006. The increase in the City rate can be delayed by a year if the System earns 12.0% on its assets during the previous calendar year. The increases in the City rate are intended to stay in place until the funding period of the System is less than 30 years. Once the funding period reaches 30 years, the City has the option to reduce the additional contributions to a rate that would produce a 30-year funding period.

In addition to the actuarial valuation results, various accounting and statistical tables are also included which should help you compare the results of this plan year with prior years. The information presented in the trend data schedules of this report has been prepared by Gabriel, Roeder, Smith & Company. The information for years 1993 through 2000 was prepared by Watson Wyatt & Company. Information in these schedules prior to 1993 was determined by another actuarial firm.

Mr. Stephen Edmonds
April 18, 2006
Page 2

Actuarial assumptions and methods are set by the Board of Trustees, based upon recommendations made by the plan's actuary. These assumptions were last changed in 2002, following an analysis of the plan experience for the preceding five years. We believe the assumptions are internally consistent and are reasonable, based on the actual experience of COA ERS.

The results of the actuarial valuation are dependent on 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 are intended to provide information for rational decision making.

Member data for retired, active and inactive participants was supplied as of December 31, 2005, by the City of Austin Employees' Retirement System staff. We have not subjected this data to any auditing procedures, but have examined the data for reasonableness and consistency with the prior year's data. Asset information was also supplied by the City of Austin Employees' Retirement System staff.

The following tables contained in the actuarial report were prepared by Gabriel, Roeder, Smith & Company and will be included in the Actuarial and Statistical sections of the COA ERS' 2005 CAFR:

Table 1	Summary of Cost Items
Table 2	Analysis of Normal Cost by Component
Table 3	Actuarial Present Value of Future Benefits and Calculation of Actuarial Accrued Liability
Table 4	Development of Actuarial Value of Assets
Table 5	Calculation of Excess Investment Income for Actuarial Value of Assets
Table 6	Change in Net Assets
Table 7	Actual Versus Expected Actuarial Assets
Table 8	Actuarial Gain or Loss as of December 31, 2005
Table 9	Relative Size of Unfunded Actuarial Accrued Liability
Table 10	Schedule of Active Member Valuation Data
Table 11	Schedule of Retirants and Beneficiaries Added to and Removed from Rolls
Table 12	Solvency Test
Table 13a	Schedule of Funding Progress
Table 13b	Schedule of Employer Contributions
Table 13c	Notes to Required Supplementary Information
Table 14	Statement of Actuarial Methods and Assumptions
Table 15	Summary of Benefit Provisions of the Retirement Plan as of December 31, 2005
Table 16	Definition of Terms
Table 17	Distribution of All Active Participants by Age and Length of Service
Table 18	Distribution of All Active Participants by Service and Current Rate of Pay

GABRIEL, ROEDER, SMITH & COMPANY

Mr. Stephen Edmonds
April 18, 2006
Page 3

Table 19 Schedule of Average Monthly Benefit Payments
Table 20 Number of Retired Members by Type of Benefit
Table 21 Schedule of Participating Employers
Table 22 Schedule of Expenses by Type
Table 23 Schedule of Revenues by Source

We would like to thank you and your staff for their assistance in providing all necessary information to complete this valuation. Their courteous help is very much appreciated.

We look forward to discussing this actuarial valuation report with you at your convenience. Please do not hesitate to let us know if you have any questions or need additional information.

Sincerely,

Lewis Ward
Consultant

W. Michael Carter, F.S.A.
Senior Consultant

klb

Enclosure

3004/2006/val/val2006.doc

TABLE OF CONTENTS

EXECUTIVE SUMMARY

The key results from the valuation of the City of Austin Employees' Retirement System as of December 31, 2005, may be summarized as follows:

	December 31, 2005	December 31, 2004
	(1)	(2)
• Members		
— Actives	7,638	7,489
— Retirees and beneficiaries	3,297	3,137
— Vested - terminated	670	612
— Total	11,605	11,238
• Covered payroll	$ 348,619,141	$ 326,590,164
• Normal cost	$ 52,387,124	$ 48,513,730
— As % of payroll	14.56%	14.39%
• Actuarial accrued liability	$ 1,794,181,675	$ 1,678,181,243
• Present actuarial value of assets	$ 1,398,798,722	$ 1,356,797,448
• Unfunded actuarial accrued liability (UAAL)	$ 395,382,953	$ 321,383,795
• Estimated yield on assets		
— Actuarial value basis	5.44%	2.74%
— Market value basis	8.58%	11.57%
• Contribution rate		
— Employee	8.00%	8.00%
— Employer	8.00% *	8.00%
• Benefit and refund payments	$ 91,385,741	$ 87,814,171
• Amortization period of unfunded actuarial accrued liability	Infinite	Infinite
• GASB No. 25 disclosure		
— UAAL as a % of Payroll	113.4%	98.4%
— GASB funded ratio	78.0%	80.8%
— GASB Annual Required Contribution (ARC)	13.34%	12.27%

* Employer rate will increase to 9.0% effective October 1, 2006.

INTRODUCTION

This December 31, 2005, actuarial valuation of the City of Austin Employees' Retirement System has been prepared by Gabriel, Roeder, Smith & Company. The primary purpose of the valuation is to value the liabilities of the System as of December 31, 2005, determine the funding period of any unfunded liability for the plan year beginning January 1, 2006, and to provide certain required disclosure information. We are pleased to have the privilege of working for the Board, and look forward to discussing the results with you at your convenience.

The last actuarial valuation of the City of Austin Employees' Retirement System was prepared as of December 31, 2004 by Gabriel, Roeder, Smith & Company. Valuations are prepared annually as of December 31st.

This valuation reflects the assumption changes adopted by the Board in October of 2002, as a result of the 2002 Experience Study. These changes were further modified effective December 31, 2002, by reducing the assumption for the interest crediting rate on employee contributions. The assumption was lowered from 8% to 6%.

Section C of this report provides the current funded status of the plan and reviews the valuation results. Assets are discussed in Section D, while Section E contains an analysis of the actuarial gains and losses during the past year.

Section F discusses some of the historical comparisons and statistical summaries for the plan. Governmental Accounting Standards Board Statement No. 25 (GASB No. 25) information in the report is discussed in Section G, and Section H provides a summary of the valuation results along with other comments.

Various tables supporting the report are contained in Section I and Section J (included in the Statistical Section of the COA ERS' 2005 CAFR), including any change in benefit provisions since the last valuation.

FUNDED STATUS OF THE PLAN

The funded status of the plan is shown in Table 1, Table 2, and Table 3. Table 1 summarizes the various cost items from the current year's and prior year's actuarial valuations, while Table 2 provides an allocation of the normal cost by its various components. Table 3 shows the components of the actuarial liability.

Reviewing the composition of normal cost of the System, Table 2 indicates that the employer normal cost as of December 31, 2005, is 14.56% of pay. This compares with 14.39% of pay as of the last valuation of December 31, 2004. This normal cost is developed based on the entry-age-normal (EAN) actuarial cost method. As may be seen in Item 1, the normal cost for the retirement benefits is 10.19% of pay. The normal cost for the vested termination benefits is 1.75% and 1.96% for refunds of nonvested terminated employees. The normal cost for disability benefits is 0.30%, and the normal cost for death benefits is 0.36%.

Table 1 illustrates a number of the key actuarial items for the 2005 valuation. As mentioned above, the employer normal cost rate is 14.56% of covered payroll. The actuarial accrued liability is $1,794.2 million as shown in Item 5 and as detailed in Table 3. The actuarial value of assets equals $1,398.8 million, as shown in Item 6. Item 7 of Table 1 shows that the plan has a $395.4 million unfunded liability (i.e. liabilities exceed plan assets) as of the valuation date. As of the last valuation (December 31, 2004), the System was underfunded by $321 million.

The City and the employees are both currently contributing 8% of payroll. Combining the employees' contributions with the City contribution, the System has 16% of payroll to fund benefits. The current normal cost of the plan is 14.56%, which means that the System is currently receiving contributions in excess of the normal cost equal to 1.44% of pay (16.00% less 14.56%). These excess contributions are available to amortize any unfunded actuarial accrued liability. Based on these contribution rates, if all assumptions are exactly met then the current unfunded liability will never be fully amortized.

Effective October 1, 2006, the City contribution rate will increase to 9.0% as part of the Supplemental Funding Plan (SFP). Under the SFP it is anticipated that the City contribution rate will increase to 12.0% over the next four years. These additional contributions will help to reduce the unfunded liability of the System over time. The GASB annual required contribution (ARC) is also shown on Table 1. The ARC for the 2006 plan year, as determined by the 2005 valuation, is 13.34%.

CHANGE IN ASSETS

Table 4 and Table 5 show the development of the actuarial value of assets. Item 6 of Table 4 shows that the actuarial value of assets as of December 31, 2005, is $1,398.8 million.

Table 4 develops the actuarial value of assets under the actuarial asset valuation method adopted by the Board in conjunction with the change to reporting the System's disclosure information under GASB No. 25. This method begins with the market value of assets and is modified by the "Excess (Shortfall)" between expected investment return and actual income. Only 20% of this Excess (Shortfall) is recognized in the valuation immediately following the year in which the Excess (Shortfall) occurs. The remaining 80% of the Excess (Shortfall) is deferred until future years, with an additional 20% recognized in each subsequent year until 100% of the difference is recognized in the fifth year.

The total deferral of all Excess (Shortfall) investment income for the year (shown in Item 2e) is $ 62.0 million. Table 5 shows the development of the Excess (Shortfall) of investment income for the past four years.

An analysis of the change in the System's market value of assets for the last two plan years and an estimate of the return on assets for the System are included in Table 6. The estimated average annual rate of return for the year ending December 31, 2005, assuming that income, revenue, and expenditures are evenly distributed throughout the year is 8.58% on a market value of assets basis. The rate of return for the year ending December 31, 2005, on an actuarial value basis was 5.44%. This compares with the actuarial assumed investment return of 7.75%.

Table 7 shows the development of the gain/(loss) on the actuarial value of assets for the prior plan year. As may be seen in Item 9, the System had a loss on an actuarial asset basis of $31 million in 2005. This compares to the $67 million loss in 2004.

ACTUARIAL GAINS AND LOSSES

An important part of the change in unfunded actuarial accrued liability from year to year is due to the impact of actuarial gains and losses of the System. This section summarizes the combined asset and liability experience changes since the prior valuation on December 31, 2004.

As can be seen in Item 7 of Table 8, the expected value of the unfunded actuarial accrued liability as of December 31, 2005, is an underfunded position of $334.2 million. This expected value reflects an assumed investment return assumption of 7.75% on the beginning of year unfunded actuarial accrued liability, normal cost, and contributions during 2005.

Since the actual unfunded actuarial accrued liability as of December 31, 2005 is $ 395.4 million, it represents a total net loss for the period of $61.2 million, as shown in Item 9 of Table 8. That is, the funded status is less than expected. The net actuarial loss includes an asset loss of $31.3 million as shown in Table 7 and a loss on the liability side equal to $29.9 million. The liability loss is broken out by source in Items 16-23 of Table 8. As can be seen on Table 8, the largest portion of the liability loss was due to higher than expected salary increases and lower than expected turnover.

There have been no changes to the plan provisions since the prior year. Please see Table 15 for a more detailed description of the plan provisions.

The actuarial assumptions used in this valuation are the same as used in the prior year. These assumptions are detailed in Table 14.

HISTORICAL COMPARISONS AND STATISTICAL SUMMARIES

Various statistical data on the System is shown in the tables contained in Section J presented in the Statistical Section of the COA ERS' 2005 CAFR. In addition, Tables 9 through 12 of Section I contain certain actuarial trend information which may be of interest.

Table 9 relates the size of the unfunded actuarial accrued liability (UAAL) to three different measurements. In Columns 3 and 4 the UAAL is related to the covered payroll of the System. Columns 5 and 6 relate the UAAL to the actuarial value of assets, while Columns 7 and 8 relate the UAAL to the total actuarial liabilities of the System.

Tables 10 through 12 provide information which should be included in your annual report. Table 10 provides a schedule of active member valuation data. Table 11 provides a schedule of retirants and beneficiaries added to and removed from payments rolls. Solvency test results are presented in Table 12.

GASB NO. 25 DISCLOSURE

The Governmental Accounting Standards Board (GASB) has issued Statement No. 25 which provides the manner in which the actuarial condition of a public sector retirement plan is to be disclosed. COA ERS was required to comply with GASB No. 25 beginning January 1, 1997.

The required schedule of funding progress is shown in Table 13a. Table 13b is the schedule of annual required contributions required by GASB No. 25. Table 13c provides notes to the required supplementary information.

Assets used for GASB No. 25 disclosure are based on the actuarial value used for this valuation. Plan liabilities are based on the Entry Age Normal (EAN) funding method which is the same method used for determining plan liabilities for valuation purposes, as required by GASB No. 25.

SUMMARY AND CLOSING COMMENTS

It is our opinion that the results of this valuation provide a reasonable reflection of the funded status of the System. Due to the significant asset losses that occurred in 2000-2002, the System's contributions are not currently sufficient to amortize the unfunded liability of the System. In the absence of significant actuarial gains, the current contribution rates will not be sufficient to support the current benefit structure of the Plan.

As previously mentioned, in 2005 the City of Austin adopted a Supplemental Funding Plan (SFP) which will gradually increase the City's contribution rate to the System to 12.0%. This additional contribution is intended to remain in place until the funding period of the System is reduced to below 30 years. Once this occurs the City, at its discretion, may reduce the SFP contribution rate to a rate that produces a 30-year funding period.

The overall funded position of the System decreased from 80.8% at the prior valuation to 78.0% at this valuation.

It should also be noted that while the System's funded position declined since the prior valuation, the large asset losses (on a market value basis) from 2000, 2001 and 2002 have been mostly recognized and the asset gains from the last three years have generated a net deferred investment gain. In the absence of any other actuarial losses or another turn-around in the financial markets, and with the addition of the SFP, the funded position of the System will most probably increase gradually in the future.

In the absence of significant actuarial losses, the SFP should enable the System to return to a position in the near future where the contributions to the System produce a funding period over which the unfunded liabilities can be amortized. Based on deterministic projections it is expected that the System may be able to reduce its funding period to 30 years by the December 31, 2014 valuation.

ACTUARIAL TABLES

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2005

TABLE 1

SUMMARY OF COST ITEMS

	December 31, 2005		December 31, 2004	
	Cost Item	Cost as % of Pay	Cost Item	Cost as % of Pay
	(1)	(2)	(3)	(4)
1. Participants				
a. Active	7,638		7,489	
b. Terminated vested	670		612	
c. Retired participants and beneficiaries	3,233		3,077	
d. Disabled	64		60	
e. Total	11,605		11,238	
2. Covered Payroll	$ 348,619,141		$ 326,590,164	
3. Averages for Active Participants				
a. Average age	43.5		43.3	
b. Average years of service	9.1		9.0	
c. Average pay	$ 45,643		$ 43,609	
4. Employer Normal Cost	$ 52,387,124	14.56% *	$ 48,513,730	14.39% *
5. Actuarial Accrued Liability				
a. Active participants	$ 899,281,397		$ 823,652,494	
b. Terminated vested participants	39,547,196		35,771,148	
c. Refunds of terminated nonvested participants	7,167,430		6,491,265	
d. Retired participants and beneficiaries	839,612,626		804,051,193	
e. Disabled participants	8,573,026		8,215,143	
f. Total	$ 1,794,181,675	514.65%	$ 1,678,181,243	513.85%
6. Present Actuarial Assets	$ 1,398,798,722	401.24%	$ 1,356,797,448	415.44%
7. Unfunded Actuarial Accrued Liability (UAAL)	$ 395,382,953	113.41%	$ 321,383,795	98.41%
8. Relative Size of UAAL				
a. As percent of actuarial assets	28.27%		23.69%	
b. As percent of covered payroll	113.41%		98.41%	
9. GASB Annual Required Contribution (ARC)	13.34%		12.27%	

* as % of expected payroll

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2005

TABLE 2

ANALYSIS OF NORMAL COST BY COMPONENT

Benefit Component	Cost as % of Pay December 31, 2005	Cost as % of Pay December 31, 2004
(1)	(2)	(3)
1. Retirement Benefits	10.19%	10.01%
2. Vested Termination Benefits	1.75%	1.74%
3. Refunds of Nonvested Terminations	1.96%	1.99%
4. Disability Benefits	0.30%	0.30%
5. Death Benefits	0.36%	0.35%
6. Normal Cost	14.56%	14.39%

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2005 **TABLE 3**

ACTUARIAL PRESENT VALUE OF FUTURE BENEFITS AND CALCULATION OF ACTUARIAL ACCRUED LIABILITY

	December 31, 2005 (1)	December 31, 2004 (2)
A. Present Value of Future Benefits		
1. Active participants		
a. Retirement benefits	$ 1,091,723,069	$ 1,003,036,006
b. Deferred termination benefits	104,892,781	100,080,209
c. Refund of nonvested terminations	32,722,568	31,665,183
d. Disability benefits	17,189,445	16,269,627
e. Death benefits	23,256,166	21,479,728
f. Total	$ 1,269,784,029	$ 1,172,530,753
2. Retired participants		
a. Service retirements and beneficiaries	$ 839,612,626	$ 804,051,193
b. Disability retirements	8,573,026	8,215,143
c. Total	$ 848,185,652	$ 812,266,336
3. Inactive participants		
a. Vested terminations with deferred benefits	$ 39,547,196	$ 35,771,148
b. Nonvested terminations with refunds payable	7,167,430	6,491,265
c. Total	$ 46,714,626	$ 42,262,413
4. Total actuarial present value of future benefits	$ 2,164,684,307	$ 2,027,059,502
B. Present Value of Future Pay	$ 2,549,479,041	$ 2,418,722,075
C. Normal Cost Rate	14.56%	14.39%
D. Present Value of Future Normal Costs	$ 370,502,632	$ 348,878,259
E. Actuarial Accrued Liability for Active Members		
1. Present value of future benefits (Item A.1.f.)	$ 1,269,784,029	$ 1,172,530,753
2. Less present value of future normal costs (Item D)	370,502,632	348,878,259
3. Actuarial accrued liability	$ 899,281,397	$ 823,652,494
F. Total Actuarial Accrued Liability (Item A.2.c + Item A.3.c + Item E.3)	$ 1,794,181,675	$ 1,678,181,243

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2005

TABLE 4

DEVELOPMENT OF ACTUARIAL VALUE OF ASSETS

Item	Valuation as of December 31, 2005
(1)	(2)
1. Excess (shortfall) of investment income for current year and previous three years (see Table 5):	
a. Current year	$ 10,996,163
b. Current year -1	47,286,825
c. Current year -2	164,524,777
d. Current year -3	(205,130,274)
2. Deferral of excess (shortfall) of investment income for:	
a. Current year (80% deferral)	$ 8,796,930
b. Current year - 1 (60% deferral)	28,372,095
c. Current year - 2 (40% deferral)	65,809,911
d. Current year - 3 (20% deferral)	(41,026,055)
e. Total deferred for year	$ 61,952,881
3. Market value of plan assets, end of year	$ 1,460,751,603
4. Preliminary actuarial value of plan assets, end of year (Item 3 - Item 2.e)	$ 1,398,798,722
5. Actuarial value of assets corridor	
a. 80% of market value of assets, end of year	$ 1,168,601,282
b. 120% of market value of assets, end of year	$ 1,752,901,924
6. Final actuarial value of plan assets, end of year (Item 4, but not less than Item 5.a., or greater than Item 5.b.)	$ 1,398,798,722

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2005

TABLE 5

CALCULATION OF EXCESS INVESTMENT INCOME FOR ACTUARIAL VALUE OF ASSETS

Item	Plan Year Ending December 31, 2005	2004	2003	2002
(1)	(2)	(3)	(4)	(5)
1. Net Investment Income				
a. Interest and Dividends	$ 35,680,424	$ 32,165,731	$ 30,655,364	$ 32,348,029
b. Realized and unrealized gains and losses*	82,473,867	113,465,673	215,414,069	(145,341,052)
c. Administrative expenses	(1,497,461)	(1,554,864)	(1,552,770)	(1,641,675)
d. Total	$ 116,656,830	$ 144,076,540	$ 244,516,663	$ (114,634,698)
2. Market value of assets, beginning of year	$ 1,375,016,657	$ 1,259,556,169	$ 1,042,376,123	$ 1,172,088,538
3. Contributions during year	$ 60,463,857	$ 59,213,119	$ 55,356,622	$ 60,166,320
4. Benefits and refunds paid during year	$ (91,385,741)	$ (87,814,171)	$ (82,693,239)	$ (75,244,037)
5. Other	$ -	$ (15,000)	$ -	$ -
6. Expected net investment income at	7.75%	7.75%	7.75%	7.75%
a. Market value of assets, beginning of year	$ 106,563,791	$ 97,615,603	$ 80,784,150	$ 90,836,862
b. Contributions	2,342,974	2,294,508	2,145,069	2,331,445
c. Benefits and refunds	(3,246,098)	(3,119,233)	(2,937,333)	(2,672,731)
d. Other	-	(1,163)	-	-
e. Total	$ 105,660,667	$ 96,789,715	$ 79,991,886	$ 90,495,576
7. Excess investment income for year (Item 1.d. - Item 6.e.)	$ 10,996,163	$ 47,286,825	$ 164,524,777	$ (205,130,274)

*Includes investment expenses

GABRIEL, ROEDER, SMITH & COMPANY

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2005

TABLE 6

CHANGE IN NET ASSETS

		Valuation Period Ending December 31, 2005 (1)	Valuation Period Ending December 31, 2004 (2)
1.	Assets in plan at beginning of year **(A)**	$ 1,375,016,657	$ 1,259,556,169
2.	Employer contributions	27,129,891	26,940,941
3.	Employee contributions	33,333,966	32,272,178
4.	Benefit payments made	87,610,699	82,702,062
5.	Refunds of contributions	3,775,042	5,112,109
6.	Expenses paid from trust	1,497,461	1,554,864
7.	Investment return	118,154,291	145,631,404
8.	Other	-	(15,000)
9.	Assets in plan at end of year **(B)** (1 + 2 + 3 - 4 - 5 - 6 + 7 + 8)	$ 1,460,751,603	$ 1,375,016,657
10.	Approximate rate of return on average invested assets		
	a. Net investment income (7 - 6 = **I**)	$ 116,656,830	$ 144,076,540
	b. Estimated yield based on **(2I/(A + B - I))**	8.58%	11.57%

Gabriel, Roeder, Smith & Company

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2005

TABLE 7

ACTUAL VERSUS EXPECTED ACTUARIAL ASSETS

Item	Plan Year Ending	
	December 31, 2005	December 31, 2004
(1)	(2)	(3)
1. Actuarial assets, beginning of year	$ 1,356,797,448	$ 1,348,790,502
2. Contributions during year	$ 60,463,857	$ 59,213,119
3. Benefits paid during year	$ (87,610,699)	$ (82,702,062)
4. Refunds paid during year	$ (3,775,042)	$ (5,112,109)
5. Other	$ -	$ (15,000)
6. Assumed net investment income at	7.75%	7.75%
a. Beginning of year assets	$ 105,151,802	$ 104,531,264
b. Contributions	2,342,974	2,294,508
c. Benefits	(3,112,005)	(2,937,646)
d. Refunds	(134,093)	(181,586)
e. Other	-	(1,163)
f. Total	$ 104,248,678	$ 103,705,377
7. Expected actuarial assets, end of year (Sum of Items 1 through 6)	$ 1,430,124,242	$ 1,423,879,827
8. Actuarial assets, end of year	$ 1,398,798,722	$ 1,356,797,448
9. Asset gain/(loss) (Item 8 - Item 7)	$ (31,325,520)	$ (67,082,379)

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2005

TABLE 8

ACTUARIAL GAIN OR LOSS AS OF DECEMBER 31, 2005

	CALCULATION OF TOTAL ACTUARIAL GAIN OR LOSS	2005	2004
1.	Unfunded actuarial accrued liability (UAAL) as of prior year	$ 321,383,795	$ 203,040,300
2.	Actual normal cost paid during year	48,799,891	48,460,017
3.	Subtotal (1 + 2)	$ 370,183,686	$ 251,500,317
4.	Interest at prior valuation's rate of 7.75%	26,798,240	17,613,449
5.	Contributions during year	(60,463,857)	(59,213,119)
6.	Interest on contributions for one-half year	(2,342,974)	(2,294,508)
7.	Expected UAAL as of December 31st, (3 + 4 + 5 + 6)	$ 334,175,095	$ 207,606,139
8.	Actual UAAL as of December 31st	395,382,953	321,383,795
9.	Actuarial gain/(loss) for the period (7 - 8)	$ (61,207,858)	$ (113,777,656)
	SOURCE OF GAINS AND LOSSES		
10.	Asset gain/(loss) (See Table 7)	$ (31,325,520)	$ (67,082,379)
11.	Total liability gain/(loss) for the period (9-10)	(29,882,338)	(46,695,277)
12.	Gain/(loss) due to benefit enhancements	0	0
13.	Gain/(loss) due to retiree ad hoc increases	0	0
14.	Gain/(loss) due to assumption changes	0	0
15.	Liability experience gain/(loss) (11 - 12 - 13 - 14)	$ (29,882,338)	$ (46,695,277)
	SOURCE OF LIABILITY GAINS AND LOSSES		
16.	Salary Increases	$ (10,557,053)	$ (32,761,267)
17.	Service Retirement	(1,827,746)	1,505,296
18.	Withdrawal	(11,211,947)	(12,624,441)
19.	Disability Retirement	(305,147)	(262,883)
20.	Active Mortality	195,910	(280,027)
21.	Retiree Mortality	4,002,949	3,661,495
22.	New Entrants	(7,026,336)	(3,036,234)
23.	Other (Data)	(3,152,968)	(2,897,216)
24.	Total Liability Experience Gain/(Loss)	$ (29,882,338)	$ (46,695,277)

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2005

TABLE 9

RELATIVE SIZE OF UNFUNDED ACTUARIAL ACCRUED LIABILITY

		Relative to Covered Payroll		Relative to Actuarial Value of Present Assets		Relative to Total Actuarial Accrued Liability	
Valuation as of December 31	Unfunded/ (Overfunded) Actuarial Accrued Liability	Covered Payroll	Percent of Covered Payroll	Present Assets	Percent of Present Assets	Actuarial Accrued Liability	Percent of Actuarial Accrued Liability
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1990	(38,568,183)	$ 171,738,189	(22.5%)	$ 410,546,517	(9.6%)	$ 362,978,334	(10.6%)
1991	(66,275,489)	194,588,280	(34.1%)	470,664,195	(14.1%)	404,388,706	(16.4%)
1993	(37,919,161)	235,227,565	(16.1%)	579,092,507	(6.5%)	541,173,346	(7.0%)
1995	(84,343,636)	221,001,903	(38.2%)	707,317,679	(11.9%)	622,974,043	(13.5%)
1997	(24,282,232)	219,207,826	(11.1%)	856,422,516	(2.8%)	832,140,284	(2.9%)
1998	(74,816,812)	219,326,742	(34.1%)	952,634,480	(7.9%)	877,817,668	(8.5%)
1999	(60,632,797)	244,538,110	(24.8%)	1,105,121,657	(5.5%)	1,044,488,860	(5.8%)
2000	(18,353,201)	268,635,564	(6.8%)	1,230,971,746	(1.5%)	1,212,618,545	(1.5%)
2001	48,980,941	316,793,390	15.5%	1,311,288,668	3.7%	1,360,269,609	3.6%
2002	189,347,298	322,007,672	58.8%	1,250,851,348	15.1%	1,440,198,646	13.1%
2003	203,040,300	312,790,966	64.9%	1,348,790,502	15.1%	1,551,830,802	13.1%
2004	321,383,795	326,590,164	98.4%	1,356,797,448	23.7%	1,678,181,243	19.2%
2005	395,382,953	348,619,141	113.4%	1,398,798,722	28.3%	1,794,181,675	22.0%

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2005

TABLE 10

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Year Ending December 31	Active Participants	Covered Payroll	Average Salary	Percent Increase
(1)	(2)	(3)	(4)	(5)
1990	6,626	$171,738,189	$25,918	4.9%*
1991	6,968	194,588,280	27,926	7.7%
1993	7,761	235,227,565	30,309	4.2%*
1995	7,190	221,001,903	30,737	0.7%*
1997	6,798	219,207,826	32,246	2.4%*
1998	6,311	219,326,742	34,753	7.8%
1999	6,512	244,538,110	37,552	8.1%
2000	6,894	268,635,564	38,967	3.8%
2001	7,713	316,793,390	41,073	5.4%
2002	7,647	322,007,672	42,109	2.5%
2003	7,432	312,790,966	42,087	-0.1%
2004	7,489	326,590,164	43,609	3.6%
2005	7,638	348,619,141	45,643	4.7%

* Average annual increase/(decrease) over two-year period.

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2005

TABLE 11

SCHEDULE OF RETIRANTS AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS

	Added to Rolls		Removed from Rolls		Rolls-End of Year			
Year Ending December 31	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)
1995	279	$ 4,787,640	88	$ 1,214,255	1,654	$ 27,032,976	16.4%*	$ 16,344
1997	328	7,714,560	105	1,192,120	1,877	38,989,044	20.1%*	20,772
1998	243	5,409,180	25	830,604	2,095	43,567,620	11.7%	20,796
1999	259	10,757,697	57	1,152,275	2,297	53,097,238	21.9%	23,116
2000	241	5,552,629	75	1,403,412	2,463	60,817,825	14.5%	24,693
2001	224	5,278,490	95	2,046,233	2,592	65,647,094	7.9%	25,327
2002	309	7,754,803	118	2,534,050	2,783	72,520,159	10.5%	26,058
2003	271	7,706,066	59	1,502,757	2,995	78,596,302	8.4%	26,243
2004	227	5,619,478	85	1,741,624	3,137	82,121,249	4.5%	26,178
2005	258	6,699,023	98	2,438,555	3,297	85,324,686	3.9%	25,879

* Average annual increase/(decrease) over two-year period.

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2005

TABLE 12

SOLVENCY TEST

	Aggregated Accrued Liabilities for				Portions of Accrued Liabilities Covered by Reported Assets		
Valuation Date	Active and Inactive Members Contributions	Retirees and Beneficiaries	Active and Inactive Members (Employer Financed Portion)	Reported Assets	(5)/(2)	[(5)-(2)]/3	[(5)-(2)-(3)]/(4)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
December 31, 1995	169,715,854	281,857,452	171,400,737	707,317,679	100.0%	100.0%	100.0%
December 31, 1997	157,311,099	385,407,128	289,422,057	856,422,516	100.0%	100.0%	100.0%
December 31, 1998	178,757,374	442,732,833	256,327,461	952,634,480	100.0%	100.0%	100.0%
December 31, 1999	230,542,295	536,835,240	277,111,325	1,105,121,657	100.0%	100.0%	100.0%
December 31, 2000	221,908,346	629,257,941	361,452,258	1,230,971,746	100.0%	100.0%	100.0%
December 31, 2001	248,579,180	654,307,118	457,383,311	1,311,288,668	100.0%	100.0%	89.3%
December 31, 2002	265,812,595	718,187,586	456,198,465	1,250,851,348	100.0%	100.0%	58.5%
December 31, 2003	252,182,701	777,100,825	522,547,276	1,348,790,502	100.0%	100.0%	61.1%
December 31, 2004	261,905,526	812,266,336	604,009,381	1,356,797,448	100.0%	100.0%	46.8%
December 31, 2005	280,994,642	848,185,652	665,001,381	1,398,798,722	100.0%	100.0%	40.5%

GABRIEL, ROEDER, SMITH & COMPANY

TABLE 13a

SCHEDULE OF FUNDING PROGRESS
(As required by GASB #25)

Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL) (3) - (2)	Funded Ratio (2)/(3)	Annual Covered Payroll	UAAL as % of Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
December 31, 1990	$ 410.5	$ 363.0	$ (38.6)	113.1%	$ 171.7	(22.5%)
December 31, 1991	470.7	404.4	(66.3)	116.4%	194.6	(34.1%)
December 31, 1993	579.1	541.2	(37.9)	107.0%	235.2	(16.1%)
December 31, 1995	707.3	623.0	(84.3)	113.5%	221.0	(38.2%)
December 31, 1997	856.4	832.1	(24.3)	102.9%	219.2	(11.1%)
December 31, 1998	952.6	877.8	(74.8)	108.5%	219.3	(34.1%)
December 31, 1999	1,105.1	1,044.5	(60.6)	105.8%	244.5	(24.8%)
December 31, 2000	1,231.0	1,212.6	(18.4)	101.5%	268.6	(6.8%)
December 31, 2001	1,311.3	1,360.3	49.0	96.4%	316.8	15.5%
December 31, 2002	1,250.9	1,440.2	189.3	86.9%	322.0	58.8%
December 31, 2003	1,348.8	1,551.8	203.0	86.9%	312.8	64.9%
December 31, 2004	1,356.8	1,678.2	321.4	80.8%	326.6	98.4%
December 31, 2005	1,398.8	1,794.2	395.4	78.0%	348.6	113.4%

Note: Dollar amount in millions.

SCHEDULE OF EMPLOYER CONTRIBUTIONS
(as required by GASB #25)

Fiscal Year	Annual Required Contribution	Percentage Contributed
(1)	(2)	(3)
1992	$14,266,156	100.00%
1993	$15,653,339	100.00%
1994	$17,005,695	100.00%
1995	$16,983,178	100.00%
1996	$15,738,068	100.00%
1997	$15,313,819	100.00%
1998	$16,126,014	100.00%
1999	$18,224,558	100.00%
2000	$21,531,859	100.00%
2001	$24,831,016	100.00%
2002	$26,375,274	100.00%
2003	$30,660,538	81.05%
2004	$32,733,243	82.30%
2005	$41,610,470	65.20%

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2005 **TABLE 13c**

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

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

Valuation Date	December 31, 2005
Actuarial cost method	Entry Age Normal
Amortization method	Level Percent of Pay, open
Payroll growth rate for amortization	3.50%
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return*	7.75%
Projected salary increases	4.00% to 14.00%
*Includes inflation at	3.50%
Cost-of-living adjustments	None assumed

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2005

TABLE 14

STATEMENT OF ACTUARIAL METHODS AND ASSUMPTIONS (EFFECTIVE AS OF December 31, 2005)

A. ACTUARIAL ASSUMPTIONS

1. Investment Return Rate

7.75% per annum, compounded annually.

2. Mortality

a. Nondisabled

Rate of Decrement: 1994 Group Annuity Mortality Table for males and females. No age setbacks.

b. Disabled

Mortality tables from Revenue Ruling 96-7 for males and females disabled after December 31, 1994. No age setbacks.

	Rates of Mortality					
	Nondisabled					
	Rate of Decrement		Post-Retirement		Disabled	
Age	Male	Female	Male	Female	Male	Female
20	.000507	.000284	.000507	.000284	.024583	.009650
25	.000661	.000291	.000661	.000291	.027457	.011974
30	.000801	.000351	.000801	.000351	.030661	.014843
35	.000851	.000478	.000851	.000478	.034184	.017654
40	.001072	.000709	.001072	.000709	.038373	.020579
45	.001578	.000973	.001578	.000973	.043033	.023988
50	.002579	.001428	.002579	.001428	.048004	.027961
55	.004425	.002294	.004425	.002294	.053120	.032594
60	.007976	.004439	.007976	.004439	.058118	.037993
65	.014535	.008636	.014535	.008636	.063669	.044287
70	.023730	.013730	.023730	.013730	.073284	.051331

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2005

TABLE 14

STATEMENT OF ACTUARIAL METHODS AND ASSUMPTIONS
(EFFECTIVE AS OF December 31, 2005)
(Continued)

3. Retirement Rates: The following rates of retirement are assumed for members eligible to retire.

Age	Rates of Retirement	
	Males	Females
45 & under	35.0%	35.0%
46	35.0%	27.5%
47	35.0%	27.5%
48	40.0%	27.5%
49	45.0%	27.5%
50	45.0%	27.5%
51	45.0%	35.0%
52	45.0%	35.0%
53	45.0%	35.0%
54	40.0%	35.0%
55	40.0%	35.0%
56	35.0%	30.0%
57	35.0%	30.0%
58	35.0%	35.0%
59	35.0%	35.0%
60	35.0%	40.0%
61	35.0%	15.0%
62	50.0%	42.5%
63	30.0%	35.0%
64	30.0%	25.0%
65	45.0%	35.0%
66	25.0%	25.0%
67	25.0%	25.0%
68	20.0%	25.0%
69	20.0%	25.0%
70 & older	100.0%	100.0%

STATEMENT OF ACTUARIAL METHODS AND ASSUMPTIONS
(EFFECTIVE AS OF December 31, 2005)
(Continued)

4. Rates of Decrement Due to Withdrawal

	Males					
	Years of Service					
Age	0	1	2	3	4	5+
25	0.2214	0.1936	0.1860	0.1568	0.1402	0.0923
30	0.2013	0.1760	0.1691	0.1425	0.1274	0.0839
35	0.1915	0.1674	0.1491	0.1171	0.1002	0.0680
40	0.1736	0.1518	0.1296	0.1008	0.0883	0.0529
45	0.1570	0.1372	0.1158	0.0925	0.0844	0.0385
50	0.1444	0.1263	0.1100	0.0912	0.0837	0.0268
55	0.1368	0.1196	0.1123	0.0958	0.0835	0.0208
60	0.1406	0.1229	0.1216	0.1053	0.0835	0.0233

	Females					
	Years of Service					
Age	0	1	2	3	4	5+
25	0.2181	0.2038	0.1956	0.1873	0.1281	0.1256
30	0.2118	0.1980	0.1899	0.1818	0.1233	0.1130
35	0.2105	0.1968	0.1837	0.1567	0.1079	0.0827
40	0.1939	0.1812	0.1649	0.1394	0.0990	0.0649
45	0.1728	0.1615	0.1495	0.1309	0.0990	0.0594
50	0.1454	0.1359	0.1341	0.1251	0.1004	0.0546
55	0.1399	0.1333	0.1269	0.1168	0.1067	0.0560
60	0.1478	0.1408	0.1340	0.1289	0.1238	0.0596

STATEMENT OF ACTUARIAL METHODS AND ASSUMPTIONS
(EFFECTIVE AS OF December 31, 2005)
(Continued)

5. Disability Rates*

Sample rates are shown below:

Age	Rates of Decrement Due to Disability All Participants
20	.00014
25	.00019
30	.00031
35	.00052
40	.00092
45	.00209
50	.00379
55	.00490
60	.00911

* Rates are for disability due to all causes, occupational disability rates are assumed to be 10% of all causes rates.

6. Rates of Salary Increase

Years of Service	Promotional Rate of Increase	Total Annual Rate of Increase Including 3.50% Inflation Component and 0.50% Productivity Component
0	10.00%	14.00%
1	8.50%	12.50%
2	6.75%	10.75%
3	4.25%	8.25%
4	3.75%	7.75%
5	2.25%	6.25%
6	1.75%	5.75%
7	1.50%	5.50%
8	1.50%	5.50%
9	1.50%	5.50%
10	1.00%	5.00%
11 - 19	0.75%	4.75%
20 or more	0.00%	4.00%

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2005

TABLE 14

STATEMENT OF ACTUARIAL METHODS AND ASSUMPTIONS (EFFECTIVE AS OF December 31, 2005) (Continued)

7. DROP Participation:

   It was assumed that 20% of retiring active members with at least 20 years of service would elect a "Back-end" DROP.

8. Married Percentage:

   100% of the active members are assumed to be married. Spouses are assumed to be the same age as the member.

9. Normal Form of Payment:

   It is assumed that all retiring members will elect the Life only form of payment.

10. Interest Crediting Rate on Employee Contributions:

    It is assumed that the interest credit rate on employee contributions will be 6.0%.

B. ACTUARIAL VALUE OF ASSETS

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 with the resulting value not being less than 80% or more than 120% of the market value of assets.

C. ACTUARIAL FUNDING METHOD

The funding period required to amortize the unfunded actuarial accrued liability is determined using the entry-age normal actuarial cost method. This method assigns the System's total actuarial present value of future benefits to various periods. The actuarial accrued liability is assigned to years prior to the valuation, the normal cost is assigned to the year following the valuation. The remaining costs are assigned to future years.

The normal cost is determined on an individual basis. The actuarial accrued liability is the difference between the total present value of future benefits and the actuarial present value of future normal costs. The unfunded actuarial accrued liability is the excess of the actuarial accrued liability over the actuarial value of assets.

SUMMARY OF BENEFIT PROVISIONS OF THE RETIREMENT PLAN AS OF DECEMBER 31, 2005

A. EFFECTIVE DATE

January 1, 1941.

B. ELIGIBILITY AND PARTICIPATION

Any regular and permanent employee of the City of Austin, excluding all civil service commissioned police officers and firefighters, the Mayor and members of the City Council and all part-time employees who work less than 75 percent of a normal work week.

C. MEMBERSHIP SERVICE

The period of time during which an eligible employee pays into and keeps on deposit the contribution prescribed to be paid by the employee into the System.

D. AVERAGE FINAL COMPENSATION

The average of the monthly compensation up to $16,666 ($12,500 for persons who first become members after 1995), for the 36 calendar months of highest compensation during the last 120 months prior to termination.

E. MEMBER AND EMPLOYEE CONTRIBUTION RATES:

The City currently contributes 8.00% of pay for each active member. Each active member contributes 8.00% of pay. These contributions are made under a pre-tax 401(h) pick-up arrangement.

F. RETIREMENT BENEFITS

1. Normal Retirement

    a. Eligibility: A participant may retire upon attaining age 62, or 23 years of service, or attaining age 55 with 20 years of service.

    b. Monthly Benefit: 3.00% of average final compensation times years of service.

    c. Payment Form: Benefits are paid as a monthly life annuity to the participant, with a provision that should the participant die prior to receiving monthly payments whose sum is greater than or equal to the participant's accumulated employee contributions, then the participant's beneficiary shall receive a lump sum equal to the excess of the participant's accumulated employee contributions with interest over the sum of the monthly payments received.

SUMMARY OF BENEFIT PROVISIONS OF THE RETIREMENT PLAN AS OF DECEMBER 31, 2005 (Continued)

d. Optional Forms of Payment:

i) Joint and contingent annuity with either 100%, 66 2/3%, or 50% of the reduced retirement income payable for the life of the contingent annuitant upon the death of the retiring participant, with the provision that, should the contingent annuitant predecease the participant, the monthly annuity will revert to the amount that would have been payable under the normal form of payment,

ii) Joint and 66 2/3% last survivor provides a reduced retirement income payable as long as both the member and the joint annuitant are alive, and upon the death of either the member or the joint annuitant, the benefit reduces to 2/3 of such amount for the remainder of the life of the last survivor,

iii) Period certain and life annuity with 15 years of payments guaranteed, or

iv) Life annuity with modified cash refund.

e. Deferred Retirement Option Program (DROP): A member may elect to retroactively participate in the System's DROP (ie. a Back End DROP). The member would receive a lump sum payment equal to 90% of the sum of the monthly annuities the participant would have received if the member had retired at the DROP entry date. No COLA's are included but changes in the benefit multiplier are reflected.

2. Early Retirement: Currently there are no reduced retirement benefits under the plan. See Normal Retirement.

G. DISABILITY RETIREMENT

1. Eligibility: If the employee is terminated by reason of a total and permanent disability which prevents the employee from engaging in any substantial gainful employment. If the employee has less than five years of service, the disability must be job related.

2. Monthly Benefit: Same as Normal Retirement benefit using pay and service at date of disability.

3. Form of Payment: The normal form of payment that is available to a member taking normal retirement and the optional forms of payments described in F.1.d.i) and F.1.d.ii) above.

SUMMARY OF BENEFIT PROVISIONS OF THE RETIREMENT PLAN AS OF DECEMBER 31, 2005 (Continued)

H. VESTING OF BENEFITS

1. Vesting

An employee is vested according to the following schedule:

Years of Vesting Service	Vested Percentage
Less than 5	0%
5 or more	100%

2. Benefits Upon Vesting

A vested participant is entitled to the retirement benefit payable at normal retirement earned to the date of participant's termination multiplied by his/her vested percentage, or a refund of the employee's accumulated employee contributions with interest.

I. DEATH IN SERVICE

1. Eligibility: All active members.

2. Benefit: The amount of the benefit payable to the beneficiary is:

a. Employee eligible for retirement at date of death:

The surviving spouse if any may elect to receive an annuity equal to the monthly benefit as if the member had retired under any retirement option that would have been available to the member at the end of the month in which the member died. If there is no surviving spouse, then the beneficiary may elect to receive a 15 years certain and life annuity. The surviving spouse or beneficiary instead of electing the annuity may elect to receive a benefit equal to twice the member's accumulated employee contributions with interest.

b. Employee not eligible for retirement at date of death:

A benefit equal to twice the member's accumulated employee contributions with interest.

SUMMARY OF BENEFIT PROVISIONS OF THE RETIREMENT PLAN AS OF DECEMBER 31, 2005 (Continued)

J. RETIREE LUMP-SUM DEATH BENEFIT

Upon death of a retired member a $10,000 lump-sum death benefit is payable. This benefit is also payable upon the death of an active member eligible for retirement whose surviving spouse or beneficiary elects to receive an annuity.

K. COST-OF-LIVING ADJUSTMENT (COLA)

On January 1 of each year the Board may approve a cost-of-living increase for those retirees who retired on or before December 31 of the previous year. The maximum increase which can be approved is 6%. The amount of the increase is set by the Board upon recommendation by the System's actuary that such an increase will not make the Fund financially unsound, and the adjustment is not inconsistent with the Code. The increase is prorated for any benefit which has been in effect for less than a year, with the proration being 1/12 for each monthly payment received during the prior year.

L. 13th CHECK

Once each year the Board may approve a 13th check to be paid to those members currently in payment status. The additional check would be equal to a percentage of the member's monthly annuity with a maximum percentage of 100%.

M. LEGISLATED PLAN CHANGES ENACTED BY 1995 LEGISLATURE

1. 2.3% Multiplier

   The benefit multiplier was increased from 2.2% per year of service to 2.3% per year of service effective October 1995.

2. 2.3% Retiree Gross-up

   Effective October 1995, current retirees received an increase in their benefit amount to bring their retirement benefit amount up to what it would be currently if they had retired under the 2.3% multiplier.

SUMMARY OF BENEFIT PROVISIONS OF THE RETIREMENT PLAN AS OF DECEMBER 31, 2005 (Continued)

3. $10,000 Retiree Lump-Sum Death Benefit

   The Lump-sum death benefit payable upon the death of a retiree was increased from $2,000 to $10,000.

4. Plan Participation Begins at Date of Hire

   The six-month service requirement for participation was eliminated. Current active members were granted service for the six-month period between their date of hire and their date of participation.

N. LEGISLATED PLAN CHANGES ENACTED BY 1997 LEGISLATURE

1. 2.6% Multiplier

   The benefit multiplier was increased from 2.3% per year of service to 2.6% per year of service effective October 1997.

2. 2.6% Retiree Gross-up

   Effective October 1997, current retirees received an increase in their benefit amount to bring their retirement benefit amount up to what it would be currently if they had retired under the 2.6% multiplier.

3. Military Service Purchase

   Increased the number of months of military service that may be purchased from 24 to 48.

4. Noncontributory Service Purchase

   Allowed an employee to purchase noncontributory service for the following periods of time: (1) while employee was on workers' compensation leave, (2) while employee was on an authorized leave of absence, and (3) while employee performed service for the employer in a position for which the service was not otherwise creditable. The employee pays the full actuarial cost of the service purchase.

SUMMARY OF BENEFIT PROVISIONS OF THE RETIREMENT PLAN AS OF DECEMBER 31, 2005 (Continued)

5. Employer Purchase of Unreduced Retirement Eligibility

   Allowed the employer to purchase the amount of service required to qualify an employee for an unreduced retirement benefit at age 55. To be eligible for the purchase, the employee must never have been a highly compensated employee within the meaning of IRC Section 414(q). The cost of the service purchase is the full actuarial cost of both the benefit and the retirement eligibility.

O. LEGISLATED PLAN CHANGES ENACTED BY 1999 LEGISLATURE

1. 2.7% Multiplier

   The benefit multiplier was increased from 2.6% per year of service to 2.7% per year of service effective October 1999.

2. 2.7% Retiree Gross-up

   Effective October 1999, current retirees received an increase in their benefit amount to bring their retirement benefit amount up to what it would be currently if they had retired under the 2.7% multiplier.

3. 23 & Out Provision

   The service requirement at which a participant may retire with an unreduced retirement benefit was decreased from 25 years of creditable service to 23 years of creditable service.

4. Pop-Up Provisions for Certain Joint and Survivor Payment Options

   Certain optional forms of payment which extend coverage to a joint annuitant (Options I, II, and III) were amended so that, should the contingent annuitant predecease the participant, the monthly annuity will revert to the amount that would have been payable under the normal form of payment.

SUMMARY OF BENEFIT PROVISIONS OF THE RETIREMENT PLAN AS OF DECEMBER 31, 2005 (Continued)

5. 13th Check

The Board was given the ability to make an additional payment to members in payment status in the form of a 13th check. The additional payment would be a percentage of the current monthly payment with a maximum percentage of 100%.

P. BENEFIT ENHANCEMENTS ENACTED BY THE BOARD OF TRUSTEES IN 2000

1. "415 Restoration of Retirement Income Plan"

Certain highly compensated members may have their retirement annuity limited because of Section 415(b)(1) of the Internal Revenue Code. A plan amendment effective January 1, 2000, provides for COA ERS to pay a benefit payment that exceeds the maximum benefit limitation imposed by the Internal Revenue Code from a separate, non-qualified, pay-as-you-go "Restoration of Retirement Income Plan".

2. 2.98% Multiplier

The benefit multiplier was increased from 2.7% per year of service to 2.98% per year of service effective April 2000.

3. 2.98% Retiree Gross-up

Effective April 2000, current retirees received an increase in their benefit amount to bring their retirement benefit amount up to what it would be currently if they had retired under the 2.98% multiplier.

4. "Pop-up" Benefit Amendment

The "pop-up" benefit is extended to retirees who selected the actuarial equivalent of Life Annuity option with underlying options of I, II, or III.

Q. BENEFIT ENHANCEMENTS ENACTED BY THE BOARD OF TRUSTEES IN 2001

None

SUMMARY OF BENEFIT PROVISIONS OF THE RETIREMENT PLAN AS OF DECEMBER 31, 2005 (Continued)

R. BENEFIT ENHANCEMENTS ENACTED BY THE BOARD OF TRUSTEES IN 2002

1. 3.00% Multiplier

   Benefit multiplier was increased from 2.98% per year of service to 3.00% per year of service effective January 2002.

2. 3.00% Retirees Gross-up

   Effective January 2002, current retirees received an increase in their benefit amount to bring their retirement benefit amount up to what it would be currently if they had retired under the 3.00% multiplier.

3. Deferred Retirement Option Program

   A "Back End" DROP was added as an optional form of retirement effective in 2002. The retiring member may elect to retroactively participate in a DROP. The member would receive a lump sum payment equal to 90% of the sum of the monthly annuities the participant would have received if the member had retired at the DROP entry date. No COLA's are included but changes in the benefit multiplier are reflected.

4. Purchase of Permissive Time

   A member may purchase up to five years of Permissive Time. The purchase price charged to the member is the anticipated actuarial cost to the System for the additional service. Minimum purchase is one month with a maximum of 60 months (5 years) or the number of months needed to reach first eligibility for retirement whichever is less.

5. Conversion of Unused Sick Leave

   At retirement an employee may elect to purchase Creditable Service for unused sick leave. The purchase price is equal to 16.0% of the employee's highest annual rate of pay multiplied by the number of years of service conversion. An employee must already be eligible for retirement to purchase the service.

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2005

TABLE 15

SUMMARY OF BENEFIT PROVISIONS OF THE RETIREMENT PLAN AS OF DECEMBER 31, 2005 (Continued)

S. BENEFIT ENHANCEMENTS ENACTED BY THE BOARD OF TRUSTEES IN 2003

1. "Pop-up" Benefit Amendment

   "Pop-up" benefit was extended to any Joint and Survivor option (including level income options), other than Joint and Last Survivor.

2. Permissive Time Amendment

   Permissive Time resolution was amended removing the provision that restricts members from purchasing Permissive Time in excess of the amount needed to reach first retirement eligibility.

T. BENEFIT ENHANCEMENTS ENACTED BY THE BOARD OF TRUSTEES IN 2004

None

U. BENEFIT ENHANCEMENTS ENACTED BY THE BOARD OF TRUSTEES IN 2005

None

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2005

TABLE 16

DEFINITION OF TERMS

1. ***Actuarial Cost Method***

   A method for determining the actuarial present value of future benefits and allocating such value to time periods in the form of a normal cost and an actuarial accrued liability.

2. ***Present Value of Future Benefits***

   This is computed by projecting the total future benefit cash flow from the System, using actuarial assumptions, and then discounting the cash flow to the valuation date.

3. ***Normal Cost***

   Computed differently under different actuarial cost methods, the normal cost generally represents the value of the portion of the participant's anticipated retirement, termination, and/or death and disability benefits accrued during a year.

4. ***Actuarial Accrued Liability***

   Computed differently under different actuarial cost methods. Generally actuarial accrued liability represents the value of the portion of the participant's anticipated retirement, termination, and/or death and disability benefits accrued as of the valuation date.

5. ***Entry Age Actuarial Cost Method***

   A method under which a participant's actuarial present value of future benefits is allocated on a level basis over the earnings of the participant between his/her entry into the System and his/her assumed exit.

6. ***Unfunded Actuarial Accrued Liability***

   The difference between total actuarial present value of future benefits over the sum of the tangible assets of the System and the actuarial present value of the members' future normal costs. The System is underfunded if the difference is positive and overfunded if the difference is negative.

7. ***Actuarial Value of Assets***

   The value of cash, investments, and other property belonging to the System, as valued by the actuary for purposes of the actuarial valuation.

DEFINITION OF TERMS
(Continued)

8. ***Actuarial Gain or Loss***

From one valuation to the next, if the experience of the plan differs from that anticipated by the actuarial assumptions, an actuarial gain or loss occurs. For example, an actuarial gain would occur if the assets in the trust had a yield of 12% based on actuarial value, while the assumed yield on the actuarial value of assets was 7.75%.

(This page intentionally left blank.)

Statistical Section

STATISTICAL TABLES

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2005

TABLE 17

DISTRIBUTION OF ALL ACTIVE PARTICIPANTS BY AGE AND LENGTH OF SERVICE AS OF DECEMBER 31, 2005

Attained Age	0	1	2	3	4	5-9	10-14	15-19	20-24	25-29	30-34	35+	Number of Employees	Average Annual Salary
Under 25	84	40	16	10	10	9	0	0	0	0	0	0	169	28,003
25-29	159	85	40	57	70	120	0	0	0	0	0	0	531	32,431
30-34	161	114	66	97	98	311	75	0	0	0	0	0	922	37,435
35-39	106	92	54	84	89	338	218	68	5	0	0	0	1,054	42,763
40-44	89	75	57	59	85	357	244	181	138	5	0	0	1,290	46,785
45-49	80	84	43	54	87	321	270	238	230	26	0	0	1,433	49,750
50-54	56	54	28	49	63	239	206	195	172	43	7	1	1,113	51,864
55-59	35	29	16	31	54	183	154	133	92	31	11	2	771	52,038
60-64	7	5	5	13	13	82	51	57	28	9	4	0	274	49,854
65 & Over	3	6	1	1	4	18	21	17	7	2	1	0	81	48,504
All Ages	780	584	326	455	573	1,978	1,239	889	672	116	23	3	7,638	45,643

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2005 **TABLE 18**

DISTRIBUTION OF ALL ACTIVE PARTICIPANTS BY SERVICE AND CURRENT RATE OF PAY AS OF DECEMBER 31, 2005

Completed Years of Service	Number of Employees	Total Average Salary
0	780	$ 35,569
1	584	37,271
2	326	39,488
3	455	40,456
4	573	41,096
5-9	1,978	44,003
10-14	1,239	50,166
15-19	889	54,044
20-24	672	57,104
25-29	116	59,231
30-34	23	68,529
35+	3	73,403
All Years	7,638	$ 45,643

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2005

TABLE 19

SCHEDULE OF AVERAGE MONTHLY BENEFIT PAYMENTS

Year Ending	Average Monthly Benefit Payment
December 31, 2005	$2,157
December 31, 2004	$2,182
December 31, 2003	$2,187
December 31, 2002	$2,172
December 31, 2001	$2,111
December 31, 2000	$2,058
December 31, 1999	$1,926
December 31, 1998	$1,733
December 31, 1997	$1,731
December 31, 1996	$1,390
December 31, 1995	$1,362

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2005

TABLE 20

NUMBER OF RETIRED MEMBERS BY TYPE OF BENEFIT

Benefit Type	Number of Participants
Life Only	882
100% Joint & Survivor	890
50% Joint & Survivor	198
66 2/3% Joint & Survivor	193
66 2/3% Joint & Last Survivor	42
Life Only Level Income	240
66 2/3% Joint & Survivor Level Income	183
15 Year Certain & Life	97
100% Joint & Survivor Level Income	159
50% Joint & Survivor Level Income	4
75% Joint & Survivor Level Income	1
75% Joint & Last Survivor	2
75% Joint & Survivor	1
15 Year Certain Only	1
10 Year Certain & Life	2
Disabled Retirees	64
Beneficiaries & Others	338
Total	**3,297**

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2005

TABLE 21

SCHEDULE OF PARTICIPATING EMPLOYERS

The City of Austin and the City of Austin Employees' Retirement System are the only participating employers in the plan.

City of Austin Employees' Retirement System
Actuarial Valuation - December 31 , 2005

TABLE 22

SCHEDULE OF EXPENSES BY TYPE

Year Ending	Benefit Payments	Death Benefits	Refunds	G & A Expenses	Lump-Sum Payments	Total
December 31, 2005	$84,002,523	$1,848,379	$3,775,042	$1,497,461	$1,798,061	$92,921,466
December 31, 2004	80,151,878	1,273,945	5,112,109	1,554,864	1,342,913	89,435,709
December 31, 2003	75,527,089	1,660,137	4,476,716	1,552,770	1,029,297	84,246,009
December 31, 2002	70,093,860	928,730	3,957,964	1,641,675	266,157	76,888,386
December 31, 2001	64,597,837	1,415,546	3,991,123	1,305,222		71,309,728
December 31, 2000	58,127,795	1,184,034	4,945,185	1,219,614		65,476,628
December 31, 1999	48,073,639	1,751,643	4,867,018	1,133,482		55,825,782
December 31, 1998	42,093,743	814,121	6,423,115	1,105,405		50,436,384
December 31, 1997	32,515,281	1,230,044	6,123,471	936,098		40,804,894
December 31, 1996	28,179,046	822,568	7,854,935	572,744		37,429,293
December 31, 1995	23,205,043	486,267	7,991,565	496,969		32,179,844

Note: Benefit payments include any distributions from the 415 Restoration Plan

GABRIEL, ROEDER, SMITH & COMPANY

City of Austin Employees' Retirement System
Actuarial Valuation - December 31 , 2005

TABLE 23

SCHEDULE OF REVENUES BY SOURCE

Year Ending	Member Contributions	Employer Contributions	Investment Income	Total
December 31, 2005	$33,333,966	$27,168,155	$ 118,154,291	$178,656,412
December 31, 2004	32,272,178	27,007,615	145,631,405	204,911,198
December 31, 2003	30,449,244	24,907,480	246,069,330	301,426,054
December 31, 2002	33,793,720	26,375,274	(112,995,246)	(52,826,252)
December 31, 2001	26,238,039	24,831,016	(78,888,145)	(27,819,090)
December 31, 2000	23,413,964	21,531,859	(20,508,518)	24,437,305
December 31, 1999	20,051,951	18,224,558	259,254,974	297,531,483
December 31, 1998	17,121,110	16,126,014	138,464,428	171,711,552
December 31, 1997	16,119,300	15,322,964	129,813,501	161,255,765
December 31, 1996	15,404,002	15,738,068	91,754,296	122,896,366
December 31, 1995	17,420,925	16,983,178	137,707,650	172,111,753

Note: Contributions include any contributions to the 415 Restoration Plan

HISTORY OF CONTRIBUTIONS AND BENEFIT RATES (unaudited)

Year	Employer Contribution Rate	Member Contribution Rate	Interest Paid on Member Deposits	Benefits Multiplier Increase	Cost of Living Increase
1941	4.00%	4.00%	-	1.13%	-
1942	5.00%	-	-	-	-
1943	-	-	-	-	-
1944	-	-	-	-	-
1945	-	-	2.00%	-	-
1946	-	-	2.00%	-	-
1947	-	-	2.00%	-	-
1948	-	-	2.00%	-	-
1949	-	-	2.00%	-	-
1950	-	-	2.00%	-	-
1951	5.00%	5.00%	2.00%	-	-
1952	-	-	2.00%	-	-
1953	-	-	1.91%	-	-
1954	-	-	2.46%	-	-
1955	-	-	2.52%	-	-
1956	-	-	2.60%	-	-
1957	-	-	2.00%	-	-
1958	-	-	2.62%	-	-
1959	-	-	2.79%	-	-
1960	-	-	3.27%	-	-
1961	-	-	2.77%	-	-
1962	-	-	3.65%	-	-
1963	-	-	3.76%	-	-
1964	-	-	3.31%	-	-
1965	-	-	3.25%	-	-
1966	-	-	3.56%	-	-
1967	-	-	3.68%	1.25%	-
1968	-	-	4.25%	-	-
1969	-	-	4.66%	-	-
1970	-	-	4.98%	-	-
1971	6.00%	6.00%	5.43%	1.50%	-
1972	-	-	6.04%	-	-
1973	-	-	6.22%	1.75%	-
1974	-	-	6.33%	-	-
1975	-	-	6.82%	-	-
1976	-	-	6.94%	-	-
1977	-	-	6.51%	-	-
1978	-	-	6.66%	-	-
1979	-	-	7.84%	-	-
1980	-	-	8.01%	-	-
1981	-	-	8.14%	-	-
1982	6.60%	6.60%	8.21%	-	-
1983	-	-	8.39%	-	-
1984	7.00%	7.00%	8.29%	1.85%	-
1985	-	-	8.22%	2.00%	-
1986	-	-	8.00%	-	3.00%
1987	6.20%	6.20%	8.00%	-	1.50%
1988	7.00%	7.00%	8.00%	-	3.00%
1989	-	-	8.00%	-	3.00%
1990	-	-	8.00%	2.10%	3.00%
1991	-	-	6.50%	-	3.00%
1992	-	-	6.00%	-	4.00%
1993	-	-	5.00%	2.20%	3.10%
1994	-	-	6.00%		6.00%
1995	-	-	6.75%	2.30%	6.00%
1996	-	-	6.75%	-	6.00%
1997	-	-	6.75%	2.60%	6.00%
1998	-	-	5.00%	-	5.00%
1999	7.00%	8.00%	6.25%	2.70%	3.00%
2000	8.00%	8.00%	5.75%	2.98%	-
2001	-	-	4.25%	-	3.50%
2002	-	-	3.75%	3.00%	2.50%
2003	-	-	3.75%	-	-
2004	-	-	3.75%	-	-
2005	-	-	4.50%	-	-

coaers

City of Austin Employees' Retirement System

418 East Highland Mall Boulevard

Austin, Texas 78752-3720

Phone: 512-458-2551

Fax: 512-458-5650

www.coaers.org