COMPREHENSIVE ANNUAL FINANCIAL REPORT

City of Austin
Employees' Retirement System

For the Year Ended December 31, 2007

Austin, Texas

City of Austin
Employees' Retirement System
2007 Annual Report

Comprehensive Annual Financial Report
for the Year ended December 31, 2007

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

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Introductory Section

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City of Austin Employees' Retirement System

June 30, 2008

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, 2007. 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 by management 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.

Plan Profile and Demographic Highlights

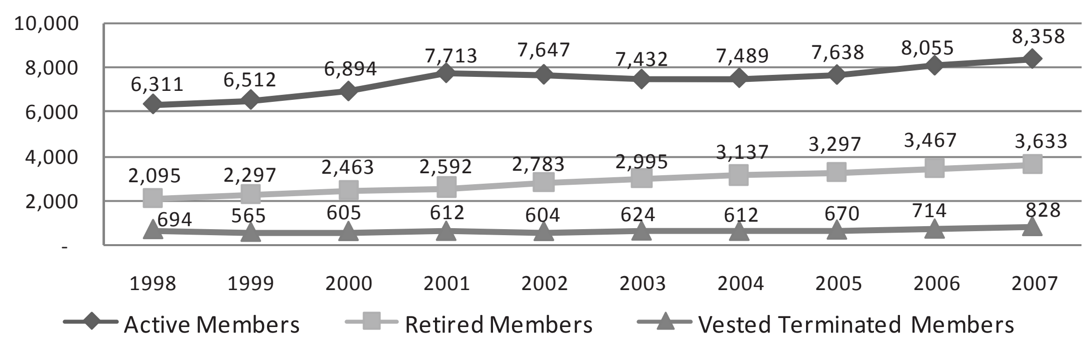
COA ERS was established in 1941 and has provided retirement benefits to eligible City of Austin employees since that time. Though originally created by city ordinance, the System is now governed by state law and administered by an eleven-member board of trustees.

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. A death benefit of $10,000 is payable upon the death of a retired member of the System.

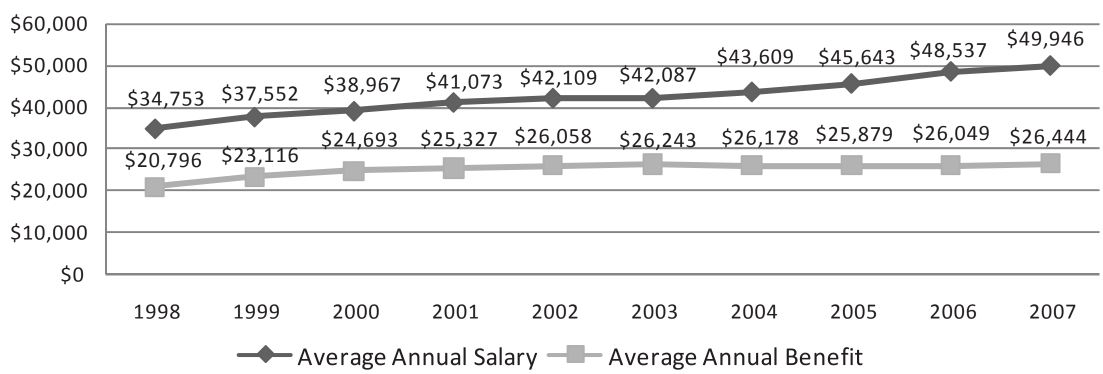
Additional information concerning COA ERS plan provisions is contained in the Summary of Plan Provisions later in this section of the report.

The following charts depict growth in System membership and changes in average salaries and benefits. The number of active and retired members has increased for the past four years. Both the average salary of active members and the average retirement benefit have increased over the past two years.

Membership Profile



Average Salary and Average Benefit



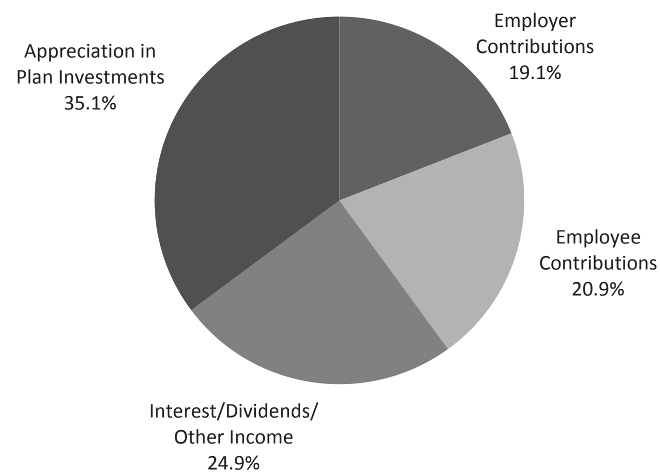
Financial Summary

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 2007 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) that 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 2007, employer and employee contributions totaled $76.5 million; investment, net securities lending, and other income was $47.6 million; and net appreciation in plan investments net of investment expenses totaled $67.3 million, resulting in net additions to Plan Net Assets of $191.4 million. The ***Deductions from Plan Net Assets***, totaling $102.1 million, consist of $93.0 million in annuity payments, refunds of $4.4 million, Deferred Retirement Option Program (DROP) disbursements of $1.2 million, retiree lump-sum annuity disbursements of $0.2 million, death benefits of $1.6 million, and administrative expenses of $1.7 million. The net increase of $89.3 million results in total assets held in trust of $1.7 billion.

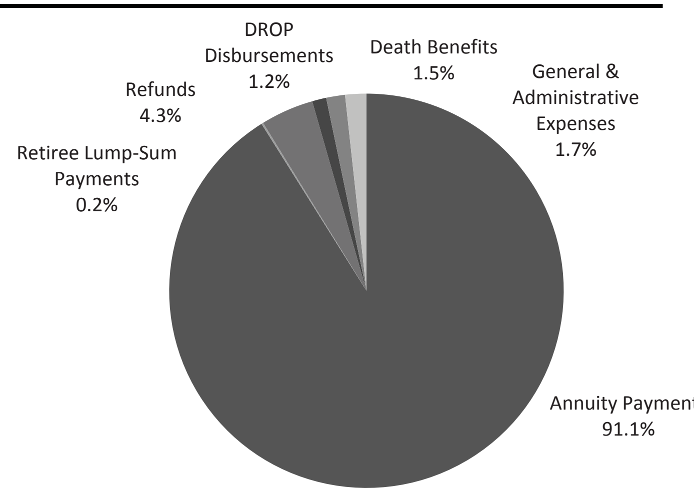
Additions to Plan Net Assets

Employer Contributions	$	36,520,67
Employee Contributions		39,971,09
Interest / Dividends / Other Income / Net Securities Lending		47,656,06
Appreciation in Plan Investments (net of investment expenses)		67,274,77
Total Additions	**$**	**191,422,60**



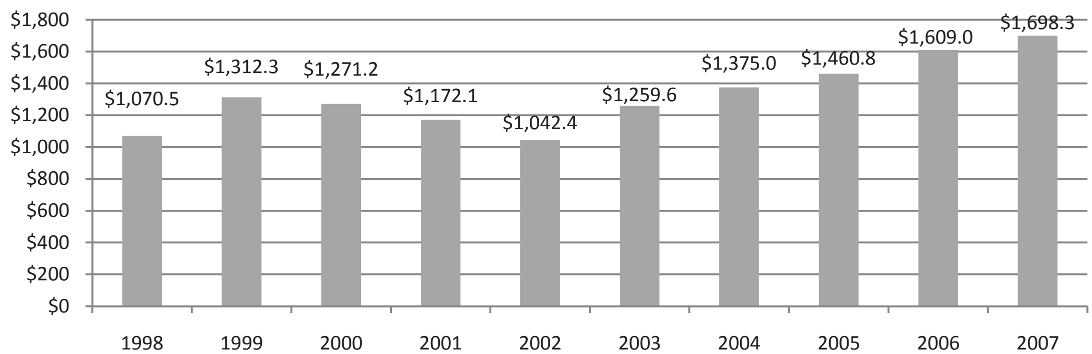
Deductions From Plan Net Assets

Annuity Payments	$	93,049,188
Refunds		4,437,968
DROP Disbursements		1,177,034
Retiree Lump-Sum Payments		150,910
Death Benefits		1,577,824
General & Administrative Expenses		1,776,035
Total Deductions	**$**	**102,168,959**



The following chart shows the ***Total Plan Net Assets*** at the end of each year since 1998. Net Assets increased by $89.3 million during 2007, resulting in Total Plan Net Assets of $1,698,211,892 at December 31, 2007. Despite three years of net asset loss (2000-2002), Total Plan Net Assets have increased significantly over a ten-year period.

Total Plan Net Assets



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, 2007, the investment portfolio of COA ERS was managed by 11 investment managers. One investment manager was replaced during the year due to performance. Pursuant to recommendations from the Asset/Liability Study performed in December 2006, the Board modified the asset allocation strategy to provide greater allocation to international equities by reducing the domestic allocation. A phased transition was directed and the first step, reallocation of 6.5% from U.S. Equities - Non-Large Cap to International Equities, was completed in February 2007. The following chart illustrates the portfolio transition to the newly approved allocation targets:

Portfolio Allocation

Investment Style	Prior Year	In Transition 12/31/2007	Target
Domestic Fixed Income	30.00%	30.00%	30.00%
International Equities	16.25%	22.75%	32.50%
U.S. Equities - Large Cap	32.50%	32.50%	22.75%
U.S. Equities - Non-Large Cap	16.25%	9.75%	9.75%
Real Estate	5.00%	5.00%	5.00%
	100.00%	100.00%	100.00%

Implementation of the approved portfolio allocation plan and Board consideration of new asset classes continues in 2008.

The investment market of 2007 was marked by volatility, and ended with the well-publicized subprime credit problems. COA ERS has worked to determine if any of its assets are subject to these high risk securities. It appears that, in addition to being free of any direct investments in these low quality loans, any exposure through securities that are backed, or collateralized, by subprime loans, is extremely limited.

Investment performance for the year ending December 31, 2007 was 7.3%, net of fees, compared to a Policy Benchmark of 6.7%. For the three-year period, COA ERS' portfolio returned 9.5%, net of fees, compared to 9.1% for the Policy Benchmark. For the five-year period, COA ERS' portfolio returned 12.7%, net of fees, compared to 12.4% 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 regular 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. The City of Austin currently also provides a funding subsidy. 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 78.3%, up from 75.9% in 2006. The actuarial accrued liability and the actuarial value of assets of COA ERS as of December 31, 2007, amounted to $2.113 billion and $1.653 billion, respectively. A detailed discussion of funding is provided in the Actuarial Section of this report.

The supplemental funding plan adopted by the Austin City Council in 2005 is expected to eventually accomplish a 30-year amortization of the unfunded liability of the System. The initial funding subsidy under the plan started in October 2006 at one percent of covered payroll. Subject to certain conditions, the subsidy will increase by one percent each year up to a total subsidy of four percent. If in any year the investment earnings are 12 percent or greater, the increase in the subsidy will be delayed by a year. Because of this provision, the subsidy did not increase in October 2007; however, it will increase to 2% in October 2008. The subsidy (up to four percent) will stay in effect as long as it is needed to attain or keep a 30-year amortization period. As part of the plan, the City Manager and City Council become part of the process for consideration of future benefit enhancements, including cost-of-living adjustments.

An actuarial experience study for the five-year period ending December 31, 2006, was conducted in March 2007. Changes to the actuarial assumptions were taken into consideration for the 2007 valuation.

Certificate of Achievement

For the ninth 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, 2006 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,

Mark Monteith	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, 2006

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

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

Oliver S. Cox
President

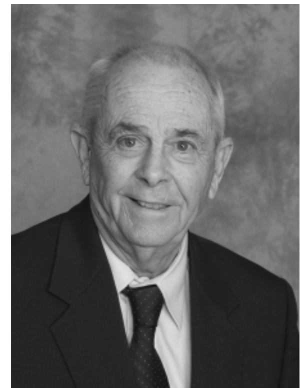
Jeffrey R. Emer
Executive Director

COA ERS 2007 BOARD OF TRUSTEES

Mark Monteith
Board Chair

Elizabeth S. Gonzales
Board Vice Chair

Janet Bartles
Trustee



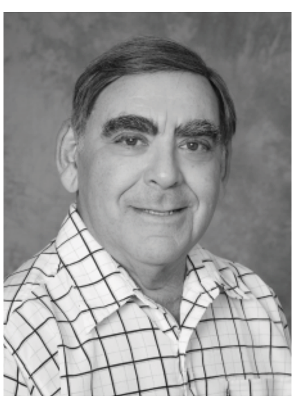
Francis E. Benoit
Trustee

Leslie Browder
Trustee

Eyna Canales-Zarate
Trustee

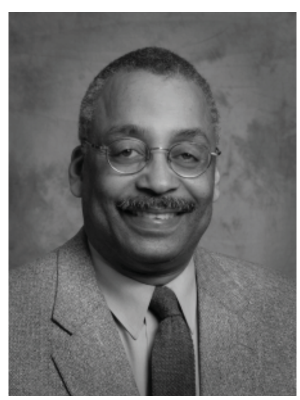
Reagan David
Trustee

Betty Dunkerley
Trustee



Ed Golden
Trustee

Cathy Rodgers
Trustee



Anthony B. Ross, Sr.
Trustee

Note: *The unexpired term of Francis E. Benoit, who resigned June 30, 2007, was filled in a special election of the retired memebership, by Ronnie Wilson. The Active membership elected Francine Gertz to a full term, succeeding Cathy Rodgers. The new trustees assumed office in January 2008.*

COA ERS STAFF

Stephen C. Edmonds
Executive Director

Rhonda Helm
Operations Manager

Donna Durow Boykin
Finance Manager

Rosaree Koepsel
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

Korrie Hoskins
Accounting Technician

Babette Ruiz
Executive Assistant

Bobbie Simpson
Office Coordinator





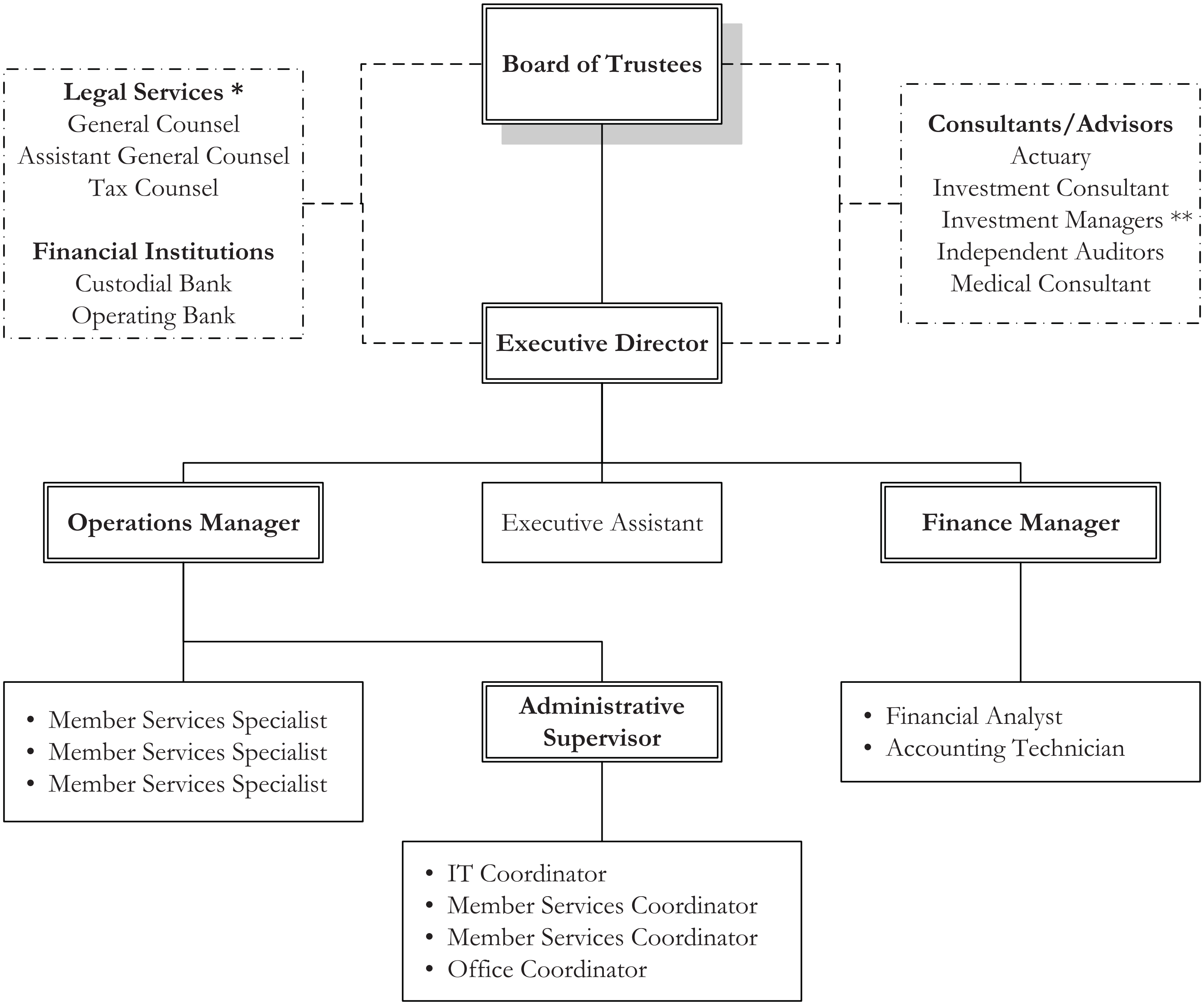








ORGANIZATIONAL CHART



* General Counsel and Assistant General Counsel employed by the Board on a part-time basis. Tax Counsel is retained by professional services agreement.

** For more information on Investment Managers, refer to Asset Allocation Table on page 59.

PROFESSIONAL SERVICE PROVIDERS

Investment Consultant
Summit Strategies Group

Custodial Bank
Northern Trust

Independent Auditors
KPMG LLP
Sprouse & Anderson LLP

Actuary
Gabriel Roeder Smith & Company

Legal Counsel
Godwin Gruber LLP
Sedgwick, Detert, Moran & Arnold

Operating Bank
JPMorgan Chase Bank

INVESTMENT MANAGERS

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

International Equity
Sprucegrove Investment Management LTD
Walter Scott & Partners LTD

Real Estate
Principal Global Investors

US Equity
AllianceBernstein LP
AQR Capital Management LLC
Aronson + Johnson + Ortiz LP
Eubel Brady & Suttman Asset Management
INTECH Enhanced Investment Technologies LLC
Pzena Investment Management LLC
Wall Street Associates LLC

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, currently 8%. These funds do not become a part of the Member's account. In 2005, the City of Austin adopted the Supplemental Funding Plan (SFP) which provides for a subsidy in addition to the regular employer contribution. Subject to certain conditions, the contribution subsidy will increase by 1% increments annually until the subsidy reaches a maximum of 4% (12% total employer contribution). The initial funding subsidy under the plan started in October 2006 at 1% of compensation. The increase in the City subsidy is delayed by a year if the System earns 12.0% or greater on its assets during the previous calendar year. Because of this provision, there was no increase in October 2007; however, the contribution subsidy will increase to 2% effective October 1, 2008. The SFP is designed to achieve a funding amortization period of 30 years and the contribution subsidy is to stay in effect until the regular 8% employer contribution is sufficient to maintain a 30-year amortization period.

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. 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 contributions remain 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.

Current Active-Contributing/Vested Members, as of October 1, 1995, were granted service credit for the period between their date of hire and their date of participation, up to six months. All Members hired 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 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) - When Members leave City employment, withdraw their deposits, and later return to City employment or employment with a participating proportionate system, they may purchase and reinstate the earlier time with the City. To purchase this service, they 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, plus an interest payment based on the interest assumed to have been earned by the fund.

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 employer

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. 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-Contributing 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 Active-Contributing or inactive Members are eligible to purchase Permissive Time provided they have five years of membership service. 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. Employees eligible to be paid by the City of Austin for up to 720 hours of sick leave upon retirement cannot convert the eligible hours to Creditable Service. 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 employer 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 through 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 retire in another system based on the combined service of two or more systems in order to satisfy the length of service requirements used to determine eligibility for service retirement. Members must qualify for retirement eligibility independently in each system. Retirement benefits will be paid separately from each system and will be determined based on the actual amount of Creditable Service earned in and the benefit structure of each plan. Military service purchases may only be used once in determining the amount of the member's combined service credit. Proportionate participation is based on funded service. Members who have refunded and forfeited membership service should contact the particular proportionate system in which they previously had membership in order to determine eligibility requirements to re-establish service credit and/or membership. Members should determine their proportionate retirement benefits before withdrawing member deposits in any of these systems.

A limited proportionate service arrangement was also established in 2007 for those individuals who have membership in COA ERS and a retirement system within the Travis County Healthcare District organization. This arrangement is similar to the general proportionate program *except* that it applies only between these two retirement systems. Participation in the Healthcare District retirement system can be used to establish retirement eligibility with COA ERS, but not with any other system in the general proportionate program.

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 Active-Contributing/Vested Members hired on or 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 10 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 day of the month. For example, if a Member is eligible to retire, completes the application process for retirement, and terminates 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 their accumulated deposits on account, the retirement annuity payment may begin the last day of the month after normal retirement eligibility is reached and the Member has completed the application process 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 Member Only Life Annuity benefit. Members should choose a payment option that best meets their 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 Life Annuity benefit according 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 for the life of the Retiree.

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 the Retiree's benefit for the remainder of 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 the Retiree's benefit for the remainder of 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 the Retiree's benefit for the remainder of 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 death of the Retiree or the survivor beneficiary, the last survivor of the two will receive 66 2/3% of the Retiree's benefit for the remainder of his/her life.

Option V: Fifteen Year Certain and Life Annuity (180 payments) - A monthly benefit payable to the Retiree. If the Retiree's death occurs before 180 payments are made, the Retiree's beneficiary, spouse (if applicable), or estate will receive 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 Members to develop their own benefit payment plan with the assistance and approval of the System's actuary. Members have flexibility to design a retirement benefit that is most appropriate for the needs of both the Member and the Member's beneficiary, 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 as well as Retirees who selected any Joint and Survivor option other than Joint and Last Survivor option (e.g. actuarial equivalent of Life Annuity option with any survivor option including Level Income Survivor options). The "Pop-up" increases the Retiree's benefits to the Member only Life Annuity level if the survivor beneficiary predeceases the Retiree on or after October 1, 1999.

Lump-Sum Payments

Backward DROP Program - The Deferred Retirement Option Program (DROP) allows a 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 beyond retirement eligibility, may elect to "DROP-Back" a portion of their Creditable Service time. The DROP period can be no earlier than:

- The day of first retirement eligibility,
- The date of the last purchase of Creditable Service of any type other than Sick Leave Conversion, or
- 60 months (in one-month increments) prior to the retirement date

The DROP account is credited with 90% of the sum of the monthly annuity payments, based on the Member only Life Annuity benefit, the participant would have received if the Member had retired at the DROP entry date. 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. Members who receive a DROP payment before age 55 are subject to IRS penalty for early withdrawal of the funds. This penalty only applies to funds paid directly to a Member. 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 employer contributions do not increase the monthly amount credited to the DROP.

Partial Lump-sum Payment - A Retiree can select a retirement option and request a one-time lump-sum payment to be paid at the same time as the Member's first annuity payment. The Member's annuity amount will be actuarially reduced for the lump-sum payment. Members may select a partial lump-sum distribution, or both a partial lump-sum distribution and a DROP, not to exceed 60 months of annuity payments under a basic Member only Life Annuity benefit.

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 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 all employment duties, AND
- The incapacity is likely to be permanent.

Disability Retirement Eligibility

Active-Contributing 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-Contributing 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. Members are allowed 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 Member only 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 Member only 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), spouse (if applicable), 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), spouse (if applicable), or estate.

Active Members

Not Eligible to Retire

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) plus a death benefit from COA ERS equal to the Member's deposits (excluding any purchases for Non-contributory time, prior military service purchases, or Permissive Time).

Eligible to Retire

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, except for Member only Life Annuity, and receive the $10,000 death benefit. Alternatively, a surviving spouse may choose to receive a one-time lump-sum payment of the Member's accumulated deposits and a death benefit from COA ERS equal to the Member's deposits (excluding any purchases for Non-contributory time, prior military service purchases, or Permissive Time).
- If there is no spouse, the deceased Member's designated beneficiary may elect to receive payments under Option V, Fifteen Year Certain and Life Annuity, and receive the $10,000 death benefit. The non-spouse beneficiary may otherwise choose to receive a one-time lump-sum payment as described above.

The $10,000 death benefit is not paid to 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.

This document is a general overview of System membership and benefits. In the event of any inconsistency between this general overview and state or federal law as modified, interpreted, and applied from time to time, the state or federal law will govern and control.

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 Investment Policy. The investments provide returns that help fund the monthly retirement annuities and other benefits paid by the System to its Members and beneficiaries.

Prohibition on COA ERS Loans and Withdrawals

Plan provisions do not allow Active Members to make a partial withdrawal of deposits or to receive loans from their retirement funds.

HISTORY OF BENEFIT ENHANCEMENTS

January 1, 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.

Contributions to retirement system set 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

Set multiplier at 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 10 years of Creditable Service.

Established for regular employees working 30 or more hours per week 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 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 10 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

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

Established for Active Members' designated beneficiaries to receive contributions and interest plus an equal amount from the System if Member dies prior to retirement eligibility.

September 1978

Established additional retirement options.

December 1979

Discontinued medical insurance payment for Retirees who were 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" Purchase – 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 are eligible.

Established that the 36 months of salary used to calculate monthly benefits need not be consecutive. Highest 36 months of salary during last 10 years of Creditable Service would be averaged to determine Final Average Earnings.

October 1985

Increased multiplier from 1.85% to 2.0%.

February 1986

Change in composition of Board of Trustees; replaced Council Member position with Retired Member Trustee to be appointed by the City Council.

May 1987

Established that Members laid-off during the period from September 30, 1986 through October 1, 1989, and who were eligible for retirement would receive 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 with five years of Creditable Service.

Extension of "Prior Service Purchases" – Former Members who forfeited membership service by taking a refund of their retirement contributions when they left City employment, who 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

Amended ordinance for Retiree Member Trustee position of the Board to be elected by Retired Members to a four-year term, instead of appointment by the City Council.

January 1990

Granted a special one-time benefit increase ranging from 0.5% to 15% based on date of retirement.

February 1990

Established unreduced retirement benefits for Members at any age with 30 years Creditable 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%, with 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%, with commensurate increase for previous Retirees.

Established that new City of Austin employees hired after October 1, 1995 become Members of COA ERS at date of employment. Current employees as of October 1, 1995 are given retirement service credit for up to one six-month probationary period at time of retirement.

Change in composition of Board of Trustees; Director of Finance Designee replaced with additional Retired Member Trustee 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%, with 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 while on workers' compensation, leaves of absence, part-time and temporary service.

Allowed for the City of Austin to purchase service credit for Members in order to qualify an employee for unreduced retirement benefit at age 55.

October 1999

Increased multiplier from 2.6% to 2.7%, with 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 Options 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 receiving monthly annuity payments in the form of an additional lump-sum benefit payment. 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 10 years).

Removed limitations on employer purchases of creditable service for a member.

January 2000

Established IRS Section 415 Restoration of Retirement Income Plan.

April 2000

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

Established for purchases of Permissive Time to Vested Active/Inactive Members, based on EGTRRA federal law with a minimum purchase of one month and a maximum of 60 months (five 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. Allowed 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 restricted Members from purchasing Permissive Time in excess of the amount needed to reach first eligibility for retirement.

Financial Section

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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, 2007 and 2006, 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, 2007 and 2006, and the changes in plan assets for the years then ended in conformity with United States generally accepted accounting principles.

The management's discussion and analysis on pages 26 through 29 and the schedules of funding progress and employer contributions on pages 51 through 53 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 24, other supplementary information on page 54, investment section on pages 55 through 64, actuarial section on pages 65 through 108, and statistical section on page 109 through 117 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as whole. The introductory, investment, actuarial, and statistical sections 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

May 7, 2008

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Management's Discussion and Analysis

December 31, 2007 and 2006

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 2007 and 2006. 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 $89.3 million, or 5.5%, in 2007 and increased by $148.2 million, or 10.1%, in 2006. The increases in 2007 and 2006 were due to positive investment returns.
- Contributions increased by $10.1 million, or 15.2% in 2007 and increased by $5.9 million, or 9.7% in 2006. The 2007 increase was due to a $5.6 million increase in employee and City contributions based on payroll, $3.1 million from a full year of the City's 1% supplemental funding, and $1.4 million from employee creditable service purchases. The 2006 increase was due to a $4.9 million increase in employee and City contributions based on payroll, and $1.0 million from the 1% supplemental funding.
- The amount of benefits paid to retired members and beneficiaries, and refunded to terminating employees increased approximately $3.9 million, or 4.0%, during 2007, and $5.1 million, or 5.5%, during 2006. This is the result of the increase in the number of System retirees and in the average annuity payment. Benefit payments exceeded employee and City contributions by $23.9 million in 2007 and by $30.1 million in 2006.
- The System's rate of return on investments for the year ended December 31, 2007, was 7.5% gross of fees, and 7.3% net of fees, on a market value basis which was less than the return of 12.8% gross of fees, and 12.5% net of fees, for the year ended December 31, 2006. 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, 2007, the date of the most recent actuarial valuation, the System's funding ratio of actuarial assets as a percentage of actuarial liabilities is 78.3%, which is up from the 75.9% level at December 31, 2006, primarily due to full recognition of the 24.0% net investment gain in 2003. 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, 2007 and 2006

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, 2007, 2006, 2005

Assets		2007	2006	2005
Cash, receivables and prepaids	$	11,166,212	9,981,192	8,711,486
Investments		1,691,382,280	1,600,703,760	1,454,399,446
Invested securities lending collateral		194,210,934	183,981,546	165,721,413
Capital assets, net		1,137,228	1,181,333	1,236,529
Total assets		1,897,896,654	1,795,847,831	1,630,068,874
Liabilities				
Total liabilities		199,684,762	186,889,587	169,302,271
Net assets held in trust for pension benefits	$	1,698,211,892	1,608,958,244	1,460,766,603

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Management's Discussion and Analysis

December 31, 2007 and 2006

Assets. As shown in the table below, COA ERS' net assets increased by $89.3 million in 2007, and $148.2 million in 2006. The 2007 and 2006 increases primarily reflect investment returns in the financial markets. The increase in cash, receivables, and prepaids of approximately $1.2 million in 2007, was primarily due to fluctuations in the amount of cash held in the System's operating bank account and in the trades pending settlement; the increase of $1.3 million in 2006, was also due to fluctuations in the amount of cash held in the System's operating bank account and in the trades pending settlement, as well as in the interest/dividends receivable. The increase in invested securities lending collateral of $10.2 million in 2007, and $18.3 million in 2006, 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 2007 and 2006, so the decrease reflects depreciation.

Liabilities. Liabilities increased $12.8 million in 2007 and $17.6 million in 2006. These increases are primarily due to increases in securities lending collateral and trades pending settlement.

Summary of Changes in Plan Net Assets
Years Ended December 31, 2007, 2006 and 2005

		2007	2006	2005
Additions:				
Contributions	$	76,491,770	66,400,877	60,502,121
Investment income		118,935,687	184,039,268	121,766,026
Investment expenses		4,006,190	4,089,091	3,613,695
Net investment income		114,929,497	179,950,177	118,152,331
Other income		1,340	1,654	1,960
Total additions		191,422,607	246,352,708	178,656,412
Deductions:				
Benefit payments and contribution refunds		100,392,924	96,490,275	91,424,005
General and administrative expenses		1,776,035	1,670,792	1,497,461
Total deductions		102,168,959	98,161,067	92,921,466
Net increase		89,253,648	148,191,641	85,734,946
Net assets held in trust for pension benefits, beginning of year		1,608,958,244	1,460,766,603	1,375,031,657
Net assets held in trust for pension benefits, end of year	$	1,698,211,892	1,608,958,244	1,460,766,603

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Management's Discussion and Analysis

December 31, 2007 and 2006

Additions. Additions needed to fund benefits are accumulated through contributions and returns on invested funds. Member and City of Austin contributions for 2007 and 2006 totaled $76.5 million and $66.4 million, respectively. The 2007 contributions represent an increase of $10.1 million, or approximately 15.2% above 2006. The 2007 increase was primarily due to increased annual payroll, the first full year of the Supplemental Funding Plan, and an increase in employee creditable service purchases. In 2006, contributions based on payroll were $5.9 million above the 2005 level, attributable to an increased annual payroll, and the implementation of the Supplemental Funding Plan in October 2006.

COA ERS incurred a positive return on the market value of its investments during 2007. Net investment income of $114.9 million was due to performance of the equity markets, a decrease of $65.0 million from 2006. Interest, dividends and net securities lending income generated 2007 income of $47.7 million, an increase from the $42.3 million received in 2006. The total rate of return for the System's investment portfolio in 2007 was 7.3% (net of fees) as compared to 12.5% for 2006.

Deductions. The expenses paid by COA ERS include benefit payments, refunds of member contributions, and administrative expenses. Benefits paid in 2007 were $96.0 million, an increase of $3.7 million from payments made in 2006, consistent with the increase in the number of retirees to 3,633 in 2007 from 3,467 in 2006. Refunds to terminating employees increased by $0.2 million. Administrative expenses in 2007 were $1.8 million, an increase of 6.3% from those of 2006.

Benefits paid in 2006 were $92.3 million, an increase of $4.6 million from payments made in 2005, consistent with the increase in the number of retirees to 3,467 in 2006 from 3,297 in 2005. Refunds to terminating employees increased by $.4 million. Administrative expenses in 2006 were $1.7 million, 11.6% more than the amount incurred in 2005.

Investment managers are paid based on their performance. Accordingly, in 2007, as returns were lower, so were the amounts of investment manager fees paid, a decrease of $0.2 million compared to 2006.

Overall Analysis. Overall, as of December 31, 2007, net assets increased by $89.3 million or 5.5% from the prior year, and over the five-year period ending December 31, 2007, net assets increased by 62.9%.

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, 2007

	Retirement Plan	Restoration Plan	Total
Assets:			
Cash and cash equivalents (note 3)	$ 3,018,590	15,000	3,033,590
Interest and dividends receivable	3,813,892		3,813,892
Trades pending settlement	2,752,810		2,752,810
Employer contributions receivable	782,960		782,960
Employee contributions receivable	782,960		782,960
Investments, at fair value (note 3):			
United States government securities	420,211,827		420,211,827
Corporate bonds	67,137,923		67,137,923
Real Estate Commingled Fund	91,622,081		91,622,081
Corporate stocks	736,062,044		736,062,044
Municipal bonds	283,058		283,058
International stocks	350,756,991		350,756,991
Short-term investment funds	25,308,356		25,308,356
Total investments	1,691,382,280	0	1,691,382,280
Invested securities lending cash collateral (note 3)	194,210,934		194,210,934
Capital assets, net (note 5)	1,137,228		1,137,228
Total assets	1,897,881,654	15,000	1,897,896,654
Liabilities:			
Accrued expenses	1,147,818		1,147,818
Trades pending settlement	3,753,238		3,753,238
Securities lending collateral (note 3)	194,210,934		194,210,934
Refunds and death benefits payable	572,772		572,772
Total liabilities	199,684,762	0	199,684,762
Net assets held in trust for pension benefits (a schedule of funding progress is presented on page 51)	$ 1,698,196,892	15,000	1,698,211,892

See accompanying notes to financial statements.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Statement of Plan Net Assets

December 31, 2006

	Retirement Plan	Restoration Plan	Total
Assets:			
Cash and cash equivalents (note 3)	$ 4,867,709	15,000	4,882,709
Interest and dividends receivable	3,661,685		3,661,685
Trades pending settlement	113,516		113,516
Employer contributions receivable	608,049		608,049
Employee contributions receivable	715,233		715,233
Investments, at fair value (note 3):			
United States government securities	354,547,289		354,547,289
Corporate bonds	68,093,704		68,093,704
Real Estate Commingled Fund	85,450,667		85,450,667
Corporate stocks	783,609,262		783,609,262
Municipal bonds	532,465		532,465
International stocks	285,573,543		285,573,543
Short-term investment funds	22,896,830		22,896,830
Total investments	1,600,703,760	0	1,600,703,760
Invested securities lending cash collateral (note 3)	183,981,546		183,981,546
Capital assets, net (note 5)	1,181,333		1,181,333
Total assets	1,795,832,831	15,000	1,795,847,831
Liabilities:			
Accrued expenses	839,756		839,756
Trades pending settlement	1,076,592		1,076,592
Securities lending collateral (note 3)	183,981,546		183,981,546
Refunds and death benefits payable	991,693		991,693
Total liabilities	186,889,587	0	186,889,587
Net assets held in trust for pension benefits (a schedule of funding progress is presented on page 51)	$ 1,608,943,244	15,000	1,608,958,244

See accompanying notes to financial statements.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Statement of Changes in Plan Net Assets

Year ended December 31, 2007

	Retirement Plan	Restoration Plan	Total
Additions:			
Contributions:			
Employer contributions (note 4)	$ 36,442,325	78,354	36,520,679
Employee contributions (note 4)	39,971,091		39,971,091
	76,413,416	78,354	76,491,770
Investment income:			
Net appreciation in plan investments	70,942,826		70,942,826
Interest	26,111,842		26,111,842
Dividends	20,718,518		20,718,518
Investment income before expenses and securities lending	117,773,186	0	117,773,186
Securities lending income	1,162,501		1,162,501
Securities lending fees	(338,140)		(338,140)
Net securities lending income	824,361	0	824,361
Investment expenses	(3,668,050)		(3,668,050)
Net investment income	114,929,497	0	114,929,497
Other income	1,340		1,340
Total additions	191,344,253	78,354	191,422,607
Deductions:			
Retirement annuities	92,970,834	78,354	93,049,188
Contributions refunded to terminating employees	4,437,968		4,437,968
DROP disbursements	1,177,034		1,177,034
Retiree lump-sum annuity	150,910		150,910
Death benefits	1,577,824		1,577,824
General and administrative expenses	1,776,035		1,776,035
Total deductions	102,090,605	78,354	102,168,959
Net increase	89,253,648	0	89,253,648
Net assets held in trust for pension benefits, beginning of year	1,608,943,244	15,000	1,608,958,244
Net assets held in trust for pension benefits, end of year	$ 1,698,196,892	15,000	1,698,211,892

See accompanying notes to financial statements.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Statement of Changes in Plan Net Assets

Year ended December 31, 2006

	Retirement Plan	Restoration Plan	Total
Additions:			
Contributions:			
Employer contributions (note 4)	$ 30,545,197	64,475	30,609,672
Employee contributions (note 4)	35,791,205		35,791,205
	66,336,402	64,475	66,400,877
Investment income:			
Net appreciation in plan investments	141,495,061		141,495,061
Interest	23,983,873		23,983,873
Dividends	17,772,875		17,772,875
Investment income before expenses and securities lending	183,251,809	0	183,251,809
Securities lending income	787,459		787,459
Securities lending fees	(236,105)		(236,105)
Net securities lending income	551,354	0	551,354
Investment expenses	(3,852,986)		(3,852,986)
Net investment income	179,950,177	0	179,950,177
Other income	1,654		1,654
Total additions	246,288,233	64,475	246,352,708
Deductions:			
Retirement annuities	88,449,021	64,475	88,513,496
Contributions refunded to terminating employees	4,196,331		4,196,331
DROP disbursements	1,529,839		1,529,839
Retiree lump-sum annuity	648,086		648,086
Death benefits	1,602,523		1,602,523
General and administrative expenses	1,670,792		1,670,792
Total deductions	98,096,592	64,475	98,161,067
Net increase	148,191,641	0	148,191,641
Net assets held in trust for pension benefits, beginning of year	1,460,751,603	15,000	1,460,766,603
Net assets held in trust for pension benefits, end of year	$ 1,608,943,244	15,000	1,608,958,244

See accompanying notes to financial statements.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2007 and 2006

(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, 2007 and 2006, membership consisted of the following:

	2007	2006
Retirees and beneficiaries currently receiving benefits	3,633	3,467
Terminated members entitled to but not yet receiving benefits	828	714
Current employees	8,358	8,055
Total	12,819	12,236

The System provides service retirement, death, disability, and withdrawal benefits. Benefits vest with five years of credited service. Participants may retire at age 62, at age 50 with 20 years of service, or with 23 years of service regardless of age. Prior to October 1, 1999, active member contributions to the Plan were 7%. Effective October 1, 1999, active member contributions increased to 8%. Prior to October 1, 1999, the monthly benefit was equal to 2.6% 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%. Effective April 1, 2000, the monthly benefit multiplier was increased to 2.98%. Effective January 1, 2002, the monthly benefit multiplier was increased to 3.0%. Effective January 1, 2001, the System approved a 3.5% ad hoc retiree increase and a 2.5% 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% of their basic compensation to the Plan. The City of Austin (the City) also contributes 8% 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, 2007 and 2006

Pursuant to the 2005 COA ERS Supplemental Funding Plan and beginning in October 2006, the City contributed an additional 1% subsidy for their 2007 fiscal year ending September 30, 2007. For subsequent years, the subsidy would continue to increase by 1%, to a maximum of 4%, if annual fund returns did not exceed 12%, net of fees. For COA ERS' calendar year ended December 31, 2006, investment returns exceeded the threshold, so the City contribution rate subsidy remained at 1% for their fiscal year beginning October 1, 2007. For COA ERS' calendar year ended December 31, 2007, investment returns did not meet the threshold; therefore, the City subsidy will increase to a total of 2% effective with the City's fiscal year beginning October 1, 2008.

Under the terms of the Plan, the System's employees obtain membership in the Plan on the same basis as City employees. Accordingly, the System contributes 8% of basic employee compensation to the Plan, plus a 1% subsidy, as described above, for its fourteen current employees; System employees also contribute 8% 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**
2007	$	58,288	58,288
2006		57,380	57,380
2005		51,970	51,970

The System participates in the Proportionate Retirement Program through which a member of the System may meet requirements for service retirement eligibility by combining COA ERS 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. A limited proportionate service arrangement has also been established in 2007, between COA ERS and individuals who have membership in a retirement system within the Travis County Healthcare District.

Restoration Plan

On November 23, 1999, 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, 2007 and 2006, for this Restoration Plan. Net assets remaining in this plan as of December 31, 2007 and 2006, were $15,000.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2007 and 2006

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

	Annual pension cost	Contributions made
2007	$ 78,354	78,354
2006	64,475	64,475
2005	38,263	38,263

At December 31, 2007 and 2006, membership in the Restoration Plan included the following:

	2007	2006
Retirees and beneficiaries currently receiving benefits	7	8
Terminated members entitled to but not yet receiving benefits	—	—
Current employees	—	—
Total	7	8

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, 2007, the balances of Fund 1, Fund 2, and Fund 3 were $333,340,167, $1,364,856,725, and $15,000, respectively. At December 31, 2006, the balances of Fund 1, Fund 2, and Fund 3 were $295,166,238, $1,313,777,006, 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 the 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).

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2007 and 2006

(b) Cash and Cash Equivalents

Cash and cash equivalents include demand deposit accounts and money market checking accounts. As of December 31, 2007 and 2006, the book balances of the money market checking accounts totaled $3,303,466 and $4,762,662, respectively, and demand deposit accounts totaled ($270,177) and $119,747, respectively.

(c) Investments

The System's equity investments are reported at fair value. Short-term cash 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. The System also has a Northern Trust (Trustee) daily aggregate bond fund that may hold units of participation in any fixed income collective fund established and maintained by the trustee or any of its affiliates. The trustee values its securities at fair value. Any securities for which no current market quotation is readily available are valued at fair value as determined in good faith by Northern Trust Investments, N.A.

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, 2007 and 2006 that were not deposited with the System by year-end and are shown as contributions receivable.

(e) Capital Assets

Capital assets are recorded at cost. The System capitalizes all computer and electronic equipment purchased as well as any other assets greater than $1,000. 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.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2007 and 2006

(g) Use of Estimates

The preparation of financial statements in conformity with United States generally accepted accounting principles 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.

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

The following summary of total investments by type as of December 31, 2007 and 2006 confirms that the System has maintained fairly consistent investment mixes.

	2007	2006
Summary of investments by type:		
Asset-backed securities	$ 2,738,518	2,862,005
Commercial mortgage-backed securities	29,618,127	18,450,746
Corporate bonds	67,137,923	68,093,704
Corporate stocks	736,062,044	783,609,262
Government agencies	15,699,939	25,554,107
Government bonds	13,641,072	14,840,799
Government mortgage-backed securities	82,162,987	61,225,087
International stocks	350,756,991	285,573,543
Municipal bonds	283,058	532,465
Nongovernment backed C.M.O.'s	15,834,233	16,622,040
Other fixed income:		
NTGI Aggregate Bond Fund	260,516,951	214,992,505
Real Estate Commingled Fund	91,622,081	85,450,667
Short-term investment funds	25,308,356	22,896,830
Investments at fair value on balance sheet	1,691,382,280	1,600,703,760
Receivables and pending trades	2,813,464	2,698,609
Total investments (per investment consultant)	$ 1,694,195,744	1,603,402,369

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2007 and 2006

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 backed by U.S. Government, Treasury and Agency securities, Repurchase agreements, and pledged securities held as collateral.

As of December 31, 2007 and 2006, the System's operating bank balances of $3,033,290 and $4,822,409, respectively, were 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.

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 as of December 31, 2007:

(a) Domestic Fixed Income Investments

Total fixed income investments may be no less than twenty-seven percent (27%) and no more than thirty-three percent (33%) of the investment portfolio measured at fair value. No single issuer's securities shall represent more than four percent (4%) of portfolio value at purchase cost, or six percent (6%) 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%) 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%) 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;

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2007 and 2006

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-two percent (32%) and no more than fifty-two percent (52%) of the total investment portfolio measured at fair value less international equities. No single company's securities shall represent more than four percent (4%) of portfolio value at purchase cost or six percent (6%) of the market value of any manager's portfolio.

The equity 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 eighteen percent (18%) and no more than twenty-eight percent (28%) 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 ten percent (10%) of the total investment portfolio measured at fair value, if, when viewed in conjunction with fixed income, the aggregate does not exceed 38% of the portfolio.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2007 and 2006

(e) Other Investment Information

As of December 31, 2007 and 2006, 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, 2007 and 2006, the following was the composition of the System's portfolio:

	2007	2006
Asset-backed securities	0.2%	0.2%
Commercial mortgage-backed securities	1.8%	1.2%
Corporate bonds	4.0%	4.3%
Corporate stocks	43.5%	49.0%
Government agencies	0.9%	1.6%
Government bonds	0.8%	0.9%
Government mortgage-backed securities	4.8%	3.8%
International stocks	20.7%	17.8%
Municipal bonds	0.1%	0.1%
Nongovernment backed C.M.O's	0.9%	1.0%
Other fixed income:		
NTGI Aggregate Bond Fund	15.4%	13.4%
Real Estate Commingled Fund	5.4%	5.3%
Short-term investment funds	1.5%	1.4%

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's Investment Policy requires fixed income managers to disclose their credit exposure and portfolio duration in their quarterly reports. The System monitors credit exposure using segmented time distribution.

As of December 31, 2007, 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	$ 2,738,518	—	72,319		2,666,199
Commercial mortgage-backed securities	29,618,127		—	—	29,618,127
Corporate bonds	67,137,923	2,910,313	27,532,226	25,782,559	10,912,825
Government agencies	15,699,939	—	14,664,380	1,035,559	—
Government bonds	13,641,072	—	—		13,641,072
Government mortgage-backed securities	82,162,987	8,565	4,717	1,072,735	81,076,970
Municipal bonds	283,058	—	—	283,058	
Nongovernment backed C.M.O.'s	15,834,233	—	—	—	15,834,233
Other fixed income:					
NTGI Aggregate Bond Fund	260,516,951	—	—	260,516,951	—
	$ 487,632,808	2,918,878	42,273,642	288,690,862	153,749,426

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2007 and 2006

As of December 31, 2006, the System had the following investments and maturities:

Investment type		Fair value	Less than 1year	1 to 6 years	6 to 10 years	10+ years
Asset-backed securities	$	2,862,005	—	93,252	1,014,206	1,754,547
Commercial mortgage-backed securities		18,450,746		—	—	18,450,746
Corporate bonds		68,093,704	1,473,194	27,388,043	26,275,328	12,957,139
Government agencies		25,554,107	—	25,554,107	—	—
Government bonds		14,840,799	—	—	—	14,840,799
Government mortgage-backed securities		61,225,087	—	30,120	—	61,194,967
Municipal bonds		532,465	—	—	—	532,465
Nongovernment backed C.M.O.'s		16,622,040	—	—	—	16,622,040
Other fixed income:						
NTGI Aggregate Bond Fund		214,992,505	—	—	214,992,505	—
	$	423,173,458	1,473,194	53,065,522	242,282,039	126,352,703

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. The average rating of all corporate bonds held in any investment portfolio, taken together, may not fall below AA.
- Split-rated securities in which the middle rating is below investment grade shall not comprise more than five percent (5%) 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%) position of portfolio value at purchase cost and a seven percent (7%) position at market value.
- Issues of individual entities rated below Aa3 (Moody's) or AA- (Standard & Poor's and Fitch) may have a two percent (2%) position of portfolio value at purchase cost or three percent (3%) 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.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2007 and 2006

- 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, 2007, are as follows:

Standard & Poor's Quality Rating	Total fair value	Asset backed securities	Commercial mortgage-backed	Corporate bonds	Municipal bonds	Non government backed CMO's	NTGI Aggregate Bond Fund
AAA	$ 47,567,828	1,461,323	29,618,127	1,165,924	—	15,322,454	—
AA+	1,596,112			1,596,112			
AA	486,426			486,426			
AA-	7,897,947	—	—	7,897,947	—	—	—
A+	9,358,831	—	—	9,358,831	—	—	—
A	5,511,103	72,319	—	5,438,784	—	—	—
A-	9,235,035	—	—	9,235,035	—	—	—
BBB+	15,872,363	—	—	15,872,363	—	—	—
BBB	10,835,531	1,204,876	—	9,347,597	283,058	—	—
BBB-	7,250,683	—	—	6,738,904	—	511,779	—
AA+/AA **	260,516,951	—	—	—	—	—	260,516,951
Total credit risk of debt securities	376,128,810	$ 2,738,518	29,618,127	67,137,923	283,058	15,834,233	260,516,951
U.S. government and agencies*	111,503,998						
Total	$ 487,632,808						

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2007 and 2006

The quality ratings of investments in fixed income securities as described by nationally recognized statistical rating organizations at December 31, 2006, are as follows:

Standard & Poor's Quality Rating	Total fair value	Asset backed securities	Commercial mortgage-backed	Corporate bonds	Municipal bonds	Non government backed CMO's	NTGI Aggregate Bond Fund
AAA	$ 37,841,539	2,768,753	18,450,746	—	—	16,622,040	—
AA-	5,423,099	—	—	5,423,099	—	—	—
A+	5,738,555	—	—	5,738,555	—	—	—
A	12,839,640	93,252	—	12,746,388	—	—	—
A-	6,695,722	—	—	6,695,722	—	—	—
BBB+	17,284,942	—	—	17,284,942	—	—	—
BBB	14,922,777	—	—	14,390,312	532,465	—	—
BBB-	5,814,686	—	—	5,814,686	—	—	—
AA+/AA **	214,992,505	—	—	—	—	—	214,992,505
Total credit risk of debt securities	321,553,465	$ 2,862,005	18,450,746	68,093,704	532,465	16,622,040	214,992,505
U.S. government and agencies*	101,619,993						
Total	$ 423,173,458						

* 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

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 System's 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.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2007 and 2006

The System's exposure to foreign currency risk includes the following international securities (all equity) as of December 31, 2007, and December 31, 2006:

Currency		2007 Fair value	2006 Fair value
Japanese Yen	$	91,737,664	86,886,463
British Pound Sterling		78,919,898	55,962,815
EURO Currency		66,272,904	52,597,530
Hong Kong Dollar		32,981,417	26,244,630
Swiss Franc		29,915,851	22,883,847
Australian Dollar		13,589,748	10,896,422
Canadian Dollar		12,723,063	8,387,402
Singapore Dollar		11,612,428	10,182,675
Swedish Krona		4,831,530	5,710,507
South African Rand		2,425,411	1,387,271
Hungarian Forint		2,314,259	1,418,718
Malaysian Ringgit		1,107,650	782,534
Mexican Peso		1,049,129	1,098,045
Danish Krone		867,050	800,660
Norwegian Krone		408,989	334,024
Total securities subject to foreign currency risk	$	350,756,991	285,573,543

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, 2007 and 2006, the System held no foreign currency options.

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% of the loaned System securities. For global securities pledged as collateral, total market value shall not be less than 105%.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2007 and 2006

The System is not exposed to credit risk at December 31, 2007 and 2006, 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, 2007 and 2006, 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 2007 and 2006.

As of December 31, 2007 and 2006, respectively, the System owned the following investments that were in possession of a borrowing financial institution:

2007		Fair value of loaned securities	Cash/securities collateral value	Cash collateral investment value
Cash collateral:				
U.S. agencies	$	12,254,746	12,503,031	12,503,031
Corporate bonds		7,722,165	7,904,191	7,904,191
Corporate stocks		132,306,450	135,968,442	135,968,442
International stocks		26,395,311	28,131,796	28,131,796
U.S. government securities		9,541,222	9,703,474	9,703,474
		188,219,894	194,210,934	194,210,934
Letters of credit collateral:				
U.S. government securities		3,384,966	3,453,547	—
International stocks		3,035,243	3,196,216	—
Corporate bonds		2,176,811	2,221,696	—
Corporate stocks		693,892	711,015	—
		9,290,912	9,582,474	—
Total	$	197,510,806	203,793,408	194,210,934

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2007 and 2006

2006		Fair value of loaned securities	Cash/securities collateral value	Cash collateral investment value
Cash collateral:				
U.S. agencies	$	8,842,570	9,063,181	9,063,181
Corporate bonds		9,124,686	9,366,055	9,366,055
Corporate stocks		114,590,369	117,794,412	117,794,412
International stocks		33,272,597	34,913,681	34,913,681
U.S. government securities		12,548,726	12,844,217	12,844,217
		178,378,948	183,981,546	183,981,546
Letters of credit collateral:				
U.S. government securities		1,673,319	1,715,035	—
Corporate bonds		2,263,690	2,316,603	—
Corporate stocks		7,259,574	7,434,017	—
		11,196,583	11,465,655	—
Total	$	189,575,531	195,447,201	183,981,546

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, 2007 and 2006, the System's funding policy as guided by state law requires contributions equal to 8% 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.

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. 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, 2007; in this valuation, the Plan had an unfunded actuarial accrued liability of $459,277,808. At December 31, 2007 and 2006, employer and employee contributions totaling $76,491,770 and $66,400,877, respectively, were required by the Plan and paid into the System. Due to significant net depreciation in the fair value of the Plan investments during 2000, 2001, and 2002, primarily caused by the unanticipated 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, 2007; therefore, the System's funding objective is not being met.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2007 and 2006

In 2005, the City of Austin City Council approved a Supplemental Funding Plan (SFP) relating to the System. The basic elements of this plan provide for an initial 1% contribution rate subsidy from the City beginning in October 2006, and increase 1% each year until it reaches a cap of 4%. A subsidy would continue as long as necessary and in an amount necessary up to 4% to sustain a 30-year funding period. Any incremental subsidy increase will be delayed by a year if the System earns 12% or more net of fees in any calendar year. Net earnings were 12.5% in 2006, precluding any increase, and the City subsidy remained at 1% for their 2008 fiscal year. Net earnings were 7.3% in 2007, triggering a 1% subsidy increase, and resulting in a total City subsidy of 2% for their 2009 fiscal year. The supplemental funding is subject to annual City Council budget approval.

(5) Capital Assets

Capital assets for the years ended December 31, 2007 and 2006 consisted of:

		2007	2006
Land	$	249,964	249,964
Furniture and fixtures		528,181	516,109
Building		1,184,560	1,184,560
Total		1,962,705	1,950,633
Accumulated depreciation		(825,477)	(769,300)
Net capital assets	$	1,137,228	1,181,333

The following summarizes the change in capital assets for the year ended December 31, 2007:

Capital assets, not being depreciated:

		Balance December 31, 2006	Additions	Transfers/ Deletions	Balance December 31, 2007
Land	$	249,964	—	—	249,964
Total	$	249,964	—	—	249,964

Capital assets, being depreciated:

		Balance December 31, 2006	Additions	Transfers/ Deletions	Balance December 31, 2007
Furniture and fixtures	$	516,109	12,072	—	528,181
Building		1,184,560	—	—	1,184,560
Total	$	1,700,669	12,072	—	1,712,741

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2007 and 2006

Less accumulated depreciation for:

		Balance December 31, 2006	Additions	Transfers/ Deletions	Balance December 31, 2007
Furniture and fixtures	$	462,850	23,982	—	486,832
Building		306,450	32,195	—	338,645
Total	$	769,300	56,177	—	825,477

The following summarizes the change in capital assets for the year ended December 31, 2006:

Capital assets, not being depreciated:

		Balance December 31, 2005	Additions	Transfers/ Deletions	Balance December 31, 2006
Land	$	249,964	—	—	249,964
Total	$	249,964	—	—	249,964

Capital assets, being depreciated:

		Balance December 31, 2005	Additions	Transfers/ Deletions	Balance December 31, 2006
Furniture and fixtures	$	499,603	16,506	—	516,109
Building		1,184,560	—	—	1,184,560
Total	$	1,684,163	16,506	—	1,700,669

Less accumulated depreciation for:

		Balance December 31, 2005	Additions	Transfers/ Deletions	Balance December 31, 2006
Furniture and fixtures	$	418,574	44,276	—	462,850
Building		279,024	27,426	—	306,450
Total	$	697,598	71,702	—	769,300

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2007 and 2006

(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 $1,000 deductible and a building limit of $1,450,000 with contents of $500,000. 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.

(8) COA ERS Employee Health Plan

Plan Description: The City of Austin Employees' Retirement System (COA ERS) participates in the healthcare plan administered by the City of Austin (City). The City provides healthcare insurance for eligible retirees and their dependents through their group health insurance plan that covers both active and retired members. The authority to amend and establish benefit provisions to the healthcare plan resides with the City. Any reports regarding the healthcare plan are available from the City.

Funding Policy: Benefit provisions are established and amended by the City Council; rates are actuarially determined by a third-party actuary. COA ERS, as the employer, has fewer than twenty current and potential plan members. COA ERS does not participate in plan design or administration, and is subject to the terms and conditions set by the City. Both COA ERS and the Member currently participating in the plan pay monthly premiums based on the City's assumptions and actuarial data. COA ERS' contributions for fiscal year 2007 and 2006 were approximately $1,690 and $1,730, respectively. In addition, the plan member receiving benefits contributed approximately $116 per month in 2007, and $119 per month in 2006 for individual coverage; dependent coverage paid by the member was approximately $310 and $308 for dependent coverage per month in 2007 and 2006.

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Required Supplementary Information (unaudited)

December 31, 2007 and 2006

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) *

Years ended December 31, 1998 through 2007

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)
12/31/1998	$ 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
12/31/2006	1,497.8	1,974.0	476.2	75.9	391.0	121.8
12/31/2007	1,653.5	2,112.8	459.3	78.3	417.5	110.0

Note: Dollar amounts in millions.

* The values provided concur with those presented by the Fund's actuary, Gabriel Roeder Smith & Co, in their 2007 report.

See accompanying independent auditors' report.

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Required Supplementary Information (unaudited)

December 31, 2007 and 2006

Schedule of Employer Contributions (Unaudited) **

Years ended December 31, 1998 through 2007

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	81.1
2004	32,733,243	26,940,941	82.3
2005	41,610,470	27,129,892	65.2
2006	49,390,658	30,545,197	61.8
2007	56,080,689	36,442,325	65.0

** 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 (the City's ongoing 8%, plus 1% subsidy) as a percentage of the Annual Required Contribution (ARC) as determined by the prior year's actuarial valuation.

For fiscal year 2007 this percentage is 9.0%/13.85%=65.0%. The current year ARC is calculated by dividing the actual dollar contribution to the Fund by the Percentage Contributed ($36,442,325/65.0%), which produces a 2007 ARC of $56,080,689.

See accompanying independent auditors' report.

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Required Supplementary Information (unaudited)

December 31, 2007 and 2006

(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.

(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. Primarily due to the unanticipated 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, 2007, 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	5.0% to 6.0%
Includes inflation at	3.25%
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

		2007	2006
Custodial Fees			
Northern Trust	$	**170,000**	**177,500**
Investment Manager Fees			
Agincourt Capital Management LLC		216,161	226,335
AllianceBernstein LP		325,708	346,521
AQR Capital Management LLC		256,243	377,268
Aronson +Johnson + Ortiz LP		139,215	212,244
Driehaus Capital Management LLC		0	660,805
Eubel Brady & Suttman Asset Mgmt		45,362	117,440
INTECH Enhanced Inv Technologies LLC		333,559	31,858
NTGI QM Aggregate Bond Index Fund		77,984	107,591
Pzena Investment Management LLC		126,825	0
Sprucegrove Investment Mgmt LTD		729,195	621,423
Wall Street Associates LLC		198,478	132,146
Walter Scott & Partners LTD		819,701	646,486
Miscellaneous		54,619	20,369
		3,323,050	**3,500,486**
Investment Consulting Fees			
Summit Strategies Group		**175,000**	**175,000**
Total	**$**	**3,668,050**	**3,852,986**

Note: These expenses are presented on an accrual basis and do not include fees paid to Principal Global Investors that are directly charged against our managed funds.

General & Administrative Expenses

		2007	2006
Actuary	$	86,941	58,962
Attorney		34,256	60,470
Auditing		60,000	48,662
Banking Services		904	717
Computer Services		107,332	118,627
Consultants		4,950	3,504
Administrative		1,218,064	1,099,675
Depreciation		56,177	71,703
Insurance		127,892	125,502
Member Communications		20,808	22,973
Continuing Education & Site Visits		58,711	59,997
Total	**$**	**1,776,035**	**1,670,792**

Consultant Expenses

		2007	2006
Actuary			
Gabriel Roeder Smith & Co	$	**86,941**	**58,962**
Attorney			
Knight & Partners		0	55,544
Sedgwick, Detert, Moran & Arnold		33,924	0
Godwin Gruber LLP		332	4,926
		34,256	**60,470**
Auditing			
KPMG LLP		35,000	24,500
Sprouse & Anderson LLP		25,000	24,162
		60,000	**48,662**
Banking Services			
National Payment Corporation		**904**	**717**
Computer Services			
Austin Web Design		2,200	850
Levi Ray & Shoup		87,769	97,149
Riata Technologies Inc		9,435	8,324
Other		7,928	12,304
		107,332	**118,627**
Other Consultants			
Robert A. Dennison MD		4,950	3,150
Other		0	354
		4,950	**3,504**
Total	**$**	**294,383**	**290,942**

Investment Section

Summit Strategies Group

January 1, 2008

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 respectably this past year, posting a positive return of 7.5% gross of fees for the fiscal year ending December 31, 2007. The portfolio grew from a beginning value of $1.6 billion to its current value of $1.69 billion thanks to investment gains of $119 million, which were partially offset by net outflows of $29 million. 2007 was the fifth positive year after a difficult period following the collapse of the technology bubble, but it showed signs of weakness as financial and economic problems surfaced in the second half of the year. All segments of the portfolio produced positive returns, led by strong performance in the international equity and real estate composites.

As detailed earlier, the COA ERS investment portfolio gained 7.5% for the year ending December 31, 2007. This led the fund's Passive and Policy Benchmark, but trailed the Median Public Fund in the ICC sample. Specifically, the investment portfolio beat its Passive Benchmark return by 0.6% and its Policy Benchmark return by 0.8%, and trailed the Median Public Fund return by 0.9%, ranking in the 65th percentile. The outperformance is largely attributable to COA ERS' portfolio structure and active equity managers beating their benchmarks in volatile markets. The underperformance versus peers is two fold, COA ERS' international managers underperformed and other plans had greater alternative investment exposure. Strong performance by real estate played a role in the strength at the absolute return level, but the current environment should temper expectations going forward. Longer-term results are good as well and, in fact, quite impressive. For the 3-year period, the fund returned 9.8% annualized. In this case, the return exceeded the Policy Benchmark and more than 62% of the public funds in our sample. All rates of return were calculated using a time-weighted rate of return and are gross of fees.

In fiscal year 2007, the funding to Pzena mid cap value equities was completed in the third quarter. The Board selected two firms, Dimensional Fund Advisors and City of London, to manage the new emerging market equity component of the portfolio and funding is expected to begin in 2008. International exposure was increased shifting equities from domestic small cap to international markets. The Board continued education and implementation of new investment themes as recommended in an earlier asset/liability study. This exploration includes value added and opportunistic real estate, portable alpha strategies, private equity, and alternative strategies.

The results for the past year did not achieve the fund's actuarial assumption for long-term investment results. The investment markets had a strong first half of 2007, but weakness surfaced in the second half of the year with the onset of the subprime mortgage crisis. Summit maintains markets are not expected to reward investors as handsomely for taking risk as they have in the past, and while we are pleased to see a fifth year of positive returns, the second half of 2007 pre-shadows a difficult 2008. COA ERS's had no material exposure to the subprime crisis; while that is good news it will not shield the fund from a difficult capital market environment. The long-term results are excellent and the hard work of the Board and staff over the past few years positioned the fund to capitalize on the markets and 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

OUTLINE OF INVESTMENT POLICIES

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.

Diversification is integral to the Fund's design and as a result, investments that improve fund diversification will be considered.

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 sets 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 under the current 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. Formulaic investment styles that are index based may deviate from the above position limits provided they are following a pre-established investment process and relative position limitation (i.e. index weight plus 1%) and they will monitor the account and promptly inform COA ERS if the diversification restriction noted above in the Policy is exceeded.
7. Derivatives are permissible for the purpose of equitizing cash (e.g. an overlay program, reducing cash exposure, or in portfolio transition).
8. 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.
9. 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

The Trustees believe that the level of risk assumed in the Fund is a function, in large part, of the Fund's asset allocation. The proportion of assets allocated for equity investments is the most important determinant of volatility of future returns. As indicated by long term historical data, the risk of equity ownership has been rewarded with a higher rate of return.

Based on its determination of the appropriate risk posture for the Fund and its long term return expectations, the Board and investment consultant have established the following asset mix guidelines for the Fund:

Equities:	**65%**	**Fixed Income:**	**30%**	**Real Estate:**	**5%**
Large Cap Domestic	35%	Core Fixed Income	100%	Real Estate	100%
Non-Large Cap Domestic	15%	Cash	0%		
International	50%				

Periodic asset/liability studies provide the basis for changes to the portfolio allocation policy. Guidelines will be amended when a proposed investment strategy is adopted. During times of phased transition to a new allocation, current values may deviate from the established strategic mix. The Board will review its asset allocations at least every two years, or sooner, if a material event in either the liability structure of the plan or the capital markets warrants a sooner look.

Market movements also may cause a portfolio to differ from its strategic mix. Therefore, a range has been set for the actual asset allocation of the System's assets to allow for the fluctuations that are inherent in marketable securities. Rebalancing will take place when such triggering event effects variances beyond their recommended range.

ASSET ALLOCATION

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM
ASSET ALLOCATION
12/31/2007

INVESTMENT POLICY REBALANCING GUIDELINES:	12/31/2007 VALUE	% OF FUND	ASSET ALLOCATION *		VARIANCE FROM TARGET	
			TARGET %	TARGET AMOUNT	AMOUNT	%
Common Stocks	**$ 1,107,388,676**	**65.36%**	**65.00%**	**1,105,462,722**	**1,925,954**	**0.11%**
Domestic Large Cap Equities	562,535,352	33.20%	32.50%	554,849,106	7,686,246	
Domestic Non-Large Cap Equities	159,283,369	9.40%	9.75%	165,184,084	(5,900,715)	
International Equities	385,569,955	22.76%	22.75%	385,429,532	140,423	
Subtotal for Rebalancing	**$ 586,807,068**	**34.64%**	**35.00%**	**592,968,511**	**(6,161,443)**	**-0.36%**
Fixed Income	493,059,442	29.10%	30.00%	508,258,724	(15,199,282)	
Real Estate	91,622,081	5.41%	5.00%	84,709,787	6,912,294	
Cash	2,125,545	0.13%	0.00%	-	2,125,545	
TOTAL	**1,694,195,744**	**100.00%**	**100.00%**			

ASSET CLASS / MANAGER					
US EQUITIES (Large)	**562,535,352**	**33.20%**	**32.50%**	**554,849,106**	**7,686,246**
INTECH Enhanced Inv Technologies LLC (enhanced-index)	286,852,798	16.93%	16.25%	279,542,298	7,310,500
ALLIANCEBERNSTEIN LP (large cap - growth)	134,277,209	7.93%	8.125%	137,653,404	(3,376,195)
ARONSON+JOHNSON+ORTIZ LP (large cap - value)	141,405,345	8.34%	8.125%	137,653,404	3,751,941
US EQUITIES (Non-Large)	**159,283,369**	**9.40%**	**9.75%**	**165,184,084**	**(5,900,715)**
TRANSITION-NORTHERN (small-cap - growth)	41,838,184	2.46%	2.4375%	41,296,021	542,163
AQR CAPITAL MGMT LLC (small cap - value)	36,372,042	2.15%	2.4375%	41,296,021	(4,923,979)
WALL STREET ASSOCIATES LLC (mid cap - growth)	47,195,948	2.79%	2.4375%	41,296,021	5,899,927
PZENA INVESTMENT MGMT LLC (mid cap -value)	33,877,195	2.00%	2.4375%	41,296,021	(7,418,826)
INTERNATIONAL EQUITIES	**385,569,955**	**22.76%**	**22.75%**	**385,429,532**	**140,423**
WALTER SCOTT & PARTNERS LTD (intl - growth)	199,180,312	11.76%	11.375%	192,714,766	6,465,546
SPRUCEGROVE INVESTMENT MGMT LTD (intl - value)	186,389,643	11.00%	11.375%	192,714,766	(6,325,123)
DOMESTIC FIXED INCOME	**493,059,442**	**29.10%**	**30.00%**	**508,258,724**	**(15,199,282)**
AGINCOURT CAPITAL MGMT LLC	232,542,491	13.73%	15.00%	254,129,362	(21,586,871)
NTGI QM AGGREGATE BOND INDEX FUND	260,516,951	15.37%	15.00%	254,129,362	6,387,589
REAL ESTATE	**91,622,081**	**5.41%**	**5.00%**	**84,709,787**	**6,912,294**
PRINCIPAL GLOBAL INVESTORS LLC	91,622,081	5.41%	5.00%	84,709,787	6,912,294
CASH	**2,125,545**	**0.13%**	**0.00%**	**0**	**2,125,545**
CASH	2,125,545	0.13%	0.00%	-	2,125,545
TOTAL	**$ 1,694,195,744**	**100.00%**			

Reconciliation to Statement of Plan Net Assets:

Interest and dividends receivable	**$**	**3,813,892**
Trades pending settlement - purchases		**2,752,810**
Total investments		**1,691,382,280**
Trades pending settlement - sales		**(3,753,238)**
	$	**1,694,195,744**

* Interim target approved February 2007 (30.0% Fixed, 22.75% Intl Equity, 42.25% US Equity, 5% Real Estate)

SCHEDULE OF INVESTMENT RESULTS

	Balance 12/31/06	Balance 12/31/07	2007 Gross Return (%)	2007 Mgmt Fees (Cash Basis)	After-Fees Return (%) 2007	3 Years	5 Years
FIXED INCOME GROUP	$ 430,625,471	$ 493,059,442	6.9 %	$ 312,009	6.8 %	4.6 %	4.5 %
Agincourt Capital Mgmt LLC	215,632,966	232,542,491	6.6 %	233,910	6.5 %	4.6 %	4.6 %
Lehman Aggregate			7.0 %		7.0 %	4.6 %	4.4 %
NTGI QM Aggregate Bond Index Fund	214,992,505	260,516,951	7.2 %	78,099	7.1 %	4.6 %	4.4 %
Lehman Aggregate			7.0 %		7.0 %	4.6 %	4.4 %
INTERNATIONAL	312,715,868	385,569,955	8.8 %	1,491,503	8.4 %	16.1 %	19.9 %
Walter Scott & Partners LTD	151,740,989	199,180,312	12.5 %	778,192	12.0 %	16.4 %	18.8 %
EAFE			11.6 %		11.6 %	17.3 %	22.1 %
Sprucegrove Investment Mgmt LTD	160,974,879	186,389,643	5.2 %	713,311	4.8 %	15.7 %	20.7 %
EAFE			11.6 %		11.6 %	17.3 %	22.1 %
DOMESTIC EQUITY	773,559,100	721,818,721	6.1 %	1,323,201	5.9 %	9.1 %	14.9 %
US EQUITIES LARGE	**524,465,699**	**562,535,352**	**7.4 %**	**557,838**	**7.3 %**	**9.9 %**	**14.1 %**
INTECH Enhanced Investment Technologies LLC	266,751,155	286,852,798	7.6 %	135,412	7.6 %	N/A	N/A
S&P 500			5.5 %		5.5 %	8.6 %	12.8 %
AllianceBernstein LP	116,976,946	134,277,209	15.0 %	267,126	14.9 %	11.0 %	13.1 %
Russell 1000 Growth			11.8 %		11.8 %	8.7 %	12.1 %
Aronson+Johnson+Ortiz LP	140,737,598	141,405,345	0.6 %	155,300	0.5 %	10.4 %	16.8 %
Russell 1000 Value			(0.2)%		(0.2)%	9.3 %	14.6 %
US EQUITIES NON-LARGE	**249,093,401**	**159,283,369**	**2.0 %**	**765,363**	**1.6 %**	**6.8 %**	**16.0 %**
Wall Street Associates LLC	58,700,389	47,195,948	20.6 %	150,636	20.2 %	14.3 %	18.9 %
Russell Mid Cap Growth			11.4 %		11.4 %	11.4 %	17.9 %
Eubel Brady & Suttman Asset Mgmt	61,166,067	N/A	N/A	76,348	N/A	N/A	N/A
Russell Mid Cap Value			(1.4)%		(1.4)%	10.1 %	17.9 %
Driehaus Capital Management LLC	20,706	N/A	N/A	72,581	N/A	N/A	N/A
Russell 2000 Growth			7.0 %		7.0 %	8.1 %	16.5 %
Pzena Investment Management LLC	N/A	33,877,195	N/A	56,955	N/A	N/A	N/A
Russell Mid Cap Value			(1.4)%		(1.4)%	10.1 %	17.9 %
iShares R2000 Growth	63,658,208	41,838,184	7.1 %	114,047	6.8 %	N/A	N/A
Russell 2000 Growth			7.0 %		7.0 %	8.1 %	16.5 %
AQR Capital Management LLC	65,548,031	36,372,042	(9.1)%	294,796	(9.7)%	N/A	N/A
Russell 2000 Value			(9.8)%		(9.8)%	5.3 %	15.8 %
REAL ESTATE	85,450,667	91,622,081	14.7 %	838,452	13.6 %	N/A	N/A
Principal Global Investors LLC	85,450,667	91,622,081	14.7 %	838,452	13.6 %	15.9 %	N/A
NCREIF Property			15.8 %		15.8 %	17.5 %	15.1 %
CASH	1,051,263	2,125,545	5.4 %		5.4 %	4.7 %	3.6 %
90 Day T-Bills			5.0 %		5.0 %	4.3 %	3.1 %
TOTAL FUND	$ 1,603,402,369	$ 1,694,195,744	7.5 %	$ 3,965,165	7.3 %	9.5 %	12.7 %
**Policy Index*			6.7 %		6.7 %	9.1 %	12.4 %

Calculated using time-weighted rate of return based on market rate of return.

* 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 305.
33% S&P 500, 16% Russell 2500, 16% EAFE, 30% Lehman Aggregate, 5% NCREIF, 4/05 to present.

LARGEST PORTFOLIO HOLDINGS

TOP TEN EQUITY HOLDINGS

Shares	Stock		Fair Value	% of Fund
208,100	Exxon Mobil Corp	$	19,496,889	1.15%
314,975	AT&T Inc		13,090,361	0.77%
62,600	Apple Computer Inc		12,399,808	0.73%
16,820	Google Inc		11,630,694	0.69%
294,600	General Electric Co		10,920,822	0.65%
21,370	Nestle SA CHF1 (REGD)		9,815,307	0.58%
103,700	Chevron Corp		9,678,321	0.57%
270,300	Microsoft		9,622,680	0.57%
168,060	Novartis AG CHF0.50 (REGD)		9,218,324	0.54%
323,800	Cisco Systems Inc		8,765,266	0.52%
	Top 10 Stock Holdings	**$**	**114,638,472**	**6.77%**
	Total COA ERS Investment Portfolio 12-31-2007	**$**	**1,694,195,744**	**100.00%**

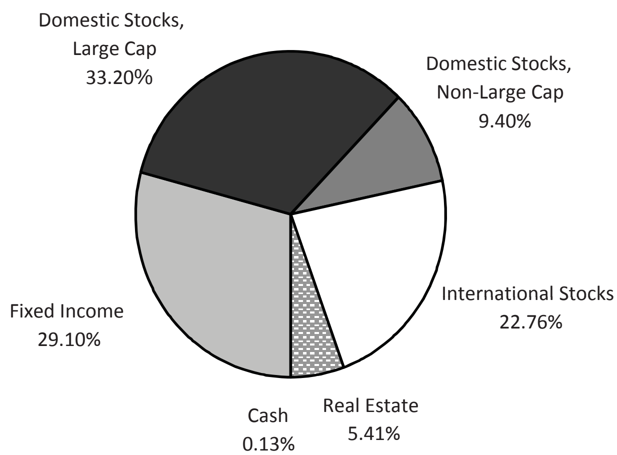
Full listing available upon request.

TOP TEN BOND HOLDINGS

	Par	Bond		Fair Value	% of Fund
$	11,395,000	FHLB Preassign 00076 5.375% 8-19-2011	$	12,023,366	0.71%
	6,290,000	United States Treasury Bonds dtd 2-15-1996 6% 02-15-2026 REG		7,443,825	0.44%
	5,747,209	Federal Home Ln Mtg Corp Multiclass Mtg Partn Pool #B1-5586 4.5% 07-01-2019 BEO		5,648,931	0.34%
	5,224,102	FNMA Pool #254868 5% 09-01-2033 BEO		5,105,014	0.30%
	8,785,000	United States Treas Sec Stripped Int Pmt 11-15-2020 (Unddate) REG		4,873,707	0.29%
	4,650,000	CMO Bear Stearns TR 2006-Top24 Mtg Passthru CTF CL A-2 10-12-2041		4,693,203	0.28%
	4,633,837	Federal Home Ln Mtg Corp Multiclass Mtg Partn Pool #G0-1740 5.5% 12-01-2034 BEO		4,629,709	0.27%
	4,356,638	FNMA Pool #831095 6% 10-01-2035 BEO		4,426,605	0.26%
	4,340,400	CMO Bear Stearns Arm Tr 2005-9 Mtg PassThru CTF CL A-1 Due 10-25-2035 REG		4,276,518	0.25%
	3,742,849	Federal Home Ln Mtg Corp Multiclass Mtg Partn Pool #B1-1027 5% 12-01-2018 BEO		3,752,056	0.22%
		Top 10 Bond Holdings	**$**	**56,872,934**	**3.36%**
		Total COA ERS Investment Portfolio 12-31-2007	**$**	**1,694,195,744**	**100.00%**

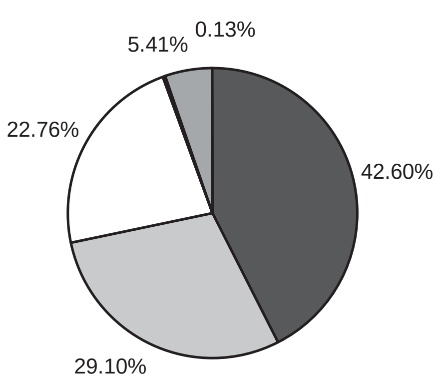
INVESTMENT SUMMARY AT FAIR MARKET VALUE

Asset Class by Fund Manager	Fair Value	Percentage of Total Fair Value
Fixed Income	$493,059,442	29.10%
Domestic Stocks, Large Cap	562,535,352	33.20%
Domestic Stocks, Non-Large Cap	159,283,369	9.40%
International Stocks	385,569,955	22.76%
Real Estate	91,622,081	5.41%
Cash	2,125,545	0.13%
	$1,694,195,744	100.00%



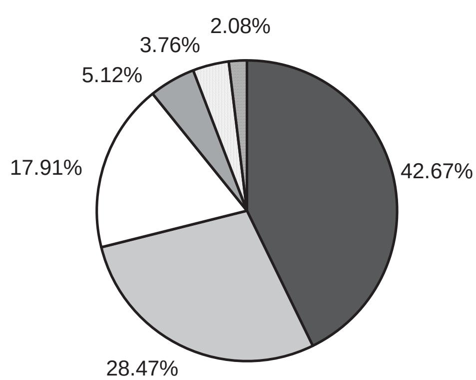
ALLOCATION BY SECTOR

COA ERS Asset Allocation*



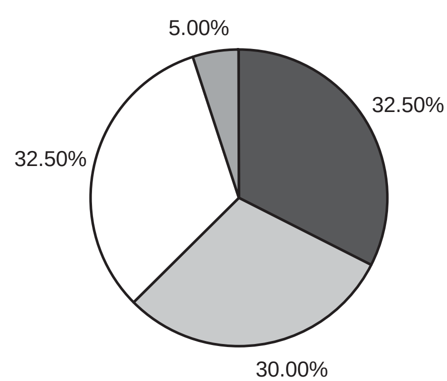
Market Value: $1.694 Billion

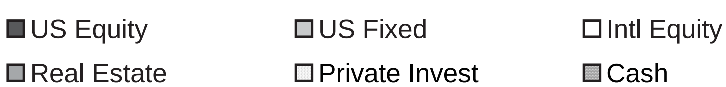
ICC Median Public Fund Asset Allocation



Market Value: $836.5 Billion

Target Allocation



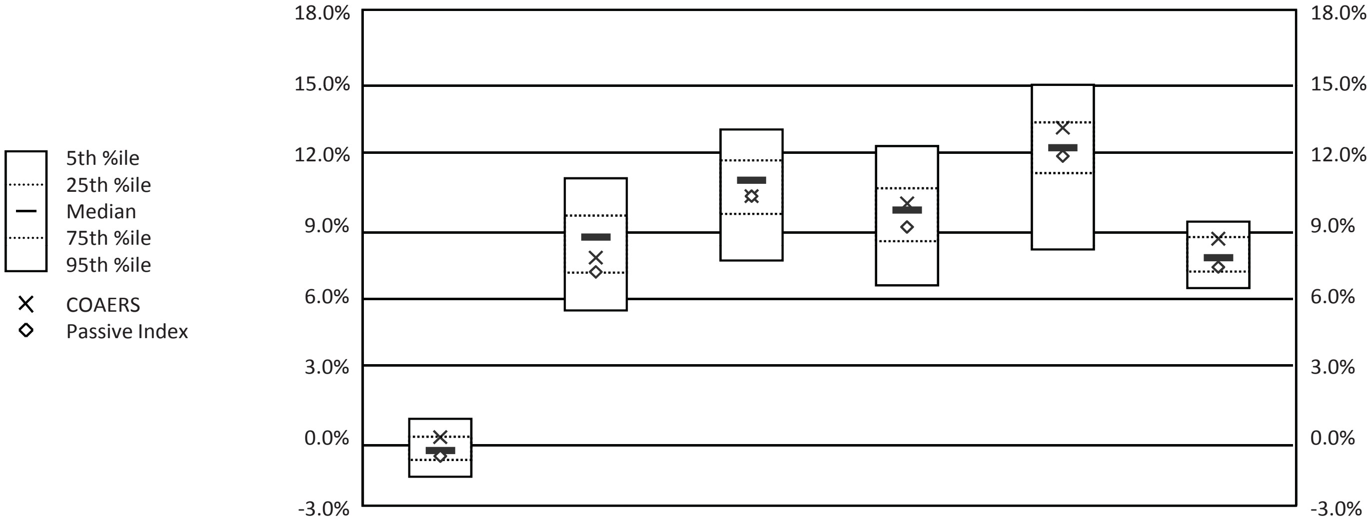


* Interim target approved February 2007 (30% Fixed, 22.75% Intl Equity, 42.25% US Equity, 5% Real Estate)

BROKER COMMISSIONS OVER $10,000

Broker Name	# of Shares Traded	Commissions Paid	Cost per Share
ABEL NOSER CORPORATION	266,220	12,920	0.049
BANC AMERICA SECUR MONTGOMERY DIV.	297,285	11,826	0.040
BEAR, STEARNS, SECURITIES CORP	416,925	16,602	0.040
BROCKHOUSE & COOPER MONTREAL	816,407	14,967	0.018
CITIGROUP GLOBAL MARKETS INC	789,777	20,261	0.026
CREDIT SUISSE FIRST BOSTON CORPORATION	1,346,040	32,250	0.024
DEUTSCHE BANK SECURITIES INC	1,818,629	36,149	0.020
GOLDMAN SACHS & COMPANY	2,068,173	33,327	0.016
GUZMAN & COMPANY	1,538,217	32,330	0.021
INSTINET TOTAL	1,168,800	25,697	0.022
INSTINET U.K. LIMITED LONDON	1,096,848	28,117	0.026
INVESTMENT TECHNOLOGY GROUP	2,834,706	55,396	0.020
JP MORGAN SECURITIES INC	543,515	17,919	0.033
JEFFERIES & COMPANY	725,100	11,413	0.016
KNIGHT SECURITIES LP	352,090	10,044	0.029
LEHMAN BROTHERS INC	2,033,371	25,001	0.012
LYNCH JONES & RYAN	1,681,017	39,933	0.024
MERRILL LYNCH PIERCE FENNER & SMITH	1,094,671	20,290	0.019
MORGAN STANLEY & CO INC	2,053,840	14,764	0.007
PIPER JAFRAY INC	273,640	12,258	0.045
ROSENBLATT SECURITIES LLC	1,113,748	24,183	0.022
UBS SECURITIES LLC NEW YORK	1,218,204	28,043	0.023
WEEDEN & CO	1,716,070	43,320	0.025
Minor Brokers - 124 total	13,437,071	264,282	0.020
Total Broker Commissions	**40,700,364**	**$ 831,291**	**$ 0.020**

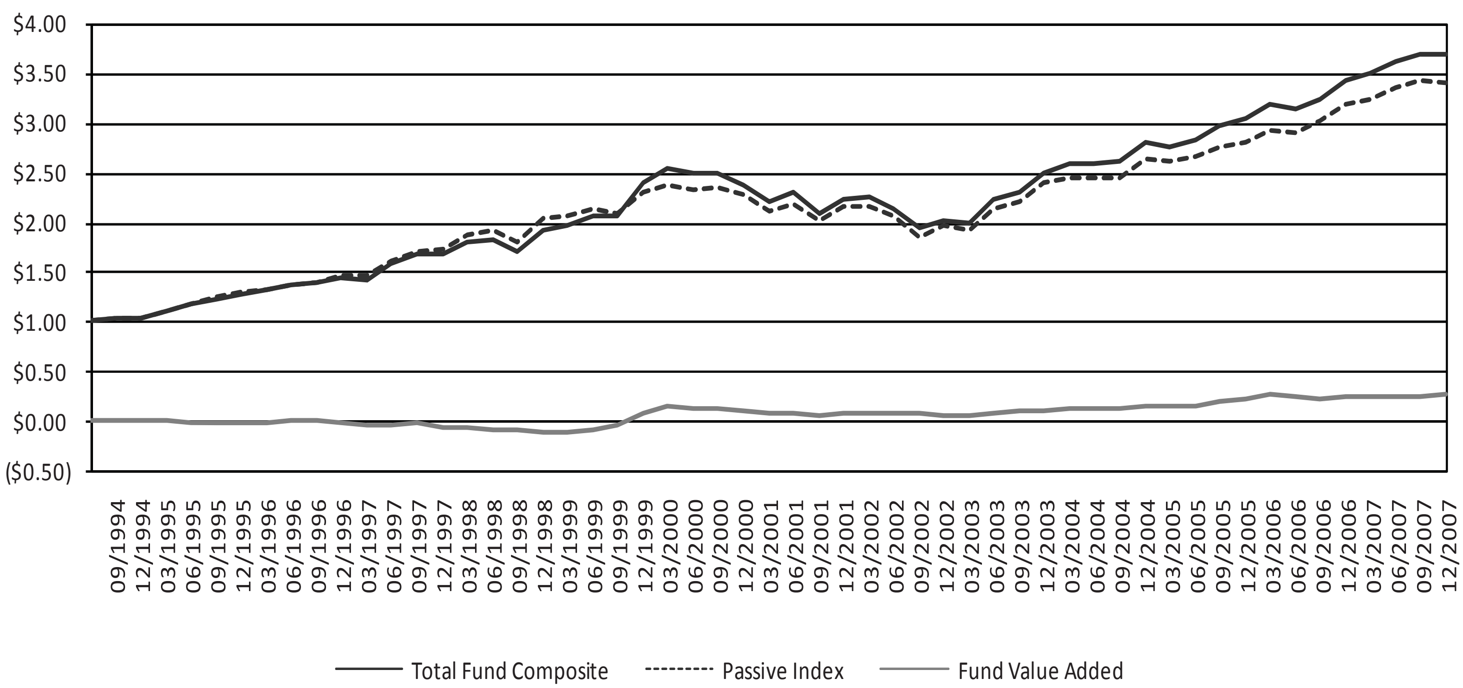
TOTAL FUND AND PASSIVE INDEX VS. ICC PUBLIC FUND UNIVERSE



	4Q 2007	1 Year	2 Years	3 Years	5 Years	10 Years
COAERS	(0.10%)	7.50%	10.10%	9.80%	13.00%	8.30%
Passive Index	(0.90%)	6.90%	10.10%	8.80%	11.80%	7.10%
5th Percentile	0.67%	10.86%	12.93%	12.23%	14.82%	9.03%
25th Percentile	(0.08%)	9.28%	11.62%	10.44%	13.23%	8.37%
Median	(0.66%)	8.38%	10.78%	9.51%	12.15%	7.50%
75th Percentile	(1.06%)	6.87%	9.35%	8.20%	11.09%	6.91%
95th Percentile	(1.78%)	5.27%	7.38%	6.33%	7.85%	6.21%
Observations	129	122	122	119	111	99

Note: Passive Index is currently comprised of 49% R3000, 16% MSCI EAFE and 35% Lehman Aggregate. Time weighted rates of return.

TOTAL GROWTH OF $1.00 VS. PASSIVE INDEX



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

Actuarial Section

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April 10, 2008

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, 2007

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, 2007, 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. While the significant asset losses from the early 2000s have been fully recognized, the plan's contribution rate is still 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 provides for a City contribution rate subsidy. The subsidy will occur in 1% increments annually over the next several years until the City subsidy reaches a maximum of 4.0%. Any contribution rate subsidy increase occurs on October 1st of each year. The increase in the City subsidy can be delayed by a year if the System earns 12.0% on its assets during the previous calendar year. In fact, the System earned more than 12.0% in calendar year 2006, and therefore the City subsidy did not increase on October 1, 2007. However, the System earned less than 12.0% in calendar year 2007, and therefore the City subsidy will increase to 2.0% effective October 1, 2008. The subsidy is 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 contribution subsidy 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.

GRS provided COAERS with the information used in preparing the following trend schedules in the financial section of the CAFR: Required Supplementary Information Schedule of Funding Progress, Required Supplementary Information Schedule of Employer Contributions, and Notes

Mr. Stephen Edmonds
April 10, 2008
Page 2

to Required Supplementary Information. GRS provided no additional assistance in the preparation of any other schedules in the financial section of the CAFR.

Actuarial assumptions and methods are set by the Board of Trustees, based upon recommendations made by the plan's actuary. An experience investigation was performed for the five year period ending December 31, 2006. As a result of this study, revised assumptions were adopted by the Board to be effective with the valuation as of December 31, 2006. We believe the assumptions are internally consistent, reasonable, and where appropriate 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, 2007, 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 last actuarial valuation of the City of Austin Employees' Retirement System was prepared as of December 31, 2006 by Gabriel, Roeder, Smith & Company. Valuations are prepared annually as of December 31st.

The undersigned are independent actuaries and consultants. Mr. Carter is an Enrolled Actuary and a Member of the American Academy of Actuaries and he meets the Qualification Standards of the American Academy of Actuaries. Both Mr. Carter and Mr. Ward are experienced in performing valuations for large public retirement systems.

We would like to thank you and your staff for your assistance in providing all necessary information to complete this valuation. Your 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

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EXECUTIVE SUMMARY

The key results from the valuation of the City of Austin Employees' Retirement System as of December 31, 2007 may be summarized as follows:

	December 31, 2007 (1)	December 31, 2006 (2)
• Members		
— Actives	8,358	8,055
— Retirees and beneficiaries	3,633	3,467
— Vested - terminated	828	714
— Total	12,819	12,236
• Covered payroll	$ 417,450,797	$ 390,963,991
• Normal cost	$ 62,664,083	$ 58,561,801
— As % of payroll	14.60%	14.57%
• Actuarial accrued liability	$ 2,112,811,292	$ 1,974,010,618
• Present actuarial value of assets	$ 1,653,533,484	$ 1,497,783,958
• Unfunded actuarial accrued liability (UAAL)	$ 459,277,808	$ 476,226,660
• Estimated yield on assets		
— Actuarial value basis	12.09%	9.33%
— Market value basis	7.09%	12.33%
• Contribution rate		
— Employee	8.00%	8.00%
— Employer	10.00% *	9.00% *
• Benefit and refund payments	$ 100,314,570	$ 96,425,800
• Amortization period of unfunded actuarial accrued liability	Infinite	Infinite
• GASB No. 25 disclosure		
— UAAL as a % of Payroll	110.0%	121.8%
— GASB funded ratio	78.3%	75.9%
— GASB Annual Required Contribution (ARC)	13.18%	13.85%

* Employer rate increased to 9.0% effective October 1, 2006 and to 10% effective October 1, 2008.

INTRODUCTION

This December 31, 2007 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, 2007, determine the funding period of any unfunded liability for the plan year beginning January 1, 2008, 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.

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 Sections I and J, 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, 2007, is 14.60% of pay. This compares with 14.57% of pay as of the last valuation of December 31, 2006. 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 10.27% of pay. The normal cost for the deferred termination benefits is 1.69% and 2.00% for refunds of terminated employees (both vested and nonvested). The normal cost for disability benefits is 0.24%, and the normal cost for death benefits is 0.40%.

Table 1 illustrates a number of the key actuarial items for the 2007 valuation. As mentioned above, the employer normal cost rate is 14.60% of covered payroll. The actuarial accrued liability is $2,112.8 million as shown in Item 5 and as detailed in Table 3. The actuarial value of assets equals $1,653.5 million, as shown in Item 6. Item 7 of Table 1 shows that the plan has a $459.3 million unfunded liability (i.e. liabilities exceed plan assets) as of the valuation date. As of the last valuation (December 31, 2006), the System was underfunded by $476.2 million.

Beginning October 1, 2008, the City will be contributing 10.00% of payroll (including subsidy) and the employees will be contributing 8% of payroll. Combining the employees' contributions with the City contribution, the System will have 18% of payroll to fund benefits. The current normal cost of the plan is 14.60%, which means that the System is currently receiving contributions in excess of the normal cost equal to 3.40% of pay (18.00% less 14.60%). 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.

FUNDED STATUS OF THE PLAN
(Continued)

Under the Supplemental Funding Plan (SFP) it is anticipated that the total City contribution rate (including the subsidy) will gradually increase to 12.0% of pay (this is the maximum City rate under the SFP). Each calendar year in which the System earns at least 12.0%, on the market value of assets, will delay the scheduled increase in the subsidy by one year. 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 2008 plan year, as determined by the 2007 valuation, is 13.18%.

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, 2007 is $1,653.5 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 2.f.) is $44.7 million. Table 5 shows the development of the Excess (Shortfall) of investment income for the past five 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, 2007, assuming that income, revenue, and expenditures are evenly distributed throughout the year is 7.09% on a market value of assets basis. The rate of return for the year ending December 31, 2007, on an actuarial value basis was 12.09%. 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 gain on an actuarial asset basis of $64.2 million in 2007. This compares to the $21.5 million gain in 2006.

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, 2006.

As can be seen in Item 7 of Table 8, the expected value of the unfunded actuarial accrued liability as of December 31, 2007, is an underfunded position of $505.0 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 2007.

Since the actual unfunded actuarial accrued liability as of December 31, 2007 is $459.3 million, it represents a total net gain for the period of $45.8 million, as shown in Item 9 of Table 8. That is, the unfunded actuarial accrued liability is less than expected. The net actuarial gain includes an asset gain of $64.2 million as shown in Table 7 and a loss on the liability side equal to $18.4 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 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.

There have been no changes to the actuarial assumptions since the prior year. Please see Table 14 for a more detailed description of the assumptions.

HISTORICAL COMPARISONS AND STATISTICAL SUMMARIES

Various statistical data on the System is shown in the tables contained in Section J. 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 retirees and beneficiaries added to and removed from payment 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. 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 provides for a contribution rate subsidy from the City which will gradually increase the City's total contribution rate to the System to 12.0%. This contribution subsidy 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 subsidy to a rate that produces a 30-year funding period.

The overall funded position of the System increased from 75.9% at the prior valuation to 78.3% at this valuation. 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 not too distant 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 if all assumptions are exactly met, if the benefits of the System are not changed, and if the Supplemental Funding Plan remains in place, then the funding period for amortizing the System's unfunded actuarial accrued liability will first reach the GASB #25 maximum amortization period of 30 years at the December 31, 2017 valuation.

ACTUARIAL TABLES

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2007

TABLE 1

SUMMARY OF COST ITEMS

	December 31, 2007		December 31, 2006	
	Cost Item	Cost as % of Pay	Cost Item	Cost as % of Pay
	(1)	(2)	(3)	(4)
1. Participants				
a. Active	8,358		8,055	
b. Terminated vested	828		714	
c. Retired participants and beneficiaries	3,560		3,402	
d. Disabled	73		65	
e. Total	12,819		12,236	
2. Covered Payroll	$ 417,450,797		$ 390,963,991	
3. Averages for Active Participants				
a. Average age	43.7		43.5	
b. Average years of service	8.9		8.9	
c. Average pay	$ 49,946		$ 48,537	
4. Employer Normal Cost	$ 62,664,083	14.60% *	$ 58,561,801	14.57% *
5. Actuarial Accrued Liability				
a. Active participants	$ 1,092,553,374		$ 1,023,110,623	
b. Terminated vested participants	44,966,370		39,696,189	
c. Refunds of terminated nonvested participants	6,797,551		7,037,727	
d. Retired participants and beneficiaries	958,596,286		896,205,243	
e. Disabled participants	9,897,711		7,960,836	
f. Total	$ 2,112,811,292	506.12%	$ 1,974,010,618	504.91%
6. Present Actuarial Assets	$ 1,653,533,484	396.10%	$ 1,497,783,958	383.10%
7. Unfunded Actuarial Accrued Liability (UAAL)	$ 459,277,808	110.02%	$ 476,226,660	121.81%
8. Relative Size of UAAL				
a. As percent of actuarial assets	27.78%		31.80%	
b. As percent of covered payroll	110.02%		121.81%	
9. GASB Annual Required Contribution (ARC)	13.18%		13.85%	

* as % of expected payroll

TABLE 2

ANALYSIS OF NORMAL COST BY COMPONENT

Benefit Component	Cost as % of Pay: December 31, 2007	Cost as % of Pay: December 31, 2006
(1)	(2)	(3)
1. Retirement Benefits	10.27%	10.24%
2. Termination - Deferred Benefits	1.69%	1.68%
3. Termination - Refund Benefits	2.00%	2.01%
4. Disability Benefits	0.24%	0.24%
5. Death Benefits	0.40%	0.40%
6. Normal Cost	14.60%	14.57%

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2007

TABLE 3

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

	December 31, 2007 (1)	December 31, 2006 (2)
A. Present Value of Future Benefits		
1. Active participants		
a. Retirement benefits	$ 1,334,804,565	$ 1,251,241,155
b. Deferred termination benefits	118,121,957	114,871,984
c. Refund of nonvested terminations	39,224,710	34,764,396
d. Disability benefits	15,026,072	14,357,652
e. Death benefits	33,105,957	30,766,689
f. Total	$ 1,540,283,261	$ 1,446,001,876
2. Retired participants		
a. Service retirements and beneficiaries	$ 958,596,286	$ 896,205,243
b. Disability retirements	9,897,711	7,960,836
c. Total	$ 968,493,997	$ 904,166,079
3. Inactive participants		
a. Vested terminations with deferred benefits	$ 44,966,370	$ 39,696,189
b. Nonvested terminations with refunds payable	6,797,551	7,037,727
c. Total	$ 51,763,921	$ 46,733,916
4. Total actuarial present value of future benefits	$ 2,560,541,179	$ 2,396,901,871
B. Present Value of Future Pay	$ 3,070,393,028	$ 2,903,695,664
C. Normal Cost Rate	14.60%	14.57%
D. Present Value of Future Normal Costs	$ 447,729,887	$ 422,891,253
E. Actuarial Accrued Liability for Active Members		
1. Present value of future benefits (Item A.1.f.)	$ 1,540,283,261	$ 1,446,001,876
2. Less present value of future normal costs (Item D)	447,729,887	422,891,253
3. Actuarial accrued liability	$ 1,092,553,374	$ 1,023,110,623
F. Total Actuarial Accrued Liability (Item A.2.c + Item A.3.c + Item E.3)	$ 2,112,811,292	$ 1,974,010,618

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2007

TABLE 4

DEVELOPMENT OF ACTUARIAL VALUE OF ASSETS

Item	Valuation as of December 31, 2007
(1)	(2)
1. Excess (shortfall) of investment income for current year and previous three years (see Table 5):	
a. Current year	$ (10,936,062)
b. Current year - 1	65,927,379
c. Current year - 2	10,996,163
d. Current year - 3	47,286,825
e. Current year - 4	164,524,777
2. Deferral of excess (shortfall) of investment income for:	
a. Current year (80% deferral)	$ (8,748,849)
b. Current year - 1 (60% deferral)	39,556,427
c. Current year - 2 (40% deferral)	4,398,465
d. Current year - 3 (20% deferral)	9,457,365
e. Current year - 4 (0% deferral)	0
f. Total deferred for year	$ 44,663,408
3. Market value of plan assets, end of year	$ 1,698,196,892
4. Preliminary actuarial value of plan assets, end of year (Item 3 - Item 2.f)	$ 1,653,533,484
5. Actuarial value of assets corridor	
a. 80% of market value of assets, end of year	$ 1,358,557,514
b. 120% of market value of assets, end of year	$ 2,037,836,271
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.)	$ 1,653,533,484

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2007

TABLE 5

CALCULATION OF EXCESS INVESTMENT INCOME FOR ACTUARIAL VALUE OF ASSETS

Item	Plan Year Ending December 31, 2007	2006	2005	2004	2003
(1)	(2)	(3)	(4)	(5)	(6)
1. Net Investment Income					
a. Interest and Dividends	$ 46,831,701	$ 41,758,402	$ 35,680,424	$ 32,165,731	$ 30,655,364
b. Realized and unrealized gains and losses*	68,099,136	138,193,429	82,473,867	113,465,673	215,414,069
c. Administrative expenses	(1,776,035)	(1,670,792)	(1,497,461)	(1,554,864)	(1,552,770)
d. Total	$ 113,154,802	$ 178,281,039	$ 116,656,830	$ 144,076,540	$ 244,516,663
2. Market value of assets, beginning of year	$ 1,608,943,244	$ 1,460,751,603	$ 1,375,016,657	$ 1,259,556,169	$ 1,042,376,123
3. Contributions during year	$ 76,413,416	$ 66,336,402	$ 60,463,857	$ 59,213,119	$ 55,356,622
4. Benefits and refunds paid during year	$ (100,314,570)	$ (96,425,800)	$ (91,385,741)	$ (87,814,171)	$ (82,693,239)
5. Other	$ -	$ -	$ -	$ (15,000)	$ -
6. Expected net investment income at	7.75%	7.75%	7.75%	7.75%	7.75%
a. Market value of assets, beginning of year	$ 124,693,101	$ 113,208,249	$ 106,563,791	$ 97,615,603	$ 80,784,150
b. Contributions	2,961,020	2,570,536	2,342,974	2,294,508	2,145,069
c. Benefits and refunds	(3,563,257)	(3,425,125)	(3,246,098)	(3,119,233)	(2,937,333)
d. Other	-	-	-	(1,163)	-
e. Total	$ 124,090,864	$ 112,353,660	$ 105,660,667	$ 96,789,715	$ 79,991,886
7. Excess investment income for year (Item 1.d. - Item 6.e.)	$ (10,936,062)	$ 65,927,379	$ 10,996,163	$ 47,286,825	$ 164,524,777

*Includes investment expenses

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2007

TABLE 6

CHANGE IN NET ASSETS

		Valuation Period Ending December 31, 2007 (1)	Valuation Period Ending December 31, 2006 (2)
1.	Assets in plan at beginning of year **(A)**	$ 1,608,943,244	$ 1,460,751,603
2.	Employer contributions	36,442,325	30,545,197
3.	Employee contributions	39,971,091	35,791,205
4.	Benefit payments made*	95,876,601	92,229,469
5.	Refunds of contributions	4,437,968	4,196,331
6.	Expenses paid from trust	1,776,035	1,670,792
7.	Investment return	114,930,837	179,951,831
8.	Other	0	0
9.	Assets in plan at end of year **(B)** (1 + 2 + 3 - 4 - 5 - 6 + 7 + 8)	$ 1,698,196,892	$ 1,608,943,244
10.	Approximate rate of return on average invested assets		
	a. Net investment income (7 - 6 = **I**)	$ 113,154,802	$ 178,281,039
	b. Estimated yield based on **(2I/(A + B - I))**	7.09%	12.33%

* Note: Benefit payments exclude any distributions from the 415 Restoration Plan

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2007

TABLE 7

ACTUAL VERSUS EXPECTED ACTUARIAL ASSETS

	Plan Year Ending			
Item	December 31, 2007		December 31, 2006	
(1)	(2)		(3)	
1. Actuarial assets, beginning of year	$	1,497,783,958	$	1,398,798,722
2. Contributions during year	$	76,413,416	$	66,336,402
3. Benefits paid during year	$	(95,876,601)	$	(92,229,469)
4. Refunds paid during year	$	(4,437,968)	$	(4,196,331)
5. Other	$	0	$	0
6. Assumed net investment income at		7.75%		7.75%
a. Beginning of year assets	$	116,078,257	$	108,406,901
b. Contributions		2,961,020		2,570,536
c. Benefits		(3,405,617)		(3,276,068)
d. Refunds		(157,640)		(149,057)
e. Other		0		0
f. Total	$	115,476,020	$	107,552,312
7. Expected actuarial assets, end of year (Sum of Items 1 through 6)	$	1,589,358,824	$	1,476,261,636
8. Actuarial assets, end of year	$	1,653,533,484	$	1,497,783,958
9. Asset gain/(loss) (Item 8 - Item 7)	$	64,174,660	$	21,522,322

ACTUARIAL GAIN OR LOSS AS OF DECEMBER 31, 2007

	CALCULATION OF TOTAL ACTUARIAL GAIN OR LOSS	2007	2006
1.	Unfunded actuarial accrued liability (UAAL) as of prior year	$ 476,226,660	$ 395,382,953
2.	Actual normal cost paid during year	66,139,714	53,907,645
3.	Subtotal (1 + 2)	$ 542,366,374	$ 449,290,598
4.	Interest at prior valuation's rate of 7.75%	42,033,394	32,731,100
5.	Contributions during year	(76,413,416)	(66,336,402)
6.	Interest on contributions for one-half year	(2,961,020)	(2,570,536)
7.	Expected UAAL as of December 31st (3 + 4 + 5 + 6)	$ 505,025,332	$ 413,114,760
8.	Actual UAAL as of December 31st	459,277,808	476,226,660
9.	Actuarial gain/(loss) for the period (7 - 8)	$ 45,747,524	$ (63,111,900)
	SOURCE OF GAINS AND LOSSES		
10.	Asset gain/(loss) (See Table 7)	$ 64,174,660	$ 21,522,322
11.	Total liability gain/(loss) for the period (9-10)	(18,427,136)	(84,634,222)
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	(22,494,462)
15.	Liability experience gain/(loss) (11 - 12 - 13 - 14)	$ (18,427,136)	$ (62,139,760)
	SOURCE OF LIABILITY GAINS AND LOSSES		
16.	Salary Increases	$ 704,391	$ (42,803,967)
17.	Service Retirement	3,433,567	3,116,296
18.	Withdrawal	(11,413,562)	(9,889,569)
19.	Disability Retirement	(569,483)	(374,341)
20.	Active Mortality	(437,146)	(32,757)
21.	Retiree Mortality	852,706	1,647,599
22.	New Entrants	(9,210,351)	(6,740,544)
23.	Other (Data)	(1,787,258)	(7,062,477)
24.	Total Liability Experience Gain/(Loss)	$ (18,427,136)	$ (62,139,760)

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2007

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 31-Dec	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)
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%
2006	476,226,660	390,963,991	121.8%	1,497,783,958	31.8%	1,974,010,618	24.1%
2007	459,277,808	417,450,797	110.0%	1,653,533,484	27.8%	2,112,811,292	21.7%

Gabriel Roeder Smith & Company

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Year Ending 31-Dec	Active Participants	Covered Payroll	Average Salary	Percent Increase
(1)	(2)	(3)	(4)	(5)
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%
2006	8,055	390,963,991	48,537	6.3%
2007	8,358	417,450,797	49,946	2.9%

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

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2007

TABLE 11

SCHEDULE OF RETIREES 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)
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
2006	259	6,788,190	89	1,883,938	3,467	90,312,037	5.8%	26,049
2007	289	8,523,459	123	2,262,126	3,633	96,071,149	6.4%	26,444

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

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2007

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, 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%
December 31, 2006	295,166,238	904,166,079	774,678,301	1,497,783,958	100.0%	100.0%	38.5%
December 31, 2007	333,340,167	968,493,997	810,977,128	1,653,533,484	100.0%	100.0%	43.4%

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2007

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, 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%
December 31, 2006	1,497.8	1,974.0	476.2	75.9%	391.0	121.8%
December 31, 2007	1,653.5	2,112.8	459.3	78.3%	417.5	110.0%

Note: Dollar amount in millions.

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

Fiscal Year	Annual Required Contribution	Percentage Contributed
(1)	(2)	(3)
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%
2006	$49,390,658	61.84%
2007	$56,080,689	64.98%

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, 2007
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	5.00% to 6.00%
*Includes inflation at	3.25%
Cost-of-living adjustments	None assumed

STATEMENT OF ACTUARIAL METHODS AND ASSUMPTIONS
(Effective as of December 31, 2007)

A. ACTUARIAL ASSUMPTIONS

1. Investment Return Rate (adopted effective December 31, 2002)

   7.75% per annum, compounded annually.

2. Mortality

   a. Nondisabled (adopted effective December 31, 1997)

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

   b. Disabled (adopted effective December 31, 2002)

      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

STATEMENT OF ACTUARIAL METHODS AND ASSUMPTIONS
(EFFECTIVE AS OF December 31, 2007)
(Continued)

3. Retirement Rates: (adopted effective December 31, 2006)
   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	40.0%	27.5%
50	40.0%	27.5%
51	40.0%	27.5%
52	35.0%	27.5%
53	35.0%	27.5%
54	35.0%	27.5%
55	35.0%	35.0%
56	27.5%	35.0%
57	27.5%	35.0%
58	27.5%	35.0%
59	27.5%	35.0%
60	27.5%	40.0%
61	27.5%	25.0%
62	30.0%	40.0%
63	25.0%	32.5%
64	25.0%	25.0%
65	40.0%	30.0%
66	25.0%	25.0%
67	25.0%	20.0%
68	20.0%	20.0%
69	20.0%	20.0%
70 & older	100.0%	100.0%

STATEMENT OF ACTUARIAL METHODS AND ASSUMPTIONS
(EFFECTIVE AS OF December 31, 2007)
(Continued)

4. Rates of Decrement Due to Withdrawal (adopted effective December 31, 1997)

Males

Age	Years of Service 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

Age	Years of Service 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, 2007) (Continued)

5. Disability Rates* (adopted effective December 31, 2006)

Sample rates are shown below:

Age	Rates of Decrement Due to Disability Males	Females
20	.000039	.000016
25	.000048	.000023
30	.000101	.000050
35	.000304	.000152
40	.000837	.000419
45	.001759	.000880
50	.003109	.001554
55	.005079	.002542
60	.007497	.003726

* 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 (adopted effective December 31, 2006)

Years of Service	Promotional Rate of Increase	Total Annual Rate of Increase Including 3.25% Inflation Component and 1.75% Productivity Component
1 – 8	1.00%	6.00%
9	0.75%	5.75%
10	0.50%	5.50%
11 - 19	0.25%	5.25%
20 or more	0.00%	5.00%

STATEMENT OF ACTUARIAL METHODS AND ASSUMPTIONS
(EFFECTIVE AS OF December 31, 2007)
(Continued)

7. DROP Participation: (adopted effective December 31, 2002)

   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: (adopted effective December 31, 1997)

   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: (adopted effective December 31, 1997)

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

10. Interest Crediting Rate on Employee Contributions: (adopted effective December 31, 2002)

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

11. Payroll Growth Rate: (adopted December 31, 2002)

    It is assumed that payroll will grow at 3.50% annually.

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, 2007

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 for the 36 calendar months of highest compensation during the last 120 months prior to termination. The monthly compensation used in the determination of benefits cannot exceed the compensation limits of Internal Revenue Code §401(a)(17) for the applicable period. The limit for 2008 is up to $19,166.67 for persons who first become members after 1995 (members hired prior to 1995 have no limit on their compensation).

E. CITY AND MEMBER CONTRIBUTION RATES:

The City currently contributes a statutory 8.00% of pay for each active member. Under the Supplemental Funding Plan, the City is providing an additional contribution subsidy for each active member. Beginning October 1, 2008, this additional subsidy will be 2% of pay. Each active member contributes 8.00% of pay. These employee 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.

SUMMARY OF BENEFIT PROVISIONS OF THE RETIREMENT PLAN AS OF DECEMBER 31, 2007 (Continued)

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.

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 (i.e. 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 COLAs 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.

SUMMARY OF BENEFIT PROVISIONS OF THE RETIREMENT PLAN AS OF DECEMBER 31, 2007 (Continued)

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 employment duties. 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.

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.

SUMMARY OF BENEFIT PROVISIONS OF THE RETIREMENT PLAN AS OF DECEMBER 31, 2007 (Continued)

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

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

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

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 adjustment for those retirees who retired on or before December 31 of the previous year. The maximum adjustment which can be approved is 6%. The amount of the adjustment is set by the Board upon recommendation by the System's actuary that such an adjustment will not make the Fund financially unsound, and the adjustment is not inconsistent with the Code. The adjustment 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.

SUMMARY OF BENEFIT PROVISIONS OF THE RETIREMENT PLAN AS OF DECEMBER 31, 2007 (Continued)

L. LUMP-SUM ADDITIONAL BENEFIT PAYMENT

Once each year the Board may approve a lump-sum additional benefit payment to be paid to those members and beneficiaries currently in payment status. The additional payment 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.

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 period between their date of hire and their date of participation, up to six months.

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.

SUMMARY OF BENEFIT PROVISIONS OF THE RETIREMENT PLAN AS OF DECEMBER 31, 2007 (Continued)

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.

5. Employer Purchase of Creditable Service

   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.

SUMMARY OF BENEFIT PROVISIONS OF THE RETIREMENT PLAN AS OF DECEMBER 31, 2007 (Continued)

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.

5. LUMP-SUM ADDITIONAL BENEFIT PAYMENT

   The Board was given the ability to make an additional payment to members and beneficiaries in payment status in the form of a lump-sum additional benefit payment. The additional payment would be a percentage of the current monthly payment with a maximum percentage of 100%.

6. EMPLOYER PURCHASE OF CREDITABLE SERVICE

   Limitations on employer purchases of Creditable Service for a Member before actual retirement were removed.

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".

SUMMARY OF BENEFIT PROVISIONS OF THE RETIREMENT PLAN AS OF DECEMBER 31, 2007 (Continued)

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

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% Retiree 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 benefit 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 COLAs are included but changes in the benefit multiplier are reflected.

SUMMARY OF BENEFIT PROVISIONS OF THE RETIREMENT PLAN AS OF DECEMBER 31, 2007 (Continued)

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 Board requires payment by the Member, and then by the City of the equivalent amount of retirement contributions that would have been made had the sick hours been exercised as sick hours. An employee must already be eligible for retirement to purchase the service.

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

V. BENEFIT ENHANCEMENTS ENACTED BY THE BOARD OF TRUSTEES IN 2006

None

W. BENEFIT ENHANCEMENTS ENACTED BY THE BOARD OF TRUSTEES IN 2007

None

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%.

Statistical Section

STATISTICAL TABLES

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2007

TABLE 17

DISTRIBUTION OF ALL ACTIVE PARTICIPANTS BY AGE AND LENGTH OF SERVICE AS OF DECEMBER 31, 2007

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	109	59	23	13	2	0	0	0	0	0	0	0	206	$ 29,040
25-29	216	186	94	51	27	111	2	0	0	0	0	0	687	34,950
30-34	171	168	109	78	46	314	57	2	0	0	0	0	945	41,591
35-39	152	134	96	69	50	400	180	63	2	0	0	0	1,146	46,548
40-44	106	89	76	70	44	351	280	159	97	3	0	0	1,275	51,747
45-49	112	85	67	62	46	372	256	218	234	37	1	0	1,490	55,156
50-54	72	84	42	58	32	267	213	207	207	62	8	0	1,252	56,316
55-59	35	46	41	37	19	205	146	161	104	46	16	2	858	57,339
60-64	24	20	15	11	5	123	75	61	45	18	7	2	406	53,943
65 & Over	4	3	4	5	1	23	23	19	7	3	1	0	93	54,242
All Ages	1,001	874	567	454	272	2,166	1,232	890	696	169	33	4	8,358	$ 49,946

TABLE 18

DISTRIBUTION OF ALL ACTIVE PARTICIPANTS BY SERVICE AND CURRENT RATE OF PAY AS OF DECEMBER 31, 2007

Completed Years of Service	Number of Employees	Total Average Salary
0	1,001	$ 39,298
1	874	40,748
2	567	42,045
3	454	43,287
4	272	47,263
5-9	2,166	49,463
10-14	1,232	54,967
15-19	890	59,940
20-24	696	64,509
25-29	169	62,253
30-34	33	68,436
35+	4	68,073
All Years	8,358	$ 49,946

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2007

SCHEDULE OF AVERAGE BENEFIT PAYMENTS, LAST TEN YEARS

Retirement Effective Dates January 1, 2006 to December 31, 2007	Years Creditable Service 0-4	5-9	10-14	15-19	20-24	25-29	30+
Period 01/01/06 to 12/31/06							
Average Monthly Benefit	$289	$620	$1,413	$1,826	$2,939	$3,720	$4,854
Average Final Salary	$46,003	$39,609	$53,356	$49,024	$55,322	$61,669	$64,402
Number of Active Retirees	10	41	15	29	101	24	8
Period 01/01/07 to 12/31/07							
Average Monthly Benefit	$236	$873	$1,343	$2,543	$3,317	$4,477	$6,268
Average Final Salary	$32,326	$45,231	$43,699	$57,605	$57,877	$65,793	$78,161
Number of Active Retirees	13	23	24	31	117	20	8

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2007

TABLE 20

RETIRED MEMBERS BY TYPE OF BENEFIT (AS OF December 31, 2007)

Amount of Monthly Benefit	Number of Retired Members	Type of Retirement[a]				Option Selected[b]									
		1	2	3	4	Unmod.	1	2	3	4	5	6	7	8	9
Deferred						828									
$1-250	83	64	8	2	9	45	28	5	2				3		
251-500	159	122	21	9	7	67	60	8	6	4		1	13		
501-750	197	140	33	11	13	86	63	17	12	1	5		11		2
751-1,000	237	179	38	14	6	94	69	23	18	7	6	12	5		3
1,001-1,250	218	166	39	9	4	66	67	15	13	8	13	12	10		14
1,251-1,500	306	253	40	11	2	88	103	28	22	5	21	17	10		12
1,501-1,750	323	288	29	5	1	91	119	27	21	3	21	17	13	2	9
1,751-2,000	316	273	36	6	1	86	106	23	25	3	28	23	5	1	16
Over $2,000	1,794	1,705	80	6	3	431	626	127	123	28	135	127	58	8	131
Total	**3,633**	**3,190**	**324**	**73**	**46**	**1,882**	**1,241**	**273**	**242**	**59**	**229**	**209**	**128**	**11**	**187**

Notes:

[a] Type of Retirement
1. Normal retirement for age and service
2. Beneficiary payment, normal retirement or death in service
3. Disability retirement
4. QDRO - alternate payee

[b] Option Selected:

Unmodified Plan: life annuity

The following options reduce the retired member's monthly benefit:

Option 1 - Beneficiary receives 100 percent of member's reduced monthly benefit
Option 2 - Beneficiary receives 50 percent of member's reduced monthly benefit
Option 3 - Beneficiary receives 66-2/3 percent of member's reduced monthly benefit
Option 4 - Survivor receives 66-2/3 percent of member's reduced monthly benefit upon first death
Option 5 - Level income option payable for life of retiree
Option 6 - Level income option, beneficiary receives 66-2/3 percent of member's monthly benefit
Option 7 - Life annuity with 15 years guaranteed
Option 8 - Other participant created actuarial equivalent forms of payment
Option 9 - Level income option, beneficiary receives 100 percent of member's monthly benefit

[c] The number of Retired Members and the number of options selected are not equal due to the inclusion of 828 deferred vested memberes in the Unmodified option selection.

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2007

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.

TABLE 22

CHANGE IN NET ASSETS, LAST TEN FISCAL YEARS

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Additions										
Member Contributions	$17,121	$20,052	$23,414	$26,238	$33,794	$30,449	$32,272	$33,334	$35,791	$39,971
Employer Contributions	16,126	18,225	21,532	24,831	26,375	24,907	27,008	27,168	30,610	36,521
Investment Income (net of expenses)	138,464	259,255	(20,509)	(78,888)	(112,995)	246,069	145,631	118,154	179,952	114,931
Total additions to plan net assets	171,712	297,531	24,437	(27,819)	(52,826)	301,426	204,911	178,656	246,353	191,423
Deductions										
Benefit Payments	42,908	49,825	59,312	66,013	71,023	77,187	81,426	85,851	90,116	94,627
Refunds	6,423	4,867	4,945	3,991	3,958	4,477	5,112	3,775	4,196	4,438
Administrative Expenses	1,105	1,133	1,220	1,305	1,642	1,553	1,555	1,497	1,671	1,776
Lump-sum Payments					266	1,029	1,343	1,798	2,178	1,328
Total deductions from plan net assets	50,436	55,826	65,477	71,310	76,888	84,246	89,436	92,921	98,161	102,169
Change in net assets	$121,275	$241,706	($41,039)	($99,129)	($129,715)	$217,180	$115,475	$85,735	$148,192	$89,254

Notes: Dollar amounts in thousands
Columns may not add due to rounding
Includes contributions to and benefit payments from 415 Restoration Plan

TABLE 23

BENEFIT AND REFUND DEDUCTIONS FROM NET ASSETS BY TYPE, LAST TEN FISCAL YEARS

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Type of Benefit										
Age and service benefits:										
Retirees [a]	$42,094	$48,074	$58,128	$64,598	$70,094	$75,527	$80,152	$84,003	$88,513	$93,049
Beneficiaries [a]										
Lump-sum payments					$266	$1,029	$1,343	$1,798	$2,178	$1,328
In service death benefits [b]	$814	$1,752	$1,184	$1,416	$929	$1,660	$1,274	$1,848	$1,603	$1,578
Disability benefits [c]										
Type of Refund										
Death [b]										
Separation	$6,423	$4,867	$4,945	$3,991	$3,958	$4,477	$5,112	$3,775	$4,196	$4,438
Total refunds	$6,423	$4,867	$4,945	$3,991	$3,958	$4,477	$5,112	$3,775	$4,196	$4,438

Notes: Dollar amounts in thousands

[a] Segregation of age benefits for beneficiaries not currently available

[b] Segregation of death benefits between refunds and in service death benefits not currently available

[c] Segregation of disability benefits from age and service benefits not currently available

Includes benefit payments from 415 Restoration Plan

Excludes administrative expenses

HISTORY OF CONTRIBUTIONS AND BENEFIT RATES

Year	Employer Contribution Rate	Member Contribution Rate	Interest Paid on Member Deposits	Benefits Multiplier	Cost of Living Adjustment
1941	4.00%	4.00%	-	1.125%	-
1942	-	-	-	-	-
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	-	8.00%	6.25%	2.70%	3.00%
2000	8.00%	-	5.75%	2.98%	0.00%
2001	-	-	4.25%	-	3.50%
2002	-	-	3.75%	3.00%	2.50%
2003	-	-	3.75%	-	0.00%
2004	-	-	3.75%	-	0.00%
2005	-	-	4.50%	-	0.00%
2006	*9.00%	-	4.50%	-	0.00%
2007	-	-	4.50%	-	0.00%

*Includes subsidy payment from City of Austin pursuant to Supplemental Funding Plan

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