

AUSTIN POLICE RETIREMENT SYSTEM

ACTUARIAL VALUATION

AS OF

DECEMBER 31, 2005

AUGUST 8, 2006

Rudd and Wisdom, Inc.

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August 8, 2006

Police Retirement Board
Austin Police Retirement System
Post Office Box 684808
Austin, Texas 78768

Re: Actuarial Valuation as of December 31, 2005

Members of the Board of Trustees:

In accordance with the requirements of Article 6243n-1 in the state law which governs the Austin Police Retirement System, an actuarial valuation of the System as of December 31, 2005 has been completed. The active police officer data, pensioner data, and asset data used in the valuation were provided on behalf of the Board of Trustees by Sam Jordan, Pension Administrator for the System.

The results of the December 31, 2005 actuarial valuation are described in the Summary section of the report. A comparison of the current valuation with the December 31, 2004 valuation is also discussed in this section. The comparative valuation balance sheets are shown in Exhibit 1. Exhibit 2 shows a 25-year projection of the assets of the System. Exhibits 3 through 6 summarize the System's assets and development of the actuarial value of assets. Data on both active and retired police officers are contained in Exhibits 7 through 11. Exhibit 12 shows a historical comparison of the actuarial accrued liability and the actuarial value of assets.

A summary plan description based on the current plan is included as Exhibit 13. The actuarial methods and assumptions are described in Exhibits 14 through 19, which include a description of assumption changes since the prior valuation. Exhibit 20 defines certain actuarial terms used in this report.

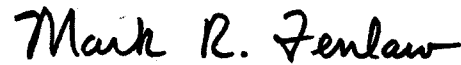
August 8, 2006

The disclosures required in accordance with Statement Number 25 of the Governmental Accounting Standards Board (GASB) for the System's annual report are in Exhibit 21. The disclosures required in accordance with GASB Statement Number 27 are needed for the City of Austin's financial statements. They are included in Exhibit 22.

Respectfully submitted,



Robert M. May
Fellow, Society of Actuaries
Enrolled Actuary



Mark R. Fenlaw
Fellow, Society of Actuaries
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RMM;MRF:ph

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Summary

Austin Police Retirement System Results of December 31, 2005 Actuarial Valuation

The valuation balance sheet as of December 31, 2005, shown in Exhibit 1, reveals that the plan has an unfunded actuarial accrued liability of \$123,136,323. Total contributions of 27% of pay (9% by the police officers and 18% by the City of Austin) are contributed to the System each year. Effective September 1, 2003, a very small portion of the city's biweekly contributions began to be allocated by the Board to a new Retiree Death Benefit Fund (account) within the System, which is being used to pay the \$7,500 post-retirement lump sum death benefits after that date.

The normal cost for the projected benefits for each police officer based on the current plan provisions is 20.241% of pay. Since total contributions on behalf of each police officer are more than the normal cost, the remaining portion can be used to amortize the plan's unfunded actuarial accrued liability. Assuming that the total payroll increases at the rate of 4% per year in future years attributable to general pay increases, the unfunded actuarial accrued liability will be amortized in 38.3 years.

The valuation balance sheets in Exhibit 1 compare the actuarial condition of the plan on December 31, 2005 with the condition on December 31, 2004. Both valuations are based on the current plan provisions (summarized in Exhibit 13). The December 31, 2004 valuation reflects the 1.75% ad hoc pensioner COLA granted January 1, 2005. There was no ad hoc pensioner COLA granted January 1, 2006.

Between these two valuations, the unfunded actuarial accrued liability (UAAL) has increased by \$15,003,017 (from \$108,133,306 to \$123,136,323) and the period for amortizing the UAAL has increased by 6.3 years (from 32.0 years to 38.3 years). Since one year has passed since the last valuation, a one-year reduction in the amortization period to 31.0 years would be expected if the experience of the System had been exactly as anticipated (including an 8% rate of investment return on the AVA). For the reasons described below, the System's UAAL increased \$13.1 million more than expected, and the amortization period was 7.3 years greater than expected.

1. The rate of return, net of all expenses, on the market value of assets during 2005 is estimated at 10.0%. However, the actuarial value of assets (AVA) used in the valuation and the determination of the amortization period is based on an adjusted market value. In particular, the AVA defers recognition of a large portion of the significant gains in 2004 and 2003 but recognizes portions of the previously partially deferred large losses in 2001 and 2002. The rate of return on the AVA, net of expenses, for 2005 is estimated at 6.6% compared to the assumed rate of return of 8%. Therefore, the AVA as of December 31, 2005 is smaller than expected and caused an increase in the UAAL of \$5.0 million. This caused an increase in the amortization period of 2.7 years.
2. In 2005 the officers received a 5.5% general pay increase on October 1, 2005. The pay of the officers was greater than expected because we assumed that general pay

would increase by 4% in 2005. This caused the UAAL to be \$4.8 million more than expected and caused the amortization period to increase 2.6 years.

3. The payroll increased by almost 7.8% since the prior valuation, more than the assumed 4.0% increase. The higher payroll decreased the amortization period by 2.3 years.
4. The demographic experience in the aggregate was slightly adverse, increasing the UAAL by \$1.6 million and the amortization period by 0.5 year.
5. The changes in assumptions regarding future military service purchases had the effect of decreasing the UAAL by \$4.8 million and the amortization period by 2.7 years.
6. The change in the mortality assumption for actives and retirees had the effect of increasing the UAAL by \$6.3 million and the amortization period by 6.5 years.

In summary, this valuation reveals that the actuarial value of assets plus future investment income received by the System and future contributions that will be provided by the members and the City of Austin will be adequate to pay the benefits provided by the state law governing the System as of December 31, 2005. In order for the System to have an adequate financing arrangement, contributions must be made that are sufficient to pay for the System's normal cost and amortize its unfunded actuarial accrued liability over an acceptable period of time. Based on the Texas State Pension Review Board guidelines, our professional judgment, and the actuarial assumptions and cost methods used in this valuation, we consider periods of 25 years to 30 years to be preferable for the System and 40 years to be the maximum acceptable period.

The total contributions to the System are sufficient to pay for the System's normal cost and provide an additional amount that will result in amortization of the unfunded actuarial accrued liability in 38.3 years. In addition, we believe that it is appropriate to assume that the police officers and the City will be able to maintain their commitment in future years to contribute 9% and 18%, respectively, of compensation into the System. Consequently, we are of the opinion that the System has an adequate financing arrangement based on the present levels of benefits and contributions

Projected Actuarial Valuation Results

In addition to completing this actuarial valuation, we did an analysis to estimate the amortization periods over the next four years. We did these projections because the significant actuarial investment loss that the System experienced in 2002 was only partially offset by the significant actuarial investment gains in 2003 and 2004. As shown in Exhibit 5, a smoothing method is used to determine the actuarial value of assets (AVA) that is used in this valuation. This method phases in over a five-year period any investment gains or losses (net actual investment return greater or less than the actuarially assumed investment return) that the System has had. The AVA used in this current valuation is deferring recognition of a portion of the gains and losses in 2002-2005. The AVA used in this valuation is \$371,504,533. The method used to determine this amount is shown in Exhibit 5. The market value of assets of \$389,579,759, excluding the Retiree Death

Benefit Fund, is shown in the footnote for Exhibit 3. The difference of \$18,075,226 between these two values is the net of the deferred gains and losses that will be recognized over the next four years.

For the purpose of projecting the amortization period in the future, we have assumed that the System would have an annual rate of investment return, net of all expenses, equal to the expected actuarial assumed rate of 8% per year. The projections also reflect the valuation assumption of a 4% annual payroll growth and assume that no future cost-of-living adjustments will be granted. The projected amortization periods are not actual amortization periods from completed actuarial valuations but are projected from the completed December 31, 2005 actuarial valuation, showing the expected effects of the recognition over the next four years of the portions of the past investment gains and losses that are deferred as of December 31, 2005.

Valuation Date	Amortization Period	
	Actual	Projected
December 31, 2005	38.3	
December 31, 2006		35.4
December 31, 2007		28.6
December 31, 2008		25.5
December 31, 2009		23.9

The amortization period is projected to decrease more rapidly than one year between valuation dates because all of the investment loss from 2002 will have been fully recognized by December 31, 2006 and only the remaining portions of the investment gains from 2003, 2004 and 2005 will be recognized in 2007, 2008 and 2009, thereby reducing the amortization period. If in 2006 and later the System has investment experience above the assumed 8% or greater payroll growth than the assumed 4% caused by an increase in the number of active member police officers, the amortization periods could be less than shown above. On the other hand, investment experience or payroll growth less than assumed would cause the amortization periods to be greater than shown above. The System's other non-investment experience will also affect the future amortization periods.

Retiree Death Benefit Fund

The statute established a Retiree Death Benefit Fund effective September 1, 2003. This fund is a separate account within the System, administered by the System, used to pay \$7,500 post-retirement lump sum death benefits. The Retiree Death Benefit Fund is funded by a portion of the city's total contribution rate of 18%. As part of this December 31, 2005 actuarial valuation, the city contribution needed for the Retiree Death Benefit Fund has been re-determined to be 0.081%. We recommend that this new rate be effective January 1, 2007, replacing the current rate of 0.094% that was determined based on the December 31, 2004 actuarial valuation.

The remaining 17.919% (18% less 0.081%) of the city's contribution will be used for the System's liabilities excluding the post-retirement lump sum death benefits. The 0.081%

city contribution rate is comprised of the normal cost percentage plus an additional amount to amortize the unfunded actuarial accrued liability for only the \$7,500 post-retirement lump sum death benefits over 30 years as shown below. The amortization of this unfunded liability is determined as a level percentage of payroll assuming that the payroll will increase 4% per year.

Allocated City Contribution Effective January 1, 2007 for the Retiree Death Benefit Fund	
Normal Cost	0.024%
Thirty-Year Amortization of Unfunded Actuarial Accrued Liability	<u>0.057</u>
Total City Contribution Rate Allocated to the Retiree Death Benefit Fund as of January 1, 2007	0.081%

The 0.081% city contribution rate was determined using the same funding method and actuarial assumptions used in this December 31, 2005 actuarial valuation for the System. In particular, the Entry Age Actuarial Cost Method is used with the normal cost determined as a level percentage of payroll. The RP-2000 Mortality Tables for males and females are used for both active and retired members. The following is a summary of the actuarial valuation results of the liabilities for the \$7,500 post-retirement lump sum death benefits.

Actuarial Valuation Results of the Retiree Death Benefit Fund as of December 31, 2005	
1. Actuarial Present Value of Future Benefits	
a. Current retired members	\$ 634,420
b. Current active members	<u>629,026</u>
c. Total	\$ 1,263,446
2. Actuarial Accrued Liability	\$ 1,035,708
3. Assets of Fund	\$ 109,374
4. Unfunded Actuarial Accrued Liability	\$ 926,334

Exhibit 1

Austin Police Retirement System Actuarial Valuation Balance Sheets

	<u>December 31, 2004¹</u>	<u>December 31, 2005¹</u>
1. Actuarial present value of future benefits		
a. Payable to those now receiving benefits or entitled to receive benefits	\$ 174,198,292	\$ 190,436,407
b. Payable to active members	<u>468,744,037</u>	<u>513,336,405</u>
c. Total	\$ 642,942,329	\$ 703,772,812
2. Actuarial present value of future normal cost contributions	\$ 191,362,449	\$ 209,131,956
3. Actuarial accrued liability (Item 1c-Item 2)	\$ 451,579,880	\$ 494,640,856
4. Actuarial value of assets	\$ 343,446,574	\$ 371,504,533
5. Unfunded actuarial accrued liability (UAAL) (Item 3-Item 4)	\$ 108,133,306	\$ 123,136,323
6. Total contributions (percent of payroll) ²	26.906%	26.919%
7. Normal cost (percent of payroll)	20.016%	20.241%
8. Percent of payroll available to amortize the UAAL	6.890%	6.678%
9. Annualized covered payroll	\$ 86,673,590	\$ 93,428,957
10. Present annual amount available to amortize the UAAL	\$ 5,971,810	\$ 6,239,186
11. Years to amortize the UAAL	32.0 Years	38.3 Years

¹ Reflects plan provisions effective September 1, 2003 and excludes the \$7,500 post-retirement lump sum death benefit.

² The total contribution rate of 27% (9% by members and 18% by the city) is reduced by the calculated city contribution rate for the separate Retiree Death Benefit Fund used to pay \$7,500 post-retirement lump sum death benefits.

Exhibit 2
Austin Police Retirement System
25-Year Projection

<i>Year</i>	<i>Market Value of Fund at Beginning of Year</i>	<i>Contributions by City and Police Officers</i>	<i>Net Investment Income</i>	<i>Monthly Benefit Payments & Refunds</i>	<i>Lump Sum Retirement Payments</i>	<i>Market Value of Fund at End of Year</i>	<i>Ratio of Fund to Payments</i>
2001	\$ 273,471,014	\$ 16,914,200	\$ -12,710,942	\$ 11,769,207	\$ 1,452,390	\$ 264,452,675	20.00
2002	264,452,675	19,914,403	-20,876,785	13,074,962	1,430,698	248,984,633	17.16
2003	248,984,633	21,340,424	46,292,722	13,394,684	1,792,121	301,430,974	19.85
2004	301,430,974	22,598,861	41,612,897	15,971,005	656,667	349,015,060	20.99
2005	349,015,060	24,167,426	35,273,986	18,022,569	744,770	389,689,133	20.76
2006	389,689,133	25,225,818	31,178,406	21,658,756	3,485,178	420,949,423	16.74
2007	420,949,423	26,234,851	33,670,258	23,873,478	2,503,759	454,477,295	17.23
2008	454,477,295	27,284,245	36,335,392	25,921,571	1,932,469	490,242,892	17.60
2009	490,242,892	28,375,615	39,138,043	28,117,986	2,292,350	527,346,214	17.34
2010	527,346,214	29,510,640	42,048,531	30,450,360	2,539,440	565,915,585	17.15
2011	565,915,585	30,691,066	45,053,420	32,888,557	3,298,174	605,473,340	16.73
2012	605,473,340	31,918,709	48,180,930	35,159,916	3,182,225	647,230,838	16.88
2013	647,230,838	33,195,457	51,479,595	37,329,585	3,337,677	691,238,628	17.00
2014	691,238,628	34,523,275	54,960,151	39,319,000	3,677,765	737,725,289	17.16
2015	737,725,289	35,904,206	58,619,785	41,514,341	4,345,806	786,389,133	17.15
2016	786,389,133	37,340,374	62,505,578	43,855,476	3,623,713	838,755,896	17.67
2017	838,755,896	38,833,989	66,610,171	46,500,961	4,590,538	893,108,557	17.48
2018	893,108,557	40,387,349	70,882,623	49,659,419	4,879,481	949,839,629	17.42
2019	949,839,629	42,002,843	75,341,064	53,388,289	4,767,219	1,009,028,028	17.35
2020	1,009,028,028	43,682,957	79,913,126	57,644,746	6,266,109	1,068,713,256	16.72
2021	1,068,713,256	45,430,275	84,513,557	62,410,269	7,607,598	1,128,639,221	16.12
2022	1,128,639,221	47,247,486	89,155,918	67,998,517	7,629,462	1,189,414,646	15.73
2023	1,189,414,646	49,137,385	93,832,091	73,728,237	8,436,177	1,250,219,708	15.22
2024	1,250,219,708	51,102,880	98,519,708	79,468,222	9,081,369	1,311,292,705	14.81
2025	1,311,292,705	53,146,995	103,261,421	85,758,431	8,438,438	1,373,504,252	14.58
2026	1,373,504,252	55,272,875	108,034,312	92,148,281	9,275,301	1,435,387,857	14.15
2027	1,435,387,857	57,483,790	112,870,596	97,982,520	8,512,091	1,499,247,632	14.08
2028	1,499,247,632	59,783,142	117,755,769	103,604,149	10,780,021	1,562,402,373	13.66
2029	1,562,402,373	62,174,468	122,737,196	107,533,412	11,015,914	1,628,764,711	13.74
2030	1,628,764,711	64,661,447	127,992,083	111,874,211	10,514,594	1,699,029,436	13.88

A. Data for years 2001 through 2005 was taken from the annual reports for those years. Fund balance at beginning and end of year reflects the total market value of the System's assets including the Retiree Death Benefit Fund (account).

B. Assumptions for years 2006 through 2030:

1. Benefits are assumed to commence in accordance with the demographic and economic assumptions used in this December 31, 2005 actuarial valuation and include benefit payments from the Retiree Death Benefit Fund (account).
2. Contributions will be 27% of payroll (9% of pay by the police officers and 18% by the city).
3. Annual payroll for 2006 will be \$93,428,957. It will increase 4% per year thereafter.
4. Investment income (net of expenses) will be 8% of the average fund balance in each year.
5. No ad hoc COLAs were assumed beginning January 1, 2007 or thereafter.

Exhibit 3

***Austin Police Retirement System
Net Market Value of Assets as of December 31, 2004 and 2005
Including the Retiree Death Benefit Fund***

	December 31, <u>2004</u>	December 31, <u>2005</u>
<i>Assets</i>		
Investments		
Real Estate Interests	\$ 103,188,497	\$ 115,002,500
Corporate Stocks	89,945,027	115,543,092
International Stocks	51,157,709	43,164,151
U.S. Government Bonds	41,461,176	41,764,468
International Government Securities	36,137,530	42,582,710
Short-Term Investment Funds	13,128,535	11,560,198
Partnership Interests	8,122,925	8,114,779
Corporate Bonds	3,267,789	3,063,102
Alternatives	<u>0</u>	<u>8,866,173</u>
Total Investments	\$ 346,409,188	\$ 389,661,173
Other Assets		
Interest and Dividends Receivable	\$ 1,738,429	\$ 3,096,186
Cash	974,146	1,025,907
Fixed Assets	454,205	435,166
Contributions Receivable	388,138	487,408
Other Assets	<u>5,252</u>	<u>9,572</u>
Total	\$ 3,560,170	\$ 5,054,239
Total Assets	<u>\$ 349,969,358</u>	<u>\$ 394,715,412</u>
<i>Liabilities</i>		
Contributions Refundable	\$ 578,315	\$ 93,271
Other Payables	<u>375,983</u>	<u>4,933,008</u>
Total Payables	<u>\$ 954,298</u>	<u>\$ 5,026,279</u>
Net Market Value of Assets (Assets Minus Liabilities)	<u>\$ 349,015,060¹</u>	<u>\$ 389,689,133²</u>

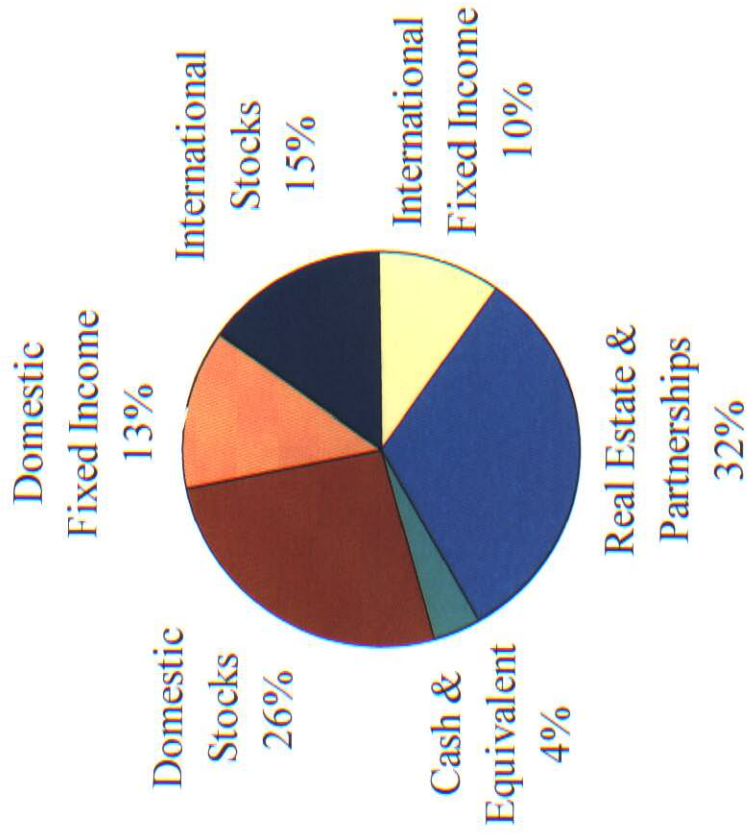
¹ Includes \$60,023 for the Retiree Death Benefit Fund. The Net Market Value of Assets, excluding the Retiree Death Benefit Fund, is \$348,955,037.

² Includes \$109,374 for the Retiree Death Benefit Fund. The Net Market Value of Assets, excluding the Retiree Death Benefit Fund, is \$389,579,759.

Exhibit 4

Austin Police Retirement System
Comparison of Market Value Asset Allocation as of the Prior and Current Actuarial Valuation Dates

December 31, 2004



December 31, 2005

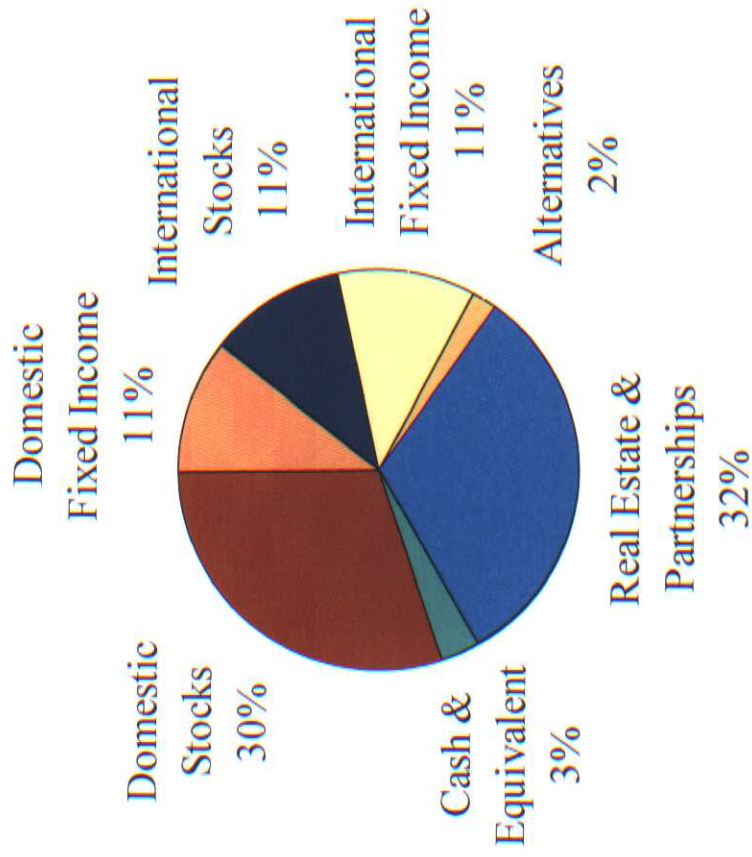


Exhibit 5
Austin Police Retirement System
Development of Actuarial Value of Assets

Calculation of Actuarial Investment Gain/(Loss) Based on Total Market Value for Plan Years	2005	2004	2003	2002
Market Value of Assets as of beginning of year	\$ 349,015,060	\$ 301,430,974	\$ 248,984,633	\$ 264,452,675
City of Austin Contributions	15,840,395	14,794,834	13,950,555	12,566,293
Officer Contributions	8,327,031	7,804,027	7,389,869	7,348,110
Benefit Payments and Contribution Refunds	(18,767,339)	(16,627,672)	(15,186,805)	(14,505,660)
Expected Investment Return*	28,133,053	24,348,731	20,160,180	21,368,402
Expected Market Value of Assets as of end of year	\$ 382,548,200	\$ 331,750,894	\$ 275,298,432	\$ 291,229,820
Actual Market Value of Assets as of end of year	389,689,133	349,015,060	301,430,974	248,984,633
Actuarial Investment Gain/(Loss)	\$ 7,140,933	\$ 17,264,166	\$ 26,132,542	\$ (42,245,187)
Market Value Rate of Return Net of Expenses	10.0%	13.7%	18.4%	(7.8)%
Rate of Actuarial Investment Gain/(Loss)	2.0%	5.7%	10.4%	(15.8)%

* Assuming (1) uniform distribution of contributions and payments during the plan year and (2) expected investment rate of return of 8.00%.

Plan Year	Investment Gain/(Loss)	Deferral Percentage	Deferred	
			Gain (Loss) Amount as of December 31, 2005	Deferred
2005	\$ 7,140,933	80%	\$ 5,712,746	
2004	17,264,166	60%	\$ 10,358,500	
2003	26,132,542	40%	10,453,017	
2002	(42,245,187)	20%	(8,449,037)	
Total			\$ 18,075,226	

Actuarial Value of Assets as of December 31, 2005	
1. Market Value of Assets as of December 31, 2005	\$389,689,133
2. Deferred Gain/(Loss) to be recognized in future	\$ 18,075,226
3. Preliminary Value (Item 1 – Item 2)	\$371,613,907
4. 80% of Market Value as of December 31, 2005	\$311,751,306
5. 120% of Market Value as of December 31, 2005	\$467,626,960
6. Total Actuarial Value as of December 31, 2005	\$371,613,907
7. Retiree Death Benefit Fund as of December 31, 2005	\$ 109,374
8. Net Actuarial Value as of December 31, 2005 (Item 6-Item 7)	\$371,504,533

Exhibit 6

*Austin Police Retirement System
Historical Comparison of Market and Actuarial Value of Assets
(Valuations as of December 31)*

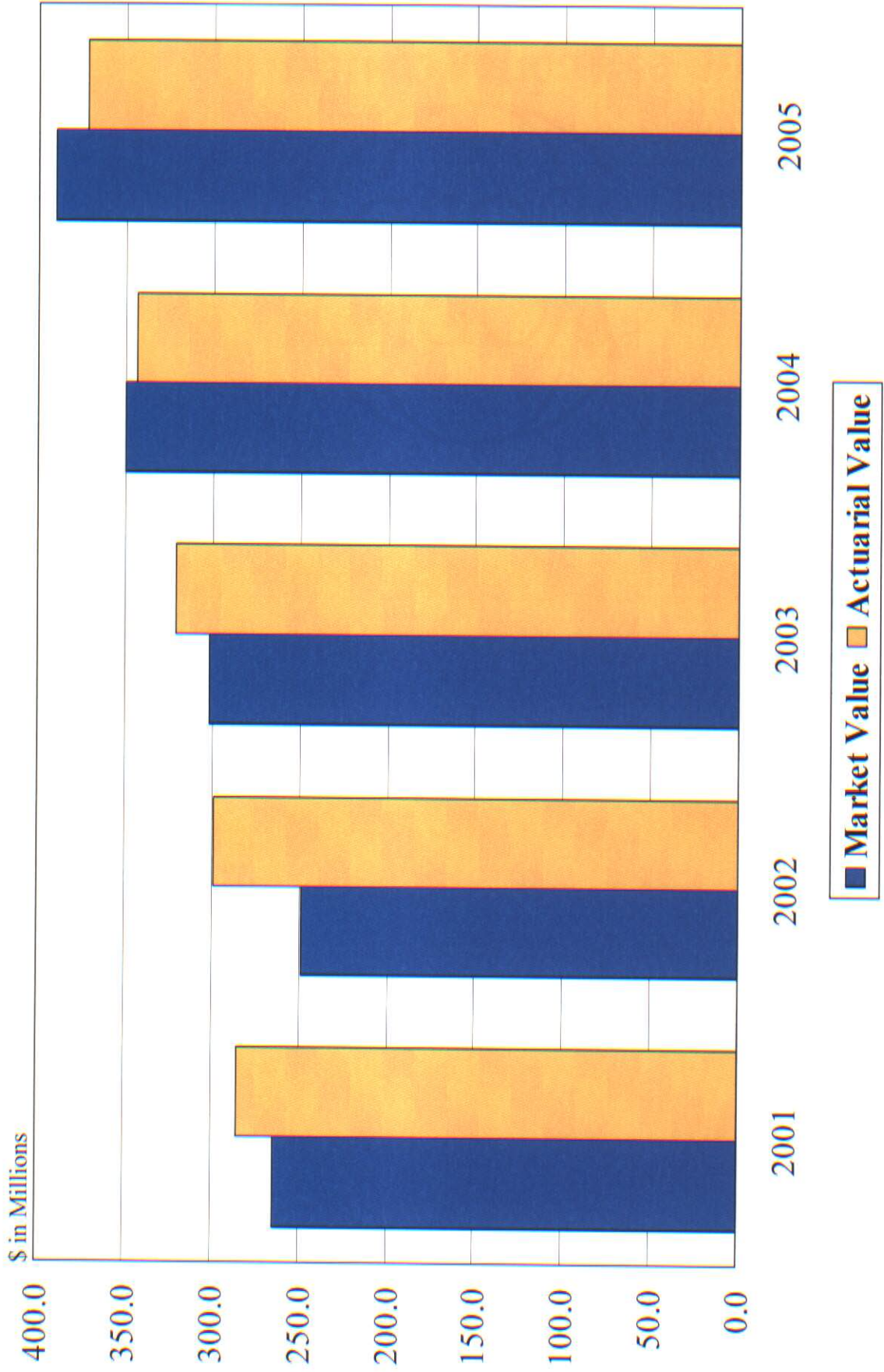


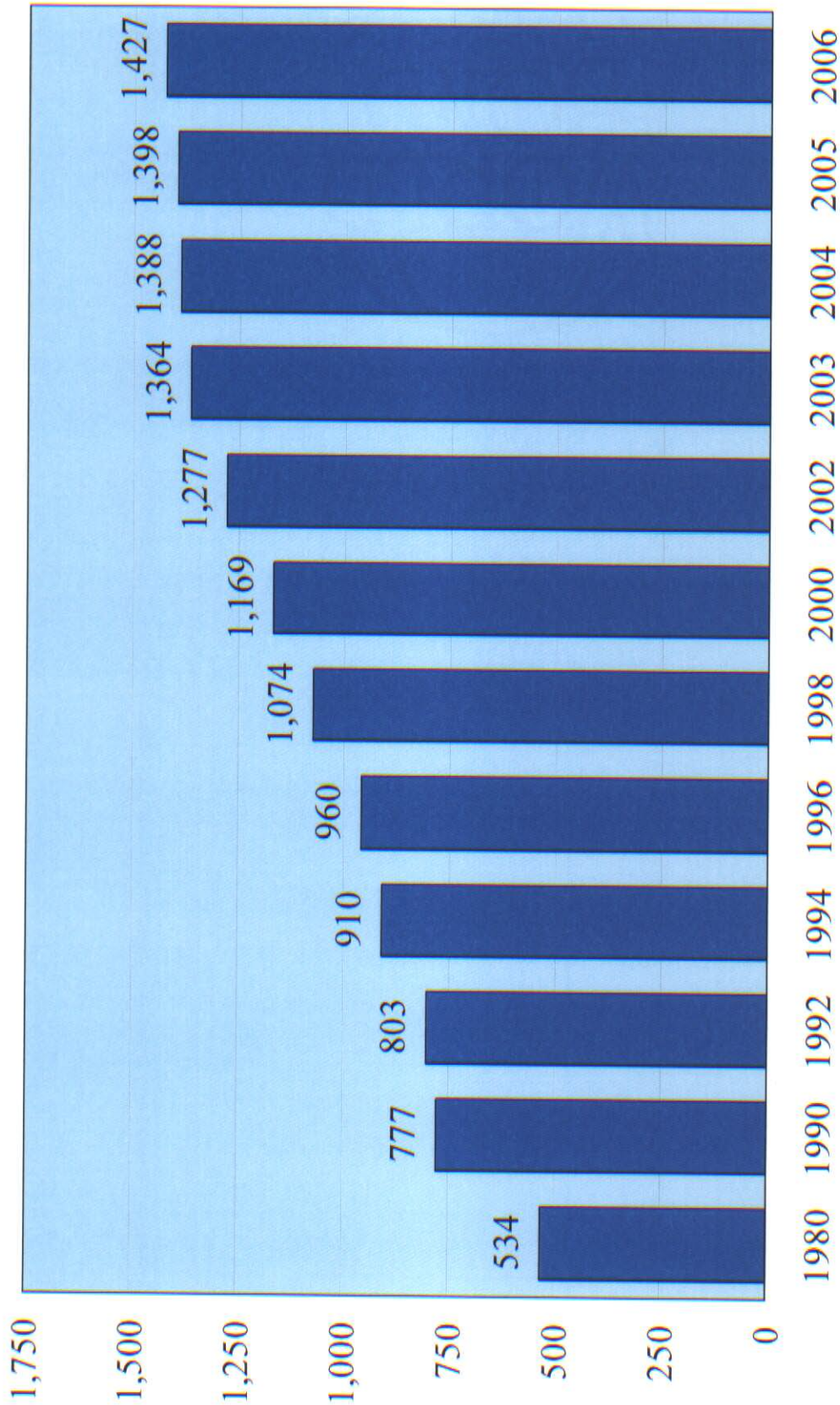
Exhibit 7

Austin Police Retirement System Distribution of Police Officers by Age and Service as of December 31, 2005 with Average Annual Salary

Years of Service	Attained Age									Total	Average Annual Salary
	Under 25	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60 or Over		
0	11	30	17	9	4	0	0	0	0	71	\$32,124
1	7	23	14	11	2	0	0	0	0	57	43,793
2	0	20	24	20	7	0	0	0	0	71	50,256
3	0	23	26	5	4	0	0	0	0	58	55,333
4	0	31	36	22	9	2	0	0	0	100	55,690
5	0	25	45	20	11	2	0	0	0	103	55,761
6	0	4	20	11	4	0	0	0	0	39	56,463
7	0	5	41	30	17	3	0	0	0	96	60,525
8	0	3	39	39	11	1	2	0	0	95	61,432
9	0	0	31	24	7	1	0	0	0	63	61,997
10	0	1	12	34	10	0	1	0	0	58	64,478
11	0	0	10	31	21	3	1	0	0	66	68,204
12	0	0	1	29	17	3	0	0	0	50	69,751
13	0	0	0	23	25	12	2	0	0	62	70,092
14	0	0	0	12	13	3	0	0	0	28	71,137
15	0	0	0	12	31	15	1	0	0	59	77,011
16	0	0	0	1	2	1	0	0	0	4	80,676
17	0	0	0	1	13	4	4	1	0	23	81,258
18	0	0	0	0	8	3	1	0	0	12	84,871
19	0	0	0	0	19	22	2	2	0	45	83,388
20-24	0	0	0	0	33	94	34	8	0	169	86,146
25-29	0	0	0	0	0	18	53	9	1	81	88,194
30-34	0	0	0	0	0	0	5	9	0	14	88,951
35-39	0	0	0	0	0	0	0	3	0	3	95,917
40-44	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	
Totals	18	165	316	334	268	187	106	32	1	1,427	65,472
Average Annual Salary	\$35,519	\$49,317	\$56,415	\$61,470	\$70,929	\$81,580	\$85,882	\$87,817	\$115,965	\$65,472	

Exhibit 8

*Austin Police Retirement System
Historical Summary of Growth in Number of Contributing Members*



Average annual increase over:
4-year period 2002-2006: 2.8%
10-year period 1996-2006: 4.0%
26-year period 1980-2006: 3.9%

Exhibit 9

***Austin Police Retirement System
Breakdown by Sex of Number of Officers and Average Annual Rate
of Pay as Reported for the December 31, 2005 Valuation***

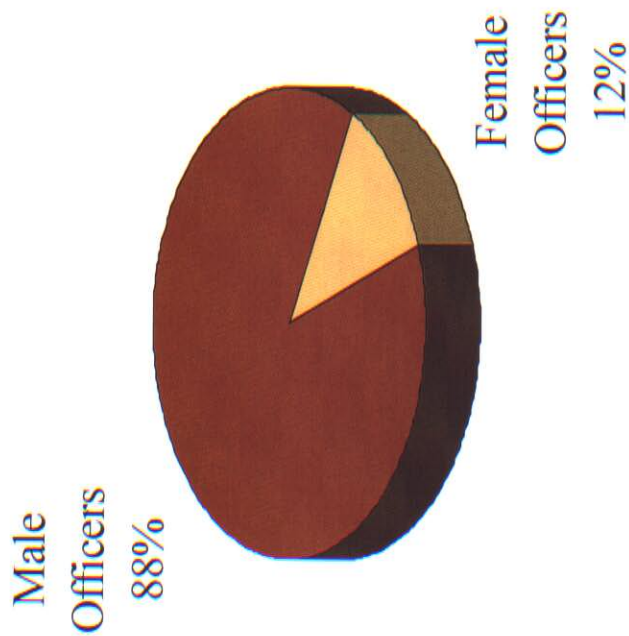
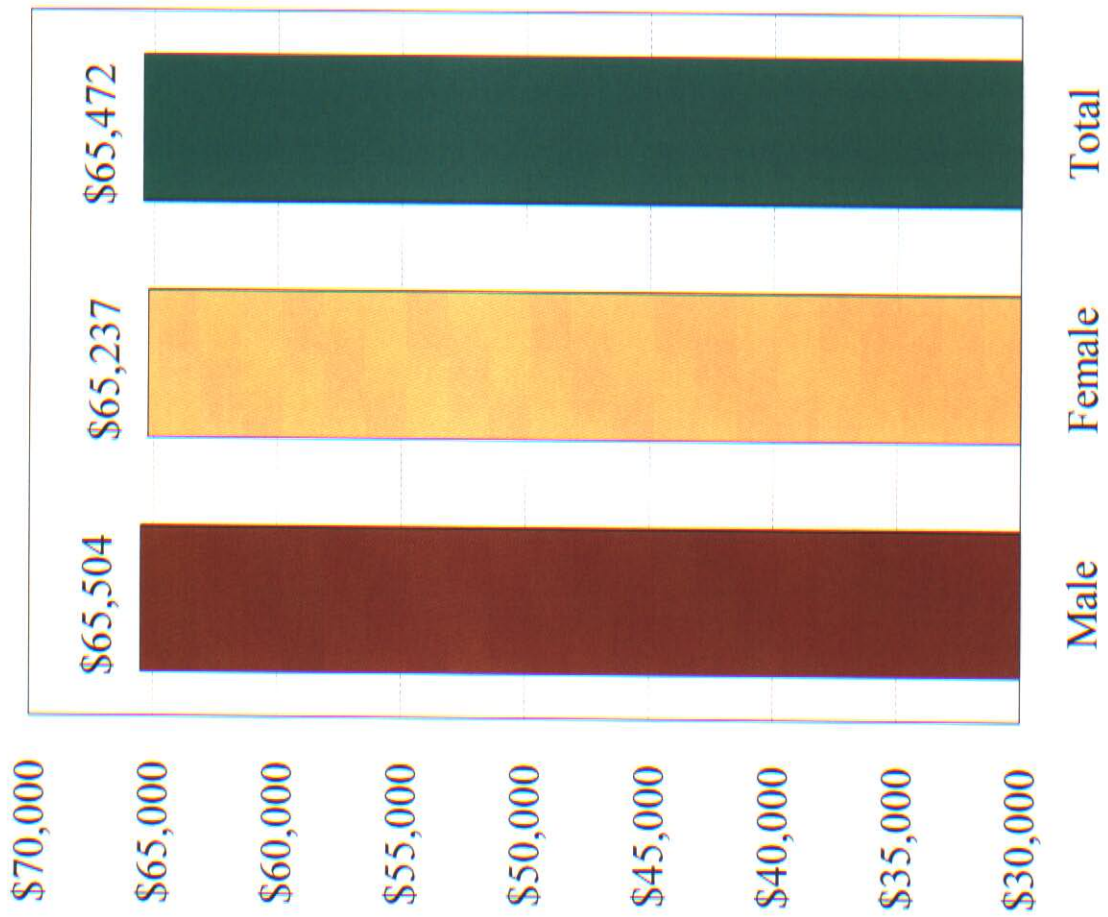


Exhibit 10

*Austin Police Retirement System
Breakdown of Pensioners by Type and Annuity Option*

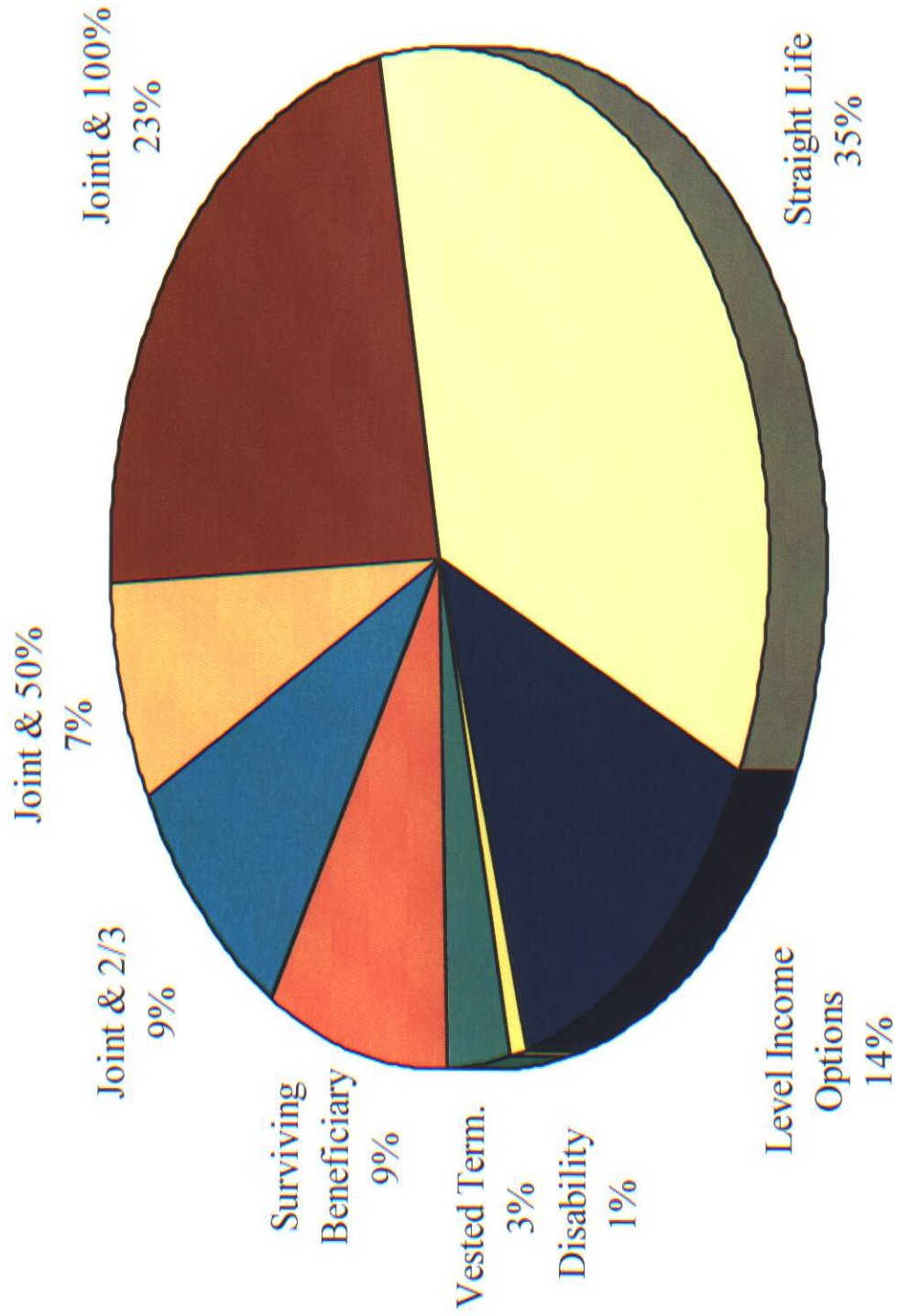


Exhibit 11

*Austin Police Retirement System
Summary Data of Active Police Officers and Pensioners
as of the December 31, 2005 Valuation*

Active Police Officers	Male	Female	Total
Total Contributing Police Officers	1,257	170	1,427
Annualized Reported Payroll	\$82,338,706	\$11,090,251	\$93,428,957
Average Annual Rate of Pay	\$65,504	\$65,237	\$65,472

Pensioners and Vested Terminated Officers	Number	Monthly Payment	Actuarial Present Value of Benefits
Service Retirements by Type of Annuity			
Straight Life	138	\$568,324	\$72,847,627
Joint and 100%	91	360,538	49,193,234
Joint and 50%	27	112,780	14,447,453
Joint and Two-Thirds Beneficiary	34	136,621	17,755,924
Joint and Two-Thirds Last Survivor	1	4,426	506,425
Level Income Straight Life	17	62,862	5,899,825
Level Income Joint and Two-Thirds	29	99,372	10,296,445
Level Income Joint and 100%	10	38,026	4,448,614
Fifteen Year Certain and Life	<u>3</u>	<u>11,281</u>	<u>1,393,860</u>
Total Service Retirements	350	1,394,230	176,789,407
Disability Retirements	2	3,799	470,767
Surviving Beneficiaries	34	115,589	12,267,454
Vested Terminated Officers	<u>11</u>	<u>19,115</u>	<u>908,778</u>
Total	397	\$1,532,733	\$190,436,406

Exhibit 12

*Austin Police Retirement System
Historical Comparison of Actuarial Accrued Liability and Actuarial Value of Assets
(Valuations as of December 31)*

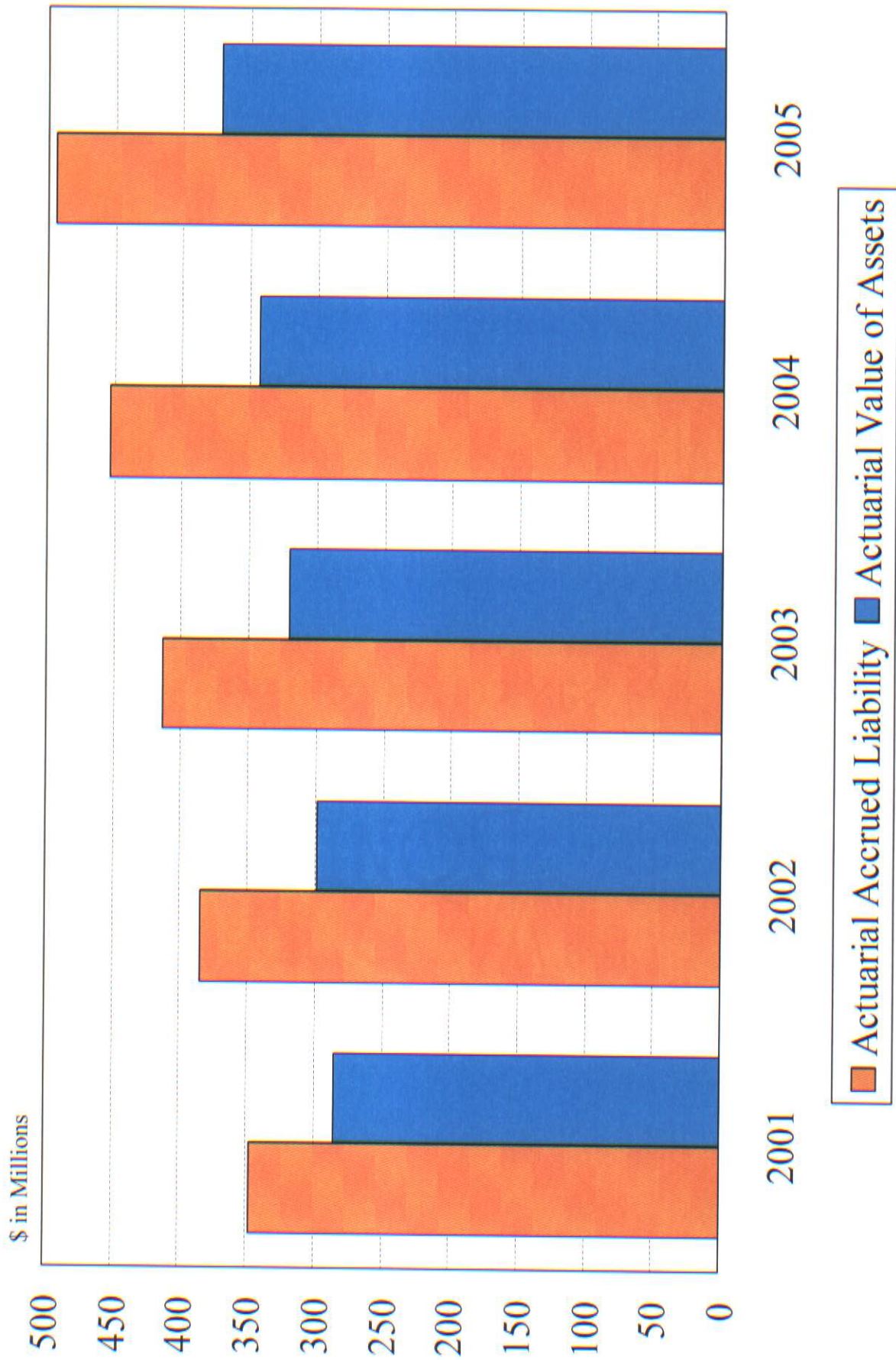


Exhibit 13

Austin Police Retirement System Summary Plan Description

Date System Began

January 1, 1980

Statute Effective Date

September 1, 2003

Administration

The fund is administered by a retirement board consisting of 11 members. Funds are held by the retirement board, as trustee.

Employees Included

All regular and permanent full-time police officers or cadets who are employed by the police department. In addition, employees of the System's administrative staff are also included.

Employee Contributions

9% of each police officer's "Compensation Considered".

City Contributions

18% of "Compensation Considered" for all "Employees Included" effective as of October 1, 1996 and thereafter. Effective September 1, 2003, a very small portion of the city contribution will be allocated by the Board to the Retiree Death Benefit Fund (account) administered by the System.

Service Considered

The number of months during which a member is required to make and does make prescribed contributions plus (a) any creditable service received as a result of the provisions for establishing credit for certain military service, cadet service, or probationary service and (b) any previously forfeited service that is reinstated according to the provisions for reinstatement.

Exhibit 13 (continued)

Austin Police Retirement System Summary Plan Description

Compensation Considered

Base pay and longevity pay.

Average Final Compensation

The highest monthly average of the "Compensation Considered" for 36 months of the last 120 months during which the member contributed to the system or during the months of service for which he did contribute, if less than 120.

Normal Retirement Date

The first day of the month following the earliest month in which (a) the member has completed at least 23 years of creditable service not reflecting any military service credit; or (b) the member has attained age 55 and completed at least 20 years of creditable service not reflecting any military service credit; or (c) the member has reached age 62.

Normal Service Retirement Benefit

A member is eligible for a normal service retirement benefit after having reached his normal retirement date. The monthly annuity, payable as a life annuity (modified cash refund), is 3.00% of "Average Final Compensation" multiplied by years and months of "Service Considered."

Disability Benefit

A member is eligible for a disability benefit (a) at any age provided he has completed ten years of service and (b) has a total and permanent disability from any cause. A member with less than 10 years of service is also eligible for a disability benefit if his disability is total and permanent and is the result of his duties as a police officer. The annuity is based on credited service and compensation to date of disability; however, not less than 20 years of service will be credited for an occupational disability.

Exhibit 13 (continued)

Austin Police Retirement System Summary Plan Description

Death Benefits

If death occurs before eligibility for retirement, the member's beneficiary receives a benefit equal to twice the accumulated member contributions made plus allowable interest. This benefit will not be less than \$7,500.

If death occurs before retirement but after eligibility for retirement and the member had elected an optional annuity, the member's beneficiary will be entitled to a monthly annuity calculated as if the member had retired at the end of the month in which he died. A \$7,500 lump-sum death benefit is also payable to the beneficiary.

If death occurs before retirement but after eligibility for retirement and prior to selection of an optional annuity and, if the member leaves a lawfully married spouse surviving, then the surviving spouse may select an optional annuity or select a lump sum benefit equal to twice the accumulated member contributions made plus allowable interest. If the lawfully married surviving spouse dies before having received benefits equal to the amount of accumulated member contributions, the excess of such accumulated deposits over the benefits actually received will be refunded in one sum to the member's estate. If the member leaves no surviving spouse, then the member's designated beneficiary, or if no beneficiary exists, the executor or administrator of the estate, may select either the Fifteen Year Certain and Life Annuity or a lump sum benefit equal to twice the accumulated member contributions made plus allowable interest. If an optional annuity is selected in lieu of a lump sum benefit, a \$7,500 lump sum death benefit is payable to the beneficiary.

If death occurs after retirement, under certain optional pension forms the beneficiary will also be entitled to receive a monthly annuity for life or for the remainder of a certain period. If no monthly annuity is payable, the member's beneficiary receives a lump sum benefit equal to the excess, if any, of the accumulated member contributions plus allowable interest over any benefits actually received.

Retiree Death Benefit Fund

Effective September 1, 2003, a separate fund was established to pay \$7,500 post-retirement lump sum death benefits. This fund is funded by city contributions.

Exhibit 13 (continued)

Austin Police Retirement System Summary Plan Description

Termination Benefit

A member terminating employment with less than 10 years of service for reasons other than service retirement, disability retirement or death will receive an amount equal to his contributions to the retirement system and accumulated interest. Interest is credited at the end of each calendar year at a rate determined by the system's board of trustees on the member's beginning-of-year account balance.

If the terminating member has 10 or more years of service, he may elect to leave his accumulated contributions with the retirement system. He will be entitled to a deferred benefit commencing at the normal retirement date based upon his service and compensation prior to termination.

Optional Payments

A retiring member may elect an optional form of annuity payment rather than the standard Life Annuity. Such options are a Joint and 100% to Survivor, Joint and 50% to Survivor, Joint and Two-Thirds to Survivor, Joint and Two-Thirds to Last Survivor or 15-Year Certain and Life Annuity.

A retroactive deferred retirement option plan (RETRO DROP) can also be elected by retiring members meeting certain eligibility requirements. This option provides the member with a monthly annuity and a lump sum. The RETRO DROP benefit computation date elected by the member may not be earlier than the date the member completed 23 years of creditable service not reflecting any military service credit or may not be earlier than 36 months prior to the date of retirement.

Postretirement Cost-of-Living Increases

The Board may authorize an annual ad hoc cost-of-living adjustment (COLA), subject to actuarial approval, not to exceed 6% per year. (Recent COLAs were 1.75%, 3.00%, and 1.50% effective January 1, 2005, 2004, and 2003, respectively). Postretirement benefit increases will automatically be provided when the system's benefit formula as a percent of average compensation for years of service increases.

Exhibit 14

Austin Police Retirement System Summary of Actuarial Methods and Assumptions

1. Actuarial Cost Method	Entry Age Actuarial Cost Method <ul style="list-style-type: none">• The normal cost is calculated to be a level percent of compensation over a member's career.• The unfunded actuarial accrued liability is assumed to be funded by level percent contributions of employee payroll based on annual payroll growth of 4% per year due to general wage increases.
2. Asset Valuation Method	Gains and losses in the market value of assets, based on the difference between the actual rate of return and the assumed rate of return, are recognized in the actuarial value over five years. The actuarial value will not be less than 80% or more than 120% of the market value of assets.
3. Investment Return (Interest Rate)	8% per year, net of all expenses
4. Inflation	4% per year
5. Salary Increase Due to General Wage Increases	4% per year
6. Salary Increases Due to Promotion and Longevity Increases	2.8% per year average over 25-year career. See Exhibit 16 for the promotion and longevity salary increases by year of service.
7. Total Salary Increase	6.8% per year average over 25-year career. See Exhibit 16 for the total salary increases by year of service.
8. Interest Credited on Officer's Accumulated Contributions	3% per year
9. Mortality	
a. Active and Retired	RP-2000 Mortality Tables for males and females (Combined Healthy Lives)
b. Disabled	RP-2000 Mortality Tables for males and females (Combined Healthy Lives)

Exhibit 14 (continued)

Austin Police Retirement System Summary of Actuarial Methods and Assumptions

- | | |
|--|--|
| 10. Retirement Rates | Expected average retirement age of 53.0 based on the officers included in the December 31, 2005 valuation. See Exhibit 17 for service and age-related rates. |
| 11. Withdrawal Rates | Expected number of terminations of 24 in 2006 based on the officers included in the December 31, 2005 valuation. See Exhibit 18 for service-related rates. |
| 12. Disability Rates | See Exhibit 19 for age-related rates. |
| 13. Future Pre-Employment Military Service Purchase for Officers with Military Service Information in Database Who Have Not Yet Purchased Credit | <ul style="list-style-type: none">• 100% of officers will purchase• All of military service will be purchased up to allowable 24 months• Officers will pay 25% of estimated cost |
| 14. Future Pre-Employment Military Service Purchase for Officers without Purchase | <ul style="list-style-type: none">• 35% of officers will purchase• 22 months purchased on average• Officers will pay 25% of estimated cost |
| 15. RETRO DROP Election | 65% of those eligible for at least a one-year RETRO DROP are assumed to make such an election. |
| 16. RETRO DROP Period Election | Members elect the maximum period eligible (up to 36 months). |
| 17. Percent Single after Eligible for Service Retirement | 15% |
| 18. Age of Spouse of Officer Who Dies While Eligible to Retire | Female 3 years younger than male |
| 19. Payment Form Election for Pre-Retirement Death Benefits | |
| a. Married Members | Joint and 100% to Survivor |
| b. Single Members | 15-Year Certain and Life Annuity |

Exhibit 14 (continued)

***Austin Police Retirement System
Summary of Actuarial Methods and Assumptions***

- | | |
|---|--|
| 20. Ad Hoc Cost-of-Living Increases for Pensioners | None |
| 21. Cadet Service Purchase | <ul style="list-style-type: none">• 100% of officers who have not yet purchased the credit will purchase their cadet service in the future.• Officer purchase amount based on officer contribution rate and cadet pay at time of cadet service. |
| 22. Forfeited Service Purchase, Probationary Service Purchase, and Uniform Military Leave of Service Purchase | 100% of officers with such eligible service will purchase the respective service. |
| 23. RETRO DROP lump sums left with the System (PROP) | <ul style="list-style-type: none">• 40% of officers electing RETRO DROP will leave their lump sum in the System until age 60.• Average annual rate credited to the PROP accounts will be 7%. |

Exhibit 15

Austin Police Retirement System Changes in Actuarial Methods and Assumptions

	December 31, 2004 Actuarial Assumption	December 31, 2005 Actuarial Assumption
<ul style="list-style-type: none"> • Mortality for Active and Retired 	UP-1994 Mortality Tables for males and females	RP-2000 Mortality Tables for males and females (Combined Healthy Lives)
<ul style="list-style-type: none"> • Mortality for Disabled 	85% of 1965 RRB Disabled Annuitants Mortality Table	RP-2000 Mortality Tables for males and females (Combined Healthy Lives)
<ul style="list-style-type: none"> • Future Pre-Employment Military Service Purchase for Officers without Purchase 	<ul style="list-style-type: none"> • 20 months purchased on average • 60% of officers under 45 • 75% of officers 45 and above • Officers will pay 25% of estimated cost 	N/A
<ul style="list-style-type: none"> • Future Pre-Employment Military Service Purchase for Officers with Military Service Information in Database Who Have Not Yet Purchased Credit 	N/A	<ul style="list-style-type: none"> • 100% of officers will purchase • All of military service will be purchased up to 24 months • Officers will pay 25% of estimated cost
<ul style="list-style-type: none"> • Future Pre-Employment Military Service Purchase for Officers without Military Service Information in Database 	N/A	<ul style="list-style-type: none"> • 35% of officers will purchase • 22 months purchased on average • Officers will pay 25% of estimated cost

Exhibit 16

*Austin Police Retirement System
Salary Rate of Increase Assumption from Year t-1 to Year t*

Year of Service t	Salary Increases Due to	
	Promotion and Longevity Increases	Total Increases
1	18.0%	22.7%
2	11.2	15.6
3	5.8	10.0
4	0.9	4.9
5	0.9	4.9
6	7.1	11.4
7	0.5	4.5
8	0.5	4.5
8	0.5	4.5
10	7.1	11.4
11	0.3	4.3
12	0.3	4.3
13	0.3	4.3
14	7.1	11.4
15	0.2	4.2
16	7.2	11.5
17	0.2	4.2
18	0.1	4.1
19	0.1	4.1
20	0.1	4.1
21	0.1	4.1
22	0.1	4.1
23	0.1	4.1
24	0.1	4.1
25	0.1	4.1
26-45	0.0	4.0

Exhibit 17

***Austin Police Retirement System
Assumed Service Retirement Rates Per 1,000 Members****

For Entry Ages Under 32				For Entry Ages 33 and Above			
Service	22 & Under	23-27	28-32	Age	33-37	38-42	43 & Over
23	50	75	100	43			
24	200	200	200	44			
25	250	250	250	45			
26	300	300	300	46			
27	500	400	350	47			
28	500	400	400	48			
29	500	400	500	49			
30	500	500	500	50			
31	500	500	500	51			
32	500	500	1000**	52			
33	500	500		53			
34	500	500		54			
35	600	500		55	200		
36	600	500		56	250		
37	600	1000**		57	300		
38	600			58	350		
39	600			59	500		
40	600			60	1000	500	
41	600			61		350	
42	1000**			62		350	800
				63		350	400
				64		350	400
				65		1000	1000

* Rates are applicable after officer is or would be eligible for retirement.

** 100% retirement rate will be effective at age 60 if earlier.

Exhibit 18

***Austin Police Retirement System
Assumed Withdrawal Rates Per 1,000 Members***

Years of Service	Withdrawal Rates
0	100
1	20
2	20
3	20
4	20
5	20
6	20
7	20
8	20
9	20
10	20
11	17
12	14
13	10
14	5
15	0
16	0
17	0
18	0
19	0

Exhibit 19

***Austin Police Retirement System
Assumed Disability Rates Per 1,000 Members****

Age	Disability Rates	Age	Disability Rates
20	0.14	40	0.92
21	0.15	41	1.14
22	0.16	42	1.32
23	0.17	43	1.48
24	0.18	44	1.73
25	0.19	45	2.09
26	0.21	46	2.55
27	0.23	47	2.98
28	0.25	48	3.34
29	0.28	49	3.62
30	0.31	50	3.79
31	0.35	51	3.92
32	0.40	52	4.04
33	0.45	53	4.24
34	0.49	54	4.56
35	0.52	55	4.90
36	0.54	56	5.32
37	0.57	57	5.86
38	0.62	58	6.60
39	0.73	59	7.53
		60	9.11
		61	11.72
		62 and later	0.00

* Rates are for disability due to all causes, and occupational disability rates are assumed to be 55% of all cause rates. Rates are not applicable after an officer is or would be eligible for retirement.

Exhibit 20

Austin Police Retirement System Definitions

1. ***Actuarial cost method*** – A procedure for determining the actuarial present value of pension plan benefits and for developing an actuarially equivalent allocation of such value to time periods in the form of a normal cost contribution rate and an actuarial accrued liability.
2. ***Actuarially equivalent*** – Of equal actuarial present value, determined as of a given date with each value based on the same set of actuarial assumptions.
3. ***Actuarial present value*** – The value of an amount or series of amounts payable or receivable at various times in the future, determined as of a given date (the valuation date) by the application of the actuarial assumptions.
4. ***Entry age actuarial cost method*** – A method under which the actuarial present value of projected benefits of each individual included in the valuation is allocated on a level basis over the earnings of the individual between the entry age and assumed exit. Entry age is calculated as the difference between the attained age and the years of service credit as of the valuation date. Service is assumed to be continuous.
5. ***Normal cost contribution rate*** – That portion of the actuarial present value of benefits which is allocated to a valuation year by the Entry Age Actuarial Cost Method. It is expressed as a percent of compensation and is equal to the actuarial present value at hire of projected benefits divided by the actuarial present value at hire of anticipated future compensation. It is calculated for each individual and summed for the entire group.
6. ***Actuarial accrued liability*** – That portion, as determined by the Entry Age Actuarial Cost Method, of the actuarial present value of benefits which is not provided for by future normal cost contributions.
7. ***Unfunded actuarial accrued liability*** – The excess of the total actuarial present value of future benefits over the sum of the tangible assets and the actuarial present value of future normal cost contributions.
8. ***Actuarial value of assets*** – The value of cash, investments, and other property belonging to a pension plan, as used by the actuary for the purpose of an actuarial valuation.
9. ***Actuarial gain or loss*** – A measure of the difference between actual experience and that expected based upon a set of actuarial assumptions, during the period between two actuarial valuation dates.
10. ***Amortization period*** – The period determined in an actuarial valuation as the number of years required, beginning with the valuation date, to amortize the unfunded actuarial accrued liability with a level percent of payroll that is the difference between the expected total contribution rate and the normal cost contribution rate.

Exhibit 21

***Austin Police Retirement System
Disclosures in Accordance with GASB Statement No. 25
Required Supplementary Information
for the System's Financial Statements for Fiscal Year
Ending December 31, 2005***

I. Schedule of Funding Progress

Actuarial Valuation Date ¹	Actuarial Value of Assets (a)	Entry Age Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Annual Covered Payroll ² (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
12/31/01	\$284,761,203	\$347,548,177	\$62,786,974	81.9%	\$69,706,749	90.1%
12/31/02 ³	298,781,560	384,991,799	86,210,239	77.6	79,236,366	108.8
12/31/03	320,354,298	413,964,994	93,610,696	77.4	80,958,862	115.6
12/31/04 ⁴	343,446,574	451,579,880	108,133,306	76.1	86,673,590	124.8
12/31/05 ⁴	371,504,533	494,640,856	123,136,323	75.1	93,428,957	131.8

¹ Prior to the actuarial valuation as December 31, 2001, the System had biennial valuations.

² The covered payroll is based on the annual rate of base pay and longevity pay used in the valuation.

³ Reflects changes in plan benefit provisions effective September 1, 2003.

⁴ Some of the actuarial assumptions were revised.

II. Schedule of Employer Contributions

Plan Year Ended December 31	Annual Contribution As a Fixed Percentage of Payroll	Annual Required Contribution ¹	Percentage Contributed
2000	18%	\$10,046,065	100%
2001	18	11,178,204	100
2002	18	12,566,293	100
2003	18.000/17.906 ²	13,929,724 ³	100
2004	17.906	14,714,174 ⁴	100
2005	17.902	15,754,922 ⁵	100

¹ The annual required contribution is based on actual covered payroll.

² Effective September 1, 2003, a portion of the Employer's total 18% contribution is allocated to a Retiree Death Benefit Fund. This portion was determined to be 0.094% effective September 1, 2003 based on the December 31, 2002 actuarial valuation

³ The employer's total contribution during 2003 including the Retiree Death Benefit Fund was \$13,950,555.

⁴ The employer's total contribution during 2004 including the Retiree Death Benefit Fund was \$14,794,834.

⁵ The employer's total contribution during 2005 including the Retiree Death Benefit Fund was \$15,840,395.

Exhibit 21 (continued)

***Austin Police Retirement System
Disclosures in Accordance with GASB Statement No. 25
Required Supplementary Information
for the System's Financial Statements for Fiscal Year
Ending December 31, 2005***

III. Notes to Required Supplementary Information

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

Valuation date	December 31, 2005
Actuarial cost method	Entry Age
Amortization method	Level percentage of projected payroll, open
Amortization period	38.3 years
Asset valuation method	Market value smoothed by a 5-year deferred recognition method with a 80%/120% corridor on market

Actuarial assumptions:

- Investment rate of return, net of expenses 8.0%
- Projected salary increases including promotion and longevity 4.0% to 22.0% per year, averaging 6.8%
- Inflation rate per year 4.0%
- Postretirement cost-of-living adjustments None

IV. Actuarial Information for Notes to the Financial Statement as Required by Paragraph 32 of GASB 25

A. PLAN DESCRIPTION

The Board of Trustees of the City of Austin Police Retirement System is the administrator of a single-employer defined benefit pension plan. The System is considered part of the City of Austin's financial reporting entity and is included in the City's financial reports as a pension trust fund.

The System was originally established in 1979 by a City Council ordinance. Effective August 1991, the System is governed by state law with plan amendments made by the Legislature of the State of Texas. The System provides retirement, death, disability and withdrawal benefits. Benefits vest after 10 years of credited service. Participants may retire at (a) 23 years of service excluding any military service credit regardless of age, or (b) age 55 with 20 years of service excluding any military service or (c) age 62. The monthly benefit at retirement is payable as a life annuity (modified cash refund).

As of the actuarial valuation date of December 31, 2005, the monthly benefit is equal to 3.0% of the highest 36-month average salary multiplied by years and months of service. The RETRO DROP provisions require that a participant must have 23 years of creditable service with the retirement system excluding any military service credit

Exhibit 21 (continued)

***Austin Police Retirement System
Disclosures in Accordance with GASB Statement No. 25
Required Supplementary Information
for the System's Financial Statements for Fiscal Year
Ending December 31, 2005***

on the date the participant elects for the RETRO DROP benefit computation date. Further, the RETRO DROP provisions may be changed in the future by Board rule with approval by the System's actuary. Similarly, the eligibility requirement for service retirement may be changed in the future by Board rule with approval by the System's actuary, except, the age 62 minimum eligibility regardless of service may not be changed.

The Post Retirement Option Plan (PROP) is an option allowing retiring officers to leave their RETRO DROP lump sum in the System for a period of time. The participant can elect to receive partial payments from the RETRO DROP lump sum account and can also elect to delay payment of the entire RETRO DROP lump sum. Interest credits are paid on the participant's RETRO DROP lump sum account following the participant's retirement until the entire lump sum is paid. The interest credits are granted based on an annual rate determined from time to time by Board Rule.

A \$7,500 post-retirement lump sum death benefit is payable from a separate Retiree Death Benefit Fund (account) administered by the System. As of December 31, 2005, the assets of the Retiree Death Benefit Fund were \$109,374 and were included in the System's total market value of assets of \$389,689,133.

Distributions to officers or their beneficiaries are also available in the event of total and permanent disability, provided the officer has completed 10 years of service or the injury was sustained during the performance of employment duties, or upon death. The terms of benefit payments are determined by certain elections made by the officer, their level of earnings and length of service. Payments to officers or their beneficiaries may be increased annually on an ad hoc basis, limited to 6% per year, and subject to the approval of the Retirement Board and the actuary.

Participating members in the System include full-time police officers and cadets employed by the police department of the City and employees of the System. The following membership status of the System was reflected in the actuarial valuation as of December 31, 2005:

Retirees and beneficiaries currently receiving benefits (386) and terminated employees entitled to future monthly benefits (11)	397
Current participating members	<u>1,427</u>
Total	1,824

Exhibit 21 (continued)

***Austin Police Retirement System
Disclosures in Accordance with GASB Statement No. 25
Required Supplementary Information
for the System's Financial Statements for Fiscal Year
Ending December 31, 2005***

B. CONTRIBUTIONS

The System is funded by biweekly contributions from the basic compensation, consisting of base pay and longevity pay, of police officers and by contributions from the City. Under the provisions in effect on December 31, 2005, participants are required to contribute 9% of their basic compensation to the System. The City is required to make contributions equal to 18% of basic compensation and may authorize additional contributions. Effective September 1, 2003, a portion of the City's total 18% contribution is allocated to the Retiree Death Benefit Fund. This portion, redetermined annually, was 0.098% for 2005 based on the December 31, 2003 actuarial valuation and is 0.094% for 2006 based on the December 31, 2004 actuarial valuation. This portion was redetermined based on the December 31, 2005 actuarial valuation to be 0.081% for 2007.

The City contribution rate is required by the state law governing the System and may be changed by amendment made by the Legislature of the State of Texas. The participant contribution rate must be at least 6% but was increased to 9% effective October 1993 by a recommendation of the Retirement Board and an approving vote of the participating members in accordance with the state law governing the System. The participant contribution rate may be changed by amendment made by the Legislature of the State of Texas or by appropriate actions of the Board and the participating members in accordance with the state law governing the System.

While contribution rates 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 police officers 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, and the number of years needed to amortize the System's unfunded actuarial accrued liability is determined using an open, level percentage of payroll method. Based on the actuarial valuation as of December 31, 2005 and the current plan provisions, the normal cost was 20.241% of pay and the amortization period was 38.3 years.

Exhibit 22

Austin Police Retirement System Disclosures in Accordance with GASB Statement No. 27 Notes to the Financial Statements for the City of Austin for the Fiscal Year Ending September 30, 2006

I. Annual Pension Cost

For the fiscal year ending September 30, 2006, the City's Annual Pension Cost (APC) of \$_____ for the Austin Police Retirement System is equal to approximately 17.9% of the basic compensation, consisting of base pay and longevity pay, of the members of the System (including both police cadets and officers). The APC is equal to the City's required and actual contributions. The total required contributions by the City are a fixed 18% of pay. However, effective September 1, 2003, a portion of the city's contribution is allocated to a separate Retiree Death Benefit Fund (account). This portion, redetermined annually, was 0.098% for 2005 based on the December 31, 2003 actuarial valuation and is 0.094% for 2006 based on the December 31, 2004 actuarial valuation. Therefore, the required contributions for the fiscal year ending September 30, 2006 were equal to 17.902% of payroll for the period October 1, 2005 through December 31, 2005 and 17.906% of payroll for the period January 1, 2006 through September 30, 2006.

The required contributions for the fiscal year ending September 30, 2006 were based on the results of the actuarial valuations as of December 31, 2003 and as of December 31, 2004 using the entry age actuarial cost method and were determined in compliance with the GASB Statement No. 27 parameters. The actuarial methods and assumptions used for the three most recent valuations are shown below:

Valuation date	12/31/2003	12/31/2004	12/31/2005
Actuarial cost method	Entry age	Entry age	Entry age
Amortization method	Level percent of payroll, open	Level percent of payroll, open	Level percent of payroll, open
Amortization period	28.6years	32.0 years	38.3 years
Asset valuation method	5-year adjusted market value	5-year adjusted market value	5-year adjusted market value
Actuarial Assumptions			
• Investment return	8.0%	8.0%	8.0%
• Projected salary increases	4.0% plus promotion and longevity	4.0% plus promotion and longevity	4.0% plus promotion and longevity
• Inflation	4.0%	4.0%	4.0%
• Cost-of-living increases	0.0%	0.0%	0.0%
• Payroll increases	4.0%	4.0%	4.0%

Exhibit 22 (continued)

***Austin Police Retirement System
Disclosures in Accordance with GASB Statement No. 27
Notes to the Financial Statements for the City of Austin
for the Fiscal Year Ending September 30, 2006***

**II. Three-Year Trend Information for the
Austin Police Retirement System**

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Contribution as a Percentage of Payroll	Net Pension Obligation
09/30/2004	\$ _____ ¹	100%	17.906% ²	\$0
09/30/2005	_____ ¹	100	17.906/17.902 ³	0
09/30/2006	_____ ¹	100	17.902/17.906 ⁴	0

- ¹ City will be able to determine these amounts from their accounting system since there is no net pension obligation.
² APC was equal to 17.906% of payroll for the period October 1, 2003 through September 30, 2004.
³ APC was equal to 17.906% of payroll for the period October 1, 2004 through December 31, 2005 plus 17.902% of payroll for the period January 1, 2005 through September 30, 2005.
⁴ APC was equal to 17.902% of payroll for the period October 1, 2005 through December 31, 2005 plus 17.906% of payroll for the period January 1, 2006 through September 30, 2006.

III. Schedule of Funding Progress

Actuarial Valuation Date ¹	Actuarial Value of Assets (a)	Entry Age Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Annual Covered Payroll ² (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
12/31/01	\$284,761,203	\$347,548,177	\$62,786,974	81.9%	\$69,706,749	90.1%
12/31/02 ³	298,781,560	384,991,799	86,210,239	77.6	79,236,366	108.8
12/31/03	320,354,298	413,964,994	93,610,696	77.4	80,958,862	115.6
12/31/04 ⁴	343,446,574	451,579,880	108,133,306	76.1	86,673,590	124.8
12/31/05 ⁴	371,504,533	494,640,356	123,136,323	75.1	93,428,957	131.8

- ¹ Prior to the actuarial valuation as December 31, 2001, the System had biennial valuations.
² The covered payroll is based on the annual rate of base pay and longevity pay used in the valuation.
³ Reflects changes in plan benefit provisions effective September 1, 2003.
⁴ Some of the actuarial assumptions were revised.

Exhibit 22 (continued)

***Austin Police Retirement System
Disclosures in Accordance with GASB Statement No. 27
Notes to the Financial Statements for the City of Austin
for the Fiscal Year Ending September 30, 2006***

**IV. Actuarial Information for Notes to the Financial Statement as
Required by Paragraph 20 of GASB 27**

A. PLAN DESCRIPTION

The Board of Trustees of the City of Austin Police Retirement System is the administrator of a single-employer defined benefit pension plan. The System is considered part of the City of Austin's financial reporting entity and is included in the City's financial reports as a pension trust fund. The Plan issues a stand alone report that is available from the Retirement Board.

The System was originally established in 1979 by a City Council ordinance. Effective August 1991, the System is governed by state law with plan amendments made by the Legislature of the State of Texas. The System provides retirement, death, disability and withdrawal benefits. Benefits vest after 10 years of credited service. Participants may retire at (a) 23 years of service excluding any military service credit regardless of age, or (b) age 55 with 20 years of service excluding any military service or (c) age 62. The monthly benefit at retirement is payable as a life annuity (modified cash refund). As of the actuarial valuation date of December 31, 2005, the monthly benefit is equal to 3.0% of the highest 36-month average salary multiplied by years and months of service.

The RETRO DROP provisions require that a participant must have 23 years of creditable service with the retirement system excluding any military service credit on the date the participant elects for the RETRO DROP benefit computation date. Further, the RETRO DROP provisions may be changed in the future by Board rule with approval by the System's actuary. Similarly, the eligibility requirement for service retirement may be changed in the future by Board rule with approval by the System's actuary, except, the age 62 minimum eligibility regardless of service may not be changed by Board rule.

The Post Retirement Option Plan (PROP) is an option allowing retiring officers to leave their RETRO DROP lump sum in the System for a period of time. The participant can elect to receive partial payments from the RETRO DROP lump sum account and can also elect to delay payment of the entire RETRO DROP lump sum. Interest credits are paid on the participant's RETRO DROP lump sum account following the participant's retirement until the entire lump sum is paid. The interest credits are granted based on an annual rate determined from time to time by Board Rule.

Exhibit 22 (continued)

***Austin Police Retirement System
Disclosures in Accordance with GASB Statement No. 27
Notes to the Financial Statements for the City of Austin
for the Fiscal Year Ending September 30, 2006***

A \$7,500 post-retirement lump sum death benefit is payable from a separate Retiree Death Benefit Fund (account) administered by the System.

Distributions to officers or their beneficiaries are also available in the event of total and permanent disability, provided the officer has completed 10 years of service or the injury was sustained during the performance of employment duties, or upon death. The terms of benefit payments are determined by certain elections made by the officer, their level of earnings and length of service.

Payments to officers or their beneficiaries may be increased annually on an ad hoc basis, limited to 6% per year, and subject to the approval of the Retirement Board and the actuary.

Participating members in the System include full-time police officers and cadets employed by the police department of the City and employees of the System.

B. CONTRIBUTIONS

The System is funded by biweekly contributions from the basic compensation, consisting of base pay and longevity pay, of police officers and by contributions from the City. Under the provisions in effect during the fiscal year ending September 30, 2006, participants were required to contribute 9% of their basic compensation to the System. The City was required to make contributions equal to at least 18% of basic compensation. Effective September 1, 2003, a portion of the City's total 18% contribution is allocated to the Retiree Death Benefit Fund. This portion was 0.098% for the period October 1, 2005 through December 31, 2005 and was 0.094% for the period January 1, 2006 through September 30, 2006.

The total City contribution rate of at least 18% is required by the state law governing the System and may be changed by amendment made by the Legislature of the State of Texas. The participant contribution rate must be at least 6% but was increased to 9% effective October 1993 by a recommendation of the Retirement Board and an approving vote of the participating members in accordance with the state law governing the System. The participant contribution rate may be changed by amendment made by the Legislature of the State of Texas or by appropriate actions of the Board and the participating members in accordance with the state law governing the System.

Exhibit 22 (continued)

***Austin Police Retirement System
Disclosures in Accordance with GASB Statement No. 27
Notes to the Financial Statements for the City of Austin
for the Fiscal Year Ending September 30, 2006***

While contribution rates 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 police officers 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, and the number of years needed to amortize the System's unfunded actuarial accrued liability is determined using an open, level percentage of payroll method. Based on the actuarial valuation as of December 31, 2005 and the current plan provisions, the normal cost was 20.241% of pay and the amortization period was 38.3 years.