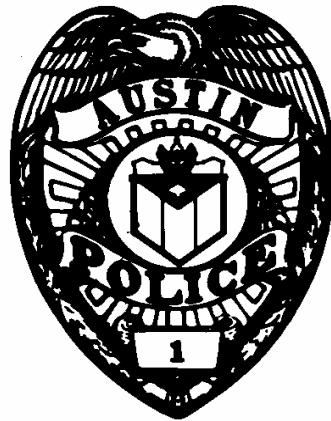


AUSTIN POLICE
RETIREMENT SYSTEM



2004
ANNUAL
REPORT



Public Pension Coordinating Council
Public Pension Standards
2004 Award

Presented to

City of Austin Police Retirement System

In recognition of meeting professional standards for
plan design and administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

A handwritten signature in cursive script that reads 'Alan H. Winkle'.

Alan H. Winkle
Program Administrator

**AUSTIN
POLICE RETIREMENT
SYSTEM**

**2004 ANNUAL REPORT
AND MEMBERS BENEFIT GUIDE**

DECEMBER 31, 2004

Table of Contents

	PAGE
Retirement Board.....	3
Pension Office Staff.....	3
Custodian.....	4
Investment Consultant & Performance Evaluation.....	4
Actuary.....	4
Auditor.....	4
Legal Counsel.....	4
Investment Managers.....	5
Chairman's Letter to Members.....	7
Auditor's Report.....	8
Actuarial Review and Report.....	21
Summary of Investments.....	64
Interest Paid to Members.....	65
COLA'S Paid to Retiree's and Beneficiaries.....	66
Comparative Statement of Membership.....	67
Pension Plan Benefit Guide.....	68
Improvements to System.....	78

POLICE RETIREMENT SYSTEM BOARD OF TRUSTEES

Police Member	Lt. Peter Morin Chairman
Police Member	Sgt. Catherine Haggerty Vice Chairperson
Police Member	Lt. Michael Jung
Police Member	Asst. Chief Cathy Ellison
Police Member	Sgt. Fred Fletcher
Retired Police Member	Kendall Thomas
Retired Police Member	John Ross
Citizen Member	Chesley Wood
City Member	Art Alfaro Financial Services Office
City Member	Vanessa Downey-Little City Managers Office
City Member	Danny Thomas Councilman

PENSION OFFICE STAFF

Sampson (Sam) K. Jordan-Administrator

Stephanie Schkade Willie-Assistant Administrator

Gabriella Powers- Accountant

Michelle Waller- Administrative Assistant

CUSTODIAN BANK

The Northern Trust Company
Chicago, Illinois

INVESTMENT CONSULTANT & PERFORMANCE EVALUATION

The Monroe Vos Consulting Group
Houston, Texas

ACTUARY

Rudd & Wisdom, Inc.
Austin, Texas

AUDITOR

Montemayor & Associates, CPA
Austin, Texas

LEGAL COUNSEL

Kendall & Osborne
Austin, Texas

Clark, Thomas & Winters, P.C.
Austin, Texas

INVESTMENT MANAGERS

Equity

Brandes Investments Partnership, Inc.
San Diego, California

CAZ Investments
Houston, TX

Crescendo Fund II
Minneapolis, Minnesota

Eagle Asset Management
St. Petersburg, FL

Eubel, Brady & Suttman Asset Management
Dayton, Ohio

Nicholas Applegate Management
San Diego, California

Private Capital Management
Naples, Florida

Waddell & Reed Asset Mgmt. Group
Overland Park, KS

Fixed Income

Ashmore Investment Management
Greenwich, Connecticut

CNL Institutional Advisor, Inc.
Orlando, FL

GMAC Institutional Advisors, LLC
Alpharetta, Georgia

Pacific Investment Management Co. (PIMCO)
Newport Beach, California

INVESTMENT MANAGERS (continued)

Natural Resources

Global Forest Partners (Formerly UBS Global Asset Mgmt.)
West Lebanon, New Hampshire

Pacific Investment Management Co. (PIMCO)
Newport Beach, California

RMK Timberland Group-(Formerly Wachovia/Evergreen)
Atlanta, GA

Timberland Investment Resources
Atlanta, GA

Wellington Management Company
Boston, Massachusetts

Real Estate

C B Richard Ellis Strategic Partners, Inc.
Los Angeles, California

Coventry Realty Advisors
Houston, TX

Edison Investments, Inc.
Wichita, Kansas

McAlister Real Estate
Houston, Texas

New Boston Fund, Inc.
Boston, Massachusetts

Sentinel Real Estate, Inc.
New York, New York

VEF Advisors, LLC-(Formerly Lend Lease Real Estate)
Atlanta, GA



CITY OF AUSTIN
POLICE RETIREMENT SYSTEM

2004 ANNUAL REPORT
LETTER TO MEMBERS

Dear Members,

The Board of Trustees of the Austin Police Retirement System is pleased to present our 2004 Annual Report.

As the December 31, 2004 year-ended, the Market value of the 'System' assets increased by 16% to \$349 million from \$301 million. On June 30, 2005 these same assets were valued at \$355 million (unaudited) and remained diversified across many asset classes. These asset classes ranged from equities, (US domestic, international and emerging markets) fixed income (US bonds, international debt/bonds, mezzanine and mortgage back loans) real estate (apartments, commercial property and opportunistic land development) as well as natural resources (timberland, energy and commodity funds).

This asset diversification (allocation) was put in place by the Investment Committee with help from its consultant, after the collapse of the financial markets in 2001 and it still remains the Board of trustees' core investment philosophy in year 2005. In fact the 'System' was able to invest in two energy funds (one a hedge fund), a commodity fund, a private equity real estate fund and a timberfund during 2004 and all have proven to be rewarding, earning above the 8% investment return assumption. Economically we are told, the Federal Reserve remains committed to fighting inflation by increasing interest rates, energy prices will remain high, and both will have a depressed affect on consumer spending, which correlates negatively to the equity and bond markets. Therefore, the Board believes it must remain diversified and continue its investing opportunistically in assets in order to achieve above 8% investment returns needed for the 'System' to remain financially sound.

At our December 2004 Board Meeting, the Trustees approved a 1.75% cost of living adjustment for retirees and beneficiaries effective January 1, 2005 and to pay a 2% interest rate on members' accumulated contributions, effective December 31, 2004.

As of June 30, 2005 there were 1380 police officers and cadets who were members of the 'System.' There were 366 retired police officers and beneficiaries of police officers receiving monthly benefits and 14 vested members entitled to future benefits but not yet receiving them.

The Board of Trustees continues to work hard to ensure police pension participants, retirees and beneficiaries have a financially and actuarially sound retirement plan.

Your comments and suggestions will always be appreciated.

Pension Office
2520 S. IH 35, Ste. 205
Austin, Texas 78704
512/416-7672
FAX 512/416-7138

Sincerely,

Peter Morin
Chairman, Board of Trustees

Mailing Address
P.O. Box 41089
Austin, Texas 78704

**CITY OF AUSTIN
POLICE RETIREMENT SYSTEM**

FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION
AND
INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2004 AND 2003

**CITY OF AUSTIN
POLICE RETIREMENT SYSTEM**

TABLE OF CONTENTS

Independent Auditor's Report	1
Statement of Net Assets Held in Trust Available for Pension Benefits	2
Statement of Changes in Net Assets Held in Trust Available for Pension Benefits	3
Notes to Financial Statements	4-9
Schedule of Funding Progress (Unaudited)	10
Schedule of Employer Contributions (Unaudited)	10
Notes to Required Supplementary Information (Unaudited)	11



Montemayor & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
City of Austin Police Retirement System

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statement of net assets held in trust available for pension benefits of the City of Austin Police Retirement System (System) as of December 31, 2004 and the related statement of changes in net assets held in trust available for pension benefits for the year ended December 31, 2004. 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 audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 financial status of the System as of December 31, 2004 and the changes in its financial status for the year ended December 31, 2004 in conformity with U.S. generally accepted accounting principles.

The supplementary schedules and information on pages 10 and 11 are not a required part of the basic financial statements of the System, but are required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit this information and express no opinion on it.

Montemayor & Associates, P.C.

4 June 2005
Austin, Texas

3901 SOUTH LAMAR BOULEVARD
SUITE 320
AUSTIN, TEXAS 78704
PHONE: 512.442.0380
FAX: 512.442.0817
am3@montemayor.biz

-1-

**CITY OF AUSTIN
POLICE RETIREMENT SYSTEM**

STATEMENT OF NET ASSETS HELD IN TRUST
AVAILABLE FOR PENSION BENEFITS

DECEMBER 31, 2004 AND 2003

ASSETS	<u>2004</u>	<u>2003</u>
Investments, at fair value		
Real estate interests	\$103,188,497	\$67,041,756
Corporate stocks	89,945,027	80,628,569
Government Bonds	41,461,176	33,799,946
International Government Securities	36,137,530	17,734,847
International stocks	51,157,709	40,926,843
Short-term investment funds	13,068,512	22,550,452
Partnership interests	8,122,925	7,099,901
Corporate bonds	3,267,789	1,328,335
Retiree death benefit fund	60,023	13,344
U.S. Government securities	0	<u>28,160,476</u>
Total investments	346,409,188	299,284,469
Cash	974,146	76,365
Interest and dividends receivable	1,738,429	1,054,186
City of Austin retirement contributions receivable	257,413	719,163
City of Austin death benefit contributions receivable	1,346	3,728
Participant contributions receivable	129,379	359,581
Fixed assets	454,205	435,486
Other	<u>5,252</u>	<u>6,493</u>
	<u>349,969,358</u>	<u>301,939,471</u>
 LIABILITIES		
Accounts payable and accrued liabilities	375,983	434,950
Refunds payable	<u>578,315</u>	<u>73,547</u>
	<u>954,298</u>	<u>508,497</u>
 NET ASSETS HELD IN TRUST AVAILABLE FOR PENSION BENEFITS	 <u>\$349,015,060</u>	 <u>\$301,430,974</u>

The accompanying notes are an integral part of this financial statement presentation.

2004 APRS Annual Report

CITY OF AUSTIN POLICE RETIREMENT SYSTEM

STATEMENT OF CHANGES IN NET ASSETS HELD IN TRUST AVAILABLE FOR PENSION BENEFITS

YEAR ENDED DECEMBER 31, 2004

ADDITIONS TO NET ASSETS AVAILABLE FOR BENEFITS:

Contributions:

City of Austin retirement contributions	\$14,714,174
City of Austin death benefit contributions	\$80,660
Participant contributions	<u>7,804,027</u>
	<u>22,598,861</u>

Investment income :

Net appreciation in plan investments	21,565,070
Realized gain on investments	14,200,779
Interest and dividends	8,088,945
Securities lending	98,258
Rental and other income	<u>200,036</u>
Total investment gain before expenses	44,153,088
Investment expenses	<u>(1,789,244)</u>
Net gain from investments	<u>42,363,844</u>
Total additions to net assets available for benefits	<u>64,962,705</u>

DEDUCTIONS FROM NET ASSETS AVAILABLE FOR BENEFITS:

Retirement benefit payments	15,832,666
Death benefit payments	37,500
Contributions refunded to terminating employees	757,506
General and administrative expenses	<u>750,947</u>
Total deductions from net assets available for benefits	<u>17,378,619</u>

NET INCREASE IN NET ASSETS AVAILABLE FOR BENEFITS 47,584,086

Beginning net assets available for benefits 301,430,974

ENDING NET ASSETS AVAILABLE FOR BENEFITS \$349,015,060

The accompanying notes are an integral part of this financial statement presentation.

CITY OF AUSTIN POLICE RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND SYSTEM DESCRIPTION

The Board of Trustees (Board) of the City of Austin Police Retirement System (System) is the administrator of a single-employer defined benefit pension plan. The System is considered part of the City of Austin's (City) 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, 2004, the monthly benefit is equal to 3.0% of the highest 36-month average salary multiplied by years and months of service. Effective September 1, 2001, the RETRO DROP provisions were changed to 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 selection of RETRO DROP benefit computation date may be changed in the future by Board rule with approval by the System's actuary. Also effective September 1, 2001 changes were made allowing the eligibility requirement for Service Retirement to be changed in the future by rule of the System's Board with approval by the System's actuary, except, the age 62 minimum eligibility regardless of services could not be changed.

On September 1, 2001, a Post Retirement Option Plan (PROP) introduced an option allowing for participants to elect to receive partial payments from the RETRO DROP lump sum account. The participant can also elect to delay payment of the entire RETRO DROP lump sum. Interest credits will be 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 will be granted based on an annual rate determined from time to time by Board Rule.

Effective September 1, 2003, the \$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, 2004, the assets of the Retiree Death Benefit Fund were \$60,023 included in the System's total market value of Net Assets Held in Trust Available for Pension Benefits of \$349,015,060.

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 by the amount of increase in the Consumer Price Index, limited to 6% per year, and subject to the approval of the Retirement Board and the actuary.

CITY OF AUSTIN
POLICE RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND SYSTEM DESCRIPTION

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, 2004:

Retirees and beneficiaries currently receiving benefits (356) and terminated employees entitled to future monthly benefits (12)	368
Current participating members	<u>1,398</u>
Total	<u>1,766</u>

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The System's financial statements are prepared using the accrual basis of accounting under which expenses are recorded when the liability is incurred, revenues are recorded in the accounting period in which they are earned and become measurable, and investment purchases and sales are recorded as of their trade date. Contributions are recognized as revenues in the period in which the related employees's payroll is earned. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

ESTIMATES

The preparation of financial statements in conformity with U.S. 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 additions and deductions to net assets held in trust available for pensions benefit during the reporting period. Actual results could differ from those estimates.

METHOD USED TO VALUE INVESTMENTS

The System's investments are reported at 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. Investment income is recognized in the period earned, and purchases and sales of investments are recorded on a trade-date basis.

**CITY OF AUSTIN
POLICE RETIREMENT SYSTEM**

NOTES TO FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CONTRIBUTIONS RECEIVABLE

The final biweekly payroll contributions of employees for the year ended December 31, 2004 and the City's related contributions were not deposited in the System by year end and are shown as contributions receivable.

SYSTEM EXPENSES

All System administrative costs are the responsibility of the System and are financed through investment earnings.

NOTE 3: FEDERAL INCOME TAXES

The System is a Public Employee Retirement System and is exempt from Federal income taxes. A favorable determination letter from the Internal Revenue Service was issued on September 27, 1997.

NOTE 4: FIXED ASSETS

Fixed assets are recorded at cost. Depreciation is computed using the straight-line method over the asset's estimated useful life of 30 years for the building and 5 to 7 years for furniture and equipment. Fixed asset activity for the year ended December 31, 2004 consisted of:

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$150,000	\$0	\$0	\$150,000
Buildings and improvements	457,955	0	0	457,955
Furniture and equipment	249,061	50,661	(53,406)	246,316
Leasehold improvements	48,491	1,316	(5,055)	44,752
Accumulated depreciation	<u>(470,021)</u>	<u>(32,400)</u>	<u>57,603</u>	<u>(444,818)</u>
Net Fixed Assets	<u>\$435,486</u>	<u>\$19,577</u>	<u>(\$858)</u>	<u>\$454,205</u>

CITY OF AUSTIN
POLICE RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

NOTE 5: INVESTMENTS

The System is authorized as an independent, defined benefit plan as described in Article 6243n-1, Vernon's Annotated Texas Civil Statutes, that was signed into law on June 11, 1991. The Board is the trustee of System funds and has the power to invest and reinvest such funds in instruments or investments the Board considers prudent in accordance with the System's investment policy.

The System's investments are categorized to give an indication of the level of risk assumed by the System at year end. Category 1 includes investments that are insured or registered, or for which the securities are held by the System's agent in the System's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counter party's trust department or agent in the System's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by the System's agent, but not in the System's name. All System investments are considered to be Category 1 investments.

All investments and securities on loan (Note 7) represent securities that are either insured, registered, or are held by the System's agent in the System's name. As of December 31, 2004 and 2003, there were no investments (other than U.S. Government issued or guaranteed obligations) in any one organization that represents 5% or more of net assets available for benefits.

Included in net appreciation in plan investments is net appreciation (depreciation) in the fair value of investments held at December 31:

	<u>2004</u>	<u>2003</u>
Securities traded on a national or international exchange:		
U.S. Government Securities	(\$2,943,553)	(\$3,082,867)
International Government securities	5,434,850	4,493,289
Short-term investment funds	424	(899)
Corporate stocks	2,979,283	16,605,856
International Stocks	6,424,828	14,146,841
Government Bonds	(291,323)	(150,883)
Corporate Bonds	75,694	(51,701)
Real estate interests	8,861,843	4,231,602
Partnerships interests	<u>1,023,023</u>	<u>1,364,587</u>
Total	<u>\$21,565,069</u>	<u>\$37,555,825</u>

CITY OF AUSTIN POLICE RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

NOTE 6: 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, 2004, 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 was 0.094% of payroll from September 1, 2003 through December 31, 2004. This portion was redetermined to be 0.098% for 2005 based on the December 31, 2003 actuarial valuation. This portion was redetermined based on the December 31, 2004 actuarial valuation to be 0.094% for 2006.

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, 2004 and the Plan provisions effective September 1, 2003, the normal cost was 20.016% of pay and the amortization period was 32.0 years.

NOTE 7: SECURITIES ON LOAN

The System participates in a securities lending program sponsored by its custodian, The Northern Trust Company (Northern Trust), under which, for an agreed-upon fee, System owned investments are lent to a borrowing financial institution. Under this agreement, the borrowed securities are ultimately returned to the System. As of December 31, 2004 and 2003, \$28,697,966 and \$37,371,616 respectively, of the System-owned investments were in possession of a borrowing financial institution.

Securities are loaned versus collateral that may include cash, U.S. government securities and irrevocable letters of credit. U.S. securities are loaned versus collateral valued at 102% of the market value of the securities plus any accrued interest. Non-U.S. securities are loaned versus collateral valued at 105% of the market value of the securities plus any accrued interest.

CITY OF AUSTIN
POLICE RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

NOTE 7: SECURITIES ON LOAN

Non-cash collateral cannot be pledged or sold unless the borrower defaults. All securities loans can be terminated on demand by either the lender or the borrower, although the average number of days that the System securities were borrowed was approximately 83 days as of December 31, 2004.

Cash open collateral is invested in a short term investment pool, the Core USA Collateral Section, which had an average weighted maturity of 30 days as of this statement date. Cash collateral may also be invested separately in "term loans," in which case the investments match the loan term. These loans can be terminated on demand by either lender or borrower.

There were no significant violations of legal or contractual provisions, no borrower or lending agent default losses known to the securities lending agent. There are no dividends or coupon payments owing to the securities lent. Securities lending earnings are credited to the System's account on approximately the fifteenth day of the following month.

Indemnification deals with the situation in which a client's securities are not returned due to the insolvency of a borrower and Northern Trust has failed to live up to its contractual responsibilities relating to the lending of those securities. Northern Trust's responsibilities include performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable Department of Labor and Federal Financial Institutions Examination Council regulations concerning securities lending.

2004 APRS Annual Report

CITY OF AUSTIN POLICE RETIREMENT SYSTEM

DISCLOSURES IN ACCORDANCE WITH GASB STATEMENT NO. 25 REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

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)
12/31/99	\$226,913,439	\$257,850,162	\$30,936,723	88.0%	\$54,695,072	56.6%
12/31/01 ^{3,4}	284,761,203	347,548,177	62,786,974	81.9	69,706,749	90.1
12/31/02 ⁵	298,781,560	384,991,799	86,210,239	77.6	79,236,366	108.8
12/31/03 ⁵	320,354,298	413,964,994	93,610,696	77.4	80,958,862	115.6
12/31/04 ^{3,5}	343,446,574	451,579,880	108,133,306	76.1	86,673,590	124.8

¹ Prior to actuarial valuations as of December 31, 2002, 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 Economic and demographic assumptions were revised.

⁴ Reflects changes in plan benefit provisions effective September 1, 2001.

⁵ Reflects changes in plan benefit provisions effective September 1, 2003.

II. Schedule of Employer Contributions

Plan Year Ended December 31	Annual Contribution As a Fixed Percentage of Payroll	Annual Required Contribution ¹	Percentage Contributed
1999	18%	\$ 9,288,148	100%
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	17.902	14,714,174 ⁴	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 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 Retiree Death Benefit Fund was \$13,950,555.

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

See independent auditor's report.

CITY OF AUSTIN POLICE RETIREMENT SYSTEM

DISCLOSURES IN ACCORDANCE WITH GASB STATEMENT NO. 25
REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

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, 2004
Actuarial cost method	Entry Age
Amortization method	Level percentage of projected payroll, open
Amortization period	32.0 years
Asset valuation method	Market value smoothed by a 5-year deferred recognition method with an 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%
- Post-retirement cost-of-living adjustments	None

See independent auditor's report.

AUSTIN POLICE RETIREMENT SYSTEM

ACTUARIAL VALUATION

AS OF

DECEMBER 31, 2004

SEPTEMBER 16, 2005

Rudd and Wisdom, Inc.

CONSULTING ACTUARIES

Mitchell L. Bilbe, F.S.A.
Philip S. Dial, F.S.A.
Charles V. Faerber, F.S.A., A.C.A.S.
Mark R. Fenlaw, F.S.A.
Carl L. Frammolino, F.S.A.
Christopher S. Johnson, A.S.A.
Joe C. Lopez, A.S.A.
Robert M. May, F.S.A.

9500 Arboretum Blvd., Suite 200
Austin, Texas 78759
Post Office Box 204209
Austin, Texas 78720-4209
Phone: (512) 346-1590
Fax: (512) 345-7437
E-mail: rw@ruddwisdom.com

J. Christopher McCaul, F.S.A.
Edward A. Mire, F.S.A.
Rebecca B. Morris, A.S.A.
Amanda L. Murphy, F.S.A.
Michael J. Muth, F.S.A.
Julie L. Normand, F.S.A.
Ronald W. Tobleman, F.S.A.
David G. Wilkes, F.S.A.

September 16, 2005

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

Re: Actuarial Valuation as of December 31, 2004

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, 2004 has been completed.

The results of the December 31, 2004 actuarial valuation are described in the Summary section of the report. A comparison of the current valuation with the December 31, 2003 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 for the active and retired officers.

A summary plan description based on the current plan effective September 1, 2003 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.

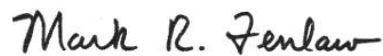
Police Retirement Board
Page 2
September 16, 2005

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
Enrolled Actuary

RMM;MRF:jt

i:\clients\aprs\val-2004\val.doc

Table of Contents

*Austin Police Retirement System
Actuarial Valuation as of December 31, 2004*

SUMMARY - Results of December 31, 2004 Valuation.....	1
EXHIBIT 1 - Actuarial Valuation Balance Sheets.....	5
EXHIBIT 2 - 25-Year Projection	6
EXHIBIT 3 - Market Value of Assets as of December 31, 2004.....	7
EXHIBIT 4 - Comparison of Market Value Asset Allocation as of the Prior and Current Actuarial Valuation Dates	8
EXHIBIT 5 - Development of Actuarial Value of Assets.....	9
EXHIBIT 6 - Historical Comparisons of Market and Actuarial Asset Values	10
EXHIBIT 7 - Distribution of Police Officers by Age and Service.....	11
EXHIBIT 8 - Historical Summary of Growth in Number of Contributing Members	12
EXHIBIT 9 - Breakdown by Sex of Number of Officers and Average Annual Rate of Pay	13
EXHIBIT 10 - Breakdown of Pensioners by Type and Annuity Option.....	14
EXHIBIT 11 - Summary Data of Active Police Officers and Pensioners.....	15
EXHIBIT 12 - Historical Comparisons of Actuarial Accrued Liability and Actuarial Value of Assets.....	16
EXHIBIT 13 - Summary Plan Description	17
EXHIBIT 14 - Summary of Actuarial Methods and Assumptions	21
EXHIBIT 15 - Changes in Actuarial Methods and Assumptions	24
EXHIBIT 16 - Salary Rate of Increase Assumption	25
EXHIBIT 17 - Assumed Service Retirement Rates	26
EXHIBIT 18 - Assumed Withdrawal Rates	27
EXHIBIT 19 - Assumed Disability Rates	28
EXHIBIT 20 - Definitions	29
EXHIBIT 21 - Disclosures in Accordance with GASB Statement No. 25	30
EXHIBIT 22 - Disclosures in Accordance with GASB Statement No. 27	34

Summary

*Austin Police Retirement System
Results of December 31, 2004 Actuarial Valuation*

The valuation balance sheet as of December 31, 2004, shown in Exhibit 1, reveals that the plan has an unfunded actuarial accrued liability of \$108,133,306. 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 20.016% 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 32.0 years.

The valuation balance sheets in Exhibit 1 compare the actuarial condition of the plan on December 31, 2004 with the condition on December 31, 2003. Both valuations are based on the current plan provisions effective on September 1, 2003 (summarized in Exhibit 13). The December 31, 2004 valuation does reflect the 1.75% ad hoc pensioner COLA granted January 1, 2005 but does not reflect any ad hoc pensioner COLAs which may be granted January 1, 2006 or annually thereafter. The results shown for the December 31, 2003 valuation do not include an adjustment to reflect the 1.75% ad hoc pensioner COLA granted effective January 1, 2005.

Between these two valuations, the unfunded actuarial accrued liability (UAAL) has increased by \$14,552,610 (from \$93,610,696 to \$108,133,306). The primary reasons for this change, which have partially offsetting effects, are as follows:

1. The rate of return, net of all expenses, on the market value of assets during 2004 is estimated at 13.7%. 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 2004 is estimated at 5.3% compared to the assumed rate of return of 8%. Therefore, the AVA as of December 31, 2004 is smaller than expected and caused an increase in the UAAL of \$8.7 million. This caused an increase in the amortization period of 5.3 years.
2. In 2004 the officers received a 5.5% general pay increase on October 1, 2004. The pay of the officers was greater than expected because we assumed that general pay would increase by 4% in 2004. This caused the UAAL to be \$5.2 million more than expected and caused the amortization period to increase 3.1 years.

3. The 1.75% ad hoc pensioner COLA effective January 1, 2005 increased the UAAL by \$2.7 million and added 1.6 years to the amortization period.
4. The payroll increased by almost 7.1% since the prior valuation, more than the assumed 4.0% increase. The higher payroll decreased the amortization period by 2.2 years.
5. The demographic experience in the aggregate was slightly favorable, decreasing the amortization period by 1.0 year.
6. The changes in assumptions (the change in the DROP election percent from 75% to 65% and the addition of explicit assumptions about future DROP lump sums being left with the System in the PROP) had the combined effect of decreasing the amortization period by 2.4 years.

The balance sheets in Exhibit 1 indicate that the number of years required to amortize the system's UAAL has increased from 28.6 years as of December 31, 2003 to 32.0 years as of December 31, 2004. Since one year has passed since the last valuation, a one-year reduction in the amortization period to 27.6 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 above, the System's UAAL increased somewhat more than expected, causing the amortization period to be 4.4 years greater than expected.

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, 2004. 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 and the actuarial assumptions and cost methods used in this valuation, periods of 25 years to 30 years are preferable and 40 years is the maximum.

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 32.0 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 actuarial value of assets used in this valuation.

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 losses that the System experienced in 2001 and 2002 were 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 2001-2004. The AVA used in this valuation is \$343,446,574. The method used to determine this amount is shown in Exhibit 5. The market value of assets of \$348,955,037, excluding the Retiree Death Benefit Fund, is shown in the footnote for Exhibit 3. The difference of \$5,508,463 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, 2004 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, 2004.

Valuation Date	Amortization Period	
	Actual	Projected
December 31, 2004	32.0	
December 31, 2005		34.7
December 31, 2006		33.0
December 31, 2007		27.4
December 31, 2008		25.0

The amortization period is projected to increase in the next two years as larger portions of the deferred investment losses from 2001 and 2002 than the portions of the deferred investment gains in 2003 and 2004 will be recognized in determining the actuarial value of assets. After 2006, the amortization period is projected to decrease more rapidly than one year between valuation dates because all of the investment losses from 2001 and 2002 will have been fully recognized by December 31, 2006 and only the remaining portions of the investment gains from 2003 and 2004 will be recognized in 2007 and 2008, thereby reducing the amortization period. If in 2005 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. The System's other non-investment experience will also affect the future amortization periods.

If the amortization period increases above 40 years (or above 30 years beginning with the December 31, 2005 valuation if the maximum GASB amortization period is deemed to be important), the System might need to consider increasing contributions and/or decreasing benefits. In order to comply with the 30-year maximum GASB amortization period beginning with the December 31, 2005 valuation, a net investment return of 20% would be

needed for calendar year 2005 rather than the assumed 8%. This also assumes no future COLAs would be provided.

Retiree Death Benefit Fund

The statute effective September 1, 2003 established a Retiree Death Benefit Fund. 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, 2004 actuarial valuation, the city contribution needed for the Retiree Death Benefit Fund has been re-determined to be 0.094%. We recommend that this new rate be effective January 1, 2006, replacing the current rate of 0.098% that was determined based on the December 31, 2003 actuarial valuation.

The remaining 17.906% (18% less 0.094%) of the city's contribution will be used for the System's liabilities excluding the post-retirement lump sum death benefits. The 0.094% 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, 2006 for the Retiree Death Benefit Fund	
Normal Cost	0.030%
Thirty-Year Amortization of Unfunded Actuarial Accrued Liability	<u>0.064</u>
Total City Contribution Rate Allocated to the Retiree Death Benefit Fund as of January 1, 2006	0.094%

The 0.094% city contribution rate was determined using the same funding method and actuarial assumptions used in this December 31, 2004 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 UP-1994 Male and Female Mortality Table is used with no age adjustments or projections. 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, 2004	
1. Actuarial Present Value of Future Benefits	
a. Current pensioners	\$ 608,994
b. Current active members	<u>686,406</u>
c. Total	\$ 1,295,400
2. Actuarial Accrued Liability	\$ 1,029,275
3. Assets of Fund	\$ 60,023
4. Unfunded Actuarial Accrued Liability	\$ 969,252

Exhibit 1

*Austin Police Retirement System
Actuarial Valuation Balance Sheets*

	December 31, 2003 ^{1,2}	December 31, 2004 ¹
1. Actuarial present value of future benefits		
a. Payable to those now receiving benefits or entitled to receive benefits	\$ 160,104,705	\$ 174,198,292
b. Payable to active members	<u>436,800,839</u>	<u>468,744,037</u>
c. Total	\$ 596,905,544	\$ 642,942,329
2. Actuarial present value of future normal cost contributions	\$ 182,940,550	\$ 191,362,449
3. Actuarial accrued liability (Item 1c-Item 2)	\$ 413,964,994	\$ 451,579,880
4. Actuarial value of assets	\$ 320,354,298	\$ 343,446,574
5. Unfunded actuarial accrued liability (UAAL) (Item 3-Item 4)	\$ 93,610,696	\$ 108,133,306
6. Total contributions (percent of payroll) ³	26.902%	26.906%
7. Normal cost (percent of payroll)	20.113%	20.016%
8. Percent of payroll available to amortize the UAAL	6.789%	6.890%
9. Annualized covered payroll	\$ 80,958,862	\$ 86,673,590
10. Present annual amount available to amortize the UAAL	\$ 5,496,297	\$ 5,971,810
11. Years to amortize the UAAL	28.6 Years	32.0 Years

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

² Valuation results as of December 31, 2003 have not been adjusted to reflect the 1.75% COLA for pensioners effective January 1, 2005.

³ 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>
2000	\$ 250,876,441	\$ 15,336,155	\$ 19,199,820	\$ 9,894,431	\$ 2,046,971	\$ 273,471,014	22.90
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	23,401,869	27,871,819	19,913,744	4,722,770	375,652,234	15.25
2006	375,652,234	24,337,944	29,999,099	22,076,196	3,588,738	404,324,343	15.75
2007	404,324,343	25,311,462	32,279,248	23,952,753	3,026,205	434,936,095	16.12
2008	434,936,095	26,323,920	34,707,024	25,795,298	2,725,219	467,446,522	16.39
2009	467,446,522	27,376,877	37,263,124	27,868,296	2,823,513	501,394,714	16.34
2010	501,394,714	28,471,952	39,918,018	30,138,780	3,172,151	536,473,753	16.11
2011	536,473,753	29,610,830	42,650,103	32,526,956	3,778,799	572,428,931	15.77
2012	572,428,931	30,795,263	45,481,368	34,744,778	3,874,137	610,086,647	15.80
2013	610,086,647	32,027,074	48,459,842	36,850,537	3,853,777	649,869,249	15.97
2014	649,869,249	33,308,157	51,645,496	38,731,990	3,177,257	692,913,655	16.53
2015	692,913,655	34,640,483	55,069,407	40,784,815	2,947,802	738,890,928	16.90
2016	738,890,928	36,026,102	58,713,560	42,986,406	2,982,553	787,661,631	17.13
2017	787,661,631	37,467,146	62,547,973	45,470,920	3,620,155	838,585,675	17.08
2018	838,585,675	38,965,832	66,540,113	48,443,942	4,190,417	891,457,261	16.94
2019	891,457,261	40,524,465	70,656,813	51,947,908	5,070,754	945,619,877	16.58
2020	945,619,877	42,145,444	74,863,800	55,949,782	5,840,404	1,000,838,935	16.20
2021	1,000,838,935	43,831,262	79,150,217	60,395,043	6,358,667	1,057,066,704	15.84
2022	1,057,066,704	45,584,512	83,472,230	65,605,267	7,306,893	1,113,211,286	15.27
2023	1,113,211,286	47,407,892	87,790,143	70,938,916	8,137,969	1,169,332,436	14.79
2024	1,169,332,436	49,304,208	92,126,299	76,280,519	8,531,092	1,225,951,332	14.45
2025	1,225,951,332	51,276,376	96,484,609	82,133,260	8,930,561	1,282,648,496	14.09
2026	1,282,648,496	53,327,431	100,857,730	87,981,336	9,199,846	1,339,652,475	13.79
2027	1,339,652,475	55,460,528	105,264,391	93,525,308	9,630,388	1,397,221,698	13.54
2028	1,397,221,698	57,678,949	109,783,988	97,665,261	9,857,379	1,457,161,995	13.55
2029	1,457,161,995	59,986,107	114,531,266	101,989,563	9,038,874	1,520,650,931	13.70

A. Data for years 2000 through 2004 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 2005 through 2029:

1. Benefits are assumed to commence in accordance with the demographic and economic assumptions used in this December 31, 2004 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 2005 will be \$86,673,590. 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. A 1.75% ad hoc COLA for pensioners as of January 1, 2005 was reflected but no ad hoc COLAs were assumed beginning January 1, 2006 or thereafter.

Exhibit 3

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

Assets

Investments	
Real Estate Interests	\$103,188,497
Corporate Stocks	89,945,027
International Stocks	51,157,709
U.S. Government Bonds	41,461,176
International Government Securities	36,137,530
Short-Term Investment Funds	13,128,535
Partnership Interests	8,122,925
Corporate Bonds	<u>3,267,789</u>
Total Investments	\$346,409,188

Other Assets	
Interest and Dividends Receivable	\$ 1,738,429
Cash	974,146
Fixed Assets	454,205
Contributions Receivable	388,138
Other Assets	<u>5,252</u>
Total	\$ 3,560,170

Total Assets	<u>\$349,969,358</u>
--------------	----------------------

Liabilities

Contributions Refundable	\$ 578,315
Other Liabilities	<u>375,983</u>
Total Liabilities	<u>\$ 954,298</u>

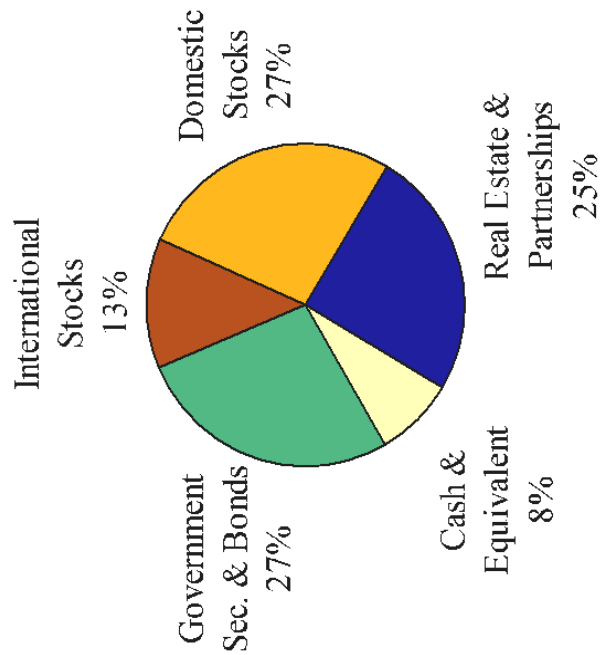
<i>Net Market Value of Assets</i> (Assets Minus Liabilities)	<u>\$ 349,015,060*</u>
--	------------------------

* 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.

Exhibit 4

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

December 31, 2003



December 31, 2004

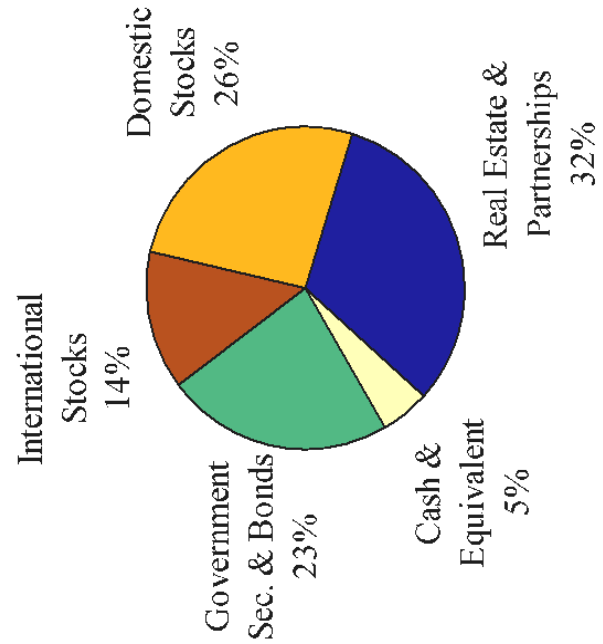


Exhibit 5
Austin Police Retirement System
Development of Actuarial Value of Assets

Calculation of Actuarial Investment Gain/(Loss) Based on Total Market Value for Plan Years	2004	2003	2002	2001	2000
Market Value of Assets as of beginning of year	\$ 301,430,974	\$ 248,984,633	\$ 264,452,675	\$ 273,471,014	\$ 250,876,441
City of Austin Contributions	14,794,834	13,950,555	12,566,293	11,178,204	10,046,065
Officer Contributions	7,804,027	7,389,869	7,348,110	5,735,996	5,290,090
Benefit Payments and Contribution Refunds	(16,627,672)	(15,186,805)	(14,505,660)	(13,221,597)	(11,941,402)
Expected Investment Return*	24,348,731	20,160,180	21,368,402	22,710,660	20,834,565
Expected Market Value of Assets as of end of year	\$ 331,750,894	\$ 275,298,432	\$ 291,229,820	\$ 299,874,277	\$ 275,105,759
Actual Market Value of Assets as of end of year	349,015,060	301,430,974	248,984,633	264,452,675	273,471,014
Actuarial Investment Gain/(Loss)	\$ 17,264,166	\$ 26,132,542	\$ (42,245,187)	\$ (35,421,602)	\$ (1,634,745)
Market Value Rate of Return Net of Expenses	13.7%	18.4%	(7.8)%	(4.6)%	7.6%
Rate of Actuarial Investment Gain/(Loss)	5.7%	10.4%	(15.8)%	(12.9)%	(0.6)%

* Assuming (1) uniform distribution of contributions and payments during the plan year and (2) expected investment rate of return of 8.00% for 2004, 2003 and 2002, and 8.25% for 2001 and 2000.

Deferred Actuarial Investment Gains/(Losses) to be Recognized in Future Years

Plan Year	Investment Gain/(Loss)	Deferral Percentage	Deferred	
			Gain (Loss) Amount	as of December 31, 2004
2004	\$ 17,264,166	80%	\$ 13,811,333	
2003	26,132,542	60%	15,679,525	
2002	(42,245,187)	40%	(16,898,075)	
2001	(35,421,602)	20%	(7,084,320)	
2000	(1,634,745)	0%	0	
Total			\$ 5,508,463	

Actuarial Value of Assets as of December 31, 2004

1. Market Value of Assets as of December 31, 2004	\$349,015,060
2. Deferred Gain/(Loss) to be recognized in future	\$ 5,508,463
3. Preliminary Value (Item 1 - Item 2)	\$343,506,597
4. 80% of Market Value as of December 31, 2004	\$279,212,048
5. 120% of Market Value as of December 31, 2004	\$418,818,072
6. Total Actuarial Value as of December 31, 2004	\$343,506,597
7. Retiree Death Benefit Fund as of December 31, 2004	\$ 60,023
8. Net Actuarial Value as of December 31, 2004 (Item 6-Item 7)	\$343,446,574

Exhibit 6

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

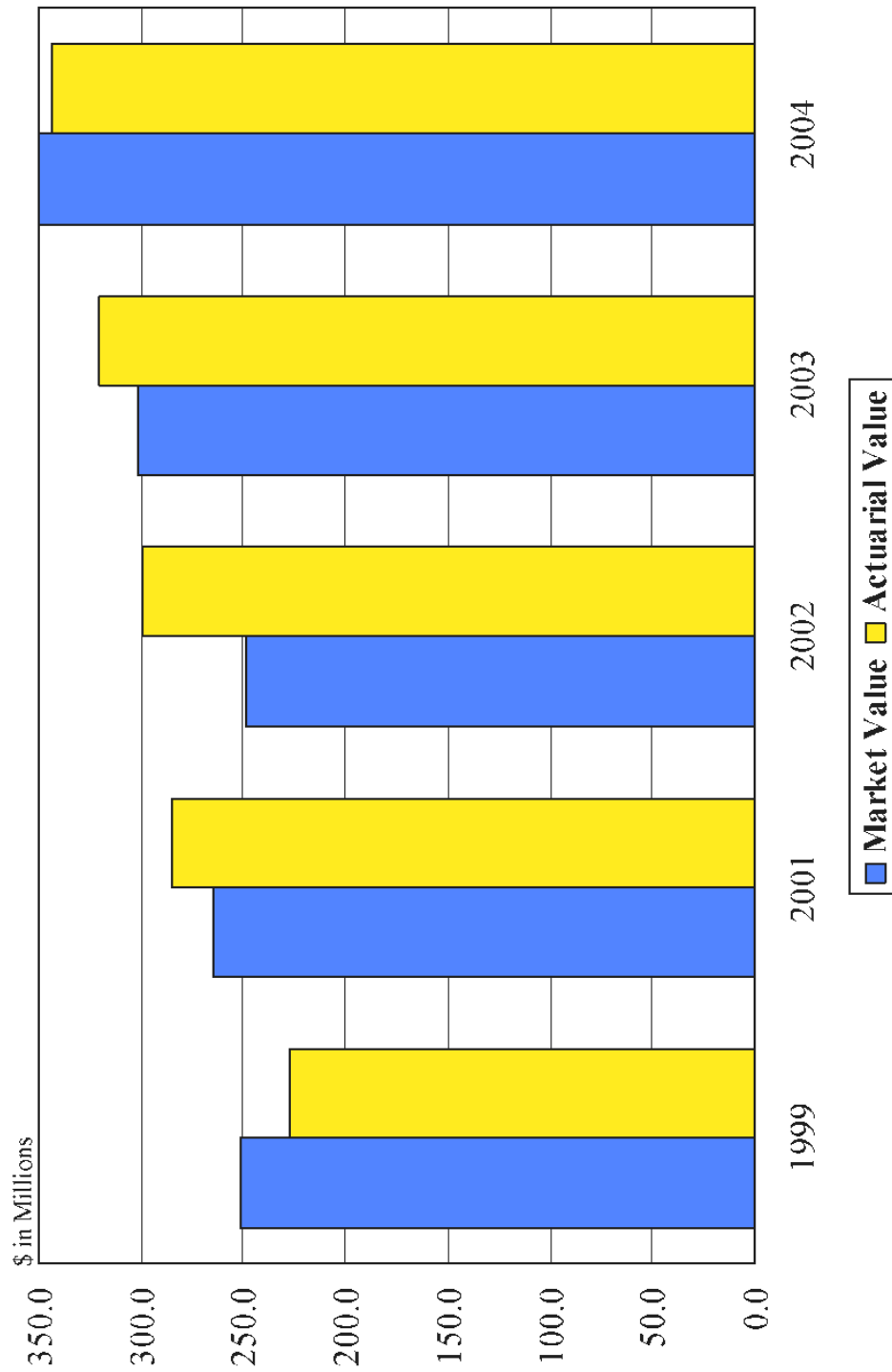


Exhibit 7

*Austin Police Retirement System
Distribution of Police Officers by Age and Service as of December 31, 2004*

Years of Service	Attained Age											Total
	Under 20	20-24	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64	65 or Over	
0	0	15	20	14	8	0	0	0	0	0	0	57
1	0	1	25	22	19	6	0	0	0	0	0	73
2	0	2	26	22	5	3	0	0	0	0	0	58
3	0	2	37	41	14	9	2	0	0	0	0	105
4	0	0	34	43	19	6	2	0	0	0	0	104
5	0	0	7	21	8	3	0	0	0	0	0	39
6	0	1	11	47	26	11	2	0	0	0	0	98
7	0	0	6	42	34	10	2	0	0	0	0	94
8	0	0	0	38	17	6	2	0	0	0	0	63
9	0	0	1	20	30	6	1	0	0	0	0	58
10	0	0	1	24	25	16	2	1	0	0	0	69
11	0	0	0	5	27	15	2	0	0	0	0	49
12	0	0	0	3	27	21	12	0	0	0	0	63
13	0	0	0	1	16	10	2	0	0	0	0	29
14	0	0	0	0	17	27	15	0	0	0	0	59
15	0	0	0	0	1	0	1	0	0	0	0	2
16	0	0	0	0	6	9	4	4	1	0	0	24
17	0	0	0	0	1	8	3	0	0	0	0	12
18	0	0	0	0	0	29	15	2	1	0	0	47
19	0	0	0	0	0	36	15	4	2	0	0	57
20-24	0	0	0	0	0	29	65	42	8	0	0	144
25-29	0	0	0	0	0	0	25	44	6	1	0	76
30-34	0	0	0	0	0	0	0	14	2	0	0	16
35-39	0	0	0	0	0	0	0	0	2	0	0	2
40-44	0	0	0	0	0	0	0	0	0	0	0	0
45-49	0	0	0	0	0	0	0	0	0	0	0	0
50+	<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>	<u>0</u>	<u>0</u>
Totals	0	21	168	343	300	260	172	111	22	1	0	1,398
Average Monthly Salary	\$0	\$3,023	\$3,994	\$4,473	\$4,848	\$5,770	\$6,381	\$6,816	\$6,610	\$9,161	0	\$5,173

Exhibit 8
 Austin Police Retirement System
 Historical Summary of Growth in Number of Contributing Members

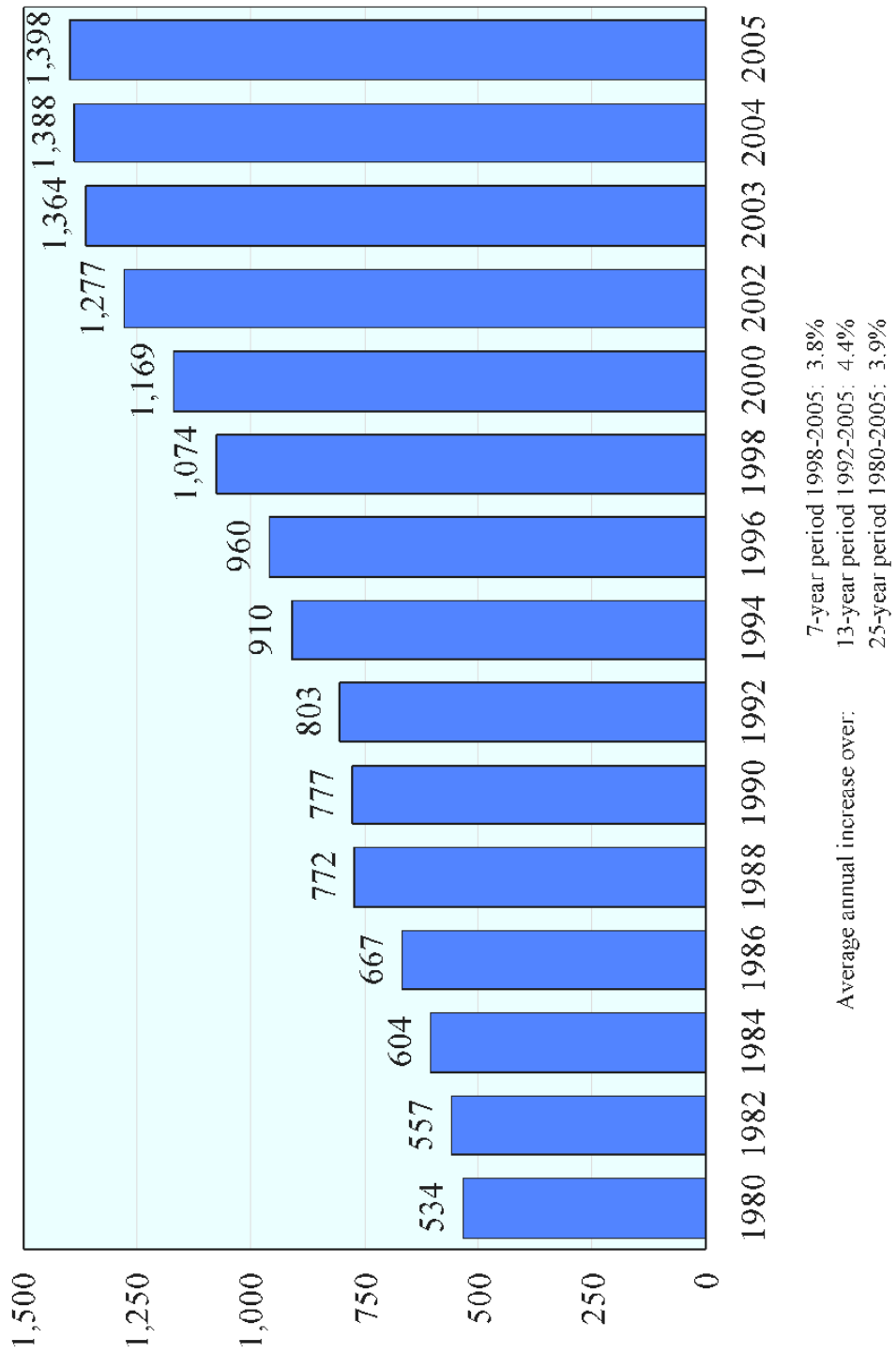


Exhibit 9

*Austin Police Retirement System
Breakdown by Sex of Officers and Average Annual Rate
of Pay as Reported for the December 31, 2004 Valuation*

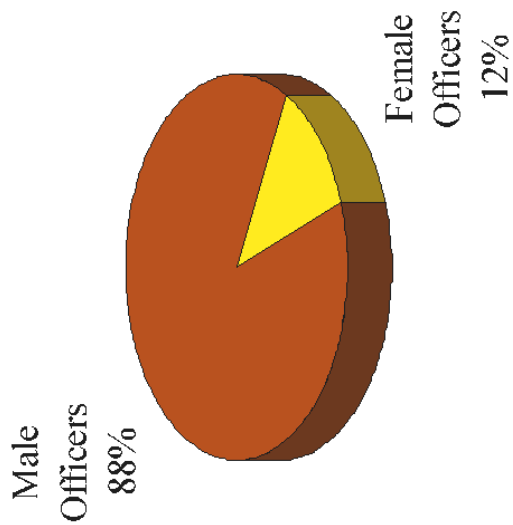
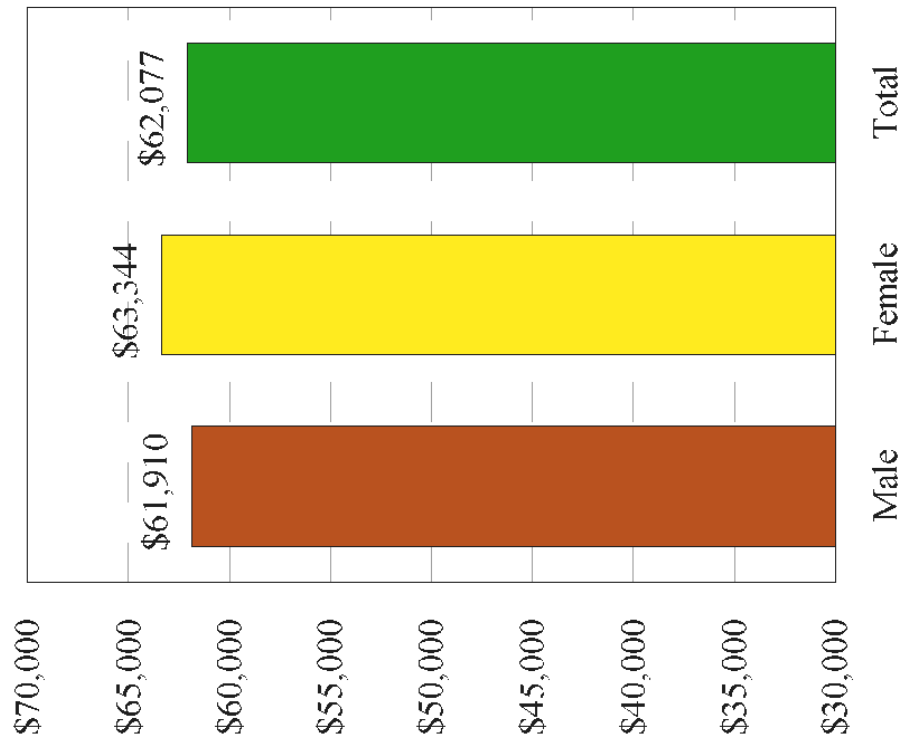


Exhibit 10
*Austin Police Retirement System
Breakdown of Pensioners by Type and Annuity Option*

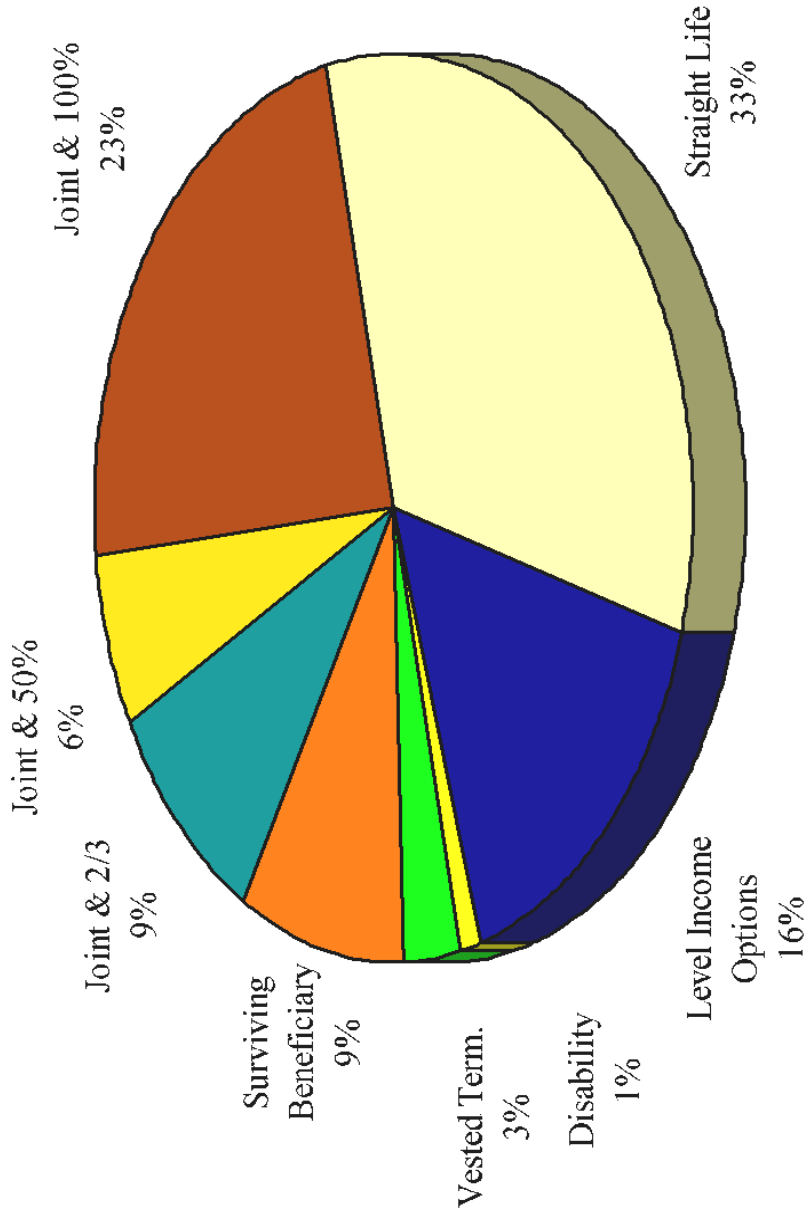


Exhibit 11

*Austin Police Retirement System
Summary Data of Active Police Officers and Pensioners
as Reported for the December 31, 2004 Valuation*

Active Police Officers	Male	Female	Total
Total Contributing Police Officers	1,235	163	1,398
Annualized Reported Payroll	\$76,458,499	\$10,325,026	\$86,783,525
Average Annual Rate of Pay	\$61,910	\$63,344	\$62,077

Pensioners and Vested Terminated Officers	Number	Monthly Payment	Actuarial Present Value of Benefits
Service Retirements by Type of Annuity			
Straight Life	117	\$498,078	\$62,612,796
Joint and 100%	81	321,067	43,926,117
Joint and 50%	23	96,864	11,979,998
Joint and Two-Thirds Beneficiary	32	132,189	17,252,139
Joint and Two-Thirds Last Survivor	1	4,426	516,965
Level Income Straight Life	17	64,147	6,034,600
Level Income Joint and Two-Thirds	28	99,372	10,586,486
Level Income Joint and 100%	11	43,833	5,269,299
Fifteen Year Certain and Life	3	11,134	1,380,335
Total Service Retirements	313	1,271,110	159,558,735
Disability Retirements	2	3,799	348,424
Surviving Beneficiaries	34	111,153	12,170,251
Vested Terminated Officers	12	22,333	1,148,172
Total	361	\$1,408,395	\$173,225,582

Exhibit 12
 Austin Police Retirement System
 Historical Comparison of Actuarial Accrued Liability and Actuarial Value of Assets
 (Present Plan Valuations as of December 31)

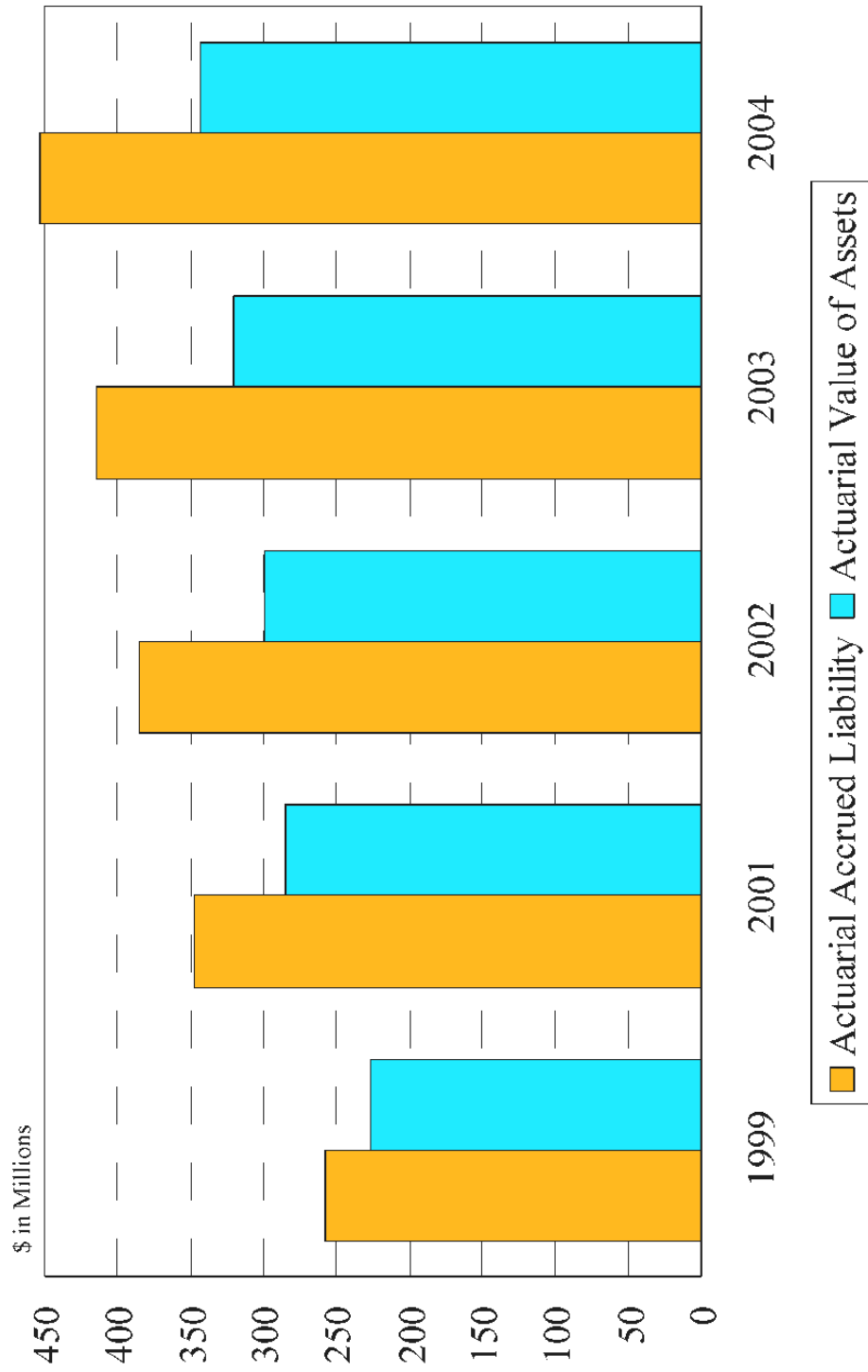


Exhibit 13

*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 computed considered 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*

Vested Benefit

If the member has 10 years of service, he may elect to leave his accumulated deposits 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.

Termination of Employment

A member terminating employment 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 will be 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.

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	<p>Entry Age Actuarial Cost Method</p> <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 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	UP-1994 Mortality Tables for males and females with no age adjustments or projections
b. Disabled	85% of 1965 RRB Disabled Annuitants Mortality Table

Exhibit 14 (continued)

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

10. Retirement Rates	Expected average retirement age of 52.9 based on the officers included in the December 31, 2004 valuation. See Exhibit 17 for service and age-related rates.
11. Withdrawal Rates	Expected number of terminations of 23 in 2005 based on the officers included in the December 31, 2004 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 without Purchase	<ul style="list-style-type: none"> • 20 months purchased on average • 50% of officers under 45 • 75% of officers 45 and above • 25% of estimated cost paid by officer
14. RETRO DROP Election	65% of those eligible for at least a one-year RETRO DROP are assumed to make such an election.
15. RETRO DROP Period Election	Members elect the maximum period eligible (up to 36 months).
16. Percent Single after Eligible for Service Retirement	15%
17. Age of Spouse of Officer Who Dies While Eligible to Retire	Female 3 years younger than male
18. 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
19. Ad Hoc Cost-of-Living Increases for Pensioners	None

Exhibit 14 (continued)

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

- | | |
|---|--|
| 20. 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. |
| 21. 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. |
| 22. 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, 2003 Actuarial Assumption	December 31, 2004 Actuarial Assumption
<ul style="list-style-type: none"> • RETRO DROP Election 	75%	65%
<ul style="list-style-type: none"> • RETRO DROP lump sums left with the System (PROP) 	No explicit assumptions	<ul style="list-style-type: none"> • 40% • until age 60 • 7% credited to PROP accounts

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*

Service	For Entry Ages Under 32			For Entry Ages 33 and Above			
	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

* 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.

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, 2004*

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)
12/31/99	\$226,913,439	\$257,850,162	\$30,936,723	88.0%	\$54,695,072	56.6%
12/31/01 ^{3,4}	284,761,203	347,548,177	62,786,974	81.9	69,706,749	90.1
12/31/02 ⁵	298,781,560	384,991,799	86,210,239	77.6	79,236,366	108.8
12/31/03 ⁵	320,354,298	413,964,994	93,610,696	77.4	80,958,862	115.6
12/31/04 ^{3,5}	343,446,574	451,579,880	108,133,306	76.1	86,673,590	124.8

¹ Prior to the actuarial valuation as December 31, 2002, 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 Economic and demographic assumptions were revised.

⁴ Reflects changes in plan benefit provisions effective September 1, 2001.

⁵ Reflects changes in plan benefit provisions effective September 1, 2003.

II. Schedule of Employer Contributions

Plan Year Ended December 31	Annual Contribution As a Fixed Percentage of Payroll	Annual Required Contribution ¹	Percentage Contributed
1999	18%	\$ 9,288,148	100%
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	17.902	14,714,174 ⁴	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.

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, 2004*

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, 2004
Actuarial cost method	Entry Age
Amortization method	Level percentage of projected payroll, open
Amortization period	32.0 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 Needed 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, 2004, the monthly benefit is equal to 3.0% of the highest 36-month average salary multiplied by years and months of service. Effective September 1, 2001, the RETRO DROP provisions were changed to require that a participant must have 23 years of creditable service with the retirement

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, 2004*

system excluding any military service credit on the date the participant elects for the RETRO DROP benefit computation date. Further, the selection of RETRO DROP benefit computation date may be changed in the future by Board rule with approval by the System's actuary. Also effective September 1, 2001 changes were made allowing the eligibility requirement for Service Retirement to be changed in the future by rule of the System's Board with approval by the System's actuary, except, the age 62 minimum eligibility regardless of services could not be changed.

On September 1, 2001, a Post Retirement Option Plan (PROP) introduced an option allowing for participants to elect to receive partial payments from the RETRO DROP lump sum account. The participant can also elect to delay payment of the entire RETRO DROP lump sum. Interest credits will be 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 will be granted based on an annual rate determined from time to time by Board Rule.

Effective September 1, 2003, the \$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, 2004, the assets of the Retiree Death Benefit Fund were \$60,023 included in the System's total market value of assets of \$349,015,060.

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 by the amount of increase in the Consumer Price Index, 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, 2004:

Retirees and beneficiaries currently receiving benefits (356) and terminated employees entitled to future monthly benefits (12)	368
Current participating members	<u>1,398</u>
Total	1,766

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, 2004*

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, 2004, 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 was 0.094% of payroll from September 1, 2003 through December 31, 2004. This portion was redetermined to be 0.098% for 2005 based on the December 31, 2003 actuarial valuation. This portion was redetermined based on the December 31, 2004 actuarial valuation to be 0.094% for 2006.

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, 2004 and the Plan provisions effective September 1, 2003, the normal cost was 20.016% of pay and the amortization period was 32.0 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, 2005*

I. Annual Pension Cost

For the fiscal year ending September 30, 2005, 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). Based on the December 31, 2002 actuarial valuation, this portion was 0.094% of payroll from September 1, 2003 through December 31, 2004. This portion was redetermined to be 0.098% for 2005 based on the December 31, 2003 actuarial valuation. Therefore, the required contributions for the fiscal year ending September 30, 2005 were equal to 17.906% of payroll for the period October 1, 2004 through December 31, 2004 and 17.902% of payroll for the period January 1, 2005 through September 30, 2005.

The required contributions for the fiscal year ending September 30, 2005 were based on the results of the actuarial valuations as of December 31, 2002 and as of December 31, 2003 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	12/31/2002	12/31/2003	12/31/2004
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	25.7 years	28.6 years	32.0 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, 2005

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
09/30/2003	\$ _____ ¹	100%	18/17.906% ²	\$0
09/30/2004	_____ ¹	100	17.906 ³	0
09/30/2005	_____ ¹	100	17.906/17.902 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 18% of payroll for the period October 1, 2002 through August 31, 2003 plus 17.906% of payroll for the month of September 2003.
³ APC was equal to 17.906% of payroll for the period October 1, 2003 through September 30, 2004.
⁴ APC was equal to 17.906% of payroll for the period October 1, 2004 through December 31, 2004 plus 17.902% of payroll for the period January 1, 2005 through September 30, 2005.

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)
12/31/99	\$226,913,439	\$257,850,162	\$30,936,723	88.0%	\$54,695,072	56.6%
12/31/01 ^{3,4}	284,761,203	347,548,177	62,786,974	81.9	69,706,749	90.1
12/31/02 ⁵	298,781,560	384,991,799	86,210,239	77.6	79,236,366	108.8
12/31/03 ⁵	320,354,298	413,964,994	93,610,696	77.4	80,958,862	115.6
12/31/04 ^{3,5}	343,446,574	451,579,880	108,133,306	76.1	86,673,590	124.8

- ¹ Prior to the actuarial valuation as December 31, 2002, 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 Economic and demographic assumptions were revised.
⁴ Reflects changes in plan benefit provisions effective September 1, 2001.
⁵ Reflects changes in plan benefit provisions effective September 1, 2003.

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, 2005*

**IV. Actuarial Information Needed 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, 2004, the monthly benefit is equal to 3.0% of the highest 36-month average salary multiplied by years and months of service.

Effective September 1, 2001, 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 selection of RETRO DROP benefit computation date may be changed in the future by Board rule with approval by the System's actuary. Also effective September 1, 2001 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.

On September 1, 2001, a Post Retirement Option Plan (PROP) introduced an option allowing for participants to elect to receive partial payments from the RETRO DROP lump sum account. The participant can also elect to delay payment of the entire RETRO DROP lump sum. Interest credits will be 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 will be 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, 2005*

Effective September 1, 2003, the \$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 by the amount of increase in the Consumer Price Index, 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, 2005, 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 0.094% for the period October 1, 2004 through December 31, 2004 and was 0.098% for the period January 1, 2005 through September 30, 2005.

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, 2005*

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, 2004 and the Plan provisions effective September 1, 2003, the normal cost was 20.016% of pay and the amortization period was 32.0 years.

**AUSTIN
POLICE RETIREMENT
SYSTEM**

**SUMMARY OF INVESTMENTS
DECEMBER 31, 2004**

	Market Value	% of Market Value
Real estate interests	103,188,497	29.9%
Corporate stocks	89,945,027	26.0%
Open-end and mutual funds	77,598,706	22.4%
International stocks	51,157,709	14.6%
Short-term investment funds	13,068,512	3.8%
Partnership interests	8,122,925	2.3%
Corporate bonds	3,267,789	1.0%
Retiree death benefit	<u>60,023</u>	<u>0.0%</u>
Total	\$346,409,188	100%

**SUMMARY OF INVESTMENTS
DECEMBER 31, 2003**

	Market Value	% of Market Value
Corporate stocks	80,628,569	26.9%
Real estate interests	67,041,756	22.4%
International stocks	40,926,843	13.7%
Government Bonds (PIMCO)	33,799,946	11.3%
U.S. Government securities	28,160,476	9.4%
Short-term investment funds	22,563,796	7.5%
Int'l Government securities	17,734,847	5.9%
Partnership interests	7,099,901	2.4%
Corporate bonds	<u>1,328,335</u>	<u>0.4%</u>
Total	\$ 299,284,469	100%

INTEREST PAID TO MEMBERS
(15 Year History)

<u>Year</u>	<u>Interest Paid</u>
2004	2.0%
2003	2.0%
2002	2.0%
2001	4.0%
2000	5.0%
1999	5.0%
1998	5.0%
1997	5.0%
1996	5.0%
1995	5.0%
1994	5.0%
1993	4.5%
1992	5.5%
1991	5.5%
1990	7.0%

HOW IS THE AMOUNT OF INTEREST PAID ON RETIREMENT CONTRIBUTIONS DETERMINED?

The Board of Trustees annually determines the amount of interest paid on members' accumulated deposits, taking into consideration the performance of the Fund's investments and the actuary's recommendations. The actuary considers what funds are necessary to pay all the benefits that retirees and their surviving beneficiaries are entitled to, as well as the expected liability for current officers who will someday retire.

Retirement interest is paid at the end of the calendar year based on the amount that each officer had in the system on the first day of that calendar year. For instance, if you had \$1,000 on January 1, and on December 31, you had \$1,500, your interest for that year would be based on the \$1,000 you had in the system on January 1. In order to obtain that interest, your money must have remained on deposit for the entire calendar year.

Cost of Living (Ad Hoc) Adjustments
(15 Year History)

<u>Year</u>	<u>COLA Paid</u>
2004	1.75%
2003	3.0%
2002	1.5%
2001	3.0%
2000	3.0%
1999	3.0%
1998	4.0%
1997	2.0%
1996	3.0%
1995	2.0%
1994	0.0%
1993	5.0%
1992	6.0%
1991	6.0%
1990	4.0%

HOW IS THE AMOUNT OF COST OF LIVING ADJUSTMENT FOR RETIREES DETERMINED?

The Board of Trustees annually determines the amount of cost of living adjustment (Ad Hoc) to pay retirees, taking into consideration the performance of the Fund's investments, consumer price index (CPI) and the actuary's recommendations. The actuary considers what funds are necessary to pay all the benefits that retirees and their surviving beneficiaries are entitled to, as well as the expected liability for current officers who will someday retire, making sure the liabilities can be amortized within acceptable accounting and governmental guidelines.

Cost of living adjustments are paid at the beginning of the calendar year, of the year proceeding the year approved. A member who retires between January 1, and December 31, in the year the cost of living adjustment is approved, will see their amount paid prorated for the number of months the retiree was actually retired.

COMPARATIVE STATEMENT OF MEMBERSHIP

RETIREMENT SYSTEM	2004	2003
Total Number of Members, January 1	1406	1383
Add: New Members	66	109
Deduct: Members Terminated	(30)	(44)
Members Transferred to Retiree System	(32)	(32)
Total Membership, December 31	1410	1415
Deduct: Inactive Vested Members	<u>(12)</u>	<u>(9)</u>
*TOTAL ACTIVE MEMBERS, DECEMBER 31	<u>1398</u>	<u>1406</u>

RETIREE SYSTEM

Total Number of Retired Members, January 1	329	306
Add: Retired Members Transferred to System	32	30
Deduct: Retired Members Deceased	<u>(5)</u>	<u>(7)</u>
*TOTAL RETIRED MEMBERS, DECEMBER 31	<u>356</u>	<u>329</u>

* Membership status as of 3/31/05

INTRODUCTION

While this information below sets forth most of the facts about the plan, it does not attempt to describe all provisions or limitations as they apply in individual situations. In case of any conflict between the guide and the statute, Article 6243n-1, Vernon's Texas Civil Statutes, as amended will prevail.

RETIREMENT SYSTEM MEMBERSHIP AND CONTRIBUTIONS

MEMBERSHIP REQUIREMENTS

All cadets upon enrollment in the Austin Police Academy, and commissioned law enforcement officers employed by the City of Austin Police Department, as well as full time employees of the City of Austin Police Retirement System (after serving a 6 month probationary period); become members of the Police Retirement System at date of employment.

CONTRIBUTIONS

Each member of the system contributes 9% of base pay bi-weekly and annual longevity pay through payroll deduction. Overtime or special pay is not included. Contributions continue unless a member is on leave of absence, withdraws by terminating and/or retiring.

The City of Austin contributes 18% of every police member's base pay bi-weekly and 18% of member's longevity pay annually. Once it becomes a part of the retirement fund, the City's contribution is invested for the benefit of all active employees and made available to pay benefits at retirement. Most retirees receive benefits equal to all their own contributions and interest, through their monthly annuity payments, within two or three years after retirement. Because of the contributions made by the City and the interest earned on the Fund's investments, money is available to continue paying each retiree monthly benefits according to their selected option as long as they live, long after their own contributions have been received. These contributions and interest earned thereof, also help in paying lifetime benefits to the surviving beneficiaries of deceased retirees according to their selected option and pay periodic (Ad-Hoc) cost of living adjustments (COLA's).

RETIREMENT FUND INVESTING

The COA-Police Retirement System's Fund monies are invested according to requirements prescribed by the system's statutory plan and further defined in the Board's Statement of Investment Policy and Statement Guidelines. The investments provide returns that help fund the monthly retirement allowances and make benefit improvements to the system on behalf of active members, retired members and beneficiaries.

SERVICE RETIREMENT BENEFITS

RETIREMENT ELIGIBILITY

Normal, unreduced retirement:

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

- * Any age and 23 years creditable service. (excluding Pre-membership Military Service)
- * Age 55 and 20-years creditable service. (excluding Pre-membership Military Service)
- * Age 62 and any number of creditable service years.

CREDITABLE SERVICE

Creditable service is service that is used in computing retirement benefits. There are seven types of creditable service:

- 1. Membership Service** - Eligible service during employment period where a member makes payroll contributions to the fund.
- 2. Probationary Service** - Eligible service purchased from commission date to retirement system start date in the event it has not been credited.
- 3. Military Service** - Eligible service purchased for up to two years previous active federal duty military service, prior to employment. A member is not eligible to use this type of military service credit when it has been used as creditable service in another federal or statutory public retirement system in Texas.
- 4. Uniformed Leave of Absence Service** - Eligible service for military leave of absence granted from City employment and purchased within five years of reemployment with the City.
- 5. Reinstated Forfeited Service** - Eligible service for prior Austin Police Retirement System membership service that was forfeited by withdrawal of accumulated deposits, and repurchased after 24 consecutive months of membership service after police reemployment.
- 6. Cadet Service** - Eligible service purchased from date of cadet class enrollment to commission date in the event it has not been credited.
- 7. Permissive Service** - Eligible service of up to 60 months at 20 years of service credit or more for immediate retirement, excluding pre-membership military service, at full actuarial present value cost.

The options that include benefits to a survivor are figured according to the ages of both member and surviving beneficiary included in the plan.

A member's benefit is permanently reduced if an option is chosen that provide survivor benefits to a beneficiary. This reduction is applied to the member's basic benefit relative to the option the member chooses.

The reduction of member benefits is necessary to pay for the continued benefits the surviving beneficiary is expected to receive.

RETROACTIVE DEFERRED RETIREMENT OPTION PLAN

The retroactive deferred retirement option plan, referred to as RETRO DROP Option, is a one-time benefit paid at retirement with a reduced monthly retirement benefit. To be eligible a member must qualify with a normal service retirement of 23 years at any age, excluding pre-membership military service credit. The maximum amount of service to be used in computation of the RETRO DROP after normal service retirement of 23 years, excluding pre-membership service credit is 36 months.

On the election of RETRO DROP and the selection of the RETRO DROP benefit computation date, the member's monthly retirement option is computed as if the member had retired on the RETRO DROP benefit computation date. The RETRO DROP benefit balance will include the accumulated monthly benefits after 23 years with retiree COLA'S, multiplier increases, member contributions and a 5% simple interest calculation on December 31st for balances on deposit as of January 1st of the same calendar year.

A member who elects RETRO DROP receives a one-time benefit with a reduced monthly retirement benefit at retirement date.

Certain selections of options and beneficiary designations other than a surviving spouse may have adverse consequences under the Internal Revenue Code of 1986, which may cause a reduction in the amount of benefit payable. You are urged to consult your attorney or tax advisor prior to a final selection of an option.

RETRO DROP BALANCE OPTION PLAN or (PROP) Post Retirement Option Plan

Instead of a single lump-sum payment, a member may elect to receive partial payments from the member's RETRO-DROP account for each calendar year, in an amount elected by the member. The board may establish procedures concerning partial payments, including limitations on timing and frequency of those payments. A member who elects partial payments may, at any time, elect to receive the member's entire remaining RETRO DROP account balance in a single lump-sum payment, with the payment to be made under rules adopted by the board.

If a member elects partial payments, the member's RETRO DROP account shall be credited with earnings or losses of the system while funds remain in the account. These earnings or losses will be determined at an annual rate established under a rule adopted by the board, which can be amended by board rule.

RETIREMENT OPTION'S AFFECT ON BENEFICIARY

If a member selects the Life Annuity, the monthly benefit stops at the death of the member. At that time an amount equal to the excess, if any, of the member's accumulated deposits over the amount of payments made to the member will be paid in a lump sum to the member's designated beneficiaries or estate.

If the member chooses an option providing benefits to a survivor, then at the member's death the benefit specified in the option will be paid to the designated beneficiary for life. If the designee does not survive the member, monthly benefits cease. The amount equal to the excess, if any, of the members accumulated deposits over the amount of payments which have been made to both the member and the beneficiary combined will be paid in a lump sum to other designated beneficiaries, or to the estate of the deceased member.

DISABILITY RETIREMENT BENEFITS

DISABILITY ELIGIBILITY

To be eligible for disability retirement, the applicant must be unable to perform employment duties due to medical or emotional restriction's and/or diagnosis. The disability must be considered a permanent job performance disability. The disability must also be subsequent to the member's effective date of membership AND,

1) if a member with less than 10 years of creditable service has, become mentally or physically incapacitated for the performance of the employment duties the member had immediately before incapacitation as a direct result of injuries sustained subsequent to the member's effective date of membership in the Police Retirement System, the member may apply for disability retirement. Such application made for or on behalf of the injured member, shall show that the injury sustained was as a direct or proximate result of the performance of the member's employment duties with the City or with the system; that it is likely to result in the member's inability to perform the duties of a position offered to the member in the system, the police department, or any other department in the City; that pays as much or more than the current pay of the position the member was holding on the date of the member's disability.

2) if a member with more than 10 years of creditable service has become mentally or physically incapacitated for the performance of the employment duties the member had immediately before incapacitation, the member may apply for disability retirement. Such application made for or on behalf of the injured member, shall show that the incapacity is likely to result in the member's inability to perform the duties of a position offered to such member in the system, the police department, or any other department in the City; that pays as much or more than the current pay of the position the member was holding on the date of the member's disability.

Disability applications are presented to the Disability Committee, whose recommendations are reported to the Retirement Board. The Board has the final authority in granting disability retirement benefits.

COMPUTATION OF DISABILITY BENEFIT

On award of disability retirement benefits, the member shall receive a disability retirement computed in the same manner that a service retirement benefit would be computed at the member's normal retirement date, based on average final compensation and creditable service at date of disability retirement without reduction for early retirement. If the disability is a direct or proximate result of the performance of the member's employment duties with the system or the city, then the disability retirement benefit will be subject to a minimum benefit based on average final compensation at date of disability retirement and 20 years of service.

A member approved for a disability retirement benefit will have the option to select an unreduced basic Life Annuity; 100% Joint and Survivor Annuity; 50% Joint and Survivor Annuity; 66 2/3% Joint and Survivor Annuity; Joint and 66 2/3% Last Survivor Annuity; and Fifteen Year Certain and Life Annuity.

Disability retirees are required annually to provide proof of continued disability and financial need to the Retirement Board.

DISABILITY BENEFIT LIFE ANNUITY CALCULATED

Disability retirement benefit **Life Annuity** are calculated using the following formula:

$$\frac{\$5,525.00}{\text{Average monthly salary for highest 36 months of last 10 years of contributing service}} \times \frac{20}{\text{Total years of membership}} \times 3.0\% = \frac{\$3,315.00}{\text{Basic monthly benefit amount service}}$$

3.0% multiplied by years of membership service times averaged monthly salary for the highest 36 months of the last ten years of contributing service by payroll deduction.

DEATH & SURVIVOR BENEFITS

FOR RETIREE OR ELIGIBLE RETIREE'S BENEFICIARY

At the death of a retiree, a tax free death benefit of \$7,500 is paid to the designated beneficiary(ies) or estate.

At the death of an active member eligible to retire, a taxable death benefit of \$7,500 is paid to the designated beneficiary(ies) or estate.

FOR ACTIVE & VESTED MEMBER'S BENEFICIARY

At the death (whether on or off the job) of an active member:

Who is not eligible for retirement, the designated beneficiary(ies) is entitled to a lump sum payment consisting of a return of the member's accumulated deposits (contributions and interest) and a death benefit from the Fund of an amount equal to the deposits. The lump sum payment may not be less than \$7500. When the \$7,500 minimum is payable, the amount payable from the Fund is \$7,500 minus the accumulated deposits standing to the member's credit.

At the death of a vest member:

Who has terminated employment, but left their contributions in the Fund waiting to become eligible for retirement. If such a vested member dies before the annuity payments begin, their beneficiary would receive in a lump sum amount twice the deceased vested members' accumulated deposits.

If a member has met the requirements of retirement eligibility prior to death:

The surviving designated beneficiary will be entitled to receive monthly payments under a retirement option in lieu of the return of the member's accumulated deposits and lump sum death benefit.

In the event a member who is eligible for service retirement dies without making a written option selection, and the member leaves a surviving spouse. The surviving spouse may select a retirement option in the same manner as the member would have made or may select a lump sum payment equal to twice the members accumulated deposits.

If there is no surviving spouse, the deceased member's beneficiary may elect to receive payment under Option VII, a Fifteen Year Certain and Life Annuity, which will pay monthly benefits for a period of fifteen years, or a lump sum payment equal to twice the members accumulated deposits.

When monthly benefits are payable in lieu of a lump sum, a \$7,500 taxable death benefit will be paid to the beneficiary(ies).

SELECTION OF RETIREMENT OPTIONS AND DESIGNATING A BENEFICIARY

Within one year prior to the date on which a member becomes eligible for service retirement, the member may file with the board the member's written statement either selecting a retirement option or designation of beneficiary. The member will retain the right to make a final selection of retirement option or designation of beneficiary until the date of retirement.

HEALTH INSURANCE

Basic medical and dental insurance coverage is available through the City of Austin Human Resources Benefits Division.

Retirees have several choices of insurance carriers and coverage options. Any questions about carriers and plan coverage choices should be directed to the City of Austin Benefits Office at One Texas Center, 505 Barton Springs, Rd., Ste. 600, Austin, Texas 78704. or, P.O. Box 1088, Austin, Texas 78767 or by phone at (512) 974-3284.

LEAVING THE SYSTEM

DEFINITION OF A VESTED MEMBER

When you have attained ten years of creditable service, you become a vested member of the retirement system.

This means that you have a right to receive a monthly annuity when you reach retirement eligibility. Even if you leave the City Police employment before reaching eligibility, if you are vested, you can decide to leave your contributions in the system and begin drawing your annuity when you reach age 62, or when you meet other age and service requirements for retirement eligibility.

It is important to note that, although retirement contributions for inactive members draw interest, the inactive member's multiplier can increase during the years between the member's termination and retirement, but no cost of living increases are applied.

RETIREMENT BENEFITS RETURNED TO MEMBER

When you leave the City as a cadet or a commissioned officer, you will fill out a refund form telling the Pension Office which option form you wish, when you want to receive your retirement contributions and where you want them to be sent. Your choices will be:

1. Have your contributions refunded as soon as you terminate employment. Your retirement contribution refund check will be issued two weeks after you receive your final check. It will be mailed to the address on the refund form. (Federal Income Tax will be withheld on all untaxed contributions and interest at 20% of the total taxable amount.)
2. You may decide to leave your contributions in the retirement system through the end of the calendar year. By doing this, you will receive interest on your contributions. Once the year has ended, your refund check will be issued to you in January. (Federal Income Tax will be withheld on all untaxed contributions and interest at 20% of the total taxable amount).

3. You may have your contributions transferred to an I.R.S. qualified retirement plan through a direct rollover by leaving a letter of transfer with the Pension Office. (Federal Income Tax will not be withheld but the monies will be made payable and moved to the qualified retirement plan on your behalf).

4. If you have ten or more credit service years, you can choose to take advantage of your vested right to an annuity when you reach retirement eligibility. If you indicate that you want to vest your benefits, your contributions will remain in the retirement system until you reach retirement eligibility and request that your monthly annuity begin. Your contributions will continue to earn interest until your monthly annuity begins. One thing to remember should you choose vesting is when you reach eligibility, your benefits will be based on the eligibility in effect at the time you terminated employment. You will receive the current multiplier but no cost of living increases will be applied to your benefits after you leave City Police employment and before the date your annuity payments begin.

RETIREMENT REFUND CHECKS ISSUED AFTER WITHDRAWING CONTRIBUTIONS

With your final paycheck, one final contribution will be made to the retirement fund. After that check is issued, the exact amount of your total refund can be determined. Retirement refund checks are issued every two weeks, at the same time regular payroll checks are issued. Therefore, a member's retirement refund check will be issued the payday following the issuance of that member's final paycheck. NOTE: Your final time sheet must be properly coded before your retirement refund check can be issued. If you have ten or more years of service at termination, contact the Pension Office regarding your option to receive a vested accrued retirement benefit.

LEAVING THE CITY AND WITHDRAWING ACCUMULATED DEPOSITS

Every payday the City contributes an amount to the retirement fund that is 18% of the total of all members payroll. This money becomes a part of the retirement fund. Whereas each member's own contributions are individually accounted for, the amount paid in by the City belongs to all the members of the retirement system and is not specifically assigned to individual members.

When you leave police employment before becoming eligible for retirement, all of your own contributions and interest are returned, however no City contributions, or interest earned, will be paid to you.

FUND INFORMATION

RETIREMENT FUND LOANS AND WITHDRAWALS

The Austin Police Retirement System is an approved I.R.S. qualified 414h defined benefit plan designed to provide income to members who retire from the City. Because of this, APRS members are not allowed, by Federal law, to borrow or withdraw funds as long as they are still employed.

DETERMINING INTEREST ON YOUR CONTRIBUTIONS

The Board of Trustees annually determines the amount of interest paid on members' accumulated deposits, taking into consideration the performance of the fund's investments and the actuary's recommendations. The actuary considers what funds are necessary to pay all the benefits that retirees and their surviving beneficiaries are entitled to, as well as the expected liability for current members who will someday retire.

Retirement interest is paid on December 31st, based on the amount each member has in the Police Retirement System on January 1st of the same calendar year.

DETERMINING YOUR COA-POLICE RETIREMENT SYSTEM'S DEPOSIT AMOUNT

Members receive an 'Annual Statement' from the Austin Police Retirement System in January each year which provides information on total accumulated deposits and interest along with total creditable service.

WHO SHOULD I CONTACT FOR MEMBER SERVICES

A Pension Office has been established to serve the membership. Group and individual counseling is provided to members by this office. Prior to your retirement, a retirement counselor will prepare a schedule of your benefits under each of the options and assist you in your preparation to retire.

The Pension Office personnel can be reached at (512) 416-7672 and their address is 2520 South I.H. 35, Suite 205, Austin, Texas 78704.

IMPROVEMENTS TO SYSTEM

(Last 15 Years)

August 1991

The governance of the system changed from city ordinance to state law. The maximum annual cost-of-living increase, which can be granted to retired officers, was increased to 6% from 4%.

NOVEMBER 1992

A full time Pension Administrator was hired.

AUGUST 1993

Purchased building at 2520 South IH-35 to permanently house the Pension Office.

OCTOBER 1993

Member contribution rate was increased from 6% to 9%.

OCTOBER 1994

The City's contribution rate was increased from 12% to 14%.

SEPTEMBER 1995

Provision added for retirement eligibility with unreduced benefits to include members who have 25 years of creditable service.

Benefit formula multiplier was increased from 2.3% to 2.8%.

Special increase granted to retirees based on benefit formula multiplier in use at date of Retirement.

The retiree death benefit is increased to \$5,000 from \$2,000.

OCTOBER 1995

The City's contribution rate was increased from 14% to 16%.

OCTOBER 1996

The City's contribution rate was increased from 16% to 18%.

SEPTEMBER 1997

Benefit formula multiplier was increased from 2.8% to 2.88%.

Special Ad hoc increase granted to retirees based on benefit multiplier 2.88% divided by benefit multiplier 2.8%, minus one, and multiplied by 100.

The retiree death benefit is increased to \$7,500 from \$5,000.

Retroactive Deferred Retirement Option Plan (RETRO DROP) provision added for retirement lump sum distribution with a reduced benefit.

APRIL 1998

Officers who had non-membership time after they were enrolled in Cadet class are now able to buy back that non-membership time as retirement service credit.

Cadets are now members of the retirement system at enrollment date and upon contributing 9% of their biweekly payroll.

SEPTEMBER 1999

Board Membership changed to allow for greater membership participation by adding one active officer and one retired officer position to the Board of Trustees.

July 2000

Benefit formula multiplier was increased from 2.88% to 3.0%

Special Ad hoc increase granted to retirees based on benefit multiplier 3.0% divided by benefit multiplier 2.88%, minus one, and multiplied by 100.

SEPTEMBER 2001

Provision added for retirement eligibility with unreduced benefits to include members who have 23 years of creditable service excluding pre-membership military service.

Post Retirement Option Plan (PROP) provision added for members who select the Retroactive Deferred Retirement Option Plan (DROP) and instead of receiving a single lump-sum payment, elect to receive partial payments from the member's DROP account for each calendar year, in an amount elected by the member.

SEPTEMBER 2003

IRS code adopted to allow the retiree death benefit amount of \$7,500 to be distributed to beneficiary of retired member as a Tax Free lump sum amount.

Permissive Service Credit provision added, which allows members to purchase at 20 years of service, additional time, minimum of three years service credit needed to retire at normal retirement eligibility (23 years) at actuarially neutral cost to the 'System'.

NOTES