CITY OF AUSTIN POLICE
RETIREMENT SYSTEM

2005

ANNUAL REPORT

Public Pension Coordinating Council

Public Pension Standards

2005 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)

Alan H. Winkle
Program Administrator

AUSTIN

POLICE RETIREMENT

SYSTEM

2005 ANNUAL REPORT

AND MEMBERS BENEFIT GUIDE

DECEMBER 31, 2005

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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- Benefit Services Specialist

CUSTODIAN BANK

The Northern Trust Company
Chicago, Illinois

INVESTMENT CONSULTANT & PERFORMANCE EVALUATION

Consulting Services Group,
Memphis, TN

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
Godwin, Pappas, Langley & Ronquillo
Dallas, 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

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

Quadrant Real Estate Advisors (Formerly GMAC Institutional Advisors, LLC)
Alpharetta, Georgia

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

INVESTMENT MANAGERS (continued)

Alternatives

Timber

Global Forest Partners
West Lebanon, New Hampshire

RMK Timberland Group
Atlanta, GA

Timberland Investment Resources
Atlanta, GA

Natural Resources

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

Wellington Management Company
Boston, Massachusetts

BlackRock
New York, NY

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
Atlanta, GA

INVESCO Realty Advisors
Dallas, TX

CITY OF AUSTIN

POLICE RETIREMENT SYSTEM

2005 ANNUAL REPORT
LETTER TO MEMBERS

Dear Members,

The Board of Trustees of the Austin Police Retirement System is pleased to present our 2005 Annual Report.

As the December 31, 2005 year-ended, the Market value of the 'System' assets increased by 11.65% to $389 million from $349 million. On June 30, 2006 these same assets were valued at $412 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) has provided the Austin Police Retirement System increases in asset value of 16% in 2004 and 21% in 2003 since it was put in place in 2002, after the collapse of the financial markets in 2001. Experts in the financial industry tell us this asset allocation provides the best opportunity to earn 8% and have the lowest volatility while meeting the actuarial investment assumption return used for determining the Austin Police Retirement System financial strength.

On April 1, 2006 a new program for retirees began called Post Retirement Option Plan (PROP) that allows retirees to defer payment of their monthly annuity and post the payment into an interest bearing account at the retirement system.

As of June 30, 2006 there were 1402 police officers and cadets who were members of the 'System.' There were 401 retired police officers and beneficiaries of police officers receiving monthly benefits and 11 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.

Sincerely,

Peter Morin
Chairman, Board of Trustees

Pension Office
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Austin, Texas 78704
512/416-7672
FAX 512/416-7138

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

CITY OF AUSTIN
POLICE RETIREMENT SYSTEM

FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION
AND
INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2005 AND 2004

CITY OF AUSTIN
POLICE RETIREMENT SYSTEM

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Arturo Montemayor III
President

Pamela L. Hill
Shareholder

Montemayor & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

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

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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, 2005 and 2004 and the changes in its financial status for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis (MD&A) and the required supplementary information on pages 2 through 5 and 19 through 20 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 MD&A and required supplemental information. However, we did not audit this information and express no opinion on it.

Montemayor & Associates, P.C.

May 26, 2006
Austin, Texas

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CITY OF AUSTIN POLICE RETIREMENT SYSTEM
Management's Discussion and Analysis
December 31, 2005 and 2004

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

Financial Highlights

- Plan net assets held in trust by the System increased by $40.7 million or 11.7% in 2005 and increased by $47.6 million, or 15.8%, in 2004. The increases in 2005 and 2004 were due to positive investment returns and contributions in excess of benefit payments.
- Contributions increased by $1.6 million, or 6.9% in 2005 and increased by $1.3 million, or 5.9% in 2004. The increases are primarily due to officer general wage increases of around 5.5% and 5.0%, respectively.
- The amount of benefits paid to retired members and beneficiaries and refunded to terminating employees increased approximately $2.1 million, or 12.9%, during 2005 and $1.4 million, or 9.5%, during 2004. This is the result of the increase in the number of System retirees and retiree cost of living raises of 1.75% in 2005 and 3% in 2004.
- The System's rate of return on investments for the year ended December 31, 2005 was 10.8% gross of fees and 10.3% net of fees, on a market value basis, which was less than the return of 14.7% gross of fees and 14.0% net of fees for the year ended December 31, 2004. The actuarial assumed rate of return is 8.00%, net of fees.
- The funding objective of the System is to meet long-term benefit obligations through contributions and investment income. As of December 31, 2005, the date of the most recent actuarial valuation, the System's funding ratio of actuarial assets as a percentage of actuarial liabilities is 75.1%, which is down from the 76.1% level at December 31, 2004. This is primarily due to the change in mortality assumptions for actives and retirees.

Overview of the Financial Statements

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

- **Statement of Plan Net Assets** - presents the System's assets and liabilities and the resulting net assets, which are held in trust for pension benefits. This statement reflects a year-end snapshot of the Plan's investments, at fair value, along with cash and short-term investments, receivables and other assets and liabilities.
- **Statement of Changes in Plan Net Assets** - provides a view of current year additions to and deductions from the plan. These two statements report the System's net assets held in trust for pension benefits (net assets) – the difference between assets and liabilities – is one way to

CITY OF AUSTIN POLICE RETIREMENT SYSTEM
Management's Discussion and Analysis
December 31, 2005 and 2004

measure the Systems' financial position. Over time, increases and decreases in net assets are one indicator of whether its financial health is improving or deteriorating.

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

Collectively, this information presents the net assets held in trust for pension benefits as of the end of each year, and summarizes the changes in net assets held in trust for pension benefits for the year.

Financial Analysis

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

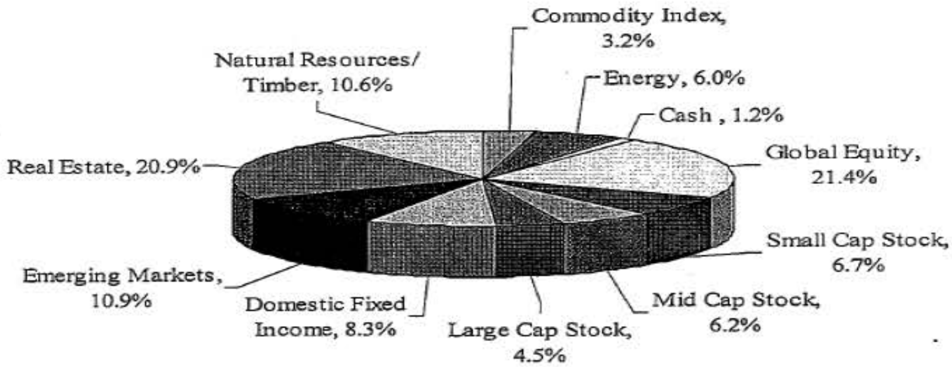
Assets	2005	2004	2003
Cash, receivables and prepaids	$ 4,619,073	$ 3,105,965	$ 2,219,516
Investments	389,661,173	346,409,188	299,284,469
Fixed assets, net	435,166	454,205	435,486
Total assets	394,715,412	349,969,358	301,939,471
Liabilities			
Total liabilities	5,026,279	954,298	508,497
Net assets held in trust for pension benefits	$389,689,133	$349,015,060	$301,430,974

Assets. As shown in the table, the Systems' net assets increased by $40.7 million in 2005 and $47.6 million in 2004. The 2005 and 2004 increases primarily reflect investment returns in the energy, emerging markets, real estate and timberland markets. The increase in cash, receivables, and prepaids of approximately $1.5 million in 2005 is primarily due to increased interest and dividends receivable at year end. The increase in cash, receivables, and prepaids of approximately $886 thousand in 2004 is primarily due to an increase in the cash held in the operating account. Total investments were $389.7 million at the end of fiscal year 2005 and $346.4 million at the end of fiscal year 2004, which is an increase of $43.3 million or 12.5% for fiscal year 2005.

Below is a chart of the System's asset allocation for fiscal year ending December 31, 2005:

CITY OF AUSTIN POLICE RETIREMENT SYSTEM
Management's Discussion and Analysis
December 31, 2005 and 2004

APRS Asset Allocation Percentages as of 12/31/05



Liabilities. Liabilities increased $4.1 million in 2005 and $446 thousand in 2004. The increase for 2005 is primarily due to a real estate capital commitment that was due and payable at the end of the year. The increase for 2004 is primarily due to refunds owed and payable to terminated employees at year end.

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

	2005	2004	2003
Additions			
Contributions	$ 24,167,426	$ 22,598,861	$ 21,340,424
Investment income	37,353,206	43,953,052	48,125,163
Investment expenses	(1,492,473)	(1,789,244)	(1,300,185)
Net investment income	35,860,733	42,163,808	46,824,978
Other income	193,315	200,036	191,349
Total additions	60,221,474	64,962,705	68,356,751
Deductions			
Benefit payments & contributions refunded	18,767,339	16,627,672	15,186,805
General and administrative expenses	780,062	750,947	723,605
Total deductions	19,547,401	17,378,619	15,910,410
Net increase	40,674,073	47,584,086	52,446,341
Net assets held in trust for pension beginning of year	349,015,060	301,430,974	248,984,633
Net assets held in trust for pension end of year	$389,689,133	$349,015,060	$301,430,974

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CITY OF AUSTIN POLICE RETIREMENT SYSTEM
Management's Discussion and Analysis
December 31, 2005 and 2004

Additions. Funds to pay benefits are accumulated through contributions and returns on invested funds. Member and City of Austin contributions for 2005 and 2004 totaled $24.2 million and $22.6 million, respectively. The 2005 contributions represent an increase of $1.6 million, or approximately 6.9% above 2004. In 2004, contributions based on payroll were $1.3 million above the 2003 level. These increases are due to officer general wage increases of around 5.5% and 5.0%, respectively.

The System incurred a positive return on the market value of its investments during 2005. Net investment gain of $35.9 million was due to performance of the portfolio assets, although $6.3 million less than in 2004. Interest, dividends and net securities lending income generated 2005 income of $11.4 million, an increase from the $8.1 million received in 2004. The total rate of return for the System's investment portfolio in 2005 was 10.3% (net of fees) as compared to 14.0% (net of fees) for 2004.

Deductions. The expenses paid by the System include benefit payments, refunds of member contributions, and administrative expenses. Benefits paid to retirees in 2005 were $18.3 million, an increase of $2.5 million from payments made in 2004, consistent with the increase in the number of retirees to 386 in 2005 from 356 in 2004 and the cost of living raise in the amount of 1.75%. Refunds to terminating employees decreased by $319 thousand. Administrative expenses in 2005 were $780 thousand, slightly more than those incurred in 2004.

Benefits paid to retirees in 2004 were $15.9 million, an increase of $948 thousand from payments made in 2003, consistent with the increase in the number of retirees to 356 in 2004 from 329 in 2003 and the cost of living raise in the amount of 3%. Refunds to terminating employees increased by $492 thousand. Administrative expenses in 2004 were $751 thousand, slightly more than those incurred in 2003.

Investment expenses decreased by $297 thousand in 2005 and increased by $489 thousand in 2004. The increase in 2004 is due to the reallocation of assets into real estate, emerging markets and timber funds (which have higher management fees in the first year) from the traditional investments in equities and bonds.

Overall Analysis

As of December 31, 2005, net assets increased by $40.7 million or 11.7% from the prior year, and over the five-year period ending December 31, 2005, net assets increased by 47.4%. The five-year period growth reflects a positive market return in the last three years and a negative return in the first two years.

Request for Information

This financial report is designed to provide a general overview of the finances of the City of Austin Police Retirement System for all parties with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Pension Administrator, City of Austin Police Retirement System, P.O. Box 41089, Austin, Texas 78704-0019.

CITY OF AUSTIN
POLICE RETIREMENT SYSTEM

STATEMENT OF PLAN NET ASSETS
DECEMBER 31, 2005 AND 2004

	2005	2004
ASSETS		
Investments, at fair value		
Real estate interests	$115,002,500	$103,188,497
Corporate stocks	115,543,092	89,945,027
Government Bonds	41,764,468	41,461,176
International Government Securities	42,582,710	36,137,530
International stocks	43,164,151	51,157,709
Short-term investment funds	11,450,824	13,068,512
Partnership interests	8,114,779	8,122,925
Corporate bonds	3,063,102	3,267,789
Alternatives	8,866,173	0
Retiree death benefit fund	109,374	60,023
Total investments	389,661,173	346,409,188
Cash	1,025,907	974,146
Interest and dividends receivable	3,096,186	1,738,429
City of Austin retirement contributions receivable	324,063	257,413
City of Austin death benefit contributions receivable	1,694	1,346
Participant contributions receivable	161,651	129,379
Fixed assets	435,166	454,205
Other	9,572	5,252
	$394,715,412	$349,969,358
LIABILITIES		
Accounts payable and accrued liabilities	433,008	$375,983
Capital calls payable	4,500,000	0
Refunds payable	93,271	578,315
	5,026,279	954,298
NET ASSETS HELD IN TRUST AVAILABLE FOR PENSION BENEFITS (See schedule of funding progress on page 19)	$389,689,133	$349,015,060

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CITY OF AUSTIN
POLICE RETIREMENT SYSTEM

STATEMENT OF CHANGES IN PLAN NET ASSETS
YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004
ADDITIONS TO PLAN NET ASSETS:		
Contributions:		
City of Austin retirement contributions	$15,754,922	$14,714,174
City of Austin death benefit contributions	85,473	80,660
Participant contributions	8,327,031	7,804,027
	24,167,426	22,598,861
Investment income :		
Net increase in the fair value of investments	25,927,109	35,765,849
Interest and dividends	11,295,967	8,088,945
Securities lending	130,130	98,258
Rental and other income	193,315	200,036
Total investment gain before expenses	37,546,521	44,153,088
Investment expenses	(1,492,473)	(1,789,244)
Net gain from investments	36,054,048	42,363,844
Total additions to net assets available for benefits	60,221,474	64,962,705
DEDUCTIONS FROM NET ASSETS AVAILABLE FOR BENEFITS:		
Retirement benefit payments	18,306,648	15,832,666
Death benefit payments	22,500	37,500
Contributions refunded to terminating employees	438,191	757,506
General and administrative expenses	780,062	750,947
Total deductions from net assets available for benefits	19,547,401	17,378,619
NET INCREASE IN NET ASSETS AVAILABLE FOR BENEFITS	40,674,073	47,584,086
Beginning net assets available for benefits	349,015,060	301,430,974
ENDING NET ASSETS AVAILABLE FOR BENEFITS	$389,689,133	$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, 2005, the monthly benefit is equal to 3.0% of the highest 36-month average salary multiplied by years and months of service. The RETRO DROP provisions require that a participant must have 23 years of creditable service with the retirement system excluding any military service credit on the date the participant elects for the RETRO DROP benefit computation date. Further, the RETRO DROP provisions may be changed in the future by Board rule with approval by the System's actuary, except, the age 62 minimum eligibility regardless of services may not be changed.

The Post Retirement Option Plan (PROP) is an option allowing retiring officers to leave their RETRO DROP lump sum in the System for a period of time. The participant can elect to receive partial payments from the RETRO DROP lump sum account and can also elect to delay payment of the entire RETRO DROP lump sum. Interest credits 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.

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

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

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, 2005 and 2004:

	2005
Retirees and beneficiaries currently receiving benefits (386) and terminated employees entitled to future monthly benefits (11)	397
Current participating members	1,427
2005 Total	1,824

	2004
Retirees and beneficiaries currently receiving benefits (356) and terminated employees entitled to future monthly benefits (12)	368
Current participating members	1,398
2004 Total	1,766

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' 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.

CONTRIBUTIONS RECEIVABLE

The final biweekly payroll contributions of employees for the years ended December 31, 2005 and 2004 and the City's related contributions were not deposited in the System by year end and are shown as contributions receivable in both years.

CITY OF AUSTIN
POLICE RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

SYSTEM EXPENSES

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

ADOPTION OF NEW ACCOUNTING STANDARD

During fiscal year 2005, the System adopted Governmental Accounting Standards Board Statement No. 40, Deposit and Investment Risk Disclosures ("GASB 40"). This statement establishes and modifies disclosure requirements related to deposits and investments, focusing on interest rate risk, credit risk, custodial credit risk, concentration of credit risk and foreign currency risk. The provisions of GASB 40 require the additional disclosures presented in these notes, but have no impact on the System's net assets.

NOTE 3: 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, 2005 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	246,316	28,713	0	275,029
Leasehold improvements	44,752	0	(13,775)	30,977
Accumulated depreciation	(444,818)	(47,752)	13,775	(478,795)
Net Fixed Assets	$454,205	($19,039)	$0	$435,166

CITY OF AUSTIN
POLICE RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

NOTE 4: FEDERAL INCOME TAXES

The System is a Public Employee Retirement System and is exempt from Federal income taxes. The Internal Revenue Service is currently reviewing the qualified status of the Plan. The System's management and Board believe that the System is currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code.

NOTE 5: DEPOSIT AND INVESTMENT RISK

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 Board has adopted an Investment Policy Statement (IPS) to set forth the factors involved in the management of investment assets for the System and the IPS is included with every investment manager's agreement. The fair values of the Systems' investments at December 31, 2005 and 2004 are presented, by type, as follows:

Investment Type	2005	2004
Real Estate Interests	$ 115,002,500	$ 103,188,497
Corporate Stocks	115,543,092	89,945,027
Government Bonds	41,764,468	41,461,176
International Government Securities	42,582,710	36,137,530
International Stocks	43,164,151	51,157,709
Partnership Interests	8,114,779	8,122,925
Corporate Bonds	3,063,102	3,267,789
Alternatives*	8,866,173	-
Short-term Investment Funds	11,560,198	13,128,535
Total Investments	$ 389,661,173	$ 346,409,188

* represents an equity investment in a energy sector hedge fund that invests solely in equity securities and related derivatives in the energy and natural resources sectors.

CUSTODIAL CREDIT RISK

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the System will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. While the System has no formal policy regarding custodial credit risk, operating bank account deposits in excess of the $100,000 coverage by FDIC are covered by pledged securities held as collateral under the City of Austin. As of December 31, 2005, the System's operating bank balance of $1,025,907 was not exposed to custodial credit risk.

CITY OF AUSTIN
POLICE RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

NOTE 5: DEPOSIT AND INVESTMENT RISK

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the System and are held by either the counterparty or the counterparty's trust department or agent but not in the System's name. As of December 31, 2005, the System's investment securities are not exposed to custodial credit risk because all securities are held by the System's custodial bank in the System's name and securities on loan with brokers are fully insured for cash collateral.

CONCENTRATION OF CREDIT RISK

Concentration of credit risk is the risk of loss attributed to the magnitude of the System's investment in a single issuer. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, other pooled investments, real estate and timberland are excluded from this requirement. As of December 31, 2005, there is no security issued by a single issuer that holds more than 5% of the System's total fund.

The Board and Investment Policy Statement (IPS) seek to minimize risk by diversification, setting high investment manager characteristics, providing managers with investment guidelines, and monitoring/reviewing, on a quarterly basis, for compliance.

Diversification is achieved through providing a wide variety of investment classes in which to invest the Systems funds. The IPS sets the following allowable ranges and target asset allocations for the Systems' funds:

Class	Allowable Range	Target Asset Allocation
Global Equity	0% - 35%	25.00%
Domestic Small Cap. Equity/Venture Capital	0% - 20%	7.50%
Domestic Mid Cap. Equity	0% - 20%	5.00%
Domestic Large Cap. Equity	0% - 20%	5.00%
Domestic Fixed Income	0% - 20%	5.00%
Global Fixed Income	0% - 10%	0.00%
Emerging Market Debts/Fund of Funds	0% - 10%	10.00%
Hedge Funds/Fund of Funds	0% - 15%	0.00%
Real Estate	0% - 30%	25.00%
Private Equity Funds/Fund of Funds	0% - 10%	0.00%
Natural Resources (Timberland)	0% - 15%	10.00%
Commodities	0% - 10%	2.50%
Energy Fund	0% - 5%	5.00%
Cash or Cash Equivalents	0% - 100%	0.00%

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CITY OF AUSTIN
POLICE RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

NOTE 5: DEPOSIT AND INVESTMENT RISK

The allowable range means the highest and lowest percentage of each asset class allowed. The target asset allocation is the average allocation desired over time. The Board may decide to vary from the target asset allocation at its discretion to protect assets in down markets or to take advantage of strong up markets.

Significant guidelines by type of investment are as follows:

U.S. Equity Managers

- No more than 40% of the portfolio can be invested in any one "sub-industry group" based on market value for small and mid cap managers – No more than 40% of the portfolio can be invested in any one industry group based on market value for large cap managers
- Equities purchased should have a minimum market capitalization of $50 million for small cap managers, $750 million for mid cap managers and $5 billion for large cap managers (except up to 20% may be below $5 billion, but no lower than $1 billion)
- Cash reserves should be invested in interest bearing securities with slight risk of loss and price fluctuation or in money market funds

Global Equity Managers

- No more than 10% of the portfolio can be invested in any one company based on market value of the portfolio
- No more than 40% of the portfolio can be invested in any one industry based on market value of the portfolio
- Equities purchased should have a minimum market capitalization of $5 billion
- Cash reserves should be invested in money market funds

Emerging Markets Managers

- No more than 35% of the portfolio will be invested in obligation of or in any one country
- No more than 25% of the portfolio will be in currencies other than US dollars (unless hedged into US dollars)
- No more than 25% of the portfolio will be in any one currency (other than US dollars)
- No more than 20% of the portfolio will be invested in equity securities
- May deal in options and sell investments short for efficient portfolio management purposes or to hedge. The margins and premiums associated with options and payable for such transactions shall not exceed 10 % of the portfolio net asset value

CITY OF AUSTIN
POLICE RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

NOTE 5: DEPOSIT AND INVESTMENT RISK

Fund of Funds Managers

- No more than 50% of the net asset value of the allocation will be invested in any one underlying fund
- No more than 50% of the net asset value of the allocation will be exposed to investments, held through the underlying funds, that are not denominated in USD or other G7 currencies
- No more than 50% of the net asset value of the allocation will be invested in underlying funds that are principally equity funds
- May use leverage and derivatives for efficient portfolio management purposes or to hedge. Margin associated with an exchange derivative and futures transaction and premium associated with over-the-counter option transactions and payable for such transactions shall not exceed 10% of the net asset value of the allocation.

Domestic Fixed Income Managers

- Liquidity of the portfolio should be enhanced through purchases of highly marketable securities
- Holdings should be reasonably diversified to the extent it is prudent to do so
- Maturities of one year or greater retained in the portfolio should be of an original issue size in excess of $50 million
- Cash reserves should be invested in money market funds

INTEREST RATE RISK

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

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

Investment Type	Fair Value	Less than 1 year	1 to 6 years	6 to 10 years
Corporate Bond	$ 3,063,102	$ 238,369	$ 2,824,733	$ 0
International Securities	29,040,011	0	0	29,040,011
Government Bonds	41,764,468	0	29,427,606	12,336,862
Totals	$ 73,867,581	$ 238,369	$ 32,252,339	$ 41,376,873

CITY OF AUSTIN
POLICE RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

NOTE 5: DEPOSIT AND INVESTMENT RISK

CREDIT RISK

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the System. While the System has no formal investment policy regarding credit quality rating guidelines, the IPS allows investment managers full discretion in adopting investment strategies to deal with these risks and the portfolios are monitored quarterly by the investment committee.

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

Quality Rating	Total Fair Value	Int'l Securities	Corporate Bonds	Government Bonds
A3/A-	$ 2,384,678	$ 2,384,678	$	$
B1/B+	8,122,315	8,122,315		
B2/B	4,324,332	4,324,332		
B3/B-	5,262,827	5,262,827		
Ba1/BB+	408,672	408,672		
Ba2/BB	4,074,181	4,074,181		
Ba3/BB-	525,020	525,020		
Baa1/BBB+	13,543	13,543		
Baa2/BBB	1,835,789	1,597,420	238,369	
Baa3/BBB-	5,277,376	5,277,376		
Caa1/CCC+	488,891	488,891		
AAA*	41,764,468			41,764,468
Not Rated	5,674,499	5,674,499		
Unrated	4,428,956	4,428,956		
Total	$ 84,585,547	$42,582,710	$ 238,369	$ 41,764,468

* Average Quality Rating – credit quality of the holdings in an open-end institutional mutual fund

FOREIGN CURRENCY RISK

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Although APRS does not have a formal investment policy governing foreign currency risk, the System does manage its exposure to fair value loss by requiring their international investment managers to maintain diversified portfolios to limit foreign currency risk.

The System holds investments in ADRs (American Depository Receipts) which are not included in the schedule below since they are denominated in US dollars and accounted for at fair market value. The System's exposure to foreign currency risk as of December 31, 2005, is as follows:

CITY OF AUSTIN
POLICE RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

NOTE 5: DEPOSIT AND INVESTMENT RISK

Currency	Partnership Interest (1)	Int'l Stocks	Int'l Gov't Securities	Alternatives (2)	Corp Stocks (3)	Gov't Bonds (4)
Euro	$	$ 19,707,803	$ 18,960	$ 332,570	$ 57,321	$
Mexican Peso			2,428,081			
Hong Kong Dollar					20,399	
Japanese Yen		8,353,125				
Turkish New Lira			2,317,141			
Norwegian Krone				84,938	109,873	
British Pound Sterling		7,840,093		166,507	121,605	182,765
Brazilian Real			2,853,586			
Swiss Franc		3,438,082				
Australian Dollar	4,541,787		21,668	95,489	84,590	
Singapore Dollar		862,082	616,193			
Russian Rouble			1,698,226			
South Korean Won		80,015	559,313		151,319	
Canadian Dollar				972,087	2,474,410	
Other			3,709,081	88,662		
Totals	$ 4,541,787	$ 40,281,200	$ 14,222,249	$ 1,740,253	$3,019,517	$182,765

(1) Represents a commingled timberfund
(2) Represents an equity investment in an energy sector hedge fund
(3) Represents a commingled pool in equity investments
(4) Represents an open-end institutional mutual fund

NOTE 6: SECURITIES LENDING

The System participates in a securities lending program sponsored by its custodian, The Northern Trust Company 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 and the collateral is returned to the borrower. 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.

The System is not exposed to credit risk at December 31, 2005 and 2004, respectively, as the collateral held exceeded the market value of the securities lent. All security loans can be terminated on demand by either the lender or the borrower. The average number of days that the System's securities were borrowed was approximately 100 days and 83 days as of December 31, 2005 and 2004, respectively.

Non-cash collateral cannot be pledged or sold unless the borrower defaults. Cash collateral is invested in a short-term investment pool, the Core USA Collateral Section, which has an average weighted maturity less than the maturity of the loaned securities. 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.

CITY OF AUSTIN
POLICE RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

NOTE 6: SECURITIES LENDING

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

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

2005	Market Value of Loaned Securities Collateralized by Cash Collateral	Cash Collateral	Market Value of Loaned Securities Collateralized by Non-Cash Collateral	Non-Cash Collateral
Security Type:				
US Equities	$ 20,211,037	$ 20,778,610	$ -	$ -
Global Equities	3,201,408	3,359,211	-	-
Total	$ 23,412,445	$ 24,137,821	$ -	$ -

2004	Market Value of Loaned Securities Collateralized by Cash Collateral	Cash Collateral	Market Value of Loaned Securities Collateralized by Non-Cash Collateral	Non-Cash Collateral
Security Type:				
US Equities	$ 13,018,362	$ 13,301,362	$ 4,712	$ 4,786
Global Equities	15,672,729	16,445,982	2,163	2,260
Total	$ 28,691,091	$ 29,747,344	$ 6,875	$ 7,046

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CITY OF AUSTIN
POLICE RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

NOTE 7: CONTRIBUTIONS

The System is funded by biweekly contributions from the basic compensation, consisting of base pay and longevity pay, of police officers and by contributions from the City. Under the provisions in effect on December 31, 2005 and 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, redetermined annually, was 0.098% for 2005 based on the December 31, 2003 actuarial valuation and is 0.094 for 2006 based on the December 31, 2004 actuarial valuation. This portion was redetermined based on the December 31, 2005 actuarial valuation to be 0.081% for 2007.

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

While contribution rates are not actuarially determined, state law requires that each plan of benefits adopted by the System must be approved by a qualified actuary. The actuary certifies that the contribution commitment by the police officers and the City provides an adequate financing arrangement. Using the entry age actuarial cost method, the System's normal cost is determined as a percentage of payroll. The excess of the total contribution rate over the normal cost rate is used to amortize the System's unfunded actuarial accrued liability, and the number of years needed to amortize the System's unfunded actuarial accrued liability is determined using an open, level percentage of payroll method. Based on the actuarial valuation as of December 31, 2005 and the current plan provisions, the normal cost was 20.241% of pay and the amortization period was 38.3 years.

NOTE 8: COMMITMENTS

The System's investments in real estate interests are included in the table appearing in note 5. In connection with those investments, the System has remaining commitments as of December 31, 2005 and 2004 of approximately \$19,400,000 and \$22,400,000, respectively, pursuant to the terms of the respective real estate interests.

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

I. Schedule of Funding Progress

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

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

II. Schedule of Employer Contributions

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

[1] The annual required contribution is based on actual covered payroll.
[2] Effective September 1, 2003, a portion of the Employer's total 18% contribution is allocated to a Retiree Death Benefit Fund. This portion was determined to be 0.094% effective September 1, 2003 based on the December 31, 2002 actuarial valuation
[3] The employer's total contribution during 2003 including the Retiree Death Benefit Fund was $13,950,555.
[4] The employer's total contribution during 2004 including the Retiree Death Benefit Fund was $14,794,834.
[5] The employer's total contribution during 2005 including the Retiree Death Benefit Fund was $15,840,395.

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

III. Notes to Required Supplementary Information

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

Valuation date	December 31, 2005
Actuarial cost method	Entry Age
Amortization method	Level percentage of projected payroll, open
Amortization period	38.3 years
Asset valuation method	Market value smoothed by a 5-year deferred recognition method with a 80%/120% corridor on market
Actuarial assumptions:	
- Investment rate of return, net of expenses	8.0%
- Projected salary increases including promotion and longevity	4.0% to 22.0% per year, averaging 6.8%
- Inflation rate per year	4.0%
- Postretirement cost-of-living adjustments	None

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

A. PLAN DESCRIPTION

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

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

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

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

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

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

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

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

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

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

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

B. CONTRIBUTIONS

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

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

While contribution rates are not actuarially determined, state law requires that each plan of benefits adopted by the System must be approved by a qualified actuary. The actuary certifies that the contribution commitment by the police officers and the City provides an adequate financing arrangement. Using the entry age actuarial cost method, the System's normal cost is determined as a percentage of payroll. The excess of the total contribution rate over the normal cost rate is used to amortize the System's unfunded actuarial accrued liability, and the number of years needed to amortize the System's unfunded actuarial accrued liability is determined using an open, level percentage of payroll method. Based on the actuarial valuation as of December 31, 2005 and the current plan provisions, the normal cost was 20.241% of pay and the amortization period was 38.3 years.

AUSTIN POLICE RETIREMENT SYSTEM

ACTUARIAL VALUATION
AS OF
DECEMBER 31, 2005

AUGUST 8, 2006

Rudd and Wisdom, Inc.

CONSULTING ACTUARIES

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August 8, 2006

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

Re: Actuarial Valuation as of December 31, 2005

Members of the Board of Trustees:

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

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

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

Police Retirement Board
Page 3
August 8, 2006

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

Respectfully submitted,

Robert M. May

Robert M. May
Fellow, Society of Actuaries
Enrolled Actuary

Mark R. Fenlaw

Mark R. Fenlaw
Fellow, Society of Actuaries
Enrolled Actuary

Table of Contents

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

Summary

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

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

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

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

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

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

2. In 2005 the officers received a 5.5% general pay increase on October 1, 2005. The pay of the officers was greater than expected because we assumed that general pay

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

3. The payroll increased by almost 7.8% since the prior valuation, more than the assumed 4.0% increase. The higher payroll decreased the amortization period by 2.3 years.

4. The demographic experience in the aggregate was slightly adverse, increasing the UAAL by $1.6 million and the amortization period by 0.5 year.

5. The changes in assumptions regarding future military service purchases had the effect of decreasing the UAAL by $4.8 million and the amortization period by 2.7 years.

6. The change in the mortality assumption for actives and retirees had the effect of increasing the UAAL by $6.3 million and the amortization period by 6.5 years.

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

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

Projected Actuarial Valuation Results

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

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

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

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

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

Retiree Death Benefit Fund

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

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

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

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

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

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

Exhibit 1

Austin Police Retirement System
Actuarial Valuation Balance Sheets

		December 31, 2004[1]	December 31, 2005[1]
1.	Actuarial present value of future benefits		
	a. Payable to those now receiving benefits or entitled to receive benefits	$ 174,198,292	$ 190,436,407
	b. Payable to active members	468,744,037	513,336,405
	c. Total	$ 642,942,329	$ 703,772,812
2.	Actuarial present value of future normal cost contributions	$ 191,362,449	$ 209,131,956
3.	Actuarial accrued liability (Item 1c-Item 2)	$ 451,579,880	$ 494,640,856
4.	Actuarial value of assets	$ 343,446,574	$ 371,504,533
5.	Unfunded actuarial accrued liability (UAAL) (Item 3-Item 4)	$ 108,133,306	$ 123,136,323
6.	Total contributions (percent of payroll)[2]	26.906%	26.919%
7.	Normal cost (percent of payroll)	20.016%	20.241%
8.	Percent of payroll available to amortize the UAAL	6.890%	6.678%
9.	Annualized covered payroll	$ 86,673,590	$ 93,428,957
10.	Present annual amount available to amortize the UAAL	$ 5,971,810	$ 6,239,186
11.	Years to amortize the UAAL	32.0 Years	38.3 Years

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

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

Exhibit 2

Austin Police Retirement System

25-Year Projection

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

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

B. Assumptions for years 2006 through 2030:

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

Exhibit 3

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

	December 31, 2004	December 31, 2005
Assets		
Investments		
Real Estate Interests	$ 103,188,497	$ 115,002,500
Corporate Stocks	89,945,027	115,543,092
International Stocks	51,157,709	43,164,151
U.S. Government Bonds	41,461,176	41,764,468
International Government Securities	36,137,530	42,582,710
Short-Term Investment Funds	13,128,535	11,560,198
Partnership Interests	8,122,925	8,114,779
Corporate Bonds	3,267,789	3,063,102
Alternatives	0	8,866,173
Total Investments	$ 346,409,188	$ 389,661,173
Other Assets		
Interest and Dividends Receivable	$ 1,738,429	$ 3,096,186
Cash	974,146	1,025,907
Fixed Assets	454,205	435,166
Contributions Receivable	388,138	487,408
Other Assets	5,252	9,572
Total	$ 3,560,170	$ 5,054,239
Total Assets	$ 349,969,358	$ 394,715,412
Liabilities		
Contributions Refundable	$ 578,315	$ 93,271
Other Payables	375,983	4,933,008
Total Payables	$ 954,298	$ 5,026,279
Net Market Value of Assets (Assets Minus Liabilities)	$ 349,015,060[1]	$ 389,689,133[2]

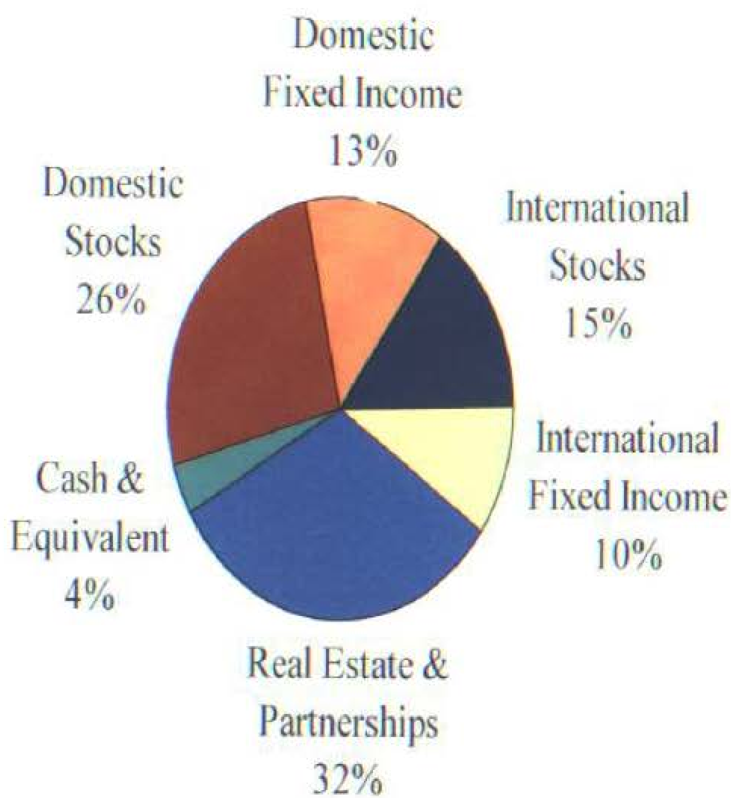
[1] Includes $60,023 for the Retiree Death Benefit Fund. The Net Market Value of Assets, excluding the Retiree Death Benefit Fund, is $348,955,037.

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

Exhibit 4

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

December 31, 2004



December 31, 2005

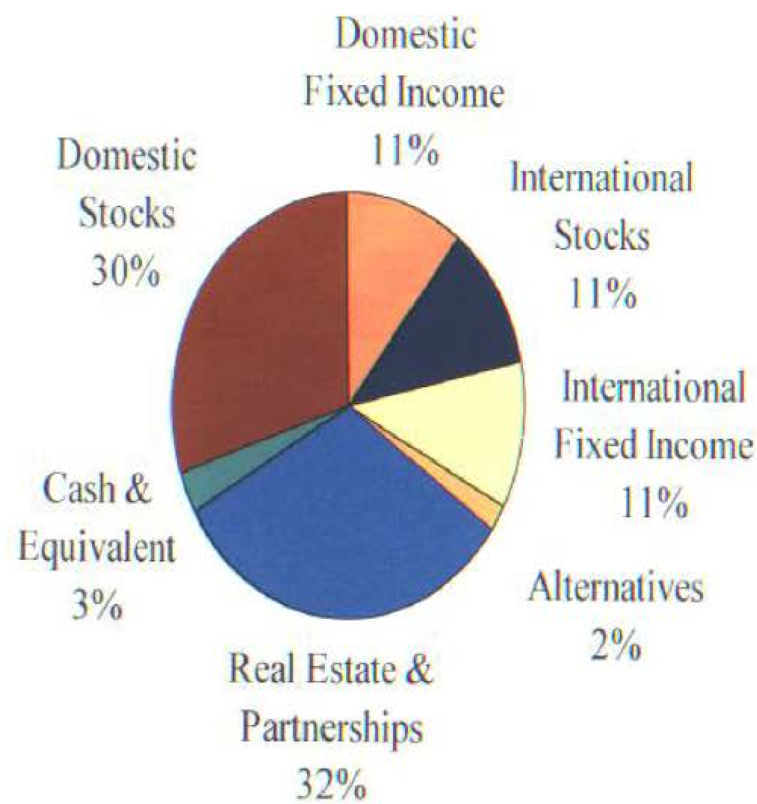


Exhibit 5

Austin Police Retirement System

Development of Actuarial Value of Assets

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

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

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, 2005
2005	$ 7,140,933	80%	$ 5,712,746
2004	17,264,166	60%	$ 10,358,500
2003	26,132,542	40%	10,453,017
2002	(42,245,187)	20%	(8,449,037)
Total			$ 18,075,226

Actuarial Value of Assets as of December 31, 2005

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

Exhibit 6

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

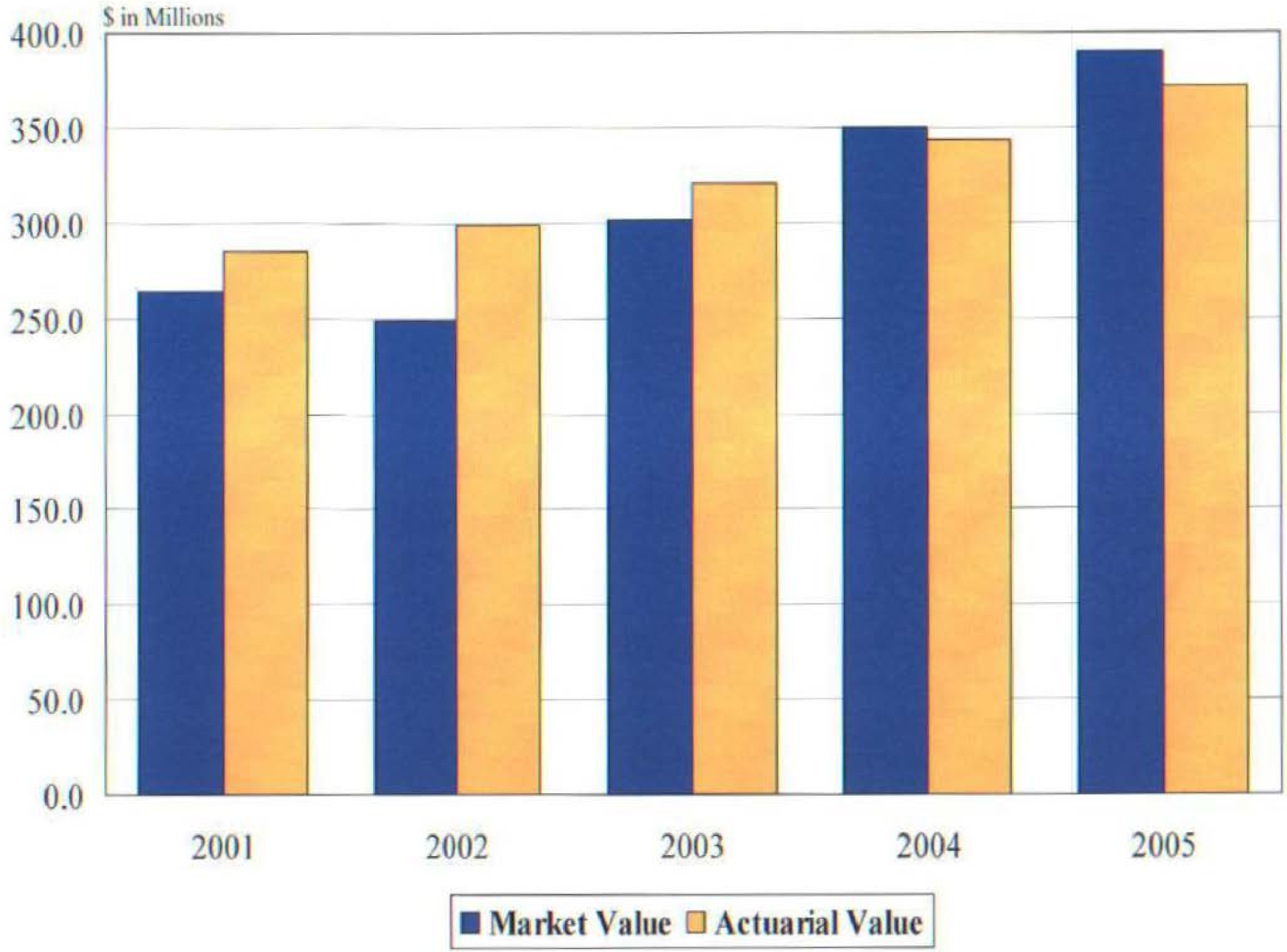


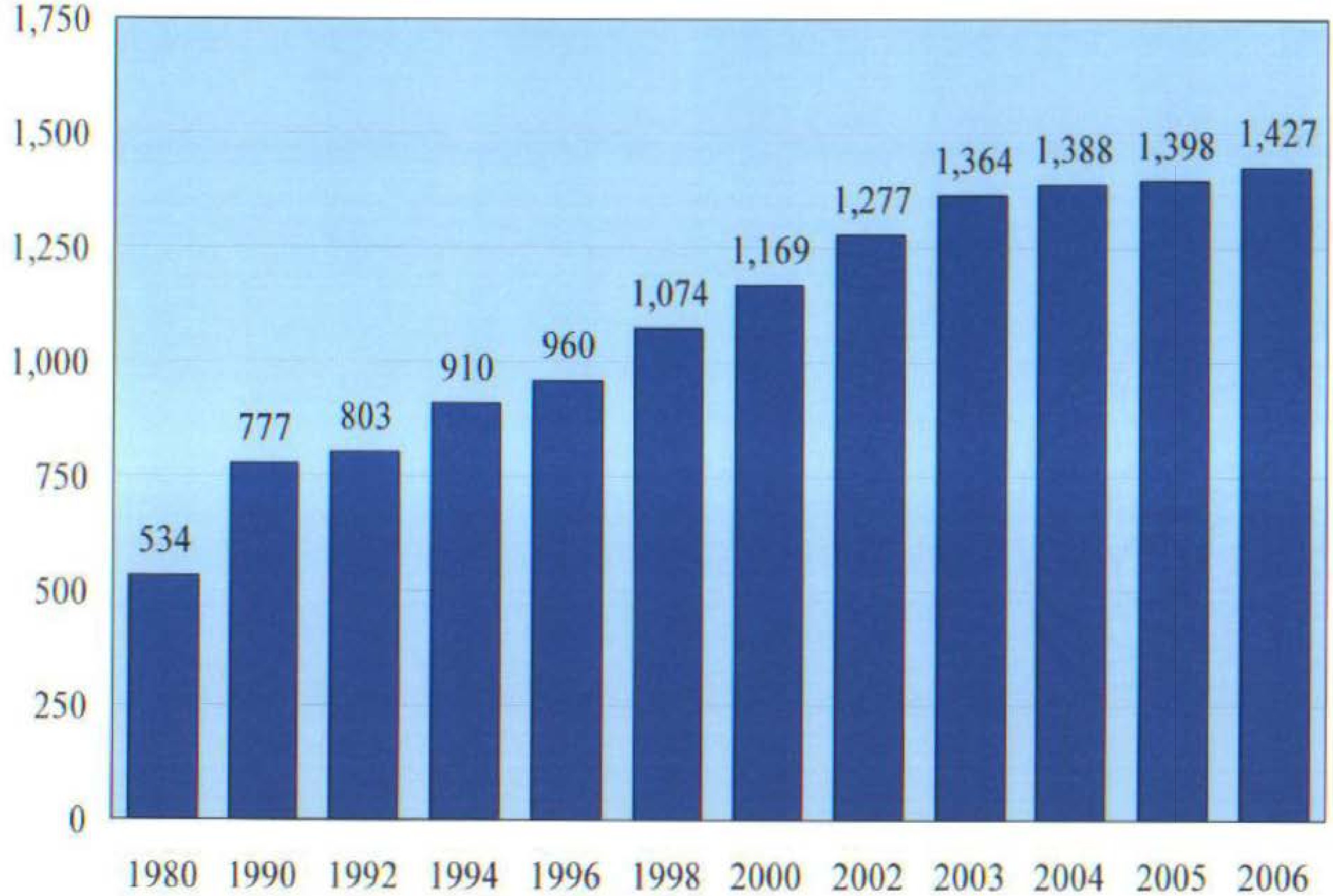
Exhibit 7

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

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

Exhibit 8

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



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

Exhibit 9

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

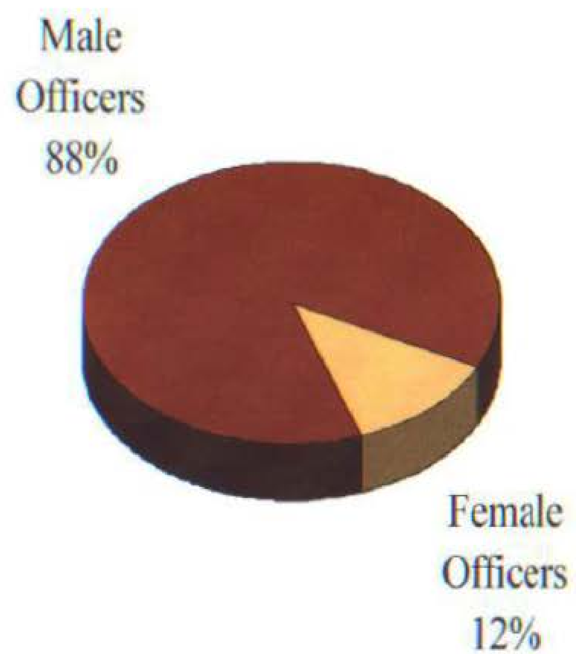


Exhibit 10

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

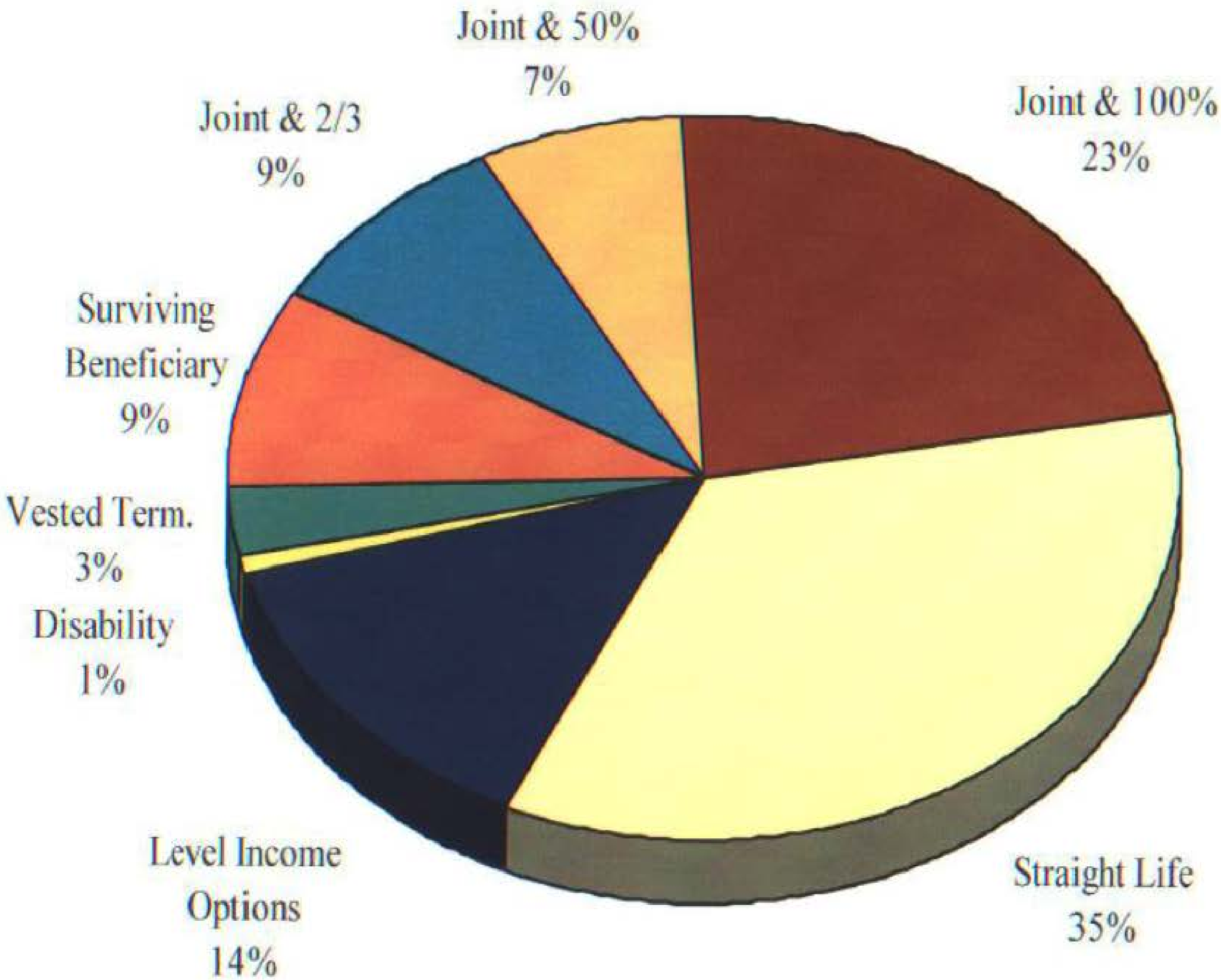


Exhibit 11

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

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

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

Exhibit 12

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

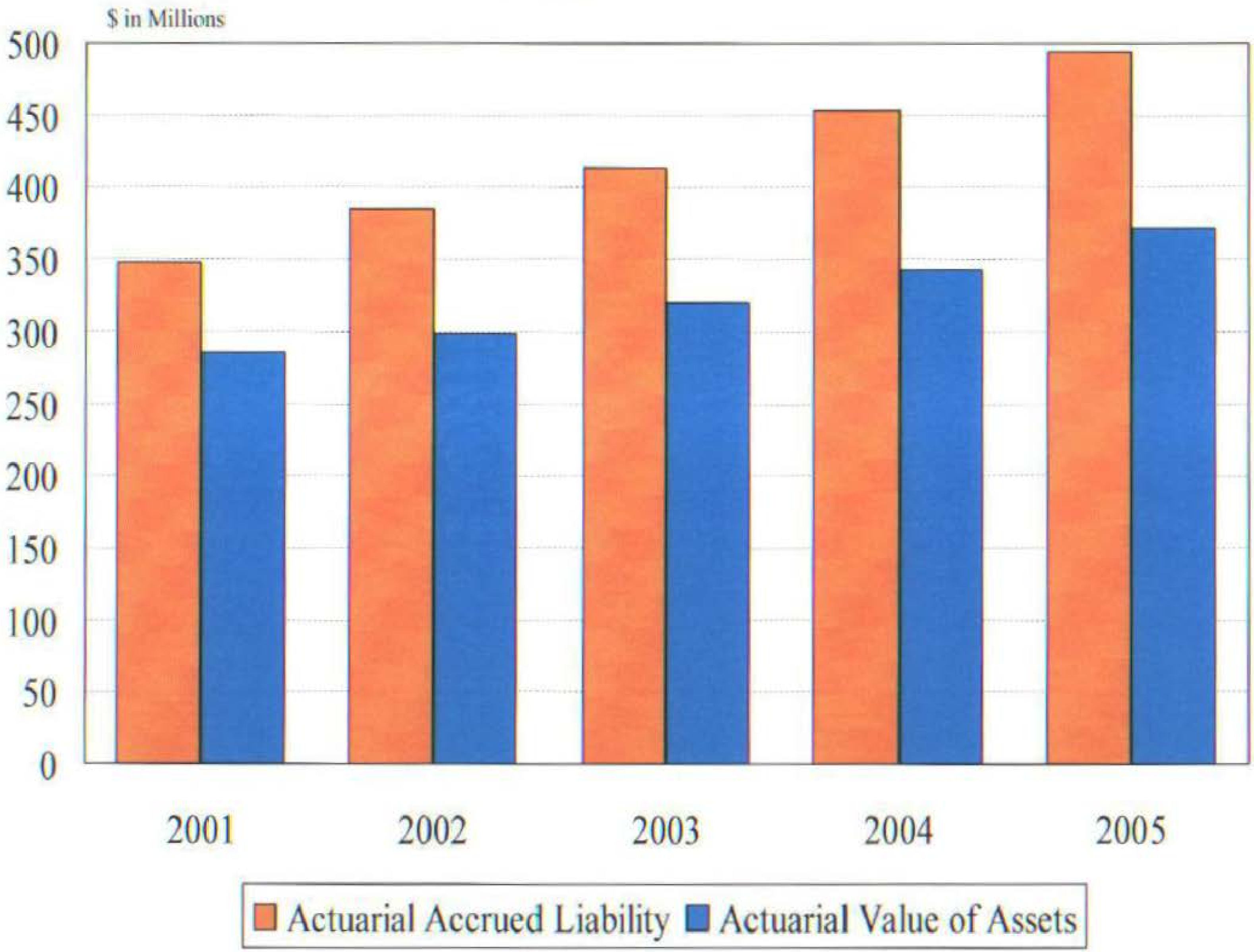


Exhibit 13

Austin Police Retirement System
Summary Plan Description

Date System Began

January 1, 1980

Statute Effective Date

September 1, 2003

Administration

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

Employees Included

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

Employee Contributions

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

City Contributions

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

Service Considered

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

Exhibit 13 (continued)

Austin Police Retirement System
Summary Plan Description

Compensation Considered

Base pay and longevity pay.

Average Final Compensation

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

Normal Retirement Date

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

Normal Service Retirement Benefit

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

Disability Benefit

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

Exhibit 13 (continued)

Austin Police Retirement System
Summary Plan Description

Death Benefits

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

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

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

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

Retiree Death Benefit Fund

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

Exhibit 13 (continued)

Austin Police Retirement System
Summary Plan Description

Termination Benefit

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

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

Optional Payments

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

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

Postretirement Cost-of-Living Increases

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

Exhibit 14

Austin Police Retirement System
Summary of Actuarial Methods and Assumptions

1. Actuarial Cost Method	Entry Age Actuarial Cost Method • The normal cost is calculated to be a level percent of compensation over a member's career. • The unfunded actuarial accrued liability is assumed to be funded by level percent contributions of employee payroll based on annual payroll growth of 4% per year due to general wage increases.
2. Asset Valuation Method	Gains and losses in the market value of assets, based on the difference between the actual rate of return and the assumed rate of return, are recognized in the actuarial value over five years. The actuarial value will not be less than 80% or more than 120% of the market value of assets.
3. Investment Return (Interest Rate)	8% per year, net of all expenses
4. Inflation	4% per year
5. Salary Increase Due to General Wage Increases	4% per year
6. Salary Increases Due to Promotion and Longevity Increases	2.8% per year average over 25-year career. See Exhibit 16 for the promotion and longevity salary increases by year of service.
7. Total Salary Increase	6.8% per year average over 25-year career. See Exhibit 16 for the total salary increases by year of service.
8. Interest Credited on Officer's Accumulated Contributions	3% per year
9. Mortality	
a. Active and Retired	RP-2000 Mortality Tables for males and females (Combined Healthy Lives)
b. Disabled	RP-2000 Mortality Tables for males and females (Combined Healthy Lives)

Exhibit 14 (continued)

Austin Police Retirement System
Summary of Actuarial Methods and Assumptions

10. Retirement Rates	Expected average retirement age of 53.0 based on the officers included in the December 31, 2005 valuation. See Exhibit 17 for service and age-related rates.
11. Withdrawal Rates	Expected number of terminations of 24 in 2006 based on the officers included in the December 31, 2005 valuation. See Exhibit 18 for service-related rates.
12. Disability Rates	See Exhibit 19 for age-related rates.
13. Future Pre-Employment Military Service Purchase for Officers with Military Service Information in Database Who Have Not Yet Purchased Credit	• 100% of officers will purchase • All of military service will be purchased up to allowable 24 months • Officers will pay 25% of estimated cost
14. Future Pre-Employment Military Service Purchase for Officers without Purchase	• 35% of officers will purchase • 22 months purchased on average • Officers will pay 25% of estimated cost
15. RETRO DROP Election	65% of those eligible for at least a one-year RETRO DROP are assumed to make such an election.
16. RETRO DROP Period Election	Members elect the maximum period eligible (up to 36 months).
17. Percent Single after Eligible for Service Retirement	15%
18. Age of Spouse of Officer Who Dies While Eligible to Retire	Female 3 years younger than male
19. Payment Form Election for Pre-Retirement Death Benefits	
a. Married Members	Joint and 100% to Survivor
b. Single Members	15-Year Certain and Life Annuity

Exhibit 14 (continued)

Austin Police Retirement System
Summary of Actuarial Methods and Assumptions

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

Exhibit 15

Austin Police Retirement System
Changes in Actuarial Methods and Assumptions

	December 31, 2004 Actuarial Assumption	December 31, 2005 Actuarial Assumption
• Mortality for Active and Retired	UP-1994 Mortality Tables for males and females	RP-2000 Mortality Tables for males and females (Combined Healthy Lives)
• Mortality for Disabled	85% of 1965 RRB Disabled Annuitants Mortality Table	RP-2000 Mortality Tables for males and females (Combined Healthy Lives)
• Future Pre-Employment Military Service Purchase for Officers without Purchase	• 20 months purchased on average • 60% of officers under 45 • 75% of officers 45 and above • Officers will pay 25% of estimated cost	N/A
• Future Pre-Employment Military Service Purchase for Officers with Military Service Information in Database Who Have Not Yet Purchased Credit	N/A	• 100% of officers will purchase • All of military service will be purchased up to 24 months • Officers will pay 25% of estimated cost
• Future Pre-Employment Military Service Purchase for Officers without Military Service Information in Database	N/A	• 35% of officers will purchase • 22 months purchased on average • Officers will pay 25% of estimated cost

Exhibit 16

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

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

Exhibit 17

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

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

* Rates are applicable after officer is or would be eligible for retirement.
** 100% retirement rate will be effective at age 60 if earlier.

Exhibit 18

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

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

Exhibit 19

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

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

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

Exhibit 20

Austin Police Retirement System
Definitions

1. ***Actuarial cost method*** – A procedure for determining the actuarial present value of pension plan benefits and for developing an actuarially equivalent allocation of such value to time periods in the form of a normal cost contribution rate and an actuarial accrued liability.

2. ***Actuarially equivalent*** – Of equal actuarial present value, determined as of a given date with each value based on the same set of actuarial assumptions.

3. ***Actuarial present value*** – The value of an amount or series of amounts payable or receivable at various times in the future, determined as of a given date (the valuation date) by the application of the actuarial assumptions.

4. ***Entry age actuarial cost method*** **–** A method under which the actuarial present value of projected benefits of each individual included in the valuation is allocated on a level basis over the earnings of the individual between the entry age and assumed exit. Entry age is calculated as the difference between the attained age and the years of service credit as of the valuation date. Service is assumed to be continuous.

5. ***Normal cost contribution rate*** – That portion of the actuarial present value of benefits which is allocated to a valuation year by the Entry Age Actuarial Cost Method. It is expressed as a percent of compensation and is equal to the actuarial present value at hire of projected benefits divided by the actuarial present value at hire of anticipated future compensation. It is calculated for each individual and summed for the entire group.

6. ***Actuarial accrued liability*** – That portion, as determined by the Entry Age Actuarial Cost Method, of the actuarial present value of benefits which is not provided for by future normal cost contributions.

7. ***Unfunded actuarial accrued liability*** – The excess of the total actuarial present value of future benefits over the sum of the tangible assets and the actuarial present value of future normal cost contributions.

8. ***Actuarial value of assets*** – The value of cash, investments, and other property belonging to a pension plan, as used by the actuary for the purpose of an actuarial valuation.

9. ***Actuarial gain or loss*** – A measure of the difference between actual experience and that expected based upon a set of actuarial assumptions, during the period between two actuarial valuation dates.

10. ***Amortization period*** – The period determined in an actuarial valuation as the number of years required, beginning with the valuation date, to amortize the unfunded actuarial accrued liability with a level percent of payroll that is the difference between the expected total contribution rate and the normal cost contribution rate.

Exhibit 21

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

I. Schedule of Funding Progress

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

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

II. Schedule of Employer Contributions

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

[1] The annual required contribution is based on actual covered payroll.
[2] Effective September 1, 2003, a portion of the Employer's total 18% contribution is allocated to a Retiree Death Benefit Fund. This portion was determined to be 0.094% effective September 1, 2003 based on the December 31, 2002 actuarial valuation
[3] The employer's total contribution during 2003 including the Retiree Death Benefit Fund was $13,950,555.
[4] The employer's total contribution during 2004 including the Retiree Death Benefit Fund was $14,794,834.
[5] The employer's total contribution during 2005 including the Retiree Death Benefit Fund was $15,840,395.

Exhibit 21 (continued)

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

III. Notes to Required Supplementary Information

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

Valuation date	December 31, 2005
Actuarial cost method	Entry Age
Amortization method	Level percentage of projected payroll, open
Amortization period	38.3 years
Asset valuation method	Market value smoothed by a 5-year deferred recognition method with a 80%/120% corridor on market
Actuarial assumptions:	
- Investment rate of return, net of expenses	8.0%
- Projected salary increases including promotion and longevity	4.0% to 22.0% per year, averaging 6.8%
- Inflation rate per year	4.0%
- Postretirement cost-of-living adjustments	None

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

A. PLAN DESCRIPTION

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

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

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

Exhibit 21 (continued)

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

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

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

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

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

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

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

Exhibit 21 (continued)

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

B. CONTRIBUTIONS

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

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

While contribution rates are not actuarially determined, state law requires that each plan of benefits adopted by the System must be approved by a qualified actuary. The actuary certifies that the contribution commitment by the police officers and the City provides an adequate financing arrangement. Using the entry age actuarial cost method, the System's normal cost is determined as a percentage of payroll. The excess of the total contribution rate over the normal cost rate is used to amortize the System's unfunded actuarial accrued liability, and the number of years needed to amortize the System's unfunded actuarial accrued liability is determined using an open, level percentage of payroll method. Based on the actuarial valuation as of December 31, 2005 and the current plan provisions, the normal cost was 20.241% of pay and the amortization period was 38.3 years.

Exhibit 22

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

I. Annual Pension Cost

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

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

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

Exhibit 22 (continued)

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

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

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

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

III. Schedule of Funding Progress

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

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

Exhibit 22 (continued)

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

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

A. PLAN DESCRIPTION

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

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

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

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

Exhibit 22 (continued)

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

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

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

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

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

B. CONTRIBUTIONS

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

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

Exhibit 22 (continued)

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

While contribution rates are not actuarially determined, state law requires that each plan of benefits adopted by the System must be approved by a qualified actuary. The actuary certifies that the contribution commitment by the police officers and the City provides an adequate financing arrangement. Using the entry age actuarial cost method, the System's normal cost is determined as a percentage of payroll. The excess of the total contribution rate over the normal cost rate is used to amortize the System's unfunded actuarial accrued liability, and the number of years needed to amortize the System's unfunded actuarial accrued liability is determined using an open, level percentage of payroll method. Based on the actuarial valuation as of December 31, 2005 and the current plan provisions, the normal cost was 20.241% of pay and the amortization period was 38.3 years.

AUSTIN POLICE RETIREMENT SYSTEM

INTEREST PAID TO MEMBERS

(15 Year History)

Year	Interest Paid
2005	0.0%
2004	1.75%
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%

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)

Year	COLA Paid
2005	0.0%
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%

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	2005
Total Number of Members, January 1		1406	1398
Add:	New Members	66	73
Deduct:	Members Terminated	(30)	(37)
Members Transferred to Retiree System		(32)	(34)
Total Membership, December 31		1410	1400
Deduct:	Inactive Vested Members	(12)	(11)
*TOTAL ACTIVE MEMBERS, DECEMBER 31		1398	1389

RETIREE SYSTEM			
Total Number of Retired Members, January 1		329	356
Add:	Retired Members Transferred to System	32	34
Deduct:	Retired Members Deceased	(5)	(3)
*TOTAL RETIRED MEMBERS, DECEMBER 31		356	393

*** Membership status as of 3/31/06**

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.

RETIREMENT BENEFIT LIFE ANNUITY CALCULATED

Basic retirement benefit **Life Annuity** is calculated using the following formula:

$5,700.00
Average monthly salary for highest 36 months of last 10 years
of contributing service

23	**x 3.0% =**	**$3,933.00**
Total years of membership service		Basic monthly benefit amount

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.

RETIREMENT OPTIONS

The Police Retirement System provides several options under which monthly benefits may be paid. The options below require verifiable information to be submitted to the Pension Office for calculation. Please note: A member may not change their chosen option after they have already retired.

Life Annuity
Monthly retirement annuity payable only to the member for life with no survivor benefits.

Option I - 100% Joint and Survivor Annuity.
This is a retirement annuity payable monthly as long as you live.
At your death, your surviving beneficiary will receive the same annuity amount.

Option II - 50% Joint and Survivor Annuity.
This is a retirement annuity payable monthly as long as you live.
At your death, your surviving beneficiary will receive one-half the annuity amount.

Option III - 66 2/3% Joint and Survivor Annuity.
This is a retirement annuity payable monthly as long as you live.
At your death, your surviving beneficiary will receive two-thirds the annuity amount.

Option IV - Joint and 66 2/3% Last Survivor Annuity.
This is a retirement annuity payable monthly as long as you live.
At either your death or the death of your beneficiary, the last survivor of the two will receive two-thirds of the annuity amount.

Option V - Fifteen year Certain and Life Annuity
This is a retirement annuity payable monthly as long as you live.
If your death occurs before you have received 180 payments, your designated beneficiary or estate will receive the remaining monthly payments. If you are still living after receiving the 180 payments, payments will continue until your death.

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 ELIGIBLITY

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 <u>more than 10 years of creditable service</u> 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.

DISABLILTY BENEFIT LIFE ANNUITY CALCULATED
Disability retirement benefit **Life Annuity** is calculated using the following formula:

$5,700.00
Average monthly salary for highest 36 months of last 10 years of contributing service

20	**X 3.0% =**	**$3,420.00**
Total years of membership		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 member's 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