City of Austin
Employees' Retirement System
2009 Annual Report

Comprehensive Annual Financial Report
for the Year ended December 31, 2009

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

Our Mission

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

We Value:

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

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Introductory Section

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City of Austin Employees' Retirement System

June 2, 2010

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

Ladies and Gentlemen:

It is our pleasure to submit to you the Comprehensive Annual Financial Report of the City of Austin Employees' Retirement System (COA ERS or System) for the year ended December 31, 2009. The content of this report is designed to provide a complete and accurate review of operations during the year and is the responsibility of COA ERS management. It has been prepared by management in accordance with generally accepted principles for accounting and reporting as established by the Governmental Accounting Standards Board (GASB) for governmental organizations and public employee retirement systems.

Plan Profile and Demographic Highlights

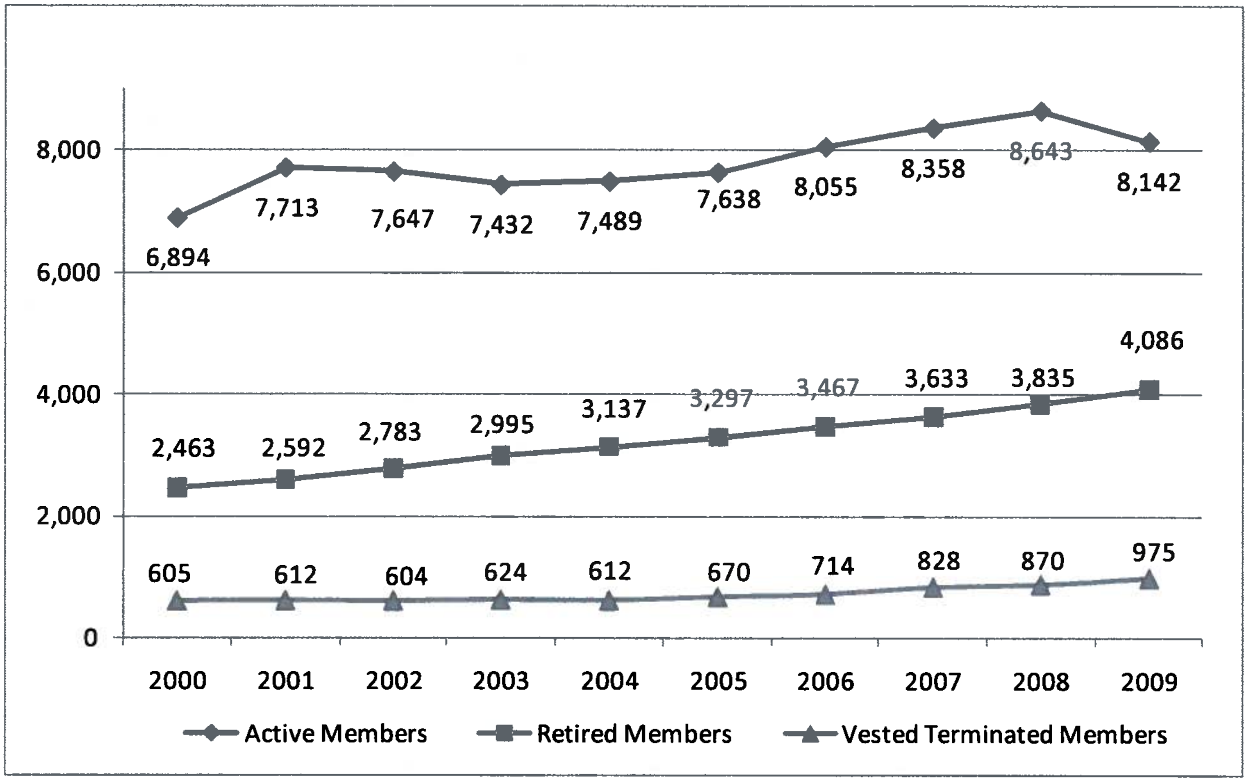
COA ERS was established in 1941 and has provided retirement benefits to eligible City of Austin employees since that time. Though originally created by city ordinance, the System is now governed by state law and administered by an eleven-member board of trustees.

The Plan provides retirement, disability and death benefits to eligible employees of the City of Austin. Both employees and the City of Austin make contributions to the System. Members qualify for normal retirement benefits at age 62; age 55 with 20 years of creditable service; or any age with 23 years of creditable service. Vesting occurs at five years of creditable service. Generally, benefits are determined at 3% of the final average earnings, as defined, multiplied by the number of years of creditable service. Disability retirement is also available pursuant to specific criteria established by statute. A death benefit of $10,000 is payable upon the death of a retired member of the System.

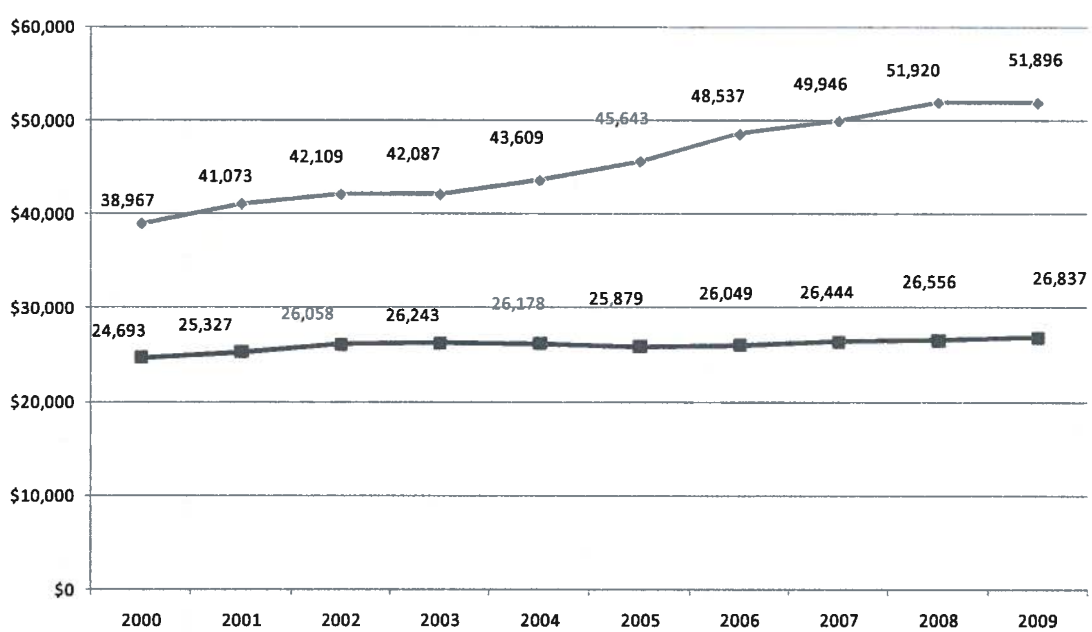
Additional information concerning COA ERS plan provisions is contained in the Summary of Plan Provisions later in this section of the report.

The following charts depict System membership and changes in average salaries and benefits.

Membership Profile



Average Salary and Average Benefit



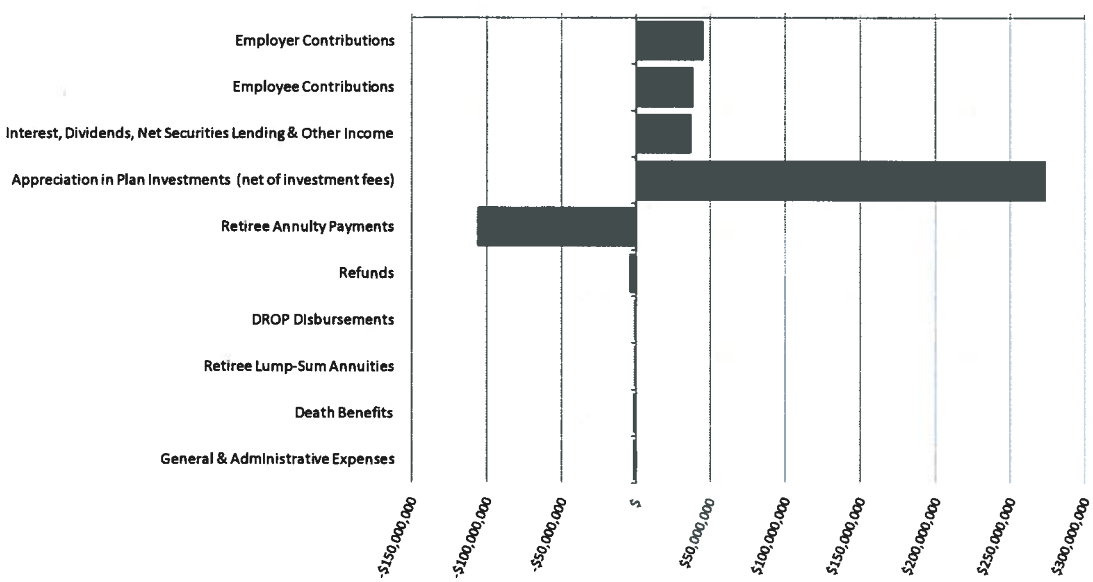
Financial Summary

Internal controls have been established by COA ERS management to provide reasonable assurance that the assets are properly safeguarded, the financial records are fairly and accurately maintained, and the governing statute and policies are correctly followed. The governing statute requires an annual audit of the System's accounts by a Certified Public Accountant. The Board of Trustees has retained KPMG LLP as independent external auditor since 1997. KPMG's 2009 financial audit was conducted in accordance with generally accepted auditing standards and resulted in an unqualified opinion on the financial statements. The Financial Section contains KPMG's audit opinion letter and additional information including Management's Discussion and Analysis (MD&A) that provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

The ***Additions to Plan Net Assets*** consist of employer and employee contributions, investment income, and realized and unrealized gain or loss on investments. For 2009, employer and employee contributions totaled $84.0 million; investment, securities lending, and other income was $37.0 million; and net appreciation of plan investments totaled $273.9 million, resulting in a net addition to Plan Net Assets of $394.9 million. The ***Deductions from Plan Net Assets,*** totaling $118.1 million, consist of $106.1 million in annuity payments, refunds of $4.9 million, Deferred Retirement Option Program (DROP) disbursements of $1.5 million, retiree lump-sum annuity disbursements of $1.6 million, death benefits of $1.9 million, and administrative expenses of $2.1 million. The net increase of $276.8 million results in total assets held in trust of $1.5 billion.

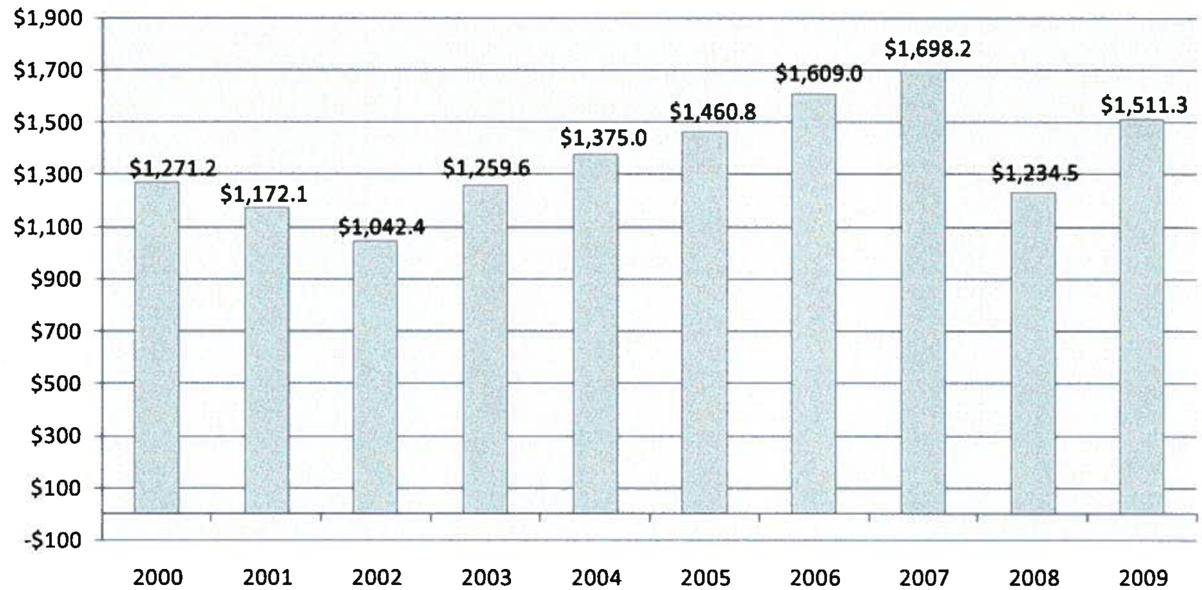
Changes to Plan Net Assets

Additions			Deductions		
Employer Contributions	$	45,262,987	Retiree Annuity Payments	$	106,148,003
Employee Contributions		38,751,783	Refunds		4,857,618
Interest / Dividends / Net			DROP Disbursements		1,531,739
Securities Lending / Other Income		36,979,408	Retiree Lump-Sum Payments		1,563,459
Appreciation in Plan Investments			Death Benefits		1,942,202
(net of investment expenses)		273,865,009	General & Administrative Expenses		2,031,815
Total Additions	**$**	**394,859,187**	**Total Deductions**	**$**	**118,074,836**



The following chart shows the ***Total Plan Net Assets*** at the end of each year since 2000. Net Assets increased by $276.8 million during 2009, resulting in Total Plan Net Assets of $1,511,280,550 at December 31, 2009. Although a five-year trend of consistent growth was ended in 2008 as a result of what has been termed "the Great Recession", 2009 end-of-year assets experienced a significant rebound.

Total Plan Net Assets (in millions)



Investments

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

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

At December 31, 2009, the investment portfolio of COA ERS was managed by 15 investment managers. One investment manager was added during the year. In order to further diversify the international equities portion of the portfolio the Board funded an international equities small cap allocation in March of 2009.

Portfolio Allocation

Investment Style	2009
Domestic Fixed Income	30.00%
International Equities	32.50%
U.S. Equities - Large Cap	22.75%
U.S. Equities - Non-Large Cap	9.75%
Real Estate	5.00%
	100.00%

The Board is exploring opportunities in alternative investments, for the purpose of increasing portfolio returns to meet long-term pension obligations. The Board continues to evaluate different asset classes in the context of the current environment.

Most investment markets rebounded beginning in the first quarter of 2009. The coordinated actions of global policy makers to provide liquidity through both traditional and nontraditional means that was unprecedented in size and scope began to convince investors that we were likely to avoid a second Great Depression. Both equity and credit markets staged impressive recoveries from what appear in retrospect to be extremely oversold levels. Throughout the year, there was a gradual return to more or less normal levels of liquidity and corporations and other entities were successful at raising funds by selling bonds to meet funding and refinancing needs. Aside from financials, corporate balance sheets were in generally good condition as corporations were preemptive in cutting costs and inventories. These cost cutting efforts led to a strong profit recovery in the third and fourth quarters of the year with equities responding accordingly posting impressive gains for the year. Investment performance for the year ending December 31, 2009 was 25.61%, net of fees, compared to a Policy Benchmark of 21.04%. For the three-year period, COA ERS' portfolio returned -0.09%, net of fees, compared to -1.49% for the Policy Benchmark. For the five-year period, COA ERS' portfolio returned 4.07%, net of fees, compared to 3.10% for the Policy Benchmark. For actuarial purposes, the System's annual investment performance is measured over a five-year period subject to certain limitations, thereby smoothing annual variations in return. The smoothed value of assets is limited by a "corridor" of plus or minus 20% of the market value of assets. COA ERS is a long-term investor with a permanent fund, so it is performance over longer periods of time that is the focus.

Funding and Actuarial Overview

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

As certified in this report by Gabriel Roeder Smith & Company, COA ERS contributions, including the funding subsidy, are not currently sufficient to amortize the unfunded liability of the System. Remedy could be achieved through contribution increases and/or benefit structure modifications.

The overall funded position of the System is 71.8%, up from 65.9% in 2008. The actuarial accrued liability and the actuarial value of assets of COA ERS as of December 31, 2009, amounted to $2.331 billion and $1.672 billion, respectively. A detailed discussion of funding is provided in the Actuarial Section of this report.

The supplemental funding plan adopted by the Austin City Council in 2005 was originally expected to accomplish a 30-year amortization of the unfunded liability of the System over a period of several years. The initial funding subsidy under the plan started in October 2006 at one percent of covered payroll. The plan called for a phased increase in the contribution subsidy subject to certain limitations. The City of Austin accelerated the subsidy to its maximum rate of four percent, effective in October 2009. As part of the supplemental funding plan, the City Manager and City Council are part of the process for consideration of future benefit enhancements, including cost-of-living adjustments. Given the dramatic drop in the value of assets in 2008, there is growing recognition that the Supplemental Funding Plan will likely not attain its original objective of a 30-year amortization of unfunded liabilities. Discussions with City management to develop strategies to ensure the financial stability of the retirement system have begun.

Awards

For the eleventh consecutive year, COA ERS was awarded a *Certificate of Achievement for Excellence in Financial Reporting* for its Comprehensive Annual Financial Report for the fiscal year ended December 31, 2008, by the Government Finance Officers' Association of the United States and Canada (GFOA). COA ERS is pleased to have achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

For 2009, COA ERS earned its second *Public Pension Coordinating Council Recognition Award for Administration*. This award is in recognition of meeting professional standards for plan administration as set forth by the Council. The standards reflect minimum expectations for public retirement system management and administration and serve as a benchmark by which to measure public defined benefit plans.

Acknowledgments

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

Respectfully Submitted,

Elizabeth S. Gonzales 2009 Board Chair	Stephen C. Edmonds Executive Director	Donna Durow Boykin, CPA Chief Finance Officer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Austin

Employees' Retirement System

Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2008

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

President

Executive Director

Public Pension Coordinating Council

Recognition Award for Administration
2009

Presented to

City of Austin Employees' Retirement System

In recognition of meeting professional standards for
plan 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

Alan H. Winkle
Program Administrator

COA ERS 2009 BOARD OF TRUSTEES

COA ERS STAFF

Stephen C. Edmonds
Executive Director

Russell Nash
Chief Operations Officer

Donna Durow Boykin
Chief Finance Officer

Kirk Stebbins
Chief Investment Officer

Melissa Adams
Member Services Specialist

Teresa Cantu
Member Services Specialist

Bertie Corsentino
Accountant

Laura L. Fugate
Member Services Specialist

Michelle Mahaini
Executive Assistant

Lovie Robinson-Laurant
Member Services Coordinator

Bobbie Simpson
Office Coordinator



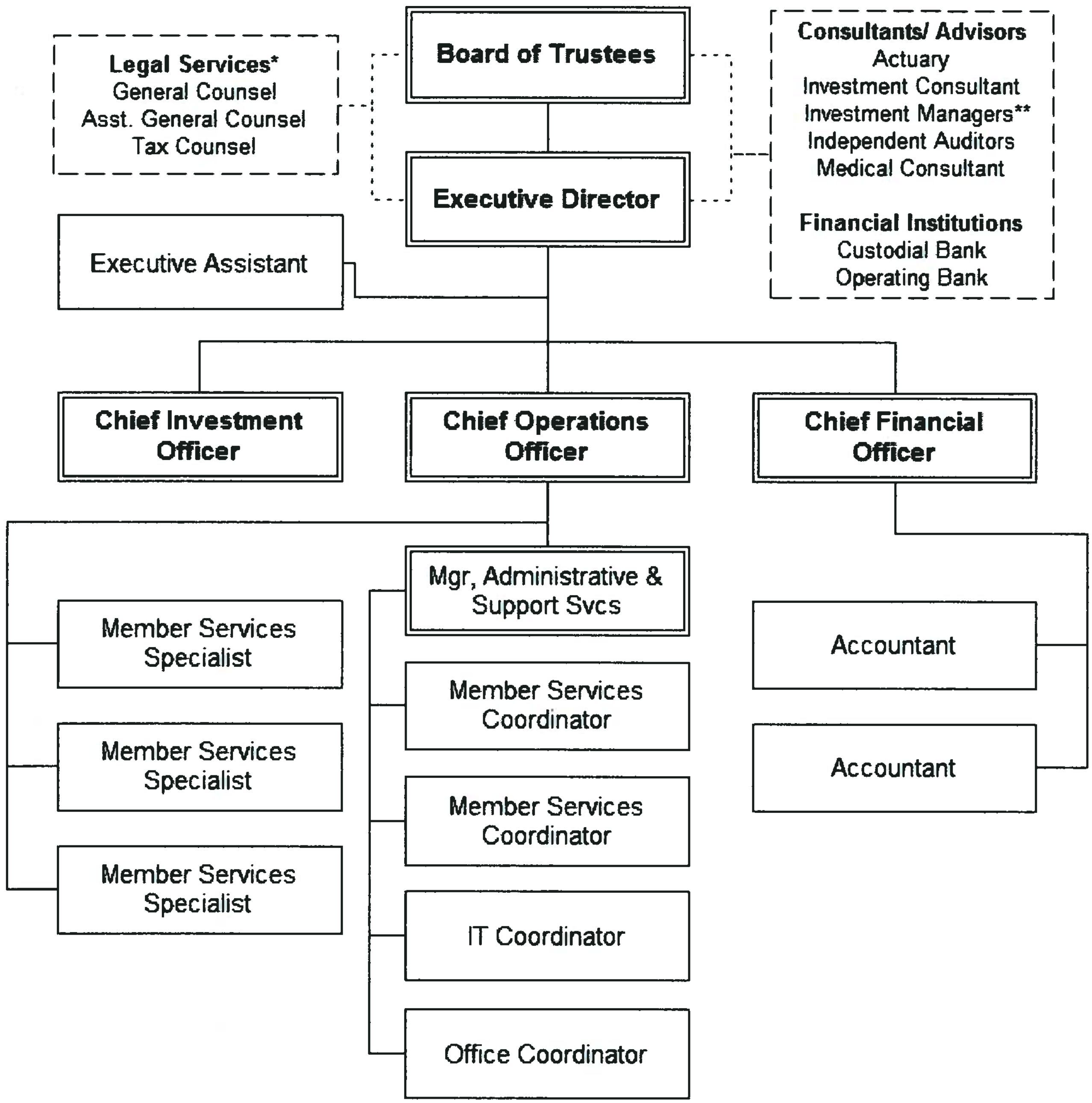








ORGANIZATIONAL CHART



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

** For more information on Investment Managers, refer to the Asset Allocation Table in the Investment Section.

PROFESSIONAL SERVICE PROVIDERS

Investment Consultant
Summit Strategies Group

Custodial Bank
Northern Trust

Independent Auditors
KPMG LLP
Padgett Stratemann & Co LLP

Actuary
Gabriel Roeder Smith & Company

Tax Counsel
Strasburger & Price LLP

Operating Bank
JPMorgan Chase Bank

INVESTMENT MANAGERS

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

International Equity
City of London Investment Management Co LTD
Dimensional Fund Advisors
Mondrian Investment Partners LTD
Sprucegrove Investment Management LTD
Walter Scott & Partners LTD

Real Estate
Principal Global Investors LLC

US Equity
AllianceBernstein LP
AQR Capital Management LLC
Aronson + Johnson + Ortiz LP
Columbus Circle Investors
INTECH Investment Management LLC
Pzena Investment Management LLC
Wall Street Associates LLC

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM (COA ERS)

Introduction

COA ERS is:
A defined benefit plan qualified under Internal Revenue Code Section 401(a).
Statutorily governed by the State of Texas under Tex. Rev. Civ. Stat. art. 6243n.

COA ERS Board of Trustees:
Provides oversight
Sets policy

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

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

Membership Requirements

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

Members do not include:

- Temporary employees
- Part-time employees working less than 30 hours per week
- Civil service employees of the Fire Department and the Police Department
- The Mayor and members of the City Council

Contributions

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

Employer: Each pay period, the employer contributes an amount equal to the amount contributed by Member employees, currently 8%. These funds do not become a part of the Member's account. In 2005, the City of Austin adopted the Supplemental Funding Plan (SFP) which provides for a subsidy in addition to the regular employer contribution. Subject to certain conditions, the contribution subsidy will increase by 1% increments annually until the subsidy reaches a maximum of 4% (12% total employer contribution). The initial funding subsidy under the plan started in October 2006 at 1% of payroll. The increase in the City subsidy is delayed by a year if the System earns 12.0% or greater on its assets during the previous calendar year. Because of this provision, there was no increase in October 2007; however, the contribution subsidy increased to 2% effective October 1, 2008. The City of Austin accelerated the contribution subsidy to its maximum of 4% effective October 1, 2009. The SFP was designed to achieve a funding amortization period of 30 years and the contribution subsidy is to stay in effect until the regular 8% employer contribution is sufficient to maintain a 30 year amortization period.

RETIREMENT BENEFITS

Retirement Eligibility

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

- Age 62
- Age 55 with 20 years of Creditable Service, or
- Any age with 23 years Creditable Service

Vesting

Members become vested with COA ERS as soon as they have five years of Creditable Service. Members who leave active membership before attaining retirement eligibility must have five years of Creditable Service to be considered vested. Verified service credit with a participating proportionate retirement system(s) or in the limited proportionate service arrangement between COA ERS and the Travis County Healthcare District, may also be combined with COA ERS service credit in determining vested status and eligibility to receive a future benefit. The Member is not entitled to receive the employer contribution at any time. Instead, vesting means that a Member is entitled to receive a lifetime benefit as long as their contributions are on deposit in the System upon reaching retirement eligibility.

Creditable Service

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

Current Active-Contributing/Vested Members, as of October 1, 1995, were granted service credit for the period between their date of hire and their date of participation, up to six months. All Members hired after October 1, 1995 become Members on their date of hire or on their date of regular employment at 30 or more hours per calendar week.

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

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

Types of Creditable Service

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

Reinstated Membership Service (Prior COA Service) – When Members leave City employment, withdraw their deposits, and later return to City employment or employment with a participating proportionate system, they may purchase and reinstate the earlier time with the City. To purchase this service, they must become a Member of COA ERS or another proportionate system. The cost to purchase prior service credit is based on the amount previously withdrawn, plus an interest payment based on the interest assumed to have been earned by the fund.

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

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

Credit for Federal Active Duty Military Service

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

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

Permissive Time – Members may purchase up to five years of Creditable Service to advance their retirement eligibility date and/or increase the amount of their monthly annuity upon retirement. Only Vested Active-Contributing or inactive Members are eligible to purchase Permissive Time provided they have five years of membership service. Age, salary, earliest retirement date, and a combination of actuarial data determine the cost. There may be federal limitations on certain purchases.

Sick Leave Conversion – Retiring Members may convert sick leave hours to increase Creditable Service time. Employees eligible to be paid by the City of Austin for up to 720 hours of sick leave upon retirement cannot convert the eligible hours to Creditable Service. Converted sick leave hours cannot be used to reach retirement eligibility. Sick leave must be converted in pay period (80-hour) increments. Both the Member and the employer must pay the current contribution rate at the time of retirement to convert hours. Members must begin the conversion process 60 days prior to their retirement date.

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

Proportionate Service

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

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

Participating systems recognize service from other participating systems. A member with service credit in more than one participating retirement system may be eligible to retire in another system based on the combined service of two or more systems in order to satisfy the length of service requirements used to determine eligibility for service retirement. Members must qualify for retirement eligibility independently in each system. Retirement benefits will be paid separately from each system and will be determined based on the actual amount of Creditable Service earned in and the benefit structure of each plan. Military service purchases may only be used once in determining the amount of the member's combined service credit. Proportionate participation is based on funded service. Members who have refunded and forfeited membership service should contact the particular proportionate system in which they previously had membership in order to determine eligibility requirements to re-establish service credit and/ or membership. Members should determine their proportionate retirement benefits before withdrawing member deposits in any of these systems.

A limited proportionate service arrangement was also established in 2007 for those individuals who have membership in COA ERS and a retirement system within the Travis County Healthcare District (District) organization. This arrangement, effective with employees transitioning into the District effective March 1, 2009, is similar to the general proportionate program *except* that it applies only between these two retirement systems. Participation in the District retirement system can be used to establish retirement eligibility with COA ERS, but not with any other system in the general proportionate program.

Calculation of Retirement Benefits

Factors used to calculate COA ERS retirement benefits:

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

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

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

Final Average Earnings (FAE) – FAE is the average annual salary for the highest 36 months of contributory service during the last 10 years. For most Members, this is the average of the last three years worked. This can be calculated as either a monthly FAE or an annual FAE. Purchases of service credit do not affect FAE.

Retirement Date

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

Retirement Options

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

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

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

Life Annuity - A basic monthly benefit payable for the life of the Retiree.

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

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

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

Option IV: Joint and 66 2/3% Last Survivor - A reduced monthly benefit payable until the death of either the Retiree or the survivor beneficiary. After death of the Retiree or the survivor beneficiary, the last survivor of the two will receive 66 2/3% of the Retiree's benefit for the remainder of his/her life.

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

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

A "Pop-up" benefit is provided for Retirees choosing Options I, II, or III as well as Retirees who selected any Joint and Survivor option other than Joint and Last Survivor option (e.g. actuarial equivalent of Life Annuity option with any survivor option including Level Income Survivor options). The "Pop-up" increases the Retiree's benefits to the Member only Life Annuity level if the survivor beneficiary predeceases the Retiree on or after October 1, 1999.

Lump-sum Payments

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

Members who have already reached retirement eligibility, excluding proportionate service, and who continue to work and contribute to COA ERS beyond retirement eligibility, may elect to "DROP-Back" a portion of their Creditable Service time. The DROP period can be no earlier than:

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

The DROP account is credited with 90% of the sum of the monthly annuity payments, based on the Member only Life Annuity benefit, the participant would have received if the Member had retired at the DROP entry date. DROP accounts may be rolled over to other qualified plans, paid in one lump-sum to the Member, or a combination of both. DROP payments made directly to the Member are subject to a mandatory 20% federal tax withholding. Members who receive a DROP payment before age 55 are subject to IRS penalty for early withdrawal of the funds. This penalty only applies to funds paid directly to a Member. The DROP payment is issued at the same time as the first monthly benefit check.

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

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

IRS Section 415 Restoration of Retirement Income Plan

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

DISABILITY RETIREMENT BENEFITS

Disability Retirement Requirements

Members may apply for disability retirement benefits if:

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

Disability Retirement Eligibility

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

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

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

Disability Retirement Options

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

DEATH AND SURVIVOR BENEFITS

Retired Members

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

- If the Retired Member chose the Member Only Life Annuity option, the monthly benefit stops the month following the death of the Retiree. However, if death occurs before the Retiree's accumulated deposits have been paid out, the Retiree's remaining deposits will be paid in a lump-sum to the Retiree's designated beneficiary(ies), spouse (if applicable), or estate.
- If the Retired Member chose an option providing benefits to a survivor beneficiary, upon the Retiree's death, such benefits will be paid to the designated survivor. If the survivor beneficiary does not survive the Retiree, monthly benefits cease. However, if the survivor beneficiary does not survive the Retiree, and the Retiree's deposits have not been paid out, the Retiree's remaining deposits will be paid in a lump sum to the Retiree's designated beneficiary(ies), spouse (if applicable), or estate.

Active Members

Not Eligible to Retire

Upon the death of an Active Member who was not yet eligible for retirement, the designated beneficiary(ies) is entitled to a lump-sum payment of the Member's accumulated deposits (contributions and interest) plus a death benefit from COA ERS equal to the Member's deposits (excluding any purchases for Non-contributory time, prior military service purchases, or Permissive Time).

Eligible to Retire

If the Active Member was eligible for retirement prior to death and had not yet retired:

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

The $10,000 death benefit is not paid to beneficiaries electing a one-time lump-sum payment.

Inactive Vested Members

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

OTHER INFORMATION

Compliance with Applicable Law

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

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

Determining Interest on Members' Contributions

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

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

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

Retirement Fund Investments

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

Prohibition on COA ERS Loans and Withdrawals

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

HISTORY OF BENEFIT CHANGES

January 1, 1941

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

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

Contributions to retirement system set at 4.0%.

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

1951

Established two options for survivor benefits:

Option I – 100% Joint and Survivor

Option II – 66 2/3% Joint and Survivor

Established eligibility for early retirement.

Established a provision for vested benefits after 15 years of Creditable Service.

Established disability retirement benefits.

Increased contribution rate to 5.0%.

1962

Established additional options for survivor benefits:

Option III – 50% Joint and Survivor

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

1967

Set multiplier at 1.25%.

Set Active Member death benefits at $2,000.

1969

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

Set Retired Member death benefits at $2,000.

1971

Increased multiplier from 1.25% to 1.5%.

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

Provided free health insurance benefits, ages 62 – 65.

Increased contribution rate to 6.0%.

1972

Established a provision for vested eligibility after 10 years of Creditable Service.

Established a provision for regular employees working 30 or more hours per week to make retirement contributions.

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

1973

Increased multiplier from 1.5% to 1.75%.

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

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

Established disability retirement for line-of-duty disabilities regardless of Creditable Service. Disability retirement available for any disability after 10 years of service. Disability retirement benefits based on age and years of service at time of disability retirement; no penalty based on age.

December 1977

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

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

September 1978

Established additional retirement options.

December 1979

Discontinued medical insurance payment for Retirees who were ages 62 - 65.

July 1981

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

Reduced Final Average Earnings period from 60 to 36 months.

October 1982

Increased contribution rate to 6.6%, matched by City.

November 1982

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

March 1984

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

December 1984

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

Increased multiplier from 1.75% to 1.85%.

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

Implemented employer "pick up" of member contributions pursuant to 414(h)(2) of the Internal Revenue Code. Member contributions after January 1, 1985 not taxed until time when benefits are paid to the Member.

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

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

March 1985

Granted a special one-time benefit increase based on year of retirement.

October 1985

Increased multiplier from 1.85% to 2.0%.

February 1986

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

May 1987

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

October 1987

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

March 1988

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

August 1988

Established vesting eligibility at five years of Creditable Service.

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

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

September 1988

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

December 1989

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

January 1990

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

February 1990

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

Increased multiplier from 2.0% to 2.1%.

October 1990

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

August 1991

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

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

July 1993

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

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

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

October 1995

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

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

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

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

October 1997

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

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

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

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

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

October 1999

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

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

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

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

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

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

Gave Board the ability to grant an additional payment to Members receiving monthly annuity payments in the form of an additional lump-sum benefit payment. The additional payment would be a percentage of the current monthly payment with a maximum percentage of 100%.

Established a provision for disability retirement benefits for off-the-job injury/illness after five years Creditable Service (previously 10 years).

Removed limitations on employer purchases of Creditable Service for a Member.

January 2000

Established Restoration of Retirement Income Plan to restore retirement income otherwise limited by Section 415 of the Internal Revenue Code.

April 2000

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

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

July 2000

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

January 2002

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

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

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

April 2002

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

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

January 2003

Extended "pop-up" benefit to any Joint and Survivor option other than Joint and Last Survivor.

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

May 2005

City Council adopted a Supplemental Funding Plan providing additional City contributions. The Plan is structured to increase City contributions to achieve a

30-year amortization period as follows: 1% in fiscal year 2007; 2% in fiscal year 2008, 3% in fiscal year 2009, and 4% in fiscal year 2010 and thereafter, if necessary. If during any calendar year, COA ERS earns greater than a 12% time weighted rate of return net of fees, the increase is delayed one budget cycle. Any future benefit enhancements or cost of living adjustments require a recommendation from the City Manager and approval by the City Council. In addition, if the CPI index exceeds 3.0% in any calendar year, an actuarial study is to be performed to determine the additional subsidy needed if a cost of living adjustment were to be provided.

October 2006

City Council adopted a budget including a Supplement Funding Plan contribution subsidy of 1% for fiscal year 2007.

September 2007

Established a limited proportionate service arrangement exclusively for those individuals who have membership in COA ERS and a retirement system within the Travis County Healthcare District (District) organization. This arrangement, effective with employees transitioning into the District effective March 1, 2009, is similar to the general proportionate program except that it applies only between these two retirement systems.

October 2007

Scheduled increase in City Supplemental Funding Plan contribution subsidy postponed due to time weighted rates of investment returns (net of fees) exceeding 12%.

October 2008

City Council adopted a budget including a Supplement Funding Plan contribution subsidy of 2% for fiscal year 2009.

March 2009

City of Austin Police Retirement System joins the Proportional Retirement Program.

October 2009

City Council adopts a budget increasing Supplemental Funding Plan City contributions from 2% to 4% for fiscal year 2010.

FINANCIAL SECTION

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Independent Auditors' Report

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

We have audited the accompanying statements of plan net assets of the City of Austin Employees' Retirement System (the System) as of December 31, 2009 and 2008, and the related statements of changes in plan net assets for the years then ended which comprise the basic financial statements of the System. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the City of Austin Employees' Retirement System as of December 31, 2009 and 2008, and the changes in plan net assets for the years then ended in conformity with United States generally accepted accounting principles.

The management's discussion and analysis on pages 29 through 32 and the schedules of funding progress and employer contributions on pages 53 through 54 are not a required part of the basic financial statements of the System, but are supplementary information required by United States generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the system. The introductory section on pages 1 through 27, other supplementary information on page 55, investment section on pages 56 through 69, actuarial section on pages 70 through 114, and statistical section on pages 115 through 124 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as whole. The introductory, investment, actuarial, and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly we express no opinion on them.

KPMG LLP

June 2, 2010

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Management's Discussion and Analysis

December 31, 2009 and 2008

This section of the City of Austin Employees' Retirement System's (COA ERS or the System) financial report presents our discussion and analysis of the System's financial performance during calendar years 2009 and 2008. 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 $276.8 million, or 22.4%, in 2009 and decreased by $463.7 million, or 27.3%, in 2008. Both the increase in 2009 and the decrease in 2008 correlate with investment returns.

- Contributions increased by $2.0 million, or 2.4%, in 2009, and increased by $5.6 million, or 7.3%, in 2008. The 2009 increase was due to a $5.4 million increase in the City's supplemental funding, less decreases of $1.3 million in employee and City contributions based on payroll, and $2.1 million in employee creditable service purchases. The 2008 increase was due to a $5.1 million increase in employee and City contributions based on payroll, $1.5 million from the City's supplemental funding, and a $1.0 million decrease in employee creditable service purchases.

- The amount of benefits paid to retired members and beneficiaries, and refunded to terminating employees increased approximately $8.0 million, or 7.4%, during 2009, and $7.6 million, or 7.6%, during 2008. This is the result of the increase in the number of System retirees and in the average annuity payment. Benefit payments exceeded employee and City contributions by $32.0 million in 2009 and by $26.0 million in 2008.

- The System's rate of return on investments for the year ended December 31, 2009, was 26.01% gross of fees, and 25.61% net of fees, on a market value basis which is greater than the return of (25.76)% gross of fees, and (25.98)% net of fees, for the year ended December 31, 2008. The actuarial assumed rate of return is 7.75%.

- The funding objective of COA ERS is to meet long-term benefit obligations through contributions and investment income. As of December 31, 2009, the date of the most recent actuarial valuation, the System's funding ratio of actuarial assets as a percentage of actuarial liabilities is 71.8%, which is up from the 65.9% level at December 31, 2008, following the decline of the financial markets in the fourth quarter of 2008. See further discussion in footnote 4.

Overview of the Financial Statements

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

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

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Management's Discussion and Analysis

December 31, 2009 and 2008

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

- **Financial Statements**

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

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

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

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

Financial Analysis

Summary of Plan Net Assets
December 31, 2009, 2008, 2007

Assets		**2009**	**2008**	**2007**
Cash and receivables	$	20,502,113	11,505,776	11,166,212
Investments		1,507,265,750	1,234,411,659	1,691,382,280
Invested securities lending collateral		158,114,387	112,377,575	194,210,934
Capital assets, net		1,067,584	1,099,465	1,137,228
Total assets		1,686,949,834	1,359,394,475	1,897,896,654
Liabilities				
Total liabilities		175,669,284	124,898,276	199,684,762
Net assets held in trust for pension benefits	$	1,511,280,550	1,234,496,199	1,698,211,892

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Management's Discussion and Analysis

December 31, 2009 and 2008

Assets. As shown in the table below, COA ERS' net assets increased by $276.8 million in 2009, and decreased by $463.7 million in 2008. Changes in both 2009 and 2008 reflect investment returns in the financial markets. In 2009, there was a $2.6 million decrease in the amount of cash held by the System and a $10.6 million increase in trades pending settlement, resulting in a $9.0 million change in the net amount of cash and receivables at year end. In 2008, there was a minimal change in the net amount of cash and receivables. The increase in invested securities lending collateral of $45.7 million in 2009 reflected the net change in the number of securities on loan at year end and a recovery of the market value of the collateral held for loaned securities; this will be further discussed in footnote 3. The decrease in invested securities lending collateral of $81.8 million in 2008 reflected the net change in the number of securities on loan at the fiscal year end and a decline in market value of the collateral held for loaned securities. The decrease in capital assets reflects depreciation with there being minimal additions and no retirements in 2009 and 2008.

Liabilities. Liabilities increased $50.8 million in 2009 and decreased $74.8 million in 2008. These fluctuations were primarily due to changes in securities lending collateral. See further discussion in footnote 3.

Summary of Changes in Plan Net Assets
Years Ended December 31, 2009, 2008 and 2007

		2009	2008	2007
Additions:				
Contributions	$	84,014,770	82,049,164	76,491,770
Investment income (depreciation)		314,599,270	(432,091,929)	118,935,687
Investment expenses		3,755,216	3,775,978	4,006,190
Net investment income (depreciation)		310,844,054	(435,867,907)	114,929,497
Other income		363	579	1,340
Total additions (deductions)		394,859,187	(353,818,164)	191,422,607
Deductions:				
Benefit payments and contribution refunds		116,043,021	108,014,690	100,392,924
General and administrative expenses		2,031,815	1,882,839	1,776,035
Total deductions		118,074,836	109,897,529	102,168,959
Net increase (decrease)		276,784,351	(463,715,693)	89,253,648
Net assets held in trust for pension benefits, beginning of year		1,234,496,199	1,698,211,892	1,608,958,244
Net assets held in trust for pension benefits, end of year	$	1,511,280,550	1,234,496,199	1,698,211,892

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Management's Discussion and Analysis

December 31, 2009 and 2008

Additions. Additions needed to fund benefits are accumulated through contributions and returns on invested funds. Member and City of Austin contributions for 2009 and 2008 totaled \$84.0 million and \$82.0 million, respectively. The 2009 contributions represent an increase of \$2.0 million, or approximately 2.4% above 2008. The 2009 increases were primarily due to an increased percentage of payroll contributed under the Supplemental Funding Plan. In 2008, contributions were \$5.6 million above the 2007 level, attributable to an increased annual payroll, and contributions under the Supplemental Funding Plan.

COA ERS incurred a positive return on the market value of its investments during 2009. Net investment gain of \$310.8 million was due to a reversal of the equity and financial markets, an increase of \$746.7 million from 2008. Interest, dividends and net securities lending income generated 2009 income of \$37.0 million, a decrease from the \$40.5 million received in 2008. Investment managers are paid based on their performance; accordingly, in 2009, as returns were higher, so were the amounts of investment manager fees paid, an increase of \$0.3 million compared to 2008. The total rate of return for the System's investment portfolio in 2009 was 25.61% (net of fees), compared to (26.0)% for 2008.

Deductions. The expenses paid by COA ERS include benefit payments, refunds of member contributions, and administrative expenses. Benefits paid in 2009 were \$111.2 million, an increase of \$7.5 million from payments made in 2008, consistent with the increase in the number of retirees to 4,086 in 2009 from 3,835 in 2008. Refunds to terminating employees increased by \$0.6 million. Administrative expenses in 2009 were \$2.0 million, an increase of 7.9% from those of 2008.

Benefits paid in 2008 were \$103.7 million, an increase of \$7.8 million from payments made in 2007, consistent with the increase in the number of retirees to 3,835 in 2008 from 3,633 in 2007. Refunds to terminating employees decreased by \$0.2 million. Administrative expenses in 2008 were \$1.9 million, 6.0% more than the amount incurred in 2007.

Overall Analysis. Overall, as of December 31, 2009, net assets increased by \$276.8 million or 22.4% from the prior year, and over the five-year period ending December 31, 2009, net assets increased by 9.9%.

Request for Information

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

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Statement of Plan Net Assets

December 31, 2009

	Retirement Plan	Restoration Plan	Total
Assets			
Cash and cash equivalents (note 3)	$ 2,674,086	15,000	2,689,086
Interest and dividends receivable	4,474,833		4,474,833
Trades pending settlement	10,987,950		10,987,950
Employer contributions receivable	1,175,122		1,175,122
Employee contributions receivable	1,175,122		1,175,122
Investments, at fair value (note 3):			
Domestic fixed income	423,822,239		423,822,239
Real Estate commingled fund	47,024,506		47,024,506
Corporate stocks	598,856,594		598,856,594
International stocks	393,652,354		393,652,354
Short-term investment funds	43,910,057		43,910,057
Total investments	1,507,265,750	0	1,507,265,750
Invested securities lending collateral (note 3)	158,114,387		158,114,387
Capital assets, net (note 5)	1,067,584		1,067,584
Total assets	1,686,934,834	15,000	1,686,949,834
Liabilities			
Accrued expenses	1,040,147		1,040,147
Trades pending settlement	14,593,702		14,593,702
Securities lending collateral (note 3)	158,609,485		158,609,485
Refunds and death benefits payable	1,425,950		1,425,950
Total liabilities	175,669,284	0	175,669,284
Net assets held in trust for pension benefits	$ 1,511,265,550	15,000	1,511,280,550

See accompanying notes to financial statements.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Statement of Plan Net Assets

December 31, 2008

		Retirement Plan	Restoration Plan	Total
Assets				
Cash and cash equivalents (note 3)	$	5,303,335	15,000	5,318,335
Interest and dividends receivable		3,615,992		3,615,992
Trades pending settlement		353,193		353,193
Employer contributions receivable		1,109,128		1,109,128
Employee contributions receivable		1,109,128		1,109,128
Investments, at fair value (note 3):				
Domestic fixed income		449,612,013		449,612,013
Real Estate commingled fund		68,597,749		68,597,749
Corporate stocks		441,150,356		441,150,356
International stocks		238,175,869		238,175,869
Short-term investment funds		36,875,672		36,875,672
Total investments		1,234,411,659	—	1,234,411,659
Invested securities lending collateral (note 3)		112,377,575		112,377,575
Capital assets, net (note 5)		1,099,465		1,099,465
Total assets		1,359,379,475	15,000	1,359,394,475
Liabilities				
Accrued expenses		652,396		652,396
Trades pending settlement		6,491,367		6,491,367
Securities lending collateral (note 3)		117,011,814		117,011,814
Refunds and death benefits payable		742,699		742,699
Total liabilities		124,898,276	—	124,898,276
Net assets held in trust for pension benefits	$	1,234,481,199	15,000	1,234,496,199

See accompanying notes to financial statements.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Statement of Changes in Plan Net Assets

Year ended December 31, 2009

	Retirement Plan	Restoration Plan	Total
Additions:			
Contributions:			
Employer contributions (note 4)	$ 45,045,204	217,783	45,262,987
Employee contributions (note 4)	38,751,783		38,751,783
	83,796,987	217,783	84,014,770
Investment income:			
Net appreciation in plan investments	277,379,926		277,379,926
Interest	13,469,469		13,469,469
Dividends	18,679,954		18,679,954
Investment appreciation before expenses and securities lending	309,529,349	0	309,529,349
Securities Lending Activity:			
Securities lending income	930,780		930,780
Securities lending collateral unrealized gain	4,139,141		4,139,141
Securities lending fees	(240,299)		(240,299)
Net securities lending appreciation	4,829,622	0	4,829,622
Investment expenses	(3,514,917)		(3,514,917)
Net investment appreciation	310,844,054	0	310,844,054
Other income	363		363
Total additions	394,641,404	217,783	394,859,187
Deductions:			
Retirement annuities	105,991,585	156,418	106,148,003
Contributions refunded to terminating employees	4,857,618		4,857,618
DROP disbursements	1,531,739		1,531,739
Retiree lump-sum annuity	1,502,094	61,365	1,563,459
Death benefits	1,942,202		1,942,202
General and administrative expenses	2,031,815		2,031,815
Total deductions	117,857,053	217,783	118,074,836
Net increase	276,784,351	0	276,784,351
Net assets held in trust for pension benefits, beginning of year	1,234,481,199	15,000	1,234,496,199
Net assets held in trust for pension benefits, end of year	$ 1,511,265,550	15,000	1,511,280,550

See accompanying notes to financial statements.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Statement of Changes in Plan Net Assets

Year ended December 31, 2008

		Retirement Plan	Restoration Plan	Total
Additions:				
Contributions:				
Employer contributions (note 4)	$	40,661,542	124,445	40,785,987
Employee contributions (note 4)		41,263,177		41,263,177
		81,924,719	124,445	82,049,164
Investment income:				
Net depreciation in plan investments		(473,144,554)		(473,144,554)
Interest		22,007,077		22,007,077
Dividends		21,780,733		21,780,733
Investment depreciation before expenses and securities lending		(429,356,744)	-	(429,356,744)
Securities Lending Activity:				
Securities lending income		1,899,054		1,899,054
Securities lending collateral unrealized loss		(4,634,239)		(4,634,239)
Securities lending fees		(550,841)		(550,841)
Net securities lending depreciation		(3,286,026)	-	(3,286,026)
Investment expenses		(3,225,137)		(3,225,137)
Net investment depreciation		(435,867,907)	-	(435,867,907)
Other income		579		579
Total additions (deductions)		(353,942,609)	124,445	(353,818,164)
Deductions:				
Retirement annuities		99,094,506	124,445	99,218,951
Contributions refunded to terminating employees		4,285,231		4,285,231
DROP disbursements		2,080,734		2,080,734
Retiree lump-sum annuity		941,266		941,266
Death benefits		1,488,508		1,488,508
General and administrative expenses		1,882,839		1,882,839
Total deductions		109,773,084	124,445	109,897,529
Net decrease		(463,715,693)	-	(463,715,693)
Net assets held in trust for pension benefits, beginning of year		1,698,196,892	15,000	1,698,211,892
Net assets held in trust for pension benefits, end of year	$	1,234,481,199	15,000	1,234,496,199

See accompanying notes to financial statements.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2009 and 2008

(1) Plan Description

Retirement Plan

The Board of Trustees of the City of Austin Employees' Retirement System (the System) is the administrator of a single-employer defined benefit pension plan (the Plan). Participating employees include all regular, full time employees, except for civil service firefighters and civil service police officers, who work at least 30 hours per week. At December 31, 2009 and 2008, membership consisted of the following:

	2009	2008	2007
Retirees and beneficiaries currently receiving benefits	4,086	3,835	3,633
Terminated members entitled to but not yet receiving benefits	975	870	828
Accounts held for terminated members *	1,738	1,559	1,546
Current employees	8,142	8,643	8,358
Total	14,941	14,907	14,365

** Includes 159 proportional members of PSEM and CCSD*

The System provides service retirement, death, disability, and withdrawal benefits. Benefits vest with five years of creditable service. Participants may retire at age 62, at age 55 with 20 years of service, or at any age with 23 years of service. Prior to October 1, 1999, active member contributions to the Plan were 7%. Effective October 1, 1999, active member contributions increased to 8%. Prior to October 1, 1999, the monthly benefit was equal to 2.6% of the highest 36-month average annual salary of the last ten years multiplied by years and months of service. Effective October 1, 1999, the monthly benefit multiplier was increased to 2.7%. Effective April 1, 2000, the monthly benefit multiplier was increased to 2.98%. Effective January 1, 2002, the monthly benefit multiplier was increased to 3.0%. Effective January 1, 2001, the System approved a 3.5% ad hoc retiree increase and a 2.5% increase effective January 1, 2002.

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

The lump-sum death benefit payable upon the death of a retiree is $10,000.

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

Pursuant to the 2005 COA ERS Supplemental Funding Plan and beginning in October 2006, the City contributed an additional 1% subsidy for their 2007 fiscal year ending September 30, 2007. For subsequent years, the subsidy would continue to increase by 1%, to a maximum of 4%, if annual fund returns did not exceed 12%, net of fees. For COA ERS' calendar year ended December 31, 2006, investment returns exceeded the threshold, so the City contribution rate subsidy remained at 1% for their fiscal year beginning October 1, 2007. For COA ERS' calendar year ended December 31, 2007, investment returns did not meet the threshold; therefore, the City subsidy increased to a total of 2% effective with the City's fiscal year beginning October 1, 2008. On October 1, 2009, based on COA ERS'

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2009 and 2008

2008 investment returns, the subsidy would have increased to 3%; however, recognizing the negative impact of the 2008 markets on the System's funding objectives, the City advanced payments to the maximum for a total supplemental contribution of 4%.

Under the terms of the Plan, the System's employees obtain membership in the Plan on the same basis as City employees. Accordingly, the System contributes 8% of basic employee compensation to the Plan, plus a 4% subsidy, as described above, for its fourteen current employees; System employees also contribute 8% of their basic compensation to the Plan. Since there is only one Plan, all actuarial calculations are provided on an aggregate basis. The System's annual pension cost for its employees and related contributions made for the past three years are:

		Annual pension cost	Contributions made
2009	$	98,590	98,590
2008		72,059	72,059
2007		65,556	65,556

The System participates in the Proportionate Retirement Program through which a member of the System may meet requirements for service retirement eligibility by combining COA ERS membership service with service credit from the following participating entities: City of Austin Police Retirement System, The El Paso City Employees' Pension Fund and Firemen and Policemen's Pension Fund, Employees' Retirement System of Texas, Judicial Retirement System of Texas I & II, Texas Municipal Retirement System, Texas County and District Retirement System, Teacher Retirement System of Texas, or any other Texas retirement systems covering municipal employees who have qualified plans and have elected to participate in the Proportionate Retirement Program. A limited proportionate service arrangement was established in 2007 between COA ERS and individuals who have membership in a retirement system within the Travis County Healthcare District.

Restoration Plan

On November 23, 1999, the Board adopted a resolution to establish a "Restoration of Retirement Income Plan for Certain Participants in the City of Austin Employees' Retirement System" (Restoration Plan). This Restoration Plan is effective as of January 1, 2000 and is intended to be a "qualified governmental excess benefit arrangement" within the meaning of Section 415(m) of the Internal Revenue Code, and shall be construed, interpreted and administered in accordance with such provision. The Restoration Plan shall be administered as an unfunded plan which is not intended to meet the qualification requirements of Section 401 of the Internal Revenue Code. Eligible members are those who are members in the Plan whose pension or pension-related benefits under the Plan are limited due to the provision of Section 415 of the Internal Revenue Code.

All benefits payable under this Restoration Plan shall be paid by the City of Austin Employees' Retirement System from contributions provided by the employer and not from the Fund or any other trust unless such trust is maintained solely for the purpose of providing benefits from this Restoration Plan. No contribution receivable is due for the years ended December 31, 2009 and 2008, for this Restoration Plan. Net assets remaining in this plan as of December 31, 2009 and 2008, were $15,000.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2009 and 2008

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

		Annual pension cost	Contributions made
2009	$	217,783	217,783
2008		124,445	124,445
2007		78,354	78,354

At December 31, 2009 and 2008, membership in the Restoration Plan included the following:

	2009	2008	2007
Retirees and beneficiaries currently receiving benefits	10	9	7
Terminated members entitled to but not yet receiving benefits	-	-	-
Current employees	-	-	-
Total	10	9	7

Other Information

The System is required by Art.6243n, Vernon's Texas Civil Statutes, to maintain two separate funds in its internal accounting records. The first fund, defined in the statute as "Fund 1", shall be maintained to account for all accumulated deposits (contributions and interest) of Members who have not withdrawn from the System. The second fund, defined as "Fund 2", shall be maintained to account for all other net assets of the System less the amount held in "Fund 3"; this third fund is maintained to account for accumulated contributions by the employer for the Internal Revenue Code Section 415 Restoration Plan as adopted by Board Resolution on November 23, 1999. At December 31, 2009, the balances of Fund 1, Fund 2, and Fund 3 were $371,514,579, $1,139,750,971 and $15,000, respectively. At December 31, 2008, the balances of Fund 1, Fund 2, and Fund 3 were $357,423,035, $877,058,164, and $15,000, respectively.

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

(a) Basis of Accounting

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

The System is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board (GASB). The System has no component units and is not a component unit of any other entity. The System has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement Number 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting,* which specifies that in addition to adopting all applicable GASB pronouncements, the System has adopted Statements and Interpretations of the Financial Accounting Standards Board, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure issued prior to November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

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(b) Cash and Cash Equivalents

Cash and cash equivalents include demand deposit accounts and money market checking accounts. As of December 31, 2009 and 2008, the book balances of the money market checking accounts totaled $0 and $5,174,416, respectively, and demand deposit accounts totaled $2,688,786 and $143,619, respectively.

(c) Investments

The System's equity investments are reported at fair value. Short-term cash investments are reported at cost, which approximates fair value. International securities are valued at current exchange rates. Investments that do not have an established market are reported at estimated fair value. The System's real estate commingled fund, an open-end investment fund, includes properties that are valued monthly; all properties within this fund are appraised externally by nationally recognized appraisers. A portfolio allocation has been made to International Emerging Markets with the funding of City of London Investment Management and Dimensional Fund Advisors; these investments are both commingled arrangements where assets are pooled with other institutional investors and then unitized with the value of the units determined by the fair market value of the entire pool. The System also has a Northern Trust (Trustee) daily aggregate bond fund that may hold units of participation in any fixed income collective fund established and maintained by the trustee or any of its affiliates. The Trustee values its securities at fair value; any securities for which no current market quotation is readily available are valued at fair value as determined in good faith by Northern Trust Investments, N.A.

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

While limited liquidity restrictions imposed in the fourth quarter of 2008 continue with a redemption queue implemented by Principal Life Insurance Company for the Principal US Property Account, and Northern Trust's monitored twice-monthly withdrawal program for the NTGI Daily Aggregate Bond Index Fund, COA ERS' daily operations have not been affected; there was no liquidity impact on the most recent portfolio rebalancing performed in December 2009.

(d) Contributions Receivable

The employee and City contributions for the years ended December 31, 2009 and 2008 that were not deposited with the System by year-end and are shown as contributions receivable.

(e) Capital Assets

Capital assets are recorded at cost. The System capitalizes all computers and electronic equipment purchased as well as any other assets greater than $1,000. Depreciation is computed using the straight-line method over the assets' estimated useful lives of:

Furniture and fixtures	3-12 years
Building	40 years

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2009 and 2008

(f) System Expenses

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

(g) Use of Estimates

The preparation of financial statements in conformity with United States Generally Accepted Accounting Principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(h) Reclassifications

Certain amounts in 2008 have been reclassified to conform with 2009 presentation.

(3) Cash, Investments, and Securities Lending

Deposit and investment resources are exposed to risks that have the potential to result in losses that could impact delivery of System services. The Board has adopted a Statement of Investment Policies and Objectives (Investment Policy) to set forth the factors involved in the management of investment assets for the System. This policy is included in every investment management agreement. The document is designed to mitigate risk by requiring that investing be done in compliance with policy guidelines by qualifying the broker and financial institution with whom the System will transact, and by establishing sufficient collateralization, portfolio diversification, and limiting maturity. The System's Board, in accordance with the power and authority conferred under the Texas Statutes, has employed Northern Trust as custodian of the assets of the System. The following summary of total investments by type as of December 31, 2009 and 2008, presents the System's investment mixes.

		2009	2008
Summary of investments by type:			
Asset-backed securities	$	842,563	1,835,932
Commercial mortgage-backed securities		15,836,010	15,780,193
Corporate bonds		95,548,278	71,037,832
Corporate stocks		598,856,594	441,150,356
Government agencies		8,404,321	12,302,614
Government bonds		38,147,419	9,562,339
Government mortgage-backed securities		77,111,446	81,249,596
International stocks		393,652,354	238,175,869
Nongovernment-backed CMOs		6,475,432	9,895,225
Other fixed income:			
NTGI QM Aggregate Bond Fund		181,393,690	247,919,168
Securities Lending - Core USA Fund		63,080	29,114
Real Estate commingled fund		47,024,506	68,597,749
Short-term investment funds		43,910,057	36,875,672
Investments at fair value on balance sheet		1,507,265,750	1,234,411,659
Receivables and pending trades, net		869,081	(2,522,182)
Total investments (per investment consultant)	$	1,508,134,831	1,231,889,477

(Continued)

Custodial Credit Risk

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

As of December 31, 2009 and 2008, the System's operating bank balances of $2,688,786 and $5,318,035, respectively, were not exposed to custodial credit risk.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial risk if the securities are uninsured, are not registered in the name of the System, and are held by the counterparty, its trust or agent, but not in the System's name. The System's investment securities are not exposed to custodial credit risk because all securities are held by the System's custodial bank in the System's name. At December 31, 2009 and 2008, the System was not exposed to credit risk through security lending.

Borrowers of System securities through Northern Trust Securities Lending Program are required to fully collateralize their obligation to return such securities when the loans are called. However, proceeds from loaned securities were invested in a short-term fixed income portfolio, Northern Trust Core USA Fund, which was impacted by the financial market events of 2008. To avoid forced sales of illiquid securities and due to defaults on certain short-term Lehman securities, Northern determined that a "collateral deficiency" existed, and, on September 18, 2008, an amount was calculated based on the difference between book value and vended (as opposed to liquidation) prices. To ensure equity among program participants, the deficit was allocated to participants on that date as a liability that would be realized if they withdrew from the program. The impact to COA ERS on December 31, 2008, had it exited the securities lending program, would have been a cost of $4,634,239 based on its pro rata ownership. This amount was reflected as a securities lending unrealized loss in the financial statement, and as a reduction to the securities lending cash collateral reported on the Statement of Plan Net Assets. In response to the positive turn taken by the financial markets in 2009, Northern announced in November 2009 that the amount of the collateral deficiency allocated to COA ERS would be reduced to $495,098; by March 2010, the amount was fully recovered. Having expensed the full amount estimated at December 31, 2008, COA ERS was able to recognize a securities lending gain of $4,139,141 at December 31, 2009.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the System's investment in a single issuer. The System is authorized to invest in the following as of December 31, 2009:

(a) Fixed Income Investments

Fixed income investment may be no less than twenty-seven percent (27%) and no more than thirty-three percent (33%) of the investment portfolio measured at fair value. No single issuer's securities shall represent more than four percent (4%) of portfolio value at purchase cost, or six percent (6%) of the market value of any manager's portfolio. This restriction applies to asset-backed securities, non-agency mortgage-backed securities (including commercial mortgage-backed securities) and taxable municipal securities. The total holdings of an agency-issued mortgage-backed

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2009 and 2008

security of the same coupon and maturity series of the same agency shall not exceed twenty percent (20%) of the portfolio at cost (agency-issued mortgage-backed securities include Government National Mortgage Association (GNMA) securities).

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

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

1. United States Treasury notes, bonds, and bills;
2. United States government agency obligations;
3. Investment grade corporate bonds (however, the average rating of all corporate bonds held in any investment portfolio, taken together, may not fall below AA);
4. Preferred stocks;
5. Investment grade foreign bonds payable in United States dollars;
6. Cash equivalents in the form of commercial paper rated as A1 by Moody's or P1 by Standard & Poor's;
7. Other corporate obligations with an equivalent or higher rating than items 1 through 6 above; or
8. Obligations backed by United States government and investment grade municipal funds.

(b) Domestic Equity Investments

Domestic equity investments may be no less than twenty-two and one-half percent (22.5%) and no more than forty-two and one-half percent (42.5%) of the total investment portfolio measured at fair value less international equities. No single company's securities shall represent more than four percent (4%) of portfolio value at purchase cost or six percent (6%) of the market value of any manager's portfolio.

(c) International Equity Investments

International equity investments should total no less than twenty-seven and one-half percent (27.5%) and no more than thirty-seven and one-half percent (37.5%) of total value of the System's investments at fair value. No single company's securities shall represent more than four percent (4%) of portfolio value at purchase cost or six percent (6%) of the market value of any manager's portfolio.

(d) Real Estate Open-End Commingled Fund

While not exposed to concentration of credit risk, total investments in real estate open-end commingled funds may be up to ten percent (10%) of the total investment portfolio measured at fair value, if, when viewed in conjunction with fixed income, the aggregate does not exceed 38% of the portfolio.

(Continued)

(e) Other Investment Information

As of December 31, 2009 and 2008, respectively, investments in any one organization, other than investments backed by the full faith and credit of the United States government and the real estate open-end commingled fund, did not represent five percent (5%) or more of net assets available for benefits.

As of December 31, 2009 and 2008, the following was the composition of the System's portfolio:

	2009	2008
Asset-backed securities	0.1%	0.2%
Commercial mortgage-backed securities	1.1%	1.3%
Corporate bonds	6.3%	5.7%
Corporate stocks	39.7%	35.7%
Government agencies	0.6%	1.0%
Government bonds	2.5%	0.8%
Government mortgage-backed securities	5.1%	6.6%
International stocks	26.1%	19.3%
Nongovernment-backed CMOs	0.4%	0.8%
Other fixed income:		
NTGI QM Aggregate Bond Fund	12.0%	20.1%
Securities Lending - Core USA Fund	0.1%	0.1%
Real Estate commingled fund	3.1%	5.4%
Short-term investment funds	2.9%	3.0%
	100.0%	100.0%

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The System's Investment Policy requires fixed income managers to disclose their credit exposure and portfolio duration in their quarterly reports. The System monitors credit exposure using segmented time distribution.

As of December 31, 2009, the System had the following investments and maturities:

Investment type	Fair value	Less than 1 year	1 to 6 years	6 to 10 years	10+ years
Asset-backed securities	$ 842,563	0	0	0	842,563
Commercial mortgage-backed securities	15,836,010	0	0	0	15,836,010
Corporate bonds	95,548,278	744,710	51,947,920	30,728,873	12,126,775
Government agencies	8,404,321	0	0	8,404,321	0
Government bonds	38,147,419	0	0	28,650,049	9,497,370
Government mortgage-backed securities	77,111,446	398	0	10,148,691	66,962,357
Nongovernment-backed CMOs	6,475,432	0	0	-	6,475,432
Other fixed income:					
NTGI QM Aggregate Bond Fund	181,456,770	1,397,217	85,230,244	68,989,864	25,839,445
	$ 423,822,239	2,142,325	137,178,164	146,921,798	137,579,952

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2009 and 2008

As of December 31, 2008, the System had the following investments and maturities:

Investment type	Fair value	Less than 1 year	1 to 6 years	6 to 10 years	10+ years
Asset-backed securities	$ 1,835,932	0	0	0	1,835,932
Commercial mortgage-backed securities	15,780,193	0	0	0	15,780,193
Corporate bonds	71,037,832	1,689,055	36,491,866	22,451,138	10,405,773
Government agencies	12,302,614	0	7,799,217	4,503,397	0
Government bonds	9,562,339	0	0	0	9,562,339
Government mortgage-backed securities	81,249,596	228	1,252	7,714,926	73,533,190
Nongovernment-backed CMOs	9,895,225	0	0	0	9,895,225
Other fixed income:					
NTGI QM Aggregate Bond Fund	247,948,282	2,529,073	173,886,130	44,283,563	27,249,516
	$ 449,612,013	4,218,356	218,178,465	78,953,024	148,262,168

Credit Risk

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

- Fixed income securities shall not be rated lower than investment grade (Baa3 by Moody's or BBB- by Standard & Poor's or Fitch) by either rating agency unless specific written permission is granted by the Board to a manager. The average rating of all corporate bonds held in any investment portfolio, taken together, may not fall below AA.
- Split-rated securities in which the middle rating is below investment grade shall not comprise more than five percent (5%) of the market value of any manager's portfolio unless specific authority has been granted.
- Unless specific authority has been granted by the Board, in the event of a bond's downgrade below investment grade by Moody's, Standard & Poor's, and Fitch, the Board shall be notified in writing and the manager shall include a recommended course of action in response to the event in the way it deems most prudent for the Fund in the long term.
- The issues of individual entities rated AAA to Aa3 (Moody's) or AA- (Standard & Poor's, and Fitch) may have a five percent (5%) position of portfolio value at purchase cost and a seven percent (7%) position at market value.
- Issues of individual entities rated below Aa3 (Moody's) or AA- (Standard & Poor's and Fitch) may have a two percent (2%) position of portfolio value at purchase cost or three percent (3%) position at market value.
- The ratings issue does not apply to direct obligations of the US government and its agencies, but the securities issued by any one issuer shall not otherwise, in the aggregate, exceed the foregoing limitations.
- If specific managers are given international flexibility, the same quality restrictions apply.
- Money market instruments shall have a minimum quality rating comparable to an A3 (Moody's) or A- (Standard & Poor's and Fitch) bond rating and commercial paper shall be rated A1/P1 unless held in a diversified short-term commingled fund.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2009 and 2008

The quality ratings of investments in fixed income securities as described by nationally recognized statistical rating organizations at December 31, 2009, are as follows:

Standard & Poor's Quality Rating	Total fair value	Asset-backed securities	Commercial mortgage-backed	Corporate bonds	US govt & agencies	Nongovt-backed CMOs	NTGI QM Aggregate Bond Fund	Northern Trust SecLndg - Core USA Fund
AAA	$ 241,328,462	32,255	12,079,120	-	85,111,316	804,756	143,301,015	-
AA	18,445,089	-	-	11,951,195	-	-	6,493,894	-
A	65,409,975	-	3,264,712	43,773,274	-	641,163	17,667,746	63,080
BAA	13,931,035	-	-	-	-	-	13,931,035	-
BBB	44,706,689	810,308	492,178	39,823,809	404,451	3,175,943	-	-
BB	243,425	-	-	-	-	243,425	-	-
CCC	1,512,291	-	-	-	-	1,512,291	-	-
CC	97,854	-	-		-	97,854	-	-
Total credit risk of debt securities	$ 385,674,820	842,563	15,836,010	95,548,278	85,515,767	6,475,432	181,393,690	63,080
US govt & agencies*	38,147,419							
	$ 423,822,239							

The quality ratings of investments in fixed income securities as described by nationally recognized statistical rating organizations at December 31, 2008, are as follows:

Standard & Poor's Quality Rating	Total fair value	Asset-backed securities	Commercial mortgage-backed	Corporate bonds	US govt & agencies	Nongovt-backed CMOs	NTGI QM Aggregate Bond Fund	Northern Trust SecLndg - Core USA Fund
AAA	$ 318,951,085	771,287	15,780,193	-	93,199,210	7,741,279	201,459,116	-
AA	18,491,994	-	-	9,098,808	-	2,153,946	7,239,240	-
A	56,171,406	1,064,645	-	31,128,655	-	-	23,948,992	29,114
BBB	45,912,252	-	-	30,287,432	353,000	-	15,271,820	-
BB	522,937	-	-	522,937	-	-	-	-
Total credit risk of debt securities	$ 440,049,674	1,835,932	15,780,193	71,037,832	93,552,210	9,895,225	247,919,168	29,114
US govt & agencies*	9,562,339							
	$ 449,612,013							

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

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.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2009 and 2008

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

The System's exposure to foreign currency risk includes the following international securities (all equity) as of December 31, 2009, and December 31, 2008:

Currency		2009 Fair value	2008 Fair value
Japanese Yen	$	100,062,646	80,941,482
EURO Currency		84,292,807	36,350,089
British Pound Sterling		74,468,136	43,655,231
Swiss Franc		39,155,711	22,020,180
Hong Kong Dollar		34,143,961	28,691,127
Singapore Dollar		21,591,731	5,474,909
Australian Dollar		14,613,335	7,141,946
Canadian Dollar		8,707,350	5,565,786
Danish Krone		3,508,045	-
New Zealand Dollar		3,408,286	-
South African Rand		3,105,121	1,570,626
Swedish Krona		2,839,033	3,859,211
Malaysian Ringgit		1,364,006	787,097
Hungarian Forint		1,195,802	1,338,659
Norwegian Krone		749,628	-
Mexican Peso		446,756	779,526
Total securities subject to foreign currency risk	$	393,652,354	238,175,869

Foreign Currency Options

The System periodically invests in foreign currency options in order to hedge the value of a portion of its investments denominated in foreign currencies. Financial options are an agreement that gives one party the right, but not the obligation, to buy or sell a specific amount of an asset for a specified price on or before a specified expiration date. The foreign currency options held by the System entitle the System to convert the value of certain foreign equities into US dollars at an agreed rate. At December 31, 2009 and 2008, the System held no foreign currency options.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2009 and 2008

Securities Lending

The System is authorized under its Investment Policy to participate in securities lending programs through Northern Trust Corporation under which, for an agreed-upon fee, System-owned investments are loaned to a borrowing financial institution. Under this agreement, when the loan closes, the borrowed securities are returned to the System and the collateral is returned to the borrower. The lending agreement requires securities on loan to be collateralized by cash, US government securities, or irrevocable letters of credit with a total market value of at least 102% of the loaned System securities. For global securities pledged as collateral, total market value shall not be less than 105%. The System cannot sell or pledge the non-cash collateral unless a default of the securities lending agreement has occurred.

Cash collateral can be invested in a short-term investment pool or in term loans. The term loans can be terminated on demand by either lender or borrower. At December 31, 2009 and 2008, System investments that were in possession of a borrowing financial institution were collateralized by cash and irrevocable letters of credit. The cash collateral was invested in a short-term investment pool with an average weighted maturity approximating the maturity of the security loans. There were no significant violations of legal or contractual provisions, and no borrower or lending agent default for fiscal years 2009 and 2008.

As of December 31, 2009 and 2008, the System owned the following securities that were in possession of a borrowing financial institution:

		2009		2008	
		Market value of loaned securities	Cash collateral received	Market value of loaned securities	Cash collateral received
US agencies	$	8,055,107	8,259,042	3,144,074	3,193,860
Corporate bonds		11,394,522	11,655,740	9,167,699	9,231,663
Corporate stocks		87,714,006	90,008,233	67,517,726	67,476,360
International stocks		37,875,341	39,639,438	25,910,610	27,281,546
US govt securities		8,876,461	9,047,032	9,595,273	9,828,385
Total	$	153,915,437	158,609,485	115,335,382	117,011,814

Cash collateral received from borrowers of securities is invested in accordance with COA ERS' securities lending agreement. As of December 31, 2009 and 2008, cash collateral was invested in the following categories:

Investment Category		2009	2008
Cash and other liquid assets	$	59,273,122	14,062,806
Asset-backed securities		18,493,265	22,081,843
Commercial paper		8,476,863	-
Repurchase agreements		19,695,342	38,865,896
Certificates of deposit		43,763,996	5,815,700
US govt & agencies		4,435,559	9,706,268
Domestic corporate fixed-income securities		-	16,178,086
Mortgage-backed securities		3,976,240	5,666,976
Total		158,114,387	112,377,575
Securities lending collateral unrealized loss		495,098	4,634,239
Cash collateral received	$	158,609,485	117,011,814

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2009 and 2008

(4) Contributions Required and Contributions Made

As of December 31, 2009 and 2008, the System's funding policy as guided by state law requires contributions equal to 8% of basic compensation, by the participants and by the City.

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

The funding objective of the System is for contribution rates to be sufficient to cover the normal cost of the Plan and to amortize any unfunded actuarial accrued liabilities over a period not to exceed 30 years. Significant actuarial assumptions used to assess the adequacy of the financing arrangement are the same as those used to compute the unfunded actuarial accrued liability below. The latest actuarial valuation was as of December 31, 2009; in this valuation, the Plan had an unfunded actuarial accrued liability of $658,466,636. At December 31, 2009 and 2008, employer and employee contributions totaling $84,014,770 and $82,049,164, respectively, were required by the Plan and paid into the System. Due to significant net depreciation in the fair value of the Plan investments from 2000-2002 and 2008, primarily caused by the unanticipated downturn in the financial markets, the System's actuary has reported that the Plan's contribution rate is not sufficient to amortize the System's unfunded liabilities as of December 31, 2009; therefore, the System's funding objective is not being met.

In 2005, the City of Austin City Council approved a Supplemental Funding Plan (SFP) relating to the System. The basic elements of this plan provide for an initial 1% contribution rate subsidy from the City beginning in October 2006, and increase 1% each year until it reaches a cap of 4%. A subsidy would continue as long as necessary and in an amount necessary up to 4% to sustain a 30-year funding period. Any incremental subsidy increase will be delayed by a year if the System earns 12% or more net of fees in any calendar year. Net earnings were 12.5% in 2006, precluding any increase, and the City subsidy remained at 1% for their 2008 fiscal year. Net earnings were 7.3% in 2007, and (26.0)% in 2008, triggering the 1% subsidy increases, and resulting in a total City subsidy of 2% for their 2009 fiscal year and 3% for their 2010 fiscal year. However, effective October 1, 2009, the City accelerated their subsidy to a total of 4% in recognition of the negative impact of 2008 capital markets on the Fund. The supplemental funding is subject to annual City Council budget approval.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2009 and 2008

(5) Capital Assets

The following summarizes the capital asset account balances as of December 31, 2009, and December 31, 2008, and changes to the accounts during the years then ended:

		Balance December 31, 2007	Additions	Balance December 31, 2008	Additions	Balance December 31, 2009
Capital assets not being depreciated:						
Land	$	**249,964**	**-**	**249,964**	**-**	**249,964**
Capital assets being depreciated:						
Building		1,184,560	-	1,184,560	-	1,184,560
Furniture and fixtures		528,181	16,574	544,755	15,510	560,265
Total capital assets being depreciated		**1,712,741**	**16,574**	**1,729,315**	**15,510**	**1,744,825**
Less accumulated depreciation:						
Building		338,645	32,195	370,840	26,788	397,628
Furniture and fixtures		486,832	22,142	508,974	20,603	529,577
Total accumulated depreciation		**825,477**	**54,337**	**879,814**	**47,391**	**927,205**
Total capital assets, net of accumulated depreciation	$	**1,137,228**	**(37,763)**	**1,099,465**	**(31,881)**	**1,067,584**

(6) Federal Income Taxes

The Plan is a Public Employee Retirement System and is exempt from federal income taxes. A favorable determination letter from the Internal Revenue Service was issued in November 1984, with additional letters received December 1999 and March 2003. COA ERS awaits IRS response to application for an updated determination that was filed in December 2008.

(7) Risk Management

The System is exposed to various risks of loss related to torts, errors and omission, violation of civil rights, theft of, damage to, and destruction of assets, and natural disaster. These risks are covered by insurance purchased by the System. This coverage is in compliance with the workers' compensation laws of the State of Texas with no accident or aggregate deductibles. Property physical damage is insured to replacement value with a $1,000 deductible and a building limit of $1,670,600 with contents of $592,700. Automobile limits are set at $1,000,000 per occurrence. Insurance coverage by major category of risk has remained relatively constant as compared to the prior fiscal year. Insurance settlements have not exceeded insurance coverage for any of the past three years. The System obtains Workers Compensation and Employers Liability coverage through Texas Mutual Insurance Company.

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

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2009 and 2008

(8) Health Plan for Retired COA ERS Employees

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

Funding Policy: Benefit provisions are established and amended by the City Council; rates are actuarially determined by a third-party actuary. COA ERS, as the employer, has fewer than twenty current and potential plan members. COA ERS does not participate in plan design or administration, and is subject to the terms and conditions set by the City. Both COA ERS and the two members currently participating in the plan, pay monthly premiums based on the City's assumptions and actuarial data. COA ERS' contributions for fiscal year 2009 and 2008 were approximately $3,090 and $2,450, respectively. In addition, the Plan members receiving benefits contributed approximately $240 per month in 2009, and $112 per month in 2008 for individual coverage; dependent coverage paid by the member was approximately $680 and $230 for dependent coverage per month in 2009 and 2008.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2009 and 2008

(9) Funded Status of the Plan

The following table illustrates the funding status of the Plan as of the most recent valuation rate, December 31, 2009 (amounts in millions):

Actuarial Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3)-(2)	Funded Ratio (2) / (3)	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
12/31/2009	1,672.50	2,330.90	658.5	71.8%	422.5	155.8%

Six-year historical trend information designed to provide information about the pension fund's progress made in accumulating sufficient assets to pay benefits due, and the fund's funding progress about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits, is presented in "Required Supplementary Information".

Actuarial calculations reflect a long-term perspective. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial values of assets, consistent with long-term perspective of the calculation.

Additional information from the latest actuarial valuation, December 31, 2009, follows:

Actuarial cost method	Entry age
Amortization method	Level percent of pay, open
Payroll growth rate for amortization	3.5%
Remaining amortization period	30 years *
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases	5.0% to 6.0%
Includes inflation at	3.25%
Cost-of-living adjustments	None assumed
Post-retirement benefit increases	None assumed

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

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Required Supplementary Information (unaudited)

December 31, 2009 and 2008

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

Schedule of Funding Progress

Years ended December 31, 2004 through 2009

Actuarial valuation date	Actuarial value of assets (AVA)	Actuarial accrued liability (AAL)	Unfunded actuarial accrued liability (UAAL) (3)-(2)	Funded ratio	Annual covered payroll	UAAL as a percentage of covered payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
12/31/2004	$1,356.8	$1,678.2	$321.4	80.8%	$326.6	98.4%
12/31/2005	$1,398.8	$1,794.2	$395.4	78.0%	$348.6	113.4%
12/31/2006	$1,497.8	$1,974.0	$476.2	75.9%	$391.0	121.8%
12/31/2007	$1,653.5	$2,112.8	$459.3	78.3%	$417.5	110.0%
12/31/2008	$1,481.4	$2,246.9	$765.5	65.9%	$448.7	170.6%
12/31/2009	$1,672.5	$2,330.9	$658.5	71.8%	$422.5	155.8%

Note: Dollar amounts in millions.

Schedule of Employer Contributions

Years ended December 31, 2004 through 2009

Fiscal year	Annual required contribution	Employer contributions	Percentage contributed
(1)	(2)	(3)	(3/2)
2004	$32,733,243	$26,940,941	82.3%
2005	$41,610,470	$27,129,892	65.2%
2006	$49,390,658	$30,545,197	61.8%
2007	$56,080,689	$36,442,325	65.0%
2008	$57,937,202	$40,661,542	70.2%
2009	$78,184,719	$45,106,569	57.7%

This schedule discloses the annual contribution required to provide benefits to retirees and their beneficiaries in accordance with the terms of the Plan. The Percentage Contributed is the current contribution rate for the fiscal year (the City's ongoing 8% plus 2.5% subsidy (prorated for 10/2009 increase from 2% to 4%)) as a percentage of the Annual Required Contribution (ARC) as determined by the prior year's actuarial valuation.

For fiscal year 2009 this percentage is 10.5%/18.2%=57.7%. The current year ARC is calculated by dividing the actual dollar contribution to the Fund by the Percentage Contributed ($45,106,569/57.7%), which produces a 2009 ARC of approximately $78,184,719.

See accompanying independent auditors' report.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Required Supplementary Information (unaudited)

December 31, 2009 and 2008

(1) Description of Funding Progress

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the actuarial accrued liability as a factor. Isolated analysis of the dollar amounts of actuarial value of assets, actuarial accrued liability and unfunded actuarial accrued liability can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability provides an indication of the System's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the System is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the public employee retirement system.

(2) Actuarial Assumptions and Methods

Funding Method – An entry age normal actuarial cost method of valuation is used in determining benefit liabilities and normal cost. Differences between assumed and actual experience (actuarial gains and losses) become part of unfunded actuarial accrued liabilities. The System has a fixed contribution rate greater than the normal cost and the System is currently unfunded. Therefore, the contributions received in excess of the normal cost are used to amortize the unfunded liabilities. Primarily due to the unanticipated significant asset losses caused by the downturn in the 2000-2002 and 2008 financial markets, the Plan's contribution rate is not sufficient to amortize the System's unfunded liabilities; therefore, the funding objective is not being met. In the absence of significant actuarial gains, the current contribution rates will not be sufficient to support the current benefit structure of the Plan. The System negotiated a Supplemental Funding Plan with the City of Austin that was approved by the Austin City Council. This Plan is described in footnote 4 to the financial statements. The supplemental funding is subject to annual City of Austin budget approval. Significant actuarial assumptions employed by the actuary as of December 31, 2009, the date of the latest actuarial study, include:

Amortization method	Level percent of pay, open
Payroll growth rate for amortization	3.5%
Remaining amortization period	30 years *
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases	5.0% to 6.0%
Includes inflation at	3.25%
Cost-of-living adjustments	None assumed
Post retirement benefit increases	None assumed

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

See accompanying independent auditors' report.

OTHER SUPPLEMENTARY INFORMATION

Investment Expenses

		2009	2008
Custodial Fees			
Northern Trust	$	158,250	170,000
Investment Manager Fees			
Agincourt Capital Management LLC		113,868	111,782
AllianceBernstein LP		54,263	93,035
AQR Capital Management LLC		146,478	197,466
Aronson + Johnson + Ortiz LP		368,219	84,414
Columbus Circle Investors		114,137	62,492
INTECH Investment Management LLC		158,091	505,906
Mondrian Investment Partners LTD		473,363	-
NTGI QM Aggregate Bond Index Fund		68,598	81,589
Pzena Investment Management LLC		215,303	228,409
Sprucegrove Investment Mgmt LTD		637,651	644,219
Wall Street Associates LLC		122,395	193,080
Walter Scott & Partners LTD		701,280	735,859
Prior-year accrual-to-actual variance		8,021	(58,114)
		3,181,667	**2,880,137**
Investment Consulting Fees			
Summit Strategies Group		**175,000**	**175,000**
Total	$	**3,514,917**	**3,225,137**

Note: These expenses are presented on an accrual basis and do not reflect fees directly charged against commingled funds.

General & Administrative Expenses

		2009	2008
Actuary	$	72,942	67,727
Attorney		11,525	52,986
Auditing		81,150	65,740
Banking Services		19,250	6,464
Computer Services		112,010	109,136
Consultants		4,724	16,365
Administrative		1,493,644	1,292,621
Depreciation		47,390	54,336
Insurance		126,765	127,304
Member Communications		17,659	26,676
Continuing Education & Site Visits		44,756	63,484
Total	$	**2,031,815**	**1,882,839**

Consultant Expenses

		2009	2008
Actuary			
Gabriel Roeder Smith & Co	$	**72,942**	**67,727**
Attorney			
Sedgwick Detert Moran & Arnold		-	13,066
Strasburger & Price LLP		11,525	39,920
		11,525	**52,986**
Auditing			
KPMG LLP		46,150	38,000
Padgett Stratemann Co. LLP		36,000	27,740
		81,150	**65,740**
Banking Services			
JPMorgan Chase		18,352	5,562
National Payment Corporation		898	902
		19,250	**6,464**
Computer Services			
Austin Web Design		2,392	736
Levi Ray & Shoup		83,736	90,909
Riata Technologies Inc		15,774	9,144
Other		10,108	8,347
		112,010	**109,136**
Other Consultants			
Robert A. Dennison MD		2,700	4,050
Waters Consulting Group		-	5,500
Martin Associates Architects		1,774	6,762
Other		250	53
		4,724	**16,365**
Total	$	**301,601**	**318,418**

See accompanying independent auditors' report.

Investment Section

***Summit** Strategies Group*

January 1, 2010

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

What a difference a year makes! After the COA ERS investment portfolio suffered a negative return in 2008, this past year the portfolio staged a strong rebound posting a gain of 26.0% gross of fees for the fiscal year ending December 31, 2009. The portfolio increased from a beginning value of $1.23 billion to its current value of $1.51 billion as a result of investment appreciation of $314 million, which added to net outflows of $35 million. The S&P 500 posted a 26.5% return as capital markets rebounded in recognition of a reduced risk of depression or financial Armageddon.

As detailed earlier, the COA ERS' investment portfolio rose 26.0% for the year ending December 31, 2009. This led the fund's Policy and Passive Benchmarks and the Median Public Fund in the Mellon sample. Specifically, the investment portfolio beat its Policy Benchmark return by 5.0%, the Passive Benchmark return by 3.6% and the Median Public Fund return by 6.4%, ranking in the 11th percentile. The outperformance versus Policy is largely attributable to COA ERS' portfolio asset allocation, structure, and active equity managers beating their benchmarks. The outperformance versus peers is two fold, COA ERS had a higher international equity weighting and as these markets rebounded reversing the dollar strengthening seen in 2008, and limited alternative exposure allowed the fund to fully capture the "beta" rally. Real estate, a buffer in previous years, continued to see weakness expected last year due to its appraisal based nature and deteriorating fundamentals. Longer-term results are positive and good on a relative basis. For the 10-year period, the fund returned 3.7% annualized. In this case, the return exceeded the Policy Benchmark and more than 51% of the public funds in our sample. All rates of return are time-weighted using accrual-based accounting and are gross of fees.

In fiscal year 2009, the funding to Mondrian international small cap equities was completed at the end of the first quarter and progress was made to reduce the risk profile of the fund by targeting an additional international manager that diversifies those currently in the portfolio. The Board continued education and implementation of new investment themes as recommended in an earlier asset/liability study. This exploration includes value added and opportunistic real estate, active fixed income, private equity, and alternative strategies.

The results for the past year achieved and exceeded the fund's actuarial assumption for long-term investment results. 2009 investment markets started poorly, worsening through March 9th, when they began the fastest and steepest equity recovery post World War II. After surviving the market turmoil of 2008, 2009 offered a welcome sigh of relief and confirmed our view that expected returns were better starting in 2009 than 2008. The strong equity rally in 2009 was positive for the fund, but was achieved with significant headwinds facing the economy. High unemployment, significant federal debt, global economic growth, and confidence in the financial markets all need to be addressed to continue the upward momentum begun in 2009. The long-term results are positive and the hard work of the Board and staff over the past few years positioned the fund to capture the strong markets of 2009 for the benefit of the System and its members. We believe that the fund is in a good position to capture consistent, quality results in the years to come. All of us at Summit Strategies Group have enjoyed our COA ERS experience and look forward to continued service and success. Thank you.

Sincerely,

EJR

Eric J. Ralph, CFA
Senior Vice President

coaers

City of Austin Employees' Retirement System

April 8, 2010

Dear Members:

In this letter we will look back at the environment and events that helped to shape investment returns for the year ending December 31, 2009. I will present investment performance of major markets and the Fund for last year and for longer periods. Since asset allocation plays a dominant role in determining investment performance, we will review the Fund's asset allocation. I will also provide a brief summary of the current economic outlook. Finally, I will summarize the investment philosophies and principles that have long guided and that continue to guide the management of the Fund.

ECONOMIC ENVIRONMENT

Recession to Recovery

The start of 2009 was characterized by uncertainty and fears of entering into an economic depression following the financial crises that began in the latter half of 2008. Measures of economic activity in the first quarter continued to reflect an ongoing sharp contraction. Towards the end of the first quarter, however, there began to emerge signs that the economy was perhaps stabilizing as the rate of decline in economic activity began to moderate. Unprecedented coordinated efforts by global policy makers provided a backstop for financial markets and by the third quarter of the year economic growth resumed and continued at an accelerated pace during the fourth quarter of the year as the recovery began to take hold.

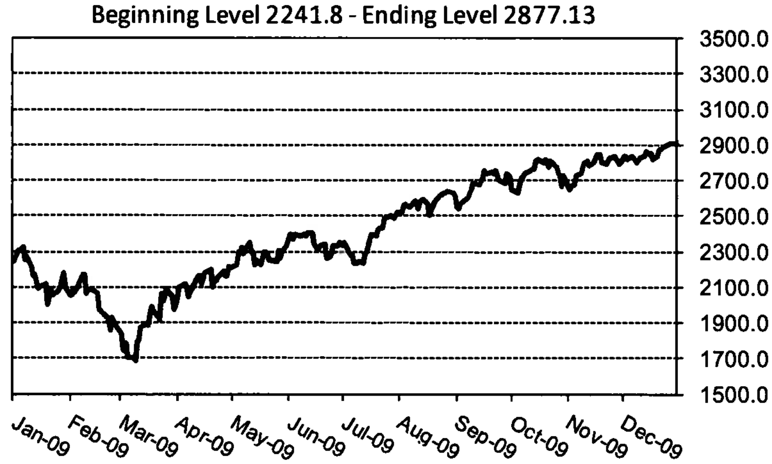
CAPITAL MARKETS

U.S. Stock Market

The chart to the right shows how the stock market reacted to the changing fortunes of the economy during the year. The stock market as measured by the Russell 3000 stock index, a broad measure of the U.S. stock market, reflected the fears evident in the first quarter of the year as well as the stabilization and improvement in the economy that characterized market the year after the first quarter. The stock market staged a powerful rebound from the depressed levels of mid March to produce one of the best returns for a calendar year in recent memory. International stocks, as we shall see later, had an even better year than U.S. stocks.

Change in the Russell 3000® Index during 2009

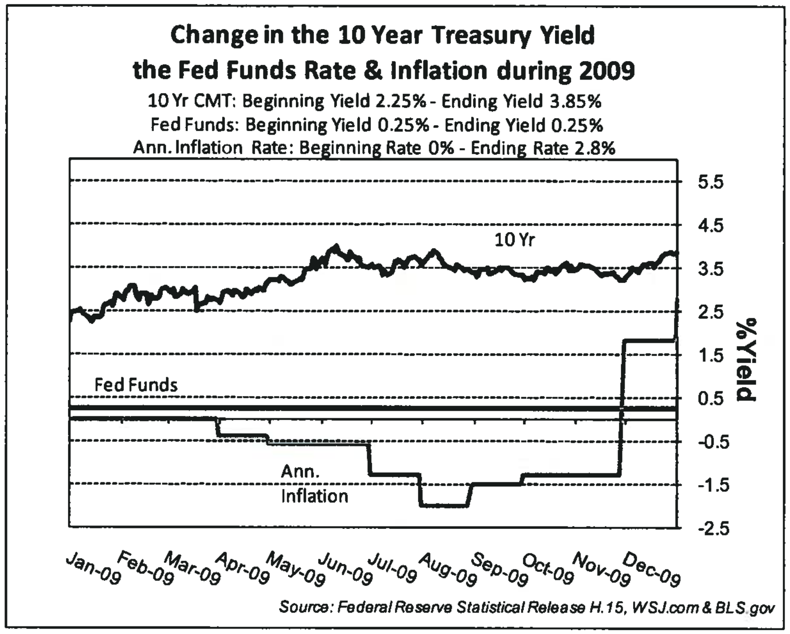
Beginning Level 2241.8 - Ending Level 2877.13



Source: Frank Russell Company

Interest Rates

Throughout 2009 the Federal Reserve maintained the highly accommodative stance initiated during 2008 to alleviate the financial crisis and maintain the liquidity within the system necessary to promote economic stabilization and set the stage for recovery. The Fed Funds rate remained unchanged at the 0 to 0.25% target established by the Federal Reserve. Prices declined as lowered demand for final goods was transmitted through the economy in the form of less demand for commodities and labor. Additionally, corporations dramatically reduced inventories. As such inflation spent most of the year in negative territory. The yield on U.S. Treasuries remained relatively low during the year reflecting both the weakened economy and the policy measures of the Federal Reserve and the U.S. Treasury Department. Yields did trend slightly higher during the year perhaps reflecting an economy on the mend.



INVESTMENT PERFORMANCE

Investment Returns Through December 2009

US Fixed Income	Asset Class	1 Year	3 Years	5 Years
3 month Treasury Bills	Cash	0.17%	2.37%	2.95%
Barclays Capital Aggregate Bond Index	Core Bonds	5.93%	6.04%	4.97%
Barclays Capital Corporate Bond Index	Corporate Bonds	18.68%	5.66%	4.58%
Barclays Capital High Yield Bond Index	High Yield Bonds	58.21%	5.98%	6.46%
City of Austin Employees' Retirement System	**Domestic Fixed Income**	**9.92%**	**6.11%**	**5.10%**
US Equity	**Asset Class**	**1 Year**	**3 Years**	**5 Years**
Russell 3000® Index	Broad US Equity	28.34%	(5.42%)	0.76%
Russell 1000® Index	Large Cap Equity	28.43%	(5.36%)	0.79%
Russell 1000® Growth Index	Large Cap Growth	37.21%	(1.89%)	1.63%
Russell 1000® Value Index	Large Cap Value	19.69%	(8.96%)	(0.25%)
Russell 2500™ Index	Mid Cap Equity	34.39%	(4.86%)	1.58%
Russell 2000® Index	Small Cap Equity	27.17%	(6.07%)	0.51%
City of Austin Employees' Retirement System	**Broad US Equity**	**30.03%**	**(4.80%)**	**1.21%**
International	**Asset Class**	**1 Year**	**3 Years**	**5 Years**
MSCI ACWI Ex-US	Broad Non-US Equity	42.14%	(3.04%)	6.30%
MSCI EAFE	Developed Non-US Equity	32.46%	(5.57%)	4.02%
MSCI Emerging Mkts.	Emerging Non-US Equity	79.02%	5.42%	15.88%
City of Austin Employees' Retirement System	**International Equity**	**45.99%**	**(1.41%)**	**6.91%**
Real Estate	**Asset Class**	**1 Year**	**3 Years**	**5 Years**
NCREIF Property Index	Real Estate	(16.85%)	(3.41%)	4.75%
City of Austin Employees' Retirement System	**Real Estate**	**(30.78%)**	**(11.34%)**	**(0.53%)**
Policy Weighted Benchmark Index	Multiple	21.04%	(1.49%)	3.10%
City of Austin Employees' Retirement System	**Total Fund**	**26.01%**	**0.20%**	**4.36%**

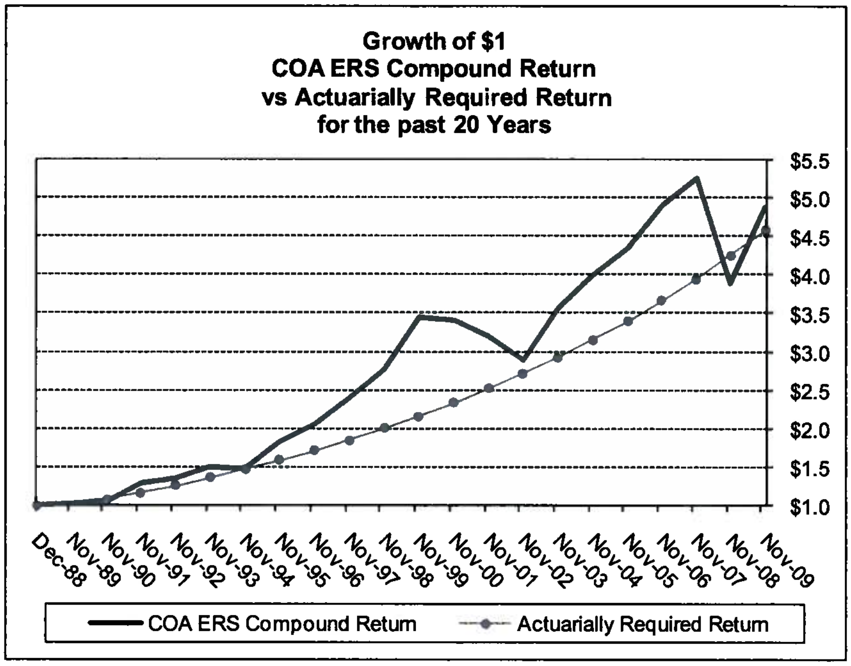
Source: Summit Strategies Group

Stocks and Bonds Rebound Sharply

Generally speaking, the markets that declined the most in 2008 experienced the strongest results in 2009 and likewise those with the best results in 2008 were laggards in 2009. As noted above, U.S. equities produced strong investment returns for the year but stronger still were the returns of international equities. In the fixed income markets, bonds with credit exposure recorded strong returns. Returns on less liquid asset classes which are lagged such as real estate reflected the full impact of the downturn during 2009. The System's investment portfolio fully participated in the strong returns of the capital markets during the year with full allocations to equities and fixed income and only limited exposure real estate.

A Long-term Perspective

The chart to the right shows the growth that compound returns of the Fund produced relative to the growth that compound returns of the assumed actuarial rate (currently 7.75%) would have produced. Over this long-term horizon of the past 20 years the investment portfolio returns have produced growth above what would have been experienced had the Fund earned the actuarially assumed rate. The past 20 year period has been remarkable for its two vibrant bull markets and its two major bear markets in equities. With the historical backdrop of the past 20 years, we believe that a long-term performance target of 7.75% is reasonable and yet we are cognizant of the fact that long-term investing to achieve this goal is dependent upon future growth in the global economy.



ASSET ALLOCATION

Diversification Reduces Volatility

Diversification is the investor's best defense against the risks associated with any individual asset class. Diversification controls risk by allocating assets across various asset classes. The Fund's asset allocation is shown below.

Asset Allocation				
ASSET CLASS	Min	12/31/09	Target	Max
CASH	0.00%	0.24%	0.00%	0.00%
FIXED INCOME AND REAL ESTATE	32.00%	32.18%	35.00%	43.00%
FIXED INCOME	27.00%	29.06%	30.00%	33.00%
REAL ESTATE	0.00%	3.12%	5.00%	10.00%
COMMON STOCKS	60.00%	67.58%	65.00%	70.00%
DOMESTIC LARGE CAP	17.25%	22.58%	22.75%	27.75%
DOMESTIC NON-LARGE CAP	4.75%	8.95%	9.75%	14.75%
INTERNATIONAL	27.50%	36.05%	32.50%	37.50%

Early in the year, in keeping with Fund's rebalancing policy, equities were increased and fixed income reduced to move the portfolio within policy ranges. Later in the year the strong advance in the equity markets had moved the fund above its maximum stock allocation and below its minimum fixed income allocation and the Fund was rebalanced within its set policy ranges.

RECENT EVENTS AND OUTLOOK

Looking Ahead

As we look forward the global economy is in the early stages of a recovery from a severe recession. The strength of the recovery has thus far been modest but it is showing signs of building momentum. It is important to stress, however that the global economy is still fragile. The official unemployment rate is double what it was two years ago at 10% and employment gains are anticipated to be limited going forward. With so many individuals unemployed or under employed it is difficult to imagine a dramatic rebound in consumer spending. The problem of too much bad debt from the recent property bubble remains and the prospects of default have even been extended to sovereign credits. There remains much uncertainty as to what will occur once global policy makers begin unwinding the dramatic measures taken during the financial crisis. Questions remain on whether we are going to face higher inflation or whether we will see deflation.

On the positive side we may be seeing the early stages of a rebalancing in the global economy where those nations that have been solely geared towards exporting goods, primarily to the United States, begin to shift their focus towards internal demand. This trend may accelerate as it appears likely that the U.S. consumer market is going to be growing less than in the recent past. After years of building up massive trade imbalances, notably between the U.S. and China, a rebalancing in trade would be a positive development. Where emerging economies develop a middle class with disposable income, internal consumption can drive economic growth and U.S. multinational corporations are well positioned to compete in these markets.

The end of 2009 marks the end of the first decade of the 21st century. Some have termed it a lost decade as both economic growth and capital market returns have been far below long term averages. That being said however, it is important to remember that with averages there tends to be a regression to the mean. The longer we have spent in times of below average growth and returns, the closer we may be to periods when the economy and the capital markets experience above average growth and returns. When we might return to periods of more robust economic growth is uncertain, we nonetheless anticipate that over the long term our diversification and rebalancing discipline will provide appropriate risk controls to produce satisfactory long-term returns.

INVESTMENT PHILOSOPHIES AND GUIDING PRINCIPLES

Listed below are the beliefs that guide our stewardship of the Fund.

- A pension fund has the longest of investment horizons and therefore rightly focuses on factors that impact long-term results.
- Asset allocation is the key factor determining long-term returns.
- Disciplined rebalancing towards the desired asset allocation maintains diversification and controls risk.
- Diversification within and across asset classes is the most effective tool for controlling risk.
- Passive investment management is commonly the most effective approach in efficient markets: active investment management can be successful in inefficient markets.

By adhering to these long standing principles we expect continued success in the prudent management of the assets of the Fund. Thank you for allowing me the opportunity to present my perspective.

Sincerely,

Kirk D. Stebbins, CFA
Chief Investment Officer

OUTLINE OF INVESTMENT POLICIES

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

INVESTMENT GOALS

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

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

INVESTMENT PHILOSOPHY

The Fund is a permanent one.

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

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

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

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

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

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

IDENTIFICATION OF DUTIES

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

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

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

1. The above assets can be held in commingled (mutual) funds as well as privately managed separate accounts. If held in a commingled account or mutual fund, the prospectus or Declaration of Trust takes precedence over this document.
2. Private placement bonds are not permitted. Section 144(a) fixed income securities are allowable.
3. Investments may not be made in any investment that is prohibited by the Internal Revenue Service, the Department of Labor or statutory restriction.
4. For purposes of definition, cash equivalent securities are any fixed income investment with less than one year to maturity or reset date.
5. The securities representing equity of any one company shall not exceed 4% of the cost basis or 6% of the market value of any manager's portfolio. Fixed income securities of any one corporation shall be limited to 4% at cost of a portfolio and may not exceed 6% at market. This restriction also applies to asset-backed securities, non-agency mortgage-backed securities (including commercial mortgage-backed securities) and taxable municipals. The total holdings of an agency-issued mortgage-backed security of the same coupon and maturity series of the same agency shall not exceed 20% of the portfolio at cost (agency-issued mortgage backed securities to include GNMA's). The direct debt of the federal government (treasury bonds, bills and notes) shall not be restricted as a percentage of the portfolio.
6. Quantitative investment styles that are index based may deviate from the above position limits provided they are following a pre-established investment process and relative position limitation (i.e. index weight plus 1%) and they will monitor the account and promptly inform COA ERS if the diversification restriction noted above in the Policy is exceeded.
7. Derivatives are permissible for the purpose of equitizing cash (e.g. an overlay program, reducing cash exposure, or in portfolio transition).
8. Equity managers may invest in depository receipts as long as the underlying security is permissible within these guidelines and the investment does not expose the Fund to any greater risk than the risk from holding the underlying security.
9. Domestic equity managers are allowed to invest in dollar-denominated, SEC registered stock of foreign domiciled companies traded on the NYSE, AMEX or OTC markets. Concentration restrictions for the above securities are the same as for any other security.
10. Investment managers may be hired to manage accounts using primarily closed-end funds. In such accounts, closed-end funds are permissible holdings.

TOTAL PENSION FUND INVESTMENT OBJECTIVES

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

- The Fund's total return after fees should exceed the total return of an index composed of a mix of asset class benchmarks in proportions set out in the Statement of Investment Policies and Objectives.
- The time period for this objective is on the market cycle or five years, whichever is shorter.

ASSET ALLOCATION

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

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

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

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

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

ASSET ALLOCATION

City of Austin Employees' Retirement System
Asset Allocation
12/31/2009

INVESTMENT POLICY REBALANCING GUIDELINES:	12/31/2009 VALUE	% OF FUND	ASSET ALLOCATION * TARGET %	ASSET ALLOCATION * TARGET AMOUNT	VARIANCE FROM TARGET AMOUNT	VARIANCE FROM TARGET %
Common Stocks	$ 1,019,213,093	67.58%	65.00%	980,287,639	38,925,454	2.58%
Domestic Large Cap Equities	340,585,119	22.58%	22.75%	343,100,671	(2,515,552)	
Domestic Non-Large Cap Equities	135,044,039	8.95%	9.75%	147,043,148	(11,999,109)	
International Equities	543,583,935	36.05%	32.50%	490,143,820	53,440,115	
Subtotal for Rebalancing	$ 488,921,738	32.42%	35.00%	527,847,192	(38,925,454)	-2.58%
Fixed Income	438,229,910	29.06%	30.00%	452,440,450	(14,210,540)	
Real Estate	47,024,506	3.12%	5.00%	75,406,742	(28,382,236)	
Cash	3,667,322	0.24%	0.00%	-	3,667,322	
TOTAL	1,508,134,831	100.00%	100.00%			

ASSET CLASS / MANAGER	VALUE	% OF FUND	TARGET %	TARGET AMOUNT	VARIANCE AMOUNT
US EQUITIES (Large)	340,585,119	22.58%	22.75%	343,100,671	(2,515,552)
INTECH INVESTMENT MANAGEMENT LLC (enhanced-index)	168,721,198	11.19%	11.3750%	171,550,335	(2,829,137)
ALLIANCEBERNSTEIN LP (large cap - growth)	90,098,962	5.97%	5.6875%	85,775,168	4,323,794
ARONSON+JOHNSON+ORTIZ LP (large cap - value)	81,764,959	5.42%	5.6875%	85,775,168	(4,010,209)
US EQUITIES (Non-Large)	135,044,039	8.95%	9.75%	147,043,148	(11,999,109)
COLUMBUS CIRCLE INVESTORS (small cap - growth)	34,518,423	2.29%	2.4375%	36,760,787	(2,242,364)
AQR CAPITAL MGMT LLC (small cap - value)	31,254,936	2.07%	2.4375%	36,760,787	(5,505,851)
WALL STREET ASSOCIATES LLC (mid cap - growth)	37,889,814	2.51%	2.4375%	36,760,787	1,129,027
PZENA INVESTMENT MGMT LLC (mid cap -value)	31,380,866	2.08%	2.4375%	36,760,787	(5,379,921)
INTERNATIONAL EQUITIES	543,583,935	36.05%	32.50%	490,143,820	53,440,115
WALTER SCOTT & PARTNERS LTD (intl - growth)	177,854,677	11.79%	10.500%	158,354,157	19,500,520
SPRUCEGROVE INVESTMENT MGMT LTD (intl - value)	173,193,970	11.49%	10.500%	158,354,157	14,839,813
MONDRIAN INVESTMENT PARTNERS LTD (intl - small cap)	76,619,935	5.08%	5.000%	75,406,742	1,213,193
CITY OF LONDON INVESTMENT GROUP PLC (emerging markets)	62,347,511	4.14%	3.250%	49,014,382	13,333,129
DIMENSIONAL FUND ADVISORS (emerging markets)	53,567,842	3.55%	3.250%	49,014,382	4,553,460
DOMESTIC FIXED INCOME	438,229,910	29.06%	30.00%	452,440,450	(14,210,540)
AGINCOURT CAPITAL MGMT LLC	256,836,192	17.03%	15.00%	226,220,225	30,615,967
NTGI QM AGGREGATE BOND INDEX FUND	181,393,718	12.03%	15.00%	226,220,225	(44,826,507)
REAL ESTATE	47,024,506	3.12%	5.00%	75,406,742	(28,382,236)
PRINCIPAL GLOBAL INVESTORS LLC	47,024,506	3.12%	5.00%	75,406,742	(28,382,236)
CASH	3,667,322	0.24%	0.00%	0	3,667,322
CASH	3,667,322	0.24%	0.00%	-	3,667,322
TOTAL	$ 1,508,134,831	100.00%			

Reconciliation to Statement of Plan Net Assets:

Interest and dividends receivable	$	4,474,833
Trades pending settlement - purchases		10,987,950
Total investments		1,507,265,750
Trades pending settlement - sales		(14,593,702)
	$	1,508,134,831

SCHEDULE OF INVESTMENT RESULTS

	Balance 12/31/08	Balance 12/31/09	2009 Gross Return (%)	2009 Mgmt Fees (Cash Basis)	After-Fees Return (%) 2009	3 Years	5 Years
FIXED INCOME GROUP	$455,511,273	$438,229,910	9.9 %	$200,528	9.9 %	6.1 %	5.0 %
Agincourt Capital Mgmt LLC	207,590,420	256,836,192	13.0 %	131,930	13.0 %	6.1 %	5.1 %
BC Aggregate			5.9 %		5.9 %	6.0 %	5.0 %
NTGI QM Bond Index Fund	247,920,853	181,393,718	6.5 %	68,598	6.5 %	5.8 %	4.8 %
BC Aggregate			5.9 %		5.9 %	6.0 %	5.0 %
INTERNATIONAL	334,882,817	543,583,935	46.0 %	2,411,499	45.2 %	(1.9)%	6.4 %
Walter Scott & Partners LTD	136,455,008	177,854,677	30.9 %	665,055	30.3 %	0.0 %	7.1 %
EAFE			32.5 %		32.5 %	(5.6)%	4.0 %
Sprucegrove Investment Mgmt LTD	128,038,198	173,193,970	35.8 %	601,140	35.3 %	(6.4)%	3.9 %
EAFE			32.5 %		32.5 %	(5.6)%	4.0 %
Mondrian Investment Partners LTD	N/A	76,619,935	N/A	287,749	N/A	N/A	N/A
MSCI EAFE Small Cap			47.3 %		47.3 %	(7.3)%	3.9 %
City of London Investors	34,316,679	62,347,511	83.9 %	565,429	81.7 %	N/A	N/A
MSCI Emerging Markets			79.0 %		79.0 %	5.4 %	15.9 %
Dimensional Fund Advisors Emerging Markets	36,072,932	53,567,842	93.2 %	292,126	92.3 %	N/A	N/A
MSCI Emerging Markets			79.0 %		79.0 %	5.4 %	15.9 %
DOMESTIC EQUITY	367,302,944	475,629,158	30.0 %	1,072,819	29.7 %	(5.1)%	1.0 %
US EQUITIES LARGE	**272,676,090**	**340,585,119**	**25.4 %**	**539,036**	**25.1 %**	**(5.2)%**	**1.1 %**
INTECH Investment Management LLC	134,655,726	168,721,198	25.5 %	196,615	25.3 %	(5.3)%	N/A
S&P 500			26.5 %		26.5 %	(5.6)%	0.4 %
AllianceBernstein LP	67,396,845	90,098,962	34.7 %	0	34.7 %	(2.1)%	2.2 %
Russell 1000 Growth			37.2 %		37.2 %	(1.9)%	1.6 %
Aronson+Johnson+Ortiz LP	70,623,519	81,764,959	16.4 %	342,421	15.8 %	(8.0)%	0.8 %
Russell 1000 Value			19.7 %		19.7 %	(9.0)%	(0.3)%
US EQUITIES NON-LARGE	**94,626,854**	**135,044,039**	**43.4 %**	**533,783**	**42.7 %**	**(4.9)%**	**0.6 %**
Wall Street Associates LLC	24,409,527	37,889,814	55.7 %	87,039	55.2 %	(1.2)%	3.7 %
Russell Mid Cap Growth			46.3 %		46.3 %	(3.2)%	2.4 %
Pzena Investment Mgmt LLC	20,453,810	31,380,866	54.7 %	194,815	53.4 %	N/A	N/A
Russell Mid Cap Value			34.2 %		34.2 %	(6.6)%	2.0 %
AQR Capital Management LLC	24,051,808	31,254,936	30.7 %	143,935	30.0 %	(8.1)%	N/A
Russell 2000 Value			20.6 %		20.6 %	(8.2)%	(0.0)%
Columbus Circle Investors	25,711,709	34,518,423	34.8 %	107,994	34.3 %	N/A	N/A
Russell 2000 Growth			34.5 %		34.5 %	(4.0)%	0.9 %
REAL ESTATE	68,597,749	47,024,506	(30.8)%	536,573	(31.5)%	(12.2)%	(1.5)%
Principal Global Investors LLC	68,597,749	47,024,506	(30.8)%	536,573	(31.5)%	(12.2)%	(1.5)%
NCREIF Property			(16.9)%		(16.9)%	(3.4)%	4.8 %
CASH	5,594,694	3,667,322	0.3 %		0.3 %	2.7 %	3.4 %
90 Day T-Bills			0.2 %		0.2 %	2.4 %	3.0 %
Total Fund	1,231,889,477	1,508,134,831	26.0 %	$4,221,419	25.6 %	(0.1)%	4.1 %
****Policy Index***			21.0 %		21.0 %	(1.5)%	3.1 %

Rates of return are time-weighted using accrual-based accounting.

*** Policy Allocation: 33% S&P 500, 14% Russell 2500 Growth, 15% FTAWI Ex-US, 38% BC Aggregate, thru 8/00**
33% S&P 500, 14% Russell 2500 Growth, 15% EAFE, 38% BC Aggregate, 9/00 thru 9/01
33% S&P 500, 14% Russell 2500, 15% EAFE, 38% BC Aggregate, 10/01 thru 12/02
33% S&P 500, 16% Russell 2500, 16% EAFE, 35% BC Aggregate, 1/03 thru 3/05
33% S&P 500, 16% Russell 2500, 16% EAFE, 30% BC Aggregate, 5% NCREIF, 4/05 thru 6/08
29% S&P 500, 10% Russell 2500, 26% EAFE, 30% BC Aggregate, 5% NCREIF, 7/08 thru 3/09
22.75% S&P 500, 9.75% Russell 2500, 32.50% EAFE, 30% BC Aggregate, 5% NCREIF, 4/09 to present

LARGEST PORTFOLIO HOLDINGS

TOP TEN EQUITY HOLDINGS

Shares	Stock		Fair Value	% of Fund
170,600	Exxon Mobil Corp	$	11,633,214	0.77%
199,930	Novartis AG CHF0.50 (REGD)		10,927,250	0.72%
213,700	Nestle SA COM STK		10,377,499	0.69%
37,715	Apple Inc		7,952,585	0.53%
190,223	JPMorgan Chase & Co COM		7,926,592	0.53%
12,645	Google Inc CLA A		7,839,647	0.52%
267,880	AT&T Inc COM		7,508,677	0.50%
44,425	Goldman Sachs Group Inc COM		7,500,717	0.49%
128,410	Adidas AG NPV		6,958,604	0.46%
193,600	Honda Motor Co NPV		6,467,544	0.43%
	Top 10 Stock Holdings	**$**	**85,092,329**	**5.64%**
	Total COA ERS Investment Portfolio 12-31-2009	**$**	**1,508,134,831**	**100.00%**

Full listing available upon request.

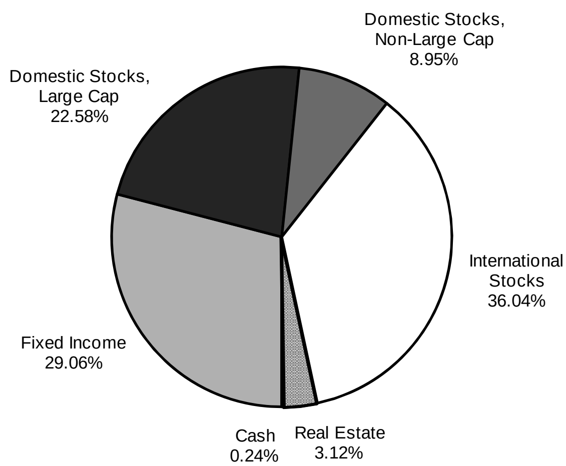
TOP TEN BOND HOLDINGS

	Par	Bond		Fair Value	% of Fund
$	29,015,000	US Treasury Bonds DTD 00259 3.125% Due 10-31-2016 REG	$	28,650,049	1.90%
	9,120,229	FNMA Pool #995024 5.5% Due 08-01-2037 BEO		9,585,744	0.64%
	7,365,000	FNMA Fannie Mae 5 05-11-2017		7,999,870	0.53%
	4,070,000	US Treasury Bonds DTD 02/15/1996 6% Due 02-15-2026 REG		4,761,265	0.32%
	7,585,000	US Treasury SEC Stripped 0% Due 11-15-2020 REG		4,736,104	0.32%
	4,011,382	FNMA Pool #254868 5% Due 09-01-2033 BEO		4,133,187	0.27%
	3,818,585	Federal Home Ln Mtg Corp Pool #B1-5586 4.5% 07-01-2019 BEO		3,966,975	0.26%
	3,584,791	FNMA Pool #831095 6% Due 10-01-2035 BEO		3,814,433	0.25%
	3,188,540	Federal Home Ln Mtg Corp Pool #G0-1740 5.5% Due 12-01-2034 BEO		3,354,277	0.22%
	2,754,359	Federal Home Ln Mtg Corp Pool #A7-6044 5.5% 04-01-2038 BEO		2,888,337	0.19%
		Top 10 Bond Holdings	**$**	**73,890,241**	**4.90%**
		Total COA ERS Investment Portfolio 12-31-2009	**$**	**1,508,134,831**	**100.00%**

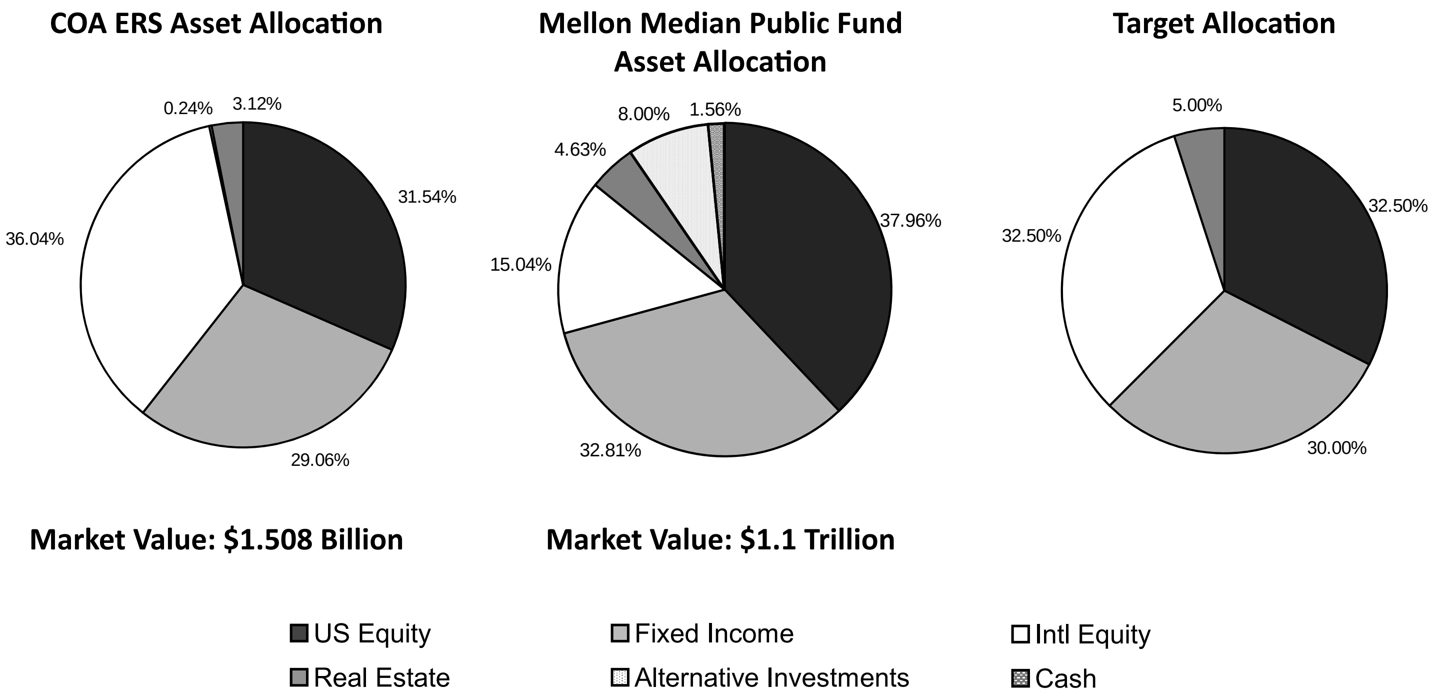
INVESTMENT SUMMARY AT FAIR MARKET VALUE

Asset Class	Fair Value	Percentage of Total Fair Value
Fixed Income	$438,229,910	29.06%
Domestic Stocks, Large Cap	340,585,119	22.58%
Domestic Stocks, Non-Large Cap	135,044,039	8.96%
International Stocks	543,583,935	36.04%
Real Estate	47,024,506	3.12%
Cash	3,667,322	0.24%
	$1,508,134,831	100.00%

COA ERS Investment Portfolio



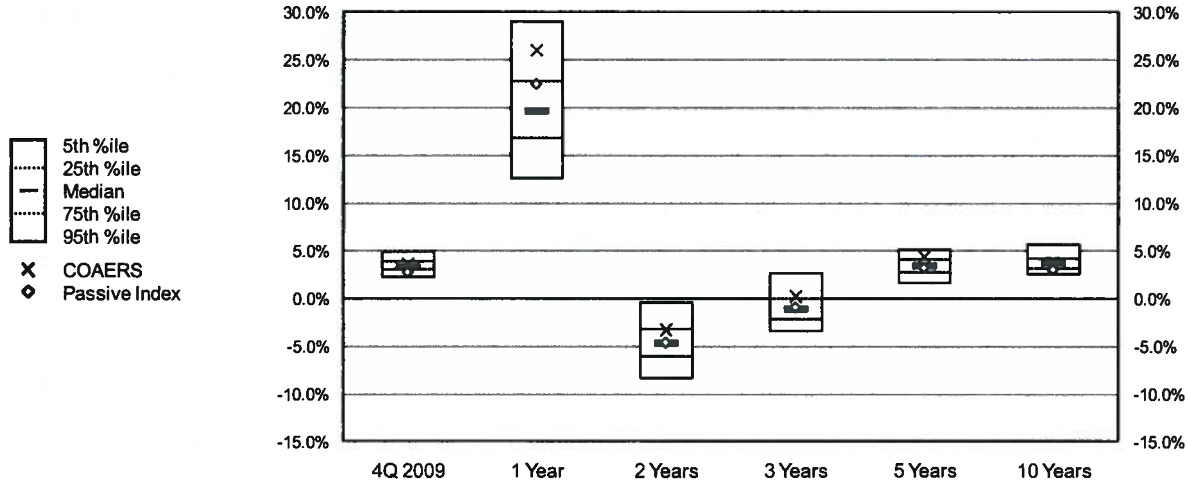
ALLOCATION BY SECTOR



BROKER COMMISSIONS OVER $10,000

Broker Name	# of Shares Traded	Commission Paid	Cost per Share
Merrill Lynch	5,966,962	$ 36,525	$ 0.006
Credit Suisse First Boston Corporation	1,866,555	35,898	0.019
Lynch Jones & Ryan	1,654,007	32,857	0.020
Deutsche Bank Securities Inc	2,523,240	28,741	0.011
CitiGroup	8,677,591	27,155	0.003
JP Morgan	6,471,001	25,293	0.004
Goldman Sachs & Company	1,386,248	24,885	0.018
Abel Noser Corporation	466,900	23,345	0.050
UBS Warburg LLC	1,026,524	17,279	0.017
InstiNet	2,248,839	17,038	0.008
Weeden & CO	1,218,642	16,693	0.014
Barclays Capital	1,649,343	16,604	0.010
Morgan Stanley	1,751,403	16,242	0.009
Jeffries & Company	663,428	15,901	0.024
Investment Technology Group Inc	942,118	14,825	0.016
Cowen LLC	350,515	14,114	0.040
CAP Institutional Services Inc	846,620	13,142	0.016
LiquiNet Inc	674,699	12,990	0.019
RBC Dain Rauscher	325,721	12,252	0.038
Stifel Nicolaus & Company	321,994	12,114	0.038
Goldman Executing & Clearing	2,123,683	11,538	0.005
Citation Group	664,439	10,918	0.016
Rosenblatt Securities LLC 501	812,400	10,144	0.012
129 Minor Brokers	26,867,829	276,647	0.010
Total Broker Commissions	**71,500,701**	**$ 723,140**	**$ 0.010**

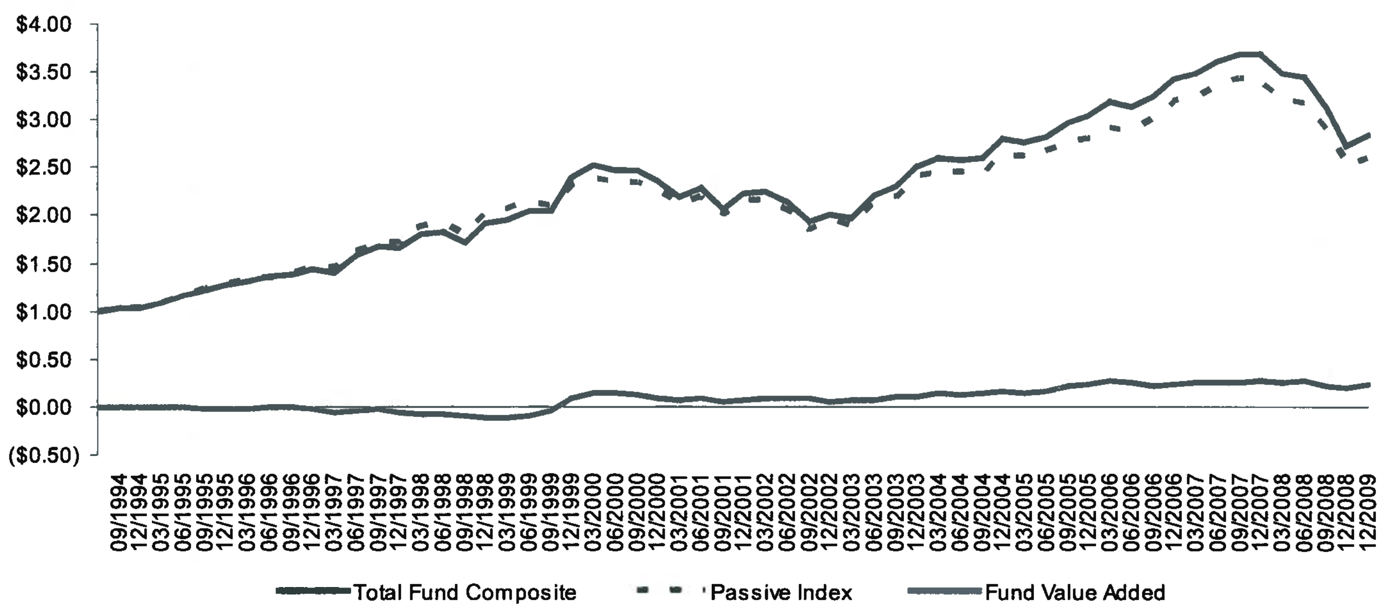
TOTAL FUND AND PASSIVE INDEX VS. MELLON PUBLIC FUND UNIVERSE



	4Q 2009	1 Year	2 Years	3 Years	5 Years	10 Years
COAERS	3.62%	26.01%	(3.28%)	0.20%	4.36%	3.74%
Passive Index	2.73%	22.43%	(4.62%)	(0.91%)	3.21%	3.00%
5th Percentile	4.90%	29.00%	(0.37%)	2.65%	5.13%	5.64%
25th Percentile	3.95%	22.77%	(3.18%)	0.02%	4.12%	4.19%
Median	3.41%	19.66%	(4.63%)	(1.04%)	3.46%	3.74%
75th Percentile	3.09%	16.79%	(6.04%)	(2.09%)	2.74%	3.17%
95th Percentile	2.26%	12.66%	(8.31%)	(3.33%)	1.70%	2.58%
Observations	294	275	240	140	129	97

Note: Passive Index is currently comprised of 43.25% R3000, 21.75% MSCI EAFE and 35% Barclays Capital Aggregate. Time weighted rates of return.

TOTAL GROWTH OF $1.00 VS. PASSIVE INDEX



Note: Passive Index is currently comprised of 43.25% R3000, 21.75% MSCI EAFE and 35% Barclays Capital Aggregate. Time weighted rates of return.

ACTUARIAL SECTION

GRS

Gabriel Roeder Smith & Company
Consultants & Actuaries

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April 9, 2010

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

Dear Mr. Edmonds:

Subject: Actuarial Valuation as of December 31, 2009

We are pleased to present our report on the actuarial valuation of the City of Austin Employees' Retirement System. Based upon this actuarial valuation as of December 31, 2009, it is our opinion that these results reasonably reflect the funded status of the System.

As you know, the employee and employer contribution rates are set by statute. It is expected that these contribution rates will remain level as a percentage of payroll. The funding objective of the plan is for the contribution rates to be sufficient to cover the normal cost of the plan and to amortize any unfunded actuarial accrued liabilities over a period not to exceed 30 years. While the significant asset losses from the early 2000s have been fully recognized, the significant asset loss in 2008 has only been partially recognized and the plan's contribution rate is still not sufficient to amortize the System's unfunded liabilities. Therefore, the funding objective is not currently being met.

In 2005 the City of Austin adopted the Supplemental Funding Plan (SFP). The SFP provides for a City contribution rate subsidy of up to a maximum of 4.0%. The City is now contributing the maximum subsidy of 4.0%. The subsidy is intended to stay in place until the funding period of the System is less than 30 years. Once the funding period reaches 30 years, the City has the option to reduce the contribution subsidy to a rate that would produce a 30-year funding period.

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

GRS provided COAERS with the information used in preparing the following trend schedules in the financial section of the CAFR: Required Supplementary Information Schedule of Funding Progress, Required Supplementary Information Schedule of Employer Contributions, and Notes to Required Supplementary Information. GRS provided no additional assistance in the preparation of any other schedules in the financial section of the CAFR.

Mr. Stephen Edmonds
April 9, 2010
Page 2

Actuarial assumptions and methods are set by the Board of Trustees, based upon recommendations made by the plan's actuary. An experience investigation was performed for the five year period ending December 31, 2006. As a result of that study, revised assumptions were adopted by the Board to be effective with the valuation as of December 31, 2006. We believe the assumptions are internally consistent, reasonable, and where appropriate based on the actual experience of COA ERS.

The results of the actuarial valuation are dependent on the actuarial assumptions used. Actual results can and almost certainly will differ, as actual experience deviates from the assumptions. Even seemingly minor changes in the assumptions can materially change the liabilities, calculated contribution rates and funding periods. The actuarial calculations are intended to provide information for rational decision making.

Member data for retired, active and inactive participants was supplied as of December 31, 2009, by the City of Austin Employees' Retirement System staff. We have not subjected this data to any auditing procedures, but have examined the data for reasonableness and consistency with the prior year's data. Asset information was also supplied by the City of Austin Employees' Retirement System staff.

The last actuarial valuation of the City of Austin Employees' Retirement System was prepared as of December 31, 2008 by Gabriel, Roeder, Smith & Company. Valuations are prepared annually as of December 31st.

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

We would like to thank you and your staff for your assistance in providing all necessary information to complete this valuation. Your courteous help is very much appreciated. We look forward to discussing this actuarial valuation report with you at your convenience. Please do not hesitate to let us know if you have any questions or need additional information.

Sincerely,

Lewis Ward

Lewis Ward
Consultant

Joseph P. Newton, F.S.A
Senior Consultant

TABLE OF CONTENTS

EXECUTIVE SUMMARY

The key results from the valuation of the City of Austin Employees' Retirement System as of December 31, 2009 may be summarized as follows:

	December 31, 2009 (1)	December 31, 2008 (2)
• Members		
— Actives	8,142	8,643
— Retirees and beneficiaries	4,086	3,835
— Vested - terminated*	975	870
— Proportional PSEM and CCSD	159	0
— Total	13,362	13,348
• Covered payroll	$ 422,539,199	$ 448,740,469
• Normal cost	$ 66,081,153	$ 70,079,264
— As % of payroll	16.26%	16.24%
• Actuarial accrued liability	$ 2,330,936,980	$ 2,246,903,861
• Present actuarial value of assets	$ 1,672,470,344	$ 1,481,377,439
• Unfunded actuarial accrued liability (UAAL)	$ 658,466,636	$ 765,526,422
• Estimated yield on assets		
— Actuarial value basis	15.23%	-8.91%
— Market value basis	25.34%	-25.98%
• Contribution rate		
— Employee	8.00%	8.00%
— Employer	12.00%	11.00% **
• Benefit and refund payments	$ 115,886,602	$ 107,890,245
• Amortization period of unfunded actuarial accrued liability	Infinite	Infinite
• GASB No. 25 disclosure		
— UAAL as a % of Payroll	155.8%	170.6%
— GASB funded ratio	71.8%	65.9%
— GASB Annual Required Contribution (ARC)	17.36%	18.20%

* Includes 141 proportionate members of PSEM & CCSD

** Employer rate was expected to increase to 11% effective October 1, 2009, but actually increased to 12%.

INTRODUCTION

This December 31, 2009 actuarial valuation of the City of Austin Employees' Retirement System has been prepared by Gabriel, Roeder, Smith & Company. The primary purpose of the valuation is to value the liabilities of the System as of December 31, 2009, determine the funding period of any unfunded liability for the plan year beginning January 1, 2010, and to provide certain required disclosure information. We are pleased to have the privilege of working for the Board, and look forward to discussing the results with you at your convenience.

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

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

Various tables supporting the report are contained in Sections I and J, including any change in benefit provisions since the last valuation.

FUNDED STATUS OF THE PLAN

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

Reviewing the composition of normal cost of the System, Table 2 indicates that the employer normal cost as of December 31, 2009, is 16.26% of pay. This compares with 16.24% of pay as of the last valuation of December 31, 2008. This normal cost is developed based on the Entry Age Normal (EAN) actuarial cost method. As may be seen in Item 1, the normal cost for the retirement benefits is 11.52% of pay. The normal cost for the deferred termination benefits is 1.85% and 2.17% for refunds of terminated employees (both vested and non-vested). The normal cost for disability benefits is 0.27%, and the normal cost for death benefits is 0.45%.

Table 1 illustrates a number of the key actuarial items for the 2009 valuation. As mentioned above, the employer normal cost rate is 16.26% of covered payroll. The actuarial accrued liability is $2,330.9 million as shown in Item 5 and as detailed in Table 3. The actuarial value of assets equals $1,672.5 million, as shown in Item 6. Item 7 of Table 1 shows that the plan has a $658.5 million unfunded liability (i.e. liabilities exceed plan assets) as of the valuation date. As of the last valuation (December 31, 2008), the System was underfunded by $765.5 million.

As of October 1, 2009, the City is contributing 12% of payroll (including subsidy) and the employees are contributing 8% of payroll. Combining the employees' contributions with the City contribution, the System will have 20% of payroll to fund benefits. The current normal cost of the plan is 16.26%, which means that the System is currently receiving contributions in excess of the normal cost equal to 3.74% of pay (20.00% less 16.26%). These excess contributions are available to amortize any unfunded actuarial accrued liability. Based on these contribution rates, if all assumptions are exactly met then the current unfunded liability will never be fully amortized.

FUNDED STATUS OF THE PLAN
(Continued)

Under the Supplemental Funding Plan (SFP) the total City contribution rate (including the subsidy) has gradually increased to 12.0% of pay (this is the maximum City rate under the SFP). The subsidy is intended to stay in place until the funding period of the System is less than 30 years. Once the funding period reaches 30 years, the City has the option to reduce the contribution subsidy to a rate that would produce a 30-year funding period.

Because of the large increase in the unfunded liabilities of the System due to the 2008 investment losses (which have only been partially recognized), it is no longer expected that the SFP as it is currently constructed will be sufficient to amortize the unfunded liabilities of the System in the future.

The GASB annual required contribution (ARC) is also developed in Item 10 on Table 1. The ARC for the 2010 plan year, as determined by the 2009 valuation, is 17.36%.

CHANGE IN ASSETS

Table 4 and Table 5 show the development of the actuarial value of assets. Item 6 of Table 4, shows that the actuarial value of assets as of December 31, 2009 is $1,672.5 million.

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

The total deferral of all Excess (Shortfall) investment income for the year (shown in Item 2.e.) is ($161.2) million. A preliminary actuarial asset value is determined by subtracting the total deferral from the end of year market value of assets. This produced a preliminary actuarial value of assets of $1,672.5 million (Item 4). This preliminary value is then tested to determine if it is within 20% of the end of year market value of assets. If it is not within this corridor (80% to 120% of market value) then the actuarial value of assets is increased/decreased until the value is within the corridor. The corridor limits as of December 31, 2009 are shown in Item 5 of Table 4. Because the preliminary actuarial value of assets is within the corridor, the final actuarial value of assets is set equal to the preliminary value. Table 5 shows the development of the Excess (Shortfall) of investment income for the past five years.

An analysis of the change in the System's market value of assets for the last two plan years and an estimate of the return on assets for the System are included in Table 6. The estimated average annual rate of return for the year ending December 31, 2009, assuming that income, revenue, and expenditures are evenly distributed throughout the year is 25.34% on a market value of assets basis. The rate of return for the year ending December 31, 2009, on an actuarial value basis was 15.23%. This compares with the actuarial assumed investment return of 7.75%.

Table 7 shows the development of the gain/(loss) on the actuarial value of assets for the prior plan year. As may be seen in Item 9, the System had a gain on an actuarial asset basis of $109.2 million in 2009. This compares to the ($273.7) million loss in 2008.

ACTUARIAL GAINS AND LOSSES

An important part of the change in unfunded actuarial accrued liability from year to year is due to the impact of actuarial gains and losses of the System. This section summarizes the combined asset and liability experience changes since the prior valuation on December 31, 2008.

As can be seen in Item 7 of Table 8, the expected value of the unfunded actuarial accrued liability as of December 31, 2009, is an underfunded position of $815.2 million. This expected value reflects an assumed investment return assumption of 7.75% on the beginning of year unfunded actuarial accrued liability, normal cost, and contributions during 2009.

Since the actual unfunded actuarial accrued liability as of December 31, 2009 is $658.5 million, it represents a total net gain for the period of $156.8 million, as shown in Item 9 of Table 8. That is, the unfunded actuarial accrued liability is less than expected. The net actuarial gain includes an asset gain of $109.2 million as shown in Table 7, a gain on the liability side equal to $35.7 million, which includes a gain due to transfers from PSEM and CCSD to APRS of $11.9 million. The experience liability gain is broken out by source in Items 16-23 of Table 8. As can be seen on Table 8, the largest portion of the liability gain was due to lower than expected salary increases.

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

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

HISTORICAL COMPARISONS AND STATISTICAL SUMMARIES

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

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

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

GASB NO. 25 DISCLOSURE

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

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

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

SUMMARY AND CLOSING COMMENTS

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

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

The overall funded position of the System increased from 65.9% at the prior valuation to 71.8% at this valuation. In the absence of any other actuarial gains or a dramatic recovery in the financial markets, the funded position of the System will most probably decrease in the future even with the full implementation of the SFP. In other words, once the remainder of the asset loss from 2008 is fully recognized, the anticipated employer ARC will be significantly larger than the 12.0% total contribution rate to the System by the City under the SFP.

In the absence of significant actuarial gains, the current SFP will not be sufficient to enable the System to return to a position in the future where the contributions to the System produce a funding period over which the unfunded liabilities can be amortized. Based on deterministic projections it is expected that if all assumptions are exactly met, if the benefits of the System are not changed, and if the SFP remains unchanged, then the funding period for amortizing the System's unfunded actuarial accrued liability will continue to be infinite and the funded status will continue to worsen in the future.

Since the SFP is no longer expected to be sufficient, we recommend that the Board continue its discussions with the City about restoring the System to a condition where the benefit structure is supported by the anticipated contributions. It is possible this may be achieved through increased contributions and/or benefit modifications.

ACTUARIAL TABLES

City of Austin Employees' Retirement System **TABLE 1**
Actuarial Valuation - December 31, 2009

SUMMARY OF COST ITEMS

	December 31, 2009		December 31, 2008	
	Cost Item	Cost as % of Pay	Cost Item	Cost as % of Pay
	(1)	(2)	(3)	(4)
1. Participants				
a. Active	8,142		8,643	
b. Terminated vested	975		870	
c. Retired participants and beneficiaries	4,002		3,753	
d. Disabled	84		82	
e. Nonvested Terminated Proportional PSEM and CCSD	159		-	
f. Total	13,362		13,348	
2. Covered Payroll	$ 422,539,199		$ 448,740,469	
3. Averages for Active Participants				
a. Average age	44.4		43.9	
b. Average years of service	9.4		8.9	
c. Average pay	$ 51,896		$ 51,920	
4. Total Normal Cost	$ 66,081,153	16.26% *	$ 70,079,264	16.24% *
5. Actuarial Accrued Liability				
a. Active participants	$ 1,147,793,175		$ 1,165,675,442	
b. Terminated vested participants	47,370,255		48,579,405	
c. Refunds of terminated nonvested participants	7,707,251		7,241,539	
d. Retired participants and beneficiaries	1,097,685,356		1,013,759,641	
e. Disabled participants	12,088,194		11,647,834	
f. Proportional PSEM and CCSD	18,292,749		-	
g. Total	$ 2,330,936,980	551.65%	$ 2,246,903,861	500.71%
6. Present Actuarial Assets	$ 1,672,470,344	395.81%	$ 1,481,377,439	330.12%
7. Unfunded Actuarial Accrued Liability (UAAL)	$ 658,466,636	155.84%	$ 765,526,422	170.59%
8. Relative Size of UAAL				
a. As percent of actuarial assets	39.37%		51.68%	
b. As percent of covered payroll	155.84%		170.59%	
9. 30-year amortization of UAAL as % of covered payroll	9.10%		9.96%	
10. GASB Annual Required Contribution (ARC)				
a. Total contribution rate (Item 4 as % of Pay + Item 9)	25.36%		26.20%	
b. Employee contribution rate	8.00%		8.00%	
c. ARC (10a. - 10b.)	17.36%		18.20%	

* as % of expected payroll

Gabriel Roeder Smith & Company

ANALYSIS OF NORMAL COST BY COMPONENT

	Cost as % of Pay	
Benefit Component	December 31, 2009	December 31, 2008
(1)	(2)	(3)
1. Retirement Benefits	11.52%	11.45%
2. Termination - Deferred Benefits	1.85%	1.89%
3. Termination - Refund Benefits	2.17%	2.18%
4. Disability Benefits	0.27%	0.27%
5. Death Benefits	0.45%	0.45%
6. Normal Cost	16.26%	16.24%

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

	December 31, 2009 (1)	December 31, 2008 (2)
A. Present Value of Future Benefits		
1. Active participants		
a. Retirement benefits	$ 1,390,497,679	$ 1,427,033,772
b. Deferred termination benefits	116,527,583	124,990,201
c. Refund of nonvested terminations	40,810,456	42,317,901
d. Disability benefits	15,307,099	15,940,218
e. Death benefits	35,613,092	35,847,267
f. Total	$ 1,598,755,909	$ 1,646,129,359
2. Retired participants		
a. Service retirements and beneficiaries	$ 1,097,685,356	$ 1,013,759,641
b. Disability retirements	12,088,194	11,647,834
c. Total	$ 1,109,773,550	$ 1,025,407,475
3. Inactive participants		
a. Vested terminations with deferred benefits	$ 47,370,255	$ 48,579,405
b. Nonvested terminations with refunds payable	7,707,251	7,241,539
c. Total	$ 55,077,506	$ 55,820,944
4. Proportional PSEM and CCSD	$ 18,292,749	$ -
5. Total actuarial present value of future benefits	$ 2,781,899,714	$ 2,727,357,778
B. Present Value of Future Pay	$ 2,773,448,549	$ 2,958,460,079
C. Normal Cost Rate	16.26%	16.24%
D. Present Value of Future Normal Costs	$ 450,962,734	$ 480,453,917
E. Actuarial Accrued Liability for Active Members		
1. Present value of future benefits (Item A.1.f.)	$ 1,598,755,909	$ 1,646,129,359
2. Less present value of future normal costs (Item D)	450,962,734	480,453,917
3. Actuarial accrued liability	$ 1,147,793,175	$ 1,165,675,442
F. Total Actuarial Accrued Liability (Item A.2.c + Item A.3.c + Item A.4 + Item E.3)	$ 2,330,936,980	$ 2,246,903,861

DEVELOPMENT OF ACTUARIAL VALUE OF ASSETS

Item	Valuation as of December 31, 2009
(1)	(2)
1. Excess (shortfall) of investment income for current year and previous three years (see Table 5):	
a. Current year	$ 214,007,186
b. Current year - 1	(568,702,657)
c. Current year - 2	(10,936,062)
d. Current year - 3	65,927,379
2. Deferral of excess (shortfall) of investment income for:	
a. Current year (80% deferral)	$ 171,205,749
b. Current year - 1 (60% deferral)	(341,221,594)
c. Current year - 2 (40% deferral)	(4,374,425)
d. Current year - 3 (20% deferral)	13,185,476
e. Total deferred for year	$ (161,204,794)
3. Market value of plan assets, end of year	$ 1,511,265,550
4. Preliminary actuarial value of plan assets, end of year (Item 3 - Item 2.e)	$ 1,672,470,344
5. Actuarial value of assets corridor	
a. 80% of market value of assets, end of year	$ 1,209,012,440
b. 120% of market value of assets, end of year	$ 1,813,518,660
6. Final actuarial value of plan assets, end of year (Item 4, but not less than Item 5.a., or greater than Item 5.b.)	$ 1,672,470,344

City of Austin Employees' Retirement System
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TABLE 5

CALCULATION OF EXCESS INVESTMENT INCOME FOR ACTUARIAL VALUE OF ASSETS

Item	Plan Year Ending December 31,				
	2009	2008	2007	2006	2005
(1)	(2)	(3)	(4)	(5)	(6)
1. Net Investment Income					
a. Interest and Dividends	$ 32,149,786	$ 43,788,389	$ 46,831,701	$ 41,758,402	$ 35,680,424
b. Realized and unrealized gains and losses*	278,694,631	(479,655,717)	68,099,136	138,193,429	82,473,867
c. Administrative expenses	(2,031,815)	(1,882,839)	(1,776,035)	(1,670,792)	(1,497,461)
d. Total	$ 308,812,601	$ (437,750,166)	$ 113,154,802	$ 178,281,039	$ 116,656,830
2. Market value of assets, beginning of year	$ 1,234,481,199	$ 1,698,196,892	$ 1,608,943,244	$ 1,460,751,603	$ 1,375,016,657
3. Contributions during year	$ 83,858,352	$ 81,924,719	$ 76,413,416	$ 66,336,402	$ 60,463,857
4. Benefits and refunds paid during year	$ (115,886,602)	$ (107,890,245)	$ (100,314,570)	$ (96,425,800)	$ (91,385,741)
5. Other	$ -	$ -	$ -	$ -	$ -
6. Expected net investment income at	7.75%	7.75%	7.75%	7.75%	7.75%
a. Market value of assets, beginning of year	$ 95,672,293	$ 131,610,259	$ 124,693,101	$ 113,208,249	$ 106,563,791
b. Contributions	3,249,511	3,174,583	2,961,020	2,570,536	2,342,974
c. Benefits and refunds	(4,116,389)	(3,832,351)	(3,563,257)	(3,425,125)	(3,246,098)
d. Other	-	-	-	-	-
e. Total	$ 94,805,415	$ 130,952,491	$ 124,090,864	$ 112,353,660	$ 105,660,667
7. Excess investment income for year (Item 1.d. - Item 6.e.)	$ 214,007,186	$ (568,702,657)	$ (10,936,062)	$ 65,927,379	$ 10,996,163

*Includes investment expenses

CHANGE IN NET ASSETS

		Valuation Period Ending December 31,	
		2009	2008
		(1)	(2)
1.	Assets in plan at beginning of year **(A)**	$ 1,234,481,199	$ 1,698,196,892
2.	Employer contributions	45,106,569	40,661,542
3.	Employee contributions	38,751,783	41,263,177
4.	Benefit payments made*	111,028,984	103,605,014
5.	Refunds of contributions	4,857,618	4,285,231
6.	Expenses paid from trust	2,031,815	1,882,839
7.	Investment return	310,844,417	(435,867,327)
8.	Other	0	0
9.	Assets in plan at end of year **(B)** (1 + 2 + 3 - 4 - 5 - 6 + 7 + 8)	$ 1,511,265,550	$ 1,234,481,199
10.	Approximate rate of return on average invested assets		
	a. Net investment income (7 - 6 = **I**)	$ 308,812,601	$ (437,750,166)
	b. Estimated yield based on **(2I/(A + B - I))**	25.34%	-25.98%

* Note: Benefit payments exclude any distributions from the 415 Restoration Plan
Note: Columns may not add due to rounding

ACTUAL VERSUS EXPECTED ACTUARIAL ASSETS

Item	Plan Year Ending December 31, 2009	Plan Year Ending December 31, 2008
(1)	(2)	(3)
1. Actuarial assets, beginning of year	$ 1,481,377,439	$ 1,653,533,484
2. Contributions during year	$ 83,858,352	$ 81,924,719
3. Benefits paid during year	$ (111,028,984)	$ (103,605,014)
4. Refunds paid during year	$ (4,857,618)	$ (4,285,231)
5. Other	$ 0	$ 0
6. Assumed net investment income at	7.75%	7.75%
a. Beginning of year assets	$ 114,806,752	$ 128,148,845
b. Contributions	3,249,511	3,174,583
c. Benefits	(3,943,842)	(3,680,136)
d. Refunds	(172,547)	(152,215)
e. Other	0	0
f. Total	$ 113,939,874	$ 127,491,077
7. Expected actuarial assets, end of year (Sum of Items 1 through 6)	$ 1,563,289,062	$ 1,755,059,034
8. Actuarial assets, end of year	$ 1,672,470,344	$ 1,481,377,439
9. Asset gain/(loss) (Item 8 - Item 7)	$ 109,181,282	$ (273,681,595)

ACTUARIAL GAIN OR LOSS AS OF DECEMBER 31, 2009

CALCULATION OF TOTAL ACTUARIAL GAIN OR LOSS	2009	2008
1. Unfunded actuarial accrued liability (UAAL) as of prior year	$ 765,526,422	$ 459,277,808
2. Actual normal cost paid during year	74,575,056	68,989,338
3. Subtotal (1 + 2)	$ 840,101,478	$ 528,267,146
4. Interest at prior valuation's rate of 7.75%	62,218,081	38,267,367
5. Contributions during year	(83,858,352)	(81,924,719)
6. Interest on contributions for one-half year	(3,249,511)	(3,174,583)
7. Expected UAAL as of December 31st (3 + 4 + 5 + 6)	$ 815,211,696	$ 481,435,211
8. Actual UAAL as of December 31st	658,466,636	765,526,422
9. Actuarial gain/(loss) for the period (7 - 8)	$ 156,745,060	$ (284,091,211)
SOURCE OF GAINS AND LOSSES		
10. Asset gain/(loss) (See Table 7)	$ 109,181,282	$ (273,681,595)
11. Total liability gain/(loss) for the period (9-10)	47,563,779	(10,409,616)
12. Gain/(loss) due to benefit enhancements	0	0
13. Gain/(loss) due to Proportional PSEM and CCSD	11,877,034	0
14. Gain/(loss) due to assumption & method changes	0	(159,297)
15. Liability experience gain/(loss) (11 - 12 - 13 - 14)	$ 35,686,745	$ (10,250,319)
SOURCE OF LIABILITY GAINS AND LOSSES		
16. Salary Increases	$ 51,851,638	$ 1,774,051
17. Service Retirement	9,313,139	5,634,892
18. Withdrawal	(12,412,988)	(5,893,143)
19. Disability Retirement	(324,687)	8,900
20. Active Mortality	(473,893)	(342,219)
21. Retiree Mortality	(3,579,572)	1,939,252
22. New Entrants	(4,058,764)	(12,001,713)
23. Other (Data)	(4,628,128)	(1,370,339)
24. Total Liability Experience Gain/(Loss)	$ 35,686,745	$ (10,250,319)

City of Austin Employees' Retirement System
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TABLE 9

RELATIVE SIZE OF UNFUNDED ACTUARIAL ACCRUED LIABILITY

		Relative to Covered Payroll		Relative to Actuarial Value of Present Assets		Relative to Total Actuarial Accrued Liability	
Valuation as of 31-Dec	Unfunded/ (Overfunded) Actuarial Accrued Liability	Covered Payroll	Percent of Covered Payroll	Present Assets	Percent of Present Assets	Actuarial Accrued Liability	Percent of Actuarial Accrued Liability
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1991	($66,275,489)	$ 194,588,280	(34.1%)	$ 470,664,195	(14.1%)	$ 404,388,706	(16.4%)
1993	(37,919,161)	235,227,565	(16.1%)	579,092,507	(6.5%)	541,173,346	(7.0%)
1995	(84,343,636)	221,001,903	(38.2%)	707,317,679	(11.9%)	622,974,043	(13.5%)
1997	(24,282,232)	219,207,826	(11.1%)	856,422,516	(2.8%)	832,140,284	(2.9%)
1998	(74,816,812)	219,326,742	(34.1%)	952,634,480	(7.9%)	877,817,668	(8.5%)
1999	(60,632,797)	244,538,110	(24.8%)	1,105,121,657	(5.5%)	1,044,488,860	(5.8%)
2000	(18,353,201)	268,635,564	(6.8%)	1,230,971,746	(1.5%)	1,212,618,545	(1.5%)
2001	48,980,941	316,793,390	15.5%	1,311,288,668	3.7%	1,360,269,609	3.6%
2002	189,347,298	322,007,672	58.8%	1,250,851,348	15.1%	1,440,198,646	13.1%
2003	203,040,300	312,790,966	64.9%	1,348,790,502	15.1%	1,551,830,802	13.1%
2004	321,383,795	326,590,164	98.4%	1,356,797,448	23.7%	1,678,181,243	19.2%
2005	395,382,953	348,619,141	113.4%	1,398,798,722	28.3%	1,794,181,675	22.0%
2006	476,226,660	390,963,991	121.8%	1,497,783,958	31.8%	1,974,010,618	24.1%
2007	459,277,808	417,450,797	110.0%	1,653,533,484	27.8%	2,112,811,292	21.7%
2008	765,526,422	448,740,469	170.6%	1,481,377,439	51.7%	2,246,903,861	34.1%
2009	658,466,636	422,539,199	155.8%	1,672,470,344	39.4%	2,330,936,980	28.2%

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 TABLE 10

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Year Ending 31-Dec	Active Participants	Covered Payroll	Average Salary	Percent Increase
(1)	(2)	(3)	(4)	(5)
1991	6,968	$194,588,280	$27,926	7.7%
1993	7,761	235,227,565	30,309	4.2%*
1995	7,190	221,001,903	30,737	0.7%*
1997	6,798	219,207,826	32,246	2.4%*
1998	6,311	219,326,742	34,753	7.8%
1999	6,512	244,538,110	37,552	8.1%
2000	6,894	268,635,564	38,967	3.8%
2001	7,713	316,793,390	41,073	5.4%
2002	7,647	322,007,672	42,109	2.5%
2003	7,432	312,790,966	42,087	-0.1%
2004	7,489	326,590,164	43,609	3.6%
2005	7,638	348,619,141	45,643	4.7%
2006	8,055	390,963,991	48,537	6.3%
2007	8,358	417,450,797	49,946	2.9%
2008	8,643	448,740,469	51,920	4.0%
2009	8,142	422,539,199	51,896	0.0%

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

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TABLE 11

SCHEDULE OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS

	Added to Rolls		Removed from Rolls		Rolls-End of Year			
Year Ending December 31	Number	Annual Allowances	Number	Annual Allowances	Number	Annual Allowances	% Increase in Annual Allowances	Average Annual Allowances
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1998	243	5,409,180	25	830,604	2,095	43,567,620	11.7%	20,796
1999	259	10,757,697	57	1,152,275	2,297	53,097,238	21.9%	23,116
2000	241	5,552,629	75	1,403,412	2,463	60,817,825	14.5%	24,693
2001	224	5,278,490	95	2,046,233	2,592	65,647,094	7.9%	25,327
2002	309	7,754,803	118	2,534,050	2,783	72,520,159	10.5%	26,058
2003	271	7,706,066	59	1,502,757	2,995	78,596,302	8.4%	26,243
2004	227	5,619,478	85	1,741,624	3,137	82,121,249	4.5%	26,178
2005	258	6,699,023	98	2,438,555	3,297	85,324,686	3.9%	25,879
2006	259	6,788,190	89	1,883,938	3,467	90,312,037	5.8%	26,049
2007	289	8,523,459	123	2,262,126	3,633	96,071,149	6.4%	26,444
2008	290	8,299,468	88	2,056,217	3,835	101,840,870	6.0%	26,556
2009	331	9,953,411	80	1,630,148	4,086	109,656,152	7.7%	26,837

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City of Austin Employees' Retirement System
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TABLE 12

SOLVENCY TEST

	Aggregated Accrued Liabilities for				Portions of Accrued Liabilities Covered by Reported Assets		
Valuation Date	Active and Inactive Members Contributions	Retirees and Beneficiaries	Active and Inactive Members (Employer Financed Portion)	Reported Assets	(5)/(2)	[(5)-(2)]/(3)	[(5)-(2)-(3)]/(4)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
December 31, 1997	$ 157,311,099	$ 385,407,128	$ 289,422,057	$ 856,422,516	100.0%	100.0%	100.0%
December 31, 1998	178,757,374	442,732,833	256,327,461	952,634,480	100.0%	100.0%	100.0%
December 31, 1999	230,542,295	536,835,240	277,111,325	1,105,121,657	100.0%	100.0%	100.0%
December 31, 2000	221,908,346	629,257,941	361,452,258	1,230,971,746	100.0%	100.0%	100.0%
December 31, 2001	248,579,180	654,307,118	457,383,311	1,311,288,668	100.0%	100.0%	89.3%
December 31, 2002	265,812,595	718,187,586	456,198,465	1,250,851,348	100.0%	100.0%	58.5%
December 31, 2003	252,182,701	777,100,825	522,547,276	1,348,790,502	100.0%	100.0%	61.1%
December 31, 2004	261,905,526	812,266,336	604,009,381	1,356,797,448	100.0%	100.0%	46.8%
December 31, 2005	280,994,642	848,185,652	665,001,381	1,398,798,722	100.0%	100.0%	40.5%
December 31, 2006	295,166,238	904,166,079	774,678,301	1,497,783,958	100.0%	100.0%	38.5%
December 31, 2007	333,340,167	968,493,997	810,977,128	1,653,533,484	100.0%	100.0%	43.4%
December 31, 2008	357,423,035	1,025,407,475	864,073,351	1,481,377,439	100.0%	100.0%	11.4%
December 31, 2009	362,288,592	1,109,773,550	858,874,838	1,672,470,344	100.0%	100.0%	23.3%

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TABLE 13a

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

Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL) (3) - (2)	Funded Ratio (2)/(3)	Annual Covered Payroll	UAAL as % of Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
December 31, 1991	$ 470.7	$ 404.4	$ (66.3)	116.4%	$194.6	(34.1%)
December 31, 1993	579.1	541.2	(37.9)	107.0%	235.2	(16.1%)
December 31, 1995	707.3	623.0	(84.3)	113.5%	221.0	(38.2%)
December 31, 1997	856.4	832.1	(24.3)	102.9%	219.2	(11.1%)
December 31, 1998	952.6	877.8	(74.8)	108.5%	219.3	(34.1%)
December 31, 1999	1,105.1	1,044.5	(60.6)	105.8%	244.5	(24.8%)
December 31, 2000	1,231.0	1,212.6	(18.4)	101.5%	268.6	(6.8%)
December 31, 2001	1,311.3	1,360.3	49.0	96.4%	316.8	15.5%
December 31, 2002	1,250.9	1,440.2	189.3	86.9%	322.0	58.8%
December 31, 2003	1,348.8	1,551.8	203.0	86.9%	312.8	64.9%
December 31, 2004	1,356.8	1,678.2	321.4	80.8%	326.6	98.4%
December 31, 2005	1,398.8	1,794.2	395.4	78.0%	348.6	113.4%
December 31, 2006	1,497.8	1,974.0	476.2	75.9%	391.0	121.8%
December 31, 2007	1,653.5	2,112.8	459.3	78.3%	417.5	110.0%
December 31, 2008	1,481.4	2,246.9	765.5	65.9%	448.7	170.6%
December 31, 2009	1,672.5	2,330.9	658.5	71.8%	422.5	155.8%

Note: Dollar amount in millions.

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

Fiscal Year	Annual Required Contribution	Percentage Contributed
(1)	(2)	(3)
1993	$15,653,339	100.00%
1994	$17,005,695	100.00%
1995	$16,983,178	100.00%
1996	$15,738,068	100.00%
1997	$15,313,819	100.00%
1998	$16,126,014	100.00%
1999	$18,224,558	100.00%
2000	$21,531,859	100.00%
2001	$24,831,016	100.00%
2002	$26,375,274	100.00%
2003	$30,660,538	81.05%
2004	$32,733,243	82.30%
2005	$41,610,470	65.20%
2006	$49,390,658	61.84%
2007	$56,080,689	64.98%
2008	$57,937,202	70.18%
2009	$78,184,719	57.69%

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, 2009
Actuarial cost method	Entry Age Normal
Amortization method	Level Percent of Pay, open
Payroll growth rate for amortization	3.50%
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return*	7.75%
Projected salary increases	5.00% to 6.00%
*Includes inflation at	3.25%
Cost-of-living adjustments	None assumed

STATEMENT OF ACTUARIAL METHODS AND ASSUMPTIONS
(Effective as of December 31, 2009)

A. ACTUARIAL ASSUMPTIONS

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

   7.75% per annum, compounded annually (net of expenses).

2. Mortality

   a. Nondisabled (adopted effective December 31, 1997)

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

   b. Disabled (adopted effective December 31, 2002)

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

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

STATEMENT OF ACTUARIAL METHODS AND ASSUMPTIONS (EFFECTIVE AS OF December 31, 2009) (Continued)

3. Retirement Rates: (adopted effective December 31, 2006)
   The following rates of retirement are assumed for members eligible to retire.

Age	Rates of Retirement	
	Males	Females
45 & under	35.0%	35.0%
46	35.0%	27.5%
47	35.0%	27.5%
48	40.0%	27.5%
49	40.0%	27.5%
50	40.0%	27.5%
51	40.0%	27.5%
52	35.0%	27.5%
53	35.0%	27.5%
54	35.0%	27.5%
55	35.0%	35.0%
56	27.5%	35.0%
57	27.5%	35.0%
58	27.5%	35.0%
59	27.5%	35.0%
60	27.5%	40.0%
61	27.5%	25.0%
62	30.0%	40.0%
63	25.0%	32.5%
64	25.0%	25.0%
65	40.0%	30.0%
66	25.0%	25.0%
67	25.0%	20.0%
68	20.0%	20.0%
69	20.0%	20.0%
70 & older	100.0%	100.0%

STATEMENT OF ACTUARIAL METHODS AND ASSUMPTIONS (EFFECTIVE AS OF December 31, 2009) (Continued)

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

Males

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

Females

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

STATEMENT OF ACTUARIAL METHODS AND ASSUMPTIONS (EFFECTIVE AS OF December 31, 2009) (Continued)

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

Sample rates are shown below:

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

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

6. Rates of Salary Increase (adopted effective December 31, 2006)

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

STATEMENT OF ACTUARIAL METHODS AND ASSUMPTIONS (EFFECTIVE AS OF December 31, 2009) (Continued)

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

   It was assumed that 20% of retiring active members with at least 20 years of service would elect a "Back-end" DROP. It is assumed that all members who Back Drop will elect to DROP back to the date that would provide the greatest actuarial value to the member.

8. Married Percentage: (adopted effective December 31, 1997)

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

9. Normal Form of Payment: (adopted effective December 31, 1997)

   It is assumed that all retiring members will elect the Life only form of payment with a guaranteed return of accumulated employee contributions.

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

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

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

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

B. ACTUARIAL VALUE OF ASSETS

The actuarial value of assets is equal to the market value of assets less a five-year phase in of the Excess (Shortfall) between expected investment return and actual income with the resulting value not being less than 80% or more than 120% of the market value of assets. The expected investment return each year is calculated based on the market value of assets with the difference from actual income smoothed in over five years in 20% increments.

C. ACTUARIAL FUNDING METHOD

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

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

SUMMARY OF BENEFIT PROVISIONS OF THE RETIREMENT PLAN AS OF DECEMBER 31, 2009

A. EFFECTIVE DATE

January 1, 1941.

B. ELIGIBILITY AND PARTICIPATION

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

C. MEMBERSHIP SERVICE

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

D. AVERAGE FINAL COMPENSATION

The average of the monthly compensation for the 36 calendar months of highest compensation during the last 120 months prior to termination. The monthly compensation used in the determination of benefits cannot exceed the compensation limits of Internal Revenue Code §401(a)(17) for the applicable period. The limit for 2010 is up to $20,416.67 for persons who first become members after 1995 (members hired prior to 1996 have no limit on their compensation).

E. CITY AND MEMBER CONTRIBUTION RATES

The City currently contributes a statutory 8.00% of pay for each active member. Under the Supplemental Funding Plan, the City is providing an additional contribution subsidy for each active member. Beginning October 1, 2009, this additional subsidy became 4% of pay. Each active member contributes 8.00% of pay. These employee contributions are made under a pre-tax 401(h) pick-up arrangement.

F. RETIREMENT BENEFITS

1. Normal Retirement

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

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

SUMMARY OF BENEFIT PROVISIONS OF THE RETIREMENT PLAN AS OF DECEMBER 31, 2009 (Continued)

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

d. Optional Forms of Payment:

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

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

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

e. Deferred Retirement Option Program (DROP): A member may elect to retroactively participate in the System's DROP (i.e. a Back End DROP). The member would receive a lump-sum payment equal to 90% of the sum of the monthly annuities the participant would have received if the member had retired at the DROP entry date. No COLAs are included but changes in the benefit multiplier are reflected. The maximum period a member may retroactively elect under the DROP is 60 months.

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

SUMMARY OF BENEFIT PROVISIONS OF THE RETIREMENT PLAN AS OF DECEMBER 31, 2009 (Continued)

G. DISABILITY RETIREMENT

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

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

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

H. VESTING OF BENEFITS

1. Vesting

An employee is vested according to the following schedule:

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

2. Benefits Upon Vesting

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

SUMMARY OF BENEFIT PROVISIONS OF THE RETIREMENT PLAN AS OF DECEMBER 31, 2009 (Continued)

I. DEATH IN SERVICE

1. Eligibility: All active members.

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

   a. Employee eligible for retirement at date of death:

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

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

   A refund of the member's accumulated deposits (with interest) plus a death benefit from COA ERS equal to the member's accumulated deposits (with interest), but excluding any purchases for Non-contributory time, prior military service purchases, or Permissive Time (and accumulated interest).

J. RETIREE LUMP-SUM DEATH BENEFIT

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

K. COST-OF-LIVING ADJUSTMENT (COLA)

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

SUMMARY OF BENEFIT PROVISIONS OF THE RETIREMENT PLAN AS OF DECEMBER 31, 2009 (Continued)

L. LUMP-SUM ADDITIONAL BENEFIT PAYMENT

Once each year the Board may approve a lump-sum additional benefit payment to be paid to those members and beneficiaries currently in payment status. The additional payment would be equal to a percentage of the member's monthly annuity with a maximum percentage of 100%.

M. LEGISLATED PLAN CHANGES ENACTED BY 1995 LEGISLATURE

1. 2.3% Multiplier

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

2. 2.3% Retiree Gross-up

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

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

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

4. Plan Participation Begins at Date of Hire

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

N. LEGISLATED PLAN CHANGES ENACTED BY 1997 LEGISLATURE

1. 2.6% Multiplier

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

SUMMARY OF BENEFIT PROVISIONS OF THE RETIREMENT PLAN AS OF DECEMBER 31, 2009 (Continued)

2. 2.6% Retiree Gross-up

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

3. Military Service Purchase

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

4. Noncontributory Service Purchase

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

5. Employer Purchase of Creditable Service

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

O. LEGISLATED PLAN CHANGES ENACTED BY 1999 LEGISLATURE

1. 2.7% Multiplier

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

SUMMARY OF BENEFIT PROVISIONS OF THE RETIREMENT PLAN AS OF DECEMBER 31, 2009 (Continued)

2. 2.7% Retiree Gross-up

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

3. 23 & Out Provision

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

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

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

5. LUMP-SUM ADDITIONAL BENEFIT PAYMENT

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

6. EMPLOYER PURCHASE OF CREDITABLE SERVICE

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

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

1. "415 Restoration of Retirement Income Plan"

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

SUMMARY OF BENEFIT PROVISIONS OF THE RETIREMENT PLAN AS OF DECEMBER 31, 2009 (Continued)

2. 2.98% Multiplier

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

3. 2.98% Retiree Gross-up

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

4. "Pop-up" Benefit Amendment

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

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

None

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

1. 3.00% Multiplier

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

2. 3.00% Retiree Gross-up

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

3. Deferred Retirement Option Program

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

SUMMARY OF BENEFIT PROVISIONS OF THE RETIREMENT PLAN AS OF DECEMBER 31, 2009 (Continued)

4. Purchase of Permissive Time

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

5. Conversion of Unused Sick Leave

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

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

1. "Pop-up" Benefit Amendment

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

2. Permissive Time Amendment

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

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

None

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

None

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

None

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

None

SUMMARY OF BENEFIT PROVISIONS OF THE RETIREMENT PLAN AS OF DECEMBER 31, 2009 (Continued)

X. BENEFIT ENHANCEMENTS ENACTED BY THE BOARD OF TRUSTEES IN 2008

None

Y. BENEFIT ENHANCEMENTS ENACTED BY THE BOARD OF TRUSTEES IN 2009

None

DEFINITION OF TERMS

1. ***Actuarial Cost Method***

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

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

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

3. ***Normal Cost***

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

4. ***Actuarial Accrued Liability***

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

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

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

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

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

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

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

DEFINITION OF TERMS
(Continued)

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

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

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Statistical Section

The Statistical Section provides additional historical perspective, context, and detail to assist the reader in using the information in the financial statements and note disclosures to understand and assess the economic condition of the City of Austin Employees' Retirement System (COA ERS). In compliance with *GASB Statement No. 44, Economic Condition Reporting: The Statistical Section*, schedules are classified into the following categories: Demographic and Economic Information, Operating Information, and Financial Trends.

STATISTICAL TABLES

***Sources:** Schedules and data are provided by the consulting actuary, Gabriel Roeder Smith & Company, unless otherwise noted.*

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2009

TABLE 17

DISTRIBUTION OF ALL ACTIVE PARTICIPANTS BY AGE AND LENGTH OF SERVICE AS OF DECEMBER 31, 2009

Attained Age	0	1	2	3	4	5-9	10-14	15-19	20-24	25-29	30-34	35+	Number of Employees	Average Annual Salary
Under 25	52	39	34	16	6	2	0	0	0	0	0	0	149	$ 31,447
25-29	75	137	149	102	60	82	1	0	0	0	0	0	606	36,577
30-34	84	136	144	134	76	229	73	1	0	0	0	0	877	43,706
35-39	86	122	106	111	91	321	222	73	2	0	0	0	1,134	47,469
40-44	60	112	100	78	63	294	230	195	66	1	0	0	1,199	52,640
45-49	46	85	95	80	57	281	286	222	170	54	2	0	1,378	56,457
50-54	32	67	63	77	49	270	214	235	195	74	9	0	1,285	57,948
55-59	30	39	36	44	37	178	158	174	123	55	14	1	889	57,906
60-64	8	17	15	25	16	125	92	95	59	30	13	2	497	59,541
65 & Over	4	2	12	5	6	25	23	28	12	9	1	1	128	55,315
All Ages	477	756	754	672	461	1,807	1,299	1,023	627	223	39	4	8,142	$ 51,896

Gabriel Roeder Smith & Company

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2009

TABLE 18

DISTRIBUTION OF ALL ACTIVE PARTICIPANTS BY SERVICE AND CURRENT RATE OF PAY AS OF DECEMBER 31, 2009

Completed Years of Service	Number of Employees	Total Average Salary
0	477	$ 45,180
1	756	42,940
2	754	43,345
3	672	43,946
4	461	45,916
5-9	1,807	50,724
10-14	1,299	54,919
15-19	1,023	61,843
20-24	627	64,707
25-29	223	67,442
30-34	39	76,626
35+	4	70,611
All Years	8,142	$ 51,896

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2009

TABLE 19

SCHEDULE OF AVERAGE BENEFIT PAYMENTS, LAST TEN YEARS

Retirement Effective Dates	Years Creditable Service						
January 1, 2006 to December 31, 2009	0-4	5-9	10-14	15-19	20-24	25-29	30+
Period 01/01/2006 to 12/31/2006							
Average Monthly Benefit	$289	$620	$1,413	$1,826	$2,939	$3,720	$4,854
Average Final Salary	$46,003	$39,609	$53,356	$49,024	$55,322	$61,669	$64,402
Number of Active Retirees	10	41	15	29	101	24	8
Period 01/01/2007 to 12/31/2007							
Average Monthly Benefit	$236	$873	$1,343	$2,543	$3,317	$4,477	$6,268
Average Final Salary	$32,326	$45,231	$43,699	$57,605	$57,877	$65,793	$78,161
Number of Active Retirees	13	23	24	31	117	20	8
Period 01/01/2008 to 12/31/2008							
Average Monthly Benefit	$347	$827	$1,529	$2,461	$3,110	$3,641	$4,677
Average Final Salary	$42,430	$43,523	$55,998	$59,644	$58,147	$60,404	$62,389
Number of Active Retirees	17	36	34	20	113	27	13
Period 01/01/2009 to 12/31/2009							
Average Monthly Benefit	$308	$925	$1,439	$2,133	$3,211	$3,804	$4,158
Average Final Salary	$40,780	$53,705	$51,213	$54,996	$62,085	$61,276	$53,537
Number of Active Retirees	17	35	34	39	124	46	9

Gabriel Roeder Smith & Company

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2009

TABLE 20

RETIRED MEMBERS BY TYPE OF BENEFIT (AS OF DECEMBER 31, 2009)

Amount of Monthly Benefit	Number of Retired Members	Type of Retirement[a] 1	2	3	4	Option Selected[b] Unmod.	1	2	3	4	5	6	7	8	9
Deferred						834									
$1-250	102	80	9	3	10	58	34	5	2				3		
251-500	188	146	23	9	10	80	71	12	6	4		1	14		
501-750	226	167	35	12	12	99	76	21	11	2	5		10		2
751-1,000	251	192	38	13	8	102	75	21	19	7	5	12	5	1	4
1,001-1,250	243	186	39	13	5	69	82	16	16	8	14	13	8		17
1,251-1,500	325	271	41	11	2	83	116	27	19	4	25	22	12		17
1,501-1,750	357	313	37	6	1	102	124	28	25	3	27	24	12	2	10
1,751-2,000	350	305	35	8	2	96	124	30	22	3	24	27	6	1	17
Over $2,000	2,044	1,939	93	9	3	530	768	158	143	27	116	107	69	11	115
Total	**4,086**	**3,599**	**350**	**84**	**53**	**2,053**	**1,470**	**318**	**263**	**58**	**216**	**206**	**139**	**15**	**182**

Notes:

[a] Type of Retirement

1. Normal retirement for age and service
2. Beneficiary payment, normal retirement or death in service
3. Disability retirement
4. QDRO - alternate payee

[b] Option Selected:

Unmodified Plan: life annuity

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

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

*The number of Retired Members and the number of options selected are not equal due to the inclusion of 834 deferred vested members in the Unmodified option selection.

SCHEDULE OF PARTICIPATING EMPLOYERS

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

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2009

TABLE 22

CHANGE IN NET ASSETS, LAST TEN FISCAL YEARS

	Fiscal Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Additions										
Member Contributions	$23,414	$26,238	$33,794	$30,449	$32,272	$33,334	$35,791	$39,971	$41,263	$38,752
Employer Contributions	21,532	24,831	26,375	24,907	27,008	27,168	30,610	36,521	40,786	45,263
Investment Income (net of expenses)	(20,509)	(78,888)	(112,995)	246,069	145,631	118,154	179,952	114,931	(435,867)	310,844
Total additions to plan net assets	24,437	(27,819)	(52,826)	301,426	204,911	178,656	246,353	191,423	(353,818)	394,859
Deductions										
Benefit Payments	59,312	66,013	71,023	77,187	81,426	85,851	90,116	94,627	100,707	108,090
Refunds	4,945	3,991	3,958	4,477	5,112	3,775	4,196	4,438	4,285	4,858
Administrative Expenses	1,220	1,305	1,642	1,553	1,555	1,497	1,671	1,776	1,883	2,032
Lump-sum Payments			266	1,029	1,343	1,798	2,178	1,328	3,022	3,095
Total deductions from plan net assets	65,477	71,310	76,888	84,246	89,436	92,921	98,161	102,169	109,897	118,075
Change in net assets	($41,039)	($99,129)	($129,715)	$217,180	$115,475	$85,735	$148,192	$89,254	($463,715)	$276,784

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

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2009

TABLE 23

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

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Type of Benefit										
Age and service benefits:										
Retirees [a]	$58,128	$64,598	$70,094	$75,527	$80,152	$84,003	$88,513	$93,049	$99,219	$106,148
Beneficiaries [a]										
Lump-sum payments			$266	$1,029	$1,343	$1,798	$2,178	$1,328	$3,022	$3,095
In service death benefits: [b]	$1,184	$1,416	$929	$1,660	$1,274	$1,848	$1,603	$1,578	$1,489	$1,942
Disability benefits: [c]										
Total benefits	$59,312	$66,014	$71,289	$78,216	$82,769	$87,649	$92,294	$95,955	$103,730	$111,185
Type of Refund										
Death [b]										
Separation	$4,945	$3,991	$3,958	$4,477	$5,112	$3,775	$4,196	$4,438	$4,285	$4,858
Total refunds	$4,945	$3,991	$3,958	$4,477	$5,112	$3,775	$4,196	$4,438	$4,285	$4,858

Notes: Dollar amounts in thousands

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

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

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

Includes benefit payments from 415 Restoration Plan

Excludes administrative expenses

Gabriel Roeder Smith & Company

HISTORY OF CONTRIBUTIONS AND BENEFIT RATES

Year	Employer Contribution Rate	Member Contribution Rate	Interest Paid on Member Deposits	Benefits Multiplier	Cost of Living Adjustment
1941	4.00%	4.00%	-	1.125%	-
1942	"	"	-	"	-
1943	"	"	-	"	-
1944	"	"	-	"	-
1945	"	"	2.00%	"	-
1946	"	"	2.00%	"	-
1947	"	"	2.00%	"	-
1948	"	"	2.00%	"	-
1949	"	"	2.00%	"	-
1950	"	"	2.00%	"	-
1951	5.00%	5.00%	2.00%	"	-
1952	"	"	2.00%	"	-
1953	"	"	1.91%	"	-
1954	"	"	2.46%	"	-
1955	"	"	2.52%	"	-
1956	"	"	2.60%	"	-
1957	"	"	2.00%	"	-
1958	"	"	2.62%	"	-
1959	"	"	2.79%	"	-
1960	"	"	3.27%	"	-
1961	"	"	2.77%	"	-
1962	"	"	3.65%	"	-
1963	"	"	3.76%	"	-
1964	"	"	3.31%	"	-
1965	"	"	3.25%	"	-
1966	"	"	3.56%	"	-
1967	"	"	3.68%	1.25%	-
1968	"	"	4.25%	"	-
1969	"	"	4.66%	"	0.50% [a]
1970	"	"	4.98%	"	1.50%
1971	6.00%	6.00%	5.43%	1.50%	2.00%
1972	"	"	6.04%	"	3.00%
1973	"	"	6.22%	1.75%	3.00%
1974	"	"	6.33%	"	3.00%
1975	"	"	6.82%	"	3.00%
1976	"	"	6.94%	"	3.00%
1977	"	"	6.51%	"	3.00%
1978	"	"	6.66%	"	3.00%
1979	"	"	7.84%	"	3.00%
1980	"	"	8.01%	"	3.00%

HISTORY OF CONTRIBUTIONS AND BENEFIT RATES, CONTINUED

Year	Employer Contribution Rate	Member Contribution Rate	Interest Paid on Member Deposits	Benefits Multiplier	Cost of Living Adjustment
1981	6.00%	6.00%	8.14%	"	3.00%
1982	6.60%	6.60%	8.21%	"	3.00%
1983	"	"	8.39%	"	3.00%
1984	7.00%	7.00%	8.29%	1.85%	3.00%
1985	"	"	8.22%	2.00%	3.00%
1986	"	"	8.00%	"	3.00%
1987	6.20%	6.20%	8.00%	"	1.50%
1988	7.00%	7.00%	8.00%	"	3.00%
1989	"	"	8.00%	"	3.00%
1990	"	"	8.00%	2.10%	3.00%
1991	"	"	6.50%	"	3.00%
1992	"	"	6.00%	"	4.00%
1993	"	"	5.00%	2.20%	3.10%
1994	"	"	6.00%	"	6.00%
1995	"	"	6.75%	2.30%	6.00%
1996	"	"	6.75%	"	6.00%
1997	"	"	6.75%	2.60%	6.00%
1998	"	"	5.00%	"	5.00%
1999	"	8.00%	6.25%	2.70%	3.00%
2000	8.00%	"	5.75%	2.98%	0.00%
2001	"	"	4.25%	"	3.50%
2002	"	"	3.75%	3.00%	2.50%
2003	"	"	3.75%	"	0.00%
2004	"	"	3.75%	"	0.00%
2005	"	"	4.50%	"	0.00%
2006	9.00% [b]	"	4.50%	"	0.00%
2007	"	"	4.50%	"	0.00%
2008	10.00% [b]	"	4.00%	"	0.00%
2009	12.00% [b]	"	3.25%	"	0.00%

[a] In 1969, the adjustment was 1.5% prorated for 4 months, 4/12 x 1.5% or .05%.

[b] Includes City of Austin subsidy payment, effective at beginning of their fiscal year, October 1, pursuant to Supplemental Funding Plan.

Special adjustments based on years of retirement granted by City Council in 1985 and 1990 not reflected in table.

Source: *Information derived from COA ERS internal sources.*