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City of Baton Rouge and Parish of East Baton Rouge Employees' Retirement System

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CP Employees' Retirement System

ERS City of Baton Rouge & Parish of East Baton Rouge

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the audited, or reviewed, entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date AUG 12 1998

COMPREHENSIVE ANNUAL FINANCIAL REPORT

A COMPONENT UNIT OF THE CONSOLIDATED GOVERNMENT OF THE CITY OF BATON ROUGE AND PARISH OF EAST BATON ROUGE, LOUISIANA

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1997

CITY OF BATON ROUGE AND PARISH OF EAST BATON ROUGE
EMPLOYEES' RETIREMENT SYSTEM
COMPREHENSIVE ANNUAL FINANCIAL REPORT –
A COMPONENT UNIT OF THE CONSOLIDATED GOVERNMENT OF
THE CITY OF BATON ROUGE AND PARISH OF EAST BATON ROUGE, LOUISIANA
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1997

JEFFREY R. YATES
RETIREMENT ADMINISTRATOR

OFFICE LOCATION
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EMPLOYEES' RETIREMENT SYSTEM
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PREPARED BY THE ACCOUNTING
DIVISION OF THE CITY OF BATON ROUGE
AND PARISH OF EAST BATON ROUGE
EMPLOYEES' RETIREMENT SYSTEM

CITY OF BATON ROUGE AND
PARISH OF EAST BATON ROUGE
EMPLOYEES' RETIREMENT SYSTEM

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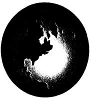

CITY OF BATON ROUGE

PARISH OF EAST BATON ROUGE

Employees' Retirement System

City of Baton Rouge
Parish of East Baton Rouge

209 St. Ferdinand Street
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Baton Rouge, Louisiana
70821

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LETTER OF TRANSMITTAL

May 28, 1998

Board of Trustees
City of Baton Rouge and Parish
of East Baton Rouge
Employees' Retirement System
Post Office Box 1471
Baton Rouge, LA 70821

Dear Board Members:

The Comprehensive Annual Financial Report of the City of Baton Rouge and Parish of East Baton Rouge Employees' Retirement System (the Retirement System) for the fiscal year ended December 31, 1997 is hereby submitted, as required by Section 1:253 of the Retirement Ordinance. This section mandates that the Board of Trustees shall have prepared and submitted annually to the Metropolitan Council an audit report by an independent firm of certified public accountants.

Responsibility for the accuracy of financial statements and all disclosures rests with management. To the best of our knowledge and belief, all information is accurate and has been prepared by the accounting staff in accordance with generally accepted accounting principles (GAAP) as promulgated by the Governmental Accounting Standards Board.

The Comprehensive Annual Financial Report is divided into six sections as listed below:

The introductory section contains the letter of transmittal, a listing of the Board of Trustees, a listing of the administrative staff and professional service providers, the Retirement System's organizational chart, a plan summary, and a summary of the 1997 Local Ordinances affecting the Retirement System.

The financial section is composed of the Independent Auditors' Report, General Purpose Financial Statements, Notes to the Financial Statements, Required Supplementary Information and Supporting Schedules.

The investment section is comprised of the investment consultant's report on investment activity, the Statement of Investment Policies and Objectives, List of Investments, Investment Performance Measurements, Annual Rates of Return, and the Schedule of Commissions Paid to Brokers.

The actuarial section contains the actuary's certification letter, a summary of Retirement System provisions, a summary of actuarial assumptions and methods, accrued liability analysis and reconciliation, analysis of financial experience, employer contribution calculation, active and retiree membership data, and other pertinent actuarial data.

The statistical section displays trend information on selected data, various graphs and a list of employing agencies that remit contributions to the Retirement System.

The last section of the report contains information on the Retirement System's two additional retirement alternatives: the Deferred Retirement Option Plan (DROP) and the Excess Benefit Plan.

DEFINITION AND PURPOSE OF ENTITY

The City of Baton Rouge and Parish of East Baton Rouge Employees' Retirement System, a defined benefit pension plan, was originally created by Council Ordinance No. 235 and Council Ordinance No. 276, effective December 31, 1953, to provide retirement allowances and other benefits for regular employees, police officers, and firefighters of the City of Baton Rouge. The Retirement System is governed by a seven member Board of Trustees, and all invested funds, cash and property are held in the name of the City-Parish Employees' Retirement System (CPERS) for the sole benefit of the membership and retirees.

ECONOMIC CONDITION AND OUTLOOK

CPERS is helping to ensure the retirement benefits for its membership by quality management of $678 million in assets which are invested by professional money managers. For the past several years, CPERS has continuously sought innovative ways to enhance returns while protecting capital. CPERS' portfolio managers provide access to both domestic and international markets to ensure that the most promising investment opportunities are appropriately utilized by the Retirement System.

MAJOR INITIATIVES

For the Year:

On April 1, 1997 CPERS' new ordinance revisions became effective. The revisions were enacted to ensure that CPERS was complying with the requirements of Section 401 of the Internal Revenue Code of 1986. Some of the more significant effects of the revisions were:

- mandatory minimum withdrawals from the DROP accounts for some members
- the establishment of the Excess Benefit Plan.

CPERS worked together with its investment consultant to structure a new asset allocation for the Retirement System's investment portfolio. The new allocation is poised to more effectively take advantage of equity investment market moves while maintaining the stability of a fixed income base portfolio.

The process of investment manager searches was begun in 1997 relative to CPERS' fixed income and mid-cap equity investments. As of December 31, 1997, the Board of Trustees had completed a comprehensive quantitative and qualitative analysis of prospective money managers, and due diligence visits were being scheduled. The entire process was facilitated under the guidance of CPERS' investment consultant.

By allocating significant amounts of investment funds to indexed commingled accounts, CPERS has realized decreased investment management fees, while still maintaining liquidity and performance within the recommended asset allocation.

CPERS began publication and issuance of its first newsletter – RETIREMENT NEWS. The newsletter was created to disseminate information to both retirees and active employees. In addition to articles related to benefits and financial planning, the newsletter provides current news about retirees and helps acquaint the members with the Retirement System Board Members and staff.

For the Future:

Efforts are continuing toward imaging of Retirement System documents such as employee folders and investment reports. The staff is investigating the available formats and options, to ensure that the imaging process is done in the most efficient manner for the long-term benefit of the Retirement System.

Several staff members are pursuing the Certified Employee Benefits Specialist (CEBS) designation, which is awarded by the International Foundation of Employee Benefit Plans. The certification requires the applicant to successfully pass ten examinations dealing with a variety of benefit related topics.

A Retirement Office Policies and Procedures Manual is being written which, when completed, will provide a standardized guide for all of the accounting and benefit related procedures in the office. Also included in the manual will be all standardized forms used in the Retirement Office, their purpose, and instructions for completing each.

SERVICE EFFORTS AND ACCOMPLISHMENTS

In reviewing the work and level of performance for 1997, CPERS has many reasons to be proud. Although not every single aspect of member service can be mentioned, statistics on the major areas that directly impact our membership are provided.

In 1997, CPERS paid retirees, survivors, and beneficiaries in excess of $27 million in benefits. In addition, distributions of more than $17.7 million were made to participants from the Deferred Retirement Option Plan (DROP).

The average monthly benefit of a retiree at December of 1997 was $1,279, an increase of 2.3% from the December 1996 average monthly benefit of $1,250. The average monthly withdrawal for DROP retirees was $1,330, a decrease of 35% from the December 1996 average monthly withdrawal of $2,044. This decrease is a result of the mandatory DROP distribution provisions, which required more retirees to make monthly DROP withdrawals in minimum amounts. A total of 93 DROP recipients chose rollover provisions to transfer their funds into an Individual Retirement Account (IRA) or another qualified plan, rather than receive a monthly withdrawal. This was the first year such rollovers were permitted.

During 1997, refunds were issued to 261 members who terminated employment and to beneficiaries of deceased members compared to 298 issued during 1996.

A total of 89 members retired during 1997 compared to 109 during 1996. A total of 65 members entered DROP during 1997 compared to 50 during 1996.

INTERNAL CONTROL

In accordance with Board and management's goals and policies, CPERS maintains a system of internal controls that provides reasonable assurance regarding the safeguarding of assets against loss from unauthorized use or disposition and regarding the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of control should not exceed benefits likely to be derived and that the valuation of costs and benefits requires estimates and judgments by management.

ACCOUNTING SYSTEM

An explanation of CPERS' accounting policies is contained in the Notes to the Financial Statements. The basis of accounting, fund structure, and other significant information on financial policy are explained in detail in the Notes.

ADDITIONS TO PLAN NET ASSETS

CPERS' benefits are funded through employee and employer contributions and through investment revenue. The following table shows the sources from which additions to plan net assets were made during 1997.

ADDITION TYPE	1997	1996	VARIANCE	PERCENT-AGE CHANGE
Employee Contributions	$ 9,645,590	$ 9,033,167	$ 612,423	6.8%
Employer Contributions	18,405,695	16,219,697	2,185,998	13.5%
Net Investment Income	101,484,199	56,162,936	45,321,263	80.7%
Totals	$ 129,535,484	$ 81,415,800	$ 48,119,684	59.1%

For 1997 employee contributions increased by 6.8%, primarily as a result of salary increases. The employer contributions increased by 13.5% due to the following reasons:

- Employee salary increases
- An employer contribution rate increase from 14.0% to 15.08%
- Contributions transferred from other systems and contributions made to fund repurchased prior service.

Investment income rose significantly as investment markets hit new levels. CPERS enjoyed an excellent rate of return and an investment income increase of 80.7% primarily because of asset allocation decisions made by the Board in 1996 and 1997.

DEDUCTIONS FROM PLAN NET ASSETS

CPERS was established and placed under the management of the Board of Trustees for the purpose of providing service retirement allowances and disability retirement allowances, under the provisions of the Retirement Ordinance, for all members as provided. Payments made to members and terminated members, as well as administrative expenses are shown in the following table.

DEDUCTION TYPE	1997	1996	VARIANCE	PERCENT-AGE CHANGE
Benefit Payments	$ 44,787, 560	$ 30,666,429	$ 14,121,131	46.0%
Refunds and Withdrawals	1,487,729	1,815,573	(327,844)	(18.1%)
Administrative Expenses	1,020,585	877,475	143,110	16.3%
Totals	$ 47,295,874	$ 33,359,477	$ 13,936,397	41.8%

Benefit payments increased by 46.0% due to several factors:
- Newly enacted rollover provisions allowed DROP participants to rollover funds from CPERS into other qualified plans. 93 DROP participants elected to rollover funds in excess of $10.5 million.
- Minimum DROP distributions were enacted which required some retired DROP participants to receive a minimum withdrawal from their DROP accounts in accordance with federal guidelines for qualified pension plans.
- Additionally, a benefit was initiated which retroactively provided a benefit to survivors of deceased service-connected disability retirees.

FUNDING

The funding requirements for the Retirement System are determined by the Retirement System's actuary. Required contributions are broken down between normal cost and amortization of unfunded accrued liability and then stated as a percentage of payroll. CPERS is amortizing the unfunded accrued liability over a 30 year period, with 1997 being the 3rd year in the amortization schedule.

The employer contribution rate for 1997 was 15.00% from January 1st through March 31st, increasing to 15.08% from April 1st through year end. Late in 1997, the Metropolitan Council approved a resolution which increased the employee contribution rate from 8.0% to 9.5% beginning with the first payroll for 1998. The decrease of net pay for the employees was offset, in the great majority of cases, by a simultaneous pickup of employee contributions by the employer, as approved by the Internal Revenue Service.

In recent years, the Retirement System has made great strides toward decreasing its unfunded accrued liability through asset allocation and cost saving measures instituted by the Board of Trustees. For 1997 and 1996 respectively, the funding ratio of assets at market value to the pension benefit obligation was 89% and 82%.

CASH MANAGEMENT

CPERS manages in-house short-term cash. This cash represents the daily needs of the Retirement System, primarily for paying benefits to retirees, as well as uninvested funds of the Retirement System's money managers. Essentially, CPERS sweeps each cash account and invests overnight in repurchase agreements after obtaining three competitive bids. CPERS receives U.S. Treasury collateral valued at 102% of the funds being invested.

INVESTMENTS

The investments of the Retirement System are governed by the Statement of Investment Policies and Objectives as shown on pages 46 through 53. The Retirement Board members have the fiduciary duty of overseeing the pension fund investments within the guidelines of the investment policy. One of the primary tools used by the Board to achieve maximum investment performance is that of asset allocation. With guidance from its investment consultant, the Board has adopted a policy which includes *investments in large and mid-cap domestic equities, international equities, core fixed income securities, and short-term cash.* Charts showing the current and target asset allocations are shown on page 55. At December 31, 1997 CPERS had investment management contracts with seven (7) money managers, whose individual performances are measured against appropriate indices.

Investment return, net of investment fees, for 1997 was 17.6% with the three year and five year returns being 17.4% and 10.9% respectively. A detail of investment holdings is found on pages 56 through 61.

INDEPENDENT AUDIT

Each year, independent auditors perform a financial and compliance audit in accordance with generally accepted accounting principles, and *Government Auditing Standards*. As part of their audit, the internal control structure of the Retirement System is evaluated. For the 1997 annual audit, the auditors were KPMG Peat Marwick LLP, Baton Rouge, Louisiana.

ACKNOWLEDGEMENTS

This is the first year CPERS has prepared a Comprehensive Annual Financial Report (CAFR) for distribution to all interested parties as well as for review by the Government Finance Officers Association (GFOA). The compilation of a report such as this requires a considerable effort on the part of the staff. I would like to express my appreciation for all the time, effort, and coordination put forth by the Retirement Office staff to make this report a quality work product.

Also, I would like to express sincere thanks to the Board of Trustees for your support of the Retirement Office and your constant innovation and efforts to provide benefits to our members and secure the financial well-being of the Retirement System.

Sincerely,

Jeffrey R. Yates

Jeffrey R. Yates, CPA
Retirement Administrator

KPMG Peat Marwick LLP

Suite 3500 One Shell Square
New Orleans, LA 70139-3599

RECEIVED
AUG 12 1998
LEGISLATIVE AUDITOR

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Members of the Board of Trustees
of the Employees' Retirement System of the
City of Baton Rouge and Parish of East Baton Rouge:

We have audited the general purpose financial statements of the Employees' Retirement System of the City of Baton Rouge and Parish of East Baton Rouge (the Retirement System), as of and for the year ended December 31, 1997, and have issued our report thereon dated May 28, 1998. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Retirement System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Retirement System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Retirement System Board of Trustees, the Retirement System's management and the Legislative Auditor's Office. However, this report is a matter of public record and its distribution is not limited.

KPMG Peat Marwick LLP

May 28, 1998

ADMINISTRATIVE STAFF

Jeffrey R. Yates, CPA
Retirement Administrator

Angela F. Gauthier, JD, CPA
Financial Compliance Analyst

Ann LeSage
Administrative and Investment Coordinator

Janice Johnson-Meyers
Clerical Specialist

Russell P. Smith, CPA
Accounting Supervisor

Kyle Drago
Accountant II

Phil Massey, Jr.
Accountant II

Shaun Leonard
Senior Fiscal Specialist

Lee Jackson
Retirement Benefits Coordinator

Patty Appling
Retirement Benefits Counselor

Gladys Williams
Retirement Benefits Counselor

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Baton Rouge, LA 70801

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Los Angeles, CA 90071

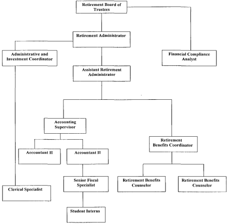
CUSTODIAN BANK

City National Bank
P.O. Box 1231
Baton Rouge, LA 70821

First National Bank of Commerce
P.O. Box 60279
New Orleans, LA 70160

ORGANIZATIONAL CHART

(See page 13 for specific information regarding investment professionals)



SUMMARY OF 1997 LOCAL ORDINANCES

The following Ordinances were adopted by the City-Parish Metropolitan Council during 1997:

1. ORDINANCE 11019 – AMENDING TITLE 1 (MUNICIPAL AND PARISH ORGANIZATION), CHAPTER 3, PART IV (EMPLOYEES RETIREMENT SYSTEM), SECTION 1:264 OF THE CODE OF ORDINANCES OF THE CITY OF BATON ROUGE AND PARISH OF EAST BATON ROUGE, SO AS TO AMEND AND RE-ENACT SUB SECTION 1:264(A)(6) THEREOF, RELATIVE TO IMPLEMENTATION OF PICK-UP OF MEMBER CONTRIBUTIONS TO THE RETIREMENT SYSTEM.

   This ordinance effectively allowed member contributions otherwise required to be made to the System, to be picked up by the employer. *Effective date – the first payroll of the employer paid after January 1, 1998*

2. ORDINANCE 11020 - AMENDING TITLE 1 (MUNICIPAL AND PARISH ORGANIZATION), CHAPTER 3, PART IV (EMPLOYEES RETIREMENT SYSTEM), SECTION 1:264 OF THE CODE OF ORDINANCES OF THE CITY OF BATON ROUGE AND PARISH OF EAST BATON ROUGE, SO AS TO AMEND AND RE-ENACT SUB SECTION 1:264(A)(1) THEREOF, SO AS TO INCREASE THE MEMBER CONTRIBUTION RATE FROM 8% OF EARNED COMPENSATION TO 9.5% OF EARNED COMPENSATION, EFFECTIVE WITH THE FIRST PAYROLL OF THE EMPLOYER PAID AFTER JANUARY 1, 1998.

   This ordinance increased the member contribution rate from 8% to 9.5% of earned compensation, with a provision that the member rate can potentially be systematically reduced to a rate no lower than 8%, should the employer contribution rate be set at 15% or less for any calendar year. *Effective date – the first payroll of the employer paid after January 1, 1998*

3. ORDINANCE 11021 - AMENDING TITLE 1 (MUNICIPAL AND PARISH ORGANIZATION), CHAPTER 3, PART IV (EMPLOYEES RETIREMENT SYSTEM), SECTION 1:253 OF THE CODE OF ORDINANCES OF THE CITY OF BATON ROUGE AND PARISH OF EAST BATON ROUGE, SO AS TO AMEND AND RE-ENACT SUB SECTION 1:253(B)(1) AND TO DELETE SUB-SECTION 1:253(C), RELATIVE TO ALLOWING ALL MEMBERS TO BE ELIGIBLE FOR ELECTION TO THE BOARD OF TRUSTEES.

   This ordinance removed length of service restrictions and DROP status restrictions for members wishing to run for election to the Retirement Board of Trustees. *Effective date – November 25, 1997*

PLAN SUMMARY

SERVICE RETIREMENT ALLOWANCES

- 25 years or more, any age, 3% of average compensation for each year of service, maximum 90% of average compensation;
- 20 years or more, but less than 25 years, age 55, 2.5% of average compensation for each year of service;
- 20 years or more, but less than 25 years, under age 55, 2.5% of average compensation for each year of service less a 3% penalty on the total retirement allowance for each year the member's age at retirement is under 55;
- 10 years or more, but less than 20 years, age 55, 2.5% of average compensation for each year of service; and
- 10 years or more, but less than 20 years, under age 55, 2.5% of average compensation for each year of service upon attaining age 55.

OPTIONAL RETIREMENT ALLOWANCES

- Member may elect a reduced retirement allowance and designate any person to receive the balance of his member contributions in the event member dies before receiving retirement benefits exceeding the amount of his member contributions as of the date of his retirement.
- Member may elect a reduced retirement allowance and designate any person to receive the same reduced retirement allowance for the life of the person so designated.
- Member may elect a reduced retirement allowance and designate any person to receive a form of benefit certified by the retirement system actuary to be of equivalent actuarial value.

DISABILITY RETIREMENT ALLOWANCES

- Ordinary disability, minimum 10 years service required, minimum 50% of average compensation; additional 2.5% of average compensation for each year of service in excess of 20 years.
- Service-connected disability, no minimum service requirement, minimum 50% of average compensation; additional 1.5% of average compensation for each year of service in excess of 10 years.

SURVIVOR BENEFITS

- The surviving spouse of a contributing member eligible for retirement, or who has at least 20 years of service, receives an actuarially computed benefit for life; or a refund of member contributions.
- The surviving spouse of a contributing member not eligible for retirement receives a monthly benefit of $600 for life or until remarriage, whichever occurs first; or a refund of member contributions.
- The surviving spouse of a service retiree receives a monthly benefit of 50% of the service retiree benefit for life, provided that the surviving spouse was either (1) legally married to the retiree on his date of service retirement or (2) legally married to the retiree for at least 2 years prior to the retiree's death.

- The surviving spouse of a DROP participant receives a monthly benefit of 50% of the DROP participant benefit for life, provided that the surviving spouse was either (1) legally married to the DROP participant on the effective date of his DROP participation or (2) legally married to the DROP participant for a least 2 years prior to the DROP participant's death.

- The surviving spouse of a service-connected disability retiree receives a monthly benefit of 50% of the service connected-disability retiree benefit for life, provided that the surviving spouse was either (1) legally married to the service-connected disability retiree on his date of service-connected disability retirement or (2) legally married to the service-connected disability retiree for at least 2 years prior to the service-connected disability retiree's death.

- Minor child or children of contributing member receive a monthly benefit of $150 per child until age 18, maximum benefit of $300 if survived by more than 2 children.

DEFERRED RETIREMENT OPTION PLAN (DROP)

- Member must have not less than 25 nor more than 30 years of service to be eligible.

- Maximum period of participation is 5 years, or 32 years combined service and participation period, whichever is less.

- For DROP participants prior to July 1, 1991 who do not terminate employment at the end of participation, interest earnings on the account are discontinued until termination of employment, and no funds are payable from the account until such termination.

- For DROP participants on or after July 1, 1991 who do not terminate employment at the end of participation, all interest earnings that would have been credited during participation are forfeited, and all funds are immediately distributed to the member.

ROLLOVER OF ELIGIBLE DISTRIBUTIONS

- Certain distributions from DROP accounts are eligible for rollover to an individual retirement account (IRA), or other qualified plan.

- Distributions based upon life expectancy or for a specified period of 10 years or more are not eligible for rollover.

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FINANCIAL SECTION

CITY OF BATON ROUGE
PARISH OF EAST BATON ROUGE

KPMG Peat Marwick LLP

Bank One Centre-North Tower
Suite 1700
451 Florida Street
Baton Rouge, LA 70801-1705

INDEPENDENT AUDITORS' REPORT

Members of the Board of Trustees
City of Baton Rouge and Parish of East Baton Rouge
Employees' Retirement System
Baton Rouge, Louisiana

We have audited the accompanying statement of plan net assets of the City of Baton Rouge and Parish of East Baton Rouge Employees' Retirement System (the Retirement System), a component unit of the City of Baton Rouge – Parish of East Baton Rouge, as of December 31, 1997, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audit. The accompanying financial statements of the Retirement System as of December 31, 1996, were audited by other auditors whose report thereon dated March 19, 1997, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall component unit financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Retirement System as of December 31, 1997, and the changes in plan net assets for the year then ended, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 28, 1998 on our consideration of the Retirement System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

KPMG Peat Marwick LLP

May 28, 1998

CITY OF BATON ROUGE AND PARISH OF EAST BATON ROUGE EMPLOYEES' RETIREMENT SYSTEM

STATEMENT OF PLAN NET ASSETS

AS OF DECEMBER 31, 1997 AND 1996

	1997	1996
Assets		
Cash	$ 112,855	$ 319,529
Receivables:		
Employer contributions	1,594,100	1,290,500
Employee contributions	827,151	584,200
Interest and dividends	2,174,388	2,733,209
Pending trades	2,951,973	1,321,433
Other	5,529	5,730
Total receivables	7,553,141	5,935,072
Investments (at fair value):		
U.S. Government obligations	112,276,863	154,548,888
Bonds – Domestic	38,664,823	32,050,946
Bonds – Enhanced Index Fund	98,424,388	52,896,446
Equity securities – Domestic	318,334,961	257,793,413
Equity securities – International	75,654,843	48,694,752
Real Estate	--	24,620,776
Cash equivalents	34,556,049	23,118,717
Total investments	677,911,927	593,723,938
Land and buildings at cost net of accumulated depreciation of $458,393 and $402,693, respectively	976,673	1,029,126
Total assets	686,554,596	601,007,665
Liabilities		
Accounts payable	209,657	--
Accrued expenses and benefits	635,406	537,466
Pending trades payable	4,111,641	1,111,917
Total liabilities	4,956,704	1,649,383
Net assets held in trust for pension benefits (a schedule of funding progress is presented on page 33)	$681,597,892	$599,358,282

See accompanying notes to financial statements.

CITY OF BATON ROUGE AND
PARISH OF EAST BATON ROUGE
EMPLOYEES' RETIREMENT SYSTEM

STATEMENTS OF CHANGES IN PLAN NET ASSETS

FOR THE YEARS ENDED DECEMBER 31, 1997 AND 1996

	1997	1996
Additions:		
Contributions:		
Employee	$ 9,645,590	$ 9,033,167
Employer	18,405,695	16,219,697
Total contributions	28,051,285	25,252,864
Investment Income:		
Net appreciation in fair value of investments	86,711,576	35,437,680
Interest	13,029,237	17,508,876
Dividends	2,363,622	3,247,598
Real estate operating income, net	1,144,092	1,891,360
Total investment income	103,248,527	58,085,514
Less investment expenses	1,764,328	1,922,578
Net investment income	101,484,199	56,162,936
Total additions	129,535,484	81,415,800
Deductions:		
Benefit payments	44,787,560	30,666,429
Refunds and withdrawals	1,487,729	1,815,573
Administrative expenses	1,020,585	877,475
Total deductions	47,295,874	33,359,477
Net increase	82,239,610	48,056,323
Net assets held in trust		
For pension benefits:		
Beginning of year	599,358,282	551,301,959
End of year	$681,597,892	$599,358,282

See accompanying notes to financial statements.

CITY OF BATON ROUGE AND
PARISH OF EAST BATON ROUGE
EMPLOYEES' RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS

(1) PLAN DESCRIPTION

A. General Organization

The City of Baton Rouge and Parish of East Baton Rouge, Employees' Retirement System is the administrator of an agent multiple-employer pension plan (the Plan). The Retirement System provides benefits to employees of the following participating governmental employers:

City of Baton Rouge and Parish of East Baton Rouge (City-Parish)
District Attorney of the Nineteenth Judicial District
Nineteenth Judicial District Court
East Baton Rouge Parish Family Court
East Baton Rouge Parish Juvenile Court
St. George Fire Protection District
Brownsfield Fire Protection District
Central Fire Protection District
East Baton Rouge Parish Fire Protection District No. 6
Eastside Fire Protection District
East Baton Rouge Recreation and Park Commission (BREC)

The Retirement System is considered part of the financial reporting entity of the City of Baton Rouge and Parish of East Baton Rouge (the City-Parish) and is included as a pension trust fund component unit in the City's Comprehensive Annual Financial Report. The accompanying financial statements reflect the activity of the Retirement System.

Under Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity* (GASB 14), the definition of a reporting entity is based primarily on the concept of financial accountability. In determining its component unit status, the Retirement System considered the following:

- the Retirement System exists for the benefit of current and former City-Parish employees who are members of the Retirement System;
- four of the seven Board members are elected by the employees who participate in the Plan, and
- the Retirement System is funded by the investment of contributions from the City-Parish and member employers who are obligated to make the contributions to the Retirement System based upon actuarial valuations.

The Retirement System itself has no component units as defined under GASB 14.

CITY OF BATON ROUGE AND
PARISH OF EAST BATON ROUGE
EMPLOYEES' RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS

(1) PLAN DESCRIPTION, CONTINUED

A. General Organization, Continued

The Retirement System was created by The Plan of Government and is governed by a seven member Board of Trustees. The Board is responsible for administering the assets of the Retirement System and for making policy decisions regarding investments. Four of the trustees are elected members of the Retirement System. Two are elected from non-police and fire department employees, and one trustee each is elected from the Police and Fire Departments. The remaining membership of the Board consists of the City-Parish's Director of Finance, and two persons with business and accounting experience appointed by the Metropolitan Council.

Any person who becomes a regular full-time employee of one of the member employers becomes a member of the Retirement System as a condition of employment. Contractual employees may or may not become members, depending upon the provisions of their respective contracts.

Substantially all full-time employees of the City-Parish, the Fire Protection Districts, and BREC are covered by the Retirement System. The Retirement System actuarially determines the contributions required to fund the plan. The Retirement System exists for the sole benefit of current and former employees of the various entities above who are members of the Retirement System.

B. Membership

At December 31, 1997 and 1996, membership in the Retirement System consisted of:

	1997	1996
Inactive:		
Retirees and beneficiaries currently receiving benefits	1,723	1,657
Vested terminated employees	27	26
Deferred retirees	276	269
Total inactive	2,026	1,952
Active employees:		
Fully vested	1,680	1,426
Nonvested	2,335	2,536
Total active	4,015	3,962
Total membership	6,041	5,914

CITY OF BATON ROUGE AND
PARISH OF EAST BATON ROUGE
EMPLOYEES' RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS

(1) PLAN DESCRIPTION, CONTINUED

B. Membership, Continued

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them consist of:

December 31, 1997:

	Inactive	Active: Vested	Active: Nonvested	Total Active
Regular	1,145	967	1,735	2,702
BREC	71	71	115	186
Police	398	344	229	573
Fire	412	298	256	554
	2,026	1,680	2,335	4,015

December 31, 1996:

	Inactive	Active: Vested	Active: Nonvested	Total Active
Regular	1,114	820	1,832	2,652
BREC	70	55	134	189
Police	379	268	301	569
Fire	389	283	269	552
	1,952	1,426	2,536	3,962

C. Benefits

An employee's benefit rights vest after the employee has been a member of the Retirement System for 10 years. Benefit payments are classified into two distinct categories: full retirement benefits and minimum eligibility benefits. The service requirements and benefits granted for each category are:

1. Full retirement benefits:
   a. Granted with 25 years of service, regardless of age.
   b. Defined as 3% of average compensation times the number of years of service.

CITY OF BATON ROUGE AND

PARISH OF EAST BATON ROUGE

EMPLOYEES' RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS

(1) **PLAN DESCRIPTION, CONTINUED**

C. **Benefits, Continued**

2. Minimum eligibility benefits:

   a. Granted with 20 years of service regardless of age; or at age 55 with 10 years of service.

   b. Defined as 2.5% of average compensation times the number of years of service.

Average compensation is determined by the highest average compensation in 36 successive months. In the case of interrupted service, the periods immediately before and after the interruption may be joined to produce 36 successive months. Benefits are reduced by 3% for each year below age 55, if service is less than 25 years. Benefits paid to employees shall not exceed 90% of average compensation.

Pension provisions include both service-connected and ordinary disability benefits. Under a service-connected disability, the disabled employee is entitled to receive 50% of average compensation, plus an additional factor for each year of service in excess of ten years. Under an ordinary disability, ten years of service are required to receive 50% of average compensation or 2.5% times the number of years of creditable service, whichever is greater. Survivor benefits are granted to qualifying surviving spouses of service-connected disabilities, however, disability benefits cease at the death of the disabled employee under an ordinary disability.

Also included in pension provisions are death benefits whereby a qualifying spouse will receive 50 percent of the retired employee's pension amount. Should an employee die before retirement, a qualifying spouse may receive an actuarially computed benefit based on the employee's calculated benefit, if eligible; or $600 per month plus $150 per month for each minor child (limited to $300) if the employee was not eligible for benefits at the time of death.

D. **DROP**

Deferred retirees (participants in the Deferred Retirement Option Plan (DROP)) are employees who are eligible for retirement, but have chosen to continue employment for a maximum of five years. Pension annuities are fixed for these employees, and contributions are no longer made to the Retirement System on their earnings. Benefits for these employees are placed in a deferred reserve account until the deferred retirement option period elapses or until the employee discontinues employment. The amounts held in DROP accounts as of December 31, 1997 and 1996 total $60,163,822 and $63,306,174 respectively, and are included in plan net assets. Members maintaining accounts in the DROP program as of December 31, 1997 and 1996 were 631 and 684, respectively.

CITY OF BATON ROUGE AND
PARISH OF EAST BATON ROUGE
EMPLOYEES' RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS

(1) PLAN DESCRIPTION, CONTINUED

E. Contribution Requirements

Contribution rates for each participating employer and its covered employees are established and may be amended by the Retirement System's Board of Trustees, with approval by the Metropolitan Council of the City-Parish. The contribution rates are determined based on the benefit structure established by the Plan provisions. Plan members are required to contribute 8% of their annual covered salary for 1997, and 9.5% beginning January 1, 1998. Participating employers are required to contribute the remaining amounts necessary to finance the coverage of their employees through periodic contributions at actuarially determined rates. The City-Parish provides annual contributions to the Plan as required by the City-Parish Plan of Government, which requires that the Retirement System be funded on an actuarially sound basis.

Administrative costs of the Retirement System are financed through investment earnings.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The Retirement System's financial statements are prepared on the accrual basis of accounting. Contributions from the participating entities and their employees are recognized as revenue in the period in which employees provide services to the entity. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

B. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

C. Investments

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair value as determined by the Retirement System's investment consultant.

No investments in any one organization represent 5% or more of the net assets available for pension benefits. There are no investments in loans to or leases with parties related to the pension plan. The investment activity of the Retirement System is subject to an investment policy adopted by the Board of Trustees and to oversight by the Board of Trustees. Although the Board utilized eight outside third party investment managers during 1997, final oversight remains with the Board.

Purchases and sales of investments are recorded on a trade date basis. The Retirement System's Statement of Investment Policies and Objectives prohibits the use of derivatives. During 1997 there were no securities lending arrangements and no reverse repurchase agreements in force.

CITY OF BATON ROUGE AND
PARISH OF EAST BATON ROUGE
EMPLOYEES' RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

D. Property and Equipment

Land and building are carried at historical cost. Depreciation is computed on the straight-line method over 5 to 25 years. Minor equipment and furniture acquisitions are charged to operations as capital outlays in the period they are made. Depreciation expense for the years ended December 31, 1997 and 1996 was $55,700 and $54,734, respectively.

(3) INVESTMENTS AND DEPOSITS

All investments of the Retirement System are registered in the Retirement System's name, or held by the custodial bank or its intermediaries in the Retirement System's name.

The following table provides information about the market risks associated with the Retirement System's investments. Category 1 includes investments that are insured or registered or for which the securities are held by the Retirement System or its agent in the Plan's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker or agent in the Retirement System's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or agent, but not in the Retirement System's name. The investments were as follows at December 31, 1997 and 1996:

	CATEGORY 1	2	3	1997 FAIR VALUE	CATEGORY 1	2	3	1996 FAIR VALUE
Fixed Income:								
U.S. Treasury Bonds	$ 37,371,073	--	--	$ 37,371,073	$ 56,528,133	--	--	$ 56,528,133
Corporate Bonds	38,664,823	--	--	38,664,823	32,050,946	--	--	32,050,946
U.S. Agency Bonds	49,694,250	--	--	49,694,250	49,266,767	--	--	49,266,767
U.S. Agency Notes	25,211,540	--	--	25,211,540	48,753,988	--	--	48,753,988
Corporate Stocks	179,281,239	--	--	179,281,239	214,678,313	--	--	214,678,313
Repurchase Agreements	20,909,999	--	--	20,909,999	12,870,000	--	--	12,870,000
Commercial Paper	13,646,050	--	--	13,646,050	10,248,717	--	--	10,248,717
Total Categorized	$364,778,974	--	--	$364,778,974	$424,396,864	--	--	$424,396,864
Corporate Stock Index Fund				139,053,722				43,115,100
International Equity Fund				75,654,843				48,694,752
Enhanced Bond Index Fund				98,424,388				52,896,446
Real Estate Trust				--				24,620,776
Total investments				$677,911,927				$593,723,938

CITY OF BATON ROUGE AND
PARISH OF EAST BATON ROUGE
EMPLOYEES' RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS

(3) INVESTMENTS AND DEPOSITS, CONTINUED

The Retirement System's policy is that securities underlying the repurchase agreements must have a dollar value of at least 102% of the cost of the repurchase agreement. The Retirement System's repurchase agreements at December 31, 1997 and 1996, were fully collateralized.

At December 31, 1997, the carrying amount of the Retirement System's cash and cash equivalents was $112,855 and the bank balance was $112,855 of which $100,000 was covered by Federal Depository insurance. The remainder was collateralized by securities held in a custodial account in the Retirement System's name. At December 31, 1996, the carrying amount of the Retirement System's cash and cash equivalents was $319,529 and the bank balance was $342,883 of which $100,000 was covered by Federal Depository insurance. The remainder was collateralized by securities held in a custodial account in the Retirement System's name.

(4) CONTINGENCIES

At December 31, 1997, litigation was still outstanding regarding claims of retirement benefit additions relating to off-duty security services rendered by members of the City Police force. Management considers the plaintiffs' success possible; however, in the event of plaintiffs' success, both employee and employer contributions will offset some of the benefits to be paid by the Retirement System.

(5) REQUIRED SUPPLEMENTARY INFORMATION

In accordance with GASB No. 25, required supplementary information is presented on pages 33 through 35.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF BATON ROUGE

PARISH OF EAST BATON ROUGE

CITY OF BATON ROUGE AND PARISH OF EAST BATON ROUGE EMPLOYEES' RETIREMENT SYSTEM

REQUIRED SUPPLEMENTARY INFORMATION UNDER GASB STATEMENT NO. 25

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
12/31/94	$ 480,505,268	$ 657,162,178	$ 176,656,910	73.1%	$ 100,596,231	175.6%
12/31/95	551,301,959	718,277,070	166,975,111	76.8%	104,601,384	159.6%
12/31/96	587,193,233	773,936,127	186,742,894	75.9%	109,658,886	170.3%
12/31/97	635,463,896	811,977,242	176,513,346	78.3%	114,102,750	154.7%

Note: Only four years of actuarial data are available.

See accompanying independent auditors' report.

CITY OF BATON ROUGE AND
PARISH OF EAST BATON ROUGE
EMPLOYEES' RETIREMENT SYSTEM

REQUIRED SUPPLEMENTARY INFORMATION UNDER GASB STATEMENT NO. 25, CONTINUED

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended	Annual Required Contribution	Percentage Contributed
12/31/95	$17,845,851	80.0%
12/31/96	17,773,028	91.3%
12/31/97	19,510,792	91.5%

Note: Only three years of data are available.

See accompanying independent auditors' report.

CITY OF BATON ROUGE AND
PARISH OF EAST BATON ROUGE
EMPLOYEES' RETIREMENT SYSTEM

REQUIRED SUPPLEMENTARY INFORMATION UNDER GASB STATEMENT NO. 25, CONTINUED

NOTES TO THE SCHEDULES OF TREND INFORMATION

The information presented above was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	December 31, 1997
Actuarial cost method	Entry Age Normal Actuarial Cost Method with Unfunded Actuarial Accrued Liability
Amortization method	Increasing 4%/year for first 15 years and level percent for next 15 years - closed.
Remaining amortization period	27 years
Asset valuation method	Market value as of January 1, 1996. Beginning January 1, 1997, adjusted market value with 20% unrealized gains (losses) recognized each year.
Actuarial assumptions:	
Investment rate of return	8.0%*
Projected salary increases	4.0%* plus longevity/merit
Aggregate payroll growth	6.0%*

* includes inflation of 4%

See accompanying independent auditors' report.

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SUPPORTING SCHEDULES

CITY OF BATON ROUGE
PARISH OF EAST BATON ROUGE

SCHEDULES OF ADMINISTRATIVE EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 1997 AND 1996

	1997	1996
Salaries:		
Salaries – regular	$ 396,814	$ 310,948
Other compensation – student labor	5,719	--
Other compensation – auto allowance	4,708	4,800
Related benefits	86,918	62,512
Total salaries	494,159	378,260
Travel and training expenses	19,234	32,842
Operating services:		
Dues and memberships	2,206	1,856
Utilities	14,489	12,633
Custodial and extermination	8,065	6,441
Printing and binding	8,505	--
Telephone	5,491	5,552
Postage	14,451	10,590
Insurance	5,372	5,043
Rentals – office equipment	28,557	31,760
Repairs and maintenance – buildings	46,051	12,627
Repairs and maintenance – office equipment	9,852	7,805
Total operating services	143,039	94,307
Supplies	34,683	23,547
Professional services:		
Accounting and auditing	8,000	13,952
Legal	109,869	136,805
Actuarial	111,154	88,506
Other professional	65,959	63,142
Total professional services	294,982	302,405
Depreciation expense	55,700	54,734
Capital outlay	5,148	--
Other revenues	(26,360)	(8,620)
Total administrative expenses	$1,020,585	$ 877,475

SCHEDULES OF INVESTMENT EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 1997 AND 1996

	1997	1996
Fixed income:		
U. S. Government obligations		
and other bonds - Domestic	$ 252,958	$ 713,834
Bonds - Enhanced Index Fund	56,357	15,655
Total fixed income	309,315	729,489
Equity securities:		
Equity securities - Domestic	837,163	524,464
Equity securities - International	377,074	288,056
Total equity securities	1,214,237	812,520
Real estate investment trust	71,125	279,184
Custodian fees	59,651	17,305
Advisor fees	110,000	84,080
Total investment expenses	$1,764,328	$1,922,578

SCHEDULES OF PAYMENTS TO CONSULTANTS
FOR THE YEARS ENDED DECEMBER 31, 1997 AND 1996

	1997	1996
Accounting and auditing	$ 8,000	$ 13,952
Auditors:		
Hannis T. Bourgeois & Company, LLP		
KPMG Peat Marwick LLP		
Legal	109,869	136,805
Legal Counsel -		
Law Offices of Randy P. Zinna		
Of Special Counsel:		
Robert D. Klausner, P.A.		
Lawson & Fields, P.C.		
Actuarial	111,154	88,506
Actuary -		
Stanley, Holcombe & Associates, Inc.		
Other professionals:	65,959	63,142
Medical Examiner		
D.J. Scimeca, Jr., MD		
Computer Consultant		
Relational Systems Consultants		
Graphics and Editorial Consultants		
Yvonne Lewis Day		
JoAnne McMullen		
Total	$294,982	$302,405

A summary of commissions paid to brokers is shown on page 64.

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INVESTMENT SECTION

CITY OF BATON ROUGE

PARISH OF EAST BATON ROUGE

Summit *Strategies Group*
7700 Bonhomme Ave.
Suite 300
St. Louis, MO 63105
314-727-7211
314-727-6068 Fax

March 23, 1998

Board of Trustees
City of Baton Rouge and
Parish of East Baton Rouge Employees' Retirement System
P.O. Box 1471
Baton Rouge, LA 70821

1997 was an extremely generous year for all investors including CPERS. Investment gains in excess of $102 million dollars allowed the fund to grow to $678 million. The investment return for the year was 17.6%, which ranked in the 50th percentile in the Independent Consultants Cooperative Public Pension Plan Universe.

In many other ways 1997 was very significant for CPERS, as the investment portfolio underwent dramatic changes. During the year, the percent of the total fund invested in equities was increased to 60%, with a plan to increase the percent to 65% in 1998. This increase in equity exposure is expected to enhance the long-term returns of the System by over $5 million per year. This has been achieved with a well-diversified equity portfolio that invests in both large and small U.S. companies as well as companies around the Globe.

Additionally, this asset shift was accomplished while the roster of managers was reduced from ten distinct investment portfolios to seven, with the number going to six early in 1998. This streamlining of the fund has created a reduction in the management expense of the system by 25%, or approximately $500,000 per year.

Any time expected investment return can be increased while the cost of managing the investments of the System is reduced, the best of both worlds is achieved. In addition, a compensation structure for the investment managers has been adopted that creates a highly motivated investment team. A substantial portion of the equity portfolio has been indexed to the S&P 500, which has outperformed two-thirds of active managers for the past five years at a cost which is 85% less than the active managers fees. In addition, most of the active managers are being given performance-based fees, which only pays them active fees when they produce actual value for the System.

The System's financial structure was firmly established in 1997 and the potential benefits are already evident. The management of the investment process, the diversification of the System's assets in the roster of investment firms implementing the various strategies is prudent, well considered and efficient.

Sincerely,

Stephen Holmes

Stephen P. Holmes, CFA
Director of Consulting

STATEMENT OF INVESTMENT POLICIES AND OBJECTIVES

I. STATEMENT OF POLICY

Purpose

This document shall serve as the official policy regarding the investment practices of the Employees' Retirement System of the City of Baton Rouge and Parish of East Baton Rouge (the "System"). The policies in this document have been adopted by the Board of Trustees, who have the fiduciary duty of overseeing the pension fund investments. The policies are not to be deviated from by any responsible party without the written permission of the Board of Trustees. All previous System objectives and policies are superseded by this document. Any revisions to this document will be promptly supplied to the appropriate parties in written format.

Investment Goals

The purpose of the Fund is to accumulate the financial reserves necessary to provide for the retirement or pensioning of the officers and employees and the widows and children of deceased officers and employees of the City of Baton Rouge and Parish of East Baton Rouge. 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.

The Trustees, with help 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 Trustees will be towards the Total 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 comparisons over relevant time periods. Each manager is expected to maintain a consistent philosophy and style, perform well versus others utilizing the same style, and add incremental value after costs.

Investment Philosophy

The Fund is a permanent one.

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

For at least the next five years, there is no expectation of 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 the principal and provide a measure of stability to the portfolio.

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 will set out specific duties and responsibilities for the investment-related parties as they carry out their specific roles towards achieving the objectives of the Fund.

II. INVESTMENT RESPONSIBILITIES

Board of Trustees

The Board of Trustees has the fiduciary responsibility for managing the investment process. In fulfilling this responsibility, the Board will establish and maintain investment policies and objectives. Within this framework, the Board will select, monitor, and evaluate the investment consultant, investment managers, bank custodian, and other parties to ensure that actual results meet objectives.

STATEMENT OF INVESTMENT POLICIES AND OBJECTIVES (Continued)

Investment Consultant

The investment consultant's duty is to work with the Board to manage the investment process. This includes meeting regularly with the Board to provide perspective as to the Fund's goals, structure, and the investment management team, as well as the progress being made in fulfilling each. The consultant will work with the Board to develop and maintain a properly diversified portfolio.

Fund allocation and performance will be regularly reviewed and recommendations will be made as appropriate. The consultant will assist the Board in the area of investment manager selection, when needed, and will promptly inform the Board and discuss the impact of material changes taking place within any current manager's organization and/or investment process. Within this process, the investment consultant assumes fiduciary responsibility for investment *advice given* regarding the management of the investment process.

Investment Managers

The investment managers will construct and manage investment portfolios consistent with the investment philosophy and disciplines they were hired to implement and which are specified in this document. They will select specific securities, buy and sell such securities, and modify the asset mix within the guidelines. The Board also believes that investment decisions are best made when not restricted by excessive procedure. Therefore, full discretion is delegated to the investment managers to carry out the investment of their portfolios within stated guidelines. They will also allocate brokerage commissions and use only acceptable investment vehicles as defined in this statement.

With regard to transaction expense, each manager recognizes commissions as an asset of the System and accepts same fiduciary responsibility for managing commissions that exist for the management of all assets under their authority. The Board also recognizes that transaction expense includes both commissions and execution costs, and charges the manager with the optimization of both for the lowest possible transaction cost. The Board encourages the managers to manage the commission activity using all available trading mechanisms to maintain commission levels on listed trades of three (3) cents or less. The consultant shall report on commission levels quarterly, and failure to achieve these commission levels in a given quarter must be accompanied by a letter of explanation to the Board. If at any time a manager feels compliance with this policy is adversely affecting the System, the manager has the responsibility to immediately notify the Board of its concern(s).

Bank Custodian(s)

The bank custodian(s) will hold all cash and securities, and will regularly summarize these holdings for the Trustees' review. In addition, a bank or trust depository arrangement will be utilized to accept and hold cash prior to allocating it to the investment manager, and to invest such cash in liquid, interest-bearing instruments.

III. FIDUCIARY CONDUCT

An investment fiduciary is defined as a person who exercises discretionary authority or control in the investment of the assets of the Employees' Retirement System of the City of Baton Rouge and Parish of East Baton Rouge (the "System") or who renders, for a fee, advice for the System, including, but not limited to, the members of the Board of Trustees, the Retirement System staff, the investment consultant, investment managers and bank custodian.

An investment fiduciary shall discharge his or her duties in the interest of the participants in the System and their beneficiaries and shall:

1. Act with the same care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a similar capacity and familiar with those matters would use in the conduct of a similar enterprise with similar aims;

2. Act with due regard for the management, reputation and stability of the issuer and the character of the particular investments being considered;

3. Make investments for the sole purpose of providing benefits to participants and participants' beneficiaries, and of defraying reasonable expenses of investing the assets of the System; and

4. Give appropriate consideration to those facts and circumstances that the investment fiduciary knows or should know are relevant to the particular investment or investment course of

STATEMENT OF INVESTMENT POLICIES AND OBJECTIVES (Continued)

action involved, including the role which the investment or investment course of action plays in that portion of the investments for which the investment fiduciary has responsibility. For purposes of this subdivision, "appropriate consideration" shall include, but is not necessarily limited to, a determination by the investment fiduciary that a particular investment or investment course of action is reasonably designed, as part of the investments of the System, to further the purposes of the System, taking into consideration the risk of loss and the opportunity for gain or other return associated with the investment or investment course of action; and consideration of the following factors as they relate to the investment or investment course of action:

(a) the diversification of the investments of the System;
(b) the liquidity and current return of the investment of the System relative to the anticipated cash flow requirements of the System; and
(c) the projected return of the investments of the System relative to the funding objectives of the System.

IV. **PERMISSIBLE INVESTMENTS**

Listed below are the investment vehicles specifically permitted currently under this 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
- Common Stocks
- Convertible Bonds
- Preferred Stocks

Fixed Income
- Bonds
- Mortgages and Mortgage-Backed Securities
- Asset-Backed Securities
- Cash-Equivalent Securities
- Money Market Funds, Bank STIF and STEP Funds
- Equity Real Estate (only under specific authorization)

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. 144a 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 restrictions.

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 debt and equity of any one company shall not exceed 5% of the cost basis or 7% of the market value of any managers' portfolio except for direct obligations of the U.S. Government and its agencies. Portfolio concentration limits apply to all mortgage-backed, asset-backed, and corporate securities. Direct obligation is defined as a security in which the U.S. Government guarantees principal and interest.

6. The fund will be invested in a manner consistent with all applicable local and State laws.

7. International 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. 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.

INVESTMENT PORTFOLIOS

V. **GENERAL FIXED INCOME PORTFOLIO GUIDELINES**

STATEMENT OF INVESTMENT POLICIES AND OBJECTIVES (Continued)

Eligible Holdings

The portfolio will be invested exclusively in publicly traded fixed income securities, as described on Page 48 under "Permissible Investments". Securities are not allowed that use caps, floors, collars, any use of leverage, or in which interest or principal position is tied to anything not specifically allowed in these guidelines.

Diversification

The diversification of the fixed income securities held in the portfolio among sectors and issuers is the responsibility of the investment manager. No single company's securities shall represent more than 5% of the cost basis or 7% of the market value of any manager's portfolio. (This does not apply to obligations of the U.S. Government or its agencies).

Portfolio Quality

Fixed income securities shall not be rated less than BAA or its equivalent by a nationally-recognized rating agency (S&P or Moody's) unless specific permission is granted to a manager. Issues rated AAA or AA and its equivalent by S&P or Moody's may have a 5% position at cost and 7% at market value. Issues rated A or BBB or its equivalent by S&P or Moody's may have a 2% position at cost or 3% at market value. Split-rated securities in which one rating is below investment grade shall not comprise more than 5% of the market value of any manager's portfolio. The ratings issue does not apply to direct obligations of the U.S. Government and its agencies.

If specific managers are given international flexibility, the same quality restrictions apply.

Money market instruments shall have a minimum quality rating comparable to an A bond rating and commercial paper shall be rated A1/P1 unless held in a diversified short-term commingled fund.

In the event of a bond's downgrade below BAA or its equivalent (excluding split-rate securities discussed above), 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.

Performance Objectives

Primary emphasis is to be placed on relative rates of return. Over a market cycle (usually 3-5 years), the following are the performance expectations for the portfolio:

- The total return of the fixed income segment of the fund should rank above median performance in a universe of managed fixed income portfolios.
- The total return of the fixed income composite should exceed, after fees, the return of the Lehman Brothers Aggregate Bond Index.
- Passive fixed income investment products are expected to equal the return of the underlying index gross of fees.

EQUITY REAL ESTATE

The term "equity" real estate refers to the direct ownership of tangible properties as compared to a mortgage loan. While equity is in the asset class title, the equity real estate portion of the fund shall be considered a fixed income instrument for broad asset allocation purposes because its primary characteristics of stable cash flows as the primary return component, low volatility, and low correlation to the other major asset classes are substantially more like fixed income than equity. The portion of the fund invested in equity real estate shall be held in commingled fund(s). As such, the prospectus or Declaration of Trust governing the fund must supersede any document such as this Policy. The Board shall employ real estate managers whose investment style, diversification targets, and risk posture as described in their prospectus or Declaration of Trust shall closely approximate those of the System.

Performance Objectives

Primary emphasis is to be placed on relative rates of return. Over a market cycle (usually 3-5 years), the following are the performance expectations for the portfolio:

- The total return of the equity real estate portion of the fund should rank above median performance in a universe of managed equity real estate portfolios.

STATEMENT OF INVESTMENT POLICIES AND OBJECTIVES (Continued)

- The total return of the equity real estate composite should exceed, after fees, the return of the NCREIF Property Index.

VI. EQUITY PORTFOLIO GUIDELINES

Eligible Holdings

The portfolios will be invested in publicly traded marketable securities. Restricted or letter stock etc., is not permitted.

Diversification

The diversification of the equity securities held in the portfolio among sectors and issuers is the responsibility of the investment manager. No single company's securities shall represent more than 5% of the cost basis or 7% of the market value of any manager's portfolio.

Style Adherence

The most important feature any individual manager brings to a multi-manager portfolio is style adherence. Quarterly, fundamental portfolio characteristics and style benchmark comparisons will be monitored for adherence to a manager's identified style.

Performance Objectives

Primary emphasis is to be placed on relative rates of return after fees. Over a market cycle (usually 3-5 years), the following are the performance expectations for each portfolio:

- Passive investment vehicles are expected to match the return of their respective benchmarks gross of fees.
- The total return of the domestic equity segment of the total fund should rank above median in a universe of equity style peers.
- The total return of the domestic equity composite should exceed, after fees, the total return of the Standard & Poor's 500 Index, and rank above median in a universe of equity style peers.

VII. RESPONSIBILITIES OF EACH INVESTMENT MANAGER

The duties and responsibilities of each investment manager appointed to manage the Fund's assets are:

- Managing the assets in accordance with the statutory requirements, policy guidelines, and objectives expressed herein. No deviation is permitted unless the ability to do so is given in a separate written agreement.
- Promptly informing the Board regarding all significant matters pertaining to the investment of the assets. The Board should be kept apprised of major changes in investment strategy, portfolio structure, market value of the assets, and other matters affecting the investment of the assets. The Board should also be informed promptly of any significant changes in the ownership, affiliation, organizational structure, financial condition, or professional personnel staffing of the investment management organization.
- Initiating written communication with the Board whenever the investment manager believes that this Statement of Investment Policies and Objectives should be altered. No deviation from guidelines and objectives shall occur prior to receiving written permission from the Board.
- Each investment manager is hereby authorized and empowered to vote proxies, said voting to be performed in good faith and for the exclusive benefit of the System participants and beneficiaries.
- Each investment manager shall keep accurate records as to the voting of proxies and shall provide information from such records to the Board upon request of the Board. Each investment manager shall annually report to the Board in writing as to actions taken with regard to proxy voting issues.
- The System has identified specific commission targets that it considers targets that its equity managers should strive to achieve as part of their efforts to prudently manage trading costs. It is the manager's responsibility to meet or exceed the commission reduction targets or to provide an annual letter explaining why it was not in the System's best interests to achieve these targets.

VIII. TOTAL PENSION FUND INVESTMENT OBJECTIVES

STATEMENT OF INVESTMENT POLICIES AND OBJECTIVES (Continued)

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 Appendix I.

The time period for this objective is one market cycle (usually 3-5 years).

IX. **EVALUATION AND REVIEW**

On a timely basis, but not less than annually, the Board will review actual investment results achieved to determine whether:

- The investment managers performed in accordance with the policy guidelines set forth herein.
- Asset allocation remains reasonable and each manager's decision-making process remains consistent with the style and methodology represented by the manager.
- The investment manager performs satisfactorily when compared with:
    - the objectives stated herein, as a primary consideration,
    - other Fund managers, and
    - recognized market indices
- On an annual basis, the Board will review investment manager proxy voting procedures and proxy voting records, and
- Review commissions generated, commission rates charged and firms used by the money managers. Compliance with specific directives regarding commission cost management will be regularly reviewed.

Also, at least annually, the Board will formally review this Statement of Investment Policies and Objectives to determine whether it continues to be appropriate in light of the Board's investment philosophy and objectives, and changes in the capital markets and/or Fund structure.

X. **SECURITIES LENDING-SPECIFIC POLICIES AND GUIDELINES**

The Board may select an agent to lend the financial securities of the fund. Any income gained through the lending program will be deposited monthly in a specified account and invested in short-term instruments until allocated by the Board.

The agent may lend any eligible securities, such as U.S. and non-U.S. equities, corporate bonds, and U.S. and non-U.S. Government securities. The agent shall have full discretion over the selection of borrowers and shall continually review credit worthiness of potential borrowers through adequate analysis of all material provided to them.

All loans shall be fully collateralized with cash, government securities, or irrevocable bank letters of credit. Collateralization of such loans shall be 102% domestic/105% international of the market value of the loaned securities plus accrued income for U.S. and non-U.S. loans, respectively. Such collateralization procedures should be marked-to-market daily.

The securities lending program shall in no way inhibit the trading activities of the investment managers of the System.

The securities lending agent has developed internal guidelines for the investment of cash collateral. The Board has reviewed these guidelines and incorporates them as the CPERS Investment Policy on Securities Lending Cash Collateral. A copy of the agent's cash collateral Investment Policy shall be sent to the Fund at least annually or any time there is a material change made to the document.

Appendix I
Asset Allocation & Rebalancing Guidelines

Asset Allocation

The Trustees believe that the level of risk assumed in 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:

STATEMENT OF INVESTMENT POLICIES AND OBJECTIVES (Continued)

Asset Class	Fund Guidelines
Equity Investment	65%
Fixed Income Investment	35%

The board, in conjunction with advice from the investment consultant, is responsible for broad asset allocation decisions. A manager's cash can disrupt this position. Therefore, each equity manager's portfolio is to be fully invested at all times, although cash may be held briefly when a security is sold prior to deciding which new security should be purchased. In no case shall cash comprise more than five (5) percent of the portfolio without prior written approval of the Board. This directive is consistent with the Board's decision to have managers avoid market-timing decisions. Fixed income managers are exempt from this because of the use of "barbell" strategies in constructing a fixed income portfolio. However, each fixed income manager accepts the Board's intention to avoid market timing and acknowledges that total portfolio performance (including cash) shall be compared to established performance objectives.

Rebalancing

The Board has established its strategic asset allocation mix and believes it prudently positions the assets of the System so as to achieve its long-term goal of providing established benefits to the participants at a reasonable cost to the employer. Market movements will result in a portfolio that differs from this strategic mix. The desire to maintain this constant strategic mix must be balanced with the very real cost of portfolio rebalancing. 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. Once market movement has moved the actual allocation outside these ranges, the Board has authorized staff and consultant to rebalance the portfolio back to its long-term strategic asset allocation target. This shall be done within a month of a triggering event caused by market movement. When these broad targets are rebalanced, the Board will also use this opportunity to rebalance among portfolios within asset classes (large cap, small cap, and international equities, for example). The target allocations and rebalancing trigger percentages are:

	Low Trigger	Target	High Target
Common Stocks	62%	65%	68%
Fixed Income	32%	35%	38%

Appendix II
Asset Class Diversification

- Within the broad definition of equities and fixed income for allocation purposes, the Trustees with advice from the consultant, believe it is prudent to diversify within asset classes. The intra-asset class categories and their proportion of the total asset class allocation shall be:

Equities:		Fixed Income:	
Large Cap Domestic	70%	Cash	0%
Small Cap Domestic	15%	Core Fixed Income	45%
International	15%	Long Term Bonds	45%
		Equity Real Estate	10%

- While the Trustees, with advice from the consultant, believe that diversification is prudent, they also believe that over-diversification is detrimental to the System. Therefore, the Trustees shall not consider an asset segment for inclusion in the portfolio that does not warrant a 5% allocation of the total fund. Additionally, the Trustees will consider using one specialist per asset segment for implementation.

- Rebalancing will take place when the broad asset class trigger percentages have reached.

Appendix III
Asset Class Sector & Individual Manager Performance Expectations

A. Fixed Income Portfolio Managers

Over a market cycle:

- The long-term objective for each fixed income manager is to add value after fees to a specified broad market benchmark. The broad market benchmark for the fixed income composite is:

	Benchmark
CPERS Fixed Income Composite	Lehman Brothers Aggregate Bond Index

- It is recognized that different maturity ranges and sectors within the broad market categories go in and out of favor. Therefore, short-term examination of each manager's performance will focus on style adherence, duration, peer comparisons, and style benchmarks.

B. Equity Portfolio Managers

Over a market cycle:

STATEMENT OF INVESTMENT POLICIES AND OBJECTIVES (Continued)

- The long-term objective for each active equity manager is to add value after expenses to a broad market benchmark. The broad benchmarks are as follows:

	Market Benchmark
Large Cap Domestic Equity Managers	S&P 500
Mid/Small Cap Domestic Equity Managers	Russell Mid Cap Value
International Equity Managers	MSCI EAFE

- Passive investment products are expected to match the duration of their respective benchmark, gross of fees.
- We recognize that styles within broad market categories move in and out of favor. Therefore, short-term examination of each manager's performance will focus on style adherence, style peer comparisons, and style benchmarks.

Appendix IV
Internal Cash Management Investment Guidelines

A. Repurchase Agreements (Repo) Guidelines

The cash equivalent securities of the System are managed by internal staff. Using the projected cash balance software of the custodian bank, the daily amount of cash available for investment by the System is identified. The cash of the System includes the specified short-term account set up to serve as a disbursing account for benefits and expense payments as well as the un-invested funds of the investment managers. These cash balances are to be invested fully by staff on a daily basis within the following policy guidelines:

- The daily cash balances are to be invested in overnight Repurchase Agreements (Repo) with the following characteristics:
  - Only direct U.S. Government debt of 10 years or less will be accepted as collateral;
  - A minimum of 102% of the dollar value of the loan shall be pledged as collateral by the borrowing entity. The pricing source of the collateral shall be agreed upon by both parties in advance;
  - The custodian bank shall accept physical delivery of the collateral each day;
  - At least three (3) competitive bids shall be obtained from separate brokerage firms for each transaction and staff will award the business based on the highest rate bid;
  - Master Repo Agreements are required to be executed with all brokerage firms engaging in Repo activity.

In the event there is an extended absence with internal staff handling the Repo. Activity, the custodian will be notified in writing at least three (3) business days in advance by the Administrator to initiate the "Sweep Account" function with the funds as outlined above, which are to be invested in the custodian's pre-approved money market fund. The specific money market fund shall be pre-approved by the Retirement Board of Trustees.

Appendix V
Brokerage Policy

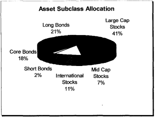
The Board, at its discretion, may identify a brokerage firm or firms to receive consideration from the System's managers when it is viewed to be in the best interest of the beneficiaries. This will be officially acted upon by the Board and this directive will be communicated officially to all investment firms by the fund. In the absence of such official recognition and documentation, managers and potential managers shall disregard any individual or firm which claims to speak for the Board, have influence with the Board, or in any way infer that association with the individual or firm has impact on the Board or its decisions. In fact, association with any such individual or firm by any of the System's current or prospective investment professionals is considered material by the Board with significant negative implications.

Original adoption date April 15, 1997, amended October 23, 1997 and December 18, 1997

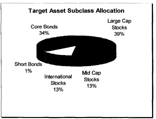
INVESTMENT SUMMARY
AS OF DECEMBER 31, 1997 AND 1996

TYPE OF INVESTMENT	DECEMBER 31, 1997 MARKET VALUE	DECEMBER 31, 1997 % TOTAL MARKET VALUE	DECEMBER 31, 1996 MARKET VALUE	DECEMBER 31, 1996 % TOTAL MARKET VALUE
Fixed income:				
U.S. Government obligations	$112,276,863	16.6%	$154,548,888	26.0%
Bonds – Domestic	38,664,823	5.7%	32,050,946	5.4%
Bonds – Enhanced Index Fund	98,424,388	14.5%	52,896,446	8.9%
Equities:				
Equity securities - Domestic	179,281,239	26.4%	214,678,313	36.2%
Equity securities – S & P 500 Index Fund	139,053,722	20.5%	43,115,100	7.3%
Equity securities - International	75,654,843	11.2%	48,694,752	8.2%
Real estate investment trust	--	0.0%	24,620,776	4.1%
Cash equivalents	34,556,049	5.1%	23,118,717	3.9%
Total investments	$677,911,927	100.0%	$593,723,938	100.0%

CPERS' ASSET ALLOCATION AS OF DECEMBER 31, 1997



CPERS' TARGET ASSET SUBCLASS ALLOCATION



LIST OF INVESTMENTS
AS OF DECEMBER 31, 1997

FIXED INCOME

U.S. GOVERNMENT OBLIGATIONS

DESCRIPTION	COUPON RATE	MATURITY DATE	PAR VALUE	MARKET VALUE
FEDERAL HOME LOAN MTG CORP DEB	7.010	11/03/2005	$ 1,000,000	$ 1,004,380
FEDERAL HOME LOAN MTG CORP POOL E00523	6.500	12/01/2012	1,500,000	1,502,340
FEDERAL NAT'L MTG ASSN DEB	8.350	11/10/1999	1,500,000	1,565,625
FEDERAL NAT'L MTG ASSN DEB	7.850	09/01/1998	1,500,000	1,521,090
FEDERAL NAT'L MTG ASSN DEB	6.900	03/10/2004	1,000,000	997,190
FEDERAL NAT'L MTG ASSN GTD POOL #250111	8.500	08/01/2024	6,236	6,511
FEDERAL NAT'L MTG ASSN MED TERM NOTES	7.520	04/23/2004	1,000,000	1,015,780
FEDERAL HSG ADMIN PROJ. USGI 132 FHA INSD	7.430	12/01/2023	1,025,469	1,056,336
FHA CITI SER 152	7.430	07/01/2022	5,606,548	5,787,638
FHA USGI SER 2004	7.430	12/01/2019	1,089,599	1,120,762
FHA USGI SER 2025	7.430	03/01/2018	7,789,187	8,004,169
FHA USGI SER 2031	7.430	10/01/2026	1,580,565	1,629,721
RESOLUTION FDG CORP	8.125	10/15/2019	40,300,000	49,694,250
U.S. TREASURY BONDS	8.125	08/15/2019	7,445,000	9,318,162
U.S. TREASURY BONDS	8.000	11/15/2021	8,000,000	9,976,319
U.S. TREASURY BONDS	7.625	11/15/2022	7,790,000	9,379,550
U.S. TREASURY BONDS	6.250	08/15/2023	3,000,000	3,091,890
U.S. TREASURY NOTES	6.250	02/15/2007	1,000,000	1,032,190
U.S. TREASURY NOTES	6.125	08/05/1997	2,000,000	2,055,620
U.S. TREASURY NOTES	5.875	11/15/2005	2,000,000	2,010,620
U.S. TREASURY NOTES	6.125	12/31/2001	500,000	506,720
TOTAL U.S. GOVERNMENT OBLIGATIONS			$96,632,604	$112,276,863

BONDS - DOMESTIC

DESCRIPTION	COUPON RATE	MATURITY DATE	PAR VALUE	MARKET VALUE
AMERICAN STORES CO NEW	8.000	06/01/2026	$1,000,000	$1,109,200
ASSOCIATES CORP NORTH AMER SUB NOTES	6.500	08/15/2002	750,000	757,275
BANKAMERICA CAP II SEMI INCOME PFD SER 2	8.000	12/15/2026	500,000	537,595
BANKBOSTON N.A. SUB NOTES	7.000	09/15/2007	750,000	774,480
BEAR STEARNS COS INC	7.000	03/01/2007	500,000	510,515
BELL SOUTH CORP	7.000	12/01/2095	1,000,000	1,042,100
CHRYSLER CORP DEB	7.400	08/01/2097	1,000,000	1,057,360
CIT GROUP HLDGS INC MED TERM SR NOTES	6.375	10/01/2002	750,000	753,248
COCA COLA ENTERPRISES INC	6.950	11/15/2026	1,000,000	1,013,960
COLLEGE & UNIV FAC LN TR TWO SEQ PAY CL D	4.000	06/01/2018	7,335,000	6,216,413
CPC INTL INC MED TERM NOTES	5.600	10/15/2097	1,500,000	1,226,835
CSX CORP.	6.950	05/01/2027	1,020,000	1,072,622
DU PONT E.I. DE NEMOURS & CO	6.750	09/01/2007	750,000	775,065
FEDERAL EXPRESS	7.600	07/01/2097	1,270,000	1,340,930
FORD MTR CO DEL NOTES	9.000	09/15/2001	1,000,000	1,091,029
FOX RIV SHOPPING CTR LLP / OAKS MALL GAINSVILLE LP ETC COLL NOTES SER 1 CL A-2	6.602	11/15/2007	1,350,000	1,369,883
GAP INC	6.900	09/15/2007	750,000	776,378
HOUSEHOLD FIN CORP	6.875	03/01/2007	500,000	509,370

LIST OF INVESTMENTS
AS OF DECEMBER 31, 1997

BONDS – DOMESTIC (CONTINUED)

DESCRIPTION	COUPON RATE	MATURITY DATE	PAR VALUE	MARKET VALUE
INTERNATIONAL BUSINESS MACHS CORP	7.125	12/01/2096	$ 350,000	$ 362,544
J.P. MORGAN CAPITAL TR I	7.540	01/15/2027	600,000	615,954
NEWS AMER HLDGS INC DEB	7.600	10/11/2015	1,985,000	2,045,900
NEWS AMERICA HOLDINGS INC SR DEB	9.250	02/01/2013	550,000	651,618
PENNY J.C. INC	7.625	03/01/2097	900,000	966,691
PHILIP MORRIS COS INC NOTES	8.625	03/01/1999	1,000,000	1,027,770
POSTAL SQUARE LLP NON-REC. NOTES SER 1990	8.950	06/15/2022	3,711,942	4,591,301
SAFECO CAP TR I CAP SECS 144A	8.072	07/15/2037	1,000,000	1,043,590
SALOMON INC	6.625	07/01/2002	750,000	756,188
SEARS ROEBUCK ACCEPTANCE	6.875	10/15/2017	600,000	600,453
SEARS ROEBUCK ACCEPTANCE NOTES	6.900	08/01/2003	750,000	770,385
SUNTRUST CAP II CAP TR SECS	7.900	06/15/2027	1,625,000	1,716,163
TIME WARNER ENTERTAINMENT CO LP SR SUB DEB	8.375	07/15/2033	600,000	686,730
U.S. LIFE CORP NOTES	6.375	06/15/2000	500,000	503,310
ZURICH CAP TR I	8.376	06/01/2037	360,000	391,968
TOTAL BONDS - DOMESTIC			$38,006,942	$38,664,823

BONDS – ENHANCED INDEX FUND

STATE STREET GLOBAL ADVISORS	$ 6,574,250	$ 98,424,388
TOTAL FIXED INCOME	$141,213,796	$249,366,074

EQUITIES

EQUITY SECURITIES - DOMESTIC

DESCRIPTION	SHARES	MARKET VALUE
ACE LTD	50,000	$4,824,975
ADAPTEC INC	23,000	853,875
ADC TELECOMMUNICATIONS INC	24,800	1,035,400
AFLAC INC	105,500	5,393,688
ALLEGIANCE CORP	7,000	248,066
ALTERA CORP	8,900	294,813
ALUMAX INC	15,400	527,450
AMR CORP DELAWARE	17,000	2,184,500
ANALOG DEVICES INC	30,233	837,091
ANDREW CORP	13,100	314,400
ARROW ELECTRS INC	78,000	2,530,164
AUTODESK INC	14,300	529,100
AVON PRODUCTS INC	41,000	2,516,375

LIST OF INVESTMENTS
AS OF DECEMBER 31, 1997

EQUITY SECURITIES – DOMESTIC (CONTINUED)

DESCRIPTION	SHARES	MARKET VALUE
BANKBOSTON CORP	14,000	$ 1,315,132
BARNES & NOBLE INC	30,000	1,001,250
BECTON DICKINSON & CO	95,000	4,750,000
BELDEN INC	11,000	387,750
BELL & HOWELL CO INC NEW	20,900	505,529
BEMIS CO INC	15,600	687,383
BERGEN BRUNSWIG CORP CLASS A	16,400	690,850
BOEING CO	91,000	4,453,358
C.H. ROBINSON WORLDWIDE INC	6,500	145,438
CANADIAN PACIFIC LTD	89,000	2,425,250
CARNIVAL CORP CL A	30,000	1,661,250
CATERPILLAR INC	92,000	4,462,000
CENTURY TELEPHONE ENTERPRISES INC	22,800	1,135,736
CHAMPION INTL CORP	26,000	1,178,138
CITICORP	50,000	6,321,900
COMPUTER PRODS INC	16,000	362,000
COUNTRYWIDE CR INDS INC	85,000	3,644,375
DANKA BUSINESS SYSTEMS PLC – SPONSORED ADR	36,000	573,768
DIAGO PLC – SPONSORED ADR	107,000	4,052,625
DIAL CORP NEW	31,500	655,610
DOLE FOOD INC	30,000	1,372,500
DONNELLEY R.R. & SONS CO	40,000	1,490,000
DU PONT E.I. DE NEMOURS & CO	30,000	1,801,890
E.M.C. CORP MASS	50,000	1,371,900
EDWARDS J.D. & CO	19,800	584,100
FEDERAL HOME LOAN MTG CORP	214,000	8,974,730
FINANCIAL SEC ASSURN HLDGS LTD	18,300	882,975
FINOVA GROUP INC	19,000	944,072
FIRST ALLIANCE CO	25,050	460,294
FISERV INC	13,700	673,013
FLORIDA PROGRESS CORP	10,400	408,200
FORCENERGY GAS EXPL INC	19,200	502,810
FREEPORT-MCMORAN COPPER CLASS B	76,578	1,206,104
FSI INTL INC	20,200	237,350
G & K SERVICES INC CL A	1,100	46,200
GALILEO INTL INC	14,800	408,850
GENERAL ELECTRIC CO	30,000	2,201,250
GENERAL RE CORP	7,000	1,484,000
HARTE-HANKS COMMUNICATIONS INC NEW	23,200	858,400
HEALTHCARE COMPARE CORP	14,800	756,650
HERCULES INC	64,000	3,204,032
HON INDS INC	7,100	418,900
HORMEL FOODS CORP	21,300	697,575
HOWMET INTL INC	23,900	358,500
IDEX CORP	22,000	767,250
IDEXX LABS INC	28,800	459,014

LIST OF INVESTMENTS
AS OF DECEMBER 31, 1997

EQUITY SECURITIES – DOMESTIC (CONTINUED)

DESCRIPTION	SHARES	MARKET VALUE
IDX SYSTEMS CORP	15,500	$ 573,500
INTEL CORP	18,000	1,264,500
INTUIT	9,200	379,500
IVEX PACKAGING CORP DEL	2,800	307,200
KLA INSTRUMENTS CORP	9,900	382,388
LANDS' END	22,000	771,386
LEAR CORP	11,600	551,000
LEXMARK INTL GROUP INC CL A	11,900	452,200
LOCKHEED MARTIN CORP	55,000	5,417,500
LUCASVARITY PLC – SPONSORED ADR	60,300	2,102,963
MARK IV INDS INC	30,600	669,375
MATTEL INC	107,500	4,004,375
MAY DEPARTMENT STORES CO	45,000	2,370,960
MCDONALDS CORP	72,000	3,438,000
MENTOR CORP MINN	24,000	876,000
MIDAMERICAN ENERGY HLDGS CO	17,600	387,200
MINERALS TECHNOLOGIES INC	19,000	863,322
MONSANTO CO	110,000	4,620,000
NEVADA POWER CO	9,100	241,723
NEWELL CO	19,300	820,250
NIPSCO INDS INC	1,600	79,101
NUEVO ENERGY CO	11,700	476,775
OFFSHORE LOGISTICS INC	16,800	359,100
OLD REPUBLIC INTL CORP	22,200	825,574
PATTERSON DENTAL CO	17,200	778,300
PENTAIR INC	14,300	513,913
PINNACLE WEST CAPITAL CORP	9,000	381,375
PITTSTON BRINK'S GROUP	17,000	684,250
PLATINUM TECHNOLOGY INC	40,800	1,152,600
PMI GROUP INC	2,800	202,476
POTOMAC ELECTRIC POWER CO	9,900	255,549
PRECISION DRILLING CORP	32,600	794,625
PROGRESSIVE CORP OHIO	23,000	2,757,125
PROVIDENT COS INC	27,400	1,058,325
PUGET SOUND PWR & LT CO	10,200	307,918
QUORUM HEALTH GROUP INC	42,000	1,097,250
REED INTL PLC – SPONSORED ADR NEW	35,000	1,435,000
ROPER INDUSTRIES INC	24,400	689,300
SCHERER R.P. CORP DEL	13,900	847,900
SELECT APPOINTMENTS HLDGS PLC – SPONSORED ADR	24,900	454,425
SHAW INDUSTRIES INC	105,000	1,220,625
SIGMA ALDRICH CORP	20,700	822,825
SNAP-ON INC	24,200	1,055,725
SPRINT CORP	80,000	4,690,000
STEWART & STEVENSON SVCS INC	26,800	683,400

LIST OF INVESTMENTS
AS OF DECEMBER 31, 1997

EQUITY SECURITIES - DOMESTIC (CONTINUED)

DESCRIPTION	SHARES	MARKET VALUE
SUNBEAM INC	8,100	$ 342,225
SUNGARD DATA SYS INC	9,300	287,138
SYSCO CORP	32,500	1,480,798
TECO ENERGY INC	13,800	388,125
TENET HEALTHCARE CORP	160,000	5,300,000
TENNECO INC NEW	37,000	1,461,500
TIME WARNER INC	25,000	1,550,000
TRANSAMERICA CORP	29,000	3,088,500
TRANSOCEAN OFFSHORE INC	5,200	250,578
TRAVELERS INC	60,999	3,286,321
TRITON ENERGY CORP	41,000	1,196,708
UICI	7,000	244,125
USA WASTE SERVICE INC	27,860	1,093,505
WACKENHUT CORRECTIONS CORP	9,000	241,875
WALLACE COMPUTER SVCS INC	10,800	419,850
WELLS FARGO & CO	23,500	7,976,793
WISCONSIN CENTRAL TRANS CORP	6,000	140,250
WISCONSIN ENERGY CORP	12,800	368,000
XILINX INC	10,000	350,630
ZEBRA TECHNOLOGIES CORP CLASS A	21,100	627,722
TOTAL EQUITY SECURITIES - DOMESTIC	4,031,820	$179,281,239

EQUITY SECURITIES – S & P 500 INDEX FUND

BARCLAYS GLOBAL INVESTORS	591,239	$139,053,722

EQUITY SECURITIES - INTERNATIONAL

CAPITAL GUARDIAN INTL NON-U.S. EQUITY - #003	492,032	$ 75,654,843
TOTAL EQUITIES	5,115,091	$393,989,804

CASH EQUIVALENTS

COMMERCIAL PAPER

DESCRIPTION	RATE	MATURITY DATE	MATURITY VALUE	MARKET VALUE
E.W. SCRIPPS	5.70%	1/14/98	$2,000,000	$1,980,366
FORD MOTOR CREDIT	5.82%	1/14/98	3,500,000	3,481,329

LIST OF INVESMENTS
AS OF DECEMBER 31, 1997

CASH EQUIVALENTS (CONTINUED)

COMMERCIAL PAPER

DESCRIPTION	RATE	MATURITY DATE	MATURITY VALUE	MARKET VALUE
IBM CR CORP.	5.64%	1/12/98	$ 2,000,000	$ 1,981,514
MCI COMMUNICATIONS CORP.	5.95%	1/23/98	1,000,000	994,215
MET LIFE FUNDING	5.75%	2/12/98	2,500,000	2,476,440
NORWEST CORPORATION	5.83%	1/14/98	2,750,000	2,732,186
TOTAL COMMERCIAL PAPER			$13,750,000	$ 13,646,050
REPURCHASE AGREEMENTS				
SANWA DTD 12/31/97	6.35%	1/02/98	$20,909,999	$ 20,909,999
TOTAL CASH EQUIVALENTS			$34,659,999	$ 34,556,049
TOTAL INVESTMENTS				$677,911,927

INVESTMENT PERFORMANCE MEASUREMENTS

	Rate of Return	Rank**
Comparative Rates of Return on Total Fund – Year Ended December 31, 1997		
City-Parish Employees' Retirement System	17.6%	53
Comparison indicies:		
Total Public Funds Median	18.0%	50
Custom Index *	19.2%	35
Comparative Rates of Return on Equities – Year Ended December 31, 1997		
City-Parish Employees' Retirement System	22.8%	10
Comparison indicies:		
Global Equity Fund Median	10.9%	50
Standard & Poor's 500 Index	33.4%	1
Comparative Rates of Return on Fixed Income Securities – Year Ended December 31, 1997		
City-Parish Employees' Retirement System	11.8%	11
Comparison indicies:		
Combined Bond Fund Median	9.7%	50
Lehman Brothers Aggregate Bond Index	9.7%	49

The total performance as compared to public funds in the Independent Consultants' Cooperative universe, as reported by Summit Strategies Group, Investment Consultant for City-Parish Employees' Retirement System, is as follows:

One-year period ending December 31, 1997	17.6%	53
Two-year period ending December 31, 1997	14.0%	70
Three-year period ending December 31, 1997	17.4%	72
Four-year period ending December 31, 1997	11.0%	85
Five-year period ending December 31, 1997	10.9%	84

* The custom index is comprised of 31% S&P 500, 24% Lehman Brothers Gov't. Long, 23% Lehman Brothers Aggregate, 9% EAFE, 8% Russell 2500, and 5% Wilshire Real Estate.

** Rank indicates CPERS' relative investment performance in relation to other public funds in the Independent Consultants' Cooperative universe of funds.

ANNUAL RATES OF RETURN

	YEARS ENDING DECEMBER 31						ANNUALIZED	
	1992	1993	1994	1995	1996	1997	3 YRS.	5 YRS.
TOTAL FUND								
City-Parish Employees' Retirement System	5.0%	10.6%	(6.4%)	24.6%	10.5%	17.6%	17.4%	10.9%
Total Public Funds Median	8.1%	11.3%	(1.7%)	24.7%	13.1%	18.0%	19.0%	13.1%
Inflation (CPI)	2.8%	2.4%	2.6%	2.5%	3.3%	1.8%	2.5%	2.5%
GLOBAL EQUITY								
City-Parish Employees' Retirement System	9.0%	9.4%	0.9%	38.2%	19.0%	22.8%	26.4%	17.4%
Global Equity Fund Median	0.0%	29.3%	(0.6%)	16.1%	16.6%	10.9%	15.8%	14.5%
Standard & Poor's 500 Index	7.7%	10.0%	1.3%	37.5%	23.0%	33.4%	31.1%	20.2%
FIXED INCOME								
City-Parish Employees' Retirement System	4.9%	12.8%	(9.8%)	23.9%	2.3%	11.8%	12.3%	7.6%
Combined Bond Fund Median	7.7%	11.4%	(2.8%)	18.4%	4.1%	9.7%	10.3%	7.7%
Lehman Brothers Aggregate Index	7.4%	9.7%	(2.9%)	18.5%	3.6%	9.7%	10.4%	7.5%

SCHEDULE OF COMMISSIONS PAID TO BROKERS
FOR THE YEAR ENDED DECEMBER 31, 1997

Broker	Commissions Paid
Alex Brown	$ 684
Barclay Bank	1,824
Bear Starns	1,230
Broadcort Capital Corporation	1,330
B-Trade Services	22
C.J. Lawrence/Deutsche Bank Securities	600
Cantor-Fitzgerald	9,322
Charles Schwab	600
Cleary	12
Conning & Co.	180
Correspondent Services Corp.	18
Cowen and Company	4,522
Dain Bosworth	828
Ernst. & Co.	1,500
Execution Services	996
Factset Data Systems, Inc.	4,332
Fidelity Capital Markets	2,510
Fist Boston Corporation	8,268
Goldman Sachs	2,752
IDS	2,946
Instinet	6,095
Investment Tech Group	7,704
IPS Brokerage	42
J.P. Morgan Securities	1,554
Jefferies & Co.	14,832
Jones & Associates	3,040
Legg Mason Wood	3,198
Legg Mason Wood Walker, Inc.	108
Lehman Brothers, Inc.	9,115
Lewco Securities Agent	1,500
Lynch Jones & Ryan	66
Mac Donald & Company	822
Magna Securities	$ 732
Merrill Lynch	1,254
Merrill Lynch Pierce Fenner	9,086
Montgomery Securities	5,484
Morgan Keegan	7,116
Morgan Stanley	8,190
Natwest Securities	5,270
Neuberger & Berman	774
Oppenheimer, Inc.	126
Paine Webber, Inc.	12,930
Pershing	2,616
Piper Jaffray & Hopwood	1,878
Prudential-Bache Securities	7,260
Raymond James	798
Robert W. Baird & Co., Inc.	1,524
Robertson, Stephens & Co.	672
Robinson Humphrey	1,740
Rohm and Haas	4,020
Salomon Brothers	2,562
Sanford C. Bernstein	3,222
Smith Barney Shearson	19,950
Spear, Leeds	24
Standard & Poors Securities	24
UBS Securities	300
UST Securities	1,002
Wagner Stott Clearing Corp.	132
Weeden and Co.	582
Wessels Arnouldt Henderson	1,386
Wheat First Securities	18
William Blair	78
William O'Neil & Co., Inc.	300
Total commissions paid	$193,602

ACTUARIAL SECTION

Stanley,
Holcombe
& Associates, Inc.

May 28, 1998

Board of Trustees
Employees' Retirement System
City of Baton Rouge and
Parish of East Baton Rouge
209 St. Ferdinand Street
Post Office Box 1471
Baton Rouge, Louisiana 70821

Dear Board Members:

As requested, we have completed our fifth annual valuation of the Employees' Retirement System of the City of Baton Rouge and Parish of East Baton Rouge as of January 1, 1998. The valuation was prepared on the basis of the data submitted by the Retirement System office and the actuarial assumptions adopted by the Board of Trustees, and reflects the benefits in effect on the valuation date.

The funding objective of the Retirement system was established as follows:

a) fully fund all current normal costs determined in accordance with the prescribed funding method; and

b) liquidate the unfunded liability as of January 1, 1995 over a thirty year period with subsequent changes in unfunded liabilities amortized over the remaining portion of the thirty years.

The City contribution rate for the 1998 year is set to 16.13%, as shown in Exhibit 2B. Exhibits 1B and 2B provide the details of the funding approach. The 16.13% rate includes a .05% increase to fund benefits for survivors of prior service-connected disabilities.

The methodology for determining the actuarial value of assets, approved by the Board of Trustees, values all assets using an adjusted market value, with 20% of the unrealized gains or losses from the past five years recognized each year. The objective of this asset valuation method is to smooth the volatility which might otherwise occur due to market conditions on the measurement date. The actuarial value of assets for the fiscal year ending on December 31, 1997 was $635,463,896, which compares to a market value of $681,597,891. The method was last reinitialized at Market Value as of January 1, 1996. Details of the calculation are shown in Exhibit 6.

In performing the January 1, 1998 valuation, we have relied upon the employee data and financial information provided by the administrative staff of the Employees' Retirement System of the City of Baton Rouge and Parish of East Baton Rouge. Regarding participant data, each record was edited for reasonableness and consistency, although the validity of the information was not compared to source documents. Regarding plan assets, a general review for consistency and balance testing with information furnished for the prior year's valuation was performed.

The present values shown in the January 1, 1998 actuarial valuation and supporting schedules of this certification have been prepared in accordance with the actuarial methods and assumptions approved by the Board: they are appropriate for the purposes of this valuation. The actuarial assumptions were last revised for the January 1, 1995 valuation, based on the 1989-1993 experience study. At January 1, 1995 the actuarial cost method and actuarial asset value method were changed to the methods currently in use. Assumptions relating to turnover, transfers, and spouses' ages were also changed at that time. The funding method used is the Entry Age Normal Cost Method. The actuarial assumptions and methods used for funding purposes comply and are within the parameters set forth by the Government Accounting Standards Board (GASB) Statement No. 25. Although the amortization approach is not currently within the parameters, it is intended to result in amortization of the unfunded actuarial liability within the parameters. Additional information is provided in Exhibit 9. The same actuarial assumptions and methods were employed in the development of the Trend Data Schedule, the Schedule of Funding Progress (Exhibit 12) and the Schedule of Employer Contributions (Exhibit 12) which were prepared for the Financial Section of this report. Furthermore, we certify to the best of our knowledge, the methods and assumptions comply with generally recognized and accepted actuarial principles and practices set forth by the American Academy of Actuaries, are reasonable in the aggregate and when applied in combination represents our best estimate of the funding requirement to achieve the Retirement System's funding Objective.

Sincerely,

Randall Stanley

Randall L. Stanley, F.S.A., M.A.A.A., E.A.
Consulting Actuary and Principal

Frans Christ

Frans Christ, F.S.A, M.A.A.A., E.A.
Consulting Actuary

RLS/FC:bmm
BR0018B

SUMMARY OF PRINCIPAL SYSTEM PROVISIONS

(Based on Ordinance Nos. 235 and 276)

Effective Date: (1:250, 1:258)	December 31, 1953, as restated effective April 1, 1997 (Ordinance No. 10779). Last amended effective January 1, 1998 (Ordinances No. 11019 and 11020).
Fiscal Year:	Calendar year.
Membership: (1:259, 1:266)	Any regular employee of the City-Parish. Part-time council members with service prior to January 1, 1997, retroactive to December 31, 1976.
Contributions: (1:264A)	Members: 9.5% of compensation, adjusted if City contribution is less than 15% to be the larger of 8% or 60% of the City contribution. Member contributions are picked up by the City. City: Balance, as actuarially determined.
Creditable Service:	Service credited under Retirement System; military service (maximum of three years).
Final Average Compensation:	Average compensation during the highest 36 consecutive months of Creditable Service.
Service Retirement Eligibility: (1:265A)	(1) Full retirement: 25 years of service, regardless of age. (2) Minimum eligibility: Age 55 with 10 years of service, or 20 years of service, regardless of age.
Service Retirement Benefits: (1:265A-1, 1:265A-3)	Full Retirement: 3.0% of Final Average Compensation for each year of Creditable Service. Minimum eligibility: 2.5% of Final Average Compensation for each year of Creditable Service. Maximum of 90% of Final Average Compensation.
Early Service Retirement: (1:265A-2)	If not eligible for full retirement: Benefits are reduced by 3%/year prior to age 55.

SUMMARY OF PRINCIPAL SYSTEM PROVISIONS (CONTINUED)

Disability: (1:265D)	Ordinary Disability: After 10 or more years of Creditable Service, 2.5% of Final Average Compensation times Creditable Service, with a minimum benefit of 50% of Final Average Compensation. Service Connected: 50% of Final Average Compensation, plus 1.5% of Final Average Compensation times Creditable Service in excess of 10 years, with a maximum benefit of 90% of Final Average Compensation. Benefits are offset by Workers' Compensation (1:264F). Ordinary disability benefits are paid on a life annuity basis; service connected disabilities are paid on a 50% Joint & Survivor basis.
Survivor Benefits: (1:270)	(1) If Member eligible for retirement, or at least twenty (20) years of Creditable Service, surviving spouse may elect Option 2 benefits (including 100% Joint & Survivor actuarially equivalent to 50% Joint & Survivor, without reduction for early commencement) or a refund of the Member's contributions. (2) If not eligible for retirement, surviving spouse may elect a monthly benefit of $600 payable until remarriage, or a refund of the Member's contributions. (3) If eligible children under age 18, monthly benefit of $150 per child (maximum $300), payable until age 18. These benefits are in addition to any benefits payable under (1) or (2). (4) If no benefits are payable under (1), (2), or (3), $150 monthly benefit to unmarried dependent parent until death or remarriage.
Employment Termination: (1:267, 1:268)	After 10 years of Creditable Service, based on Creditable Service and Final Average Compensation at termination date. Benefits are deferred to age 55. If Member contributions are withdrawn, benefit is forfeited.
Optional Allowances: (1:264C)	Normal form is joint and 50% contingent survivor. For members entitled to Service Retirement Benefits, actuarially equivalent to regular retirement allowance: Option 1: Refund of excess of Member's contributions over aggregate benefits paid; Option 2: 100% Joint & Survivor to designated contingent annuitant; Option 3: Any other form approved by the Board.
Retirement Benefit Adjustments: (1:269)	For Members who retired before December 31, 1989, or surviving spouses of such Members, who did not enter DROP, an annual payment of $600 at July 1, 1992 plus $30 for each year retired since then (excluding first year).

SUMMARY OF PRINCIPAL SYSTEM PROVISIONS (CONTINUED)

Deferred Retirement Option Plan (DROP): (1:271)

Prior to July 1, 1991:

Eligibility: If eligible to retire with an immediate service retirement allowance and between 25 and 30 years of Creditable Service.

Duration: The lesser of 5 years, or 32 years minus Creditable Service at DROP entry.

Benefits: Service retirement allowances are paid into the Member's DROP account, and credited with interest at the rate set by the actuarial formula. No further Member or employer contributions are payable, and no further benefits are accrued.

Upon retirement and termination of DROP participation (or death), the Member (or beneficiary) may elect one of the following:

(a) A lump sum of the DROP account balance;
(b) A life annuity based on the DROP balance;
(c) Any other method of payment approved by the Board of Trustees.

Normal survival benefits payable to survivors of retirees are paid upon death of the Member while a DROP participant.

Deferred Retirement Option Plan (DROP): (1:271)

On and after July 1, 1991:

Comparable to pre-July 1, 1991 provisions, except interest is not credited to DROP account until the conditions of DROP participation have been satisfied. If the Member does not terminate employment at the end of the DROP period, potential interest credits are forfeited.

Compensated Absences: (1:262)

Upon written consent of the Member or his surviving spouse, the Retirement System will provide the following with respect to unused, accumulated vacation time and sick leave:

(a) Cash payment for a portion, with the remainder added to the Member's Creditable Service, on the basis of one (1) hour for each two (2) hours of unused time.

(b) Conversion of all of the accumulated time to Creditable Service, on the basis of one (1) hour for each hour of unused accumulated time and sick leave.

Any unused time converted to service credit is included in determining eligibility for retirement and benefits. For purposes of determining Final Average Compensation, compensation at the time of retirement or death is assumed to continue for the period of added service.

Changes Since Prior Valuation:

The member contribution percentage was increased from 8% to 9.5%, with the City picking up the member contributions, effective January 1, 1998.

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

Valuation Date: January 1, 1998.

Valuation Method: Entry Age Normal Actuarial Cost Method with Unfunded Actuarial Accrued Liability

Asset Valuation Method: Market Value as of January 1, 1996. Beginning January 1, 1997, adjusted Market Value with 20% of unrealized gains (or losses) recognized each year.

Actuarial Assumptions:

Investment Return: 8% compounded annually.

Salary Increases: 4% compounded annually due to inflation, plus longevity/merit in accordance with following schedule:

Age	BREC/Regular	Fire/Police
30	+1.25%	+2.00%
35	+1.00%	+1.75%
40	+.75%	+1.50%
45	+.50%	+.50%
55	0%	0%

Aggregate Payroll Growth: 6% compounded annually

Non-Disabled Mortality: 1971 Group Annuity Mortality Table, producing following specimen rates:

Age	Male	Female
20	.0503%	.0260%
30	.0809%	.0469%
40	.1633%	.0938%
50	.5285%	.2151%
60	1.3119%	.5489%
70	3.6106%	1.6477%

Disabled Mortality: Same as non-disabled mortality.

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS (CONTINUED)

Turnover and Disability: In accordance with the following specimen rates:

Age	Disability	Turnover
20	.0006	.079
25	.0006	.077
30	.0006	.072
35	.0007	.063
40	.0011	.052
45	.0022	.040
50	.0046	.026
55	.0102	.009
60	.0320	.001
61	.0355	.000
62	.0400	.000
63	.0450	.000
64	.0410	.000
65	.0195	.000

Probabilities of disability are in accordance with the Eleventh Actuarial Valuation of the Railroad Retirement System. Turnover is based on the table below:

The ultimate turnover rates are modified as follows, based on years of employment:

Year	Regular, BREC	Fire, Police
1	200%	60%
2	150%	60%
3	100%	50%
4	100%	50%
5	100%	50%
6+	70%	40%

Assumed Transfers to Retirement System (for accumulated vacation and sick leave, e.g.):

	Total
BREC	1.0 year
Regular	1.0 year
Fire	1.7 years
Police	1.5 years

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS (CONTINUED)

Retirement:	Earlier of 25 years of service credit or age 55 with 10 years of service credit.
Type of Disability:	A percentage of disabilities is assumed to be ordinary disabilities, as shown below: BREC, Regular: 25% service-connected, 75% ordinary Fire: 50% service-connected, 50% ordinary Police: 75% service-connected, 25% ordinary
Recovery:	No probabilities of recovery are used.
Remarriage:	No probabilities of remarriage are used.
Spouse's Ages:	Female spouses are assumed to be 3 years younger than males.
Marital Status:	80% of employees are assumed to be married.
Investment Expenses:	None provided for.
Withdrawal of Employee Contributions:	100% of employees who terminate (other than retirement, death, or disability) are assumed to withdraw their contributions.
Sources of Data:	Membership data as of December 31, 1997 was furnished by Retirement Office. Compensated absence data as of December 31, 1997 was furnished by Department of Finance.
Changes Since Prior Valuation:	None.

ACCRUED LIABILITY ANALYSIS FOR 1997 AND 1996
(9.5% MEMBER CONTRIBUTION RATE)

	1997	1996
Present Value of Future Benefits:		
Active Members:		
Retirement	$489,010,820	$466,612,779
Disability	8,296,518	8,117,054
Death	8,261,881	8,094,658
Total	505,569,219	482,824,491
Retired Members and Beneficiaries:		
Service Retirement & Beneficiaries	235,849,544	223,263,376
Disability Retirements	15,038,241	14,409,845
Terminated Vested Members	1,942,010	1,839,889
Leave Balances	780,919	751,274
DROP (Future Benefits)	92,336,297	84,788,798
DROP (Accounts)	60,163,822	63,306,174
COLA Benefits	8,003,116	8,384,660
Total	414,113,949	396,744,016
Total Accrued Liability	$919,683,168	$879,568,507

ANNUAL AMORTIZATION OF UNFUNDED ACTUARIAL ACCRUED LIABILITY
(9.5% MEMBER CONTRIBUTION RATE)

Date	Description	Original Amount	Remaining Amortization Period-Years	12/31/97 Remaining Balance	Annual Payment
1. 12/31/94	Initial Base	$176,656,909	27	$192,413,224	$14,529,611 *
2. 12/31/95	1995 Loss	29,908,506	28	31,249,161	2,459,904 *
3. 12/31/95	Asset Method	(46,309,808)	28	(48,385,655)	(3,808,872)*
4. 12/31/96	1996 Loss	14,625,339	29	14,900,527	1,202,899 *
5. 12/31/96	Assumption Change	329,410	29	335,608	27,093 *
6. 12/31/96	Plan Amendment	416,075	29	423,904	34,221 *
7. 12/31/97	1997 Gain	(14,423,423)	30	(14,423,423)	(1,221,291)
	Total			$176,513,346	$13,223,565

* 30 year amortization of original unfunded accrued liability amount

DETERMINATION OF UNFUNDED ACTUARIAL ACCRUED LIABILITY
(9.5% MEMBER CONTRIBUTION RATE)

Entry Age Normal Actuarial Accrued Liability as of December 31, 1997:

Active Members	$397,863,293
Retired Members and Beneficiaries	414,113,949
Total	811,977,242
Actuarial Asset Value as of December 31, 1997	635,463,896
Unfunded Actuarial Accrued Liability as of December 31, 1997	$176,513,346

RECONCILIATION OF UNFUNDED ACTUARIAL ACCRUED LIABILITY
(9.5% MEMBER CONTRIBUTION RATE)

A. Unfunded Actuarial Accrued Liability as of December 31, 1996	$186,742,894
B. Normal Cost for 1997	7,774,413
C. Interest at 8% on (A) and (B)	15,561,385
D. City Contributions	(18,405,695)
E. Interest on (D)	(736,228)
F. Expected Unfunded Actuarial Accrued Liability as of December 31, 1997	190,936,769
G. 1997 (Gain)	(14,423,423)
H. Unfunded Actuarial Accrued Liability as of December 31, 1997	176,513,346
I. Plan Amendments	N/A
J. Change in Assumptions	N/A
K. Change in Methods	N/A
L. Change in Applicable Laws	N/A
M. Unfunded Actuarial Accrued Liability as of December 31, 1997	$176,513,346

SUMMARY OF ACTUARIAL ACCRUED LIABILITIES AND PERCENTAGE COVERED BY NET ASSETS AVAILABLE FOR BENEFITS FOR THE SIX YEARS ENDED DECEMBER 31, 1997

Valuation Date	(1) Retirees And Survivors*	(2) Terminated Vested Members	(3) Active Members' Contributions**	(4) Active Members Employer Contribution	Net Assets Available For Benefits	Percentage of Actuarial Liabilities Covered by Assets (1)	(2)	(3)	(4)
12/31/92****	$249,936,281	$1,299,470	$99,627,832	N/A***	$439,838,235	100.0%	100.0%	100.0%	N/A***
12/31/93	269,636,416	1,966,391	111,008,205	N/A***	486,842,955	100.0	100.0	100.0	N/A***
12/31/94	279,585,049	2,117,499	123,717,539	$251,742,091	451,829,129	100.0	100.0	100.0	18.4%
12/31/95	301,934,866	2,244,846	132,421,606	281,675,752	551,301,959	100.0	100.0	100.0	40.7
12/31/96	330,846,679	2,591,163	142,100,816	298,397,469	599,358,282	100.0	100.0	100.0	41.5
12/31/97	351,227,198	2,722,929	144,327,095	313,700,020	681,597,891	100.0	100.0	100.0	58.4

*Including DROP participants' future benefits.

**Including DROP accounts.

***For 1992 and 1993 the Aggregate Cost Method was used; comparable information for these years is not available.

****Based on the 1992 report prepared by the previous actuary.

ANALYSIS OF FINANCIAL EXPERIENCE

GAINS AND LOSSES IN UNFUNDED ACTUARIAL LIABILITY DURING YEARS ENDED 1994 – 1997 RESULTING FROM DIFFERENCES BETWEEN ASSUMED EXPERIENCE AND ACTUAL EXPERIENCE

Elements of Experience	$ Gain or (Loss) For Year			
	1994	1995	1996	1997
Investment Return	$ (40,075,000)	$ (7,834,000)	$ (825,000)	$ 16,693,000
Salary Increases	3,309,000	(8,908,000)	(6,223,000)	3,099,000
Retirements	(2,428,000)	1,646,000	(1,307,000)	2,982,000
Mortality	988,000	(379,000)	(861,000)	(1,457,000)
Disability	(446,000)	(302,000)	(287,000)	(388,000)
Turnover	(2,344,000)	(1,314,000)	(1,792,000)	(2,817,000)
New Members	(3,071,000)	(2,128,000)	(1,855,000)	(2,137,000)
Leaves, Transfers, Etc.	(2,162,000)	(2,021,000)	(1,476,000)	(1,552,000)
Gain or (Loss) from Financial Experience	(46,229,000)	(21,240,000)	(14,626,000)	14,423,000
Non Recurring Elements:				
Asset Valuation Method	--	46,310,000	--	--
COLA	--	(8,669,000)	--	--
Assumption Change	--	--	(329,000)	--
Plan Amendment	--	--	(416,000)	--
Composite Gain/(Loss) During Year	$ (46,229,000)	$ 16,401,000	$ (15,371,000)	$ 14,423,000

EMPLOYER CONTRIBUTION CALCULATION RESULTS FOR 1997 AND 1996
(9.5% MEMBER CONTRIBUTION RATE)

		1997	1996
A.	Present Value of Future Benefits	$919,683,168	$879,568,507
B.	Actuarial Asset Value	635,463,896	587,193,233
C.	Present Value of Future Member Contributions	58,322,181	47,081,973
D.	Unfunded Actuarial Accrued Liability	176,513,346	186,742,894
E.	Present Value of Future Normal Costs (A-B-C-D)	49,383,745	58,550,407
F.	Present Value of Future Payrolls	796,865,433	780,750,163
G.	Normal Cost as a Percentage of Payroll (E/F)	6.197%	7.499%
H.	Current Payroll of Active Members *	105,994,944	103,672,669
I.	Total Normal Cost - Beginning of Year	N/A	N/A
J.	City Normal Cost - Beginning of Year	6,568,507	7,774,413
K.	30-Year Amortization of (D), from 1/1/95 (27 years remaining)	14,946,120	15,646,445
L.	Total City Contribution	21,514,627	23,420,858

* For Members under Expected Retirement Age.

ACTIVE MEMBERSHIP DATA
FOR THE SIX YEARS ENDED DECEMBER 31, 1997

Valuation Date	Total Active Members	Percentage Change	Annual Payroll	Average Annual Pay	% Increase in Average Pay
12/31/92*	3,641	3.3%	$91,616,185	$25,162	3.5%
12/31/93	3,706	1.8	94,471,936	25,492	1.3
12/31/94	3,917	5.7	100,596,231	25,682	0.7
12/31/95	3,934	0.4	104,601,384	26,589	3.5
12/31/96	3,962	0.7	109,658,886	27,678	4.1
12/31/97	4,015	1.3	114,102,750	28,419	2.7

* Based on the 1992 report prepared by the previous actuary.

SCHEDULE OF RETIREES AND BENEFICIARIES ADDED
FOR THE SIX YEARS ENDED DECEMBER 31, 1997

Valuation Date	Number of Annuitants*	Additions	Deletions	Percentage Change in Membership	Annual Annuities	Percentage Change in Annuities
12/31/92**	1,581	N/A	N/A	9.0%	$24,579,173	8.6%
12/31/93	1,647	N/A	N/A	4.2	26,122,418	6.3
12/31/94	1,727	151	71	4.9	27,752,170	6.2
12/31/95	1,827	119	19	5.8	30,545,204	10.1
12/31/96	1,926	138	39	5.4	32,676,514	7.0
12/31/97	1,999	105	32	3.8	34,823,622	6.6

* Including DROP participants;
**Based on the 1992 report prepared by the previous actuary.

TOTAL MEMBERSHIP DATA

Actives:

	1997		1996	
	Count	Average Salary	Count	Average Salary
BREC	186	$22,902	189	$22,095
Regular	2,702	26,014	2,652	24,960
Fire	554	31,634	552	32,001
Police	573	38,444	569	38,002
Total	4,015	$28,419	3,962	$27,678

Annuitants:

	1997		1996	
	Count	Average Annuity	Count	Average Annuity
Retirees and Survivors	1,583	$15,825	1,517	$15,547
Disabilities	140	10,224	140	9,867
DROP	276	30,220	269	28,664
Total	1,999	$17,421	1,926	$16,966

Inactive members:

	1997		1996	
	Count	Average Deferred Annuity	Count	Average Deferred Annuity
Deferred vested	27	$10,405	26	$10,445

STATISTICAL SECTION

CITY OF BATON ROUGE

PARISH OF EAST BATON ROUGE

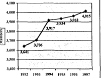
SIX-YEAR INFORMATION ON SELECTED DATA

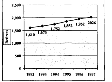
NUMBER OF ACTIVE MEMBERS

Fiscal Year	Members	% Increase Each Year
1992	3,641	
1993	3,706	1.8%
1994	3,917	5.7%
1995	3,934	0.4%
1996	3,962	0.7%
1997	4,015	1.3%

NUMBER OF RETIREES, BENEFICIARIES, VESTED TERMINATED, AND DEFERRED RETIREES

Fiscal Year	Retirees	% Increase Each Year
1992	1,610	
1993	1,673	3.9%
1994	1,752	4.7%
1995	1,852	5.7%
1996	1,952	5.4%
1997	2,026	3.8%





SIX-YEAR INFORMATION ON SELECTED DATA

NUMBER OF SERVICE RETIREES AND BENEFIT EXPENSES

Fiscal Year	Service Retirees	Benefit Expenses
1992	1,296	$19,349,655
1993	1,392	20,555,763
1994	1,467	22,037,111
1995	1,502	23,388,121
1996	1,657	25,187,004
1997	1,723	27,065,377

NUMBER OF DEFERRED RETIREMENTS AND BENEFIT EXPENSES

Fiscal Year	Deferred Retirement	Benefit Expenses
1992	285	$ 2,785,255
1993	275	2,619,249
1994	337	3,026,779
1995	360	5,214,481
1996	444	5,479,425
1997	355	17,722,183 *

* Rollovers related to deferred retirement accounts were $10,581,429 in 1997 which was the first year of rollover eligibility.

SIX-YEAR INFORMATION ON SELECTED DATA

AVERAGE MONTHLY SERVICE RETIREE BENEFIT

Fiscal Year	Average Monthly Benefit	% Increase Each Year
1992	$1,244	
1993	1,231	(1.05%)
1994	1,252	1.71%
1995	1,298	3.67%
1996	1,267	(2.39%)
1997	1,309	4.58%

AVERAGE MONTHLY DEFERRED RETIREMENT BENEFIT

Fiscal Year	Average Monthly Benefit	% Increase Each Year
1992	$ 814	
1993	794	(2.46%)
1994	748	(5.79%)
1995	1,207	61.36%
1996	1,208	0.08%
1997	4,160 *	244.37% *

* Includes rollover amounts related to deferred retirement accounts in 1997 which was the first year of rollover eligibility.

NUMBER OF REFUNDS OF CONTRIBUTIONS

Fiscal Year	Number of Refunds	% Increase Each Year
1992	251	
1993	248	(1.20%)
1994	235	(5.24%)
1995	273	16.17%
1996	298	9.16%
1997	261	(12.42%)

NUMBER OF ADMINISTRATIVE STAFF POSITIONS

Fiscal Year	Staff	% Increase Each Year
1992	10	
1993	11	10.00%
1994	10	(9.09%)
1995	11	10.00%
1996	11	0.00%
1997	12	9.09%

SIX-YEAR INFORMATION ON SELECTED DATA

REVENUES BY SOURCE

Fiscal Year	Member Contributions	Employer Contributions	Investment Income	Total
1992	$7,631,349	$12,096,356	$ 37,971,897	$ 57,699,602
1993	7,979,402	12,521,766	46,979,756	67,480,924
1994	8,071,425	12,559,091	9,053,573	29,684,089
1995	8,751,553	14,276,717	109,255,014	132,283,284
1996	9,033,167	16,219,697	58,085,514	83,338,378
1997	9,645,590	18,405,695	103,248,527	131,299,812

EXPENSES BY TYPE

Fiscal Year	Benefit Payments	Refunds and Withdrawals	Administrative Expenses	Investment Expenses	Total
1992	$22,134,910	$1,315,215	$ 598,133	$ 553,311	$24,601,569
1993	23,175,012	1,372,805	739,135	1,041,234	26,328,186
1994	25,063,890	1,094,799	744,448	974,802	27,877,939
1995	28,602,602	1,724,025	791,387	1,692,436	32,810,450
1996	30,666,429	1,815,573	877,475	1,922,578	35,282,055
1997	44,787,560	1,487,729	1,020,585	1,764,328	49,060,202

SCHEDULE OF PARTICIPATING EMPLOYERS

City of Baton Rouge and Parish of East Baton Rouge

District Attorney of the Nineteenth Judicial District

Nineteenth Judicial District Court

East Baton Rouge Parish Family Court

East Baton Rouge Parish Juvenile Court

St. George Fire Protection District

Brownsfield Fire Protection District

Central Fire Protection District

East Baton Rouge Parish Fire Protection District No. 6

Eastside Fire Protection District

East Baton Rouge Recreation And Park Commission (BREC)

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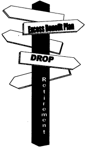
City of Baton Rouge and Parish of East Baton Rouge
Employees' Retirement System

ALTERNATIVE RETIREMENT PLANS



CITY OF BATON ROUGE

PARISH OF EAST BATON ROUGE

DEFERRED RETIREMENT OPTION PLAN

The Deferred Retirement Option Plan became effective January 1, 1982, and was created essentially to provide a cost of living increase for retirees, which would be cost neutral to the System and the employer. It has undergone several structural changes over the years. The fundamental provisions of the DROP are as follows:

Eligibility
A member eligible for retirement may contractually, in lieu of immediate termination of employment and receipt of a service retirement allowance, continue employment for a specified period of time while deferring the receipt of retirement benefits. At the end of the contractually specified time, the employee terminates employment. Eligible members are considered those who have attained 25 years of creditable service and not more than 30 years of creditable service (for those entering after July 1, 1991).

Participation
The member may participate in the DROP for a period not exceeding either 5 years or a number of years which, when added to the number of years of creditable service in the System, equals 32. The ordinance provides for a member with interrupted service, while on the DROP, to resume participation if he has not received any distributions from his DROP account that were not based on his life expectancy.

For members electing to participate in the DROP after July 1, 1991, the member shall agree to terminate employment at the end of the DROP participation period or immediately receive a distribution, representing a lump-sum payment in the amount equal to the member's DROP account balance, without the addition of any interest amount, and the member's DROP account shall be terminated. Should a member choose to remain employed, no additional service credit or additional benefits shall be earned.

Interest Rate
Each year a DROP interest rate is determined by the System's actuary and paid to members' accounts where applicable. The rate is an average of five (5) years of market rates of return, compounded quarterly, as measured by the System's investment consultant. The DROP interest rate credited to members' accounts is either the long-term or short-term earnings rate. The long-term rate is the percentage rate certified by the actuary less one annual percentage point (100 basis points); whereas the short-term rate is equal to the percentage rate less two annual percentage points (200 basis points). Eligible members receive either the long-term or short-term rate based on certain criteria. The long-term rate applies if the member's withdrawals during an annual period do not exceed twenty (20) percent of the balance of the account at the beginning of the annual period. The long-term rate also applies to accounts with a beginning of period balance of $10,000 or less. The short-term rate applies to all accounts for which the member withdraws more than twenty (20) percent of the beginning of period balance.

Termination of Participation
For a member who terminates employment in accordance with the DROP contract terms, and thus becomes a retiree, an election can be made regarding the withdrawal of DROP account funds. The retiree can choose any of the following options:

1. a lump-sum distribution of the balance in the DROP account, provided he has not yet received his first regular pension payment
2. a method of distribution based on life expectancy
3. any other method of distribution approved by the Retirement Board of Trustees

Survivor Benefits
Essentially, a surviving spouse of a DROP participant retains the same rights for the account as the member had. The methods of withdrawal are basically the same also.

For beneficiaries other than the spouse, the beneficiary receives a lump-sum payment equal to the member's individual account balance in the DROP account. If no beneficiary is named, the member's estate receives the lump-sum payment from the DROP account.

EXCESS BENEFIT PLAN

The Excess Benefit Plan was created as a separate, unfunded, non-qualified plan, and intended to be a qualified governmental excess benefit arrangement as defined in Section 415(m)(3) of the Internal Revenue Code.

A member whose benefit exceeds the maximum benefit allowed under Section 415 of the Code, is entitled to a monthly benefit under the excess benefit plan in an amount equal to the lesser of the member's unrestricted benefit less the maximum benefit, or the amount by which the member's monthly benefit from the pension plan has been reduced because of the limitations as provided for in section 1:272 of the Retirement Ordinance.

The Excess Benefit Plan is administered by the Retirement Board of Trustees who are assigned the same rights, duties, and responsibilities for this plan as for the pension plan. The System's actuary is responsible for determining the amount of benefits that may be provided under the pension plan solely because of the limitations of section 1:272 of the Retirement Ordinance and Section 415 of the Code. The actuary also determines the amount of contributions that will be made to the Excess Benefit Plan rather than to the pension plan.

Contributions may not be accumulated under the Excess Benefit Plan to pay future retirement benefits. Instead, each payment made by the employer is reduced by the amount determined by the System's actuary to be required as funding for the Excess Benefit Plan. Employer contributions made to fund the Excess Benefit Plan are not commingled with the monies of the pension plan or any other qualified plan. Also, this plan may never receive any transfer of assets from the pension plan.

CITY OF BATON ROUGE

PARISH OF EAST BATON ROUGE

Employees' Retirement System, 209 St. Ferdinand Street, Baton Rouge, LA 70802
Telephone: (504) 389-3272 Facsimile: (504) 389-5548

KPMG Peat Marwick LLP

Suite 3500 One Shell Square
New Orleans, LA 70139-3599

May 28, 1998

Members of the Board of Trustees
Employees' Retirement System of the
City of Baton Rouge and Parish of East Baton Rouge:

We have audited the financial statements of Employees' Retirement System of the City of Baton Rouge and Parish of East Baton Rouge as of and for the year ended December 31, 1997, and have issued a report thereon dated May 28, 1998. Under generally accepted auditing standards, we are providing you with the attached information related to the conduct of our audit.

This information is intended solely for the use of the Board of Trustees and management and should not be used for any other purpose.

Very truly yours,

KPMG Peat Marwick LLP

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF BATON ROUGE
AND PARISH OF EAST BATON ROUGE

DECEMBER 31, 1997

Our Responsibility Under Generally Accepted Auditing Standards

Our responsibility under generally accepted auditing standards is to express an opinion on the financial statements of Employees' Retirement System of the City of Baton Rouge and Parish of East Baton Rouge (the System) as of and for the year ended December 31, 1997 based on our audit. In carrying out this responsibility, we planned and performed the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Because of the nature of audit evidence and the characteristics of fraud, we are to obtain reasonable, not absolute, assurance that material misstatements are detected. We have no responsibility to plan and perform the audit to obtain reasonable assurance that misstatements, whether caused by error or fraud, that are not material to the financial statements are detected.

In addition, in planning and performing our audit, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control.

Furthermore, our audit, including the limited inquiries we made in connection with the Year 2000 issue, was not designed to, and does not, provide any assurance that a Year 2000 issue which may exist will be identified, on the adequacy of the System's plans related to Year 2000 financial or operational issues, or on whether the System is or will become Year 2000 compliant. Year 2000 compliance is the responsibility of management.

Significant Accounting Policies

The significant accounting policies used by the System are described in the "*Summary of Significant Accounting Policies*" note to the financial statements.

We noted no transactions entered into by the System during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based upon management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of the significance of the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments. We are aware of no significant areas involving management judgment.

Significant Audit Adjustments

We have made no adjustments to the financial statements of System.

Disagreements With Management

There were no disagreements with management on financial accounting and reporting matters which, if not satisfactorily resolved, would have caused a modification of our report on the System's 1997 financial statements.

Consultation With Other Accountants

To the best of our knowledge, management has not consulted with or obtained an opinion, written or oral, from other independent accountants during the past year which were subject to the requirements of Statement on Auditing Standards No. 50, "*Reporting on the Application of Accounting Principles.*"

Major Issues Discussed With Management Prior to Retention

There have been no major issues discussed with management prior to our retention as your auditors.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.