Comprehensive Annual Financial Report

City of Baton Rouge

For the fiscal year ended December 31, 1998

CP Employees' Retirement System ERS

City of Baton Rouge and Parish of Baton Rouge

Employees' Retirement System

A component unit of the consolidated government of the City of Baton Rouge and Parish of East Baton Rouge, Louisiana

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, 1998

JEFFREY R. YATES
RETIREMENT ADMINISTRATOR

OFFICE LOCATION
CITY OF BATON ROUGE AND PARISH OF EAST BATON ROUGE
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 and Parish of Baton Rouge

Employees' Retirement System

CITY OF BATON ROUGE ★ PARISH OF EAST BATON ROUGE ★

Employees' Retirement System

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LETTER OF TRANSMITTAL

April 27, 1999

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, 1998 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 1998 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 alternative retirement plans: 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 of the City of Baton Rouge. Police officers, and firefighters were incorporated into the Retirement System effective January 1, 1956 by Council Ordinance No. 474. 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.

MAJOR INITIATIVES

For the Year:

CPERS completed several money manager searches early in the year, culminating in management contracts being executed for two new investment management firms. The services of four money managers were terminated, leaving a total of five managers at year-end. This was a significant decrease from previous years and helped to contribute to the System's reduced level of consultant's fees.

CPERS successfully executed its first performance-based fee investment management contracts. These contracts assure that the System will pay no more than a base fee until the manager has performed above the appropriate designated benchmark.

The System began participation in the City-Parish's Metronet, an intranet resource made available through the Information Services division. Through this medium and email, the System is now able to keep employees abreast of Retirement Board meeting dates, agendas, announcements, etc.

On January 1, 1998, CPERS began sheltering employee contributions, as permitted under the IRS code. This pickup of employee contributions by the employer was one of several changes made in the Retirement Ordinances, which became effective April 1, 1997. Also effective January 1, 1998 was an increase in the employee contribution rate from 8% to 9.5%. This increase helped CPERS toward attaining a higher level of system funding. The System funding level, as measured by the System's actuary under GASB 5 methods, was 89% at December 31, 1997, and 93% at December 31, 1998.

CPERS contracted with an outside vendor to index the minutes of the Retirement Board meetings, as well as the minutes of all committee meetings, and all legal opinions. This project is expected to take several months, and upon its completion will yield a work product which can be utilized by the staff in performing research for the Board of Trustees, System members and/or System consultants.

For the Future:

CPERS' staff is developing a member education plan which can be communicated to small groups, using visual aids and handouts. Topics will include retirement eligibility requirements, calculation of benefits, DROP options, investment summaries, and other pertinent topics.

Most of the System's computer hardware is scheduled for replacement during 1999, including the data server which contains the members databases, the payroll modules, and other vital member data. This server will utilize a RAID (Redundant Array of Independent Disks) system, which provides perpetual backup of data on duplicate disk drives. This system will provide greater integrity and downtime for the most crucial data applications in the Retirement Office.

Much effort is going into the Year 2000 issue in the near future. The summer of 1999 will see the completion of the remediation process, in which potential problem areas are corrected and tested. The purchase of a new system server, as mentioned above, will allow the System to test critical applications such as retirement payroll, electronic funds transfers, and check reconciliation programs, using live data, without creating downtime to the System's applications. CPERS has committed substantial resources in an effort to ensure that no interruptions in service occur due to the Year 2000 issue.

SERVICE EFFORTS AND ACCOMPLISHMENTS

CPERS constantly strives to achieve a greater level of service to its members, both active and retired. These services include the issuance of retirement benefit payments, DROP withdrawals, DROP and contribution tax-free rollovers, refunds of member contributions, member counseling, retiree payroll-related changes, and many more.

In 1998, CPERS paid retirees, survivors, and beneficiaries in excess of $28.7 million in benefits. In addition, distributions of more than $8 million were made to participants from the Deferred Retirement Option Plan (DROP). Combined, CPERS paid out in excess of $37 million to System retirees during the year.

The average monthly benefit of a retiree continues to increase. For 1998, retirees drew an average monthly benefit of $1,323, which represented an increase of 1.07% over the 1997 amount of $1309. The average monthly withdrawal for DROP funds was $1,751, a decrease of 57.9% from 1997's average of $4,160. This anomaly is explained by the fact that 1997 was the first year in which DROP monies could be rolled over into Individual Retirement Accounts (IRA's), or other qualified plans. A significant number of retirees chose to rollover their DROP accounts, thus creating an unusually large average monthly benefit amount.

Also, during 1998, refunds were issued to 225 members who terminated employment and to beneficiaries of deceased members compared to 261 issued during 1997. Additionally, some former members chose to rollover the portion of their contributions that were tax-sheltered, into an IRA or another qualified plan.

A total of 115 members retired during 1998 compared to 89 during 1997. A total of 64 members entered DROP during 1998 compared to 65 during 1997.

CPERS continues to circulate its newsletter *Retirement News* to over 4,000 active employees and 1,900 retirees in an effort to keep the entire membership informed of important issues and news of interest. The newsletter features pertinent articles of interest, authored by staff and consultants.

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 to the Financial Statements.

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 1998.

ADDITION TYPE	1998	1997	VARIANCE	PERCENT-AGE CHANGE
EmployeeContributions	$ 11,632,339	$ 9,645,590	$ 1,986,749	20.6%
Employer Contributions	20,120,542	18,405,695	1,714,847	9.3%
Net Investment Income	89,345,159	101,484,199	(12,139,040)	(12.0)%
Totals	$ 121,098,040	$ 129,535,384	$ (8,437,444)	(6.5)%

The significant increase in employee contributions for 1998 is largely due to salary increases, and the increase of the employee contribution rate from 8.0% in 1997 to 9.5% in 1998. The employer contribution rate increased from 15.08% for most of 1997, to 16.13% for 1998. This contribution amount is directly affected by salary increases as well.

Net investment income shows a negative variance, solely because it is compared to the banner year experienced in 1997. 1998 was another impressive year of investment returns as the System continued to capitalize on the escalating equities markets, while keeping management fees lower than in past years.

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	1998	1997	VARIANCE	PERCENT-AGE CHANGE
Benefit Payments	$ 37,095,474	$ 44,787,560	$ (7,692,086)	(17.2)%
Refunds and Withdrawals	1,493,287	1,487,729	5,558	0%
Administrative Expenses	1,015,699	1,020,585	143,110	0%
Totals	$ 39,604,460	$ 47,295,874	$ 13,936,397	(16.3)%

As the table shows, in 1998 CPERS paid out 17.2% less in benefit payments than in 1997 primarily due to a large reduction in DROP benefit payments. 1998 saw a tapering off of member rollovers of DROP funds from CPERS to other qualified plans. Rollovers completed during 1998 totaled $4,577,853, while in 1997, the first year of eligibility, rollovers amounted to $10,581,429.

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 1998 being the 4th year in the amortization schedule.

The employer contribution rate for 1998 was 16.13% compared to the rate in 1997 of 15.00% from January 1st through March 31st, increasing to 15.08% from April 1st through year end. The System's actuary indicates in his most recent report that at present levels of investment returns, actuarial experience, and contributions, no increase in the employer contribution rate is forecast.

January 1, 1998 saw the first employee contribution rate increase in over 20 years, when the rate went from 8.0% to 9.5%. This increase ensures that both the employees and the employer will materially participate in providing for the proper funding of the benefits of the System.

CPERS continues to make great strides toward decreasing its unfunded accrued liability through a combination of asset allocation and cost saving measures instituted by the Board of Trustees. For 1998 and 1997 respectively, the funding ratio of assets at market value to the pension benefit obligation was 93% and 89%, as measured under GASB 5.

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. The entire process is coordinated through the custodian bank and is governed by a policy endorsed by the investment consultant and accepted by the Board of Trustees.

INVESTMENTS

The investments of the Retirement System are governed by the Statement of Investment Policies and Objectives as shown on pages 50 through 58. 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 pages 60 and 61. Contracts with two new money managers were executed in March of 1998, and an overall readjustment of allocation was completed, which set the asset allocation to target levels. Additionally, a policy was adopted by the Board, which authorizes the staff to rebalance the investment allocation when predetermined trigger points are reached. This ensures that the asset mix will never be overweighted or underweighted in any asset class. At December 31, 1998 CPERS had investment management contracts with five (5) money managers, whose individual performances are measured against selected indices.

Investment return, net of investment fees, for 1998 was 13.6% with the three year and five year returns being 13.7% and 11.3% respectively. A detail of investment holdings is found on pages 62 through 67.

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 1998 annual audit, the auditors were KPMG LLP, Baton Rouge, Louisiana.

AWARDS

The government Finance Officers' Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Baton Rouge and Parish of East Baton Rouge Employees' Retirement System for its comprehensive annual financial report (CAFR) for the year ended December 31, 1997. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of a state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The City of Baton Rouge and Parish of East Baton Rouge Employees' Retirement System has received this Certificate of Achievement in its first year of submission. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

ACKNOWLEDGEMENTS

I would like to thank the staff of the Retirement Office for their diligent efforts toward making this Comprehensive Annual Financial Report (CAFR) the accurate and professional-looking document it is. Much tedious work goes into the gathering of data, input and typing, proofing and assembly of this document, and I am grateful for the time the staff spent in its preparation. This is the second CAFR prepared by the Retirement Office for submission to the GFOA, and we have every reason to believe that we will be awarded our second Certificate of Achievement for Excellence in Financial Reporting.

Also, I would like to express my gratitude to the Retirement Board of Trustees for your continued support of the Retirement Office in our efforts to carry out the desires of the Board. I appreciate the opportunity to work for a Board that channels its efforts toward prudently managing and protecting the assets of the System, while providing every possible benefit to the employees and retirees.

Sincerely,

Jeffrey R. Yates

Jeffrey R. Yates, CPA
Retirement Administrator

1998
BOARD OF TRUSTEES

ADMINISTRATIVE STAFF

Jeffrey R. Yates, C.P.A.
Retirement Administrator

Ann LeSage
Administrative and Investment Coordinator

Angela F. Gauthier, J.D., C.P.A.
Benefits Manager

Patty Appling
Benefits Coordinator

Gladys Williams
Administrative Specialist I

Rebecca Saucier
Senior Fiscal Specialist

Russell P. Smith, C.P.A.
Accounting Manager

Kyle Drago
Accountant II

Phil Massey, Jr.
Accountant II

PROFESSIONAL CONSULTANTS

ACTUARY

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Eight Piedmont Center, Suite 310
3525 Piedmont Road, N.E.
Atlanta, GA 30305

AUDITOR

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Certified Public Accountants
Bank One Centre – North Tower
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Baton Rouge, LA 70801-1705

INVESTMENT CONSULTANT

Summit Strategies Group
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OF SPECIAL COUNSEL

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Hollywood, FL 33204

Lawson & Fields, P.C.
5323 Spring Valley Road, Suite 300
Dallas, TX 75240

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Occupational Health Clinic
Baton Rouge General Health
3870 Convention Street
Baton Rouge, LA 70806

COMPUTER CONSULTANT

Relational Systems Consultants
P.O. Box 665
St. Martinville, LA 70582

DOMESTIC FIXED INCOME

BlackRock Financial Management
345 Park Avenue
New York, NY 10154

DOMESTIC EQUITY

Trinity Investment Management Corp.
75 Park Plaza
Boston, MA 02116

Barclays Global Investors
45 Fremont Street
San Francisco, CA 94105

GLOBAL FIXED INCOME

State Street Global Advisors
Two International Place
Boston, MA 02110

INTERNATIONAL EQUITY

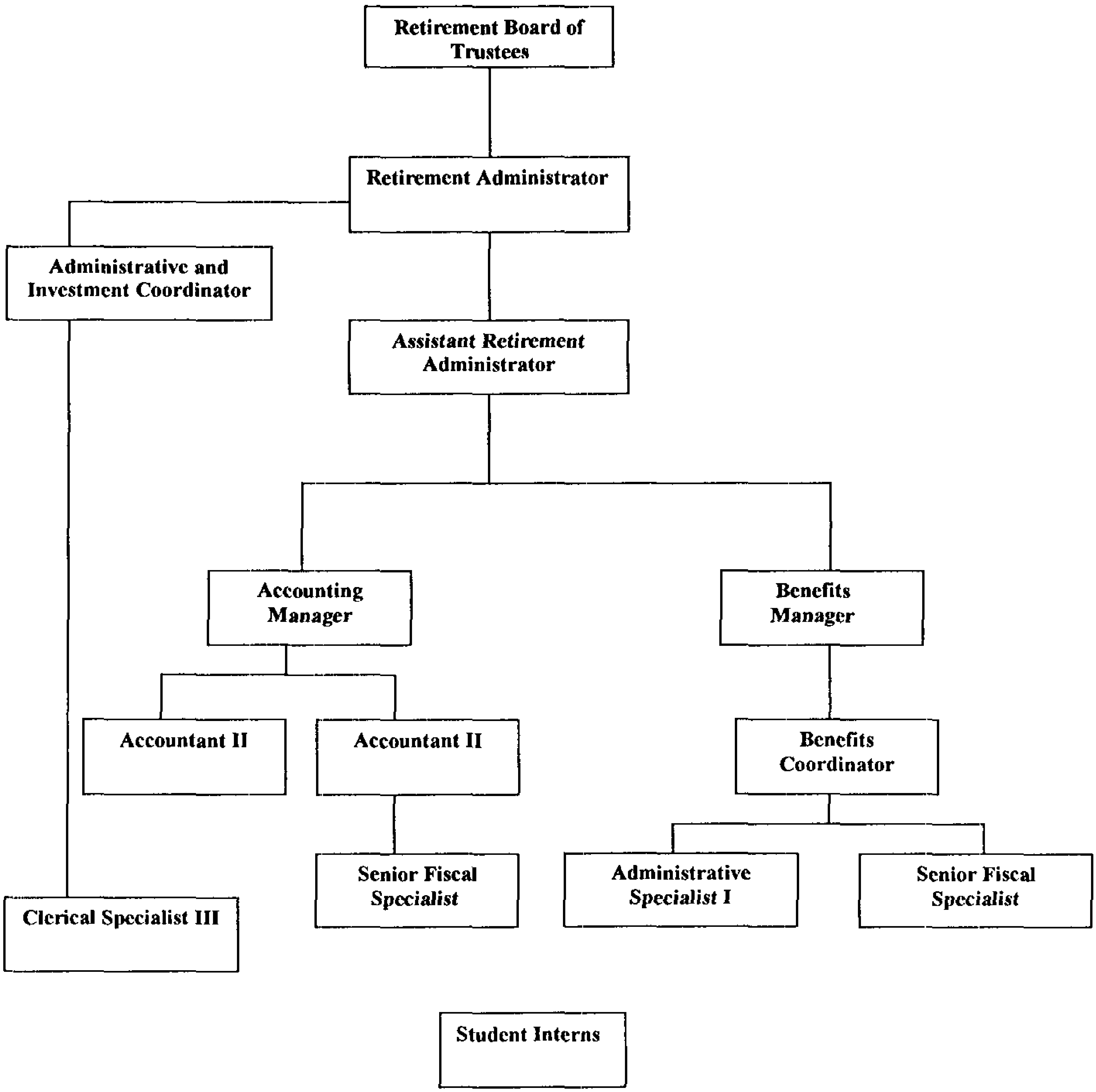
Capital Guardian Trust
333 South Hope Street
Los Angeles, CA 90071

CUSTODIAN BANK

Bank One, Louisiana, N.A.
P.O. Box 1511
Baton Rouge, LA 70821-1511

ORGANIZATIONAL CHART

(See page 13 for specific information regarding investment professionals)



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Baton Rouge & Parish of East Baton Rouge Employees' Retirement System, Louisiana

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 1997

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

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

Douglas R. Ellsworth
President

Jeffrey L. Esser
Executive Director

SUMMARY OF 1998 LOCAL LEGISLATIVE CHANGES

The following Plan of Government amendment was adopted by the City-Parish Metropolitan Council during 1998. It was placed on an East Baton Rouge Parish general election ballot, as required, and passed by a vote of the people on November 3, 1998.

SECTION 9.15 OF *THE PLAN OF GOVERNMENT OF THE PARISH OF EAST BATON ROUGE AND THE CITY OF BATON ROUGE* WAS AMENDED AS FOLLOWS:

The Parish and City are hereby authorized to establish and maintain, by ordinances and amendments thereto, a Retirement System for all permanent full-time employees of the Parish, the City, and of those agencies and instrumentalities of the Parish and City as may be designated by the Council. Such ordinances and the amendments thereto shall provide for funding of the Retirement System by means of contributions to a Pension Trust designated by the Council, which contributions shall be made jointly by the Parish, the City, the designated agencies and instrumentalities of the Parish and City, and by all employees required to enroll as members of the Retirement System. The contributions required in such ordinances and the amendments thereto shall be in an amount sufficient to establish an actuarially sound reserve from which pensions shall be paid. The Council shall annually appropriate such additional funds as may be required to maintain the Retirement System on an actuarially sound basis. Such ordinances and the amendments thereto shall establish criteria for membership and vesting in the Retirement System, and shall provide for the accrual, form and payment of benefits. Such ordinances and the amendments thereto shall provide further both for the administration of the Retirement System and for the creation of a Retirement Board. The Retirement Board shall administer the Retirement System as fiduciaries, and shall have custody of and invest the assets of the Pension Trust. The Retirement Board shall be composed of seven persons, one (1) of whom shall be a member of the Retirement System employed in the City Police Department and elected by the members of the Retirement System employed as Police Civil Service employees in that Department; one (1) of whom shall be a member of the Retirement System employed in the City Fire Department and elected by the members of the Retirement System employed as Fire Civil Service employees in that Department; two (2) of whom shall be members of the Retirement System employed other than as Police and Fire Civil Service employees, and elected by the members of the Retirement System employed other than as Police and Fire Civil Service employees; one (1) of whom shall be appointed by the Mayor-President; and the remaining two (2) of whom shall be appointed by the Council. In the event that all eligible employees of the City Police Department are enrolled into the Municipal Police Employees' Retirement System of Louisiana, the position on the Retirement Board reserved to a Retirement System member employed in that Department shall be revoked, and the position shall be thereafter occupied by a member of the Retirement System employed other than in the Municipal Fire and Police Civil Service of the City Police and Fire Departments, and duly elected by the members of the Retirement System likewise employed other than in the Municipal Fire and Police Civil Service of those Departments. Similarly, in the event that all eligible employees of the City Fire Department are enrolled into the Firefighters' Retirement System of Louisiana, the position on the Retirement Board reserved to a Retirement System member employed in that Department shall also be revoked, and the position shall also be thereafter occupied by a member of the Retirement System employed other than in the Municipal Fire and Police Civil Service of the City Police and Fire Departments, and duly elected by the members of the Retirement System likewise employed other than in the Municipal Fire and Police Civil Service of those Departments. The Retirement System established pursuant to this System shall constitute the Employees' Retirement System for the City of Baton Rouge and the Parish of East Baton Rouge, a governmental plan qualified under the Internal Revenue Code. The Council shall take no action, by ordinance, contract, resolution or otherwise, which would adversely affect the tax qualified status of the Retirement System. The pension rights and benefits of employees enrolled as members of the Retirement System shall be determined in accordance with the provisions of the Plan of Government, together with the provisions of the retirement ordinances enacted under the authority of this Section, that are in effect on the date that such employees enrolled as members of the Retirement System. The Council shall not diminish or impair those rights and benefits in any way, nor shall the Council impair or diminish in any way increases in those benefits of additions to those rights made during the tenure of a member's employment. Subject only to this constraint, the Parish and City may, at any time, by ordinances or amendments thereto: (a) amend, revise or otherwise alter the retirement ordinances for the purpose of defining the pension rights and benefits of persons not yet enrolled as members of the Retirement System; and (b) enroll any or all eligible police and/or fire employees into the Municipal Police Employees' Retirement System of Louisiana and/or the Firefighters' Retirement System of Louisiana. (As amended on November 3, 1998)

This revision of the Plan of Government effectively resulted in the following changes:

- Provided permissive language, which would allow eligible police and fire employees to enroll into the Municipal Police Employees' Retirement System of Louisiana or the Firefighters' Retirement System of Louisiana, respectively.
- Provided language that expressly allows the City-Parish to alter retirement ordinances, which define pension benefits for employees not yet enrolled in the Retirement System.
- Prohibited the Metro Council from diminishing or impairing rights and benefits previously granted the employee.
- Prohibited the Metro Council from taking any action, which would adversely affect the tax-qualified status of the Retirement System.
- Deleted the requirement that one member of the Retirement Board of Trustees be the City-Parish Finance Director and replaced this designation with a Mayoral appointee.
- Provided language which, in the event police and/or fire civil service employees enrolled in their respective statewide retirement systems, would replace their Board positions with non police and fire civil service employee positions.

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

comprehensive annual financial report

City of Baton Rouge and Parish of Baton Rouge

Employees' Retirement System

CITY OF BATON ROUGE

PARISH OF EAST BATON ROUGE

KPMG

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

DRAFT

INDEPENDENT AUDITOR'S 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, 1998 and 1997, and the related statement of changes in plan net assets for the years 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.

We conducted our audits 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 audits 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, 1998 and 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 April 27, 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.

The schedules of the year 2000 information, funding progress, employer contributions, and notes to schedules of trend information, respectively, are not a required part of the financial statements, but are supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. We are unable to apply certain of these limited procedures to the year 2000 information because of the nature of the subject matter underlying the disclosure requirements and because sufficiently specific criteria regarding the matters to be disclosed have not been established. In addition, we do not provide assurance that the Retirement System is or will become year 2000 compliant, that the Retirement System's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Retirement System does business are or will become year 2000 compliant. We have applied to the schedules of funding progress, employer contributions, and notes to schedules of trend information certain limited procedures prescribed by professional standards, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the schedules.

The accompanying financial information as listed in the Table of Contents as Supporting Schedules, on pages 43-45, is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of the Retirement System. Such information has been subjected to the auditing procedures applied in the audit of the financial statements, and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

April 27, 1999

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

STATEMENTS OF PLAN NET ASSETS

AS OF DECEMBER 31, 1998 AND 1997

	1998	1997
Assets		
Cash	$ 46,450	$ 112,855
Receivables:		
Employer contributions	1,091,190	1,594,100
Employee contributions	735,743	827,151
Interest and dividends	1,258,028	2,174,388
Pending trades	1,036,931	2,951,973
Other	6,682	5,529
Total receivables	4,128,574	7,553,141
Investments (at fair value):		
U.S. Government obligations	38,049,404	112,276,863
Bonds – Domestic	72,816,522	38,664,823
Bonds – Enhanced Index Fund	118,563,819	98,424,388
Equity securities – Domestic	418,648,154	318,334,961
Equity securities – International	99,113,587	75,654,843
Cash equivalents	13,340,000	34,556,049
Total investments	760,531,486	677,911,927
Land and buildings at cost *net of accumulated depreciation* of $509,848 and $458,393, respectively	923,882	976,673
Total assets	765,630,392	686,554,596
Liabilities		
Accounts payable	--	209,657
Accrued expenses and benefits	240,121	635,406
Pending trades payable	2,298,802	4,111,641
Total liabilities	2,538,923	4,956,704
Net assets held in trust for pension benefits (a schedule of funding progress is presented on page 35)	$ 763,091,469	$ 681,597,892

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, 1998 AND 1997

	1998	1997
Additions:		
Contributions:		
Employee	$ 11,632,339	$ 9,645,590
Employer	20,120,542	18,405,695
Total contributions	31,752,881	28,051,285
Investment Income:		
Net appreciation in fair value of investments	79,443,675	86,711,576
Interest	8,836,503	13,029,237
Dividends	2,447,741	2,363,622
Real estate operating income, net	--	1,144,092
Total investment income	90,727,919	103,248,527
Less investment expenses	1,382,760	1,764,328
Net investment income	89,345,159	101,484,199
Total additions	121,098,040	129,535,484
Deductions:		
Benefit payments	37,095,474	44,787,560
Refunds and withdrawals	1,493,287	1,487,729
Administrative expenses	1,015,699	1,020,585
Total deductions	39,604,460	47,295,874
Net increase	81,493,580	82,239,610
Net assets held in trust for pension benefits:		
Beginning of year	681,597,889	599,358,282
End of year	$763,091,469	$681,597,892

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.

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 one member appointed by the Mayor-President, and two members 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.

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

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, 1998 and 1997, membership in the Retirement System consisted of:

	1998	1997
Inactive:		
Retirees and beneficiaries currently receiving benefits	1,805	1,723
Vested terminated employees	28	27
Deferred retirees	284	276
Total inactive	2,117	2,026
Active employees:		
Fully vested	1,722	1,680
Nonvested	2,290	2,335
Total active	4,012	4,015
Total membership	6,129	6,041

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

December 31, 1998:		Active		Total
	Inactive	Vested	Nonvested	Active
Regular	1,211	991	1,689	2,680
BREC	67	69	123	192
Police	414	338	237	575
Fire	425	324	241	565
	2,117	1,722	2,290	4,012

December 31, 1997:		Active		Total
	Inactive	Vested	Nonvested	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

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

NOTES TO THE FINANCIAL STATEMENTS

(1) PLAN DESCRIPTION, CONTINUED

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.

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. The computed benefit amount is 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. A retiree may also purchase an optional benefit for a spouse or other designated person, which reduces the monthly pension benefit by an actuarially computed factor. 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, 1998 and 1997 total $67,104,502 and $60,163,822 respectively, and are included in plan net assets. Members maintaining accounts in the DROP program as of December 31, 1998 and 1997 were 666 and 631, 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 9.5% of their annual covered salary for 1998. For 1997, members contributed 8.0% of covered payroll. 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

Section 9.15 of *The Plan Of Government Of The Parish Of East Baton Rouge And The City Of Baton Rouge* authorizes the Retirement Board to have custody of, and invest the assets of the Pension Trust. As fiduciaries of the Pension Trust, the Retirement Board developed and adopted *The Total Plan Statement Of Investment Policies And Objectives*, in which are set forth the guidelines for investing the Retirement System's assets. The document sets forth permissible investments as follows:

Equity Investments -- common stocks, convertible bonds, preferred stocks
Fixed Income Investments -- 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)

Additionally, the Retirement System may authorize an agent to participate in securities lending transactions on its behalf. Investment in derivatives and reverse repurchase agreements are not specifically authorized under the Retirement Board's investment policy, however, in the case of commingled or mutual accounts, the prospectus or Declaration of Trust takes precedence over the investment policy.

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

C. Investments, Continued

The securities representing equity or fixed income in any one company shall not exceed 5% of the cost basis or 7% of the market value of any manager's portfolio, however, the direct debt of the federal government shall not be restricted as a percentage of the portfolio.

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. 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. Although the Board contracted with outside third party investment managers during 1998, 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 1998 there were no securities lending arrangements in force in actively managed accounts.

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, 1998 and 1997 was $52,792 and $55,700, respectively.

(3) INVESTMENTS AND DEPOSITS

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

The Retirement System's policy is that securities underlying its 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, 1998 and 1997, were fully collateralized.

At December 31, 1998, the carrying amount of the Retirement System's cash was $46,450 and the bank balance was $46,450, all of which was covered by Federal Depository insurance. At December 31, 1997, the carrying amount of the Retirement System's cash 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 at City National Bank, Baton Rouge, LA in the Retirement System's name.

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

NOTES TO THE FINANCIAL STATEMENTS

(3) INVESTMENTS AND DEPOSITS, CONTINUED

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, 1998 and 1997:

	CATEGORY 1	2	3	1998 FAIR VALUE	CATEGORY 1	2	3	1997 FAIR VALUE
Fixed Income:								
U.S. Treasury Bonds	$ 7,583,904	--	--	$ 7,583,904	$ 37,371,073	--	--	$ 37,371,073
Corporate Bonds	72,816,522	--	--	72,816,522	38,664,823	--	--	38,664,823
U.S. Agency Bonds	30,465,500	--	--	30,465,500	49,694,250	--	--	49,694,250
U.S. Agency Notes	--	--	--	--	25,211,540	--	--	25,211,540
Corporate Stocks	101,568,415	--	--	101,568,415	179,281,239	--	--	179,281,239
Repurchase Agreements	13,340,000	--	--	13,340,000	20,909,999	--	--	20,909,999
Commercial Paper	--	--	--	--	13,646,050	--	--	13,646,050
Total Categorized	$225,774,341	--	--	$225,774,341	$364,778,974	--	--	$364,778,974
Corporate Stock Index Funds				317,079,739				139,053,722
International Equity Fund				99,113,587				75,654,843
Enhanced Bond Index Fund				118,563,819				98,424,388
Total investments				$760,531,486				$677,911,927

(4) CONTINGENCIES

At December 31, 1998, 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 35 through 39.

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required supplementary information

comprehensive annual financial report

City of Baton Rouge and Parish of Baton Rouge

Employees' Retirement System

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%
12/31/98	740,257,038	875,075,687	134,818,649	84.6%	118,742,991	113.5%

Note: Only five 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	94.3%
12/31/98	17,967,514	112.0%

Note: Only four 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, 1998
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	26 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%*

* compounded annually and including inflation of 4%

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

YEAR 2000 ISSUE

In October, 1998, the Governmental Accounting Standards Board (GASB) issued *GASB Technical Bulletin No. 98-1,* in which the Year 2000 date problem was identified as affecting a wide range of governmental activities that could have a significant impact on an entity's future financial resources. Responding to this concern, GASB has directed governmental entities to disclose information regarding the general description of the Year 2000 issue as it relates to their organization, the resources committed to resolving the Year 2000 problem, and the stage or stages the organization is at in resolving this problem. Disclosure of this information is required for financial statements with an effective issue date after October 31, 1998 and terminates for financial statements for periods ending after December 31, 1999.

GASB has identified four stages necessary in order to implement a Year 2000 compliant system.

Awareness Stage – In this stage, an organization establishes a budget and a project plan for addressing the Year 2000 issue. This may include formulation of major tasks and target dates for accomplishing these tasks.

The Retirement System participated in seminars, coordinated through the Information Services division of the City-Parish Government, which detailed the Year 2000 problem as it relates to governmental entities. Further information was disseminated through the City-Parish Metronet, an intranet-type information source. Through these sources, the Retirement System was provided with many of the references and resources needed to satisfactorily complete the awareness stage as outlined by GASB.

Assessment Stage – This stage involves the identification of systems and components of systems. During this stage, an organization may specifically identify mission-critical systems and equipment critical to conducting its operations.

Working with Information Services, the Retirement System identified all hardware potentially affected, in order to assess the level of compliance. Also, mission-critical functions such as processing of retirement payroll checks, and transmission of electronic funds transfers were identified.

Remediation Stage – During this stage, the organization actually makes changes to systems as necessary. Non-compliant systems, both hardware and software, are converted or migration to compliant systems takes place.

The Retirement System's remediation stage is currently in progress, having updated some of the System's hardware and software. The System's information systems consultant has been contracted to review, assess, and make changes as needed to any proprietary software programs used in the employee and retiree databases. Requests have been sent to all System consultants asking for written evaluations of their awareness, assessment, and remediation progress regarding this issue.

Validation and Testing Stage – In this stage, the organization validates and tests any changes made during the conversion process. Test data is processed and the results reviewed. Should problem areas arise, corrections are made and the data retested.

The Retirement System has a target date of July 1, 1999 for testing the compliance of its database operations (e.g. retirement payroll check processing, electronic funds transfers, uploading of employee payroll data). Because the System is in the process of purchasing a new data server, the testing can be performed on the old server while the new server continues to run the System's applications. The need for testing of personal computers has been minimized by the purchase and replacement of several PCs during the current year.

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

REQUIRED SUPPLEMENTARY INFORMATION UNDER GASB STATEMENT NO. 25, CONTINUED

YEAR 2000 ISSUE, CONTINUED

The Retirement System has committed significant funds toward meeting the needs created by the Year 2000 issue. In an effort to meet all requirements in a timely manner, funds were budgeted for the purchase of replacement computer equipment and software, and a contract was entered into with the System's computer consultant in the amount of $22,200.

See accompanying independent auditors' report.

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supporting schedules

comprehensive annual financial report

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

CITY OF BATON ROUGE ★ PARISH OF EAST BATON ROUGE ★

SCHEDULES OF ADMINISTRATIVE EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

	1998	1997
Salaries:		
Salaries – regular	$ 349,839	$ 396,814
Other compensation – student labor	13,705	5,719
Other compensation – auto allowance	4,966	4,708
Related benefits	82,892	86,918
Total salaries	451,402	494,159
Travel and training expenses	27,650	19,234
Operating services:		
Dues and memberships	2,952	2,206
Utilities	14,206	14,489
Custodial and extermination	8,491	8,065
Printing and binding	8,626	8,505
Telephone	9,901	5,491
Postage	12,013	14,451
Insurance	5,717	5,372
Rentals – office equipment	35,758	28,557
Repairs and maintenance – buildings	19,692	46,051
Repairs and maintenance – office equipment	7,119	9,852
Total operating services	124,475	143,039
Supplies	17,448	34,683
Professional services:		
Accounting and auditing	8,580	8,000
Legal	138,712	109,869
Actuarial	119,068	111,154
Other professional	103,635	65,959
Total professional services	369,995	294,982
Depreciation expense	52,792	55,700
Capital outlay	15,726	5,148
Other revenues	(43,789)	(26,360)
Total administrative expenses	$1,015,699	$1,020,585

SCHEDULES OF INVESTMENT EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

	1998	1997
Fixed income:		
U. S. Government obligations and other bonds - Domestic	$ 278,607	$ 252,958
Bonds - Enhanced Index Fund	77,866	56,357
Total fixed income	356,473	309,315
Equity securities:		
Equity securities - Domestic	340,981	837,163
Equity securities - International	481,126	377,074
Total equity securities	822,107	1,214,237
Real estate investment trust	--	71,125
Custodian fees	94,180	59,651
Advisor fees	110,000	110,000
Total investment expenses	$1,382,760	$1,764,328

SCHEDULES OF PAYMENTS TO CONSULTANTS
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

	1998	1997
Accounting and auditing	$ 8,580	$ 8,000
Auditors:		
KPMG LLP		
Legal	138,712	109,869
Legal Counsel -		
Law Offices of Randy P. Zinna		
Of Special Counsel:		
Robert D. Klausner, P.A.		
Lawson & Fields, P.C.		
Actuarial	119,068	111,154
Actuary -		
Stanley, Holcombe & Associates, Inc.		
Other professionals:	103,635	65,959
Medical Examiner		
D. J. Scimeca, Jr., M.D.		
Computer Consultant		
Relational Systems Consultants		
Graphics and Editorial Consultant		
JoAnne McMullen		
Total	$369,995	$294,982

A schedule of brokerage commissions paid is shown on page 70.

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investment section

comprehensive annual financial report

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

CITY OF BATON ROUGE ★ PARISH OF EAST BATON ROUGE ★

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March 23, 1999

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

As I review the letter I sent on the same day last year, I realize that the investment story has not changed much for 1998 versus 1997. The investment markets, especially the U.S. stock market, were very good to investors, including CPERS. The investment gains for the total portfolio were over $93 million in 1998. Coupled with the 1997 investment gain of $102 million, the investment portfolio has generated over $195 million in the last two years.

The investment return for calendar year 1998 was 13.8%, which ranked in the 41st percentile in the Independent Consultants Cooperative Public Pension Plan Universe. This means the CPERS' portfolio did better that almost 60% of the pension funds in our sample. All performance has been calculated in compliance with the AIMR performance presentation standards.

As you may recall from last year's letter, 1998 saw the final changes put into place in what was a long, comprehensive review of the entire portfolio. The percentage of the fund invested in common stocks was increased to 65% of assets along with greater diversification into small cap and overseas markets. The bond portfolio was restructured to reduce the fund's exposure to interest rate swings. Overall, the number of managers was reduced over the course of the 15-month review from ten to five. While the assets remain prudently diversified, the streamlining in the number of managers has also reduced the cost of these services to the System by over half, which at these asset levels is close to $1,000,000 per year staying in the System.

At the time of implementation, the Trustees, Staff and Summit were certainly cognizant of the ever-increasing valuation of the market. In spite of our well-founded concerns, the markets kept going up in 1998. But did they? While very large U.S. growth stocks like Microsoft, Dell and Wal-Mart had a wonderful year, the truth is most stocks had lackluster or disappointing returns for the year. And so while the evening news reported great stock market returns, the reality is that only a very few stocks did extremely well. In fact, the average small U.S. stock was down over -10%. This type of market makes it difficult for a well-diversified portfolio with a conservative stock program like CPERS (the emphasis is on value stocks) to perform well. Yet CPERS performed well on both an absolute and relative basis.

In this light, 1998 shines as an example of the prudence of the streamlined structure and straightforward implementation program that the Board has adopted and the Staff shepherds on a daily basis. Thank you for the opportunity to continue to serve you.

Sincerely,

Stephen P. Holmes, CFA
President

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.

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.

STATEMENT OF INVESTMENT POLICIES AND OBJECTIVES (Continued)

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 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.

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 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

STATEMENT OF INVESTMENT POLICIES AND OBJECTIVES (Continued)

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.

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

Eligible Holdings

The portfolio will be invested exclusively in publicly traded fixed income securities, as described on the previous page under "Permissible Investments". Securities are not allowed that use any form 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).

144(a) securities shall be limited to no more than 5% of the portfolio at market value of any manager's portfolio.

Portfolio Quality

Fixed income securities shall not be rated less than Baa3 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 AA3 and its equivalent by S&P or Moody's may have a 5% position at cost and 7% at market value. Issues rated AA3 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 unless specific authority has been granted.

STATEMENT OF INVESTMENT POLICIES AND OBJECTIVES (Continued)

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.

Unless specific authority has been granted, 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.
- 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:

STATEMENT OF INVESTMENT POLICIES AND OBJECTIVES (Continued)

- 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 Russell 3000 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

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

STATEMENT OF INVESTMENT POLICIES AND OBJECTIVES (Continued)

- 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:

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

STATEMENT OF INVESTMENT POLICIES AND OBJECTIVES (Continued)

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

It is the responsibility of the custodian to calculate market value based asset allocation range and report these to staff and consultant monthly.

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	60%	Cash	0%
Small Cap Domestic	20%	Core Fixed Income	100%
International	20%	Long Term Bonds	0%
		Equity Real Estate	0%

- 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 been 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. The following are the references the Board will use on a quarter-by-quarter basis to monitor each manager.

Domestic Fixed Income Managers

Manager	Style	Peer Sample	Style Benchmark
BlackRock	Core	Core	Customized Index
State Street Global	Core	Core	Lehman Aggregate

- The customized index created for BlackRock shall be:

50% Lehman Brothers Corporate Index
30% Lehman Brothers Mortgage Backed Index
20% Lehman Brothers Government Bond Index

B. Equity Real Estate Managers

The long-term objective for each equity real estate manager is to add value after expenses to a broad market benchmark. The benchmark for comparison purposes shall be:

Manager	Style	Peer Sample	Style Benchmark
N/A	Equity Real	Equity Real	NCREIF
N/A	Estate	Estate	Property Index

C. Equity Portfolio Managers

Over a market cycle:

- 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

STATEMENT OF INVESTMENT POLICIES AND OBJECTIVES (Continued)

Mid/Small Cap Domestic Equity Managers	Russell Mid Cap Value
International Equity Managers	MSCI EAFE
Domestic Equity Composite	Russell 3000

- 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. The following are the references the Board will use on a quarter-by-quarter basis to monitor each manager.

Large Cap Domestic Equity Managers

Manager	Style	Peer Sample	Style Benchmark
Barclays	Core	Core	S&P 500
Barclays Value	Value	Value	Russell 1000 Value

Mid/Small Cap Domestic Equity Managers

Manager	Style	Peer Sample	Style Benchmark
Trinity	Mid Cap Value	Mid Cap Value	Russell Mid Cap Value

International

Manager	Style	Peer Sample	Style Benchmark
Capital Guardian	International	International	MSCI EAFE (non-hedged)

Currency management is at the discretion of the manager.

Appendix IV
Internal Cash Management Investment Guidelines

Internal staff manages the cash equivalent securities of the System. 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) from primary dealers with the following characteristics:

    - Only direct U.S. Government debt of 10 years or less will be accepted as collateral. Zero coupon government securities shall be restricted to a maturity of 5 years or less;
    - 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
CPERS 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, dealing, as they regard CPERS with such an individual or firm by any of the System's current or prospective investment professionals without first notifying the Executive Director is considered material by the Board with significant negative implications.

With regard to transaction expense, each manager recognizes commissions as an asset of the System and

STATEMENT OF INVESTMENT POLICIES AND OBJECTIVES (Continued)

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).

Appendix VI
Performance Based Fees

CPERS may enter into performance based fees with specific managers. While each specific contract will be the ultimate authority regarding the actual arrangement, the following factors will be consistent in any arrangement CPERS enters into:

Base Fee: A base fee will be paid quarterly to the manager regardless of performance outcome.

Performance Sharing Formula: A percentage of the manager's net outperformance (base fee subtracted) over the predetermined benchmark for the determined period will be paid when applicable. Whatever the dollar amount calculated by the formula, the fund will pay the quarterly equivalent, or one-fourth, of this amount.

Fee Ceiling: There will be a performance fee ceiling expressed in basis points which will not be exceeded regardless of performance.

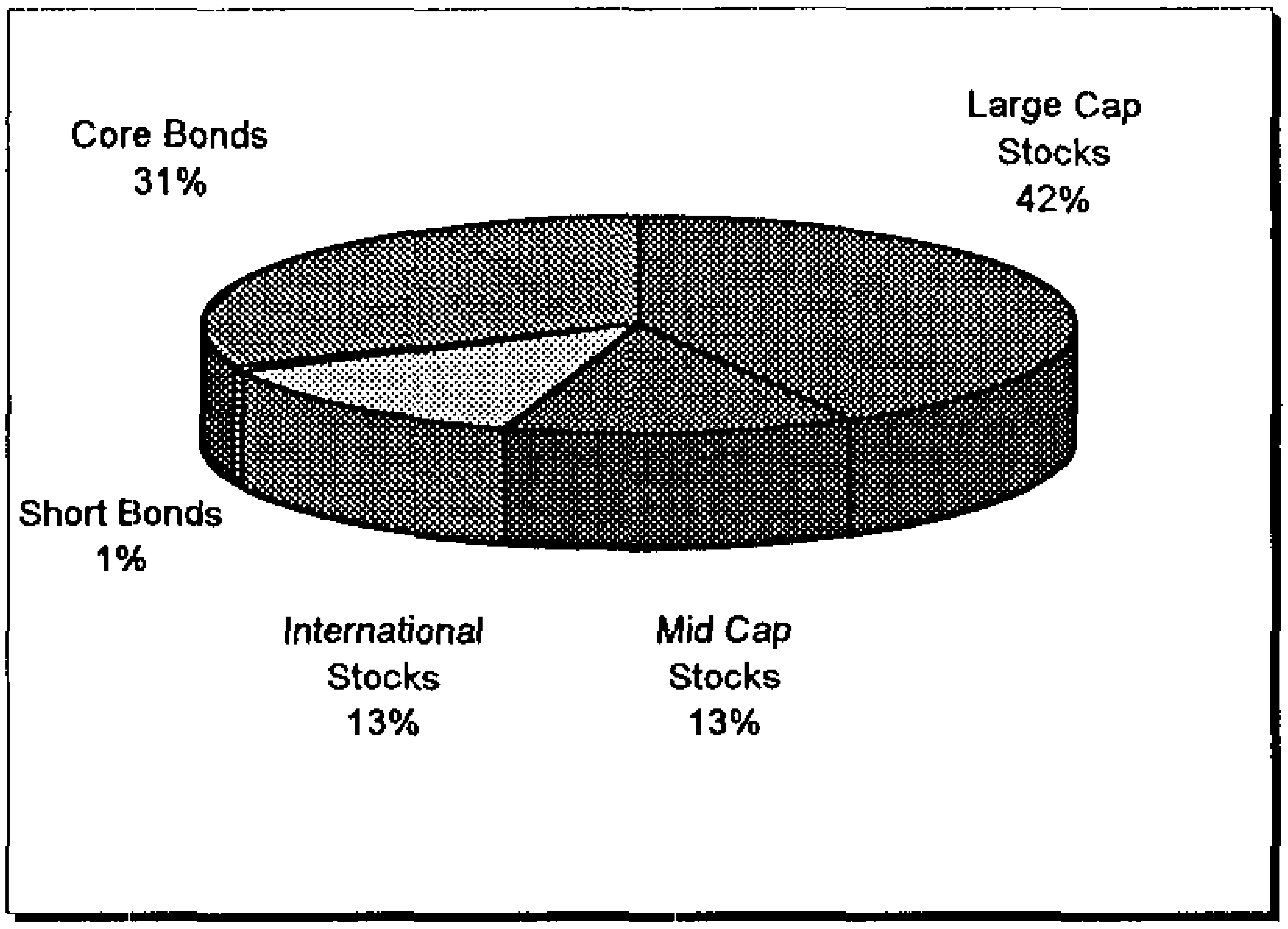
Time Horizon: Each contract will specify a rolling time period for which the annualized returns of both the total portfolio and the benchmark will serve as the basis for the performance calculation.

The custodian bank will price the portfolio and will be the basis for the consultant's calculation of the specific portfolio's performance. The publisher of the benchmark will determine the performance of the benchmark. In the event that the manager has a dispute with the custodian's pricing, he/she will express the discrepancy in writing to both the custodian and the consultant. The consultant will be the arbiter and it is the consultant's decision that will resolve such disputes.

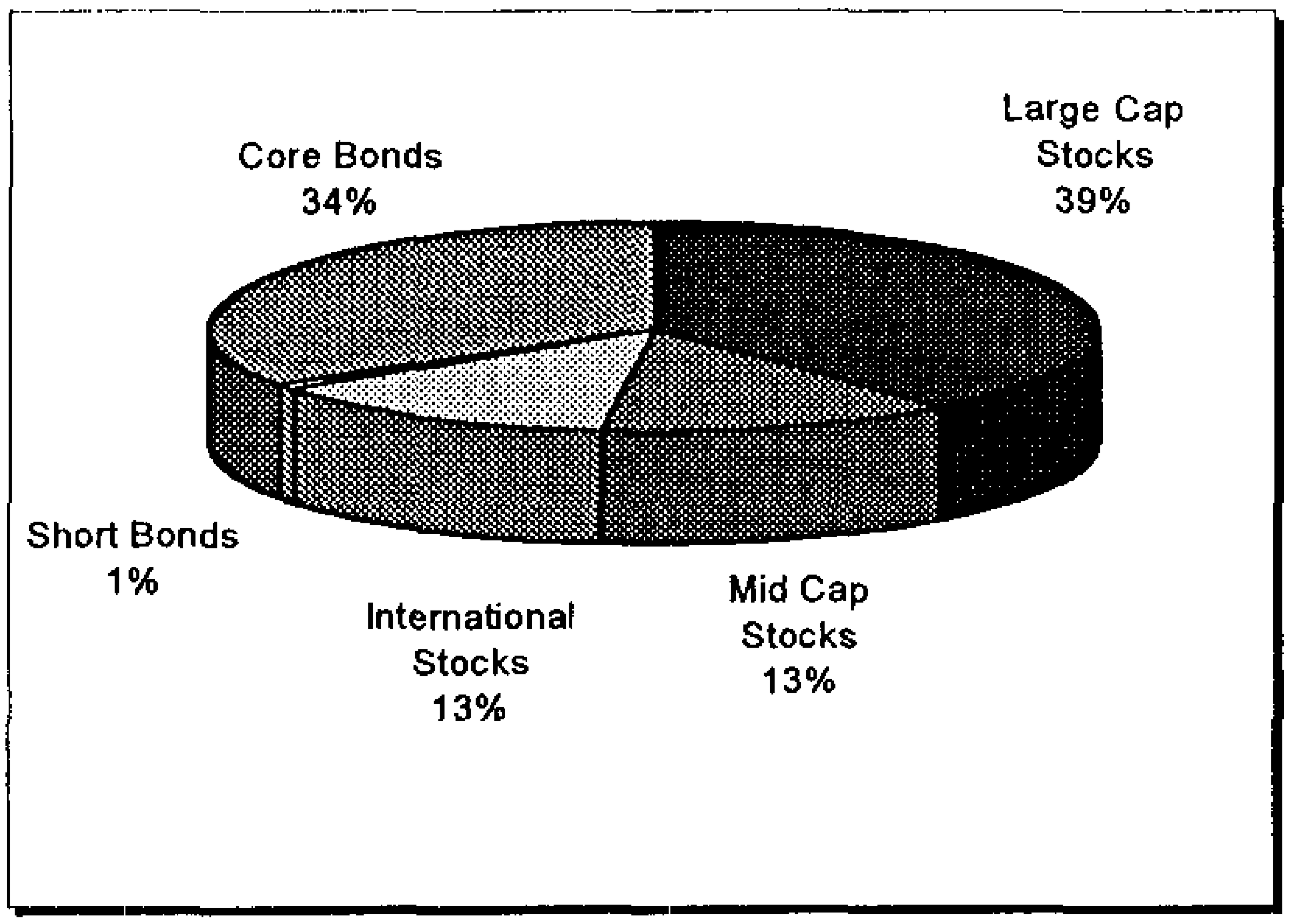
INVESTMENT SUMMARY
AS OF DECEMBER 31, 1998 AND 1997

TYPE OF INVESTMENT	DECEMBER 31, 1998 MARKET VALUE	DECEMBER 31, 1998 % TOTAL MARKET VALUE	DECEMBER 31, 1997 MARKET VALUE	DECEMBER 31, 1997 % TOTAL MARKET VALUE
Fixed income:				
U.S. Government obligations	$ 38,049,404	5.0%	$112,276,863	16.6%
Bonds – Domestic	72,816,522	9.6%	38,664,823	5.7%
Bonds – Enhanced Index Fund	118,563,819	15.6%	98,424,388	14.5%
Equities:				
Equity securities - Domestic	101,568,415	13.3%	179,281,239	26.4%
Equity securities – Russell 1000 Index Fund	155,797,579	20.5%	--	0.0%
Equity securities – S & P 500 Index Fund	161,282,160	21.2%	139,053,722	20.5%
Equity securities - International	99,113,587	13.0%	75,654,843	11.2%
Cash equivalents	13,340,000	1.8%	34,556,049	5.1%
Total investments	$760,531,486	100.0%	$677,911,927	100.0%

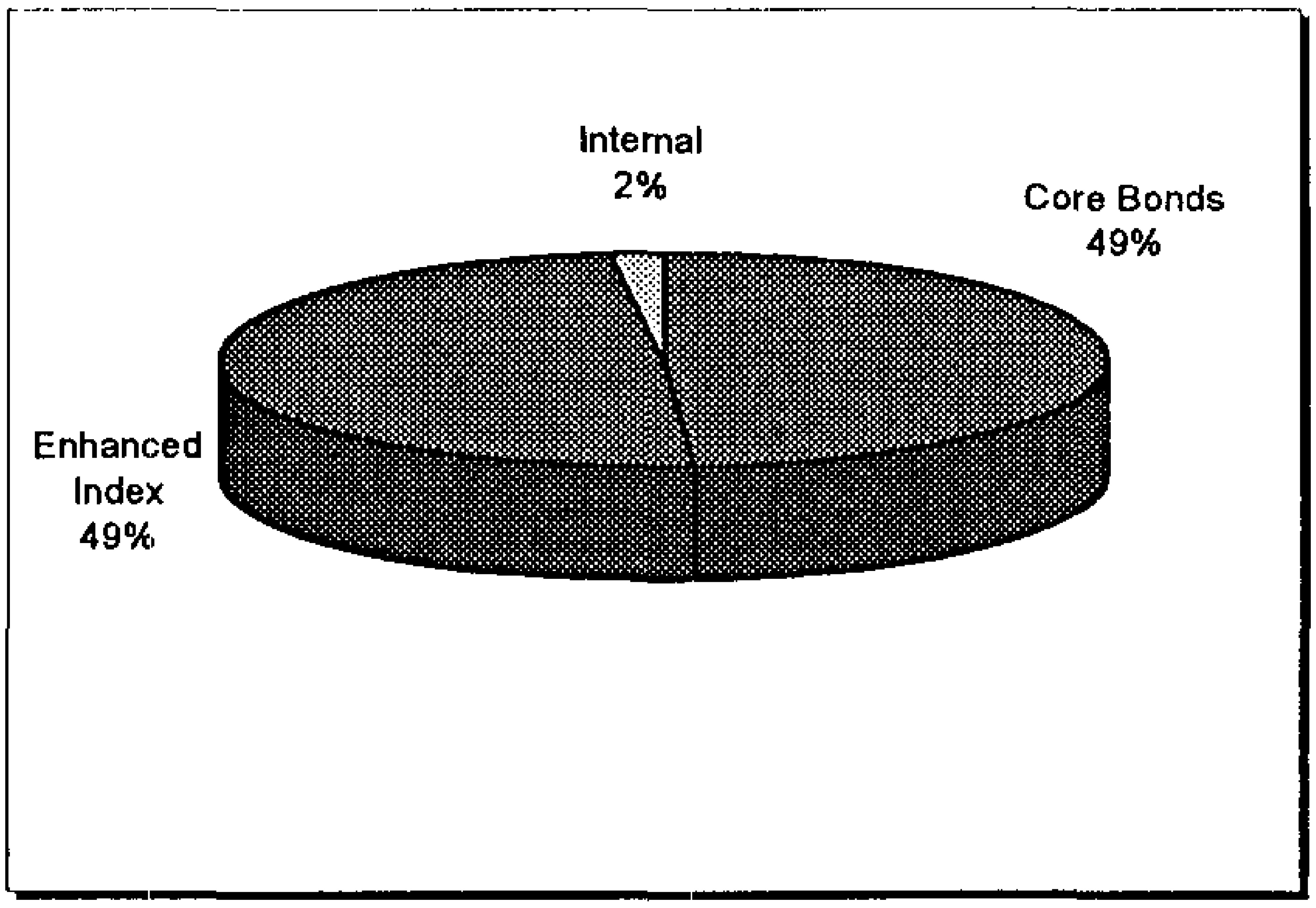
CPERS' ACTUAL ASSET ALLOCATION AS OF DECEMBER 31, 1998



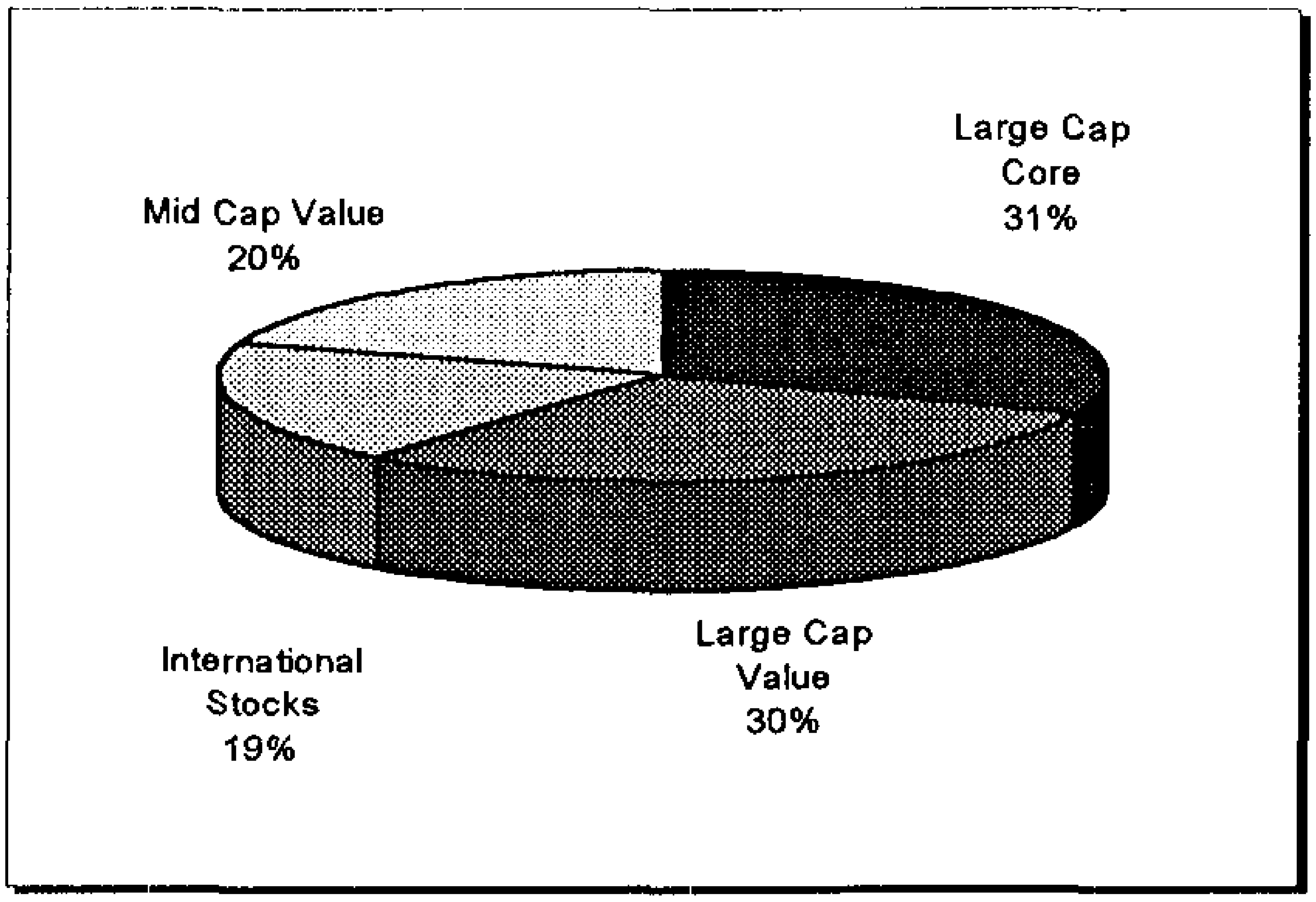
CPERS' TARGET ASSET ALLOCATION



CPERS' ACTUAL FIXED INCOME ALLOCATION AS OF DECEMBER 31, 1998



CPERS' ACTUAL EQUITY ALLOCATION



LIST OF INVESTMENTS
AS OF DECEMBER 31, 1998

FIXED INCOME

U.S. GOVERNMENT OBLIGATIONS

DESCRIPTION	COUPON RATE	MATURITY DATE	PAR VALUE	MARKET VALUE
FEDERAL HOUSING ADMIN PROJECT	7.430	12/01/2023	$ 605	$ 611
FEDERAL HOME LOAN MTG CORP DEB	6.500	12/01/2012	1,297,489	1,316,536
FEDERAL HOME LOAN MTG CORP DEB	6.000	10/01/2012	461,178	462,760
FEDERAL HOME LOAN MTG CORP DEB	5.500	04/01/2013	775,515	765,821
FEDERAL HOME LOAN MTG CORP DEB	5.500	07/01/2013	169,706	167,585
FEDERAL HOME LOAN MTG CORP DEB	5.500	07/01/2013	565,712	558,641
FEDERAL HOME LOAN MTG CORP DEB	5.500	07/01/2013	1,417,008	1,399,295
FEDERAL HOME LOAN MTG CORP DEB	6.000	06/01/2013	1,430,561	1,435,468
FEDERAL NAT'L MTG ASSN DEB	5.500	08/01/2012	280,074	276,483
FEDERAL NAT'L MTG ASSN DEB	6.500	05/01/2028	2,186,708	2,201,054
FEDERAL NAT'L MTG ASSN DEB	6.000	10/01/2028	67,539	66,652
FEDERAL NAT'L MTG ASSN DEB	6.000	03/01/2013	64,995	65,157
FEDERAL NAT'L MTG ASSN DEB	6.000	05/01/2013	843,272	845,380
FEDERAL NAT'L MTG ASSN DEB	5.500	01/01/2013	125,794	124,181
FEDERAL NAT'L MTG ASSN DEB	5.500	03/01/2013	1,394,623	1,376,744
FEDERAL NAT'L MTG ASSN DEB	5.500	11/01/2013	149,655	147,736
FEDERAL NAT'L MTG ASSN DEB	5.500	04/01/2013	1,964,778	1,939,590
FEDERAL NAT'L MTG ASSN DEB	6.000	05/01/2013	690,749	692,475
FEDERAL NAT'L MTG ASSN DEB	6.000	15 YEAR	1,000,000	1,000,000
FEDERAL NAT'L MTG ASSN DEB	5.500	07/01/2013	629,711	621,638
FEDERAL NAT'L MTG ASSN DEB	5.500	07/01/2013	1,390,041	1,372,221
FEDERAL NAT'L MTG ASSN DEB	6.500	08/01/2028	320,673	322,777
FEDERAL NAT'L MTG ASSN DEB	6.500	08/01/2028	630,179	634,313
FEDERAL NAT'L MTG ASSN DEB	6.000	12/01/2028	1,932,461	1,907,088
FEDERAL NAT'L MTG ASSN DEB	6.000	10/01/2028	377,528	372,571
FEDERAL NAT'L MTG ASSN DEB	6.000	10/01/2028	1,008,077	994,841
FEDERAL NAT'L MTG ASSN DEB	6.000	10/01/2028	105,669	104,282
FEDERAL NAT'L MTG ASSN DEB	6.000	10/01/2028	629,670	621,402
FEDERAL NAT'L MTG ASSN DEB	5.500	11/01/2013	986,354	973,709
FEDERAL NAT'L MTG ASSN DEB	5.500	11/01/2013	986,226	973,583
FEDERAL NAT'L MTG ASSN DEB	6.000	10/01/2028	901,608	889,770
FEDERAL NAT'L MTG ASSN DEB	5.500	10/01/2013	814,517	804,075
FEDERAL NAT'L MTG ASSN DEB	5.500	12/01/2013	990,000	977,308
FEDERAL NAT'L MTG ASSN DEB	5.500	12/01/2013	990,000	977,625
FEDERAL NAT'L MTG ASSN DEB	5.500	11/01/2013	2,199,592	2,171,393
FEDERAL NAT'L MTG ASSN POOL	6.000	03/01/2013	898,488	900,734
FEDERAL NAT'L MTG ASSN POOL	8.500	08/01/2024	3,820	4,001
U.S. TREASURY BONDS	6.100	08/15/2007	205,000	224,026
U.S. TREASURY BONDS	3.600	01/15/2008	2,147,739	2,105,450
U.S. TREASURY BONDS	3.600	04/15/2008	2,985,306	2,908,822
U.S. TREASURY BONDS	4.500	09/30/2000	2,350,000	2,345,606
TOTAL U.S. GOVERNMENT OBLIGATIONS			$38,368,620	$38,049,404

LIST OF INVESTMENTS
AS OF DECEMBER 31, 1998

BONDS - DOMESTIC

DESCRIPTION	COUPON RATE	MATURITY DATE	PAR VALUE	MARKET VALUE
AFC MTG LN TR ASSET CTF 1997-4 CL 1A-2	FLTG	12/22/2027	$ 458,822	$ 454,518
A T & T CAP CORP MED TERM NTS TRANCHE	6.250	05/15/2001	1,400,000	1,380,946
ALBERTSONS INC MED TERM NTS TRANCHE	6.625	06/01/2028	350,000	351,894
AMERITECH CAP FDG CORP DEB	6.550	01/15/2028	1,190,000	1,260,151
AMVESCAP PLC SR NT	6.600	05/15/2005	420,000	420,760
ASSOCIATES CORP NORTH AMER SUB NT	6.500	08/15/2002	750,000	774,443
AUTO LEASE INVS LLC 1997 AUTO 144A CL-A5	6.079	02/13/2004	2,500,000	2,539,825
BANKAMERICA CAP TRII CAP SECS	8.000	12/15/2026	250,000	275,203
BESTFOODS MEDIUM TERM NTS	6.625	04/15/2028	480,000	497,726
CIT GROUP HLDGS INC MED TERM SR NTS	6.375	10/01/2002	750,000	767,543
CITIGROUP INC NT	6.875	02/15/1998	600,000	598,458
COUNTRYWIDE HOME EQUITY LN TR CTF 97-B	FLTG	06/15/2023	539,873	540,213
CPC INTL INC MED TERM NOTES	5.600	10/15/1997	1,500,000	1,295,025
DAYTON HUDSON CORP PUTTABLE RESET SEC	5.950	06/15/2010	1,500,000	1,514,550
DEN NORSKE STATS OLJESELSKAP DEB 144A	7.375	05/01/2016	200,000	218,224
DLJ MTG ACCEP CORP SER 1998-2 MTG CL A1	6.750	06/19/2028	1,471,946	1,483,545
DLJ MTG ACCEP CORP MTG SER 98-3 CL A1	6.500	08/19/2028	961,239	962,104
DONALDSON LUFKIN & JENRETTE INC	*6.110*	*05/15/2001*	*1,000,000*	*1,002,250*
EMPRESA ELECTRICA PEHUENCHE SA NT	7.300	05/01/2003	855,000	798,561
FAIRFAX FINL HLDGS LTD NT	7.375	04/15/2018	900,000	858,942
FARMERS EXCHANGE CAP 144A	7.200	07/15/2048	500,000	500,320
FEDERATED DEPT STORES INC DEL TERM	6.125	09/01/2001	750,000	758,475
FIRST UNION LEHMAN BROS SER CL-A-8	7.170	01/18/2009	1,075,000	1,116,656
FIRSTPLUS HOME LN OWNER 1998-3 CL A-8	7.170	05/10/2024	1,000,000	985,000
FLOWERS INDS INC DEB	7.150	04/15/2028	925,000	934,768
FORD MTR CO DEL NOTES	9.000	09/15/2001	1,000,000	1,090,030
FRONTIER CORP	6.000	05/01/2023	305,000	308,309
GE GLOBAL INS HLDG CORP	7.000	02/15/2026	500,000	552,705
GMAC COML MTG SEC INC 1997-C2 CL A-3	6.566	11/15/2007	1,295,000	1,354,946
GMAC COML MTG SEC INC 1998-C2 CL A-2	6.420	05/15/2031	975,000	1,010,081
GREEN TREE FINL CORP 97-1 MFD HSG A-6	6.600	03/15/2028	1,550,000	1,595,043
GREEN TREE RECR EQUIP CONSUM 1998-C A-3	5.920	02/15/2009	1,250,000	1,267,575
GS MTG SECS CORP II COML MTG CL A-2	6.600	10/18/2030	450,000	472,397
HASBRO INC BDS	6.600	07/15/2028	550,000	558,487
HYDER PLC NT 144A	7.250	12/15/2017	650,000	661,226
IBM CORP DEB	6.220	08/01/2027	1,200,000	1,212,456
IMPAC SECD ASSETS CMB TR 1998-1 CL A-4	6.840	03/25/2012	1,800,000	1,832,058
JONES APPARAEL GROUP INC SR NT 144A	6.250	10/01/2001	970,000	968,225
LANDESKREDITBANK BADEN-WURRTEMBERG NT	7.625	02/01/2023	1,400,000	1,626,254
LEHMAN BROS HLDGS INC MED TERM NTS	6.750	09/24/2001	1,190,000	1,198,104
LITTON INDS INC SR DEB	6.750	04/15/2018	435,000	429,284
MCI COMMUNICATIONS CORP SR NT	7.125	06/15/2027	1,100,000	1,217,414
MERCK & CO INC DEB	6.300	01/01/2026	400,000	420,684
MERIT SECS CORP COLL BD SER 11-1 CL A-1	6.580	05/28/2022	426,917	426,849
MONSANTO CO DEB 144A	6.600	12/01/2028	250,000	249,538
MORGAN STANLEY CAP I INC COML MTG 1997-C1	7.630	02/15/2020	1,200,000	1,287,456
MORGAN STANLEY CAP I INC COML MTG 98-HF2	6.480	11/15/2030	600,000	624,216

BONDS – DOMESTIC (CONTINUED)

DESCRIPTION	COUPON RATE	MATURITY DATE	PAR VALUE	MARKET VALUE
MORGAN STANLEY COML MTG PA 1998-WF2	6.540	07/15/2030	$ 1,300,000	$ 1,357,993
MORTGAGE CAP FDG INC SER 97-MC1 CL A-3	7.288	03/20/2007	700,000	763,616
MORTGAGE CAP FDG INC SER 98-MC2 CL A-1	6.325	06/18/2030	873,503	895,079
NAT'L RURAL UTILS CORP FIN EURO MED TERM NT	6.250	04/15/2003	1,200,000	1,224,432
NAVISTAR FINL OWNER TR 1998-A CL A	5.940	11/15/2004	1,618,312	1,632,877
NEW YORK ST PWR AUTH REV & GEN PURP	6.260	02/15/2003	1,200,000	1,230,912
NEWS AMER HLDGS INC DEB	7.600	10/11/2015	1,985,000	2,118,035
ONYX ACCEP GRANTOR 7-2 AUTO LN	6.350	10/15/2003	1,524,700	1,535,647
PENN PWR & LT NT	6.125	05/01/2006	1,500,000	1,522,305
PENNY J C INC DEB	7.625	03/01/1997	900,000	919,638
POLAND GOVT	STEP UP	10/27/2024	435,000	294,443
PROCTER & GAMBLE GTD ESOP DEBT SER A	9.360	01/01/2021	950,000	1,258,921
PRUDENTIAL SECS SECD FING CORP 1998-C1	6.506	07/15/2008	1,150,000	1,177,980
RAYTHEON CO NT	7.000	11/01/2028	550,000	583,226
REED ELSEVIER CAP INC MED TERM NTS	7.000	05/15/2005	1,190,000	1,247,108
SALOMON INC NT	6.625	07/01/2002	750,000	768,938
SEARS CR ACCOUNT MASTER 1995-5 CL A	6.050	01/15/2008	600,000	614,442
SPRINT CAP CORP BD	6.875	11/15/2028	850,000	821,313
STRUCTURED ASSETS SECS CORP MULTI 98-C2	5.900	01/25/2013	528,479	526,355
SUNTRUST CAP II CAP SECS	7.900	06/15/2027	1,625,000	1,812,996
TCI COMMUNICATIONS INC SR NT	6.375	05/01/2003	585,000	605,223
TERRA NOVA INS U K HLDGS PLC GTD SR NT	7.000	05/15/2008	250,000	257,048
U S BK NAT'L ASSN MINNEAPOLIS MINN SUB NT	5.700	12/16/2008	1,045,000	1,037,601
U S WEST CAP FDG INC NT	6.875	07/15/2028	1,025,000	1,094,628
UNION PLANTERS MTG FIN CORP SER 1998-1 CL A-3	6.600	01/25/2028	1,000,000	1,044,980
WACHOVIA CORP NEW SUB NTS	5.625	12/15/2008	1,000,000	994,020
WILLIAMS COS INC NTS	6.500	08/01/2006	665,000	667,228
WORLDCOM INC GA SR NT	7.750	04/01/2027	1,885,000	2,156,101
TOTAL BONDS - DOMESTIC			$70,708,791	$72,816,522

BONDS – ENHANCED INDEX FUND

	UNITS	MARKET VALUE
STATE STREET GLOBAL ADVISORS	7,257,380	$118,563,819

EQUITIES

EQUITY SECURITIES - DOMESTIC

DESCRIPTION	SHARES	MARKET VALUE
AEROQUIP-VICKERS INC	33,200	$ 993,925
ALLEGHENY ENERGY INC	31,600	1,090,200
AMERICAN FINL GROUP INC OH	37,300	1,636,538

EQUITIES

EQUITY SECURITIES – DOMESTIC (CONTINUED)

DESCRIPTION	SHARES	MARKET VALUE
AMERICAN GREETINGS CORP CL A	9,000	$ 369,563
ANALOG DEVICES INC	33,000	1,035,375
ARMSTRONG WORLD INDS INC	8,800	530,750
ATMEL CORP	84,900	1,300,031
BALTIMORE GAS & ELEC CO	36,800	1,136,200
BRUNSWICK CORP	55,700	1,378,575
CALENERGY INC	48,500	1,682,344
CAROLINA PWR & LT CO	10,100	475,331
CARRAMERICA RLTY CORP	40,800	979,200
CENTRAL & SOUTH WEST CORP	40,700	1,116,706
CENTRAL NEWSPAPERS INC	18,600	1,328,738
CENTURY TEL ENTERPRISES INC	13,100	884,250
CNF TRANSN INC	20,700	777,544
COLONIAL BANCGROUP INC	95,400	1,144,800
COMPUSA INC	111,700	1,459,081
CONECTIV INC	57,600	1,411,200
CONSECO INC	44,100	1,345,050
DANA CORP	6,900	282,038
DILLARDS INC CL A	10,800	306,450
DIME BANCORP INC NEW	50,800	1,333,500
DYNEGY INC	105,700	1,156,094
ENTERGY CORP NEW	41,300	1,285,463
FIRST AMERN CORP TENN	31,000	1,375,625
FIRST SEC CORP DEL	67,800	1,584,825
FMC CORP NEW	21,100	1,181,600
FORTUNE BRANDS INC	12,500	395,313
FREMONT GEN CORP	58,200	1,465,913
GATX CORP	16,500	624,938
GENZYME CORP – GENERAL DIV	14,600	726,350
GEORGIA PAC CORP	6,000	351,375
GOODRICH B F CO	28,300	1,015,263
HANNAFORD BROS CO	23,200	1,229,600
HARRAHS ENTMT INC	29,200	458,075
HARSCO CORP	16,400	499,175
HARTE-HANKS COMMUNICATIONS	53,100	1,513,350
HASBRO INC	8,000	289,000
HIBERNIA CORP CL A	24,600	427,425
IBP INC	15,500	451,438
INTEGRATEDHEALTH SVCS INC	14,400	203,400
JOHNSON CTLS INC	26,100	1,539,900
K N ENERGY INC	12,500	454,688
KANSAS CITY PWR & LT CO	38,600	1,143,525
KERR MCGEE CORP	21,100	807,075
KIMCO RLTY CORP	23,300	924,719
KING WORLD PRODTNS INC	37,800	1,112,738
LAFARGE CORP	11,300	457,650
LANCASTER COLONY CORP	22,600	726,025
LEAR CORP	13,400	515,900

EQUITIES

EQUITY SECURITIES – DOMESTIC (CONTINUED)

DESCRIPTION	SHARES	MARKET VALUE
LIMITED INC	8,700	$ 253,388
LSI LOGIC CORP	63,100	1,017,488
LUBRIZOL CORP	12,100	310,819
MALLINCKRODT INC NEW	30,200	930,538
MCCORMICK & CO INC COM NON VTG	9,000	304,313
MCN ENERGY GROUP INC	40,400	770,125
NAVISTAR INTL CORP NEW	17,400	495,900
NIPSCO INDS INC	31,700	964,869
NOBLE DRILLING CORP	42,900	555,019
NORTH FORK BANCORPORATION	41,000	981,438
NORTHERN STS PWR CO MINN	40,100	1,112,775
NORTHROP GRUMMAN CORP	12,700	928,688
OFFICE MAX INC	99,000	1,212,750
OLD REP INTL CORP	2,000	45,000
OLIN CORP	25,500	721,969
ORION CAP CORP	33,000	1,313,813
PACIFIC CENTURY FINL CORP	71,600	1,745,250
PACIFICARE HEALTH SYS INC CL B	5,200	413,400
PENTAIR INC	17,500	696,719
PEOPLES HERITAGE FINL GROUP	68,500	1,370,000
PINNACLE WEST CAP CORP	27,600	1,169,550
POLICY MGMT SYS CORP	13,000	656,500
PROMUS HOTEL CORP NEW	25,800	835,275
PROVIDENT FINL GROUP INC	36,700	1,385,425
PUBLIC STORAGE INC	23,500	635,969
RELIANCE GROUP HLDGS INC	117,000	1,506,375
REYNOLDS & REYNOLDS CO CL A	44,300	1,016,131
ROUSE CO	45,700	1,256,750
RYDER SYS INC	42,700	1,110,200
SAKS INC	15,500	489,219
SEMPRA ENERGY	12,800	324,800
SONOCO PRODS CO	44,700	1,324,238
SOVEREIGN BANCORP INC	103,600	1,476,300
SPEIKER PPTYS IN C	4,500	155,813
SUPERVALU INC	28,000	784,000
TCF FINL CORP	7,000	169,313
TECH DATA CORP	24,600	990,150
TECO ENERGY INC	22,600	637,038
TENNECO INC NEW	38,300	1,304,594
TIDEWATER INC	9,100	211,006
TIMKEN CO	79,000	1,491,125
TRANSOCEAN OFFSHORE INC	40,900	1,096,631
TRINITY INDS INC	26,600	1,024,100
UNICOM CORP COM	31,200	1,203,150
UNION PLANTERS CORP COM	25,700	1,164,531
UNITED STATES CELLULAR CORP	30,200	1,147,600
UNITED STATES FILTER CORP COM	58,700	1,342,763
UNIVERSAL HEALTH SVCS INC CL B	18,200	944,125
USG CORP	21,300	1,084,969

EQUITIES

EQUITY SECURITIES – DOMESTIC (CONTINUED)

DESCRIPTION	SHARES	MARKET VALUE
UST INC	36,500	1,272,938
USX-MARATHON GROUP	49,700	1,497,213
USX-U S STL GROUP	51,400	1,182,200
UTILCORP UTD INC	33,000	1,210,688
VORNADO RLTY TR	36,800	1,232,800
WARNACO GROUP INC CL A	20,300	512,575
WESTERN RES INC	18,800	625,100
WESTVACO CORP	48,700	1,305,769
WHIRLPOOL CORP	4,400	243,650
YORK INTL CORP NEW	12,000	489,750
TOTAL EQUITY SECURITIES - DOMESTIC	3,696,200	$101,568,415

EQUITY SECURITIES – RUSSELL 1000 INDEX FUND

	UNITS	MARKET VALUE
BARCLAYS GLOBAL INVESTORS	4,367,915	$155,797,579

EQUITY SECURITIES – S & P 500 INDEX FUND

BARCLAYS GLOBAL INVESTORS	532,297	$161,282,160

EQUITY SECURITIES - INTERNATIONAL

CAPITAL GUARDIAN INTL NON-U.S. EQUITY - #003	559,774	$ 99,113,587

REPURCHASE AGREEMENTS

DESCRIPTION	RATE	DATE	MATURITY VALUE	MARKET VALUE
CANTOR DTD 12/31/98	4.32%	1/4/99	$13,340,000	$ 13,340,000
TOTAL CASH EQUIVALENTS			$13,340,000	$ 13,340,000
TOTAL INVESTMENTS				$760,531,486

INVESTMENT PERFORMANCE MEASUREMENTS

	Rate of Return	Rank**
Comparative Rates of Return on Total Fund – Year Ended December 31, 1998		
City-Parish Employees' Retirement System	13.8%	42
Comparison indicies:		
Total Fund Median	13.0%	50
Allocation Index *	16.7%	25
Comparative Rates of Return on Domestic Equities – Year Ended December 31, 1998		
City-Parish Employees' Retirement System	17.1%	43
Comparison indicies:		
Global Equity Fund Median	14.3%	50
Russell 3000	24.1%	30
Comparative Rates of Return on International Equities – Year Ended December 31, 1998		
City-Parish Employees' Retirement System	15.2%	43
Comparison indicies:		
Median International Equity	14.3%	50
EAFE	20.3%	11
Comparative Rates of Return on Fixed Income Securities – Year Ended December 31, 1998		
City-Parish Employees' Retirement System	8.2%	52
Comparison indicies:		
Bond Fund Median	8.4%	50
Lehman Brothers Aggregate Bond Index	8.7%	40

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, 1998	13.8%	42
Two-year period ending December 31, 1998	15.7%	49
Three-year period ending December 31, 1998	13.9%	68
Four-year period ending December 31, 1998	16.5%	65
Five-year period ending December 31, 1998	11.5%	80

* The allocation index indicates the return that would have been produced if the same percentage of assets on a quarterly basis were invested in the appropriate market indicies.

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

ANNUAL RATES OF RETURN

	YEARS ENDING DECEMBER 31					ANNUALIZED	
	1994	1995	1996	1997	1998	3 YRS.	5 YRS.
TOTAL FUND							
City-Parish Employees' Retirement System	(6.4%)	24.6%	10.5%	17.6%	13.8%	13.9%	11.5%
Total Fund Median	(1.7%)	24.7%	13.1%	18.0%	13.0%	14.9%	13.5%
Inflation (CPI)	2.6%	2.5%	3.3%	1.8%	1.6%	2.2%	2.4%
DOMESTIC EQUITY							
City-Parish Employees' Retirement System	0.9%	39.4%	19.8%	26.3%	17.1%	21.0%	20.0%
Median Domestic Equity	0.0%	33.3%	21.5%	27.9%	14.3%	21.2%	22.3%
Russell 3000	0.2%	36.8%	21.8%	31.8%	24.1%	25.8%	20.0%
INTERNATIONAL EQUITY							
City-Parish Employees' Retirement System	N/A	N/A	15.6%	10.5%	15.2%	13.7%	N/A
Median International Equity	N/A	N/A	16.0%	7.4%	14.3%	12.7%	N/A
EAFE	N/A	N/A	6.4%	2.1%	20.3%	9.3%	N/A
FIXED INCOME							
City-Parish Employees' Retirement System	(9.8%)	23.9%	2.3%	11.8%	8.2%	7.4%	6.7%
Bond Fund Median	(2.6%)	18.0%	4.2%	9.6%	8.4%	7.3%	7.2%
Lehman Brothers Aggregate Index	(2.9%)	18.5%	3.6%	9.7%	8.7%	7.3%	7.3%

SCHEDULE OF BROKERAGE COMMISSIONS PAID
FOR THE YEAR ENDED DECEMBER 31, 1998

Brokerage Firm	Shares Traded	Commission Dollar Amount	Commission Per Share
Investment Technology Group	2,969,043	$60,612.86	$0.0204
INSTINET	856,938	20,601.26	0.0240
Bear Stearns	945,600	47,055.00	0.0498
Goldman Sachs	616,845	31,231.25	0.0506
Quaker Securities, Inc.	485,100	9,715.00	0.0200
Neuberger & Berman	441,400	13,242.00	0.0300
Morgan Stanley	513,600	23,069.60	0.0449
Cantor-Fitzgerald	389,640	15,084.60	0.0387
Spear, Leed's & Kellog	318,200	5,942.50	0.0187
Smith, Barney, Shearson	261,800	11,284.00	0.0431
First Boston Corporation	188,000	10,140.00	0.0539
Oppenheimer, Inc.	317,700	12,708.00	0.0400
Jefferies & CO	203,400	11,196.00	0.0550
Lehman Brothers, Inc.	170,900	8,256.50	0.0483
Merrill, Lynch, Pierce, Fenner	220,700	11,429.00	0.0518
Charles Schwab & CO, Inc.	185,300	5,709.00	0.0308
Standard and Poors Securities	116,500	6,048.00	0.0519
Tucker Anthony & R.L. Day	109,000	6,540.00	0.0600
Conning & CO	95,500	5,730.00	0.0600
Correspondent Services Corp.	85,300	3,543.00	0.0415
Pershing	82,500	3,795.00	0.0460
C.J. Lawrence/Deutsche Bank SEC	72,600	4,356.00	0.0600
Paine Webber, Inc.	68,200	4,092.00	0.0600
Alex Brown & Sons	64,300	2,874.00	0.0447
Rohm and Haas	60,600	3,396.00	0.0560
Cowen and Company	59,000	3,540.00	0.0600
Factset Data Systems, Inc.	34,700	2,082.00	0.0600
Jones & Associates	33,400	1,437.00	0.0430
Alpha	32,600	1,956.00	0.0600
Wagner Scott Clearing Corp.	30,000	1,800.00	0.0600
IDS	27,900	1,582.00	0.0567
Frank Russell Securities	27,100	1,355.00	0.0500
Donald Lufkin & Jen. Securities	31,800	1,431.00	0.0450
Fidelity Capital Markets	22,600	1,242.00	0.0550
SEI Financial Services	20,100	1,005.00	0.0500
Prudential-Bache Securities	19,000	1,140.00	0.0600
Sanford C. Bernstein	17,200	1,032.00	0.0600
Others (23 firms) *	235,119	11,223.25	0.0477
Total	$10,429,185	$368,475.82	$0.0353

* Firms that had less than $1,000 in commissions paid.

actuarial section

comprehensive annual financial report

City of Baton Rouge and Parish of Baton Rouge

Employees' Retirement System

CITY OF BATON ROUGE ★ PARISH OF EAST BATON ROUGE ★

Stanley,
Holcombe
& Associates, Inc.

April 21, 1999

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 sixth annual valuation of the Employees' Retirement System of the City of Baton Rouge and Parish of East Baton Rouge as of January 1, 1999. 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 1999 year is set to 16.13%, as shown in Exhibit 2. Exhibit 1 provides the details of the funding approach.

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, 1998 was $740,257,038, which compares to a market value of $762,739,589. The method was last reinitialized at Market Value as of January 1, 1996. Details of the calculation are shown in Exhibit 6.

Eight Piedmont Center/Suite 310 • 3525 Piedmont Road, N.E. • Atlanta, GA 30305
(404) 262-7522 • Fax (404) 262-9413

In performing the January 1, 1999 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, 1999 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. For 1998 the amortization approach is within the parameters of GASB 25/27. 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 11) and the Schedule of Employer Contributions (Exhibit 11) 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 L. 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/ct
BROUGECAFRB

Enclosures: (Exhibits 1, 2, 6, 8, 9, 11, 12, 14, 15, 16, 17)

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% per year for each year under 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:

None.

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

Valuation Date: January 1, 1999.

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 (not applicable for 1999)

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, 1998 was furnished by Retirement Office. Compensated absence data as of December 31, 1998 was furnished by Department of Finance.
Changes Since Prior Valuation:	None.

ACCRUED LIABILITY ANALYSIS FOR 1998 AND 1997
(9.5% MEMBER CONTRIBUTION RATE)

	1998	1997
Present Value of Future Benefits:		
Active Members:		
Retirement	$519,553,470	$489,010,820
Disability	8,671,261	8,296,518
Death	8,344,151	8,261,881
Total	536,568,882	505,569,219
Retired Members and Beneficiaries:		
Service Retirement & Beneficiaries	255,943,264	235,849,544
Disability Retirements	16,058,873	15,038,241
Terminated Vested Members	2,027,160	1,942,010
Leave Balances	950,538	780,919
DROP (Future Benefits)	97,882,661	92,336,297
DROP (Accounts)	67,104,502	60,163,822
COLA Benefits	8,127,696	8,003,116
Total	448,094,694	414,113,949
Total Accrued Liability	$984,663,576	$919,683,168

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

Date Established	Initial Amount	Remaining Balance At 12/31/97	Amortization Payment as Of 01/01/98	Remaining Balance At 12/31/98	Amortization Payment as Of 01/01/99
12/31/94	$176,656,909	$184,063,084	$11,886,560	$185,950,645	$12,362,022
12/31/95	(12,401,873)	(12,725,862)	(821,820)	(12,856,365)	(854,693)
12/31/96	17,458,146	17,669,815	1,141,094	17,851,019	1,186,738
12/31/97	(12,493,691)	(12,493,691)	(806,827)	(12,621,813)	(839,100)
12/31/98	(43,504,837)	--	--	(43,504,837)	(2,892,207)
		$176,513,346	$11,399,007	$134,818,649	$ 8,962,760

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

Entry Age Normal Actuarial Accrued Liability as of December 31, 1998:

Active Members	$426,980,993
Retired Members and Beneficiaries	448,094,694
Total	875,075,687
Actuarial Asset Value as of December 31, 1998	740,257,038
Unfunded Actuarial Accrued Liability as of December 31, 1998	$134,818,649

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

A. Unfunded Actuarial Accrued Liability as of December 31, 1997	$176,513,346
B. Normal Cost for 1998	6,568,507
C. Interest at 8% on (A) and (B)	14,646,548
D. City Contributions	(19,727,542)
E. Interest on (D)	(789,102)
F. Expected Unfunded Actuarial Accrued Liability as of December 31, 1998	177,211,757
G. 1998 (Gain)	(42,393,108)
H. Unfunded Actuarial Accrued Liability as of December 31, 1998	134,818,649
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, 1998	$134,818,649

SUMMARY OF ACTUARIAL ACCRUED LIABILITIES AND PERCENTAGE COVERED BY NET ASSETS AVAILABLE FOR BENEFITS FOR THE SEVEN YEARS ENDED DECEMBER 31, 1998

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
12/31/98	378,012,494	2,977,698	157,699,747	336,385,748	762,739,589	100.0	100.0	100.0	66.6

*Including DROP participants' future benefits.

**Including DROP accounts.

***For 1992, 1993, and 1994 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 – 1998 RESULTING FROM DIFFERENCES BETWEEN ASSUMED EXPERIENCE AND ACTUAL EXPERIENCE

	$ Gain or (Loss) For Year				
Elements of Experience	1994	1995	1996	1997	1998
Investment Return	$ (40,075,000)	$ (7,834,000)	$ (825,000)	$ 16,693,000	$ 57,642,000
Salary Increases	3,309,000	(8,908,000)	(6,223,000)	3,099,000	(8,544,000)
Retirements	(2,428,000)	1,646,000	(1,307,000)	2,982,000	(577,000)
Mortality	988,000	(379,000)	(861,000)	(1,457,000)	139,000
Disability	(446,000)	(302,000)	(287,000)	(388,000)	(445,000)
Turnover	(2,344,000)	(1,314,000)	(1,792,000)	(2,817,000)	(2,344,000)
New Members	(3,071,000)	(2,128,000)	(1,855,000)	(2,137,000)	(2,262,000)
Leaves, Transfers, Etc.	(2,162,000)	(2,021,000)	(1,476,000)	(1,552,000)	(1,236,392)
Gain or (Loss) from Financial Experience	(46,229,000)	(21,240,000)	(14,626,000)	14,423,000	42,392,608
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	$ 42,392,608

EMPLOYER CONTRIBUTION CALCULATION RESULTS FOR 1998 AND 1997
(9.5% MEMBER CONTRIBUTION RATE)

		1998	1997
A.	Present Value of Future Benefits	$984,663,576	$919,683,168
B.	Actuarial Asset Value	740,257,038	635,463,896
C.	Present Value of Future Member Contributions	59,493,226	58,322,181
D.	Unfunded Actuarial Accrued Liability	134,818,649	176,513,346
E.	Present Value of Future Normal Costs (A-B-C-D)	50,094,663	49,383,745
F.	Present Value of Future Payrolls	813,240,597	796,865,433
G.	Normal Cost as a Percentage of Payroll (E/F)	6.160%	6.197%
H.	Current Payroll of Active Members *	108,719,084	105,994,944
I.	Total Normal Cost - Beginning of Year	N/A	N/A
J.	City Normal Cost - Beginning of Year	6,697,096	6,568,507
K.	30-Year Amortization of (D), from 1/1/95 (27 years remaining)	11,547,857	14,946,120
L.	Total City Contribution	18,244,953	21,514,627

* For Members under Expected Retirement Age.

ACTIVE MEMBERSHIP DATA
FOR THE SEVEN YEARS ENDED DECEMBER 31, 1998

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
12/31/98	4,012	(0.1)	118,742,991	29,597	4.1

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

SCHEDULE OF RETIREES AND BENEFICIARIES ADDED
FOR THE SEVEN YEARS ENDED DECEMBER 31, 1998

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
12/31/98	2,089	154	64	4.5	37,506,535	7.7

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

TOTAL MEMBERSHIP DATA

Actives:

	1998		1997	
	Count	Average Salary	Count	Average Salary
BREC	192	$23,588	186	$22,902
Regular	2,680	26,705	2,702	26,014
Fire	565	34,491	554	31,634
Police	575	40,275	573	38,444
Total	4,012	$29,597	4,015	$28,419

Annuitants:

	1998		1997	
	Count	Average Annuity	Count	Average Annuity
Retirees and Survivors	1,665	$16,327	1,583	$15,825
Disabilities	140	10,948	140	10,224
DROP	284	30,948	276	30,220
Total	2,089	$17,594	1,999	$17,421

Inactive members:

	1998		1997	
	Count	Average Deferred Annuity	Count	Average Deferred Annuity
Deferred vested	28	$10,202	27	$10,405

statistical section

comprehensive annual financial report

City of Baton Rouge and Parish of Baton Rouge

Employees' Retirement System

CITY OF BATON ROUGE

PARISH OF EAST BATON ROUGE

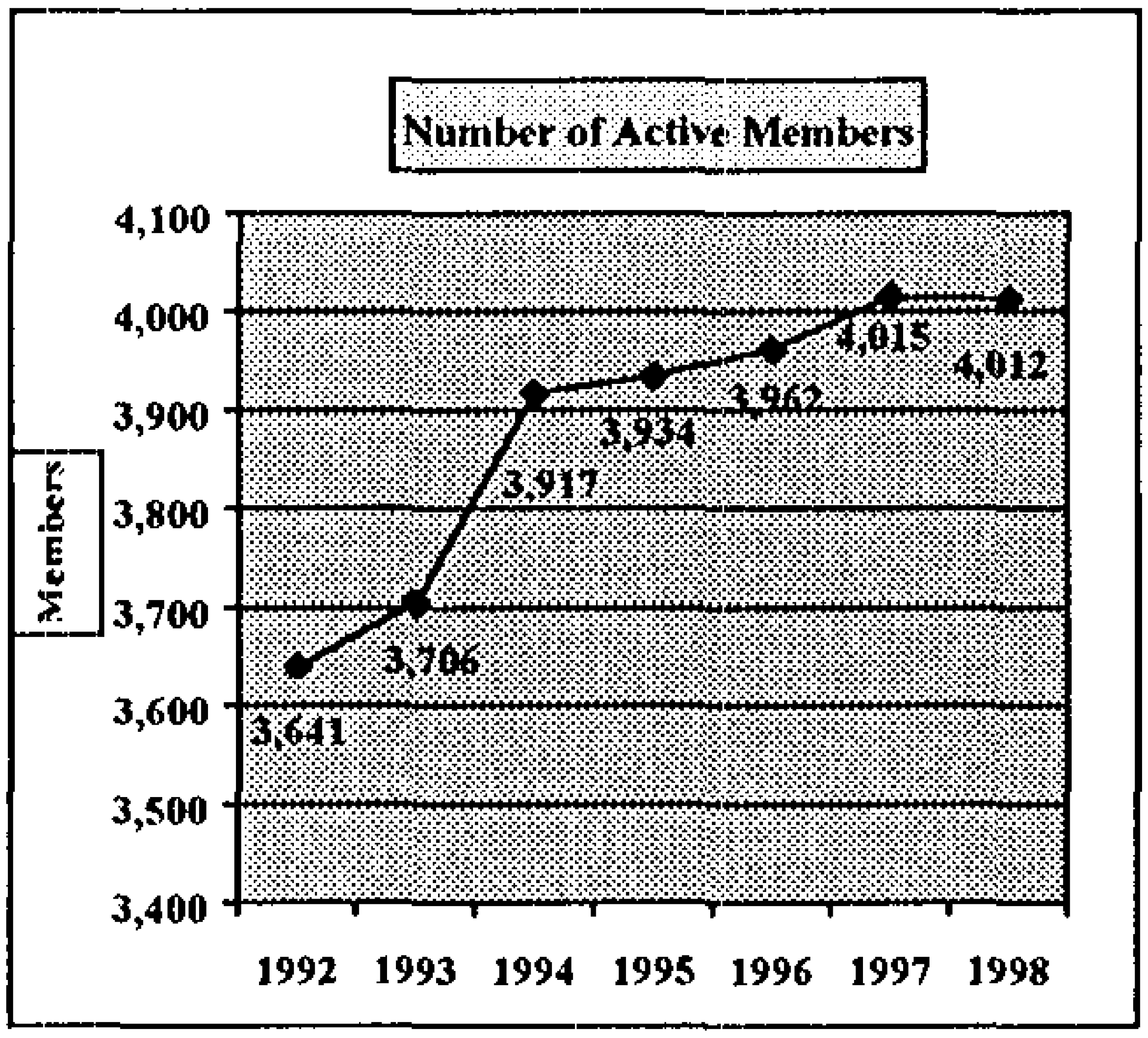
SEVEN-YEAR INFORMATION ON SELECTED DATA

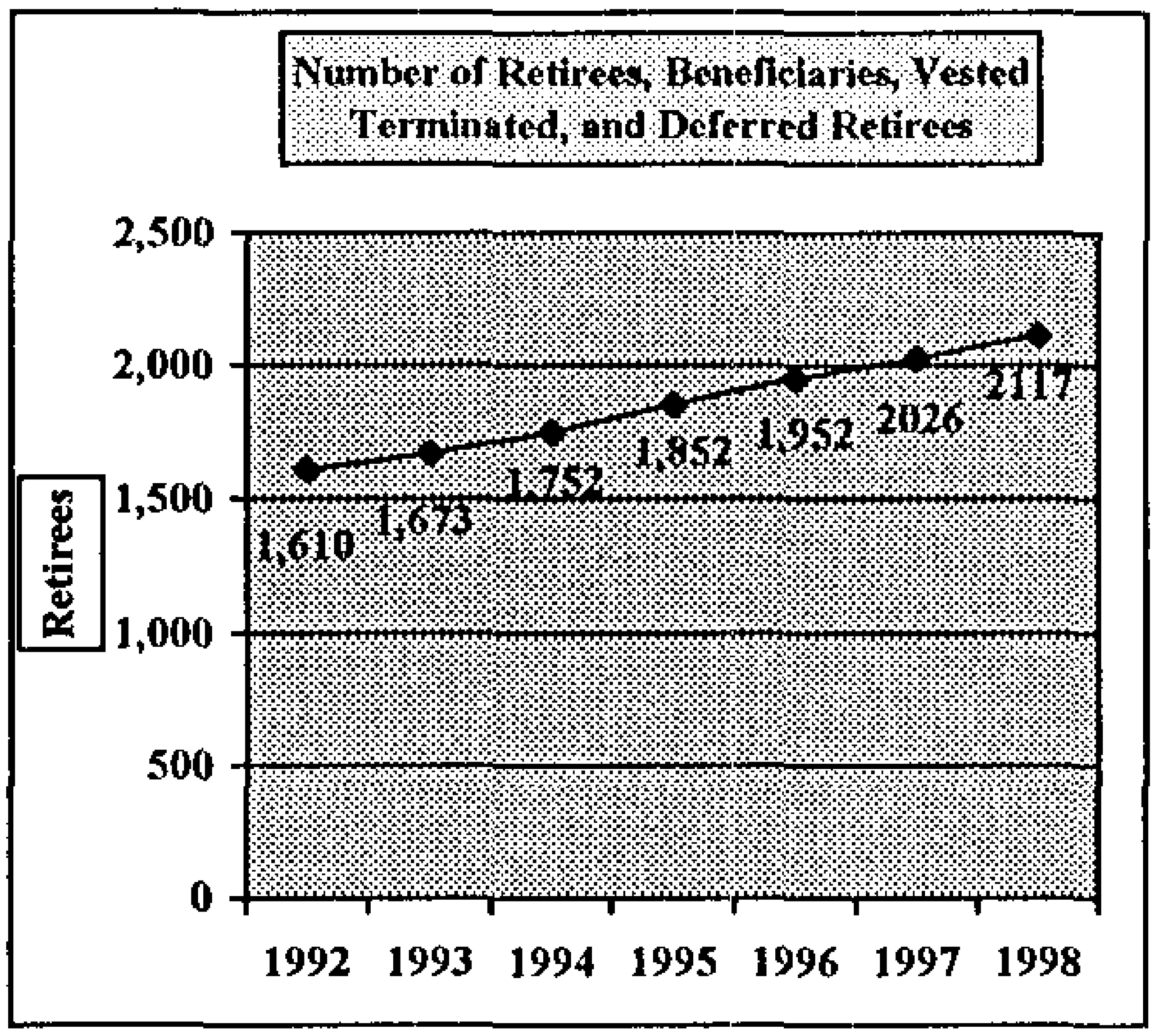
NUMBER OF ACTIVE MEMBERS

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%
1998	4,012	(0.07%)

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%
1998	2,117	4.5%





SEVEN-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
1998	1,811	28,752,074

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
1998 **	382	8,025,626

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

** Rollovers related to deferred retirement accounts in 1998 were $4,577,853.

NUMBER OF EXCESS BENEFIT PLAN PARTICIPANTS AND BENEFIT EXPENSES

Fiscal Year	Excess Benefit Plan Participants	Benefit Expenses
1998	2	$ 13,101

SEVEN-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%
1998	1,323	1.07%

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% *
1998	1,751	(57.91%)

* 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%)
1998	225	(13.8%)

SEVEN-YEAR INFORMATION ON SELECTED DATA

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%
1998	12	0.00%

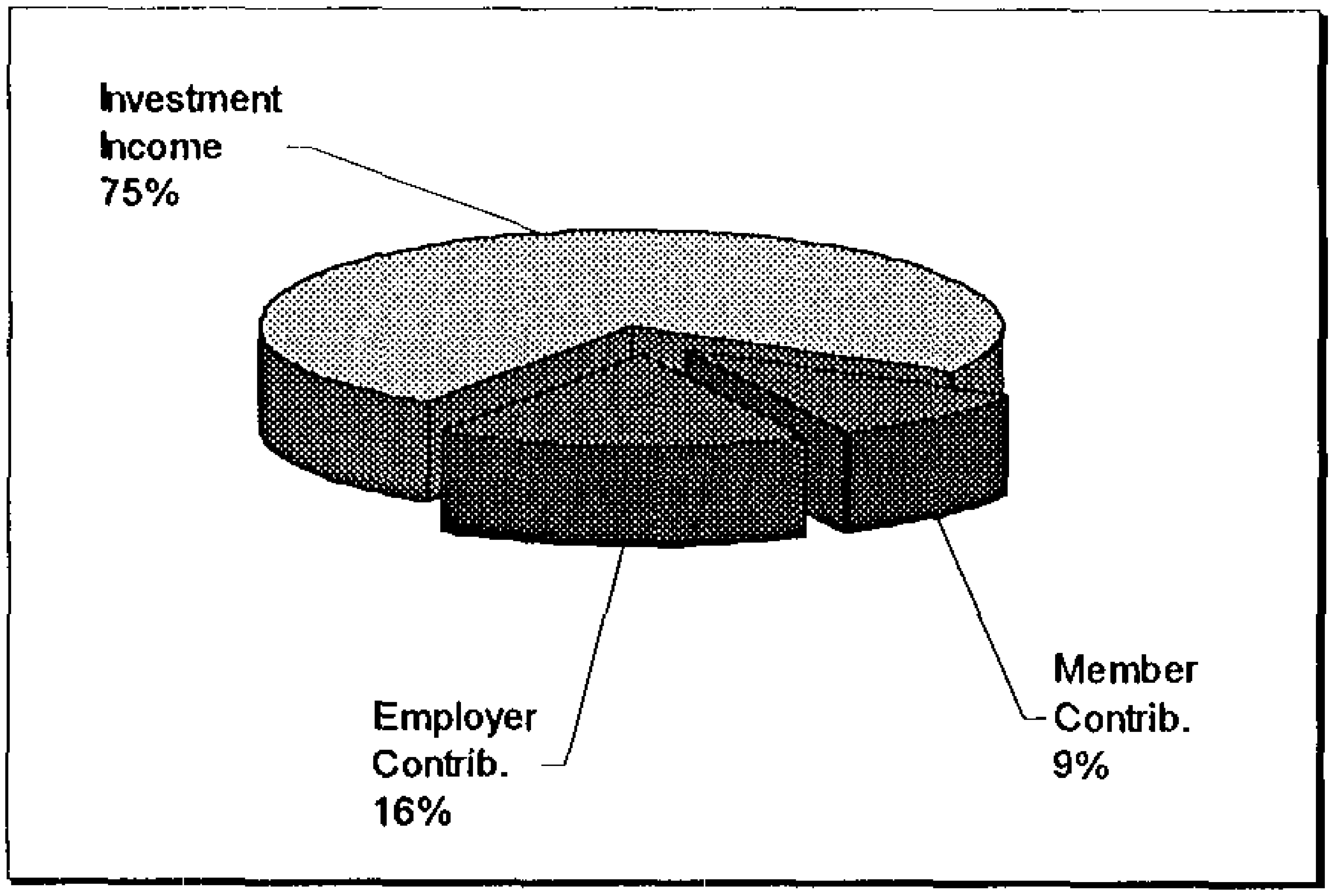
REVENUES BY SOURCE

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
1998	11,632,339	20,120,542	90,727,919	122,480,800

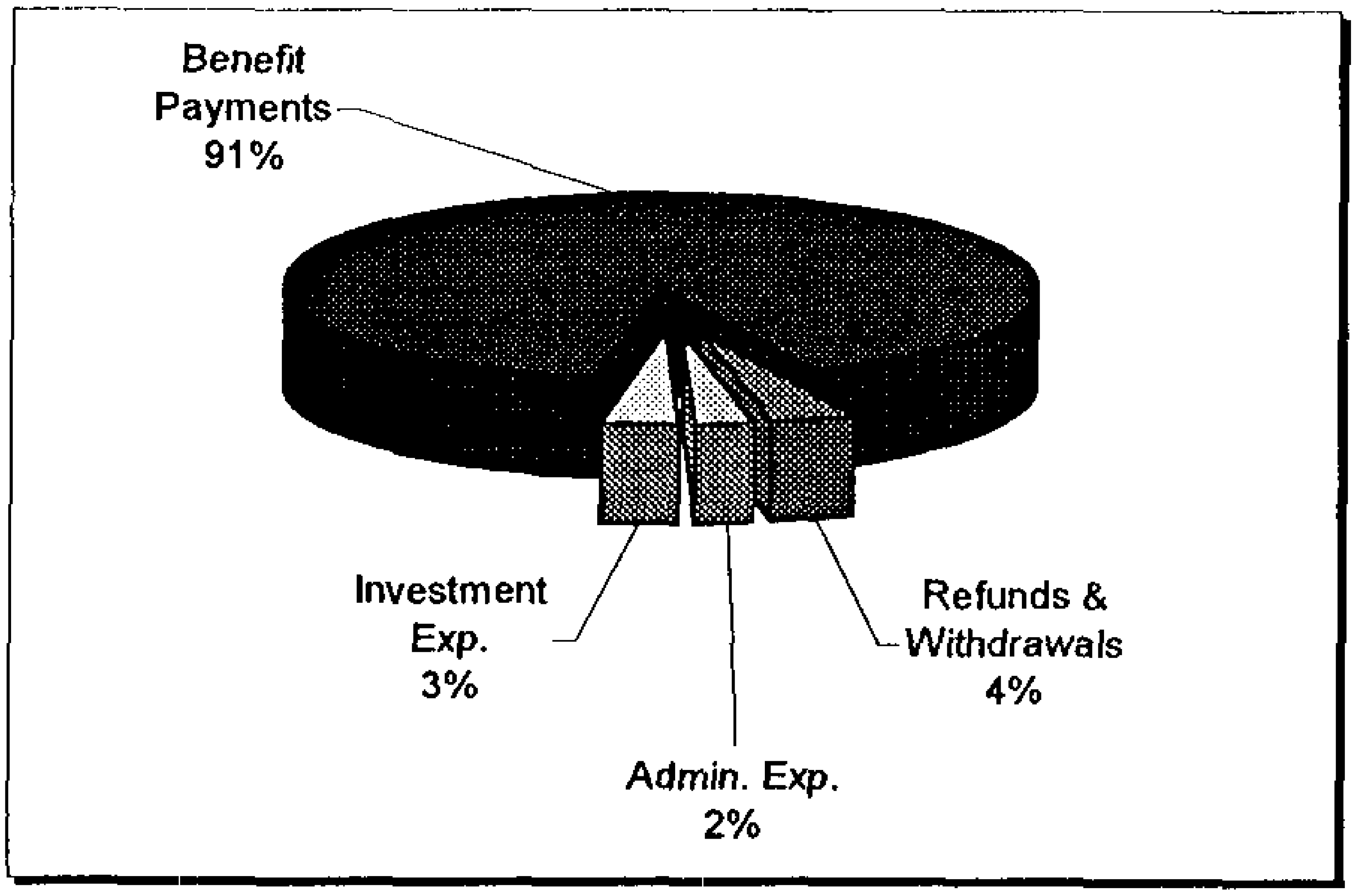
EXPENSES BY TYPE

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
1998	37,095,474	1,493,287	1,015,699	1,382,760	40,987,220

CPERS' REVENUE BY SOURCE FOR 1998



CPERS' EXPENSES BY TYPE FOR 1998



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)

alternative retirement plans

comprehensive annual financial report

City of Baton Rouge and Parish of Baton Rouge

Employees' Retirement System

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.

Employees' Retirement System

209 St. Ferdinand Street Baton Rouge, LA 70802
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Suite 3500 One Shell Square
New Orleans, LA 70139-3599

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

Member of the Board of Trustees
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 System), as of and for the year ended December 31, 1998, and have issued our report thereon dated April 27, 1999. 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 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 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 solely for the information and use of the Board of Trustees of the Plan, the System's management, the City of Baton Rouge/Parish of East Baton Rouge, and the Legislative Auditor's Office and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

April 27, 1999