

STATEMENT OF NET ASSETS AVAILABLE FOR PENSION BENEFITS

ASSETS	1998	1997
Cash	\$16,744,207	\$0
Investments, at market value	2,768,601,796	2,597,882,602
Accrued Investment Income	16,356,141	16,216,919
Contributions Receivable	7,432,256	6,918,186
Receivables from Investment Sales	494,192,607	333,481,691
Other Accounts Receivable	122,205	109,984
TOTAL ASSETS	\$3,303,449,212	\$2,954,609,382
LIABILITIES		
Book Cash Overdraft	0	11,699,017
Payables for Investment Purchases	510,498,695	360,711,991
Claims Payable to Retirants and Beneficiaries	2,311,418	2,384,605
Accrued Pension Benefits	27,156,910	24,028,650
Due to Other Funds	1,486,934	1,390,502
Other Liabilities	32,467,843	32,770,842
TOTAL LIABILITIES	\$573,921,800	\$432,985,607
FUND BALANCES		
Annuity Reserves:		
Annuity Savings Fund	625,611,007	523,836,302
Annuity Reserve Fund	24,506,555	24,010,164
Pension Reserves:		
Pension Accumulation Fund	794,174,412	661,294,342
Pension Reserve Fund	1,137,807,909	1,124,272,085
Market Stabilization Fund	147,427,529	188,210,882
TOTAL FUND BALANCES	\$2,729,527,412	\$2,521,623,775
TOTAL LIABILITIES & FUND BALANCES	\$3,303,449,212	\$2,954,609,382

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE

	ANNUITY RESERVES			PENSION RESERVES		TOTAL	
	ANNUITY SAVINGS FUND	ANNUITY RESERVE FUND	MARKET VALUE RESERVE	PENSION ACCUMULATION FUND	PENSION RESERVE FUND	1998	1997
Revenues:							
City Contributions	\$0	\$0	\$0	\$52,707,172	\$0	\$52,707,172	\$54,655,929
Members' Contributions	20,930,239	0	0	58,091	0	20,988,330	17,105,531
Investment Income-Net	131,071,877	1,785,964	(40,783,353)	132,650,994	108,269,875	332,995,357	284,450,726
TOTAL REVENUES	152,002,116	1,785,964	(40,783,353)	185,416,257	108,269,875	406,690,859	356,212,186
Expenses:							
Pension & Annuity Benefits	0	2,835,075	0	0	143,695,180	146,530,255	141,554,628
General & Administrative Expenses	0	0	0	3,291,701	0	3,291,701	3,444,890
Refunds	48,279,068	53,036	0	633,162	0	48,965,266	69,445,410
TOTAL EXPENSES	48,279,068	2,888,111	0	3,924,863	143,695,180	198,787,222	214,444,929
Excess (Deficiency) of Revenue Over (under) Expenses:							
Transfers-Net	103,723,048	(1,102,147)	(40,783,353)	181,491,394	(35,425,305)	207,903,637	141,767,257
Fund Balances at Beginning of Year	(1,948,343)	1,598,538	0	(48,611,324)	48,961,129	0	0
Fund Balances at Beginning of Year	523,836,302	24,010,164	188,210,882	661,294,342	1,124,272,085	2,521,623,775	2,379,856,518
FUND BALANCES AT END OF YEAR	\$625,611,007	\$24,506,555	\$147,427,529	\$794,174,412	\$1,137,807,909	\$2,729,527,412	\$2,521,623,775

1997-1998 FISCAL YEAR INVESTMENT ACTIVITY

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The Board of Trustees has adopted the following goals and objectives which are designed to meet the 7.50% actuarial assumed rate of return for the fund:

- An 8.25% total return, net of investment management fees, and a 3% real (inflation adjusted) return objective.
- Total fund to consistently rank in the top half of total public fund universe and to meet or exceed policy index.
- Investment managers to consistently rank in the top half of appropriate public fund universe and to meet or exceed appropriate index.
- Above average risk-adjusted returns, when compared to comparable funds.

- Risk exposure of total fund to be centered in the mid-range of comparable total public funds.
- Results generally measured over a full market cycle, approximately 3-5 years.

During the 1997-1998 fiscal year, the Board reviewed the asset liability model for the Plan and continued to adjust from its current asset allocation to the target asset allocation. The target allocation plan is designed to increase return, reduce risk, and create a more efficient portfolio mix. The revised long-term strategy appears on page 5 and page 32.

The Board also made changes by replacing a domestic "mid-cap" growth equity manager, an international

equity manager, and a domestic fixed income manager. The Board expanded its alternative investment allocation by hiring a risk arbitrage manager and a commodities index manager.

During the next fiscal year, the Board plans to expand the alternative investment allocation by hiring several limited partnerships that specialize in mezzanine debt financing, venture capital, and other unique types of investment strategies. The Board also plans to participate in several opportunistic real estate co-mingled funds that will be a complement to our "core" real estate managers. The Board will continue rebalancing the portfolio and focus on reducing expenses wherever practical.

SUMMARY OF ASSUMPTIONS USED FOR DGRS ACTUARIAL VALUATIONS

assumptions adopted by board of trustees after consulting with actuary

ECONOMIC ASSUMPTIONS

THE INVESTMENT RETURN RATE used in making the valuation was 7.5% per year, compounded annually (net after administrative expenses). The real rate of return is the portion of total investment return which is more than the inflation rate. Considering other economic assumptions, the 7.5% total investment return rate translates to an assumed real rate of return of 3.0%.

PAY INCREASE ASSUMPTIONS for individual active members have been calculated. Part of the assumption for each age is for a merit and/or seniority increase, and the other 4.5% recognizes inflation.

TOTAL ACTIVE MEMBER PAYROLL is assumed to increase 4.5% annually, which is the portion of the individual pay increase assumptions attributable to inflation.

NON-ECONOMIC ASSUMPTIONS

THE NUMBER OF ACTIVE MEMBERS is assumed to continue at the present number.

THE MORTALITY TABLE used to measure retired life mortality was 80% of the 1983 Group Annuity Mortality Table. This table was first used for the June 30, 1998 valuation.

THE PROBABILITIES OF RETIREMENT for members eligible to retire have been calculated. These probabilities were revised for the June 30, 1998 valuation.

THE PROBABILITIES OF SEPARATION from service (including *death-in-service* and *disability*) are shown for sample ages. These probabilities were revised for the June 30, 1998 valuation.

FUNDING METHODS

THE ENTRY AGE ACTUARIAL COST METHOD was used in determining age & service pension liabilities and normal cost, vesting liabilities and normal cost, and casualty pension liabilities and normal cost.

DIFFERENCES BETWEEN ASSUMED EXPERIENCE AND ACTUAL EXPERIENCE ("actuarial gains and losses") become part of actuarial accrued liabilities and are amortized over a 15 year period.

UNFUNDED ACTUARIAL ACCRUED LIABILITIES (net of actuarial gains and losses after 6/30/92) are amortized over a 25 year period, with 20 years remaining, to produce contribution amounts (principal & interest) which are level percent of payroll contributions.

EMPLOYER CONTRIBUTION dollars were assumed to be paid in equal monthly installments throughout the employer fiscal year.

PRESENT ASSETS (cash & investments) were valued at market.

THE DATA ABOUT PERSONS NOW COVERED AND ABOUT PRESENT ASSETS were furnished by the System's administrative staff. Although examined for general reasonableness, the data was not audited by the Actuary.

The actuarial valuation computations were made by or under the supervision of a Member of the American Academy of Actuaries (M.A.A.A.).

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