COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

CITY OF BATON ROUGE AND PARISH OF EAST 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

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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, 2002

JEFFREY R. YATES
RETIREMENT ADMINISTRATOR

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

Cover Photo: *Adam D. Yates*
Divider Photo: *David L. Worley*

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

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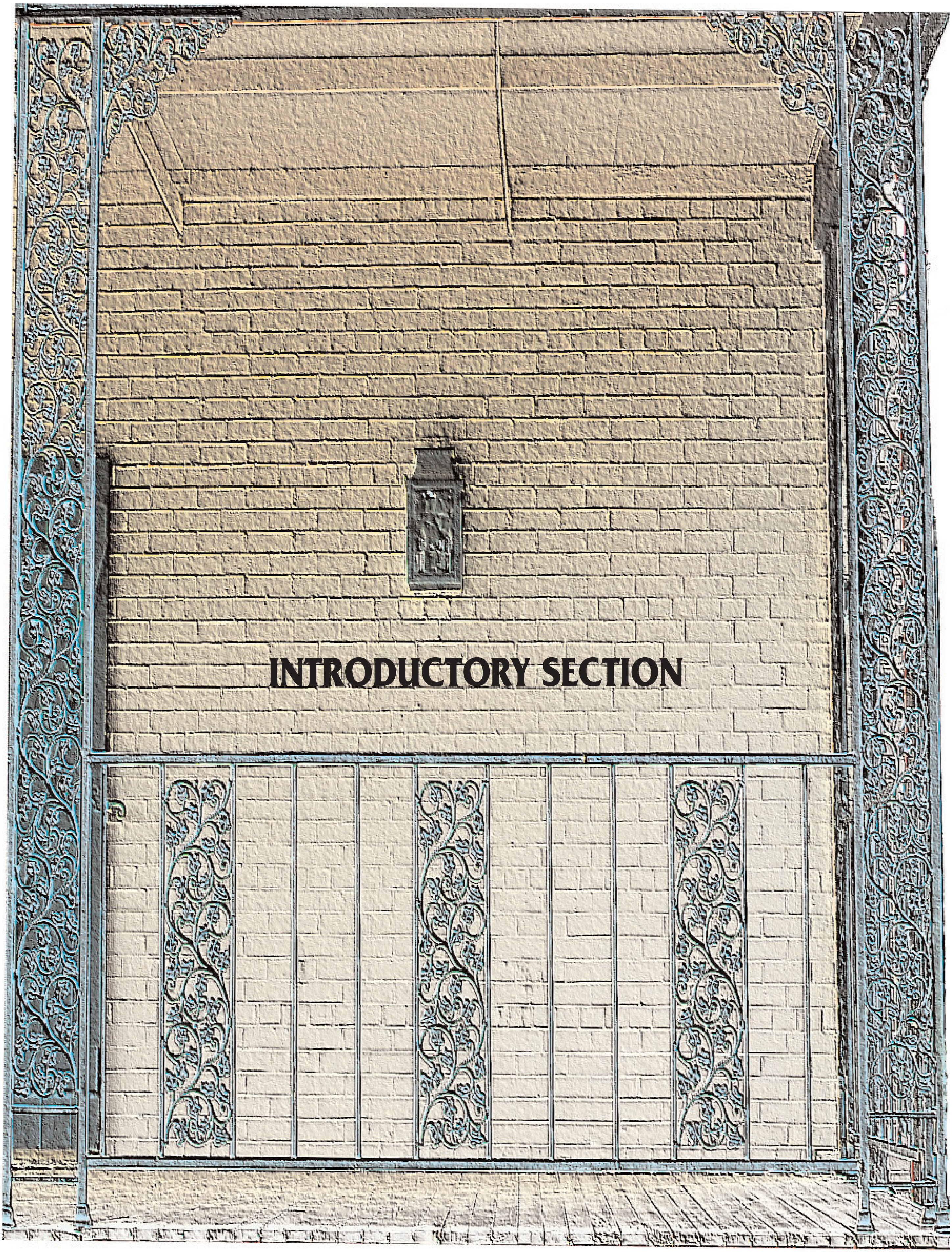


City of Baton Rouge and Parish of East Baton Rouge

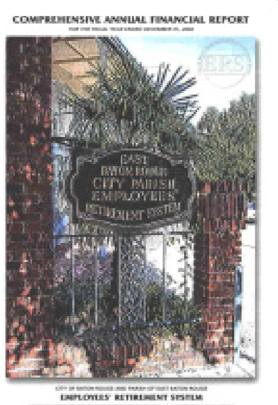
ERS

LETTER OF TRANSMITTAL

May 30, 2003

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 Retirement Board Members:



We are pleased to again submit to you the Comprehensive Annual Financial Report (CAFR) 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, 2002. Section 1:253 of the Retirement Ordinances requires an annual audit report, as is contained within this CAFR. 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 (GASB).

The format for the Comprehensive Annual Financial Report reflects separate disclosures in appropriate sections relative to the City-Parish Employees' Retirement System (CPERS) original trust and the Police Guarantee Trust (PGT). The 2002 CAFR is divided into the following seven sections as listed below:

- The Introductory Section contains the letter of transmittal, a listing of the members of the Retirement Board of Trustees, a listing of the administrative staff and professional consultants, the Retirement System's organizational chart, the Certificate of Achievement for Excellence in Financial Reporting, a summary of the year 2002 local ordinance changes affecting the Retirement System, and an overall plan summary.

- The Financial Section is composed of the Independent Auditors' Report, the Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards, Management's Discussion and Analysis, the financial statements, and Notes to the Financial Statements, followed by 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, Investment Summary, charts showing the actual and target asset allocations, List of Investments, Investment Performance Measurements, Annual Rates of Return, and a Schedule of Commissions Paid to Brokers.

- The Actuarial Section (CPERS Trust) sets forth information applicable to the City-Parish Employees' Retirement System (CPERS) Trust, and contains the actuary's certification letter, a summary of principal system provisions, a summary of actuarial assumptions and methods, schedules showing accrued liability analysis and reconciliation, an analysis of financial experience, employer contribution calculation results, active and retiree membership data, and other pertinent actuarial data.

- The Actuarial Section for the Police Guarantee Trust (PGT) is applicable only to the Police Guarantee Trust, and contains the actuary's certification letter, a summary of principal system provisions, a summary of actuarial assumptions and methods, a summary of actuarial accrued liabilities and net assets available for benefits, and active and retiree membership data.

- The Statistical Section displays trend information on selected data such as active, DROP, and retired members, amounts of benefits paid, System revenues and expenses, various statistical graphs, and a list of employing agencies that remit contributions to the Retirement System.

- The last section, Alternative Retirement Plans, 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 for the sole benefit of the membership, both active and retired.

MAJOR INITIATIVES

CPERS proposed and the Metropolitan Council passed an ordinance amendment which permits members to enter the DROP for up to three years, provided they are at least age 55. Actuarially this benefit was a low cost item but allowed a previously excluded group of shorter term members to participate in the DROP. Also proposed and passed, was an ordinance to eliminate an inequity in the surviving spouse benefit. This ordinance brought all surviving spouses of active members into an identical benefit structure at a minimal cost, as estimated by the System's actuary.

A major step forward was taken toward the design and implementation of a cost of living increase for retirees. The City Administration favorably greeted the concept of funding a COLA by using a portion of excess investment revenues in any given year. The basic structure of the COLA concept centers around providing a lump sum payment to retirees based on their length of service and the number of years retired. The COLA would be available for payment only if the actuarial rate of return exceeded the expected rate, and the overall actuarial experience were positive.

The Retirement Office successfully converted its proprietary database software to the Linux Operating System platform. This was done at the recommendation of the computer consultant. There was essentially no interruption in service or operations as the computer functions were migrated over to the new operating system. Concurrently the System also automated preparation of standard forms and letters by interfacing selected data elements from the database into its word processing routine.

The Retirement Office continued the preparation of documents for imaging into the imaging system. At completion, all member records for both past and present members, accounting records, Retirement Board meeting minutes, bank and investment records, and consultants' reports will be digitally stored for retrieval and safekeeping. This project will be ongoing for some time to come due to the large volume of extensive records.

During 2002, the Information Systems Department of the City-Parish began an overall revamping of the City's presence on the Internet and the Intranet. All web pages were redesigned and expanded, including that of the Retirement Office. Eventually the System will have commonly used forms available for electronic downloading. Also available will be PDF files of key System documents such as this CAFR, the Retirement Ordinances, the actuary report, and the investment consultant's report.

SERVICE EFFORTS AND ACCOMPLISHMENTS

CPERS places great emphasis on being customer (member) oriented and providing the best services possible to both active and retired members. For CPERS, communication and service are the key elements to being successful. Increased awareness through improved communication, and technological advances have afforded us the opportunity and capability of continually providing more accurate and timely services such as the issuance of retirement benefit payments, electronic funds transfers, DROP distributions, DROP and contribution tax-deferred rollovers, Excess Benefit Plan payments, refunds of member contributions, member counseling, retiree payroll-related changes, and many more.

In 2002, CPERS paid out to retirees, survivors, and beneficiaries over $37 million in benefits and distributions of more than $8.2 million to participants from the Deferred Retirement Option Plan (DROP). Combined, CPERS paid out in excess of $45.2 million to eligible retirees, survivors, and beneficiaries during the year.

The average monthly benefit of CPERS retirees continued to increase. For 2002, retirees drew an average monthly benefit of $1,444, which represented an increase of 2.19% over the 2001 average of $1,413. The average monthly withdrawal for DROP funds was $1,352, a decrease of 5.26% from 2001's average of $1,427. DROP withdrawals include $2 million in rollovers to qualified Individual Retirement Accounts (IRAs).

Also, during 2002, refunds were issued to 232 members who terminated employment and to beneficiaries of deceased members compared to 230 issued during 2001. Additionally, some former members chose to rollover the portion of their contributions that was tax-sheltered, into an IRA or another qualified plan. A total of 129 members retired during 2002 compared to 121 during 2001. A total of 147 members entered DROP during 2002 compared to 133 during 2001.

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. Each year our independent auditors consider our internal control over financial reporting.

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 also explained in detail in the Notes to the Financial Statements.

FUNDING

The funding requirements for the Retirement System are determined by the Retirement System's actuary through a required annual actuarial valuation. 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 2002 being the 8th year in the amortization schedule.

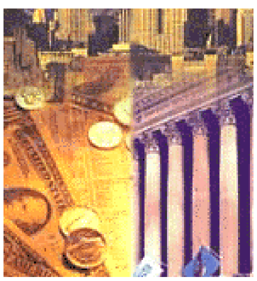
Contributions from members continued at the rate of 8.0% of payroll during 2002. The contribution rates from employers were 7.70% for General Fund employers and 14.64% for Special Fund employers.

CPERS continues to strive toward becoming a fully funded public employees' retirement system. This cannot be accomplished without the steady growth of the investment markets, which again did not perform as needed in 2002. We remain positioned with our recommended asset allocation as the primary tool for meeting our actuarial assumptions, and our funding goals over time. When comparing the market value of assets with the total value of accrued benefits, the System's funded ratio was 86% at December 31, 2002.

CASH MANAGEMENT

CPERS managed short-term cash in-house during 2002. This cash represents the daily needs of the Retirement System, primarily for paying benefits to retirees, as well as uninvested funds in the actively managed accounts of the Retirement System's investment managers. Essentially, CPERS sweeps each cash account and invests overnight in repurchase agreements after obtaining competitive interest rate 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 approved by the Board of Trustees. Beginning in 2003, the System's custodian bank began sweeping uninvested cash and providing collateral and investment to their Short Term Investment Fund (STIF).

INVESTMENTS

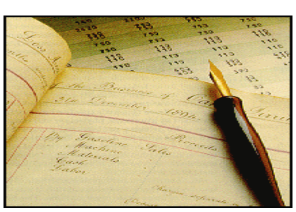


The investments of the Retirement System are governed by the Statement of Investment Policies and Objectives as shown on pages 56 through 71. The Retirement Board members have the fiduciary duty of overseeing the pension fund investments within the guidelines of the investment policy. One of the primary 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. Within these allocations, both value and growth biases are covered. Charts showing the current asset allocations are shown on pages 72 through 74. CPERS maintained the five (5) contractual relationships with investment managers it had at the end of 2001 and funded two (2) additional investment managers in 2002 in an effort to further diversify investment holdings. The performances of these seven managers are measured against predetermined universally recognized indices as recommended by the investment consultant. CPERS continues to rebalance the allocation of its portfolio to counter market value changes that occur, thereby ensuring that the asset mix remains within acceptable parameters and the portfolio remains diversified.

As a separate legal trust, the PGT uses its own asset allocation, which closely resembles that of the original CPERS trust. Separate investment reports are issued for the PGT showing performance as measured against standard benchmarks. Investment performance for the two trusts is measured separately and the assets for each are maintained separately.

Investment return for CPERS' assets, gross of investment fees for 2002 was (8.1%) with the three-year, five-year, seven-year, and ten-year returns being (2.7)%, 3.3%, 6.3%, and 7.0% respectively. A sustained bear market caused the overall returns to dip below the System's assumed rate of return of 8.0%, even when averaging out to the longer durations. A detail of investment holdings can be found on pages 75 through 77.

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 2002 annual audit, the auditors were Postlethwaite & Netterville, 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, 2001. This was the fifth consecutive year that CPERS has achieved this prestigious award. The Certificate of Achievement is a national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government or government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Also this year the System was awarded a Certificate of Recognition for early implementation of Government Accounting Standards Board (GASB) Statement 34 for the year ended December 31, 2001. GASB cited the Retirement System for demonstrating leadership, initiative, and commitment to improving public accountability by implementing Statement 34, which was developed to provide better financial information to government's taxpayers, governing boards, and other financial statement users.

ACKNOWLEDGEMENTS

I am very grateful to the Retirement Board of Trustees for your continued support of the Retirement Office by providing the support and resources needed to perform our jobs in the most optimum manner. It is a pleasure to work for a Board that continually demonstrates, through its efforts, a desire to provide the best in member benefits, while responsibly managing system assets. The Retirement Office staff is committed to working with the Board in every way possible to improve the Retirement System for both the members and the participating employers.

I also want to acknowledge the Retirement Office staff for the tireless effort put forth in making the 2002 Comprehensive Annual Financial Report (CAFR) the accurate and professional document it is. While continuing to perform their regular duties in the most professional manner, they were dedicated to gathering data, inputting and typing, proofing and assembling this high quality document. I am grateful for their dedicated efforts. This is the sixth CAFR prepared by the Retirement Office for submission to the GFOA, and we are confident that it will be found deserving of the Certificate of Achievement for Excellence in Financial Reporting for the sixth consecutive year.

Sincerely,

Jeffrey R. Yates, CPA
Retirement Administrator

2002
BOARD OF TRUSTEES

ADMINISTRATIVE STAFF

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

Barbara B. LeBlanc, C.I.A.
Assistant Retirement Administrator

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

Ann G. LeSage
Administrative and Investment Coordinator

Kyle Drago
Accountant III

Phil Massey, Jr.
Accountant III

Richelle Forester
Accountant II

Gladys Williams
Administrative Specialist II

Rebecca Saucier
Retirement Benefits Specialist

Salli Withers
Retirement Benefits Specialist

Adrienne Matthews
Retirement Benefits Specialist

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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
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Baton Rouge, LA 70809

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St. Louis, MO 63105

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Baton Rouge, LA 70809

OF SPECIAL COUNSEL

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Klausner & Kaufman, P.A.
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Plantation, FL 33324

Lawson, Fields, McCue, Lee & Campbell P.C.
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Addison, TX 75001

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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

COST ANALYSIS CONSULTANT

MAXIMUS, Inc.
940 N. Tyler Road – Suite 204
Wichita, KS 67212

DOMESTIC FIXED INCOME

BlackRock Financial Management
40th East 52nd Street
New York, NY 10022

DOMESTIC EQUITY

Trinity Investment Management Corp.
10 St. James Avenue – 10th Floor
Boston, MA 02116

Barclays Global Investors
45 Fremont Street
San Francisco, CA 94105

Sprucegrove Investment Management LTD.
181 University Avenue, Suite 1300
Toronto, Ontario, Canada, M5H 3M7

GLOBAL FIXED INCOME

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Boston, MA 02110

INTERNATIONAL EQUITY

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Los Angeles, CA 90071

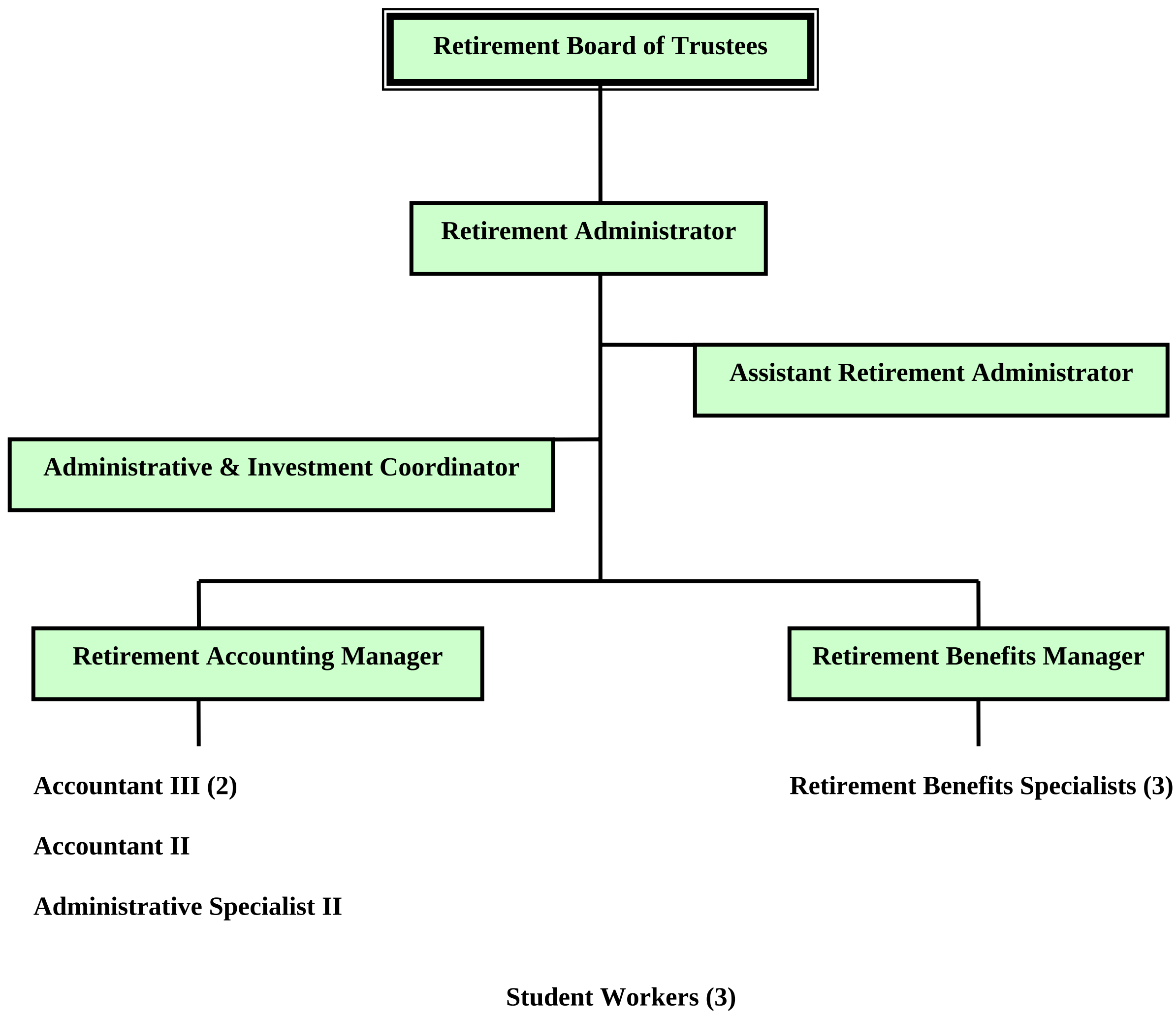
Wall Street Associates
1200 Prospect Street, Suite 100
La Jolla, CA 92037

CUSTODIAN BANK

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

RETIREMENT SYSTEM
ORGANIZATIONAL CHART

(See page 12 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, 2001

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

President

Executive Director

SUMMARY OF 2002 LOCAL LEGISLATIVE CHANGES

The following Ordinances were adopted by the City-Parish Metropolitan Council during 2002:

1. ORDINANCE 12322 – AMENDING TITLE 1 (MUNICIPAL AND PARISH ORGANIZATION), CHAPTER 3 (PERSONNEL), PART IV (EMPLOYEES' RETIREMENT SYSTEM), OF THE CODE OF ORDINANCES OF THE CITY OF BATON ROUGE AND PARISH OF EAST BATON ROUGE, SO AS TO AMEND AND RE-ENACT SECTION 1:270 (B) THEREOF, RELATIVE TO BENEFITS FOR SURVIVING SPOUSES OF MEMBERS NOT ELIGIBLE FOR RETIREMENT WHO DIE WHILE EMPLOYED, AND OTHER MATTERS RELATED THERETO.

   On May 22, 2002, the Council approved Ordinance 12322 that amended Section 1:270, Survivor Benefits, to provide a benefit of $600 per month to all surviving spouses of members not eligible for retirement who die while employed. Under the former City-Parish ordinances, surviving spouses of such members received either $250 or $600 per month, depending on the date of death of the member. This ordinance amendment raises all surviving spouses of these members to a $600 per month benefit prospectively effective July 1, 2002.

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2. ORDINANCE 12323 – AMENDING TITLE 1 (MUNICIPAL AND PARISH ORGANIZATION), CHAPTER 3 (PERSONNEL), PART IV (EMPLOYEES' RETIREMENT SYSTEM), OF THE CODE OF ORDINANCES OF THE CITY OF BATON ROUGE AND PARISH OF EAST BATON ROUGE, SO AS TO AMEND AND RE-ENACT SECTION 1:271 THEREOF, RELATIVE TO PROVIDING FOR PARTICIPATION IN A THREE-YEAR DROP FOR MEMBERS WHO HAVE NOT LESS THAN TEN YEARS OF CREDITABLE SERVICE AND HAVE REACHED THE AGE OF FIFTY-FIVE YEARS, AND OTHER MATTERS RELATED THERETO.

   On May 22, 2002, the Metropolitan Council approved Ordinance 12323 that amended Section 1:271, Deferred Retirement Option Plan to include provisions for a three (3) year DROP in addition to the current five (5) year DROP. This amendment provides for a DROP for a specific period not to exceed three (3) years to members of the Retirement System who have not less than ten (10) years of creditable service and have reached the age of fifty-five (55) years. The provisions of the three-year DROP were effective for members who elected to participate in DROP on or after July 1, 2002.

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3. ORDINANCE 12337 – AMENDING TITLE 1 (MUNICIPAL AND PARISH ORGANIZATION), CHAPTER 3 (PERSONNEL), PART IV (EMPLOYEES' RETIREMENT SYSTEM), OF THE CODE OF ORDINANCES OF THE CITY OF BATON ROUGE AND PARISH OF EAST BATON ROUGE, SO AS TO AMEND AND RE-ENACT SECTION 1:251 THEREOF, RELATIVE TO THE DEFINITION OF EMPLOYER CONTRIBUTION PERCENTAGE TO PROVIDE FOR AN ADJUSTING PERCENTAGE REPRESENTATIVE OF BONDS ISSUED IN DISCHARGE OF THE CITY OBLIGATION TO THE STATEWIDE MUNICIPAL POLICE RETIREMENT SYSTEM, AND OTHER MATTERS RELATED THERETO.

   On June 12, 2002, the Metropolitan Council approved Ordinance 12337 that amended the definition of employer contribution percentage to include bonds issued in the adjusting percentage for employers in (2) under Section 1:251. In 2002, the City issued bonds to pay off the note representing the actuarial accrued liability of the transfer of the police to the Municipal Police Employees' Retirement System. The adjusting percentage in (2) to employer contribution rates was based on a pro rata allocation of the note and now would be based on the bond issue.

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, 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 25 years, age 55, 2.5% of average compensation for each year of service; and
- 10 years or more, but less than 25 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 at least 2 years prior to the DROP participant's death.

PLAN SUMMARY (CONTINUED)

- 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 or more than 30 years of service, regardless of age, to be eligible for up to 5 year participation, or combined service and DROP participation not exceeding 32 years, whichever is less.

- Members with at least 10 years, but less than 25 years of service, and who are age 55 or older are eligible for up to 3 year participation.

- Members may participate in DROP only once and are prohibited from becoming a contributing member of the system after participation.

- 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.

- Upon employment termination, severance/separation pay is mandatorily rolled into an existing DROP account for members age 55 or older, while members younger than age 55 are given the option to roll the funds into the DROP or take receipt of the funds.

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.

MEMBERS WHO TRANSFERRED MEMBERSHIP TO MPERS

- For members who transferred their membership to the Municipal Police Employees' Retirement System (MPERS) the summary of benefits is generally as shown above. Because of the differences in particular CPERS and MPERS benefit provisions, variations may exist. Only provisions specifically set forth in the contract entitled *Agreement and Guarantee of Retirement Rights and Benefits* are guaranteed to transferred members by CPERS.

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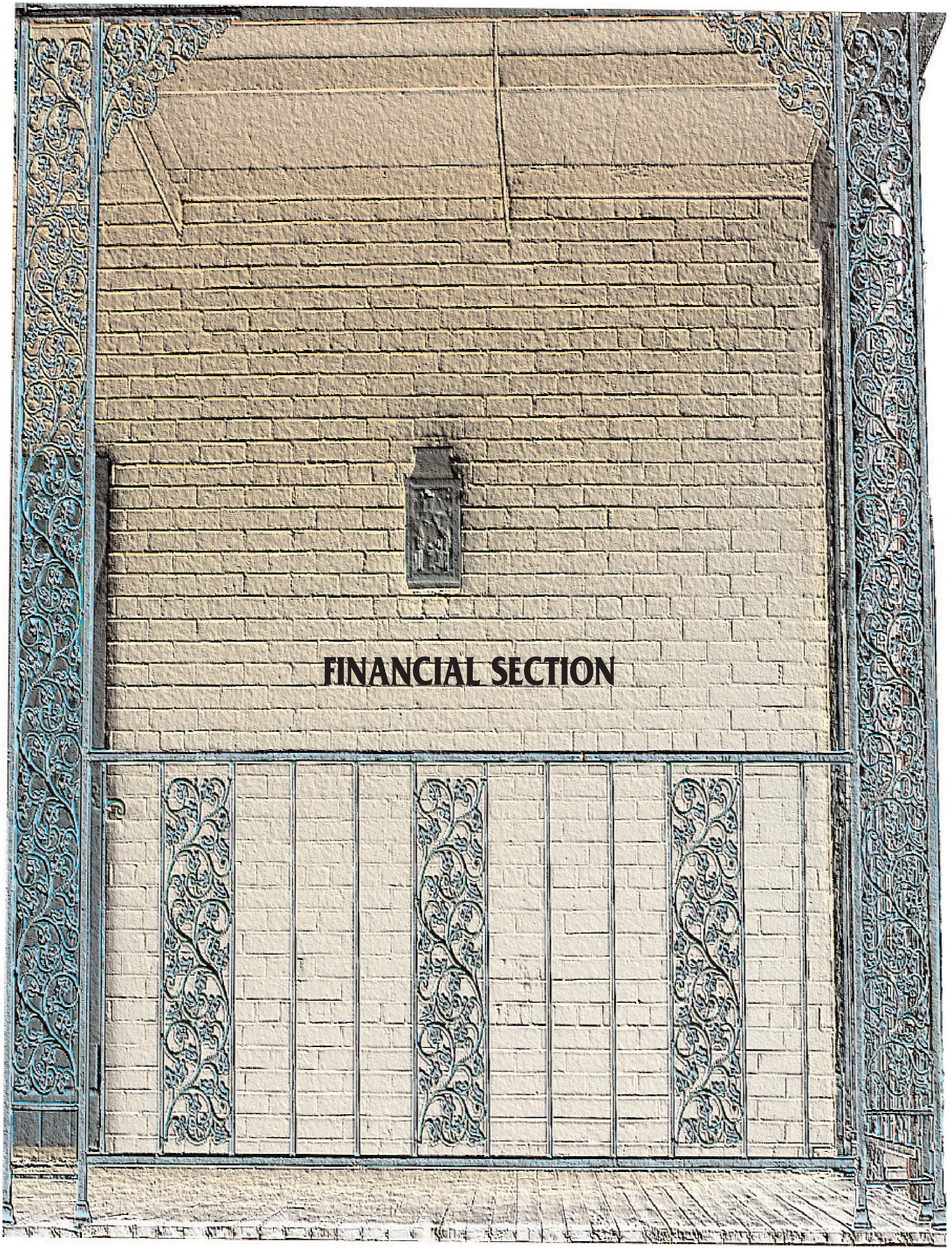
FINANCIAL SECTION

City of Baton Rouge and Parish of East Baton Rouge

ERS

P&N

Postlethwaite & Netterville

A Professional Accounting Corporation
Associated Offices in Principal Cities of the United States
www.pncpa.com

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, 2002 and 2001 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General 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 also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Retirement System as of December 31, 2002 and 2001 and the changes in plan net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2003 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and the Trend Data listed as Required Supplementary Information in the Table of Contents included are not a required part of the financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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The accompanying financial information as listed in the Table of Contents as Schedules of Administrative Expenses, Schedules of Investment Expenses and Schedules of Payment to Consultants is presented for purposes of additional analysis and is not a required part of the basic 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.

Postlethwaite & Netterville

Baton Rouge, Louisiana
May 30, 2003

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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 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, 2002, and have issued our report thereon dated May 30, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

This report is intended solely for the information and use of the Board of Trustees of the Plan, the Retirement System's management, the City of Baton Rouge and 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.

Postlethwaite & Netterville

Baton Rouge, Louisiana
May 30, 2003

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is management's discussion and analysis of the financial performance of the City of Baton Rouge and Parish of East Baton Rouge Employees' Retirement System. It is presented as a narrative overview and analysis for the purpose of assisting the reader with interpreting key elements of the, financial statements, notes to the financial statements, required supplementary information, and supporting schedules for the current year.

FINANCIAL HIGHLIGHTS

- The net assets held in trust for pension benefits decreased by $91.7 million, or 11.5 percent. The great majority of the decrease was due to a sharp downturn in the domestic and international equity markets.

- The rate of return on the market value of the System's investments was negative 8.1 percent as compared to a negative return of 1.8 percent in the prior year. Again this year, the decrease was the result of the continued downturn in the domestic and international equity markets.

- The amount of benefit payments increased by $1.77 million, representing a 4.0 percent increase from 2001 to 2002.

- The System's funded ratio decreased from 90 percent to 86 percent from last year to the current year as measured in accordance with GASB 25/27. The unfunded actuarial accrued liability increased $40.7 million. Both of these changes were a direct result of the decrease in market and actuarial value of the System's assets due to the downturn in investment performance.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's discussion and analysis is intended to serve as an introduction to the CPERS basic financial statements, together with the related notes to the financial statements, required supplementary information, and the supporting schedules, all of which are described below:

Statement of Plan Net Assets – This statement reports the System's assets, liabilities, and resultant net assets held in trust for pension benefits. The original CPERS trust and Police Guarantee Trust are shown both separately and combined. This two year comparative statement should be read with the understanding that it discloses the System's financial position as of December 31, 2002 and December 31, 2001.

Statement of Changes in Plan Net Assets – This statement reports the results of operations during the calendar years 2002 and 2001, categorically disclosing the additions to and deductions from plan net assets. The net decrease to plan assets on this statement supports the change in net assets held in trust for pension benefits on the Statement of Plan Net Assets. The original CPERS trust and Police Guarantee Trust are again shown both separately and combined.

Notes to the Financial Statements – The financial statement notes provide additional information that is essential to a complete understanding of the data set forth in the financial statements. They are considered an integral part of the financial statements. A description of the information provided in the notes follows:

- Note 1 (Plan Description) provides a general description of the Retirement System, including the original CPERS trust and the Police Guarantee Trust. Information is included regarding plan membership, a description of retirement benefits, a description of the Deferred Retirement Option Plan (DROP), and retirement contributions.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

- Note 2 (Summary of Significant Accounting Policies) provides information disclosing certain accounting methods and policies used in determining amounts shown on the financial statements. Included in this note is information relative to the basis of accounting, the determination of estimates, System investments, and property and equipment. Included in the discussion of investments are investing authority, permissible investments and certain restrictions on investments.

- Note 3 (Securities Lending Program) provides details of the System's securities lending program as governed by the contract between CPERS and the custodian bank. This note describes how the program is administered by the custodian, and how loans of securities are collateralized.

- Note 4 (Investments and Deposits) describes System investments and their relationship with the custodian bank. This note includes information regarding repurchase agreement collateralization, bank balances and their collateralization, and types of investment credit risk.

- Note 5 (Contingencies) gives an overview of an individual retirement benefits matter being litigated, the final result of which could possibly cause the System some financial exposure.

Required Supplementary Information – The required supplementary information consists of two schedules and related notes. These schedules show the funding progress and employer contribution data for the original CPERS trust and the PGT separately. The related notes disclose key actuarial assumptions and methods used in the schedules.

Supporting Schedules – These schedules include information on administrative and investment expenses and payments to consultants.

CPERS FINANCIAL ANALYSIS

CPERS provides retirement benefits to essentially all eligible City-Parish employees and employees of other qualifying employers. These benefits are funded through member contributions, employer contributions, and earnings on investments. Total net assets held in trust for pension benefits at December 31, 2002 amounted to $706.1 million, which was a decrease of $91.7 million, or 11.5 percent from the $797.9 million held in trust at December 31, 2001.

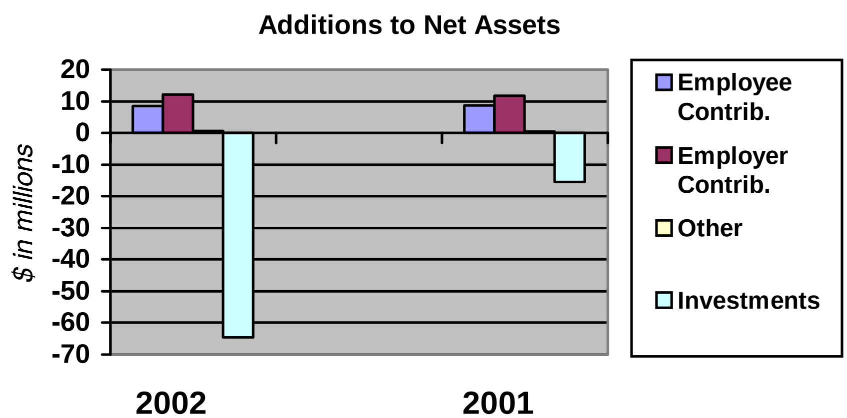
	2002	**2001**	**Increase or (Decrease)**	**Percentage Change**
Cash	$ 988,652	$ 630,708	$ 357,944	56.8 %
Receivables	6,450,482	16,130,052	(9,679,570)	(60.0)
Investments (fair value)	713,621,961	794,889,737	(81,267,776)	(10.2)
Capital Assets	787,399	814,168	(26,769)	(3.3)
Total Assets	721,848,494	812,464,665	(90,616,171)	(11.2)
Total Liabilities	15,725,310	14,595,072	1,130,238	7.7
Total Plan Net Assets	$ 706,123,184	$ 797,869,593	$ (91,746,409)	(11.5)

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

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

Additions to Plan Net Assets

Additions to CPERS net assets held in trust for pension benefits include contributions from employees and employers, and contributions received from employers for purposes of paying severance pay to employees, as well as investment income. Employee contributions, which were set at 8.0% of payroll for both 2002 and 2001, decreased slightly due to a marginally lower employee payroll base. Employees who enter DROP during the year cease making employee contributions, which also serves to decrease the inflow of employee contributions. Employer contributions increased due to an increase in the required employer contribution rate. The blended employer contribution rate for 2002 was 10.57% of payroll, while in 2001 the rate was 9.57%. In 2002, CPERS recognized a net loss on investments of $64.6 million, compared to a net loss in 2001 of $15.6 million. This decrease was almost entirely due to the continuation of a sharp downturn in the domestic and international equity markets. In total, the 2002 addition to net assets was a negative $43.2 million as compared to a positive $5.0 million for 2001.



Additions to Net Assets	**2002**	**2001**	**Percentage Change**
Employee Contributions	$ 8,564,117	$ 8,672,779	(1.3) %
Employer Contributions	12,109,644	11,634,531	4.1
Net Investment Income	(64,559,581)	(15,605,192)	(313.7)
Other	703,276	344,953	103.9
Total Additions	$ (43,182,544)	$ 5,047,071	(955.6)

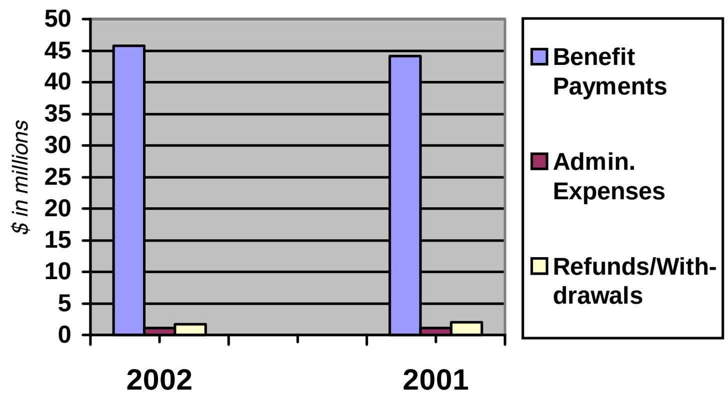
CITY OF BATON ROUGE AND
PARISH OF EAST BATON ROUGE
EMPLOYEES' RETIREMENT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

Deductions from Plan Net Assets

Deductions from CPERS net assets held in trust for pension benefits are comprised primarily of retirement benefit payments to CPERS retirees, survivors, and beneficiaries. Also included as deductions are administrative expenses along with refunds and withdrawals of employee contributions. For 2002, benefit payments to retirees, survivors, and beneficiaries amounted to $45.8 million, which represented an increase of 4.0 percent from the $44.1 million paid out in 2001. Predictably, the normal monthly payments to pensioners continued to increase as the number of pensioners increase and the average monthly pension increases. The amount of DROP fund rollovers remained relatively constant from 2001 to 2002, although this amount can fluctuate as eligible retirees may opt for tax-deferred rollovers. The 2002 administrative expenses actually decreased to $1.08 million from $1.09 million in 2001, representing a decrease of 1.4 percent. This decrease was due primarily to reduced consultant fees as legal, actuarial, and investment issues related to the transfer of police employees to the statewide police retirement system drew to a close. And finally, refunds and withdrawals of member contributions decreased by 16.5 percent to $1.7 million in 2002 from $2.0 million in 2001, influenced by fewer employment terminations of members of CPERS' qualifying employers.

Deductions from Net Assets



Deductions from Net Assets	**2002**	**2001**	**Percentage Change**
Benefit Payments	$ 45,817,047	$ 44,051,754	4.0 %
Refunds and Withdrawals	1,670,741	2,000,368	(16.5)
Administrative Expenses	1,076,077	1,091,294	(1.4)
Total Deductions	$ 48,563,865	$ 47,143,416	3.0 %

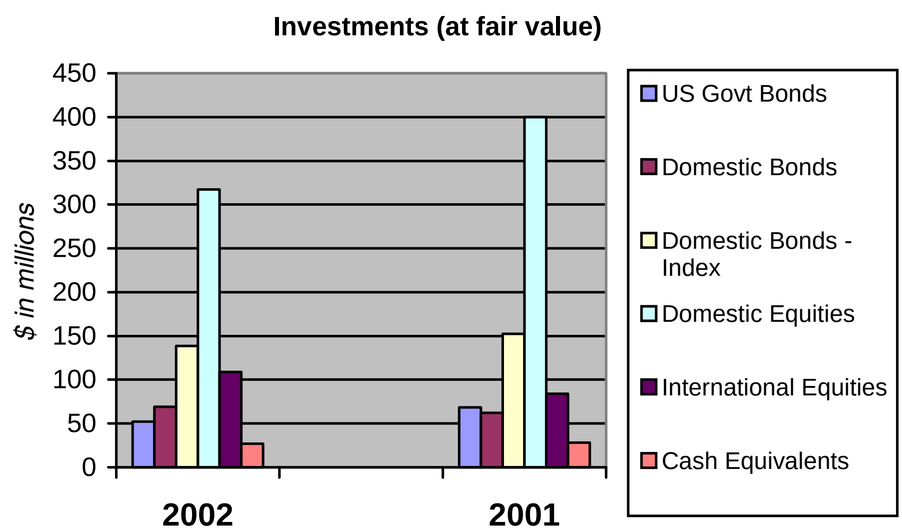
CITY OF BATON ROUGE AND
PARISH OF EAST BATON ROUGE
EMPLOYEES' RETIREMENT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

Investments

CPERS investments totaled $713.6 million at December 31, 2002 as compared to $794.9 million at December 31, 2001, which represented a decrease of $81.3 million or 10.2 percent. The decrease can be attributed to the sharp downturn in the domestic and international equity markets in which CPERS allocates a 65 percent targeted share of its investments. Although CPERS' market return was a negative 8.1 percent, the benchmark for the overall portfolio returned negative 8.6 percent with the average public pension plan returning negative 8.0 percent for the same period.

When making comparisons from year to year, it is important to be aware that other factors may affect the change in investments, particularly the changes between investment categories and types. It is also important to note that the investment portfolio is not stagnant, but is traded in part each business day. Therefore, the reader should be cautious about drawing conclusions as to how and why the portfolio increased or decreased in value. It is perhaps best to refer to the total investment figures to conclude how CPERS' investments performed overall.



Investments (at Fair Value)	2002	2001	Percentage Change
US Government obligations	$ 52,120,972	$ 68,259,778	(23.6)%
Bonds – Domestic	69,174,732	61,986,427	11.6
Bonds – Domestic Index Fund	138,708,516	152,447,365	(9.0)
Equity securities – Domestic	317,338,968	399,981,638	(20.7)
Equity securities – International	109,128,773	84,014,529	29.9
Cash equivalents	27,150,000	28,200,000	(3.7)
Total Investments	$ 713,621,961	$ 794,889,737	(10.2)

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

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

REQUESTS FOR INFORMATION

This Consolidated Annual Financial Report is designed to provide a general overview of the City of Baton Rouge and Parish of East Baton Rouge Employees' Retirement System's finances for interested parties. Questions concerning any of the information provided herein, or requests for additional financial information should be addressed to the City of Baton Rouge and Parish of East Baton Rouge Employees' Retirement System, P. O. Box 1471, Baton Rouge, Louisiana, 70821-1471.

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

STATEMENT OF PLAN NET ASSETS
AS OF DECEMBER 31, 2002 AND 2001

	CPERS Trust	Police Guarantee Trust	2002 Combined Total	2001 Combined Total
Assets				
Cash	$ 918,117	$ 70,535	$ 988,652	$ 630,708
Receivables:				
Employer contributions	1,004,874	3,796	1,008,670	917,728
Employee contributions	711,521	3,156	714,677	756,131
Interest and dividends	1,388,609	22	1,388,631	1,747,430
Pending trades	2,855,001	2,960	2,857,961	10,321,898
Other	418,057	62,486	480,543	2,386,865
Total receivables	6,378,062	72,420	6,450,482	16,130,052
Investments (at fair value):				
U.S. Government obligations	52,120,972	--	52,120,972	68,259,778
Bonds - Domestic	69,174,732	--	69,174,732	61,986,427
Bonds - Domestic Index Fund	131,069,027	7,639,489	138,708,516	152,447,365
Equity securities - Domestic	307,106,500	10,232,468	317,338,968	399,981,638
Equity securities - International	105,707,438	3,421,335	109,128,773	84,014,529
Cash equivalents	26,450,000	700,000	27,150,000	28,200,000
Total investments	691,628,669	21,993,292	713,621,961	794,889,737
Land and buildings at cost net of accumulated depreciation of $614,084 and $616,652, respectively	787,399	--	787,399	814,168
Total assets	699,712,247	22,136,247	721,848,494	812,464,665
Liabilities				
Accrued expenses and benefits	546,829	131,325	678,154	617,416
Pending trades payable	15,047,156	--	15,047,156	13,977,656
Total liabilities	15,593,985	131,325	15,725,310	14,595,072
Net assets held in trust for pension benefits (a schedule of funding progress is presented on page 43)	$ 684,118,262	$ 22,004,922	$ 706,123,184	$ 797,869,593

See accompanying notes to financial statements.

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

STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	CPERS Trust	Police Guarantee Trust	2002 Combined Total	2001 Combined Total
Additions:				
Contributions:				
Employee	$ 8,520,690	$ 43,427	$ 8,564,117	$ 8,672,779
Employer	12,053,689	55,955	12,109,644	11,634,531
Severance contributions from employee	703,276	--	703,276	344,953
Total contributions	21,277,655	99,382	21,377,037	20,652,263
Investment Income:				
Net depreciation in fair value of investments	(71,317,665)	(1,768,728)	(73,086,393)	(25,849,218)
Interest	8,307,516	5,405	8,312,921	9,140,808
Dividends	1,800,067	--	1,800,067	2,287,755
Total investment income (loss)	(61,210,082)	(1,763,323)	(62,973,405)	(14,420,655)
Less investment expenses	1,529,027	57,149	1,586,176	1,184,537
Net investment income (loss)	(62,739,109)	(1,820,472)	(64,559,581)	(15,605,192)
Total additions	(41,461,454)	(1,721,090)	(43,182,544)	5,047,071
Deductions:				
Benefit payments	45,286,042	531,005	45,817,047	44,051,754
Refunds and withdrawals	1,670,141	600	1,670,741	2,000,368
Administrative expenses	817,319	258,758	1,076,077	1,091,294
Total deductions	47,773,502	790,363	48,563,865	47,143,416
Net increase (decrease)	(89,234,956)	(2,511,453)	(91,746,409)	(42,096,345)
Net assets held in trust for pension benefits:				
Beginning of year	773,353,218	24,516,375	797,869,593	839,965,938
End of year	$ 684,118,262	$ 22,004,922	$ 706,123,184	$ 797,869,593

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 (Retirement System/CPERS) 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
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)
Office of the Coroner of East Baton Rouge Parish

The Retirement System is considered a component unit of the financial reporting entity of the City of Baton Rouge and Parish of East Baton Rouge (City-Parish) and is included as a pension trust fund in the City-Parish 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). 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 by non-police and non-fire department employees, and one trustee each is elected by the police and fire department employees. The remaining membership of the Board consists of one member appointed by the Mayor-President, and two members appointed by the Metropolitan Council.

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

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, except in the case of newly hired employees of certain participating employers who are mandated to enroll in a statewide retirement system. Contractual employees may or may not become members, depending upon the provisions of their respective contracts.

Substantially all full-time employees of the City-Parish and other member employers 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 member employers.

B. Police Guarantee Trust (PGT)

The Police Guarantee Trust (PGT) was established as a separate legal trust fund on February 26, 2000 to provide for payment of certain guaranteed lifetime benefits for eligible police employees who transferred their membership to the Municipal Police Employees' Retirement System of Louisiana (MPERS) while retaining certain rights under CPERS. When established, the Trust was funded from the original CPERS trust, through a trustee-to-trustee transfer, for the full actuarially determined amount necessary to pay all contractually guaranteed benefits to the affected members and their survivors. The PGT is charged with all of its direct expenses and charged with a percentage of indirect expenses of twenty-five percent (25%) for 2002, based on an administrative cost allocation study. The PGT funds are invested similarly to the original CPERS trust funds, with separate investment performance measurement, separate accounting records, and a separate annual actuarial valuation. The Retirement Board is responsible for administering the assets and making investment policy decisions for the PGT.

C. Membership

At December 31, 2002 and 2001, membership in the Retirement System consisted of:

	2002	2001
Inactive:		
Retirees and beneficiaries currently receiving benefits	2,135	2,072
Vested terminated employees	36	33
Deferred retirees	366	289
Total inactive	2,537	2,394
Active:		
Fully vested	1,388	1,401
Nonvested	1,832	1,914
Total active	3,220	3,315
Total Membership	5,757	5,709

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

NOTES TO THE FINANCIAL STATEMENTS

(1) PLAN DESCRIPTION, CONTINUED

C. Membership, Continued

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

December 31, 2002		Active		
	Inactive	Vested	Nonvested	Total Active
Regular	1,548	976	1,435	2,411
BREC	83	78	151	229
Police	373	42	29	71
Fire	533	292	217	509
	2,537	1,388	1,832	3,220

December 31, 2001		Active		
	Inactive	Vested	Nonvested	Total Active
Regular	1,447	971	1,522	2,493
BREC	75	80	140	220
Police	377	41	36	77
Fire	495	309	216	525
	2,394	1,401	1,914	3,315

D. 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. In cases of less than 25 years of service, the computed benefit amount is reduced by 3% for each year below age 55. Benefits paid to employees shall not exceed 90% of average compensation.

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

NOTES TO THE FINANCIAL STATEMENTS

(1) PLAN DESCRIPTION, CONTINUED

D. Benefits, Continued

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 beneficiary, which reduces the monthly pension benefit by an actuarially computed amount. Should an employee die before retirement, but after attaining 20 or more years of service, a qualifying spouse may receive an actuarially computed benefit based on the employee's calculated benefit, 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.

E. 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 if the member has 25 years of creditable service, or three years if the member has less than 25 years but is at least age 55. Pension annuities are fixed for these employees and can never be increased, and neither employee nor employer contributions are contributed to the Retirement System on their earnings. DROP deposits for the amount of the participant's monthly benefits, are placed in a deferred reserve account until the deferred retirement option period elapses or until the employee discontinues employment, whichever comes first. These accounts bear interest from the date of the initial deposit for employees who fulfill the provisions of their DROP contract. Failure to fulfill these provisions, specifically to terminate employment at the end of the maximum period of participation on the DROP, results in the enforcement of certain penalty provisions, such as forfeiture of interest and disbursement of the balance of the DROP account to the member. Five-year participation in the DROP after 25 years of service is also a guaranteed benefit available to members who transferred to MPERS. Because MPERS provides for only a three year DROP, CPERS guarantees the balance of DROP participation, not to exceed the five year maximum. Penalty provisions remain in place for these members as well. Due to legal requirements, the original CPERS Trust DROP accounts are maintained separately from Police Guarantee Trust (PGT) DROP accounts.

DROP deposits are included in plan net assets. The amounts of DROP deposits held in the original CPERS Trust DROP accounts and the PGT DROP accounts respectively as of December 31, 2002 were $97,863,471 and $6,606,252. For December 31, 2001, the DROP accounts totaled $88,534,519 and $3,936,850 respectively. Members maintaining accounts in the original CPERS Trust DROP and the PGT DROP respectively as of December 31, 2002 totaled 911 and 104. For December 31, 2001, 739 and 97 members maintained DROP accounts in the two trusts respectively.

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

NOTES TO THE FINANCIAL STATEMENTS

(1) PLAN DESCRIPTION, CONTINUED

F. 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. For 2002, Plan members contributed 8.0% of their annual covered salary. 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 accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions to and deductions from plan net assets during the reporting period. Actual results could differ from those estimates. CPERS utilizes various investment instruments which, by nature, are exposed to a variety of risk levels and risk types, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Statement of Plan Net Assets.

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 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)

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

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 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.

The securities representing equity or fixed income in any one company shall not exceed 5% of the cost basis or 7% of the fair 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 national or international exchanges 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 Plan. Although the Board continued its contractual relationships with outside third party investment managers during 2002, final oversight of investments and investment performance for both the CPERS Trust and the PGT 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 securities that use any form of leverage, or in which interest or principal position is tied to any prohibited type of investment.

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, 2002 and 2001 was $29,019 and $29,020 respectively.

(3) SECURITIES LENDING PROGRAM

In 2002, the System authorized Bank One Trust Company, N. A. to act as agent in lending the System's actively managed securities to approved broker-dealers (borrowers) through a Securities Lending Agreement for Non-ERISA Accounts. The terms of the agreement require the borrowers to deliver collateral against each loan for no less than a.) 102% of the market value of the loaned securities if the loaned securities were not foreign securities, b.) 105% of the market value of the loaned securities if the loaned securities were foreign securities, or c.) approved letters of credit. In the event of a failure or default on the part of a borrower, the agent contractually agrees to act in the best interest of the System in executing loan collateral securities on behalf of the System. During 2002, no defaults occurred. Both the System and the borrowers maintain the right to terminate securities lending transactions.

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

NOTES TO THE FINANCIAL STATEMENTS

(3) SECURITIES LENDING PROGRAM, CONTINUED

Bank One managed the cash collateral received on the loans in a separate collateral account for the System. The income generated from the invested cash is allocated among the bank, the borrower, and the System in accordance with the contract. At December 31, 2002, the System had no exposure to borrowers. The collateral held on that date was valued at $14,257,122 and the market value of the securities on loan was $13,902,843. This market value was comprised of the following loan types and amounts: $3,546,765 Equities Cash, $6,211,519 Corporate Cash, $3,564,376 Government Cash, and $580,183 Government Letters of Credit.

The underlying securities representing collateral on the securities lending transactions are not available for the System or its agent to pledge or sell except in the case of a borrower default. Accordingly, neither the collateral nor the security involved in the lending transaction is reported in the Statement of Plan Net Assets, in accordance with GASB 28, paragraph 7.

(4) INVESTMENTS AND DEPOSITS

All investments of the Retirement System are registered in the Retirement System's name, or held by the custodian bank, Bank One, N.A., Baton Rouge, LA, or its intermediaries in the Retirement System's name.

The Retirement System's policy is that securities underlying its repurchase agreements must have a market dollar value of at least 102% of the cost of the repurchase agreement. The Retirement System's repurchase agreements at December 31, 2002 and 2001, were fully collateralized.

At December 31, 2002, the carrying amount of the Retirement System's cash was $988,652 and the bank balance was $1,018,382, of which $100,000 was covered by Federal Depository insurance. The remainder was collateralized by securities held by the System's agent, Bank One, N. A., Baton Rouge, Louisiana, in a custodial account in the Retirement System's name. At December 31, 2001, the carrying amount of the Retirement System's cash was $630,708 and the bank balance was $702,195, of which $100,000 was covered by Federal Depository insurance and the remainder by securities held by the System's agent, Bank One, N. A., Baton Rouge, Louisiana in a custodial account in the Retirement System's name.

The table on the following page provides information about the level of credit risk assumed by the Retirement System. 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 System's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Retirement System's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent, but not in the Retirement System's name. The table categorizes the System's investments at December 31, 2002.

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

NOTES TO THE FINANCIAL STATEMENTS

(4) INVESTMENTS AND DEPOSITS, CONTINUED

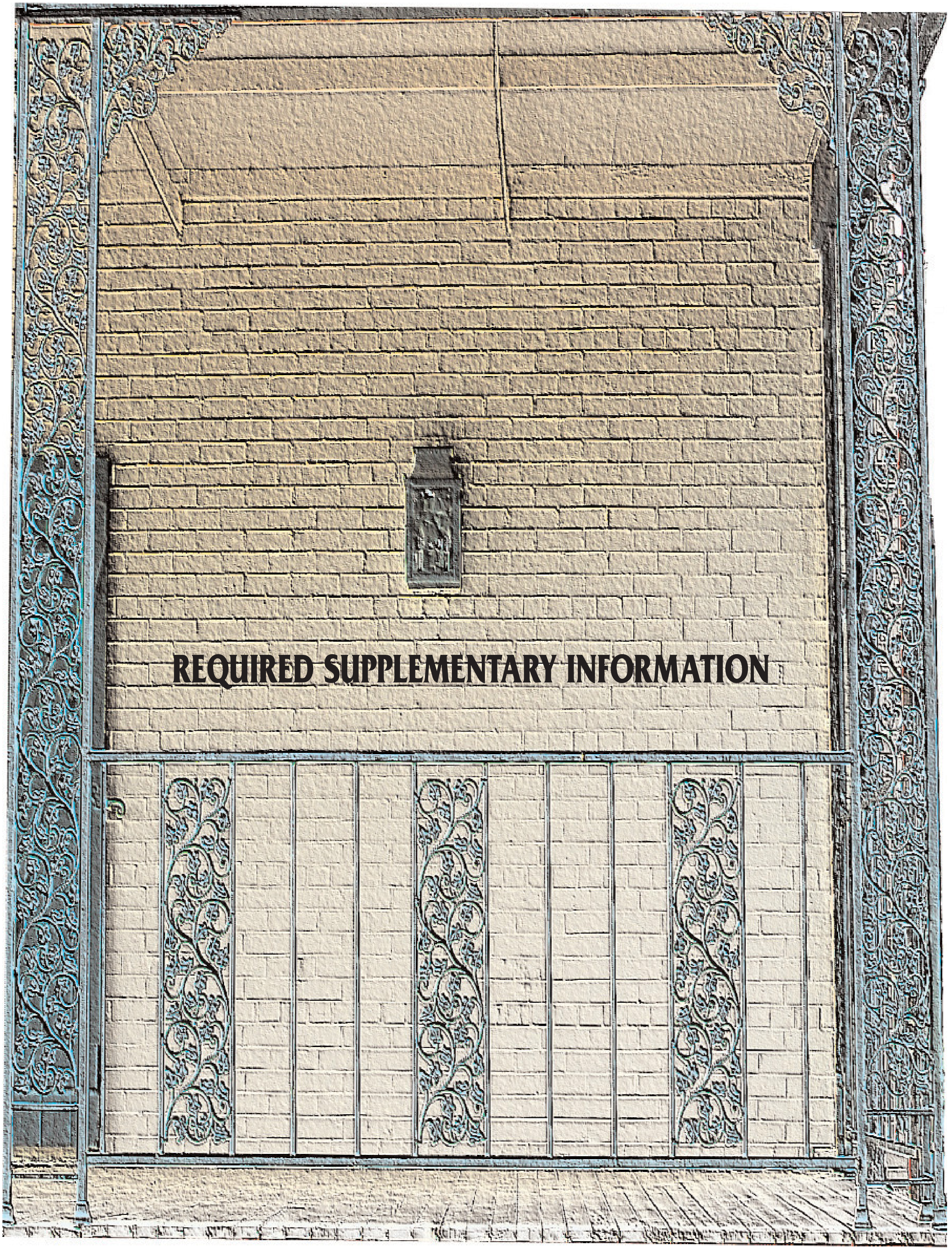
	CATEGORY 1	CATEGORY 2	CATEGORY 3	CATEGORY RATING NOT REQUIRED	2002 FAIR VALUE
CPERS TRUST					
Categorized:					
U.S. Treasury Bonds	$7,106,341	$--	$--	$--	$7,106,341
Corporate Bonds	69,174,732	--	--	--	69,174,732
U.S. Agency Bonds	45,014,631	--	--	--	45,014,631
Corporate Stocks	98,701,398	--	--	--	98,701,398
Repurchase Agreements	26,450,000	--	--	--	26,450,000
Not Categorized:					
Corporate Stock Index Funds	--	--	--	208,405,102	208,405,102
International Equity Fund	--	--	--	105,707,438	105,707,438
Domestic Bond Index Fund	--	--	--	131,069,027	131,069,027
Total CPERS Trust Investments	$246,447,102	$--	$--	$445,181,567	$691,628,669
POLICE GUARANTEE TRUST					
Categorized:					
Repurchase Agreements	$700,000	$--	$--	$--	$700,000
Not Categorized:					
Corporate Stock Index Funds	--	--	--	10,232,468	10,232,468
International Equity Fund	--	--	--	3,421,335	3,421,335
Domestic Bond Index Fund	--	--	--	7,639,489	7,639,489
Total PGT Investments	$700,000	$--	$--	$21,293,292	$21,993,292
Total Investments	$247,147,102	$--	$--	$466,474,859	$713,621,961

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

NOTES TO THE FINANCIAL STATEMENTS

(5) CONTINGENCIES

At December 31, 2002, litigation was outstanding regarding a claim by a member for an ordinary disability retirement benefit. At issue is the effective date of the commencement of the disability payments. The ultimate outcome of the litigation is unknown at this time. The System's legal counsel has estimated the possible exposure to be approximately $80,000. This amount is not reflected in the financial statements.


REQUIRED SUPPLEMENTARY INFORMATION

City of Baton Rouge and Parish of East Baton Rouge

ERS

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%
12/31/99*	741,562,144	809,012,654	67,450,510	91.7%	96,744,086	69.7%
12/31/00	786,941,507	855,994,379	69,052,872	91.9%	99,510,155	69.4%
12/31/01**	813,977,773	902,821,264	88,843,491	90.2%	102,793,456	86.4%
12/31/02	818,150,788	947,726,617	129,575,829	86.3%	101,339,785	127.9%

*These results are adjusted to reflect the impact of the February 26, 2000 police transfers out to MPERS and the actuarial assumption changes adopted by the Retirement Board.

**These results reflect the impact of the change in Asset Valuation Method described in the Summary of Actuarial Assumptions and Methods

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

REQUIRED SUPPLEMENTARY INFORMATION UNDER GASB STATEMENT NO. 25, CONTINUED

SCHEDULES OF EMPLOYER CONTRIBUTIONS

CPERS TRUST

Year Ended	Annual Required Contribution	Percentage Contributed
12/31/95	$17,845,851	80.0%
12/31/96	17,773,028	91.3%
12/31/97	19,510,792	91.5%
12/31/98	17,967,514	107.1%
12/31/99	15,658,856	130.4%
12/31/00*	11,240,695	116.7%
12/31/01	13,708,997	79.6%
12/31/02**	16,110,422	73.6%

*These results are adjusted to reflect the impact of the February 26, 2000 police transfers out to MPERS and the actuarial assumption changes adopted by the Retirement Board.

**These results reflect the impact of the change in Asset Valuation Method described in the Summary of Actuarial Assumptions and Methods

Note: Only eight years of data are available.

POLICE GUARANTEE TRUST

Year Ended	Annual Required Contribution	Percentage Contributed
12/31/00	$ 0	--%
12/31/01	$ 0	--%
12/31/02	$ 0	--%

Note: Police Guarantee Trust was fully funded at inception effective February 26, 2000.

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 valuations at the date indicated. Additional information as of the latest actuarial valuations are shown on this page and the following page.

CPERS TRUST

Valuation date	December 31, 2002
Valuation method	Entry Age Normal Actuarial Cost Method with Unfunded Actuarial Accrued Liability
Amortization method	Increasing 4% per year for first 15 years and level percent for next 15 years - closed.
Remaining amortization period	22 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. Beginning January 1, 2002, Expected Value Method, with 20% of investment gains or (losses) recognized each year.
Actuarial assumptions:	
Investment rate of return	8.0%*
Projected salary increases	4.0%* plus longevity/merit
Aggregate payroll growth	5.0%*

* compounded annually and including inflation of 4%

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

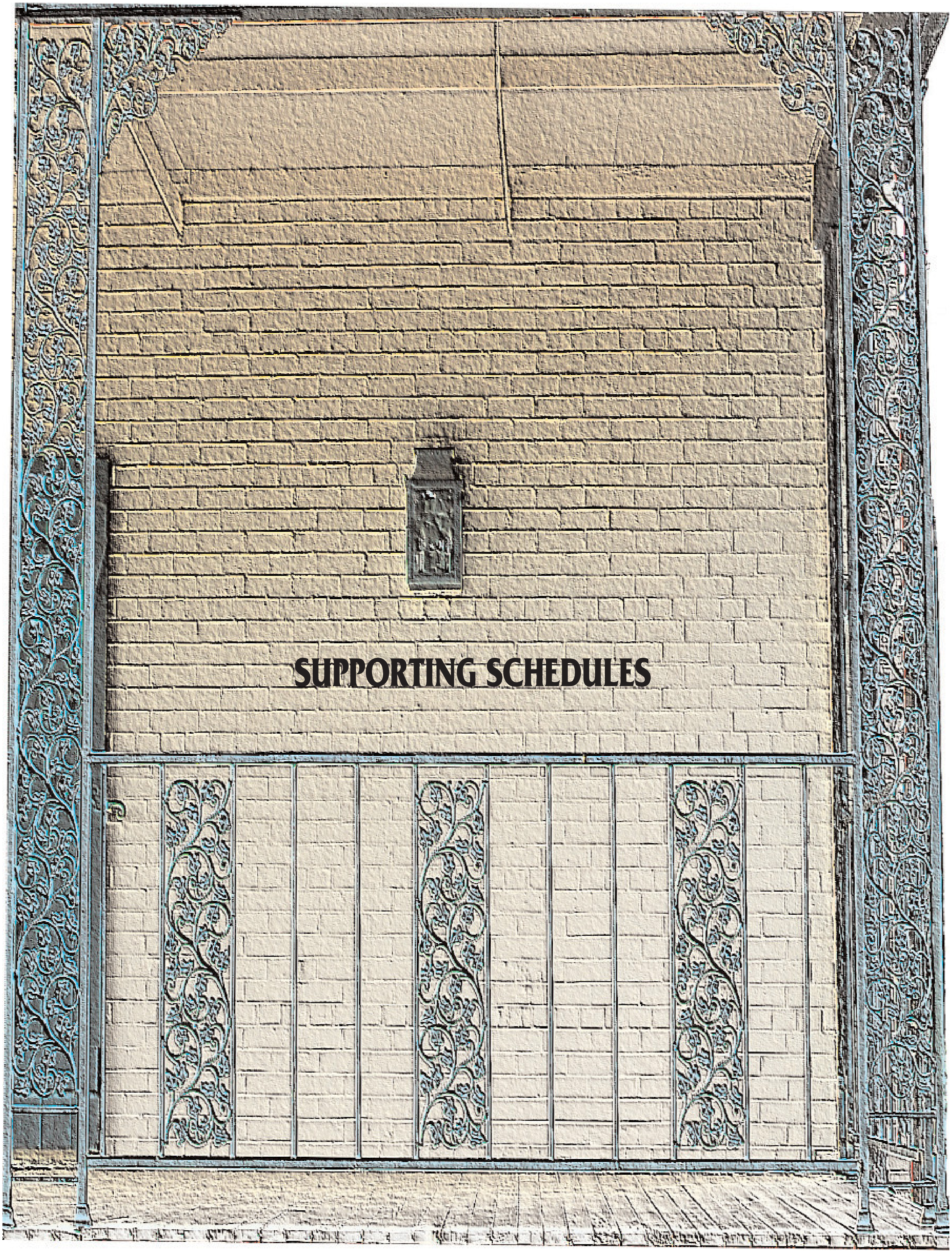
REQUIRED SUPPLEMENTARY INFORMATION UNDER GASB STATEMENT NO. 25, CONTINUED

NOTES TO THE SCHEDULES OF TREND INFORMATION - CONTINUED

POLICE GUARANTEE TRUST

Valuation date	December 31, 2002
Valuation method	Aggregate Actuarial Cost Method (Does not identify or separately amortize unfunded actuarial liabilities)
Amortization method	N/A
Remaining amortization period	N/A
Asset valuation method	Market value as of January 1, 2000 and January 1, 2001. Beginning January 1, 2002, adjusted Market Value with 20% of unrealized gains or (losses) recognized each year.
Actuarial assumptions:	
Investment rate of return	8.0%*
Projected salary increases	4.0%* plus longevity/merit
Aggregate payroll growth	N/A

* compounded annually and including inflation of 4%



SUPPORTING SCHEDULES

City of Baton Rouge and Parish of East Baton Rouge

ERS

SCHEDULES OF ADMINISTRATIVE EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	CPERS Trust	Police Guarantee Trust	2002 Combined Total	2001 Combined Total
Salaries:				
Salaries-regular	$ 334,648	$ 111,550	$ 446,198	$ 435,111
Other compensation-student labor	20,373	6,790	27,163	23,487
Other compensation-auto allowance	3,614	1,205	4,819	4,819
Related benefits	72,756	36,113	108,869	122,668
Total salaries	431,391	155,658	587,049	586,085
Travel and training expenses	8,520	2,840	11,360	18,345
Operating services:				
Dues and memberships	1,912	637	2,549	2,285
Utilities	8,929	2,976	11,905	15,625
Custodial and extermination	8,617	2,872	11,489	11,264
Printing and binding	11,248	2,613	13,861	6,235
Telephone	7,691	2,229	9,920	9,552
Postage	10,485	3,495	13,980	12,615
Insurance	6,980	2,327	9,307	7,586
Rentals-office equipment	14,876	4,959	19,835	19,763
Repairs and maintenance-buildings	5,153	1,702	6,855	9,151
Repairs and maintenance-office equipment	3,984	1,328	5,312	8,224
Total operating services	79,875	25,138	105,013	102,300
Supplies	23,517	7,733	31,250	38,112
Professional services:				
Accounting and auditing	6,750	2,250	9,000	15,080
Legal	79,374	21,142	100,516	104,523
Actuarial	76,698	13,645	90,343	104,096
Other professional	91,057	30,352	121,409	139,728
Total professional services	253,879	67,389	321,268	363,427
Depreciation expense	29,019	--	29,019	29,020
Capital outlay	--	--	--	17,432
Other revenues	(8,882)	--	(8,882)	(63,427)
Total administrative expenses	$ 817,319	$ 258,758	$ 1,076,077	$ 1,091,294

See accompanying independent auditors' report.

SCHEDULES OF INVESTMENT EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	CPERS Trust	Police Guarantee Trust	2002 Combined Total	2001 Combined Total
Fixed income:				
U.S. Government obligations and other bonds- Domestic	$ 369,540	$ --	$ 369,540	$ 293,071
Bonds-Enhanced Index Fund	62,796	3,955	66,751	69,594
Total fixed income	432,336	3,955	436,291	362,665
Equity securities:				
Equity securities - Domestic	323,146	3,407	326,553	137,688
Equity securities - International	624,427	19,903	644,330	521,509
Total equity securities	947,573	23,310	970,883	659,197
Custodian fees	66,618	2,384	69,002	52,675
Advisor fees	82,500	27,500	110,000	110,000
Total investment expenses	$ 1,529,027	$ 57,149	$ 1,586,176	$ 1,184,537

See accompanying independent auditors' report.

SCHEDULES OF PAYMENTS TO CONSULTANTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	CPERS Trust	Police Guarantee Trust	2002 Combined Total	2001 Combined Total
Accounting and Auditing	$ 6,750	$ 2,250	$ 9,000	$ 15,080
Auditors -				
Postlethwaite & Netterville				
Legal	79,374	21,142	100,516	104,523
Legal Counsel -				
Law Offices of Randy P. Zinna				
Of Special Counsel:				
Klausner & Kaufman, P.A.				
Lawson, Fields, McCue, Lee & Campbell, P.C.				
Actuarial	76,698	13,645	90,343	104,096
Actuary -				
Stanley, Holcombe & Associates, Inc.				
Other Professionals:	91,057	30,352	121,409	139,728
Medical Examiner -				
D. J. Scimeca, Jr., M.D.				
Computer Consultant -				
Relational Systems Consultants				
Graphics and Editorial Consultant -				
JoAnne McMullen				
Cost Allocation Consultant-				
MAXIMUS, Inc.				
Total	$ 253,879	$ 67,389	$ 321,268	$ 363,427

A schedule of brokerage commissions paid is shown on page 80.

See accompanying independent auditors' report.

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INVESTMENT SECTION

City of Baton Rouge and Parish of East Baton Rouge

ERS

Summit *Strategies Group*

7700 Bonhomme Avenue
Suite 300
St. Louis, MO 63105
www.summitstrategies.com
314.727.7211 phone
314.727.6068 fax

April 9, 2003

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

During 2002, investors continued to learn painful lessons about the true meaning of risk in the markets. Concerns about the War on Terrorism and Middle Eastern affairs weighed heavily on everyone's mind. The domestic economic recovery lost steam, GDP growth was slow and unemployment was up, but there was good news: inflation, then and still, appears to be in check.

The Bear Market continued as the S&P 500 Index dropped for a third consecutive year, falling -22.1%. This was the market's worst year since 1974, when the S&P 500 dropped -26.5%. Growth stocks were the hardest hit; of the various equity "styles", small value stocks fared best – losing *only* -11.4%! International stocks likewise were punished, with the EAFE Index down -15.7%. Emerging Market stocks dropped -6.0%, well above the domestic and developed international markets.

Back in the glory days of the '90s, many investors questioned the wisdom of owning any bonds at all. The reason for doing so was, and is, diversification. If any debate remained, 2003 should have settled it. Despite the rash of corporate credit problems arising from questionable accounting practices, the Lehman Aggregate Index rose a notable – and positive – 10.3%. Clearly, diversification pays.

In light of all this, the return of the CPERS portfolio is respectable relative to its benchmark and its peers. For the year ended December 31, 2002 it returned -8.1%. Though negative, this beat the fund's policy benchmark by 0.5%, and also the median public fund by 0.6%. In fact, the fund's 5.5% return in the fourth quarter placed it in the top 10% of the ICC public fund universe for that period. Its bond allocation helped and so did the style tilt to value stocks in the non-large cap equity portfolio, as value stocks outperformed their growth counterparts.

At the end of 2002, the CPERS portfolio value was $680.7 million and the Police Guarantee Trust was $21.3 million. For the one, three and five year periods ending December 31, 2002, the CPERS total fund annualized results were -8.1%, -2.7% and 3.3%, respectively. These results outperformed the fund's policy index and exceeded the returns of the average public pension fund in the ICC sample, with the exception of the 5 year return which trailed slightly by 0.2%. The Police Guarantee Trust return for the year was -7.4%. The two portfolios are invested as similarly as possible, but implementation differences are dictated by the size of the funds, which results in return dispersion between the two funds. We expect some performance deviation annually, but believe longer term results of the two pools will be very similar. All results have been calculated in accordance with the AIMR Standards.

Thank you for the opportunity to continue to serve you.

Sincerely,

Mark A. Caplinger, CFA
Senior Vice 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 ("CPERS"). The policies in this document have been adopted by the Board of Trustees, who have the fiduciary duty of overseeing the pension fund investments as well as a fiduciary responsibility to the Members and Beneficiaries of CPERS and will prudently invest and manage retirement funds and impartially administer benefits in a manner that demonstrates fiduciary responsibility, integrity and commitment to excellent service. The policies are not to be deviated from by any responsible party without the written permission of the Board of Trustees. All previous CPERS 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 members and the widows and children of deceased officers and members of CPERS. Given this purpose, the CPERS' liquidity requirement, and the source and predictability of contributions, the Board elects to assume normal pension fund risk in pursuing an investment program or as otherwise specified in accordance with the provisions of Section IV. Permissable Investments.

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

STATEMENT OF INVESTMENT POLICIES AND OBJECTIVES (CONTINUED)

maintain investment policies and objectives. Within this framework, the Board will have the ultimate responsibility and authority to select, monitor, and evaluate the investment consultant, investment managers, bank custodian, and other parties to ensure that actual results meet objectives.

<u>Investment Committee</u>

The Board establishes the Retirement Investment Committee and the Committee elects the Chair of the Committee. The Committee makes recommendations to the Board on investment actions including, but not limited to, the following topics:

1. The Investment Policy, Exhibits and/or Appendices
2. Consulting Relationship(s)
3. Investment Manager Relationship(s)
4. The Master Trustee/Custodian Relationship
5. The Securities Lending Program
6. The Asset Allocation Policy and Manager Structure
7. Performance Benchmarks
8. Brokerage Policy
9. Re-balancing Policy
10. Compliance Issues Policy

The Committee meets prior to the regular meeting of the Board to address overall investment activities. Staff and Consultant(s) brief the Committee on any topics or issues pertinent to CPERS' investment operations, and make recommendations to the Committee for appropriate courses of action. Generally, it is expected that the Committee will review these issues and act on them to:

- Accept them as presented, or
- Modify the proposals in some fashion, or
- Reject the proposals, sending the staff and consultant(s) "back to the drawing board", or
- Reject them in their entirety, or
- Take no action

<u>Retirement Administrator</u>

The Retirement Administrator is appointed by and serves at the pleasure of the Board. The Administrator is responsible for planning, organizing, and administering the operations of CPERS under broad policy guidance and direction from the Board. The Administrator, with assistance of staff, monitors the performance of the investment portfolio; ensures that funds are invested in accordance with Board policies; communicates with the Board, its Officers and Committee Chairs; studies, recommends and implements policy and operational procedures that will enhance the investment program of CPERS; and ensures that proper internal controls are developed to safeguard the assets of CPERS. In fulfilling these investment responsibilities, the Administrator receives input from the Internal Investment Staff and Consultant(s).

<u>Internal Investment Staff</u>

The Internal Investment Staff reports directly to the Retirement Administrator and works closely with the external Investment Consultant(s) on a project-specific basis and compliance issue basis. Once an item is identified as a compliance issue, Staff will proceed with the instructions as outlined on page 31, Board Policy Regarding Investment Compliance Issues.

<u>Investment Consultant</u>

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. The Consultant will also furnish CPERS with the latest copy of Consultant's ADV on an ongoing basis as well as a copy of the Consultant's Certificate of Liability Insurance.

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

STATEMENT OF INVESTMENT POLICIES AND OBJECTIVES (CONTINUED)

Investment Consultant assumes fiduciary responsibility for advice given regarding the management of the investment process. Other areas in which the Consultant will provide broadly defined investment consulting services to CPERS in its full-service relationship are as outlined in Consultant's contract.

It is the Board's position that it is imperative for the Consultant to have the independence and ability to inform the Board in the event of a material finding concern related to CPERS' investment activity. Any compliance issues referred to the attention of the Investment Consultant will be handled according to the policy as outlined on page 31, Board Policy Regarding Investment Compliance Issues.

Investment Managers

The Investment Managers are selected by, and serve at the pleasure of the Board and will construct and manage investment portfolios consistent with the investment philosophy, disciplines and style which they were hired to implement as specified in this document, a copy of which is provided to each manager. They will select specific securities, buy and sell such securities, and modify the asset mix consistent with the investment philosophy, disciplines and style, as outlined above. Discretion is delegated to the Managers to carry out these investment actions in accordance with the provisions as stipulated under Permissable Investments and General Fixed Income and General Equity Portfolio Guidelines. Certain managers may also, at the direction of the Board, engage in a Securities Lending Program. Managers will provide both monthly and quarterly reports. They will also allocate brokerage commissions in accordance with Section XV and use only acceptable investment vehicles as defined in this statement. CPERS does not prohibit the Investment Managers from using soft dollars. The Investment Managers, however, are required to submit a quarterly report indicating their use of any soft dollars generated by the System's transactions. These reports should indicate both the amount of the soft dollars generated, the brokerage firm(s) utilized for this purpose, and the goods or services acquired.

Bank Custodian(s)

The Bank Custodian(s) is selected by, and serves at the pleasure of the Board. The Custodian will collect income and safe keep all cash and securities, and will regularly summarize these holdings for Trustees' and staff's review. In addition, a bank or trust depository arrangement may be utilized upon request by CPERS if necessary to accept and hold cash flow prior to allocating it to the Investment Managers, and to invest such cash fully collateralized in liquid, interest-bearing instruments. The Custodian may also, at the direction of the Board, engage in a Securities Lending Program.

III. FIDUCIARY CONDUCT

An investment fiduciary is defined as a person who exercises discretionary authority or control in the investment of the assets of CPERS or who renders, for a fee, advice for CPERS, 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 CPERS 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 CPERS; and

4. Give appropriate consideration to those facts and circumstances that the investment fiduciary

STATEMENT OF INVESTMENT POLICIES AND OBJECTIVES (CONTINUED)

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 CPERS, to further the purposes of CPERS, taking into consideration the preservation of long-term principal of the Trust Fund, 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 CPERS;

(b) the liquidity and current return of the investment of CPERS relative to the anticipated cash flow requirements of CPERS; and

(c) the projected return of the investments of CPERS relative to the funding objectives of CPERS.

IV. PERMISSIBLE INVESTMENTS

Listed below are the investment vehicles specifically permitted currently under this Statement of Investment Policies and Objectives. They are categorized as equity or fixed income to indicate how they are classified for purposes of the asset-mix guidelines in a subsequent section. Unless given authorization in writing to participate in the restricted investments in paragraph 12, 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

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. 144(a) fixed income securities are allowable, limited in total to 5% of the manager’s portfolio at market.

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 with ratings by Moody’s and S&P of A or better.

5. The securities representing equity of any one company shall not exceed 5% of the cost basis or 7% of the market value of any manager’s portfolio. Fixed income securities of any one corporation shall be limited to 2.5% at cost of a portfolio and may not exceed 3% at market. This restriction also applies to asset-backed securities, non-agency mortgage-backed securities (including commercial mortgage-backed securities) and taxable municipals. The total holdings of an agency-issued mortgage-backed security of the same coupon and maturity series of the same agency shall not exceed 10% of the manager’s portfolio at cost (agency-issued mortgage-backed securities to include GNMA’s).

STATEMENT OF INVESTMENT POLICIES AND OBJECTIVES (CONTINUED)

The direct debt of the federal government (treasury bonds, bills and notes) shall not be restricted as a percentage of the portfolio.

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.

8. Yankee bonds are permissible investments and are defined as trading like any other U.S. domestic bond, pay interest semiannually, are SEC registered and are not to be confused with Eurodollar bonds that are issued outside the United States, issued in unregistered, or bearer, form and carry annual coupons. Yankee issues are subjected to the same percentage restrictions as outlined in paragraph 5 under Permissible Investments.

9. TBA'S. Used only if consistent with CPERS' investment objectives and strategies, do not involve leverage or a change to CPERS' risk profile and must comply with all applicable regulatory securities laws and the SEC. Ratings on all collateral or backing positions must be at a minimum rated A by both Moody's and S&P. Manager will provide CPERS with a report of the TBA positions at month-end listing the Long TBA positions and the underlying assets and the TBA sales showing the Mortgage Pools backing the short TBA positions.

10. Dollar Rolls (for purposes of deferring settlement dates of TBA pools ("mortgage rolls") or raising cash to cover settlements obligations (Treasury rolls)). Dollar rolls will be used only if consistent with CPERS' investment objectives and strategies, do not involve leverage or a change to CPERS' risk profile and must comply with all applicable regulatory securities laws and the SEC.

11. Fixed income portfolio managers are expected to ensure that funds are available to cover these obligations as they are due and that "overdrafts" of the accounts under their responsibility shall not be incurred as a result of "dollar roll strategies". In the event of an "overdraft" on the part of the manager (either as a result of "dollar rolls" or from any other investment activity), the manager shall provide to CPERS in writing an explanation of the circumstances surrounding the "overdraft". In the event that the "overdraft" is due to an error on the part of the manager, the manager shall be responsible for making CPERS or the Trust whole in the event of any changes or cost incurred as a result of the "overdraft".

12. The following investment vehicles are restricted unless specific permission is granted by the Board in writing. A request for permission to participate in any of the following vehicles will outline the purpose of the vehicle strategy, justification for the use of the vehicle, description of the risks inherent in the strategy and how the vehicle will be managed. Risks are to include pricing risk, liquidity risk, legal risk, credit risk and any other risks applicable to the strategy. Because leverage is prohibited by Policy constraints, any requests to participate in any of the investment vehicles will address any form of leverage if applicable:

    Below Investment Grade Securities
    Non-Dollar Denominated Securities
    Foreign Currency Exchange Transactions
    Options and Options on Futures
    Compound Options
    Companion Bonds (Includes Super PO)
    Eurodollar Bonds
    Eurobonds
    Euro-Medium Term Notes
    Floaters, Super Floaters, Inverse Floaters
    Futures Contracts (except for portfolios governed by Declarations of Trust)
    Forward Contracts
    Forward Rate Agreements
    Equity Real Estate
    Reverse Repurchase Agreements

STATEMENT OF INVESTMENT POLICIES AND OBJECTIVES (CONTINUED)

Swap Transactions
Loan Participations and Assignments
Redeemable Securities
CMO Accruals (Z-Tranche)
Payment-in-kind Bonds
Indexed Securities
Structured Medium Term Notes
Interest Rate Caps
Interest Rate Floors
Interest Rate Collars
Interest Rate Corridors
Emerging Markets Securities not held in the LB Aggregate Index
Warrants (Restricted for those warrants that are not attached to securities authorized for investment)

In the event that other types of securities having risk characteristics or similarities to those listed in paragraph 12 above are developed, the manager will inform the Board of those securities and they will be added to the list thereby requiring written permission by the Board prior to any participation.

13. Type III PACs, TACs, Accretion-Directed Classes (AD) Bonds or VADMs collateralized mortgage obligations (CMOS), Remics, interest only (I/O), and principal only (P/O) securities in aggregate will be limited to no more than 20% of the MBS weighting in the manager's applicable benchmark with 0% in Z-tranche holdings. In the event other types of mortgage-related securities that have risk characteristics similar to those in this category are developed, the manager will inform the Board of those securities and they will be included in these limitations.

14. Participation in TRAINS shall be limited to no more than 2.5% of the portfolio at cost. If the TRAIN is a 144A, it shall fall within the total percentage limitations allowed for 144a securities.

15. Any losses in principal in a CPERS' portfolio as a result of a manager having to liquidate any non-approved investments that are purchased for the portfolio will be borne by the manager.

INVESTMENT PORTFOLIOS

V. <u>GENERAL FIXED INCOME PORTFOLIO GUIDELINES</u>

<u>Eligible Holdings</u>

The portfolio will be invested exclusively in publicly traded fixed income securities, as described on Page 8 under "Permissible Investments". Securities are not allowed that use any form of leverage or as addressed under Section IV, Paragraph 12. For policy compliance purposes, leverage can also be declared as the value of long-term assets or positions an account has over and above the portfolio's net asset value.

<u>Diversification</u>

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 2.5% of the cost basis or 3% of the market value of any manager's portfolio, or as specified in the Portfolio Quality paragraph relative to credit issue ratings. (This does not apply to obligations of the U.S. Government or its agencies as defined in item 5 under Permissible Investments).

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

<u>Portfolio Quality</u>

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. Individual issues rated AAA to AA3 and its equivalent by S&P or Moody's may have a 2.5% position at cost and 3% at market value. Individual issues rated below AA3 or its equivalent by S&P or Moody's may have a 1.5% position at cost or 2% at market value. Individual issues rated BBB or its equivalent by S&P or Moody's may have a 1% position at market value. Split-rated securities in which one rating is below investment grade shall not comprise more than 3% of

STATEMENT OF INVESTMENT POLICIES AND OBJECTIVES (CONTINUED)

the market value in total for AAA to AA3 or its equivalent, 2% for issues rated below AA3 to BBB+ or its equivalent and 1% for issues rated BBB or its equivalent of any manager's portfolio unless specific authority has been granted. The ratings issue does not apply to direct obligations of the U.S. Government and its agencies (as defined in item 5 under Permissible Investments).

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 CPERS.

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. GENERAL EQUITY PORTFOLIO GUIDELINES

Eligible Holdings

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

STATEMENT OF INVESTMENT POLICIES AND OBJECTIVES (CONTINUED)

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:

- 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.
- Passive investment vehicles are expected to match the return of their respective benchmarks gross of fees.

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, professional personnel staffing of the investment management organization, violation of any of the parameters in this document, or any pending investigation of the firm by the SEC or any other regulatory authority related to its performance of duties as an Investment Manager.
- 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 CPERS 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.
- CPERS has identified specific commission targets that it considers its equity managers should strive to achieve as part of their efforts to prudently manage trading costs. It is each manager's responsibility to meet or exceed the commission reduction targets or to provide an annual letter explaining why it was not in CPERS' best interests to achieve these targets.

STATEMENT OF INVESTMENT POLICIES AND OBJECTIVES (CONTINUED)

- Furnish CPERS with a current copy of the approved Manager's ADV annually to concur with filing date.

- Furnish Insurance Certificate of Liability Insurance listing the Employees' Retirement System of the City of Baton Rouge and Parish of East Baton Rouge as Certificate Holder.

- Manager will notify CPERS if insurance certificate is cancelled for any reason whatsoever.

- Furnish CPERS with a current copy of the manager's applicable SAS 70 or SAS 73 Report.

- Furnish CPERS with their respective Quarterly Questionnaire within three weeks after the end of the quarter with a copy to Summit Strategies Group.

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 Section X I.

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

IX. EVALUATION AND REVIEW

Asset allocation is the most important decision made by a pension fund, generally accounting for approximately 90 percent of the variability of a fund's investment performance. The second most important decision is that of manager selection, which is thought to be approximately 10 to 15 percent of the variability of total fund performance. A great deal of effort goes into the selection of Investment Managers that constitute a fund's manager structure. Manager retention decisions have the same potential impact on returns as does the initial selection of the manager and should be afforded the same degree of attention.
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

- Investment Manager proxy voting procedures and proxy voting records are in compliance with specific proxy voting directives as issued by the Board from time to time.

- Commissions generated, commission rates charged and firms used by the money managers are in compliance with specific directives regarding commission cost management.

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.

As part of the Evaluation and Review process and in accordance with the responsibilities of the Board of Trustees, at least annually the Board will evaluate

STATEMENT OF INVESTMENT POLICIES AND OBJECTIVES (CONTINUED)

and review the Investment Consultant and Bank Custodian.

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 CPERS.

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.

XI. ASSET ALLOCATION & RE-BALANCING GUIDELINES

Asset Allocation

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

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

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.

STATEMENT OF INVESTMENT POLICIES AND OBJECTIVES (CONTINUED)

Re-balancing

The Board has established its strategic asset allocation mix and believes it prudently positions the assets of CPERS 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 re-balancing. Therefore, a range has been set for the actual asset allocation of CPERS' 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. Market Values for the close on the ninth business day prior to month-end will be ascertained on the eighth business day prior to month-end and will be used to determine if a re-balancing is necessary. If a re-balancing is necessary, the re-balancing process shall be completed by the first of the month following the valuation. 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 re-balancing trigger percentages are:

	Low Trigger	Target	High Trigger
Common Stocks	60%	65%	70%
Fixed Income	30%	35%	40%

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

XII. 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	50%	Cash	0%
Small Cap Domestic	25%	Core Fixed Income	100%
International	25%	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 CPERS. 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.

- Re-balancing will take place if the broad asset class trigger percentages have been reached by the eighth business day prior to month-end using the market values as of the close of business on the ninth day prior to month-end.

XIII. 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.

STATEMENT OF INVESTMENT POLICIES AND OBJECTIVES (CONTINUED)

Domestic Fixed Income Managers

Manager	Style	Peer Sample	Style Benchmark
Discretionary Core	Core	Core	Customized Index
Passive Index	Core	Core	Lehman Aggregate
Discretionary Core Plus	Core Plus	Core Plus	Lehman Universal

- The customized index created for Discretionary Core shall be:

  50% Lehman Brothers Credit 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
	Equity Real Estate	Equity Real Estate	NCREIF 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
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.

- It is recognized 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
EquityIndexPlus	Core	Core	S&P 500

Mid/Small Cap Domestic Equity Managers

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

International

Manager	Style	Peer Sample	Style Benchmark
Growth	International Growth	International Growth	MSCI EAF (non-hedged)
Value	International Value		MSCI EAFE Value (nonhedged)

Currency management is at the discretion of the manager.

XIV. INTERNAL CASH MANAGEMENT INVESTMENT GUIDELINES

Internal staff manages the daily cash balances of CPERS. Using the projected cash balance software of the custodian bank, the daily amount of cash available for investment by CPERS is identified. The cash of CPERS 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

STATEMENT OF INVESTMENT POLICIES AND OBJECTIVES (CONTINUED)

restricted to a maturity of 5 years or less. When collateral is tight in the market, direct U.S. government debt of 10 years or more can be substituted with the approval of authorized staff;

- 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 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 of internal staff handling the Repo activity, the custodian will be notified in writing at least three 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.

XV. CPERS BROKERAGE POLICY

The Board, at its discretion, may identify a brokerage firm or firms to receive consideration from CPERS' 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, dealings, as they regard CPERS with such an individual or firm by any of CPERS' current or prospective investment professionals without first notifying the Retirement Administrator is considered material by the Board with significant negative implications.

With regard to transaction expense, each manager recognizes commissions as an asset of CPERS and accepts same fiduciary responsibility for managing commissions that exist for the management of all assets under their authority. The Board also recognizes that transaction expense includes both commissions and execution costs, and charges the manager with the optimization of both for the lowest possible transaction cost. The Board encourages the equity managers to manage the commission activity using all available trading mechanisms to maintain commission levels on listed trades of three (3) cents per share 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 manager, said manager has the responsibility to immediately notify the Board of the concern(s).

XVI. 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 out-performance (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.

STATEMENT OF INVESTMENT POLICIES AND OBJECTIVES (CONTINUED)

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.

XVII. CORE PLUS FIXED INCOME MANAGER GUIDELINES

Core Plus Fixed Income Manager has been given specific legal authority by the Board in writing to invest in non-investment grade dollar-denominated debt instruments and investment grade non-dollar denominated debt instruments. All fixed income restrictions regarding investment grade dollar-denominated debt listed throughout this document apply to this portion of the Core Plus Fixed Income Manager's portfolio as well.

Specific to the below investment grade portion of the portfolio, the following restrictions apply:

- No more than 15% of the market value of the portfolio shall be invested in BB & B rated securities (or the equivalent)
- No more than 5% of the market value of the portfolio shall be invested in B rated securities (or the equivalent)
- All securities must be rated by either Moody's or Standard & Poors and in the case of split rating, the lower rating will apply
- No more than 2% of the market value of the portfolio shall be held in a single BB rated security
- No more than 1% of the market value of the portfolio shall be held in a single B rated security
- In the event of a bond's downgrade below B, the manager shall notify the staff of CPERS in writing immediately and recommend a course of action in writing within 24 hours

Specific to the non-dollar denominated securities in the portfolio, the following restrictions apply:

ǒ No more than 15% of the market value of the portfolio shall be invested in non-dollar denominated securities

ǒ No more than 7% of the market value of the portfolio shall be invested in one currency (except U.S. dollars)

ǒ The minimum quality restriction of a non-dollar denominated security is A (or its equivalent)

ǒ No more than 5% of the market value of the portfolio shall be invested in a single non-dollar denominated security rated AAA or AA, and no more than 2% may be invested in a single security rated A

Together, the market value of all below investment grade and non-dollar denominated securities shall not exceed 20% of the market value of the portfolio.

XVIII. INVESTMENT ACCOUNT RE-BALANCING POLICY

One of the most significant challenges in managing institutional assets is avoiding the pressure to shift the asset mix in a reactive fashion after meaningful market movement. Shifts resulting from such pressure are inevitably biased toward the direction of the recent market move. One of the best ways to avoid engaging in these ad hoc allocation shifts is through adoption of a long-term strategic asset allocation policy, with the goal of adhering to it through systematic re-balancing. Re-balancing is the

STATEMENT OF INVESTMENT POLICIES AND OBJECTIVES (CONTINUED)

term that describes the periodic movement of funds from one asset or asset class to another for the purpose of realigning the assets with the asset allocation target.

It shall be the policy for the staff to regularly review the investment strategic asset allocation mix in order to determine if the asset allocation has moved outside the ranges as established in the Total Plan Statement of Investment Policies and Objectives of the Retirement Board of Trustees. This review will be performed monthly on the eighth business day prior to the month-end using the market values as of the close of business on the ninth business day prior to month-end and will entail establishing current market values for each Investment Manager and mathematically evaluating the actual asset allocation in relation to the target allocation. If it is determined that the asset allocation has moved outside the established ranges, the staff, in consultation with the Investment Consultant, will begin the re-balancing process. Because some managers are limited to specific open dates on which funds can be purchased or sold, this should allow ample time to complete re-balancing by the first of the following month.

- The staff will contact the Investment Consultant, in writing, with a plan that brings the asset allocation back within the predetermined parameters for his approval.

- The staff will then facilitate any necessary liquidation of assets and arrange additional allocations with the Investment Managers by written instructions to the Investment Managers, in accordance with the recommendation.

- Every effort is to be made to ensure that any liquidations and additional allocations be completed by the first business day of the month.

- After completion of the re-balancing, the staff will prepare a written report for presentation to the Board of Trustees. The report will recap the action taken and the reasons for the action.

A working list of things to consider when carrying out the above re-balancing plan are as follows:

- Remember that effective communication of the re-balancing plan is the key to low cost, efficient re-balancing.

- Inform all managers and the custodian that the fund will be re-balanced, and explain what this means to each of them specifically.

- Discuss crossing opportunities that are currently available or may be available over the course of the ensuing weeks. Usually, an opportunity to cross in or out at little or no cost will outweigh paying up to obtain immediate exposure.
- Look to use the most liquid vehicles (i.e., the index funds) to start the re-balancing process.

- Give the active managers a specific window of opportunity to buy/sell assets. Tell them exactly what is expected of them and make sure they understand the mandate.

- Managers that are receiving flows should be informed of the date the flow will be placed in their account so new buy orders settle on the day the cash is received. This will allow the fund to remain fully invested.

XIX. INVESTMENT COMPLIANCE ISSUES POLICY

It shall be the policy for the staff to review the Investment Managers' acitivity and holdings in order to determine compliance to the Retirement Board's Total Plan Statement of Investment Policies and Objectives. In the event issues are found which the staff determines should be clarified and/or investigated further, the procedures below will be followed:

- The staff will reduce to writing any issues or concerns and cite the appropriate related section of the Investment Policy.
- The written document will be sent to the Investment Consultant for review with a copy going to the Members of the Investment Committee.

STATEMENT OF INVESTMENT POLICIES AND OBJECTIVES (CONTINUED)

- The Investment Consultant will respond to the inquiry within ten (10) working days after receipt.

- The response will include a signed dated acknowledgment of whether or not, in the Investment Consultant's opinion, the issue in question complies with the Investment Policy.

- If, in the opinion of the Investment Consultant, the issues do comply, a copy of the response will be sent to the Retirement Office staff and the Members of the Investment Committee, and only at the Investment Committee's request will the issue be pursued further.

- If, in the opinion of the Investment Consultant, the issues do not comply, the Investment Consultant will contact the appropriate Investment Manager, in writing, and disclose the relevant issues, and request a written response explaining why the Investment Manager feels the issues comply with the Board's Investment Policy. Copies of all documentation will be forwarded to the staff and the Members of the Investment Committee.

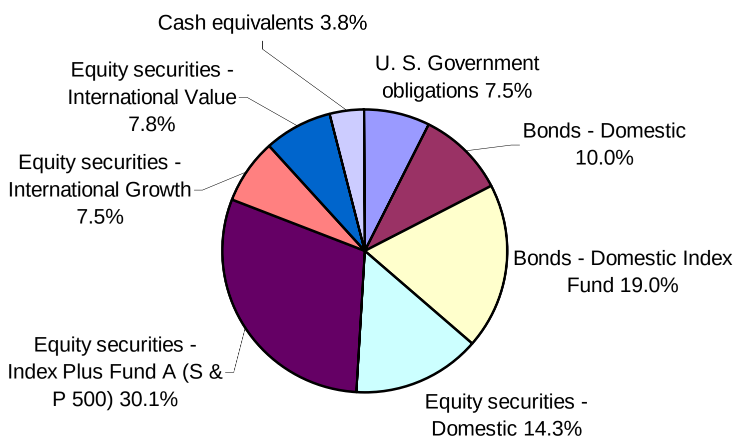
- To the extent possible, each issue will be resolved by the Investment Consultant, working in conjunction with the staff, then the Investment Committee, and then the full Board.

INVESTMENT SUMMARY
AS OF DECEMBER 31, 2002 AND 2001

CPERS TRUST

Type of Investment:	December 31, 2002 Fair Value	December 31, 2002 % Total Fair Value	December 31, 2001 Fair Value	December 31, 2001 % Total Fair Value
Fixed income:				
U. S. Government obligations	$52,120,972	7.5%	$68,259,778	8.9%
Bonds - Domestic	69,174,732	10.0%	61,986,427	8.1%
Bonds - Domestic Index Fund	131,069,027	19.0%	143,283,635	18.6%
Equities:				
Equity securities - Domestic	98,701,398	14.3%	111,249,665	14.4%
Equity securities - Russell 1000 Value Index Plus	--	--	146,573,411	19.0%
Equity securities - Index Plus Fund A (S & P 500)	208,405,102	30.1%	129,688,655	16.8%
Equity securities - International Growth	51,984,278	7.5%	--	--
Equity securities - International Value	53,723,160	7.8%	81,602,785	10.6%
Cash equivalents	26,450,000	3.8%	27,700,000	3.6%
Total investments	$691,628,669	100.0%	$770,344,356	100.0%

CPERS ASSET ALLOCATION AS OF DECEMBER 31, 2002

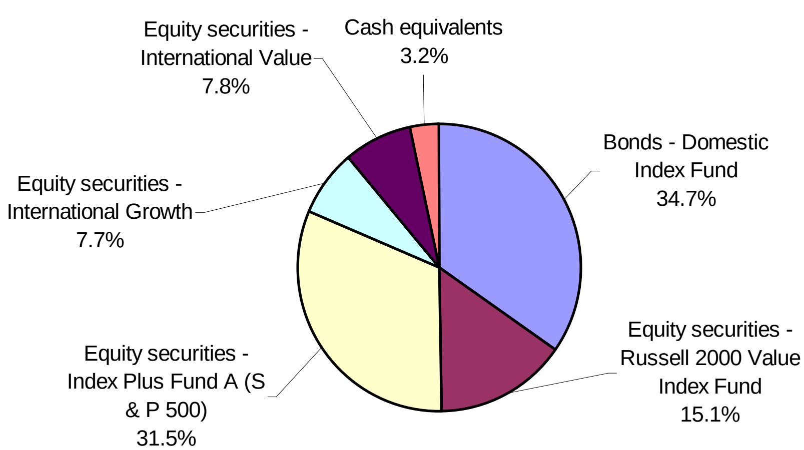


INVESTMENT SUMMARY
AS OF DECEMBER 31, 2002 AND 2001

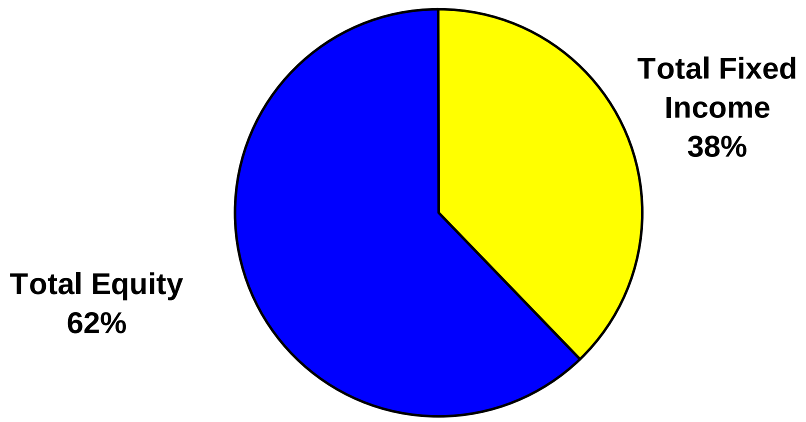
POLICE GUARANTEE TRUST

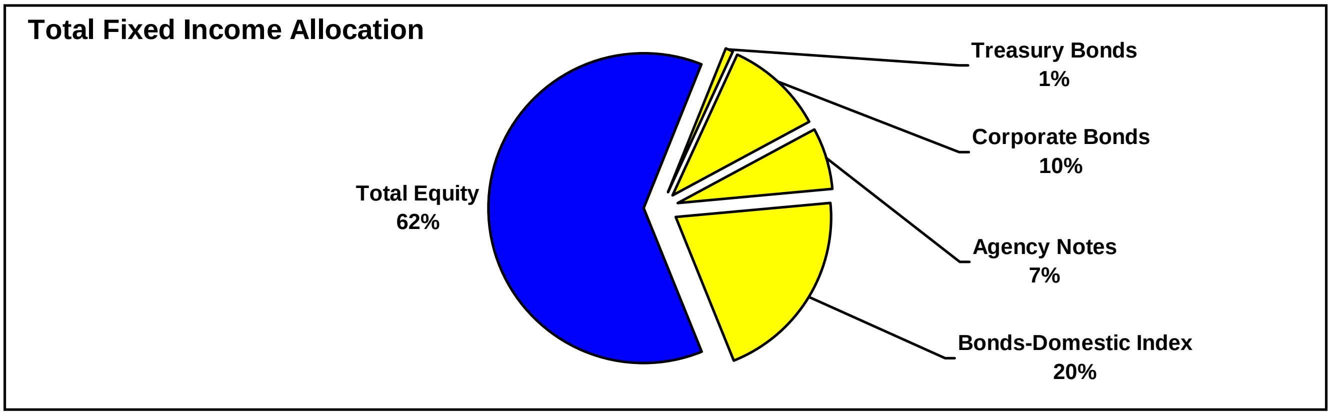
Type of Investment:	**December 31, 2002** Fair Value	**December 31, 2002** % Total Fair Value	**December 31, 2001** Fair Value	**December 31, 2001** % Total Fair Value
Fixed income:				
Bonds - Domestic Index Fund	$7,639,489	34.7%	$9,163,730	37.3%
Equities:				
Equity securities - Russell 2000 Value Index Fund	3,309,821	15.1%	3,535,696	14.4%
Equity securities - Index Plus Fund A (S & P 500)	6,922,647	31.5%	4,215,580	17.2%
Equity securities - International Growth	1,701,557	7.7%	2,411,744	9.8%
Equity securities - International Value	1,719,778	7.8%	--	--
Equity securities - Russell 1000 Value Index Plus Fund	--	--	4,718,631	19.2%
Cash equivalents	700,000	3.2%	500,000	2.1%
Total investments	$21,993,292	100.0%	$24,545,381	100.0%

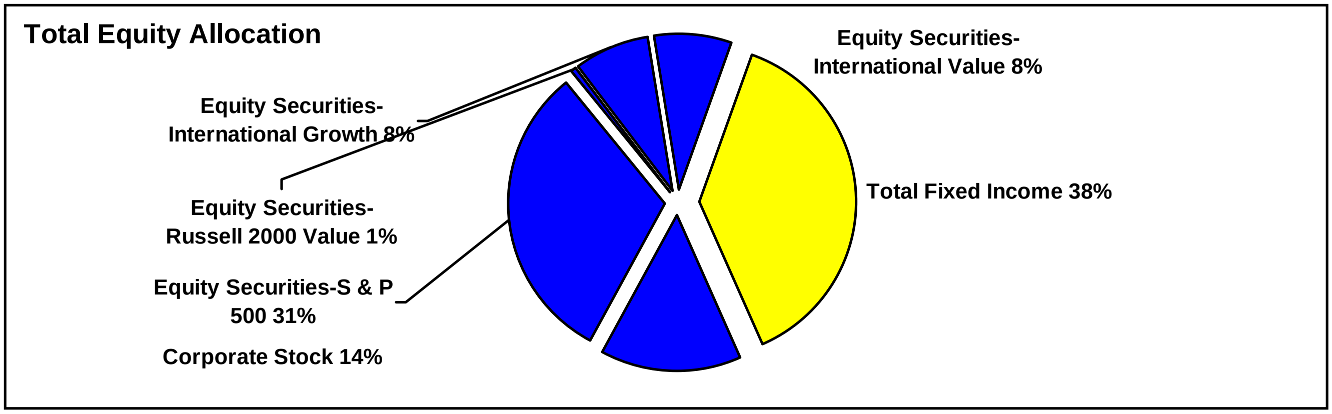
PGT ASSET ALLOCATION AS OF DECEMBER 31, 2002



ASSET ALLOCATION AS OF DECEMBER 31, 2002







CPERS LIST OF INVESTMENTS
AS OF DECEMBER 31, 2002

FIXED INCOME

LARGEST DOMESTIC BOND HOLDINGS (BY FAIR VALUE)

DESCRIPTION	COUPON RATE	MATURITY DATE	PAR VALUE	FAIR VALUE
US GOVERNMENT OBLIGATIONS				
FEDERAL NAT'L MTG ASSN DEB	6.500%	30 YR	$6,300,000	$6,557,953
FEDERAL NAT'L MTG ASSN DEB	6.000%	15 YR	1,600,000	1,672,000
FEDERAL HOME LOAN MTG CORP E9-1320	5.500%	09/01/17	1,468,150	1,524,512
US TREASURY BONDS	8.500%	02/15/20	1,055,000	1,520,846
FEDERAL NAT'L MTG ASSN POOL #483324	6.000%	04/01/14	1,399,112	1,469,291
FEDERAL HOME LOAN MTG CORP MULTICLASS	6.500%	06/15/12	1,227,493	1,308,164
FEDERAL NAT'L MTG ASSN POOL #451777	5.500%	11/01/13	1,208,151	1,264,729
FEDERAL NAT'L MTG ASSN POOL #425892	5.500%	04/01/23	1,200,976	1,257,218
FEDERAL NAT'L MTG ASSN DEB	6.000%	05/15/11	1,015,000	1,147,265
FEDERAL NAT'L MTG ASSN DEB	7.000%	30 YR	1,000,000	1,051,560
OTHER US GOVERNMENT OBLIGATIONS			33,854,775	33,347,434
TOTAL US GOVERNMENT OBLIGATIONS			$51,328,657	$52,120,972
DOMESTIC BONDS				
INTERNATIONAL BK FOR RECON	5.000%	03/28/06	$1,400,000	$1,512,000
CITIGROUP INC GLOBAL SUB NT	7.250%	10/01/10	1,285,000	1,491,718
EUROPEAN INVT BK NT	4.875%	09/06/06	1,350,000	1,447,268
TEXACO CAP INC	9.750%	03/15/20	870,000	1,267,103
NATL RURAL UTIL	6.250%	04/15/03	1,200,000	1,215,516
ATLANTIC RICHFIELD CO DEB DTI	10.875%	07/15/05	1,000,000	1,209,340
NEW YORK ST PWR AUTH	6.260%	02/15/03	1,200,000	1,207,056
FORD CR AUTO OWNER TR-2001	4.310%	06/15/05	1,100,000	1,117,743
PHARMACIA CORP	6.500%	12/01/18	1,000,000	1,099,120
BANK ONE ISSUANCE TR 2002-2	4.160%	01/15/08	1,050,000	1,098,258
OTHER BONDS – DOMESTIC			53,662,955	56,509,610
TOTAL DOMESTIC BONDS			$65,117,955	$69,174,732

DOMESTIC BONDS – DOMESTIC INDEX FUNDS

DESCRIPTION	UNITS	FAIR VALUE
BONDS – DOMESTIC INDEX FUND	8,011,554	$131,069,027

A complete list of portfolio holdings is available upon request.

EQUITIES

LARGEST DOMESTIC EQUITY SECURITIES (BY FAIR VALUE)

DESCRIPTION	SHARES	FAIR VALUE
JOHNSON CTLS INC	14,700	$1,178,499
PPG INDS INC	23,300	1,168,495
DEVON ENERGY CORP	23,800	1,092,420
APACHE CORP	18,900	1,082,240
NEWELL RUBBERMAID INC	34,100	1,034,253
FORTUNE BRANDS INC	22,200	1,032,522
SEMPRA ENERGY	42,400	1,002,760
KEYSPAN CORP	28,100	990,244
BJ SVCS CO	30,400	982,224
FIRST ENERGY CORP	29,600	975,912
OTHER EQUITY SECURITIES – DOMESTIC	10,494,862	88,161,829
TOTAL DOMESTIC EQUITY SECURITIES	10,762,362	$98,701,398

EQUITY SECURITIES – INDEX FUNDS

DESCRIPTION	UNITS	FAIR VALUE
EQUITY SECURITIES – INDEX PLUS FUND A (S&P 500)	32,282,507	$208,405,102
TOTAL EQUITY SECURITIES – DOMESTIC	43,044,869	$307,106,500

EQUITY SECURITIES – INTERNATIONAL

DESCRIPTION	UNITS	FAIR VALUE
EQUITY SECURITIES – INTERNATIONAL GROWTH	301,357	$51,984,278
EQUITY SECURITIES – INTERNATIONAL VALUE	2,780,443	53,723,160
TOTAL EQUITY SECURITIES INTERNATIONAL	3,081,800	$105,707,438

REPURCHASE AGREEMENTS

DESCRIPTION	RATE	DATE	MATURITY VALUE	FAIR VALUE
CANTOR DTD 12/31/02	1.150%	01/02/03	$26,450,000	$26,450,000
TOTAL CASH EQUIVALENTS			$26,450,000	$26,450,000
TOTAL CPERS INVESTMENTS				$691,628,669

A complete list of portfolio holdings is available upon request.

PGT LIST OF INVESTMENTS
AS OF DECEMBER 31, 2002

FIXED INCOME

BONDS – DOMESTIC INDEX FUND

DESCRIPTION	UNITS	FAIR VALUE
PASSIVE BOND MKT INDEX SECURITIES LENDING FUND	466,961	$7,639,489

EQUITIES

EQUITY SECURITIES – INDEX FUNDS

DESCRIPTION	UNITS	FAIR VALUE
EQUITY INDEX PLUS FUND A (S&P 500)	1,072,337	$6,922,647
RUSSELL 2000 VALUE INDEX PLUS FUND	256,733	3,309,821
TOTAL EQUITY SECURITIES INDEX FUNDS	1,329,070	$10,232,468

EQUITY SECURITIES – INTERNATIONAL

DESCRIPTION	UNITS	FAIR VALUE
SPRUCE GROVE INTL VALUE EQUITY FUND	89,007	$1,719,778
CAPITAL GUARDIAN INTL GROWTH EQUITY FUND	9,896	1,701,557
TOTAL EQUITY SECURITIES INTERNATIONAL	98,903	$3,421,335

REPURCHASE AGREEMENTS

DESCRIPTION	RATE	DATE	MATURITY VALUE	FAIR VALUE
CANTOR DTD 12/31/02	1.150%	01/02/03	$700,000	$700,000
TOTAL CASH EQUIVALENTS			$700,000	$700,000
TOTAL PGT INVESTMENTS				$21,993,292
TOTAL INVESTMENTS – CPERS AND PGT				$713,621,961

A complete list of portfolio holdings is available upon request.

INVESTMENT PERFORMANCE MEASUREMENTS

	Rate of Return	Rank*
Comparative Rates of Return on Total Fund – Year Ended December 31, 2002		
City-Parish Employees' Retirement System	-8.1%	44
Police Guarantee Trust	-7.4%	38
Comparison indices:		
Median Total Fund	-8.7%	50
Allocation Index **	-8.3%	46
Comparative Rates of Return on Domestic Equities – Year Ended December 31, 2002		
City-Parish Employees' Retirement System	-19.9%	42
Police Guarantee Trust	-18.6%	36
Comparison indices:		
Median Domestic Equity Fund	-21.6%	50
Russell 3000	-21.6%	50
Comparative Rates of Return on International Equities – Year Ended December 31, 2002		
City-Parish Employees' Retirement System	-8.1%	19
Police Guarantee Trust	-8.1%	19
Comparison indices:		
Median International Equity Fund	-15.0%	50
EAFE	-15.7%	59
Comparative Rates of Return on Fixed Income Securities – Year Ended December 31, 2002		
City-Parish Employees' Retirement System	10.5%	34
Police Guarantee Trust	10.4%	33
Comparison indices:		
Median Bond Fund	9.1%	50
Lehman Brothers Aggregate Bond Index	10.3%	37

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, 2002	-8.1%	50
Two-year period ending December 31, 2002	-5.0%	47
Three-year period ending December 31, 2002	-2.7%	52
Four-year period ending December 31, 2002	0.9%	49
Five-year period ending December 31, 2002	3.3%	61

* Rank indicates CPERS' relative investment performance in relation to other total funds in the Independent Consultant's Cooperative Universe of funds.

** 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 indices.

ANNUAL RATES OF RETURN

	ANNUALIZED						
	1998	**1999**	**2000**	**2001**	**2002**	**3 YRS.**	**5 YRS.**
TOTAL FUND							
City-Parish Emp. Retirement System	13.8%	12.6%	2.0%	-1.8%	-8.1%	-2.7%	3.3%
Police Guarantee Trust	N/A	N/A	N/A	-0.8%	-7.4%	N/A	N/A
Median Total Fund	13.0%	12.6%	2.3%	-2.5%	-8.7%	-3.1%	3.5%
Inflation (CPI)	1.6%	2.7%	3.4%	1.5%	2.4%	2.5%	2.3%
DOMESTIC EQUITY							
City-Parish Emp. Retirement System	17.1%	8.5%	3.1%	-5.2%	-19.9%	-7.8%	-0.1%
Police Guarantee Trust	N/A	N/A	N/A	-3.1%	-18.6%	N/A	N/A
Median Domestic Equity Fund	14.3%	17.9%	0.0%	-8.8%	-21.6%	-10.8%	0.9%
Russell 3000	24.1%	20.9%	-7.5%	-11.5%	-21.6%	-13.7%	-0.7%
INTERNATIONAL EQUITY							
City-Parish Emp. Retirement System	15.2%	67.6%	18.5%	-16.5%	-8.1%	-14.5%	3.8%
Police Guarantee Trust	N/A	N/A	N/A	-16.5%	-8.4%	N/A	N/A
Median International Equity Fund	14.3%	32.3%	-9.9%	-18.0%	-15.0%	-13.9%	0.9%
EAFE	20.3%	27.3%	-14.0%	-21.2%	-15.7%	-17.0%	-2.6%
FIXED INCOME							
City-Parish Emp. Retirement System	8.2%	-0.6%	11.4%	8.9%	10.5%	10.3%	7.6%
Police Guarantee Trust	N/A	N/A	N/A	8.4%	10.5%	N/A	N/A
Median Bond Fund	8.4%	0.1%	10.8%	8.4%	9.1%	9.7%	7.5%
Lehman Brothers Aggregate Index	8.7%	-0.8%	11.6%	8.4%	10.3%	10.1%	7.5%

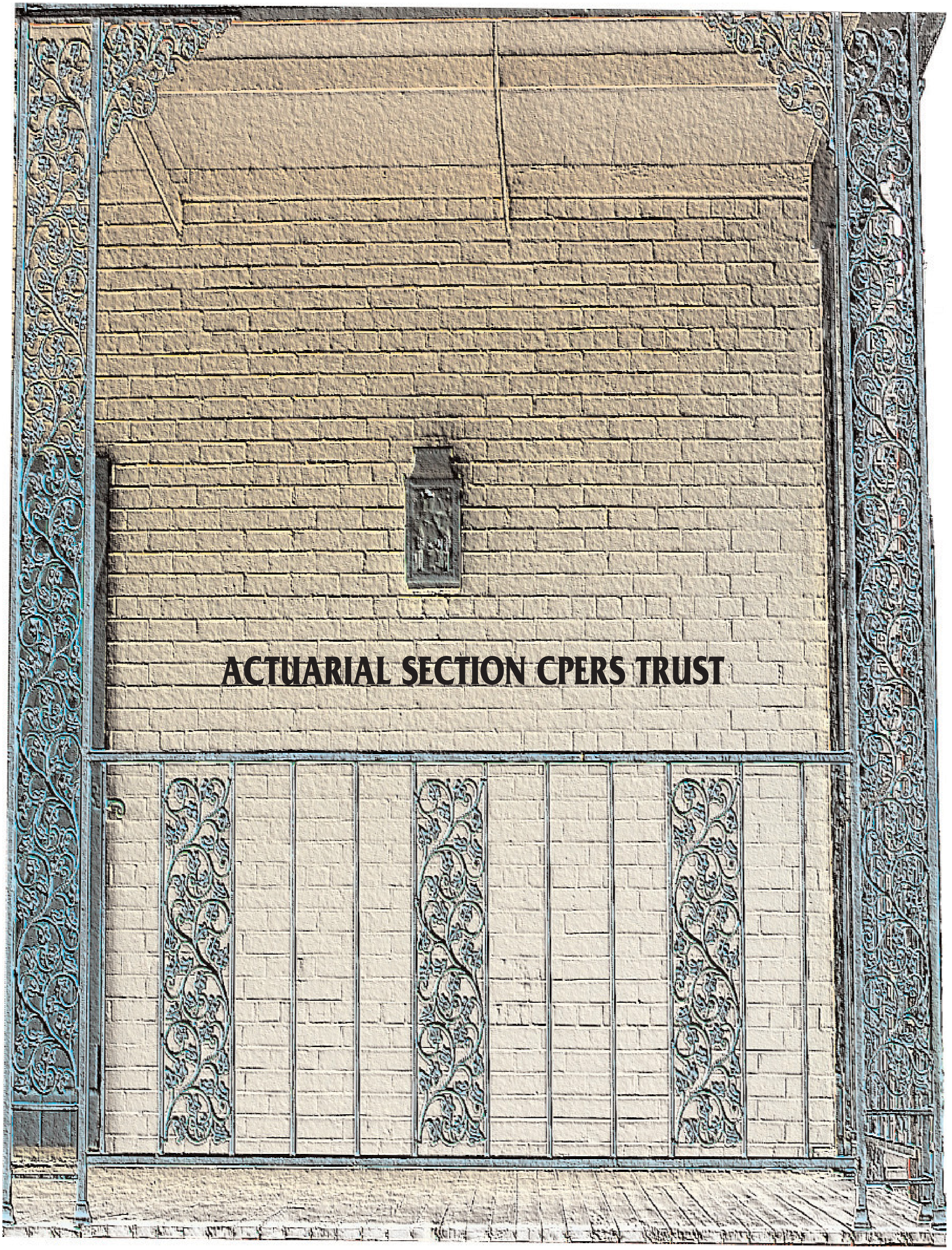
Note: These calculations were prepared using a time-weighted rate of return based on the market rate of return in accordance with Association for Investment Management Research's (AIMR) performance presentation standards.

SCHEDULE OF COMMISSIONS PAID TO BROKERS
FOR THE YEAR ENDED DECEMBER 31, 2002

Brokerage Firm	Shares Traded	Commission Dollar Amount	Commission Per Share
Autranet	134,200	$ 4,697	$ .0350
Banc of America Securities LLC	662,400	25,510	.0385
Bear Stearns & Co. Inc.	612,000	30,600	.0500
B-Trade Services LLC	248,400	4,968	.0200
CIBC Worldmarkets Corp.	953,900	38,156	.0400
Citation Group/BCC CLRG	68,800	3,440	.0500
Credit Suisse First Boston	834,700	32,152	.0385
Dain Raucher Incorporated	32,900	1,645	.0500
First Albany Corporation	100,800	4,870	.0483
First Security Van Kasper & Co.	55,400	2,770	.0500
Frank Russell Securities, Inc.	96,900	5,129	.0529
Goldman, Sachs & Co.	497,800	24,890	.0500
Gordon, Haskett & Company	39,400	1,970	.0500
Investment Technology Group	1,736,983	34,740	.0200
ISI Group, Inc.	91,800	4,590	.0500
J.P. Morgan Securities, Inc.	283,100	12,809	.0452
Jefferies & Company	155,800	4,674	.0300
Jones & Associates	34,100	1,023	.0300
Lehman Brothers, Inc.	646,200	23,638	.0366
Liquidnet, Inc.	232,600	4,652	.0200
Merrill, Lynch, Pierce, Fenner & Smith	395,500	18,415	.0466
Morgan Stanley Co.	575,700	25,727	.0447
Prudential-Bache	54,400	1,400	.0257
Salomon Smith Barney, Inc.	721,500	25,524	.0354
Schwab, Charles & Co., Inc.	109,116	3,788	.0347
SG Cowen Securities, Corp.	66,300	1,416	.0214
Spear, Leeds & Kellogg	150,000	3,932	.0262
Standard & Poors Securities, Inc.	104,000	5,200	.0500
State Street Brokerage Services, Inc.	2,217,864	38,311	.0173
UBS Warburg LLC	90,000	4,107	.0456
US Bancorp Piper Jaffray, Inc.	60,900	2,580	.0424
Veritas Securities	232,600	5,815	.0250
William Blair & Company LLC	89,500	3,261	.0364
Other (18 firms) *	192,300	8,060	.0419
Total	12,577,863	$414,459	.0330

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

ACTUARIAL SECTION CPERS TRUST



City of Baton Rouge and Parish of East Baton Rouge

ERS

Stanley,
Holcombe
& Associates, Inc.

June 17, 2003

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 tenth annual valuation of the Employees' Retirement System of the City of Baton Rouge and Parish of East Baton Rouge as of January 1, 2003. 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 thirty years. Note that prior to the January 1, 2001 valuation subsequent changes in unfunded liabilities were amortized over the remaining portion of the original thirty years. This change in amortization was applied to all changes in unfunded liabilities since January 1, 1995.

Effective with the 2000 year, the Board has decided to introduce a one-year delay from the valuation date to the year for which the contribution rate calculated in the valuation is applied. Thus the contribution rate calculated in the 2003 valuation will apply to the year 2004. The 2002 valuation will be the basis for the 2003 contribution rate.

The City contribution rate for the 2003 year is set to 12.50%. This reflects a 1.93% increase from the 2002 rate.

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Based on our recommendation, the Board of Trustees approved a change in the method of determining the actuarial value of assets effective with the January 1, 2002 valuation. Under this method, 20% of the difference between the expected asset value and market value is recognized each year. The resulting actuarial value of assets as of December 31, 2002 is $818,150,788.

In performing the January 1, 2003 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, 2002 and January 1, 2003 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, 2000 valuation, based on the 1994-1998 experience study. At January 1, 2000 the actuarial cost method and actuarial asset value method remained unchanged. Assumptions relating to turnover, salary scale, disability, and leave transfer were changed at that time. The actuarial asset valuation method was changed as of January 1, 2002, to the method outlined above. The funding method used is the Entry Age Normal Cost Method. The actuarial assumptions and methods used for funding purposes comply with and are within the parameters set forth by the Government Accounting Standards Board (GASB) Statement No. 25. For 2002 the amortization approach is within the parameters of GASB 25/27.

Additional information is provided in the Summary of Actuarial Assumptions and Methods. The same actuarial assumptions and methods were employed in the development of the schedules which we 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.

Our firm prepared a number of schedules which are included in the Retirement System's 2002 Comprehensive Annual Financial Report - specifically the Summary of Principal System Provisions, Summary of Actuarial Assumptions and Methods, Accrued Liability Analysis for 2002 and 2001, Annual Amortization of UAAL, Determination of UAAL, Reconciliation of UAAL, Summary of Actuarial Accrued Liabilities and Percentage covered by Actuarial Value of Assets / Solvency Test, Analysis of Financial Experience, Employer Contribution Calculation Results for 2002 and 2001, Active Membership Data, Schedule of Retirees and Beneficiaries Added, and Total Membership Data.

Sincerely,

Randall L. Stanley

Frans Christ

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

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

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BROUGEA9B

SUMMARY OF PRINCIPAL SYSTEM PROVISIONS
(Source: 2003 Actuarial Report)
(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). Amended effective January 1, 1998, (Ordinance No. 11019 and 11020). Amended effective February 23, 2000, August 26, 2000 and December 31, 2001 (Ordinance 11827) and July 1, 2002.
Fiscal Year	Calendar year.
Membership: (1:259, 1:266)	Any regular employee of the City-Parish, excluding Police employees who elected to transfer into the Municipal Police Employees' Retirement System (MPERS) as of February 26, 2000 and Police employees hired after that date. Part-time council members with service prior to January 1, 1997, retroactive to December 31, 1976.
Contributions:	Members: 8% of compensation (1:264 A1(a)). Effective January 1, 2002, member contribution is equal to Maximum Employer Contribution, if less than 8% (1:264 A1 (c)). If the Maximum Employer Contribution rate is 17% or greater, the members' contribution rate will be 50% of the Employer Contribution rate, but not more than 9.5% (1:264 A(b)). Employer Contribution: Balance, actuarially determined (1:253N). Employer Contribution plus adjusting percentages for pro-rata allocation of obligations for transfer of members to plans maintained by the State or a political subdivision thereof (1:251), plus an additional adjusting percentage, either positive or negative, representative of an extraordinary actuarial gain or loss, as determined by the Board of Trustees, which can be identified with one or more employers of the Retirement System.
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 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 effective July 1, 1992 plus $30 for each full year retired.

**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 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.

On and after July 1, 2002: If the Member has at least ten (10) years of Creditable Service and has attained at least age 55, with DROP duration not greater than three (3) years.

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.
(a) Conversion of all of the accumulated time to Creditable Service, on the basis of one (1) hour for each hour of unused accumulated vacation 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.

SUMMARY OF PRINCIPAL SYSTEM PROVISIONS
(CONTINUED)

Changes Since Prior Valuation:	A 3-year DROP for members age 55 or older with at least 10 years of Creditable Service was effective July 1, 2002.
	Effective July 1, 2002, surviving spouse benefits for members who died prior to May 24, 1989 were increased from $250 to $600 (1:270B).

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS
(Source: 2003 Actuarial Report)

Valuation Date: December 31, 2002.

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. Beginning January 1, 2002, Expected Value Method, with 20% of investment gains or (losses) recognized each year.

Actuarial Assumptions: 8% compounded annually.

Investment Return: 8% compounded annually. *(Adopted March 2, 1995)*

Salary Increases: 4% compounded annually due to inflation, plus longevity/merit in accordance with following schedule: *(Adopted July 13, 2000)*

Age	BREC/Regular	Fire/Police
30	+2.50%	+4.00%
35	+1.50%	+2.00%
40	+1.25%	+2.00%
45	+.75%	+1.00%
50	+.50%	0%
55	0%	0%

Aggregate Payroll Growth: 5% compounded annually *(Adopted July 13, 2000)*

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: *(Adopted July 13, 2000)*

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: *(Adopted July 13, 2000)*

Year	Regular, BREC	Fire, Police
1	360%	100%
2	200%	60%
3	150%	40%
4	125%	40%
5	40%	20%
6+	40%	20%

Probabilities of disability are in accordance with the Eleventh Actuarial Valuation of the Railroad Retirement System. Turnover is based on Table T-5. The disability rates for Fire and Police are increased by 50%.

Assumed Transfers to Retirement System for accumulated vacation and sick leave, e.g.: *(Adopted July 13, 2000)*

	Total
BREC	1.0 year
Regular	1.0 year
Fire	2.0 years
Police	1.5 years

Retirement: Earlier of 25 years of service credit or age 60 with 10 years of service credit. *(Adopted March 2, 1995)*

Type of Disability: A percentage of disabilities is assumed to be ordinary disabilities, as shown below: *(Adopted July 13, 2000)*

BREC, Regular	25% service-connected, 75% ordinary
Fire	50% service-connected, 50% ordinary
Police	75% service-connected, 25% ordinary

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS (CONTINUED)

Recovery:	No probabilities of recovery are used. *(Adopted March 2, 1995)*
Remarriage:	No probabilities of remarriage are used. *(Adopted March 2, 1995)*
Spouse's Ages:	Female spouses are assumed to be 3 years younger than males. *(Adopted March 2, 1995)*
Marital Status:	80% of employees are assumed to be married. *(Adopted March 2, 1995)*
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. *(Adopted March 2, 1995)*
Sources of Data:	Membership data as of December 31, 2002 was furnished by Retirement Office.
Changes Since Prior Valuation:	None. (Probabilities of retirement were not adjusted for new DROP for Members over age 55 with 10 year of creditable service.)
Subsequent Events:	None known.

ACCRUED LIABILITY ANALYSIS FOR 2002 AND 2001
(Source: 2003 Actuarial Report)

	2002	2001
Present Value of Future Benefits:		
Active Members:		
Retirement	$ 454,627,559	$ 462,211,206
Disability	8,366,293	8,341,637
Death	7,208,961	7,305,464
Vesting	8,202,708	8,420,956
Total	478,405,521	486,279,263
Retired Members and Beneficiaries:		
Service Retirement & Beneficiaries	324,350,914	308,998,039
Disability Retirements	23,846,800	22,388,859
Terminated Vested Members	2,508,345	2,533,844
Leave Balances	1,716,241	1,306,264
DROP (Future Benefits)	130,398,765	108,259,841
DROP (Accounts)	93,694,413	83,577,465
COLA Benefits	6,560,102	7,346,934
Total	583,075,580	534,411,246
Total Accrued Liability	$ 1,061,481,101	$ 1,020,690,509

ANNUAL AMORTIZATION OF UNFUNDED ACTUARIAL ACCRUED LIABILITY
(Source: 2003 Actuarial Report)

Date Established	Initial Amount	Balance at 12/31/2001	Payment as of 01/01/02	Balance at 12/31/2002	Payment as of 01/01/03
12/31/94	176,656,909	189,235,423	13,905,594	189,356,215	14,461,818
12/31/95	(12,401,873)	(13,083,469)	(961,413)	(13,091,820)	(999,870)
12/31/96	17,458,146	18,166,352	1,334,919	18,177,948	1,388,316
12/31/97	(12,493,691)	(12,844,773)	(943,874)	(12,852,971)	(981,629)
12/31/98	(43,504,837)	(44,273,341)	(3,253,339)	(44,301,602)	(3,383,473)
12/31/99	(68,473,850)	(69,116,569)	(5,078,895)	(69,160,688)	(5,282,051)
12/31/00	1,201,912	1,206,034	88,623	1,206,804	92,168
12/31/01	19,553,834	19,553,834	1,904,089	19,061,725	1,455,813
12/31/02	41,180,218	--	--	41,180,218	3,145,082
		$ 88,843,491	$ 6,995,704	$ 129,575,829	$ 9,896,174

DETERMINATION OF UNFUNDED ACTUARIAL ACCRUED LIABILITY
(Source: 2003 Actuarial Report)

Entry Age Normal Actuarial Accrued Liability as of December 31, 2002:	
Active Members	$ 364,651,037
Retired Members and Beneficiaries	583,075,580
Total	947,726,617
Actuarial Asset Value as of December 31, 2002	818,150,788
Unfunded Actuarial Accrued Liability as of December 31, 2002	$ 129,575,829

RECONCILIATION OF UNFUNDED ACTUARIAL ACCRUED LIABILITY
(Source: 2003 Actuarial Report)

A. Unfunded Actuarial Accrued Liability as of December 31, 2001	$ 88,843,491
B. Normal Cost for 2002	9,114,718
C. Interest at 8% on (A) and (B)	7,836,657
D. City Contributions	(12,053,689)
E. Interest on (D)	(482,148)
F. Expected Unfunded Actuarial Liability as of December 31, 2002	93,259,029
G. 2002 (Gain) Loss	35,651,108
H. Unfunded Actuarial Accrued Liability as of December 31, 2002	128,910,137
I. Plan Amendments	665,692
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, 2002	$ 129,575,829

SUMMARY OF ACTUARIAL ACCRUED LIABILITIES AND PERCENTAGE COVERED BY ACTUARIAL VALUE OF ASSETS/SOLVENCY TEST FOR THE TEN YEARS ENDED DECEMBER 31, 2002 (Source: 2003 Actuarial Report)

Valuation Date	(1) Active Members' Contributions*	(2) Terminated Vested Members	(3) Retirees And Survivors**	(4) Active Members Employer Contribution	Actuarial Value of Assets	Percentage of Actuarial Liabilities Covered by Assets (1)	(2)	(3)	(4)
12/31/93	111,008,205	1,966,391	269,636,416	N/A***	486,842,955	100.0	100.0	100.0	N/A***
12/31/94	123,717,539	2,117,499	279,585,049	$251,742,091	480,505,268	100.0	100.0	100.0	29.8%
12/31/95	132,421,606	2,244,846	301,934,866	281,675,752	551,301,959	100.0	100.0	100.0	40.7
12/31/96	142,100,816	2,591,163	330,846,679	298,397,469	587,193,233	100.0	100.0	100.0	37.4
12/31/97	144,327,095	2,722,929	351,227,198	313,700,020	635,463,896	100.0	100.0	100.0	43.7
12/31/98	157,699,747	2,977,698	378,012,494	336,385,748	740,257,038	100.0	100.0	100.0	59.9
12/31/99	171,802,254	2,564,432	423,400,316	329,254,889	741,562,144	100.0	100.0	100.0	43.7
12/31/00	163,520,688	2,452,084	411,192,686	278,828,921	786,941,507	100.0	100.0	100.0	75.2
12/31/01	170,232,470	3,840,108	446,993,673	281,755,013	813,977,773	100.0	100.0	100.0	68.5
12/31/02	179,875,436	4,224,586	485,156,581	278,470,014	818,150,788	100.0	100.0	100.0	53.5

* Including DROP accounts.
** Including DROP participants' future benefits.
*** For 1993 the Aggregate Cost Method was used.

ANALYSIS OF FINANCIAL EXPERIENCE
(Source: 2003 Actuarial Report)

GAINS AND LOSSES IN UNFUNDED ACTUARIAL LIABILITY DURING YEARS ENDED 1998 – 2002 RESULTING FROM DIFFERENCES BETWEEN ASSUMED EXPERIENCE AND ACTUAL EXPERIENCE

	$ Gain or (Loss) For Year				
Elements of Experience	1998	1999	2000	2001	2002
Investment Return	$ 57,642,000	$ (24,490,613)	$ 5,984,750	$ 48,467,702	$ (36,715,451)
Salary Increases	(8,544,000)	3,597,488	(8,863,447)	(354,923)	898,785
Retirements	(557,000)	463,510	1,323,994	(1,203,366)	3,151,832
Mortality	139,000	1,003,550	(1,756,769)	(1,571,139)	129,502
Disability	(445,000)	(1,024,032)	(867,229)	(421,143)	(1,046,909)
Turnover	(2,344,000)	878,868	2,024,026	1,408,146	343,282
New Members	(2,262,000)	(2,464,878)	(963,693)	(954,377)	(867,394)
Leaves, Transfers, Etc.	(1,236,392)	(7,105,879)	(47,539)	(3,052,835)	(1,544,755)
Gain or (Loss) from Financial Experience	42,392,608	(29,141,986)	(3,165,907)	42,318,065	(35,651,108)
Non Recurring Elements:					
Police Merger	--	102,607,806	--	--	--
Assumption Changes	--	(9,225,778)	--	--	--
Asset Method Changes	--	--	--	(59,043,535)	--
Plan Amendment	--	--	--	--	(665,692)
Composite Gain/(Loss) During Year	$ 42,392,608	$ 64,240,042	$ (3,165,907)	$ (16,725,470)	$ (36,316,800)

EMPLOYER CONTRIBUTION CALCULATION RESULTS FOR 2002 AND 2001
(Source: 2003 Actuarial Report)

		2002	2001
A.	Present Value of Future Benefits	$1,061,481,101	$1,020,690,509
B.	Actuarial Asset Value	818,150,788	813,977,773
C.	Present Value of Future Member Contributions	53,640,579	50,981,852
D.	Unfunded Actuarial Accrued Liability	129,575,829	88,843,491
E.	Present Value of Future Normal Costs (A-B-C-D)	60,113,905	66,887,393
F.	Present Value of Future Payrolls	663,797,949	671,112,672
G.	Normal Cost as a Percentage of Payroll (E/F)	9.056%	9.967%
H.	Current Payroll of Active Members *	89,974,172	91,448,964
I.	Normal Cost - Beginning of Year (G x H)	8,148,061	9,114,718
J.	30-Year Amortization of (D), from 1/1/95 (22 years remaining)	9,111,229	6,124,259
K.	Total City Contribution (I + J)	17,259,290	15,238,977

* For Members under Expected Retirement Age.

ACTIVE MEMBERSHIP DATA
FOR THE TEN YEARS ENDED DECEMBER 31, 2002
(Source: 2003 Actuarial Report)

Valuation Date	Total Active Members	Percentage Change	Annual Payroll	Average Annual Pay	% Increase in Average Pay
		-%-	-$-	-$-	-%-
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
12/31/99	3,954	(1.4)	119,251,634	30,160	1.9
12/31/00	3,377	(14.6)	99,510,155	29,467	(2.3)
12/31/01	3,315	(1.8)	102,793,456	31,009	5.2
12/31/02	3,220	(2.9)	101,339,785	31,472	1.5

SCHEDULE OF RETIREES AND BENEFICIARIES ADDED
FOR THE TEN YEARS ENDED DECEMBER 31, 2002
(Source: 2003 Actuarial Report)

Valuation Date	Number of Annuitants*	Change in Number at EOY		Percentage Change in Membership	Annual Annuities	Percentage Change in Annuities
		Additions	Deletions	-%-	-$-	-%-
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
12/31/99	2,244	214	59	7.4	41,849,149	11.6
12/31/00	2,255**	146	61	3.9	41,164,627	(1.6)
12/31/01	2,361	177	71	4.7	44,720,170	8.6
12/31/02	2,501	206	66	5.9	48,621,899	8.7

* Including DROP participants.

** Adjusted for 74 retirees transferred to MPERS.

TOTAL MEMBERSHIP DATA
(Source: 2003 Actuarial Report)

Actives:

	2002		2001	
	Count	Average Salary	Count	Average Salary
BREC	229	$25,814	220	$25,469
Regular	2,411	29,138	2,493	28,467
Fire	509	43,711	525	43,923
Police	71	41,224	77	41,059
Total/Average	3,220	$31,472	3,315	$31,009

Annuitants:

	2002		2001	
	Count	Average Annuity	Count	Average Annuity
Retirees and Survivors	1,958	$17,797	1,906	$17,362
Disabilities	177	12,845	166	12,733
DROP	366	31,425	289	32,923
Total/Average	2,501	$19,441	2,361	$18,942

Inactive Members:

	2002		2001	
	Count	Average Deferred	Count	Average Deferred
Deferred Vested	36	$9,985	33	$10,320

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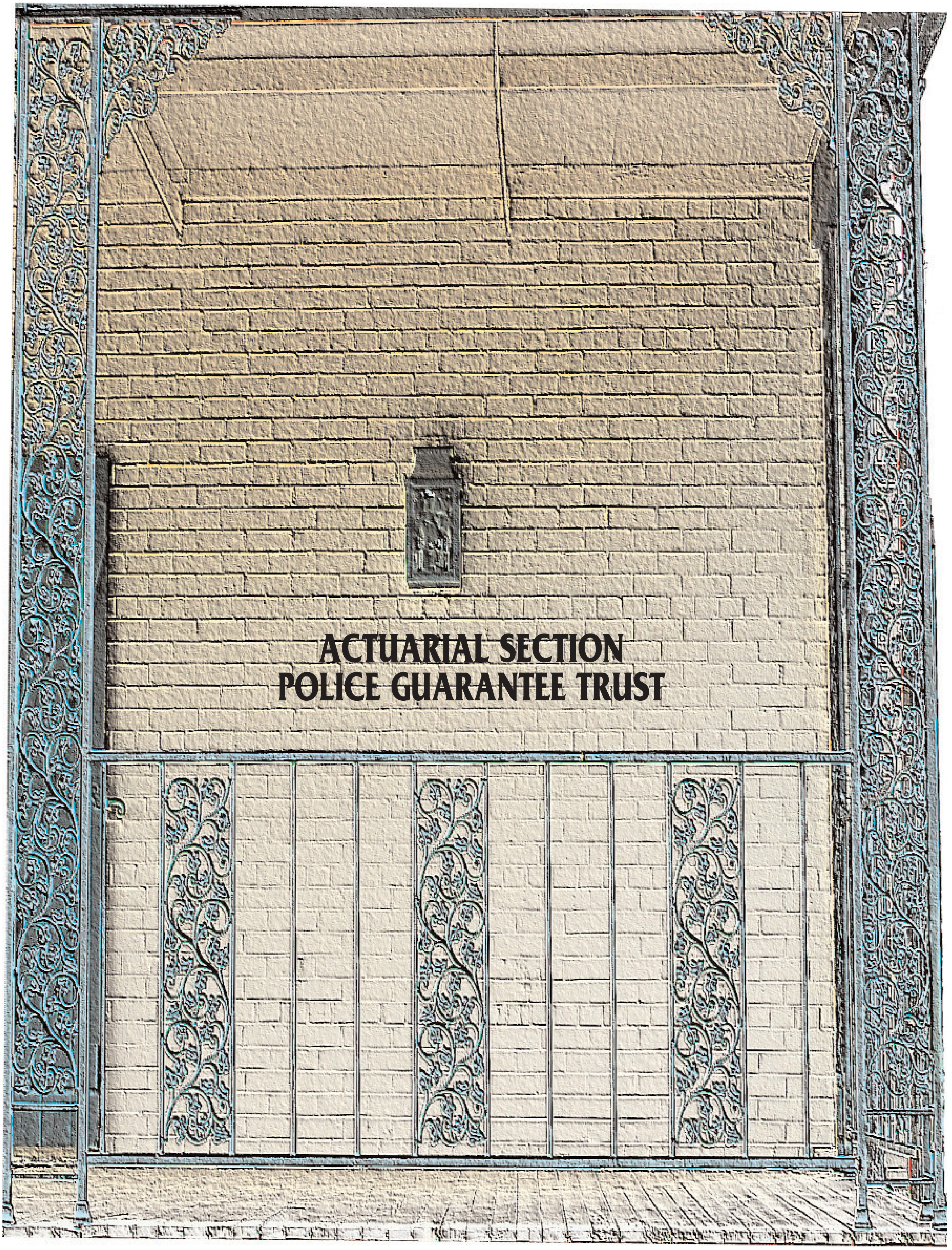

ACTUARIAL SECTION
POLICE GUARANTEE TRUST

City of Baton Rouge and Parish of East Baton Rouge

ERS

Stanley,
Holcombe
& Associates, Inc.

June 17, 2003

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

Dear Board Members:

As requested, we have completed our fourth annual valuation of the Employees' Retirement System of the City of Baton Rouge and Parish of East Baton Rouge Police Guarantee Trust as of January 1, 2003. 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 Police Guarantee Trust was established as follows:

a) fully fund all projected liabilities determined at inception, through a trust-to-trust transfer of $24,627,209 in assets from CPERS; and

b) fund any future actuarial losses through employee and employer contributions on included compensation for CPERS that is excluded for MPERS benefits; and

c) in the event that there is a shortfall after taking into account the above, the shortfall will be funded as a level percentage of future payrolls, using the Aggregate Actuarial Cost Method.

The Board has decided to introduce a one-year delay from the valuation date to the year for which the contribution rate calculated in the valuation is applied. Thus the contribution rate calculated in the 2003 valuation will apply to the year 2004.

In order to maintain comparability and consistency with results for the Employees' Retirement System, the Police Guarantee Trust uses the same actuarial assumptions and the same actuarial valuation methodology. This year, the actuarial valuation methodology for PGT was changed to match the change made to the CPERS methodology last year. Details of the change are discussed below. Since the intent was to fund the projected liability through the initial trust to trust transfer of $24,627,209 from the Employees' Retirement System, no unfunded actuarial accrued liability was expected. However, due to actuarial loses in 2002 and 2001, there is an unfunded liability in the PGT of $847,041 as of December 31, 2002.

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

Board of Trustees
Employees' Retirement System - Police Guarantee Trust
City of Baton Rouge and
Parish of East Baton Rouge
Page 2
June 17, 2003

Effective February 26, 2000, there were 637 police officers who had elected to transfer to the statewide Municipal Police Employees' Retirement System. This group of 637 officers is the closed group of members entitled to benefits from the Police Guarantee Trust. The initial valuation was prepared as of January 1, 2000, and is the basis for City contribution rates of 0% for the 2000 and 2001 years.

The prior methodology for determining the actuarial value of assets valued 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 was to smooth the volatility which might otherwise occur due to market conditions on the measurement date. Under this methodology, the actuarial value of assets for the fiscal year ending on December 31, 2002 was $23,680,270, which compares to a market value of $22,004,922. Based on our recommendation, the Board of Trustees approved a change in the method of determining the actuarial value of assets to the same method as is currently used for CPERS, effective with the January 1, 2003 valuation. Under this revised method, 20% of the difference between the expected asset value and market value is recognized each year. Under this method, the actuarial value of assets as of December 31, 2002 is $25,481,771.

In performing the January 1, 2003 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, 2003 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 are identical to the revised assumptions used for the January 1, 2002 and January 1, 2003 valuations of the Employees' Retirement System. The funding method used is the Aggregate Cost Method. The actuarial assumptions and methods used for funding purposes comply with and are within the parameters set forth by the Governmental Accounting Standards Board (GASB) Statement No. 25. Under the Aggregate Cost Method there is no amortization of unfunded liabilities.

Additional information is provided in the Summary of Actuarial Assumptions and Methods. The same actuarial assumptions and methods were employed in the development of the schedules which we 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.

Our firm prepared a number of schedules which are included in the Retirement System's 2002 Comprehensive Annual Financial Report - specifically the Summary of Principal System Provisions, Summary of Actuarial Assumptions and Methods, Summary of Actuarial Accrued Liabilities and Percentage covered by Actuarial Value of Assets/Solvency Test, Active Membership Data, Schedule of Retirees and Beneficiaries Added, and Total Membership Data.

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/di

SUMMARY OF PRINCIPAL SYSTEM PROVISIONS
(Source: 2003 PGT Actuarial Report)
(Based on Ordinance No. 11669)

Effective Date:	February 26, 2000, amended February 28, 2001.
Fiscal Year:	Calendar year.
Membership:	Eligible police employees who were active members or in the Deferred Retirement Option Plan (DROP) of the Employees' Retirement System of the City of Baton Rouge and Parish of East Baton Rouge (CPERS) on February 26, 2000 who elected to transfer into the Municipal Police Employees' Retirement System of Louisiana (MPERS) are automatically included in the Police Guarantee Trust (PGT).
Transferred Assets:	Initially funded by a trust to trust transfer of $24,627,209 from CPERS, determined as of January 1, 2000.
Contributions:	Members: Based on current member contribution rate under CPERS, applied to member's compensation not covered by MPERS. Member contributions are "picked up" by the City. City: Actuarially determined.
Benefit Amounts:	The excess of the benefits that would have been payable under CPERS, based on the provisions in effect on February 26, 2000, over the benefits payable under MPERS. MPERS benefits are calculated under a 50% joint and survivor option. PGT benefits reflect any increases in MPERS benefits due to cost-of-living adjustments.
DROP:	A. Members in CPERS DROP at February 26, 2000. (1) If in CPERS DROP for 3 or more years, DROP payments are credited to PGT DROP account. Investment returns for CPERS and PGT accounts are credited to the PGT account after February 26, 2000. (2) If in CPERS DROP less than 3 years, up to 3 years since transfer, in MPERS DROP. After 3 years in DROP (CPERS and MPERS combined) DROP payments are credited to PGT DROP account for remainder of DROP period (5 years maximum for total DROP periods). Investment returns for CPERS, MPERS, and PGT accounts are credited to the PGT account after February 26, 2000. B. Active members at February 26, 2000: Members enter PGT DROP first, with payments credited to PGT DROP account, until the later of 2 years or eligibility for MPERS DROP. Investment returns for MPERS and PGT DROP accounts are credited to the PGT DROP account.

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS
(Source: 2003 PGT Actuarial Report)

Valuation Date:	December 31, 2002.
Valuation Method:	Aggregate Actuarial Cost Method.
Asset Valuation	Market Value as of January 1, 2000 and January 1, 2001. Beginning January 1, 2002, adjusted Market Value with 20% of unrealized gains or (losses) recognized each year.
Actuarial Assumptions:	*(All assumptions adopted February 26, 2000)*

Investment Return:8% compounded annually.

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

Age	PGT
30	+4.00%
35	+2.00%
40	+2.00%
45	+1.00%
50	0.00%
55	0.00%

Aggregate Payroll Growth: Not applicable.

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 Table T-5.

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

Year	PGT
1	100%
2	60%
3	40%
4	40%
5	20%
6+	20%

The disability rates are increased by 50%.

Assumed transfers to City-Parish Employees' Retirement System (for accumulated vacation and sick leave e.g.) 1.5 years.

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS (CONTINUED)

Retirement:	Earlier of 25 years of service credit or age 60 with 10 years of service credit.
Type of Disability:	A percentage of disabilities is assumed to be ordinary disabilities, as shown below: 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.
Interest on Future MPERS DROP Accounts:	Three years of interest, compounded annually at 8%, on the DROP benefits to be deposited at MPERS, payable at DROP exit.
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.
COLA:	MPERS benefits in pay status are assumed to increase 2% annually.
Ancillary Benefits:	MPERS ancillary benefits (turnover, disability, death) were assumed to be greater than CPERS ancillary benefits.
Sources of Data:	Membership data, asset information, and aggregate DROP balances as of December 31, 2002 were furnished by the Retirement Office. For active members, MPERS compensation was estimated as: CPERS compensation, minus member contributions to PGT divided by .08. For members who are in CPERS DROP but not in MPERS DROP, MPERS compensation was estimated as City-Parish contributions to MPERS divided by .08.
Changes Since Prior Valuation:	None.

SUMMARY OF ACTUARIAL ACCRUED LIABILITIES AND PERCENTAGE COVERED BY ACTUARIAL VALUE OF ASSETS/SOLVENCY TEST FOR THE THREE YEARS ENDED DECEMBER 31, 2002
(Source: 2003 PGT Actuarial Report)

Valuation Date	(1) Active Members' Contributions*	(2) Terminated Vested Members	(3) Retirees And Survivors**	(4) Active Members Employer Contribution	Actuarial Value of Assets	Percentage of Actuarial Liabilities Covered by Assets (1)	(2)	(3)	(4)
12/31/00	1,631,640	--	6,573,761	11,176,845	25,684,328	100.0%	100.0%	100.0%	100.0%
12/31/01	4,024,374	--	4,724,586	10,480,337	24,815,273	100.0%	100.0%	100.0%	100.0%
12/31/02	6,737,203	--	4,285,414	10,008,154	25,481,771	100.0%	100.0%	100.0%	100.0%

* Including DROP accounts.
** Including DROP participants' future benefits.

Note: Only three years of data are available.

ACTIVE MEMBERSHIP DATA
FOR THE FOUR YEARS ENDED DECEMBER 31, 2002
(Source: 2003 PGT Actuarial Report)

Valuation Date	Total Active Members	Percentage Change -%-	Annual Payroll -$-	Average Annual Pay -$-	% Increase in Average Pay -%-
12/31/99	552	--	21,763,879	39,427	--
12/31/00	531	(3.8)	22,530,785	42,431	7.6
12/31/01	483	(9.0)	20,920,112	43,313	2.1
12/31/02	455	(5.8)	19,793,300	43,502	0.4

SCHEDULE OF RETIREES AND BENEFICIARIES ADDED
FOR THE FOUR YEARS ENDED DECEMBER 31, 2002
(Source: 2003 PGT Actuarial Report)

Valuation Date	Number of Annuitants*	Change in Number at EOY		Percentage Change in Membership -%-	Annual Annuities -$-	Percentage Change in Annuities -%-
		Additions	Deletions			
12/31/99*	85	--	--	--	2,880,345	--
12/31/00	103	20	2	21.2	3,803,146	32.0
12/31/01	133**	30	--	29.1	3,485,889	(8.3)
12/31/02	149**	20	4	12.0	3,204,810	(8.1)

* Including DROP participants.
** Includes annuitants who participated in the PGT but receive monthly retirement benefits from MPERS.

Note: The 1999 data has been adjusted to reflect the impact of the February 26, 2000 police transfers out to MPERS for comparative purposes only.

TOTAL MEMBERSHIP DATA
(Source: 2003 PGT Actuarial Report)

Actives:

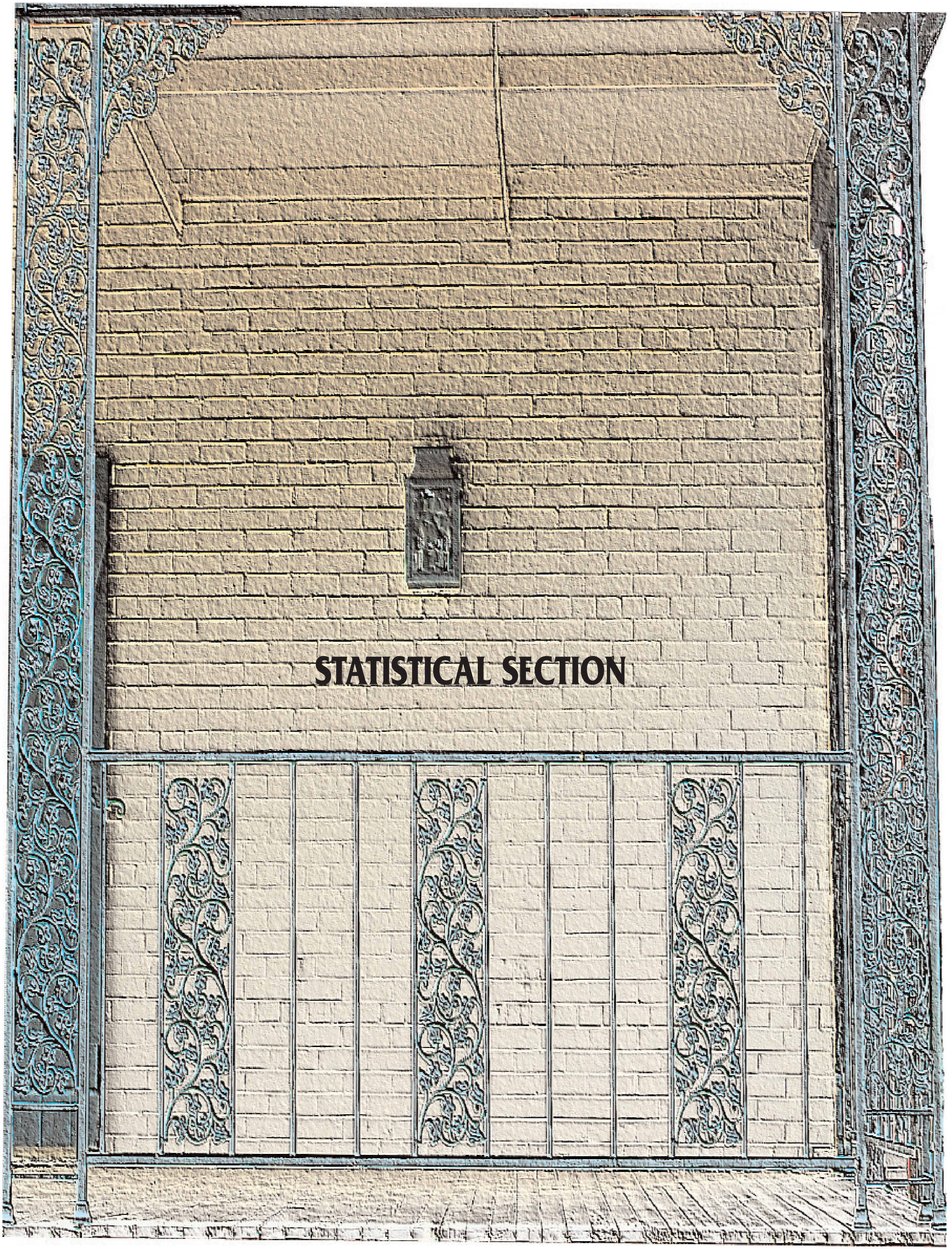
	2002		2001	
	Count	Average Salary	Count	Average Salary
Police	455	$ 43,502	483	$ 43,313

Annuitants:

	2002		2001	
	Count	Average Annuity	Count	Average Annuity
Retirees and Survivors	12	$27,252	10	$ 31,412
Disabilities	--	--	--	--
DROP	72	39,969	82	38,680
Total	84	38,153	92	37,890

Inactive Members:

	2002		2001	
	Count	Average Deferred Annuity	Count	Average Deferred Annuity
Deferred vested	--	--	--	--



STATISTICAL SECTION

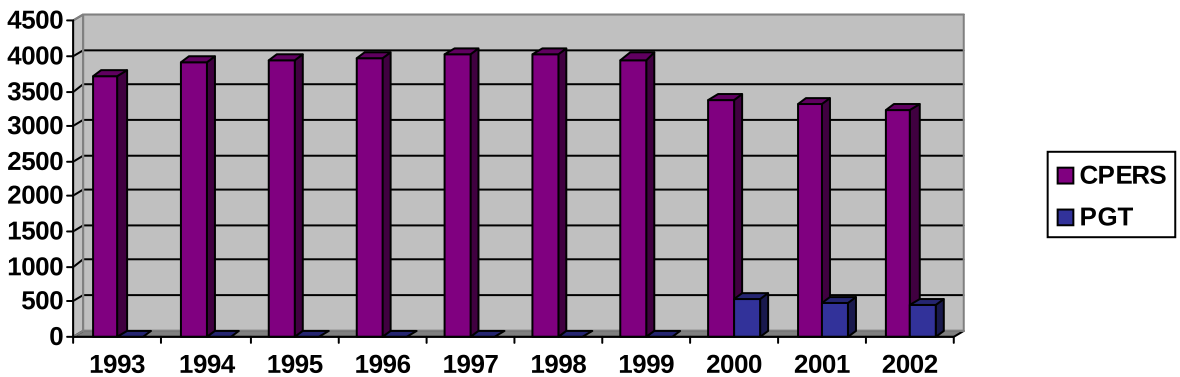
City of Baton Rouge and Parish of East Baton Rouge

ERS

TEN-YEAR INFORMATION ON SELECTED DATA

NUMBER OF ACTIVE MEMBERS

	CPERS		PGT	
Fiscal Year	Members	% Increase Each Year	Members	% Increase Each Year
1993	3,706	N/A	N/A	N/A
1994	3,917	5.7%	N/A	N/A
1995	3,934	0.4%	N/A	N/A
1996	3,962	0.7%	N/A	N/A
1997	4,015	1.3%	N/A	N/A
1998	4,012	(0.1%)	N/A	N/A
1999	3,954	(1.4%)	N/A	N/A
2000	3,377	(14.6%)	531	N/A
2001	3,315	(1.8%)	483	(9.0%)
2002	3,220	(2.9%)	455	(5.8%)

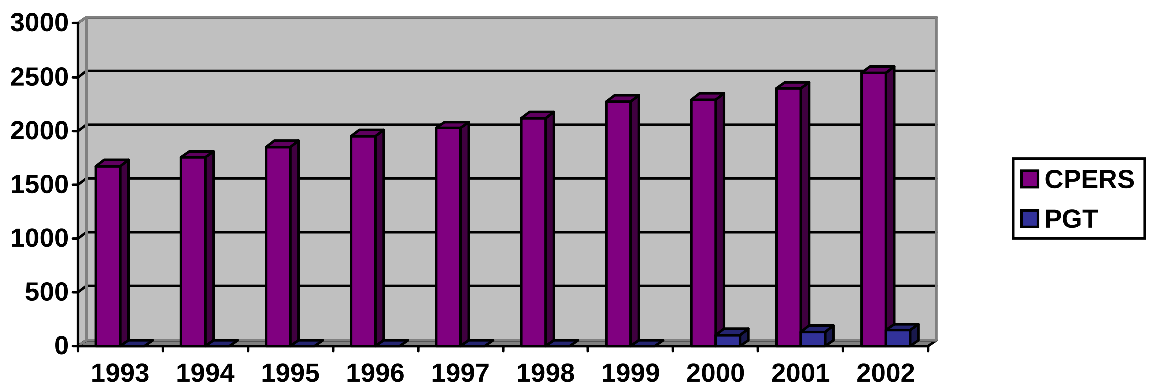


TEN-YEAR INFORMATION ON SELECTED DATA

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

	CPERS		PGT	
Fiscal Year	Retirees	% Increase Each Year	Retirees*	% Increase Each Year
1993	1,673	N/A	N/A	N/A
1994	1,752	4.7%	N/A	N/A
1995	1,852	5.7%	N/A	N/A
1996	1,952	5.4%	N/A	N/A
1997	2,026	3.8%	N/A	N/A
1998	2,117	4.5%	N/A	N/A
1999	2,273	7.4%	N/A	N/A
2000	2,289	0.7%	103	N/A
2001	2,394	4.6%	133	29.1%
2002	2,537	6.0%	149	12.0%

***** Includes annuitants who participated in the PGT but receive monthly retirement benefits from MPERS.



TEN-YEAR INFORMATION ON SELECTED DATA

NUMBER OF SERVICE RETIREES AND BENEFIT EXPENSES

	CPERS		PGT	
Fiscal Year	Service Retirees	Benefit Expenses	Service Retirees*	Benefit Expenses
1993	1,392	$ 20,555,763	N/A	N/A
1994	1,467	22,037,111	N/A	N/A
1995	1,502	23,388,121	N/A	N/A
1996	1,657	25,187,004	N/A	N/A
1997	1,723	27,065,377	N/A	N/A
1998	1,811	28,752,074	N/A	N/A
1999	1,925	31,027,600	N/A	N/A
2000	2,006	33,044,148	28**	$ 663,174**
2001	2,072	35,124,531	10	266,434
2002	2,135	36,982,809	12	118,046

* Includes only retirees receiving monthly benefits from PGT.

****** Regarding mergers/transfers, Louisiana Revised Statute 11:2225(A)(11)(a)(ii) places the responsibility of the transferring members' benefit payments on the transferring system for a period of one year following the effective date of the transfer. Therefore, the Police Guarantee Trust was responsible for paying transferred members who retired after February 26, 2000. On February 26, 2001 most of these members' payments became the responsibility of the Municipal Police Employees' Retirement System of Louisiana.

NUMBER OF DEFERRED RETIREMENTS AND BENEFIT EXPENSES

	CPERS		PGT	
Fiscal Year	Deferred Retirement	Benefit Expenses	Deferred Retirement	Benefit Expenses
1993	275	$ 2,619,249	N/A	N/A
1994	337	3,026,779	N/A	N/A
1995	360	5,214,481	N/A	N/A
1996	444	5,479,425	N/A	N/A
1997*	355	17,722,183	N/A	N/A
1998	382	8,025,626	N/A	N/A
1999	400	9,390,136	N/A	N/A
2000	424	10,512,203	11	$ 136,354
2001	450	7,706,555	15	455,076
2002	486	7,882,624	31	366,547

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

TEN-YEAR INFORMATION ON SELECTED DATA

AVERAGE MONTHLY SERVICE RETIREE BENEFIT

	CPERS		PGT	
Fiscal Year	Average Monthly Benefit	% Increase Each Year	Average Monthly Benefit	% Increase Each Year
1993	1,231	N/A	N/A	N/A
1994	1,252	1.71%	N/A	N/A
1995	1,298	3.67%	N/A	N/A
1996	1,267	(2.39%)	N/A	N/A
1997	1,309	3.31%	N/A	N/A
1998	1,323	1.07%	N/A	N/A
1999	1,343	1.51%	N/A	N/A
2000	1,373	2.23%	$ 2,368	N/A
2001	1,413	2.91%	2,220	(6.25%)
2002	1,444	2.19%	820	(63.06%)

NUMBER OF EXCESS BENEFIT PLAN PARTICIPANTS AND BENEFIT EXPENSES

	CPERS		PGT	
Fiscal Year	Excess Benefit Plan Participants	Benefit Expenses	Excess Benefit Plan Participants	Benefit Expenses
1998	2	$ 13,101	N/A	N/A
1999	4	33,596	N/A	N/A
2000	4	35,143	N/A	N/A
2001	5	39,304	N/A	N/A
2002	5	33,968	N/A	N/A

NUMBER OF REFUNDS OF CONTRIBUTIONS

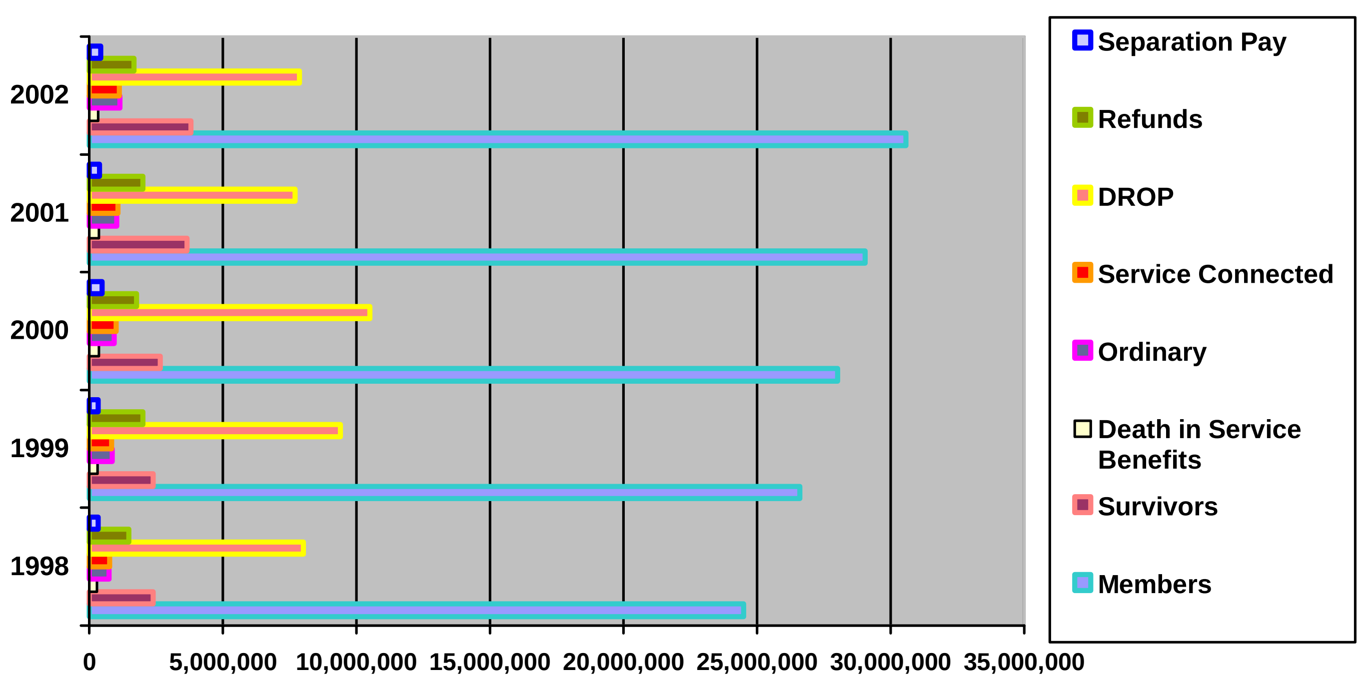
	CPERS		PGT	
Fiscal Year	Number of Refunds	% Increase Each Year	Number of Refunds	% Increase Each Year
1993	248	N/A	N/A	N/A
1994	235	(5.24%)	N/A	N/A
1995	273	16.17%	N/A	N/A
1996	298	9.16%	N/A	N/A
1997	261	(12.42%)	N/A	N/A
1998	225	(13.80%)	N/A	N/A
1999	306	36.00%	N/A	N/A
2000	230	(24.84%)	1	N/A
2001	230	0.00%	4	300.00%
2002	232	0.87%	4	0.00%

TEN-YEAR INFORMATION ON SELECTED DATA

SCHEDULE OF BENEFIT EXPENSES BY TYPE

	Service Benefits			Disability Benefits					
Year Ending*	Members	Survivors	Death in Service Benefits	Ordinary	Service Connected	DROP	Refunds	Separation Pay	Total
1998	$24,503,687	$2,404,149	$297,090	$749,241	$774,838	$8,025,626	$1,493,287	$340,843	$38,588,761
1999	26,603,287	2,402,079	322,477	865,743	835,033	9,390,136	2,012,039	340,904	42,771,698
2000	28,015,105	2,657,362	347,589	938,680	1,009,007	10,512,203	1,760,171	486,271	45,726,388
2001	29,048,861	3,662,696	349,700	1,034,810	1,067,769	7,706,555	1,999,902	390,717	45,261,010
2002	30,562,762	3,813,030	325,511	1,152,986	1,128,521	7,882,624	1,670,141	420,608	46,956,183

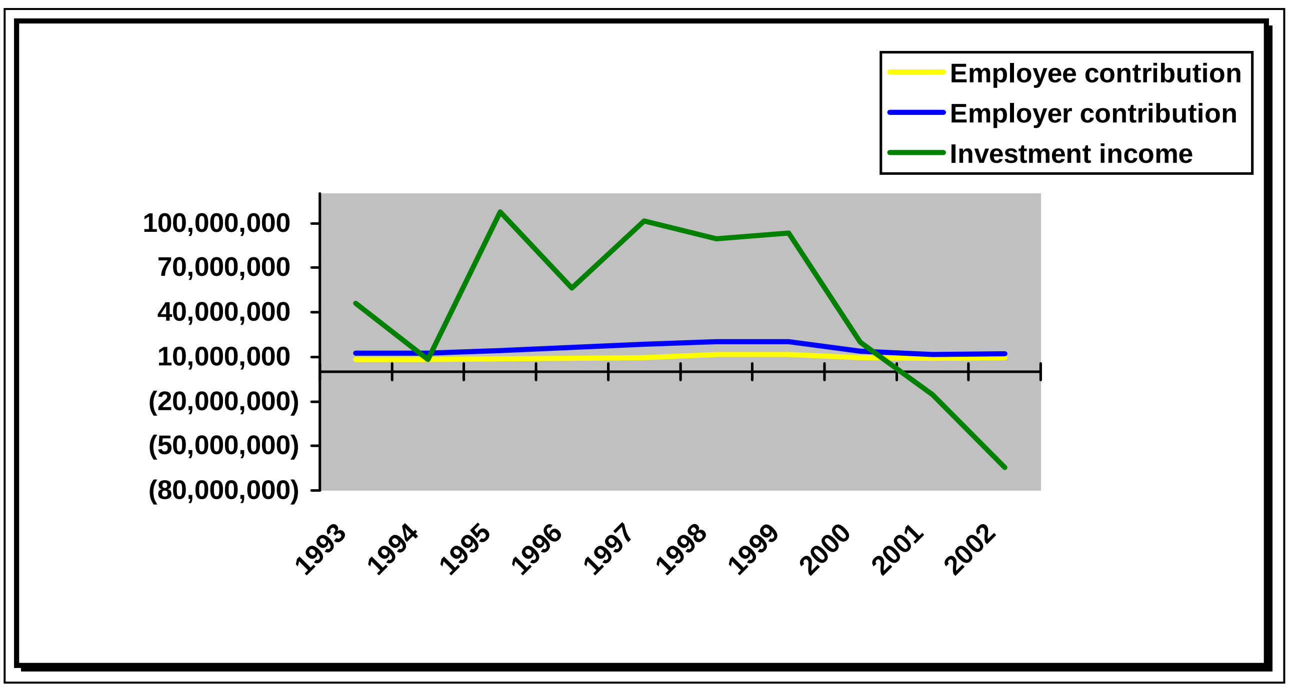
* Only five years of data are available.



TEN-YEAR INFORMATION ON SELECTED DATA

REVENUES BY SOURCE

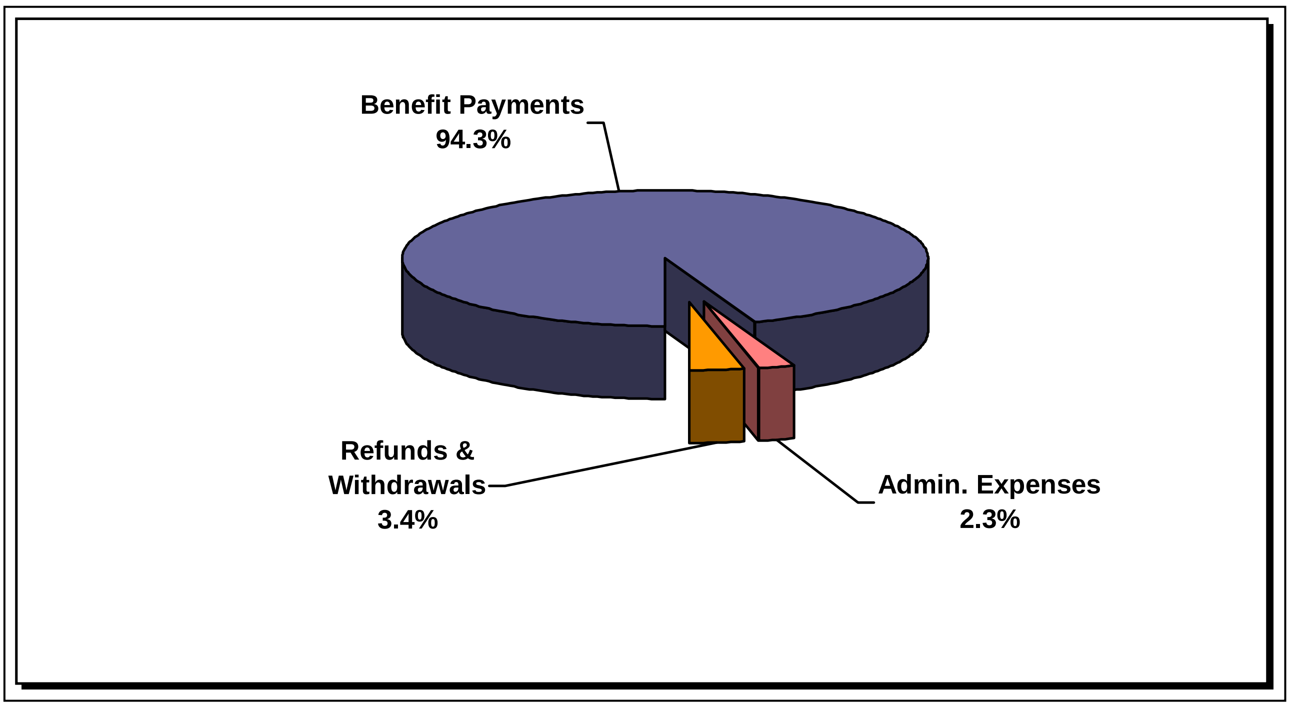
	CPERS			PGT			
Fiscal Year	Member Contributions	Employer Contributions	Net Investment Income	Member Contributions	Employer Contributions	Net Investment Income	Total
1993	$ 7,979,402	$ 12,521,766	$ 45,938,522	N/A	N/A	N/A	$ 66,439,690
1994	8,071,425	12,559,091	8,078,771	N/A	N/A	N/A	28,709,287
1995	8,751,553	14,276,717	107,562,578	N/A	N/A	N/A	130,590,848
1996	9,033,167	16,219,697	56,162,936	N/A	N/A	N/A	81,415,800
1997	9,645,590	18,405,695	101,484,199	N/A	N/A	N/A	129,535,484
1998	11,632,339	20,120,542	89,345,159	N/A	N/A	N/A	121,098,040
1999	11,776,623	20,334,067	93,398,150	N/A	N/A	N/A	125,508,840
2000	9,231,205	13,587,244	17,665,089	$ 42,082	$ 61,106	$ 2,256,530	42,843,256
2001	8,972,290	11,516,686	(15,367,043)	45,442	117,845	(238,149)	5,047,071
2002	9,223,966	12,053,689	(62,739,109)	43,427	55,955	(1,820,472)	(43,182,544)



TEN-YEAR INFORMATION ON SELECTED DATA

EXPENSES BY TYPE

	CPERS			PGT			
Fiscal Year	Benefit Payments	Refunds and Withdrawals	Admin. Expenses	Benefit Payments	Refunds and Withdrawals	Admin. Expenses	Total
1993	$ 23,175,012	$ 1,372,805	$ 739,135	N/A	N/A	N/A	$ 25,286,952
1994	25,063,890	1,094,799	744,448	N/A	N/A	N/A	26,903,137
1995	28,602,602	1,724,025	791,387	N/A	N/A	N/A	31,118,014
1996	30,666,429	1,815,573	877,475	N/A	N/A	N/A	33,359,477
1997	44,787,560	1,487,729	1,020,585	N/A	N/A	N/A	47,295,874
1998	37,095,474	1,493,287	1,015,699	N/A	N/A	N/A	39,604,460
1999	40,759,659	2,012,039	944,577	N/A	N/A	N/A	43,716,275
2000	43,966,217	1,760,171	732,364	$ 836,898	$ 13	$ 465,689	47,761,352
2001	43,261,108	1,999,902	789,316	790,646	466	301,978	47,143,416
2002	45,286,042	1,670,141	817,319	531,005	600	258,758	48,563,865



TEN-YEAR INFORMATION ON SELECTED DATA

NUMBER OF ADMINISTRATIVE STAFF POSITIONS

Fiscal Year	Staff	% Increase Each Year
1993	11	N/A
1994	10	(9.09%)
1995	11	10.00%
1996	11	0.00%
1997	12	9.09%
1998	12	0.00%
1999	12	0.00%
2000	12	0.00%
2001	12	0.00%
2002	12	0.00%

SCHEDULE OF PARTICIPATING EMPLOYERS

City of Baton Rouge and Parish of East Baton Rouge

District Attorney of the Nineteenth Judicial District

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

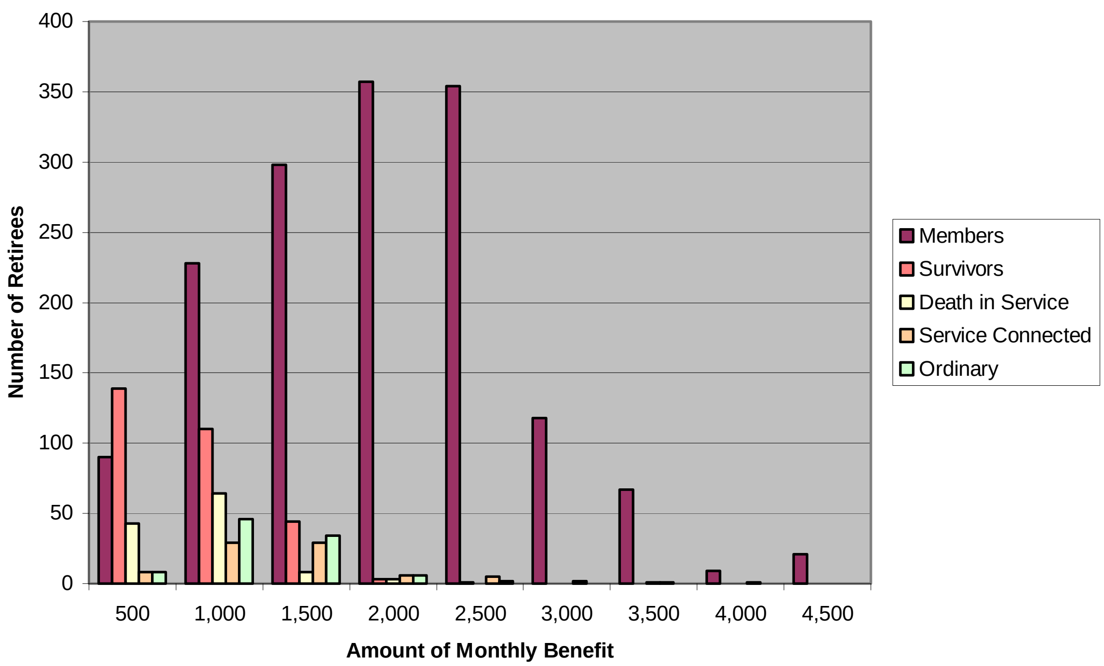
Eastside Fire Protection District

East Baton Rouge Recreation And Park Commission (BREC)

Office of the Coroner of East Baton Rouge Parish

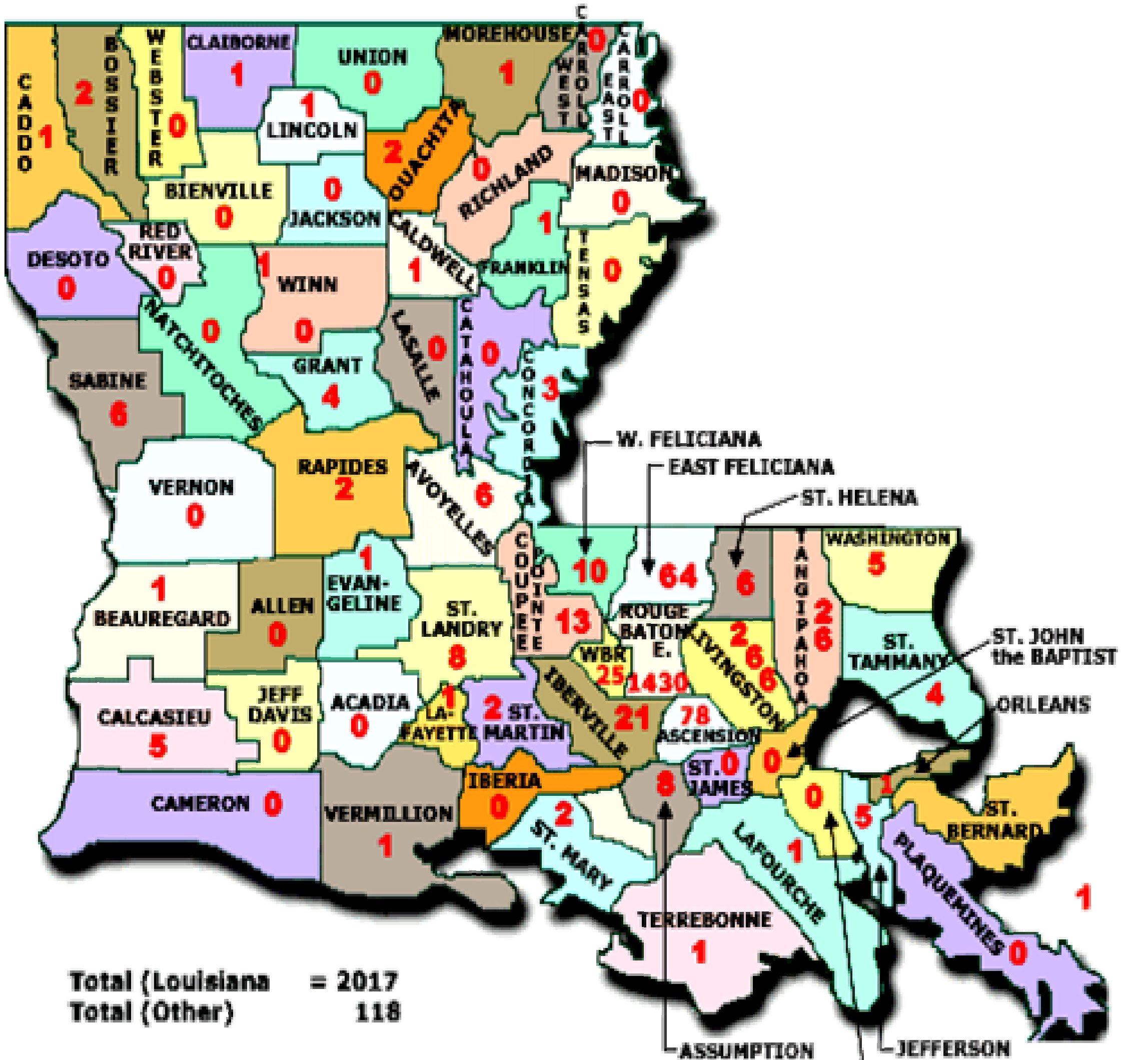
SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT

Amount of Monthly Benefit	Number of Retirees	Types of Retirement: Service Benefits: Members	Survivors	Death in Service	Disability Benefits: Service Connected	Ordinary
$1-500	288	90	139	43	8	8
501-1,000	477	228	110	64	29	46
1,001-1,500	413	298	44	8	29	34
1,501-2,000	375	357	3	3	6	6
2,001-2,500	362	354	1	--	5	2
2,501-3,000	120	118	--	--	2	--
3,001-3,500	69	67	--	1	1	--
3,501-4,000	10	9	--	--	1	--
Above 4,000	21	21	--	--	--	--
Totals	2,135	1,542	297	119	81	96



ALL RETIREES AT DECEMBER 31, 2002

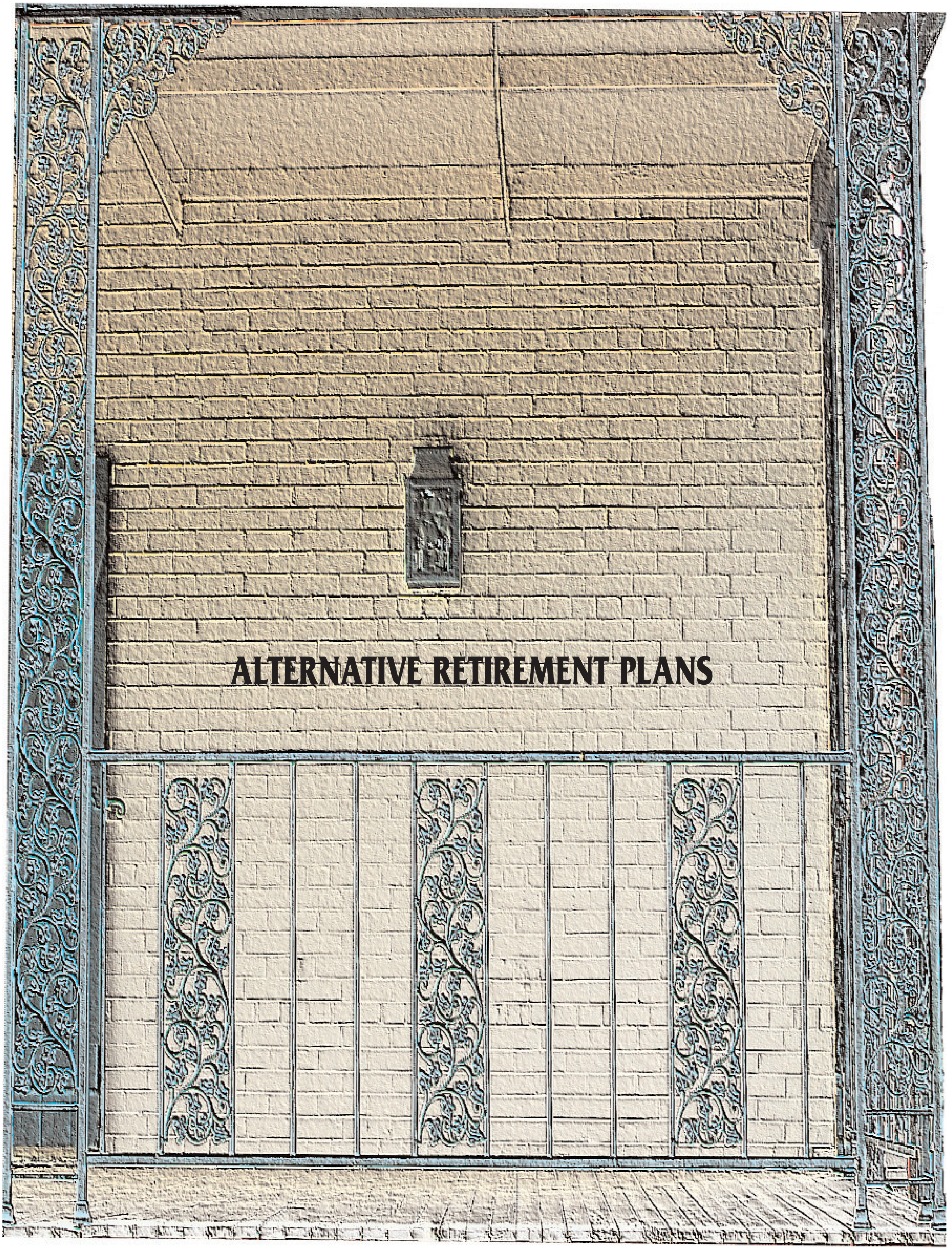
Louisiana Breakdown By Parish-2017



Total (Louisiana = 2017
Total (Other) 118

Grand Total = 2135
(Does not include DROP or Deferred Vested)
(Included Retirees, & Survivors, Disabilities)

ALABAMA	5
ARKANSAS	7
ARIZONA	1
COLORADO	1
Dist. of COLUMBIA	1
FLORIDA	10
GEORGIA	3
KENTUCKY	2
MAINE	1
MARYLAND	1
MICHIGAN	1
MINNESOTA	1
MISSISSIPPI	44
MISSOURI	5
MONTANA	1
NEVADA	1
OHIO	1
OKLAHOMA	3
OREGON	1
S. CAROLINA	1
TENNESSEE	5
TEXAS	19
VIRGINIA	1
W. VIRGINIA	2
TOTALS	**118**



ALTERNATIVE RETIREMENT PLANS

City of Baton Rouge and Parish of East Baton Rouge

ERS

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 (a.) have attained 25 years of creditable service and not more than 30 years of creditable service or (b.) have attained at least 10 years of service and are age 55 or older.

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. For members entering the DROP with less than 25 years of service, DROP participation is limited to 3 years. 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.

For members who transferred to the Municipal Police Employees' Retirement System, the total DROP participation in both systems combined cannot exceed 5 years. In some cases, the member may be required to enroll in one system's DROP for a period of time prior to enrolling in the other system's DROP. Rights in the CPERS and Police Guarantee Trust DROP are contractually guaranteed through the *Agreement and Guarantee of Retirement Rights and Benefits.*

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.

If the terminating member is age 55 or older, any severance/separation pay must be rolled into his existing DROP account. For members less than 55 years of age, the option is given to either roll the severance/separation pay into his DROP account or take receipt of it.

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
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