# 2003

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003



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

CP Employees' Retirement System

City of Baton Rouge and Parish of East Baton Rouge

ERS

**CITY OF BATON ROUGE AND PARISH OF EAST BATON ROUGE
EMPLOYEES' RETIREMENT SYSTEM
COMPREHENSIVE ANNUAL FINANCIAL REPORT –
A COMPONENT UNIT OF THE CONSOLIDATED GOVERNMENT OF
THE CITY OF BATON ROUGE AND PARISH OF EAST BATON ROUGE, LOUISIANA
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003**

**JEFFREY R. YATES
RETIREMENT ADMINISTRATOR**

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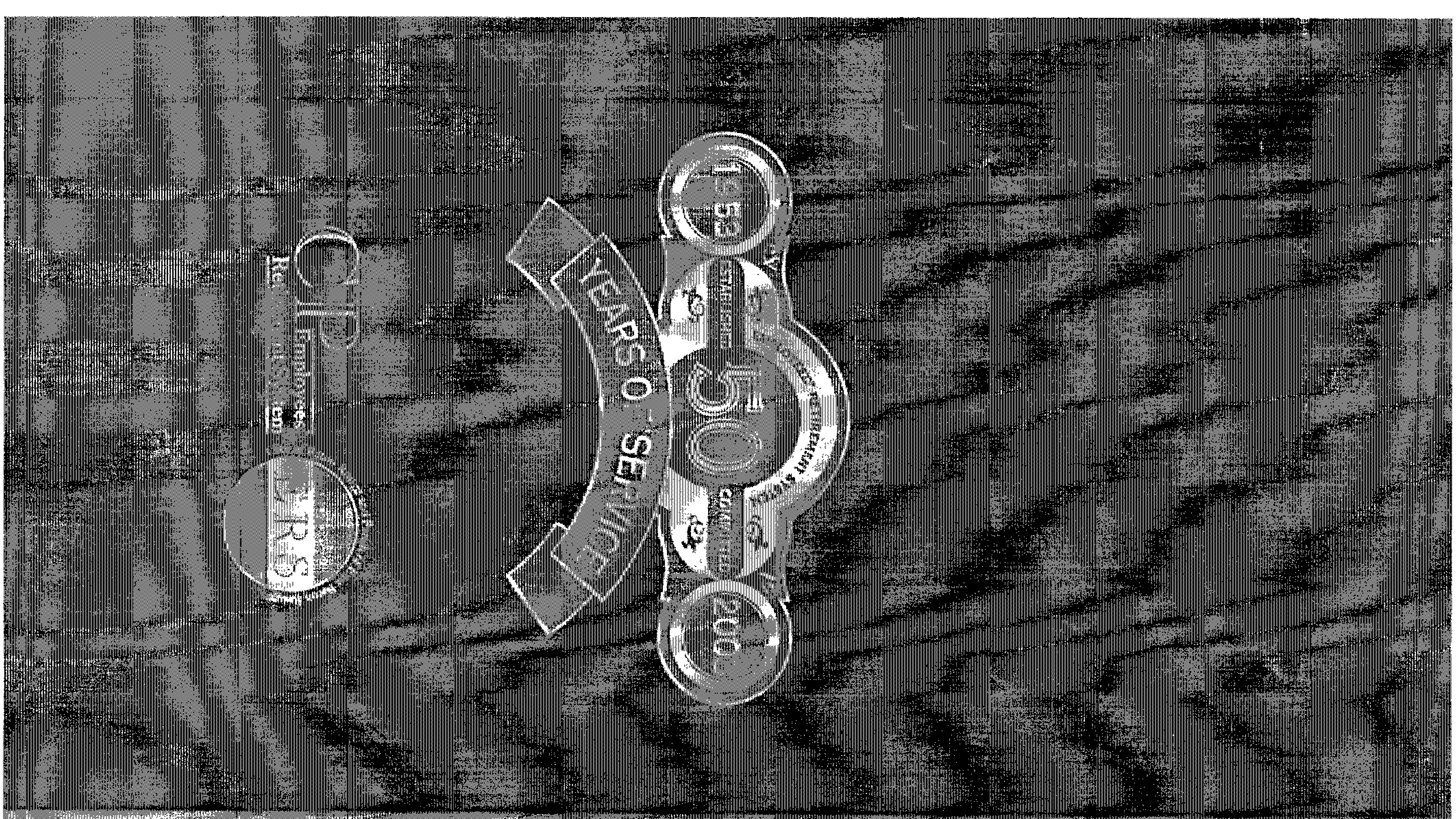
**PREPARED BY THE ACCOUNTING
DIVISION OF THE CITY OF BATON ROUGE
AND PARISH OF EAST BATON ROUGE
EMPLOYEES' RETIREMENT SYSTEM**

**COVER AND DIVIDER DESIGN BY:
THE IMAGE SOURCE, INC.
BATON ROUGE, LOUISIANA**

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

## TABLE OF CONTENTS



# Introductory Section

CP Employees' Retirement System

City of Baton Rouge and Parish of East Baton Rouge

ERS

**Employees' Retirement System**

City of Baton Rouge
Parish of East Baton Rouge

209 St. Ferdinand Street (70802)
Post Office Box 1471
Baton Rouge, Louisiana 70821

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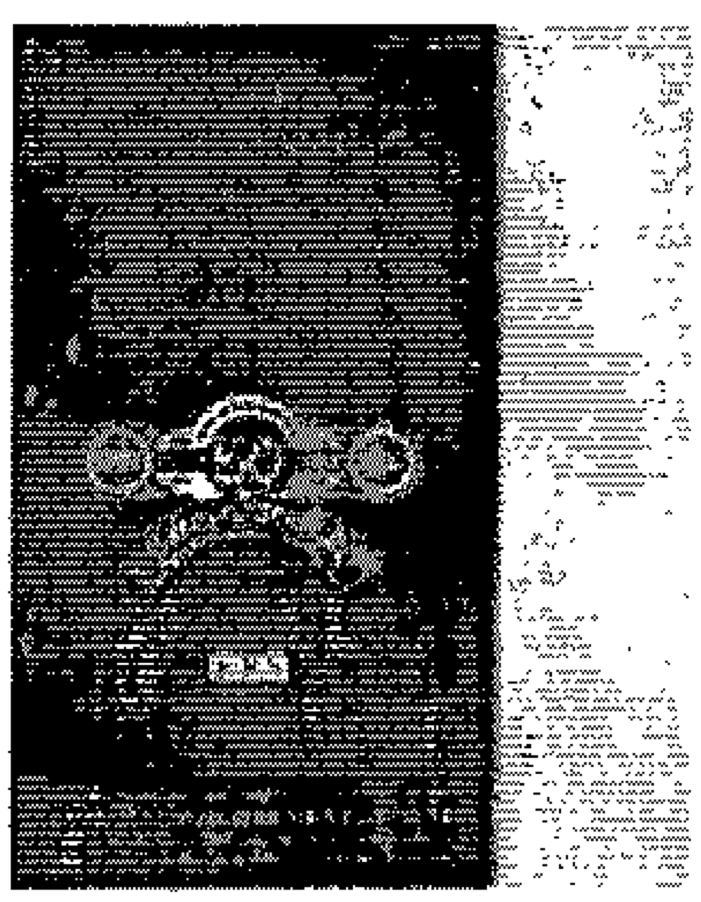
## LETTER OF TRANSMITTAL

June 1, 2004

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, 2003. This CAFR is submitted in accordance with Section 1:253 of the Retirement Ordinances, which requires an annual audit report. This section specifically 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). As a supplement to the financial statements, please refer to Management's Discussion and Analysis in the Financial Section.

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 2003 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 2003 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**

During 2003, CPERS put the finishing touches on a new type of design for a Supplemental Benefit Payment (SBP) in an effort to address the needs of retirees while still protecting the funding level of the System. It was recommended to the Metro Council in November and passed without opposition. In contrast to typical cost of living adjustments, which offer a set percentage increase and often become an uncontrollable cost to the system, the SBP ordinance provides for a reserve that is funded by a portion of excess investment revenues over and above the expected rate of return of 8 percent. By reserving only a small portion of excess returns, the funding for the System is impacted minimally. When the reserve reaches a level at which a meaningful distribution could be made to retirees and survivors, the Retirement Board would declare it payable with a non-recurring distribution that would concentrate the heavier distributions to retirees who have been retired the longest and had the most years of service to the City-Parish Government.

Although not an additional benefit per se, an additional benefit option was made available to non-DROP retiring members or members entering the DROP. The option became known as the "Pop-Up" option and it allows a member to reduce the amount of his/her benefit to select a standard joint and survivor benefit with the added feature that should the designated survivor die before the member, the member's benefit amount would "pop-up" to the original benefit amount calculated before any survivor reduction.

In keeping with CPERS' commitment to retirement education for members, the staff conducted more educational sessions than ever before during 2003. Some of the sessions were conducted through the City's Training Center while others involved group meetings with members of various departments.

The Retirement Office began the major project of imaging documents, concentrating first on historical minutes of Board meetings. For research and quick reference, the Retirement Office staff has already recognized some of the benefits of having this information accessible to everyone in the optical character recognition (OCR) format. Eventually all member records, bank and investment records, and investment manager and consultant reports will be imaged and digitally stored on a server in the Information Services Division's facility. This project will be ongoing for some time to come due to the large volume of extensive records.

Hand in hand with the Retirement Office's imaging project is the recent networking ability to view documents imaged by other departments. CPERS depends on other departments for information regarding Metropolitan Council ordinances and resolutions and human resource data. The ability to share documents through a common server provides CPERS with an efficient and accurate method of reviewing documents for required data such as dates of birth, dates of hiring or employment termination, etc. As more City-Parish departments are placed online in the system, the efficiencies will only increase.

**SERVICE EFFORTS AND ACCOMPLISHMENTS**

CPERS continues to place 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 2003, CPERS paid out to retirees, survivors, and beneficiaries over $39.1 million in benefits and distributions of more than $10 million to participants from the Deferred Retirement Option Plan (DROP). Combined, CPERS paid out in excess of $49.5 million to eligible retirees, survivors, and beneficiaries during the year.

The average monthly benefit of CPERS retirees continued to increase as salaries increased. For 2003, retirees drew an average monthly benefit of $1,484, which represented an increase of 2.8% over the 2002 average of $1,444. The average monthly withdrawal for DROP funds was $1,491, an increase of 10.3% from 2002's average of $1,352. DROP withdrawals include $1.5 million in rollovers to qualified Individual Retirement Accounts (IRAs) or other qualified plans.

Also, during 2003, refunds were issued to 236 members who terminated employment and to beneficiaries of deceased members compared to 232 issued during 2002. 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 114 members retired during 2003 compared to 129 during 2002. A total of 104 members entered DROP during 2003 compared to 147 during 2002.

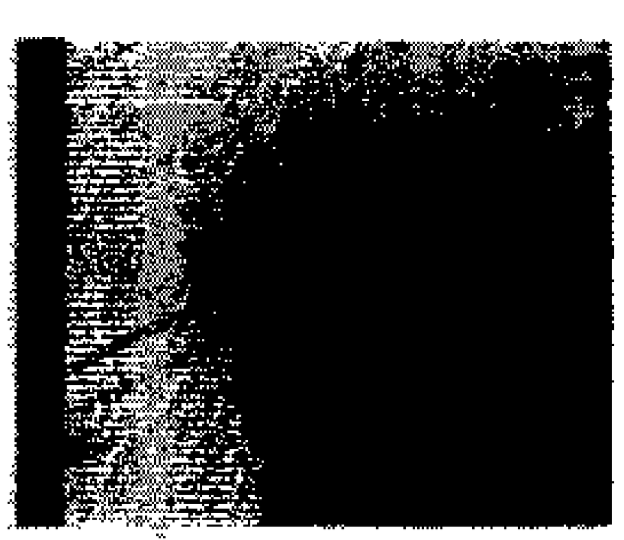
**INTERNAL CONTROL**

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 CPERS' independent auditors consider the system of internal control over financial reporting as part of the auditing process.

**ACCOUNTING SYSTEM**

An explanation of CPERS' accounting policies is contained in the Notes to the Financial Statements. The basis of accounting, estimates, investment types and valuations, property and equipment, 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 2003 being the 9th year in the amortization schedule.

Contributions from members continued at the rate of 8.0% of payroll during 2003. A blended employer contribution rate of 12.50% produced General Fund and Special Fund employer contribution rates of 9.37% and 16.66% respectively.

CPERS continues to strive toward becoming a fully funded public employees' retirement system. This necessarily requires the steady growth of the investment markets, and meeting investment performance objectives. Although CPERS enjoyed an exceptional year for investment performance, the effects of the previous 2½ year bear market are still being felt. CPERS' asset allocation remained unchanged during the year, in accordance with the recommendation of the investment consultant, with the expectation that actuarial assumptions and funding goals will be met over time. When comparing the actuarial value of assets with the total value of actuarial liability, the System's funded ratio remained at 86% at December 31, 2003.

**CASH MANAGEMENT**

At the beginning of 2003, CPERS changed its method of managing short-term cash from in-house management through the securing of repurchase agreements, to the use of a Short Term Investment Fund (STIF) managed by the custodian bank. Upon the recommendation of the investment consultant, cash management was placed with One Group® Government Money Market Fund, which invests in high-quality, short-term securities issued or guaranteed by the US government or by US government agencies and instrumentalities. 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, thus fully investing the System at all times.

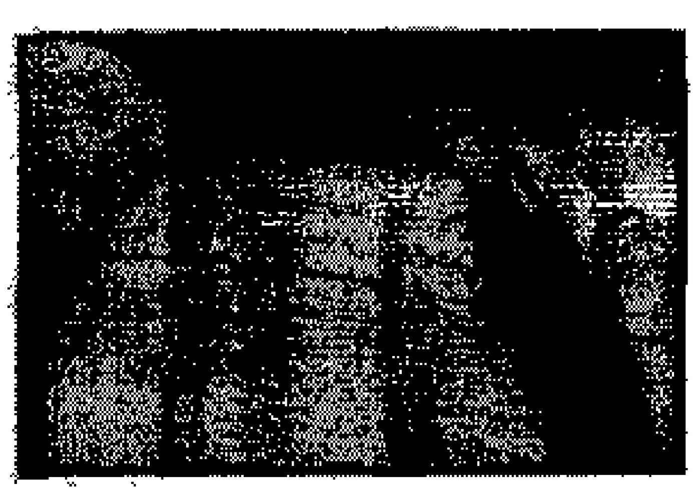
**INVESTMENTS**

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 utilized. Charts showing the current asset allocations are shown on pages 72 through 74. CPERS maintained the seven (7) contractual relationships with investment managers it had at the end of 2002. The performances of these seven managers are measured against predetermined universally recognized indices (benchmarks) 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 true to the targeted asset allocation.

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.

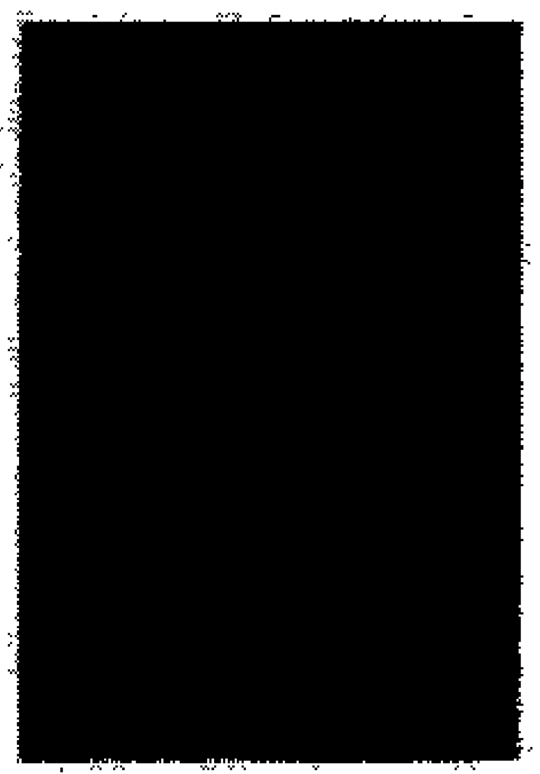
Investment return for CPERS' assets, gross of investment fees for 2003 was 24.0% with the three-year, five-year, and ten-year returns being 3.8%, 5.1%, and 8.3% respectively. These performance numbers ranked CPERS in the top quartile to top third when compared to its peers. A summary of the largest investment 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 2003 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, 2002. This was the sixth 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.

**ACKNOWLEDGEMENTS**

As in years past, I again want to express my gratitude 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. Creation of the Supplemental Benefit Payment was a good example of the Board's consistent dedicated effort to address the needs of the members, while protecting the integrity of the System's funding. It is a pleasure to work for a Board that remains committed to providing the best in benefits, but in a fiscally responsible manner. The Retirement Office staff remains 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 express my gratitude to the Retirement Office staff for the tireless effort put forth in making the 2003 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. This is the seventh 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 seventh consecutive year.

Sincerely,

Jeffrey R. Yates, CPA
Retirement Administrator

## 2003
## 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*

Richelle Forester
*Accountant II*

Gladys Williams
*Administrative Specialist II*

Salli Withers
*Retirement Benefits Specialist*

Adrienne Matthews
*Retirement Benefits Specialist*

Renae Lodge
*Retirement Benefits Specialist*

## PROFESSIONAL CONSULTANTS

### ACTUARY

Stanley, Holcombe & Associates, Inc.
2000 RiverEdge Parkway, Suite 540
Atlanta, GA 30328

### AUDITOR

Postlethwaite & Netterville
Certified Public Accountants
8550 United Plaza Blvd, Suite 1001
Baton Rouge, LA 70809

### INVESTMENT CONSULTANT

Summit Strategies Group
7700 Bonhomme Avenue, Suite 300
St. Louis, MO 63105

### LEGAL COUNSEL

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8732 Quarters Lake Road
Baton Rouge, LA 70809

### OF SPECIAL COUNSEL

Robert D. Klausner
Klausner & Kaufman, P.A.
10059 Northwest 1st Court
Plantation, FL 33324

### MEDICAL EXAMINER

D. J. Scimeca, Jr., M.D.
Occupational Health Clinic
Baton Rouge General Health
3870 Convention Street
Baton Rouge, LA 70806

### COMPUTER CONSULTANT

Relational Systems Consultants
102 Emily Circle
Lafayette, LA 70508

### 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

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

### GLOBAL FIXED INCOME

State Street Global Advisors
Two International Plaza
Boston, MA 02110

### INTERNATIONAL EQUITY

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

Sprucegrove Investment Management LTD.
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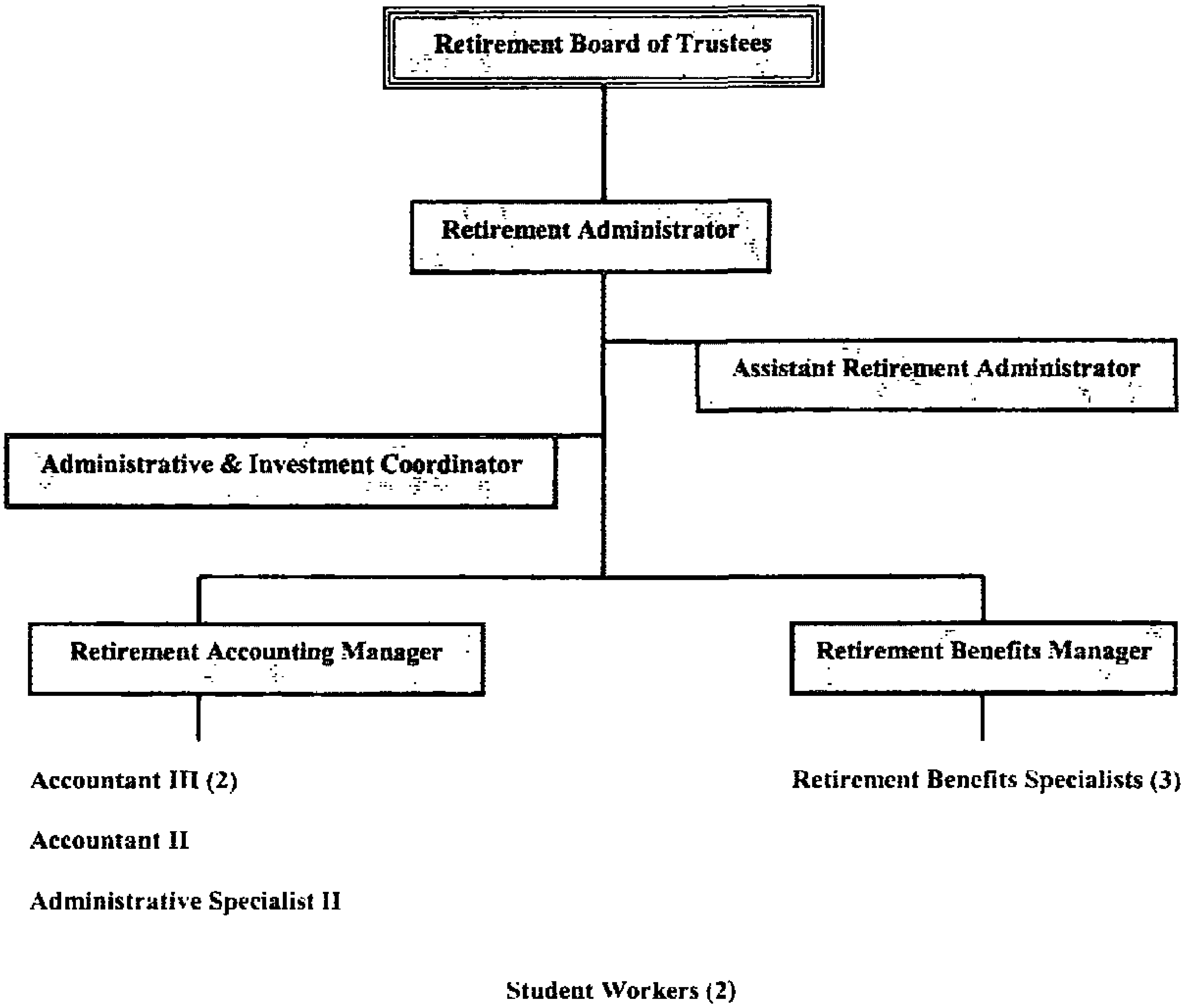
Baton Rouge, LA 70821-1511

**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, 2002

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

President

Executive Director

**SUMMARY OF 2003 LOCAL LEGISLATIVE CHANGES**

The following Ordinance was adopted by the City-Parish Metropolitan Council during 2003:

ORDINANCE 12814 - 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 ADD SECTION 1:269.1 THERETO, RELATIVE TO AUTHORIZING THE BOARD OF TRUSTEES TO USE EXCESS ACTUARIAL RETURN ON RETIREMENT SYSTEM INVESTMENTS FOR THE PURPOSE OF PROVIDING CERTAIN ELIGIBLE RETIREES AND SURVIVORS WITH SUPPLEMENTAL BENEFIT PAYMENTS.

On November 25, 2003, the Council approved Ordinance 12814 that added Section 1:269.1 to provide certain retirees and survivors of retirees with a lump sum non-guaranteed supplemental benefit payment (SBP). The Retirement Board of Trustees adopts the rules, regulations and procedures to carry out the provisions of the ordinance. The Board has the authority to declare the payment of the SBP in June each year with payment in September to retirees and survivors that have been retired for at least one year as of June 30 of the calendar year in which the SBP is declared.

To fund the SBP the ordinance authorizes the Retirement Board of Trustees to accumulate and set in reserve for the exclusive payment of the SBP the following:

1) A percentage of returns on the actuarial value of assets when those returns are in excess of the assumed actuarial rate of return (currently 8%), as determined by the Retirement System actuary calculated according to the following formula:

   - One-tenth of up to the first 2% of actuarial returns in excess of the assumed actuarial rate of return for any calendar year, provided the aggregate experience of the Retirement System is positive as certified in the applicable actuarial report

   - One-twentieth of actuarial returns above the first 2% in excess of the assumed actuarial rate of return for any calendar year, provided the aggregate experience of the Retirement System is positive as certified in the applicable actuarial report

2) Certain payments formerly made under Section 1:269, Retirement Benefit Adjustment (RBA). These payments calculated as the difference between the payments made under Sec. 1:269 in July of each calendar year and the payments made under Sec 1:269 in July, 2002.

## 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 limited to the amount remaining after the payment of minor child or unmarried dependent parent benefits, if any.
- 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 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), Code Sec. 403(b), 457 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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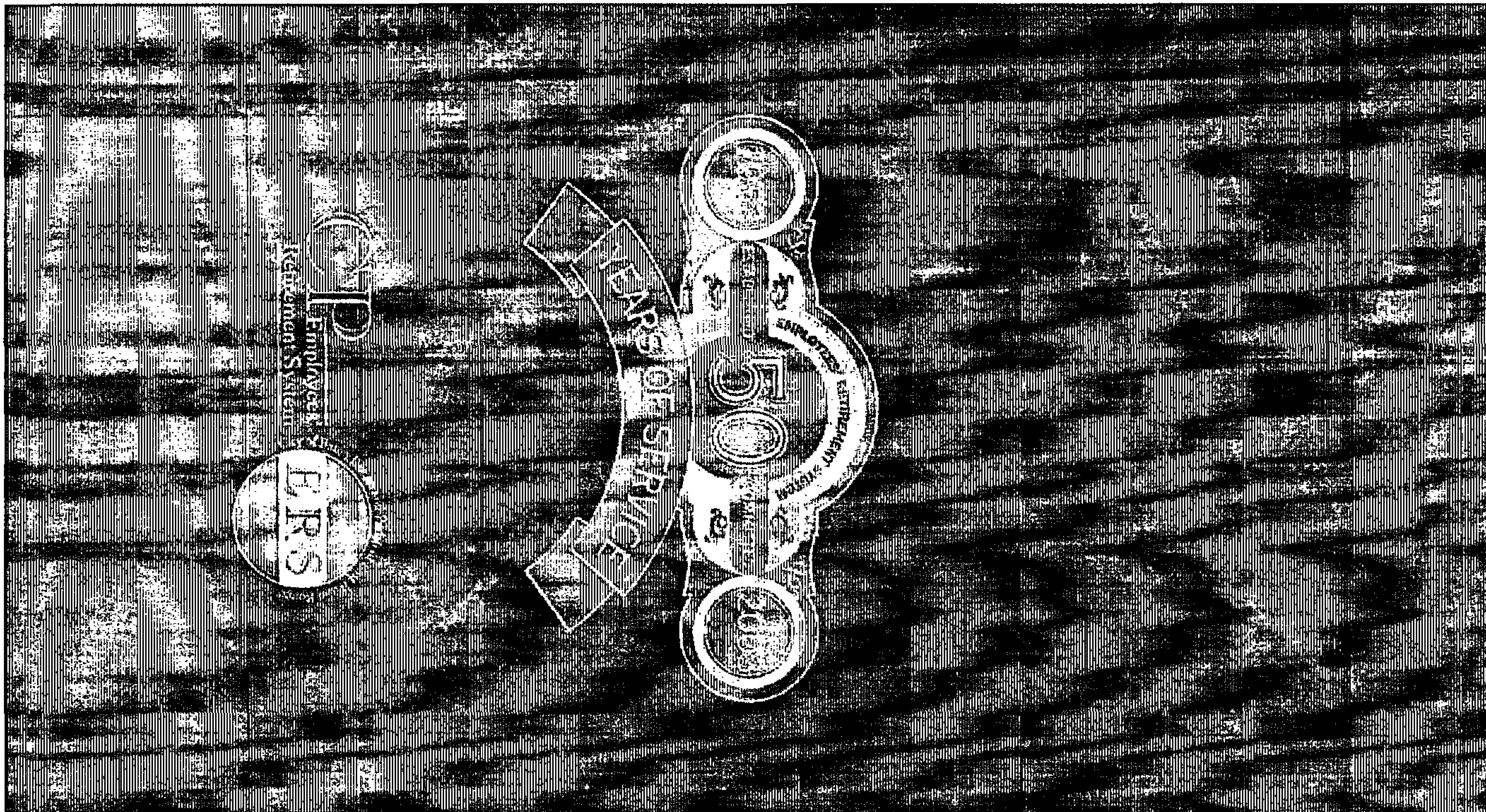


# Financial Section

CP Employees' Retirement System

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 Auditors' Report

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

We have audited the accompanying statement of plan net assets of the City of Baton Rouge and Parish of East Baton Rouge Employees' Retirement System (the Retirement System), a component unit of the City of Baton Rouge – Parish of East Baton Rouge, as of December 31, 2003 and 2002 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, 2003 and 2002 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 June 15, 2004 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 Payments 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
June 15, 2004

P&N

Postlethwaite & Netterville

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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, 2003, and have issued our report thereon dated June 15, 2004. 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
June 15, 2004

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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 increased by $133.9 million, or 19.0 percent. This reflects the long awaited recovery in the equity markets following a 2 ½ year market downturn.

- The rate of return on the market value of the System's investments was 24.0 percent as compared to a negative return of 8.1 percent in the prior year. This return ranked the System in the 18th percentile compared to its peers, and was due largely to a strong recovery in both the domestic and international equity markets.

- The amount of benefit payments increased by $3.73 million, representing an increase of 8.1 percent from 2002 to 2003.

- The System's funded ratio remained level from 2002 to 2003 at 86 percent as measured in accordance with GASB 25/27. The unfunded actuarial accrued liability increased $8.9 million. Although market value of assets increased dramatically, the actuarial value of assets is computed using smoothing methods that minimize peaks and troughs in asset value. As a result, the actuarial value of assets, on which the funded ratio is computed, moved upward more moderately than the market value of assets.

**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, 2003 and December 31, 2002.

Statement of Changes in Plan Net Assets – This statement reports the results of operations during the calendar years 2003 and 2002, categorically disclosing the additions to and deductions from plan net assets. The net increase 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, use of the custodian's Short Term Investment Fund (STIF), 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, 2003 amounted to $840.0 million, which represented an increase of $133.9 million, or 19.0 percent from the $706.1 million held in trust at December 31, 2002.

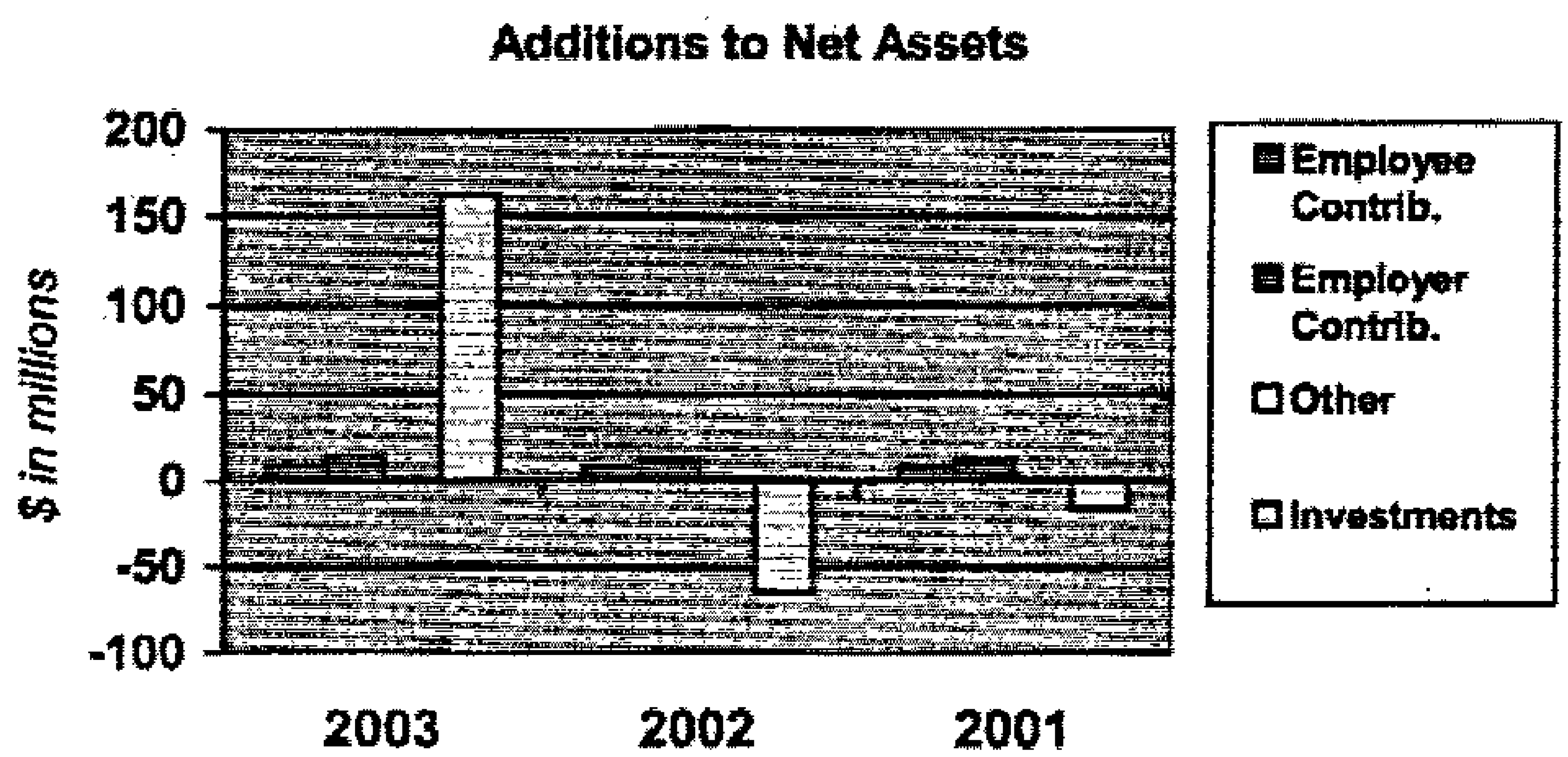
| | 2003 | 2002 | 2001 | 2003 Increase or (Decrease) | 2003 Percentage Change |
|---|---|---|---|---|---|
| Cash | $ 4,431,623 | $ 988,652 | $ 630,708 | $ 3,442,971 | 348.2 % |
| Receivables | 7,916,686 | 6,450,482 | 16,130,052 | 1,466,204 | 22.7 |
| Investments (fair value) | 843,913,270 | 713,621,961 | 794,889,737 | 130,291,309 | 18.3 |
| Capital Assets | 758,579 | 787,399 | 814,168 | (28,820) | (3.7) |
| Total Assets | 857,020,158 | 721,848,494 | 812,464,665 | 135,171,664 | 18.7 |
| Total Liabilities | 17,032,248 | 15,725,310 | 14,595,072 | 1,306,938 | 8.3 |
| Total Plan Net Assets | $ 839,987,910 | $ 706,123,184 | $ 797,869,593 | $133,864,726 | 19.0 % |

**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 2003 and 2002, rose in total dollars by 2.0% as payroll amounts increased and approximately 150 new members were enrolled by one of the CPERS employers. Employer contributions increased primarily due to an increase in the required employer contribution rate as recommended by the System's actuary. The blended employer contribution rate for 2003 was 12.5% of payroll, while in 2002 the rate was set at 10.57%. In 2003, CPERS recognized a net increase in investments of $162.5 million, compared to a net loss in 2002 of $64.6 million. This increase was attributable to a steep recovery in both the domestic and international equity markets. In total, the 2003 addition to net assets was a positive $186.3 million as compared to a negative $43.2 million for 2002.



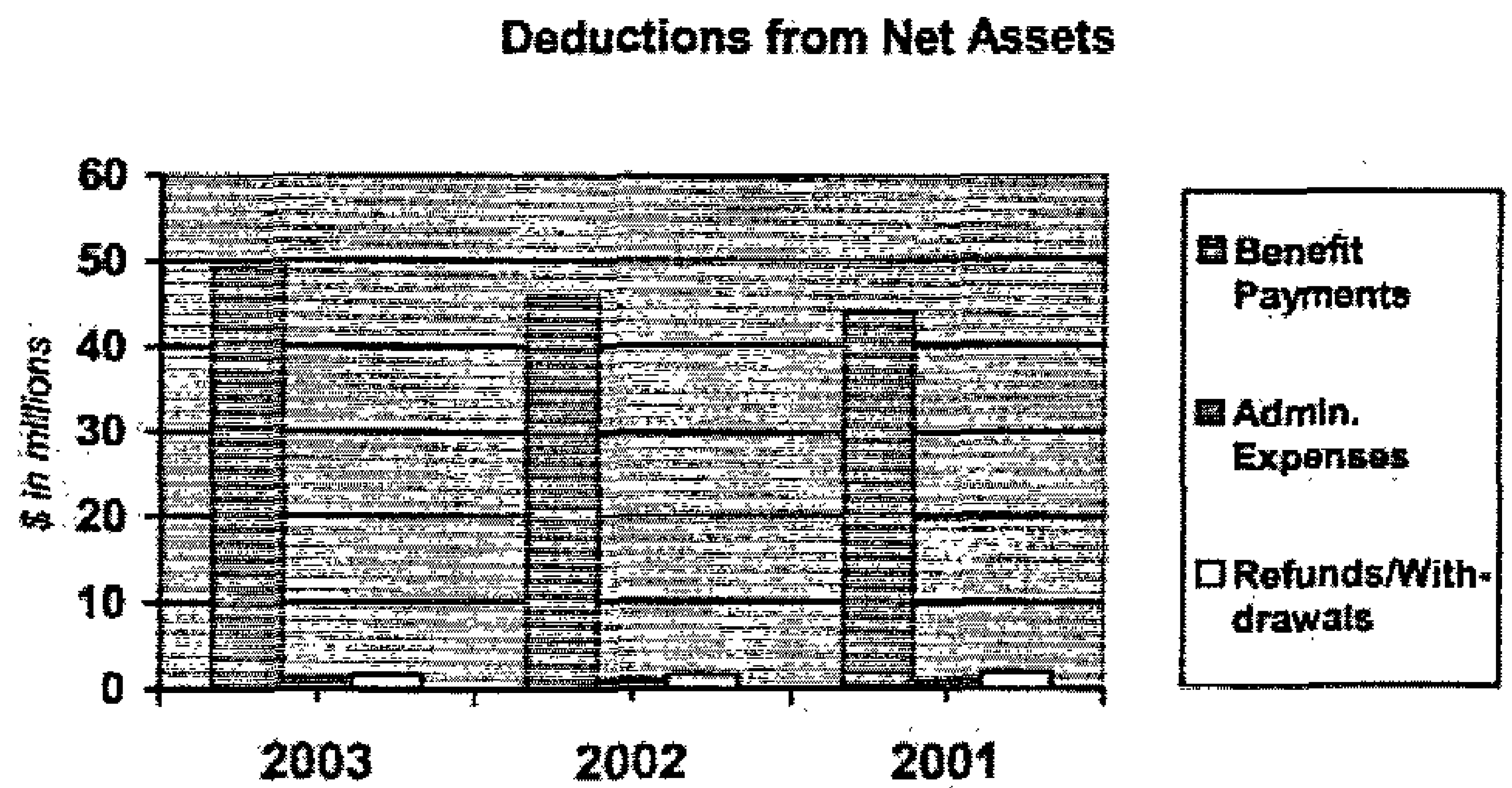

| Additions to Net Assets | 2003 | 2002 | 2001 | 2003 Percentage Change |
|---|---|---|---|---|
| Employee Contributions | $ 8,738,314 | $ 8,564,117 | $ 8,672,779 | 2.0% |
| Employer Contributions | 14,608,788 | 12,109,644 | 11,634,531 | 20.6 |
| Net Investment Income | 162,549,247 | (64,559,581) | (15,605,192) | 351.8 |
| Other | 374,723 | 703,276 | 344,953 | (46.7) |
| Total Additions | $ 186,271,072 | $ (43,182,544) | $ 5,047,071 | 531.4% |

**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 2003, benefit payments to retirees, survivors, and beneficiaries amounted to $49.6 million, which represented an increase of 8.1 percent from the $45.8 million paid out in 2002. Predictably, the normal monthly payments to pensioners continued to increase as the number of pensioners increase and the average monthly pension increases. DROP fund rollovers accounted for some of the increase but the majority was due to the number of new retirees during the year. The 2003 administrative expenses increased to $1.17 million from $1.08 million in 2002 representing a 9.0% increase due to increases in normal operating expenses such as salaries, fringe benefits, utilities, consultant fees, etc. And finally, refunds and withdrawals of member contributions increased slightly by .7 percent to $1.68 million in 2003 from $1.67 million in 2002, as employment trends held steady among CPERS employers.




| Deductions from Net Assets | 2003 | 2002 | 2001 | 2003 Percentage Change |
|---|---|---|---|---|
| Benefit Payments | $ 49,550,057 | $ 45,817,047 | $ 44,051,754 | 8.1 % |
| Refunds and Withdrawals | 1,682,181 | 1,670,741 | 2,000,368 | 0.7 |
| Administrative Expenses | 1,174,108 | 1,076,077 | 1,091,294 | 9.1 |
| Total Deductions | $ 52,406,346 | $ 48,563,865 | $ 47,143,416 | 7.9 % |

| | | | | |
|---|---|---|---|---|
| Change in Net Assets (Total Additions less Total Deductions) | $133,864,726 | $(91,746,409) | $ (42,096,345) | 246.0 % |

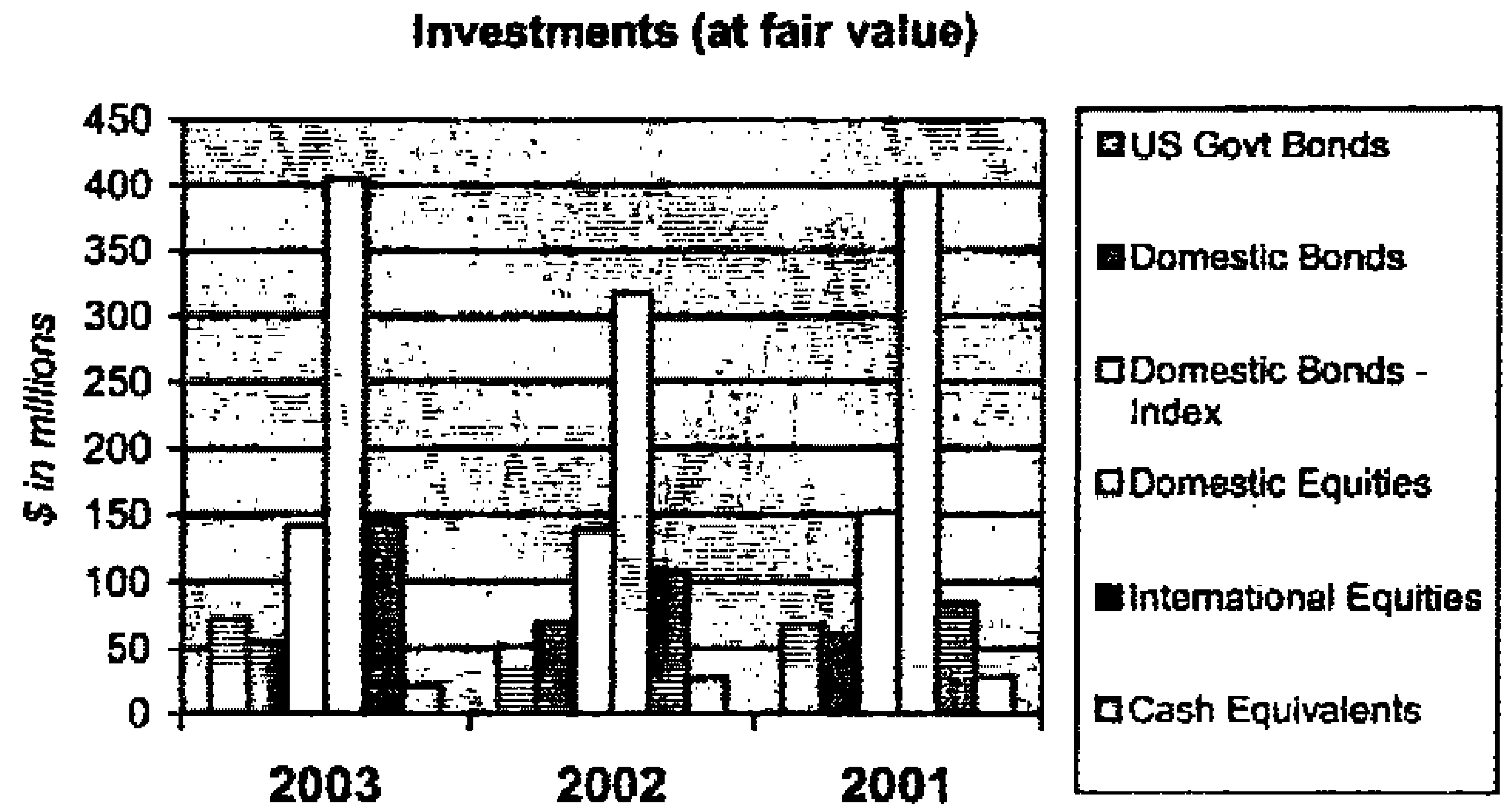
**CITY OF BATON ROUGE AND**
**PARISH OF EAST BATON ROUGE**
**EMPLOYEES' RETIREMENT SYSTEM**

**MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED**

Investments

CPERS investments totaled $843.9 million at December 31, 2003 as compared to $713.6 million at December 31, 2002, which represented an increase of $130.3 million or 18.3 percent. This increase can be attributed to the steep recovery in the domestic and international equity markets in which CPERS allocates a 65 percent targeted share of its investments. CPERS enjoyed a market rate of return of 24.0%, which surpassed both the benchmark for the overall portfolio of 23.0% and the rate of return for the average public pension plan of 22.1% 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) | 2003 | 2002 | 2001 | 2003 Percentage Change |
|---|---|---|---|---|
| US Government obligations | $ 72,774,448 | $ 52,120,972 | $ 68,259,778 | 39.6 % |
| Bonds – Domestic | 55,221,659 | 69,174,732 | 61,986,427 | (20.2) |
| Bonds – Domestic Index Fund | 142,523,271 | 138,708,516 | 152,447,365 | 2.8 |
| Equity securities – Domestic | 405,421,317 | 317,338,968 | 399,981,638 | 27.8 |
| Equity securities – International | 146,521,510 | 109,128,773 | 84,014,529 | 34.3 |
| Cash equivalents | 21,451,065 | 27,150,000 | 28,200,000 | (21.0) |
| Total Investments | $ 843,913,270 | $ 713,621,961 | $ 794,889,737 | 18.3 % |

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED**

## REQUESTS FOR INFORMATION

This Comprehensive 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, 2003 AND 2002**

| | CPERS Trust | Police Guarantee Trust | 2003 Combined Total | 2002 Combined Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash | $ 4,265,018 | $ 166,605 | $ 4,431,623 | $ 988,652 |
| Receivables: | | | | |
| Employer contributions | 1,261,900 | 4,514 | 1,266,414 | 1,008,670 |
| Employee contributions | 788,999 | 3,113 | 792,112 | 714,677 |
| Interest and dividends | 1,358,377 | 248 | 1,358,625 | 1,388,631 |
| Pending trades | 4,016,056 | 1,841 | 4,017,897 | 2,857,961 |
| Other | 419,152 | 62,486 | 481,638 | 480,543 |
| Total receivables | 7,844,484 | 72,202 | 7,916,686 | 6,450,482 |
| Investments (at fair value): | | | | |
| U.S. Government obligations | 72,774,448 | -- | 72,774,448 | 52,120,972 |
| Bonds - Domestic | 55,221,659 | -- | 55,221,659 | 69,174,732 |
| Bonds - Domestic Index Fund | 134,666,468 | 7,856,803 | 142,523,271 | 138,708,516 |
| Equity securities - Domestic | 392,352,103 | 13,069,214 | 405,421,317 | 317,338,968 |
| Equity securities - International | 141,900,085 | 4,621,425 | 146,521,510 | 109,128,773 |
| Cash equivalents | 21,249,788 | 201,277 | 21,451,065 | 27,150,000 |
| Total investments | 818,164,551 | 25,748,719 | 843,913,270 | 713,621,961 |
| Properties, at cost, net of accumulated depreciation of $642,905 and $614,084, respectively | 758,579 | -- | 758,579 | 787,399 |
| Total assets | 831,032,632 | 25,987,526 | 857,020,158 | 721,848,494 |
| **Liabilities** | | | | |
| Accrued expenses and benefits | 684,466 | 138,430 | 822,896 | 678,154 |
| Pending trades payable | 16,209,352 | -- | 16,209,352 | 15,047,156 |
| Total liabilities | 16,893,818 | 138,430 | 17,032,248 | 15,725,310 |
| Net assets held in trust for pension benefits (a schedule of funding progress is presented on page 43) | $ 814,138,814 | $ 25,849,096 | $ 839,987,910 | $ 706,123,184 |

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, 2003 AND 2002**

| | CPERS Trust | Police Guarantee Trust | 2003 Combined Total | 2002 Combined Total |
|---|---|---|---|---|
| Additions: | | | | |
| Contributions: | | | | |
| Employee | $ 8,688,728 | $ 49,586 | $ 8,738,314 | $ 8,564,117 |
| Employer | 14,531,806 | 76,982 | 14,608,788 | 12,109,644 |
| Severance contributions from employees | 374,723 | -- | 374,723 | 703,276 |
| Total contributions | 23,595,257 | 126,568 | 23,721,825 | 21,377,037 |
| Investment Income: | | | | |
| Net appreciation in fair value of investments | 151,705,813 | 4,977,237 | 156,683,050 | (73,086,393) |
| Interest | 5,722,642 | 3,370 | 5,726,012 | 8,312,921 |
| Dividends | 1,880,169 | -- | 1,880,169 | 1,800,067 |
| Total investment income | 159,308,624 | 4,980,607 | 164,289,231 | (62,973,405) |
| Less investment expenses | 1,686,123 | 53,861 | 1,739,984 | 1,586,176 |
| Net investment income | 157,622,501 | 4,926,746 | 162,549,247 | (64,559,581) |
| Total additions | 181,217,758 | 5,053,314 | 186,271,072 | (43,182,544) |
| Deductions: | | | | |
| Benefit payments | 48,561,375 | 988,682 | 49,550,057 | 45,817,047 |
| Refunds and withdrawals | 1,681,537 | 644 | 1,682,181 | 1,670,741 |
| Administrative expenses | 954,294 | 219,814 | 1,174,108 | 1,076,077 |
| Total deductions | 51,197,206 | 1,209,140 | 52,406,346 | 48,563,865 |
| Net increase (decrease) | 130,020,552 | 3,844,174 | 133,864,726 | (91,746,409) |
| Net assets held in trust for pension benefits: | | | | |
| Beginning of year | 684,118,262 | 22,004,922 | 706,123,184 | 797,869,593 |
| End of year | $ 814,138,814 | $ 25,849,096 | $ 839,987,910 | $ 706,123,184 |

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 percent (20%) for 2003 and twenty-five (25%) for 2002, based on an administrative cost allocation study performed by an outside consultant. 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, 2003 and 2002, membership in the Retirement System consisted of:

| | 2003 | 2002 |
|---|---|---|
| Inactive: | | |
| Retirees and beneficiaries currently receiving benefits | 2,192 | 2,135 |
| Vested terminated employees | 38 | 36 |
| Deferred retirees | 391 | 366 |
| Total inactive | 2,621 | 2,537 |
| Active: | | |
| Fully vested | 1,380 | 1,388 |
| Nonvested | 1,941 | 1,832 |
| Total active | 3,321 | 3,220 |
| Total Membership | 5,942 | 5,757 |

**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

Active members (vested and non-vested), inactives (retirees) and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them consists of:

| December 31, 2003 | | Active | | |
|---|---|---|---|---|
| | Inactive | Vested | Nonvested | Total Active |
| Regular | 1,611 | 977 | 1,393 | 2,370 |
| BREC | 92 | 69 | 307 | 376 |
| Police | 369 | 40 | 23 | 63 |
| Fire | 549 | 294 | 218 | 512 |
| | 2,621 | 1,380 | 1,941 | 3,321 |

| 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 |

### 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 or to a qualifying pension plan. 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, 2003 were $102,710,360 and $8,013,057. For December 31, 2002, the DROP accounts for the CPERS and PGT trusts totaled $97,863,471 and $6,606,252 respectively. Members maintaining accounts in the original CPERS Trust DROP and the PGT DROP respectively as of December 31, 2003 totaled 962 and 107. For December 31, 2002, 911 and 104 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 both 2003 and 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 when due, pursuant to ordinance requirements, formal commitments, and statutory contractual requirements. 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 2003, 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, 2003 and 2002 was $28,821 and $29,019 respectively.

## (3) SECURITIES LENDING PROGRAM

Beginning 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 2003, 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 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, 2003, the System had no exposure to borrowers. The collateral held on that date was valued at $45,990,876 and the market value of the securities on loan was $44,792,673. This market value was comprised of the following loan types and amounts: $15,358,915 Equity Cash, $5,557,961 Corporate Bond Cash, $621,798 Corporate Bond Tri-Party, $16,683,106 Government Cash, $237,750 Government Tri-Party, and $6,333,143 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.

Beginning the first week in January 2003, the System ceased the practice of internally investing available cash in repurchase agreements and began utilizing a Short Term Investment Fund (STIF) administered by the custodian bank, Bank One, N. A. Accordingly, all uninvested cash balances of CPERS and its full discretionary investment managers are automatically swept by the custodian into the One Group® Government Money Market Fund, which invests in high-quality, short-term securities issued or guaranteed by the US government or by US government agencies and instrumentalities. Deposits in this fund are not insured by the FDIC.

During 2002 ,the Retirement System maintained the policy 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 agreement at December 31, 2002 was fully collateralized.

At December 31, 2003, the carrying amount of the Retirement System's cash was $4,431,623 and the bank balance was $4,571,114, 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, 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 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, 2003.

**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 | 2003 FAIR VALUE |
|---|---|---|---|---|---|
| CPERS TRUST | | | | | |
| Categorized: | | | | | |
| U.S. Treasury Bonds | $22,061,173 | $-- | $-- | $-- | $22,061,173 |
| Corporate Bonds | 55,221,659 | -- | -- | -- | 55,221,659 |
| U.S. Agency Bonds | 50,713,275 | -- | -- | -- | 50,713,275 |
| Corporate Stocks | 139,430,444 | -- | -- | -- | 139,430,444 |
| Not Categorized: | | | | | |
| Cash Equivalents (One Group® Gov't Money Mkt Fund) | 21,249,788 | -- | -- | -- | 21,249,788 |
| Corporate Stock Index Funds | -- | -- | -- | 252,921,659 | 252,921,659 |
| International Equity Fund | -- | -- | -- | 141,900,085 | 141,900,085 |
| Domestic Bond Index Fund | -- | -- | -- | 134,666,468 | 134,666,468 |
| Total CPERS Trust Investments | $288,676,339 | $-- | $-- | $529,488,212 | $818,164,551 |
| POLICE GUARANTEE TRUST | | | | | |
| Categorized: | | | | | |
| Not Categorized: | | | | | |
| Cash Equivalents (One Group® Gov't Money Mkt Fund) | $201,277 | $-- | $-- | $-- | $201,277 |
| Corporate Stock Index Funds | -- | -- | -- | 13,069,214 | 13,069,214 |
| International Equity Fund | -- | -- | -- | 4,621,425 | 4,621,425 |
| Domestic Bond Index Fund | -- | -- | -- | 7,856,803 | 7,856,803 |
| Total PGT Investments | $201,277 | $-- | $-- | $25,547,442 | $25,748,719 |
| Total Investments | $288,877,616 | $-- | $-- | $555,035,654 | $843,913,270 |

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

**NOTES TO THE FINANCIAL STATEMENTS**

## (5) CONTINGENCIES

At December 31, 2003, litigation was still pending relative to 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 remains unknown at this time; however, the Retirement System has prevailed in the Court of Appeal, and the case has been remanded to the district court. 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

CP Employees' Retirement System

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% |
| 12/31/03 | $ 847,227,425 | $ 985,671,695 | $ 138,444,270 | 86.0% | $ 106,240,559 | 130.3% |

*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% |
| 12/31/03 | $ 18,044,235 | 78.0% |

*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 nine 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 | --% |
| 12/31/03 | $ 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 is shown on this page and the following page.

**CPERS TRUST**

| | |
|---|---|
| Valuation date | December 31, 2003 |
| 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 | 21 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, 2003 |
| 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

CP Employees' Retirement System

City of Baton Rouge and Parish of East Baton Rouge

ERS

## SCHEDULES OF ADMINISTRATIVE EXPENSES
## FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

| | CPERS Trust | Police Guarantee Trust | 2003 Combined Total | 2002 Combined Total |
|---|---|---|---|---|
| Salaries: | | | | |
| Salaries-regular | $ 375,729 | $ 93,932 | $ 469,661 | $ 446,198 |
| Other compensation-student labor | 17,934 | 4,490 | 22,424 | 27,163 |
| Other compensation-auto allowance | 3,846 | 973 | 4,819 | 4,819 |
| Related benefits | 149,191 | 35,193 | 184,384 | 108,869 |
| Total salaries | 546,700 | 134,588 | 681,288 | 587,049 |
| Travel and training expenses | 9,483 | 2,371 | 11,854 | 11,360 |
| Operating services: | | | | |
| Dues and memberships | 2,205 | 560 | 2,765 | 2,549 |
| Utilities | 10,832 | 2,708 | 13,540 | 11,905 |
| Custodial and extermination | 9,449 | 2,362 | 11,811 | 11,489 |
| Printing and binding | 4,461 | 1,115 | 5,576 | 13,861 |
| Telephone | 6,462 | 1,616 | 8,078 | 9,920 |
| Postage | 10,933 | 2,733 | 13,666 | 13,980 |
| Insurance | 9,090 | 2,272 | 11,362 | 9,307 |
| Rentals-office equipment | 15,784 | 3,946 | 19,730 | 19,835 |
| Repairs and maintenance-buildings | 5,404 | 1,351 | 6,755 | 6,855 |
| Repairs and maintenance-office equipment | 7,388 | 1,847 | 9,235 | 5,312 |
| Total operating services | 82,008 | 20,510 | 102,518 | 105,013 |
| Supplies | 16,146 | 4,057 | 20,203 | 31,250 |
| Professional services: | | | | |
| Accounting and auditing | 10,400 | 2,600 | 13,000 | 9,000 |
| Legal | 73,110 | 9,990 | 83,100 | 100,516 |
| Actuarial | 51,520 | 13,970 | 65,490 | 90,343 |
| Other professional | 105,141 | 26,285 | 131,426 | 121,409 |
| Total professional services | 240,171 | 52,845 | 293,016 | 321,268 |
| Depreciation expense | 28,821 | -- | 28,821 | 29,019 |
| Capital outlay | 21,772 | 5,443 | 27,215 | -- |
| Other revenues | 9,193 | -- | 9,193 | (8,882) |
| Total administrative expenses | $ 954,294 | $ 219,814 | $ 1,174,108 | $ 1,076,077 |

See accompanying independent auditors' report.

**SCHEDULES OF INVESTMENT EXPENSES**
**FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002**

| | CPERS Trust | Police Guarantee Trust | 2003 Combined Total | 2002 Combined Total |
|---|---|---|---|---|
| Fixed income: | | | | |
| U.S. Government obligations | | | | |
| and other bonds- Domestic | $ 242,133 | $ -- | $ 242,133 | $ 369,540 |
| Bonds-Enhanced Index Fund | 59,588 | 3,852 | 63,440 | 66,751 |
| Total fixed income | 301,721 | 3,852 | 305,573 | 436,291 |
| Equity securities: | | | | |
| Equity securities - Domestic | 492,920 | 3,408 | 496,328 | 326,553 |
| Equity securities - International | 700,132 | 22,048 | 722,180 | 644,330 |
| Total equity securities | 1,193,052 | 25,456 | 1,218,508 | 970,883 |
| Custodian fees | 103,350 | 2,553 | 105,903 | 69,002 |
| Advisor fees | 88,000 | 22,000 | 110,000 | 110,000 |
| Total investment expenses | $ 1,686,123 | $ 53,861 | $ 1,739,984 | $ 1,586,176 |

See accompanying independent auditors' report.

## SCHEDULES OF PAYMENTS TO CONSULTANTS
## FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

| | CPERS Trust | Police Guarantee Trust | 2003 Combined Total | 2002 Combined Total |
|---|---|---|---|---|
| Accounting and Auditing<br>Auditors -<br>Postlethwaite & Netterville | $ 10,400 | $ 2,600 | $ 13,000 | $ 9,000 |
| Legal<br>Legal Counsel -<br>Law Offices of Randy P. Zinna<br><br>Of Special Counsel:<br>Klausner & Kaufman, P.A. | 73,110 | 9,990 | 83,100 | 100,516 |
| Actuarial<br>Actuary -<br>Stanley, Holcombe & Associates, Inc. | 51,520 | 13,970 | 65,490 | 90,343 |
| Other Professionals:<br>Medical Examiner -<br>D. J. Scimeca, Jr., M.D.<br><br>Computer Consultant -<br>Relational Systems Consultants<br><br>Graphics and Editorial Consultant -<br>JoAnne McMullen<br><br>Cost Allocation Consultant-<br>MAXIMUS, Inc. | 105,141 | 26,285 | 131,426 | 121,409 |
| Total | $ 240,171 | $ 52,845 | $ 293,016 | $ 321,268 |

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

See accompanying independent auditors' report.

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# Investment Section

CP Employees' Retirement System

City of Baton Rouge and Parish of East Baton Rouge

ERS

Summit Strategies Group
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St. Louis, Missouri 63105
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fax 314/727-6068
www.summitstrategies.com

June 15, 2004

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

What a difference a year makes! During 2002, investors continued to learn painful lessons about the true meaning of risk and volatility. In 2003, we witnessed dramatic recoveries in equity markets worldwide. Domestic economic data was strong, with expansion led by consumer spending and business investment. Though some signs of inflation have begun to creep in, this important measure remained in check for the year.

The S&P 500 Index generated a 28.7% return in 2003, a great year by any measure but eclipsed by the small cap segment of the market, up 47.3% as evidenced by the Russell 2000 Index. International stocks represented by the EAFE Index also returned a strong 39.3% for the period. In the fixed income markets, high yield bonds significantly led other types with a 29.0% return. Domestic corporate securities followed at 7.7%, mortgage-backed securities returned 3.1%, and U.S. Government securities trailed with a return of 2.4%.

At the end of 2003, the CPERS portfolio value was $807.3 million and the assets of the Police Guarantee Trust totaled $25.8 million. For the year ended December 31, 2003, the CPERS portfolio earned a total return of 24.0%, placing it in the top 20% of all public funds in the ICC Universe, and outpacing its policy index by a full 1.0%. For the trailing three years, the fund was up 3.8%, ranking in the top quartile of the public fund universe and 1.3% over its benchmark. Five-year performance is also quite solid at 5.1%, which is 1.2% ahead of the policy index and in the top third of the peer group. Over these same periods, the Police Guarantee Trust earned returns of 23.9%, 3.5% and 4.5%, respectively. The two portfolios are invested similarly, but the funds' sizes dictate implementation differences, resulting in return dispersion between the two. While we expect some performance deviation annually, we believe longer term results of the two pools will be very similar. All results have been calculated in accordance with the AIMR Standards.

In continuing its efforts to prudently invest the System's assets, during the second half of 2003 the Board of Trustees commissioned an asset allocation and liability study. This study, properly taking the System's benefit payment obligations into account, will help better position the assets of the plan to allow the System to achieve its investment return objective of 8.0%, maintain its strong funded status, and keep contribution rates as low as possible all while carefully managing the overall risk of the portfolio. The plan will be implemented over the course of 2004, and should serve the System well in the coming years.

In closing, 2003 was a good year. The markets treated us well, and the System took steps to further refine the investment program and improve future performance. On behalf of all of us at Summit Strategies Group, thank you for your continued trust and support. We look forward to being of continued service to you in the years to come.

Sincerely,

Mark A. Caplinger

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. Permissible 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

## STATEMENT OF INVESTMENT POLICIES AND OBJECTIVES (CONTINUED)

this responsibility, the Board will establish and 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.

### Investment Committee

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

### Retirement Administrator

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).

### Internal Investment Staff

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.

### Investment Consultant

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

## STATEMENT OF INVESTMENT POLICIES AND OBJECTIVES (CONTINUED)

investment process. Within this process, the 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 Permissible 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. GENERAL FIXED INCOME PORTFOLIO GUIDELINES

**Eligible Holdings**

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.

**Diversification**

The diversification of the fixed income securities held in the portfolio among sectors and issuers is the responsibility of the Investment Manager. No single company's securities shall represent more than 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.

**Portfolio Quality**

Fixed income securities shall not be rated less than Baa3 or its equivalent by a nationally-recognized rating agency (S&P or Moody's) unless specific permission is granted to a manager. 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.

**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

**STATEMENT OF INVESTMENT POLICIES AND OBJECTIVES (CONTINUED)**

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.

***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 |

## STATEMENT OF INVESTMENT POLICIES AND OBJECTIVES (CONTINUED)

- 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 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;

## STATEMENT OF INVESTMENT POLICIES AND OBJECTIVES (CONTINUED)

- 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.

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.

## STATEMENT OF INVESTMENT POLICIES AND OBJECTIVES (CONTINUED)

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:

- No more than 15% of the market value of the portfolio shall be invested in non-dollar denominated securities
- No more than 7% of the market value of the portfolio shall be invested in one currency (except U.S. dollars)
- The minimum quality restriction of a non-dollar denominated security is A (or its equivalent)
- 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 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

## STATEMENT OF INVESTMENT POLICIES AND OBJECTIVES (CONTINUED)

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.
- 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

**STATEMENT OF INVESTMENT POLICIES AND OBJECTIVES (CONTINUED)**

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.

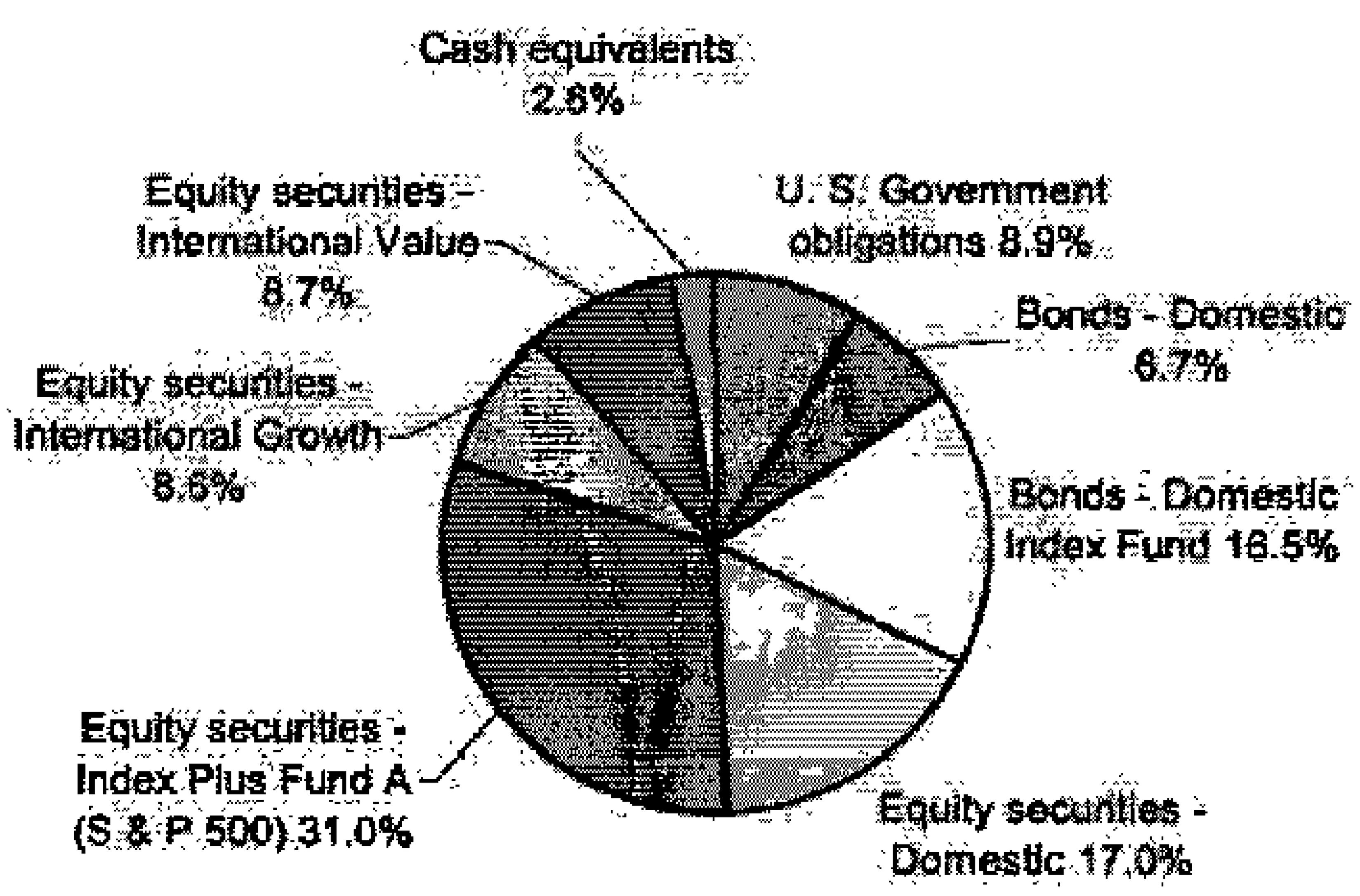
- To the extent possible, each issue will be resolved by the Investment Consultant, working in conjunction with the staff, then the Investment Committee, and then the full Board.

## INVESTMENT SUMMARY
## AS OF DECEMBER 31, 2003 AND 2002

### CPERS TRUST

| Type of Investment: | December 31, 2003 Fair Value | December 31, 2003 % Total Fair Value | December 31, 2002 Fair Value | December 31, 2002 % Total Fair Value |
|---|---|---|---|---|
| Fixed income: | | | | |
| U. S. Government obligations | $72,774,448 | 8.9% | $52,120,972 | 7.5% |
| Bonds - Domestic | 55,221,659 | 6.7% | 69,174,732 | 10.0% |
| Bonds - Domestic Index Fund | 134,666,468 | 16.5% | 131,069,027 | 19.0% |
| Equities: | | | | |
| Equity securities - Domestic | 139,430,444 | 17.0% | 98,701,398 | 14.3% |
| Equity securities - Index Plus Fund A (S & P 500) | 252,921,659 | 31.0% | 208,405,102 | 30.1% |
| Equity securities - International Growth | 70,524,967 | 8.6% | 51,984,278 | 7.5% |
| Equity securities - International Value | 71,375,118 | 8.7% | 53,723,160 | 7.8% |
| Cash equivalents | 21,249,788 | 2.6% | 26,450,000 | 3.8% |
| Total investments | $818,164,551 | 100.0% | $691,628,669 | 100.0% |

**CPERS ASSET ALLOCATION AS OF DECEMBER 31, 2003**

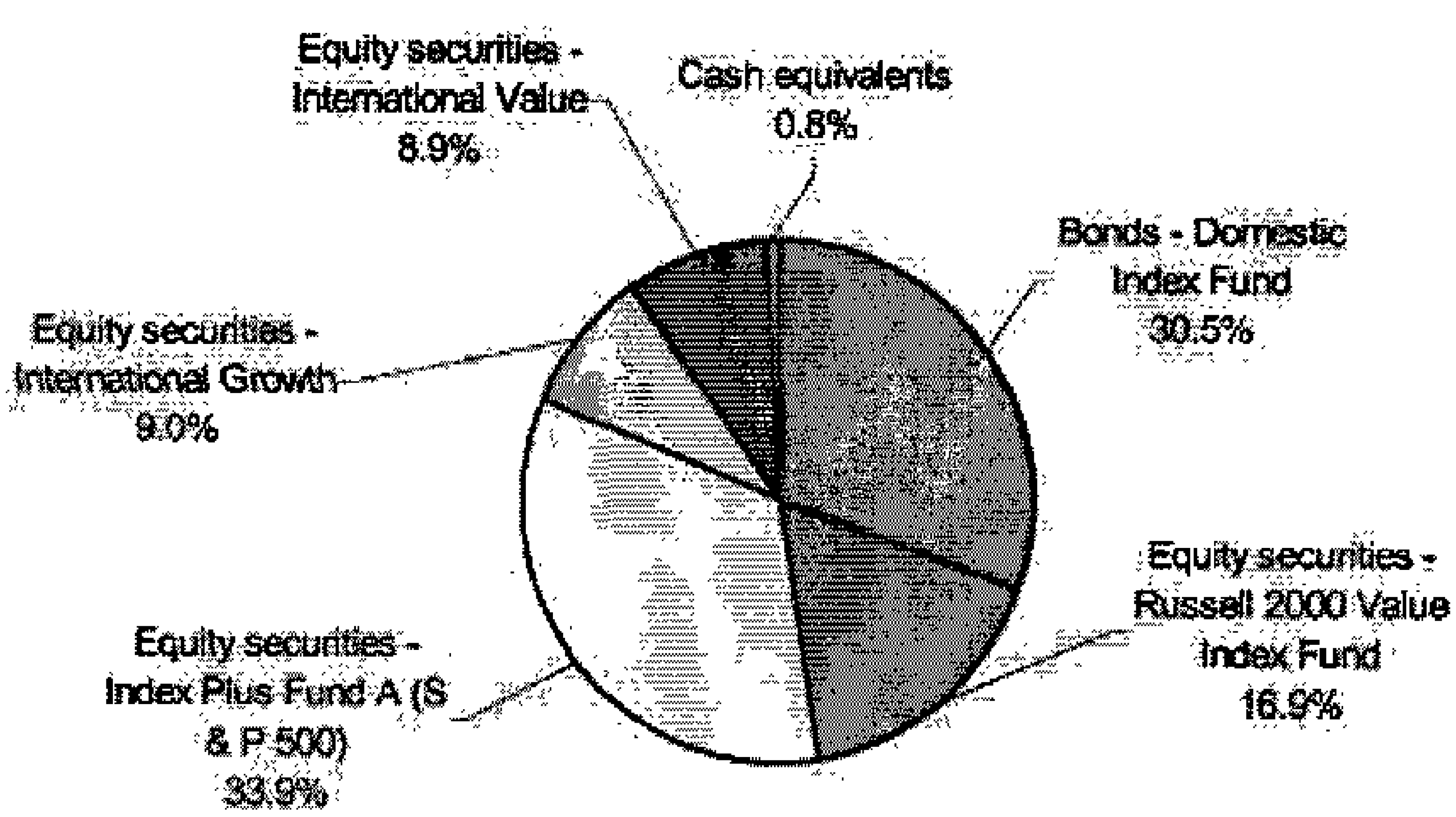


# INVESTMENT SUMMARY
## AS OF DECEMBER 31, 2003 AND 2002

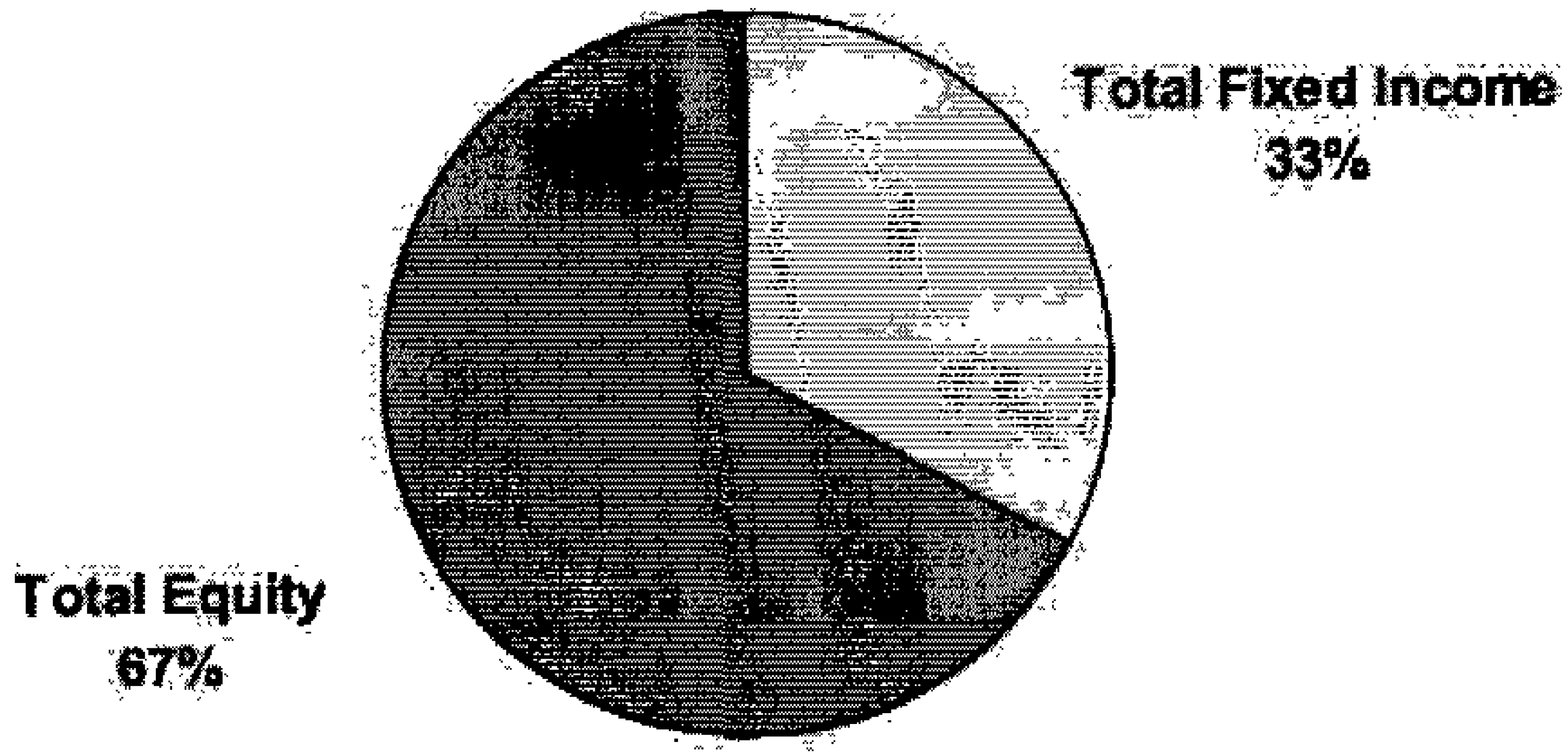
### POLICE GUARANTEE TRUST

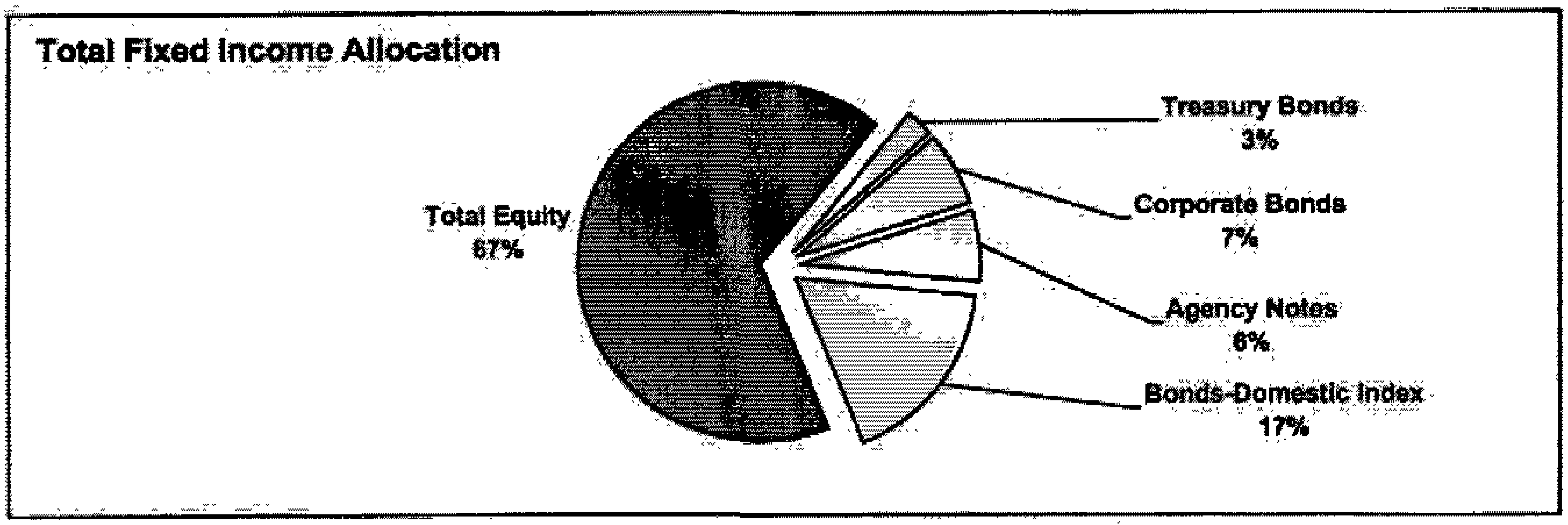
| | December 31, 2003 | | December 31, 2002 | |
|---|---|---|---|---|
| **Type of Investment:** | **Fair Value** | **% Total Fair Value** | **Fair Value** | **% Total Fair Value** |
| Fixed income: | | | | |
| Bonds - Domestic Index Fund | $7,856,803 | 30.5% | $7,639,489 | 34.7% |
| Equities: | | | | |
| Equity securities - Russell 2000 Value Index Fund | 4,358,322 | 16.9% | 3,309,821 | 15.1% |
| Equity securities - Index Plus Fund A (S & P 500) | 8,710,892 | 33.9% | 6,922,647 | 31.5% |
| Equity securities - International Growth | 2,322,172 | 9.0% | 1,701,557 | 7.7% |
| Equity securities - International Value | 2,299,253 | 8.9% | 1,719,778 | 7.8% |
| Cash equivalents | 201,277 | 0.8% | 700,000 | 3.2% |
| Total investments | $25,748,719 | 100.0% | $21,993,292 | 100.0% |

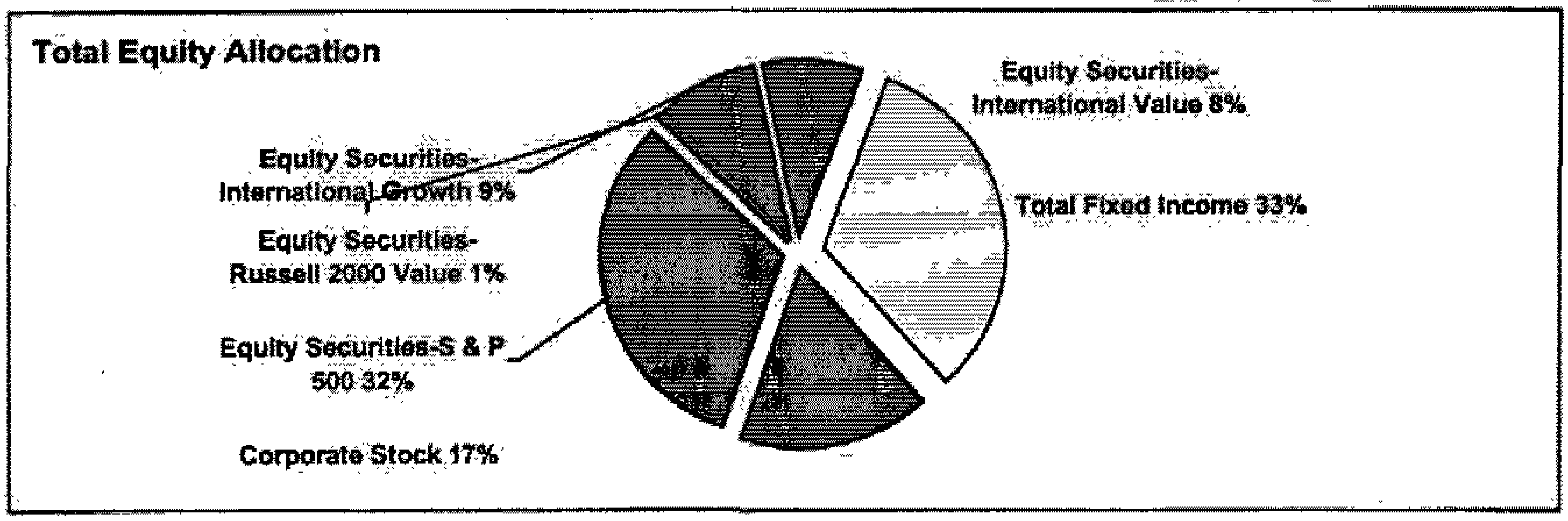
PGT ASSET ALLOCATION AS OF DECEMBER 31, 2003



## ASSET ALLOCATION AS OF DECEMBER 31, 2003



**CPERS LIST OF INVESTMENTS**
**AS OF DECEMBER 31, 2003**

**FIXED INCOME**

**LARGEST DOMESTIC BOND HOLDINGS (BY FAIR VALUE)**

| DESCRIPTION | COUPON RATE | MATURITY DATE | PAR VALUE | FAIR VALUE |
|---|---|---|---|---|
| **US GOVERNMENT OBLIGATIONS** | | | | |
| US TREASURY NOTES | 1.630% | 10/31/05 | $ 6,810,000 | $ 6,799,376 |
| FNMA CORP DEB | 5.500% | 15 YR | 4,800,000 | 4,972,512 |
| US TREASURY BONDS | 12.000% | 08/15/13 | 2,290,000 | 3,163,772 |
| FNMA LOAN BK DISC NT | 0.000% | 01/14/04 | 2,685,000 | 2,684,194 |
| FNMA MED TERM | 3.880% | 11/10/08 | 2,525,000 | 2,558,153 |
| FNMA CORP DEB | 5.000% | 15 YR | 2,500,000 | 2,549,225 |
| FNMA MED TERM #TR 00186 | 4.500% | 12/16/10 | 2,400,000 | 2,398,512 |
| US TREASURY NOTES | 3.380% | 12/15/08 | 2,310,000 | 2,325,893 |
| US TREASURY NOTES | 2.000% | 08/31/05 | 1,805,000 | 1,816,841 |
| FNMA POOL #555531 | 5.500% | 06/01/33 | 1,662,457 | 1,684,950 |
| OTHER US GOVERNMENT OBLIGATIONS | | | 40,390,777 | 41,821,020 |
| **TOTAL US GOVERNMENT OBLIGATIONS** | | | $70,178,234 | $72,774,448 |
| | | | | |
| **DOMESTIC BONDS** | | | | |
| ILLINOIS ST PENSION | 5.100% | 06/01/33 | $ 1,575,000 | $ 1,440,621 |
| CHASE CR CARD OWNER TR 2003-6 ASSET | 0.000% | 02/15/11 | 1,325,000 | 1,326,272 |
| GENERAL MTRS ACCEP CORP NT | 6.875% | 09/15/11 | 1,220,000 | 1,314,099 |
| CITIGROUP INC GLOBAL SR NT | 5.750% | 05/10/06 | 1,035,000 | 1,113,898 |
| ATLANTIC RICHFIELD CO DEB DTD | 10.875% | 07/15/05 | 1,000,000 | 1,135,190 |
| GENERAL ELEC CORP NT | 5.000% | 02/01/13 | 955,000 | 965,820 |
| DAIMLERCHRYSLER AUTO TR 2001-A | 5.400% | 03/06/06 | 907,847 | 922,890 |
| TEXACO CAP INC | 9.750% | 03/15/20 | 870,000 | 1,265,032 |
| SEARS CR ACCOUNT MASTER TR II 2002-5 | 0.000% | 11/17/09 | 825,000 | 825,635 |
| PROCTER & GAMBLE CO DEB | 3.500% | 12/15/08 | 805,000 | 802,569 |
| OTHER BONDS – DOMESTIC | | | 41,491,668 | 44,109,633 |
| **TOTAL DOMESTIC BONDS** | | | $52,009,515 | $55,221,659 |

**DOMESTIC BONDS – DOMESTIC INDEX FUNDS**

| DESCRIPTION | UNITS | FAIR VALUE |
|---|---|---|
| BONDS – DOMESTIC INDEX FUND | 7,904,353 | $134,666,468 |

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 | $ 1,706,964 |
| FORTUNE BRANDS INC | 21,300 | 1,522,737 |
| COUNTRYWIDE FINL CORP | 19,866 | 1,506,836 |
| ST PAUL COS INCC | 37,000 | 1,467,050 |
| CSX CORP | 40,500 | 1,455,570 |
| CHARTER ONE FINL INC | 41,200 | 1,423,460 |
| TXU CORP | 59,500 | 1,411,340 |
| MBIA INC | 23,500 | 1,391,905 |
| COMPUTER SCIENCES CORP | 31,200 | 1,379,976 |
| D R HORTON INC | 30,500 | 1,319,430 |
| OTHER EQUITY SECURITIES – DOMESTIC | 4,652,902 | 124,845,176 |
| **TOTAL DOMESTIC EQUITY SECURITIES** | 4,972,168 | $139,430,444 |

### EQUITY SECURITIES – INDEX FUNDS

| DESCRIPTION | UNITS | FAIR VALUE |
|---|---|---|
| EQUITY SECURITIES – INDEX PLUS FUND A (S&P 500) | 30,424,691 | $252,921,659 |
| **TOTAL EQUITY SECURITIES – DOMESTIC** | 35,396,759 | $392,352,103 |

### EQUITY SECURITIES – INTERNATIONAL

| DESCRIPTION | UNITS | FAIR VALUE |
|---|---|---|
| EQUITY SECURITIES – INTERNATIONAL GROWTH | 298,169 | $70,524,967 |
| EQUITY SECURITIES – INTERNATIONAL VALUE | 2,747,321 | 71,375,118 |
| **TOTAL EQUITY SECURITIES INTERNATIONAL** | 3,045,490 | $141,900,085 |

### CASH EQUIVALENTS

| DESCRIPTION | FAIR VALUE |
|---|---|
| ONE GROUP MONEY MARKET FUND | $21,249,788 |
| **TOTAL CASH EQUIVALENTS** | $21,249,788 |
| **TOTAL CPERS INVESTMENTS** | $818,164,551 |

A complete list of portfolio holdings is available upon request.

## PGT LIST OF INVESTMENTS
## AS OF DECEMBER 31, 2003

### FIXED INCOME

### BONDS – DOMESTIC INDEX FUND

| DESCRIPTION | UNITS | FAIR VALUE |
|---|---|---|
| PASSIVE BOND MKT INDEX SECURITIES LENDING FUND | 461,161 | $7,856,803 |

### EQUITIES

### EQUITY SECURITIES – INDEX FUNDS

| DESCRIPTION | UNITS | FAIR VALUE |
|---|---|---|
| EQUITY INDEX PLUS FUND A (S&P 500) | 1,047,859 | $8,710,892 |
| RUSSELL 2000 VALUE INDEX PLUS FUND | 231,711 | 4,358,322 |
| **TOTAL EQUITY SECURITIES INDEX FUNDS** | 1,279,570 | $13,069,214 |

### EQUITY SECURITIES – INTERNATIONAL

| DESCRIPTION | UNITS | FAIR VALUE |
|---|---|---|
| SPRUCE GROVE INTL VALUE EQUITY FUND | 88,501 | $2,299,253 |
| CAPITAL GUARDIAN INTL GROWTH EQUITY FUND | 9,841 | 2,322,172 |
| **TOTAL EQUITY SECURITIES INTERNATIONAL** | 98,342 | $4,621,425 |

### CASH EQUIVALENTS

| DESCRIPTION | FAIR VALUE |
|---|---|
| ONE GROUP MONEY MARKET FUND | $201,277 |
| **TOTAL CASH EQUIVALENTS** | $201,277 |
| **TOTAL PGT INVESTMENTS** | $25,748,719 |
| **TOTAL INVESTMENTS – CPERS AND PGT** | $843,913,270 |

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, 2003** | | |
| City-Parish Employees' Retirement System | 24.0% | 18 |
| Police Guarantee Trust | 23.6% | 25 |
| Comparison indices: | | |
| Median Total Fund | 21.9% | 50 |
| Allocation Index ** | 23.6% | 25 |
| **Comparative Rates of Return on Domestic Equities – Year Ended December 31, 2003** | | |
| City-Parish Employees' Retirement System | 34.4% | 40 |
| Police Guarantee Trust | 34.3% | 42 |
| Comparison indices: | | |
| Median Domestic Equity Fund | 32.3% | 50 |
| Russell 3000 | 31.1% | 57 |
| **Comparative Rates of Return on International Equities – Year Ended December 31, 2003** | | |
| City-Parish Employees' Retirement System | 35.8% | 46 |
| Police Guarantee Trust | 35.9% | 46 |
| Comparison indices: | | |
| Median International Equity Fund | 34.8% | 50 |
| EAFE | 39.2% | 29 |
| **Comparative Rates of Return on Fixed Income Securities – Year Ended December 31, 2003** | | |
| City-Parish Employees' Retirement System | 4.7% | 57 |
| Police Guarantee Trust | 4.1% | 67 |
| Comparison indices: | | |
| Median Bond Fund | 5.1% | 50 |
| Lehman Brothers Aggregate Bond Index | 4.1% | 67 |

**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, 2003 | 24.0% | 18 |
| Two-year period ending December 31, 2003 | 6.8% | 30 |
| Three-year period ending December 31, 2003 | 3.8% | 27 |
| Four-year period ending December 31, 2003 | 3.4% | 48 |
| Five-year period ending December 31, 2003 | 5.1% | 31 |

* 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

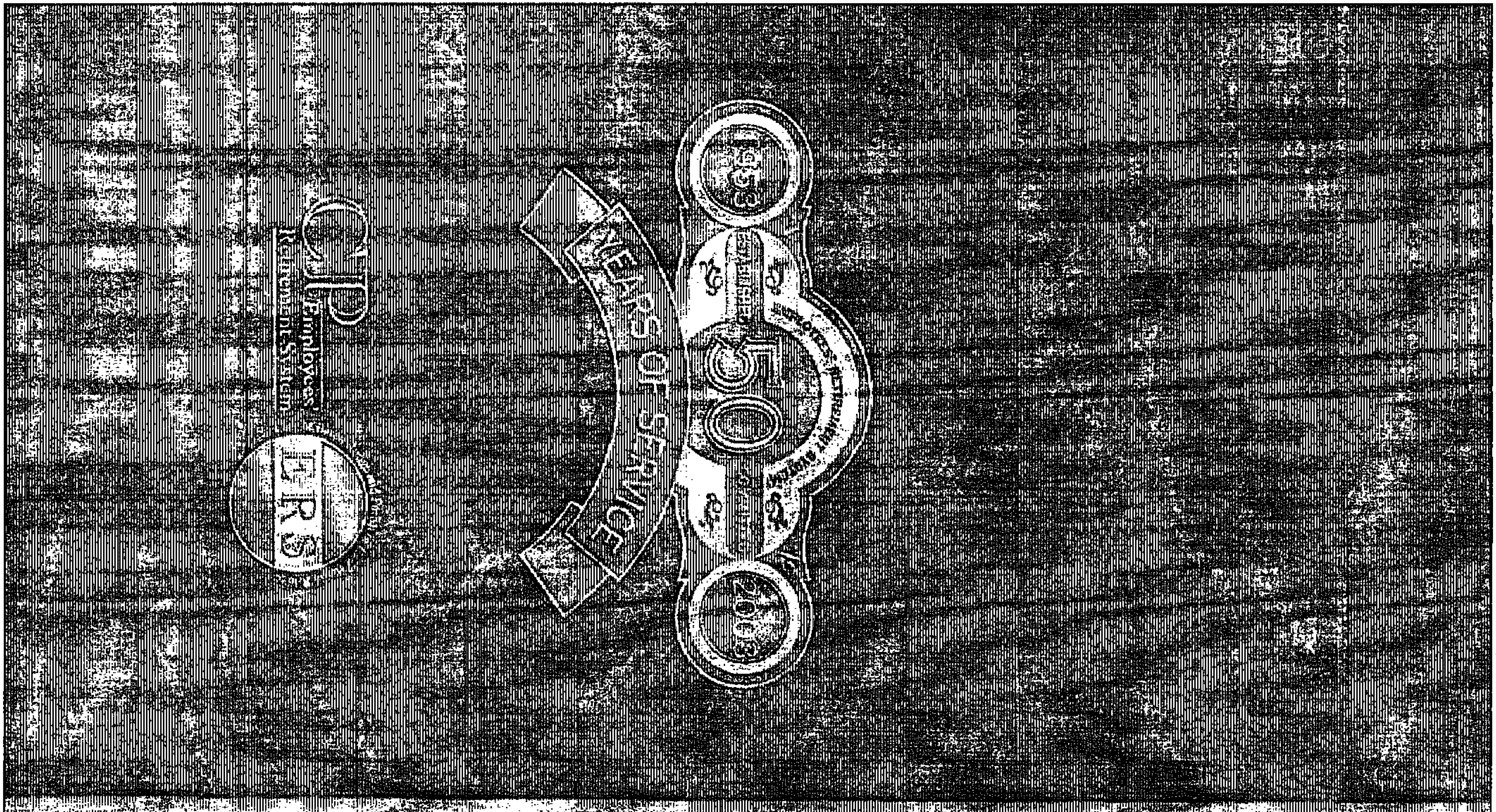
| | 1999 | 2000 | 2001 | 2002 | 2003 | ANNUALIZED 3 YRS. | 5 YRS. |
|---|---|---|---|---|---|---|---|
| **TOTAL FUND** | | | | | | | |
| City-Parish Emp. Retirement System | 12.6% | 2.0% | -1.8% | -8.1% | 24.0% | 3.8% | 5.1% |
| Police Guarantee Trust | N/A | N/A | -0.8% | -7.4% | 23.6% | 4.3% | N/A |
| Median Total Fund | 12.6% | 2.3% | -2.5% | -8.7% | 21.9% | 3.0% | 4.8% |
| Inflation (CPI) | 2.7% | 3.4% | 1.5% | 2.5% | 1.8% | 1.9% | 2.4% |
| **DOMESTIC EQUITY** | | | | | | | |
| City-Parish Emp. Retirement System | 8.5% | 3.1% | -5.2% | -19.9% | 34.4% | 0.7% | 2.7% |
| Police Guarantee Trust | N/A | N/A | -3.1% | -18.6% | 34.3% | 1.9% | N/A |
| Median Domestic Equity Fund | 17.9% | 0.0% | -8.8% | -21.6% | 32.3% | -1.7% | 3.9% |
| Russell 3000 | 20.9% | -7.5% | -11.5% | -21.6% | 31.1% | -3.1% | 0.4% |
| **INTERNATIONAL EQUITY** | | | | | | | |
| City-Parish Emp. Retirement System | 67.6% | 18.5% | -16.5% | -8.1% | 35.8% | 1.4% | 7.3% |
| Police Guarantee Trust | N/A | N/A | -16.5% | -8.1% | 35.9% | 1.4% | N/A |
| Median International Equity Fund | 32.3% | -9.9% | -18.0% | -15.0% | 34.8% | 0.3% | 5.8% |
| EAFE | 27.3% | -14.0% | -21.2% | -15.7% | 39.2% | -2.6% | 0.3% |
| **FIXED INCOME** | | | | | | | |
| City-Parish Emp. Retirement System | -0.6% | 11.4% | 8.9% | 10.5% | 4.7% | 8.0% | 6.9% |
| Police Guarantee Trust | N/A | N/A | 8.4% | 10.5% | 4.1% | 7.6% | N/A |
| Median Bond Fund | 0.1% | 10.8% | 8.4% | 9.1% | 5.1% | 7.8% | 6.8% |
| Lehman Brothers Aggregate Index | -0.8% | 11.6% | 8.4% | 10.3% | 4.1% | 7.6% | 6.6% |

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, 2003

| | | Commission | |
|---|---|---|---|
| **Brokerage Firm** | **Shares Traded** | **Dollar Amount** | **Per Share** |
| A. G. Edwards & Sons Inc. | 35,300 | $ 1,765 | $ .0500 |
| Banc of America Securities LLC | 271,700 | 11,125 | .0409 |
| Bank of New York/TD Bank | 32,400 | 1,620 | .0500 |
| Bear Stearns & Co. Inc. | 219,439 | 10,136 | .0461 |
| B-Trade Services LLC | 205,116 | 4,102 | .0199 |
| Buckingham Research, New York | 27,700 | 1,385 | .0500 |
| Charles Schwab & Co Inc. | 356,854 | 14,274 | .0399 |
| CIBC Worldmarkets Corp. | 167,600 | 6,704 | .0400 |
| Citigroup Global Markets Inc. | 94,300 | 3,772 | .0400 |
| Credit Suisse First Boston | 261,000 | 10,440 | .0400 |
| Direct Brokerage Inc. | 27,900 | 1,395 | .0500 |
| First Union Capital Markets | 28,000 | 1,234 | .0440 |
| Goldman, Sachs & Co. | 545,400 | 27,270 | .0500 |
| Investment Technology Group | 558,600 | 11,634 | .0208 |
| Jefferies & Company | 43,500 | 1,305 | .0300 |
| Lehman Brothers, Inc. | 104,400 | 4,142 | .0396 |
| Liquidnet, Inc. | 267,900 | 5,358 | .0200 |
| Merrill, Lynch, Pierce, Fenner & Smith | 235,787 | 11,789 | .0499 |
| O'Neil, William & Co, Inc/BCC | 37,800 | 1,890 | .0500 |
| Robert W. Baird & Co. | 53,300 | 2,665 | .0500 |
| Standard & Poors Securities, Inc. | 50,900 | 2,545 | .0500 |
| Veritas Securities | 92,800 | 2,320 | .0250 |
| Wells Fargo Securties | 44,600 | 2,230 | .0500 |
| William Blair & Company LLC | 88,100 | 4,405 | .0500 |
| Other (18 firms) * | 228,266 | 9,216 | .0403 |
| Total | 4,078,662 | $154,721 | $ .0379 |

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




# Actuarial Section CPERS Trust

CP Employees' Retirement System

City of Baton Rouge and Parish of East Baton Rouge

ERS

Stanley,
Holcombe
& Associates, Inc.

June 15, 2004

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 annual valuation of the Employees' Retirement System of the City of Baton Rouge and Parish of East Baton Rouge as of January 1, 2004. 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 January 1, 2004 valuation, this change in amortization was reversed. All changes in unfunded liability are amortized over the remainder of the 30-year period that started on January 1, 1995.

Effective with the 2000 year, the Board decided to introduce a one-year delay from the valuation date to the year for which the contribution rates calculated in the valuation is applied. Thus the contribution rate calculated in the 2004 valuation will apply to the year 2005. The 2003 valuation was the basis for the 2004 contribution rate.

The City contribution rate for the 2004 year is set to 14.50%. This reflects a 2.00% increase from the 2003 rate.

2000 RiverEdge Parkway/Suite 540 • Atlanta, GA 30328
(770) 933-1933 • Fax (770) 933-8918 • www.stanleyholcombe.com

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, 2003 is $847,227,425.

In performing the January 1, 2004 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 and January 1, 2004 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 2003 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 Actuarial 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 2003 Comprehensive Annual Financial Report - specifically the Summary of Principal System Provisions, Summary of Actuarial Assumptions and Methods, Accrued Liability Analysis for 2003 and 2002, 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 2003 and 2002, Active Membership Data, Schedule of Retirees and Beneficiaries Added, and Total Membership Data. In addition, we prepared the Required Supplementary Information under GASB Statement No. 25, which includes the Schedule of Funding Progress, the Schedule of Employer Contributions, and the Notes to the Schedules of Trend Information.

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
BROUGEA98

**SUMMARY OF PRINCIPAL SYSTEM PROVISIONS**
**(Source: 2004 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)).<br><br>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.<br>(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.<br><br>Minimum Eligibility: 2.5% of Final Average Compensation for each year of Creditable Service.<br><br>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.

**Changes Since Prior Valuation:**

None.

**SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS**
**(Source: 2004 Actuarial Report)**

Valuation Date: December 31, 2003.

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 |
|---|---|---|
| 0-1 | 360% | 100% |
| 2 | 200% | 60% |
| 3 | 150% | 40% |
| 4-10 | 125% | 40% |
| 11-15 | 40% | 20% |
| 16+ | 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 and asset data as of December 31, 2003 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 2003 AND 2002
**(Source: 2004 Actuarial Report)**

| | 2003 | 2002 |
|---|---|---|
| Present Value of Future Benefits: | | |
| Active Members: | | |
| Retirement | $ 465,244,256 | $ 454,627,559 |
| Disability | 8,484,428 | 8,366,293 |
| Death | 7,703,113 | 7,208,961 |
| Vesting | 8,437,478 | 8,202,708 |
| Total | 489,869,275 | 478,405,521 |
| Retired Members and Beneficiaries: | | |
| Service Retirement & Beneficiaries | 340,535,975 | 324,350,914 |
| Disability Retirements | 23,534,152 | 23,846,800 |
| Terminated Vested Members | 2,376,510 | 2,508,345 |
| Leave Balances | 1,065,253 | 1,716,241 |
| DROP (Future Benefits) | 137,919,608 | 130,398,765 |
| DROP (Accounts) | 102,710,360 | 93,694,413 |
| COLA Benefits | 6,221,531 | 6,560,102 |
| Total | 614,363,389 | 583,075,580 |
| Total Accrued Liability | $ 1,104,232,664 | $ 1,061,481,101 |

## ANNUAL AMORTIZATION OF UNFUNDED ACTUARIAL ACCRUED LIABILITY
**(Source: 2004 Actuarial Report)**

| Date Established | Initial Amount | Remaining Balance at 12/31/2002 | Amortization Payment as of 01/01/03 | Remaining Balance at 12/31/2003 | Amortization Payment as of 01/01/04 |
|---|---|---|---|---|---|
| 12/31/94 | 176,656,909 | 189,356,215 | 14,461,818 | 188,885,949 | 15,040,291 |
| 12/31/95 | (12,401,873) | (13,091,820) | (999,870) | (13,059,306) | (1,039,865) |
| 12/31/96 | 17,458,146 | 18,177,948 | 1,388,316 | 18,132,803 | 1,443,849 |
| 12/31/97 | (12,493,691) | (12,852,971) | (981,629) | (12,821,049) | (1,020,894) |
| 12/31/98 | (43,504,837) | (44,301,602) | (3,383,473) | (44,191,579) | (3,518,812) |
| 12/31/99 | (68,473,850) | (69,160,688) | (5,282,051) | (68,988,928) | (5,493,333) |
| 12/31/00 | 1,201,912 | 1,206,804 | 92,168 | 1,203,807 | 95,855 |
| 12/31/01 | 19,553,834 | 19,061,725 | 1,455,813 | 19,014,385 | 1,514,046 |
| 12/31/02 | 41,180,218 | 41,180,218 | 3,145,082 | 41,077,947 | 3,270,885 |
| 12/31/03 | 9,190,241 | -- | -- | 9,190,241 | 731,785 |
| | | $ 129,575,829 | $ 9,896,174 | $ 138,444,270 | $ 11,023,807 |

## DETERMINATION OF UNFUNDED ACTUARIAL ACCRUED LIABILITY
**(Source: 2004 Actuarial Report)**

Entry Age Normal Actuarial Accrued Liability as of December 31, 2003:

| | |
|---|---|
| Active Members | $ 371,308,306 |
| Retired Members and Beneficiaries | 614,363,389 |
| Total | 985,671,695 |
| Actuarial Asset Value as of December 31, 2003 | 847,227,425 |
| Unfunded Actuarial Accrued Liability as of December 31, 2003 | $ 138,444,270 |

## RECONCILIATION OF UNFUNDED ACTUARIAL ACCRUED LIABILITY
**(Source: 2004 Actuarial Report)**

| | |
|---|---|
| A. Unfunded Actuarial Accrued Liability as of December 31, 2002 | $ 129,575,829 |
| B. Normal Cost for 2003 | 8,148,061 |
| C. Interest at 8% on ( A ) and ( B ) | 11,017,911 |
| D. City Contributions | (14,531,806) |
| E. Interest on ( D ) | (581,272) |
| F. Expected Unfunded Actuarial Liability as of December 31, 2003 | 133,628,723 |
| G. 2003 (Gain) Loss | 4,815,547 |
| H. Unfunded Actuarial Accrued Liability as of December 31, 2003 | 138,444,270 |
| I. Plan Amendments | N/A |
| J. Change in Assumptions | N/A |
| K. Change in Methods | N/A |
| L. Change in Applicable Laws | N/A |
| M. Unfunded Actuarial Accrued Liability as of December 31, 2003 | $ 138,444,270 |

**SUMMARY OF ACTUARIAL ACCRUED LIABILITIES AND PERCENTAGE COVERED BY ACTUARIAL VALUE OF ASSETS/SOLVENCY TEST FOR THE TEN YEARS ENDED DECEMBER 31, 2003 (Source: 2004 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) -%- |
|---|---|---|---|---|---|---|---|---|---|
| 12/31/94 | 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 |
| 12/31/03 | 190,501,659 | 3,441,763 | 508,211,266 | 283,517,007 | 847,227,425 | 100.0 | 100.0 | 100.0 | 51.2 |

* Including DROP accounts.

** Including DROP participants' future benefits.

**ANALYSIS OF FINANCIAL EXPERIENCE**
**(Source: 2004 Actuarial Report)**

**GAINS AND LOSSES IN UNFUNDED ACTUARIAL LIABILITY DURING YEARS ENDED 1999 – 2003 RESULTING FROM DIFFERENCES BETWEEN ASSUMED EXPERIENCE AND ACTUAL EXPERIENCE**

| | $ Gain or (Loss) For Year | | | | |
|---|---|---|---|---|---|
| Elements of Experience | 1999 | 2000 | 2001 | 2002 | 2003 |
| Investment Return | $ (24,490,613) | $ 5,984,750 | $ 48,467,702 | $ (36,715,451) | $ (8,272,153) |
| Salary Increases | 3,597,488 | (8,863,447) | (354,923) | 898,785 | 2,383,584 |
| Retirements | 463,510 | 1,323,994 | (1,203,366) | 3,151,832 | 2,277,929 |
| Mortality | 1,003,550 | (1,756,769) | (1,571,139) | 129,502 | (5,380) |
| Disability | (1,024,032) | (867,229) | (421,143) | (1,046,909) | (577,279) |
| Turnover | 878,868 | 2,024,026 | 1,408,146 | 343,282 | 1,514,090 |
| New Members | (2,464,878) | (963,693) | (954,377) | (867,394) | (1,898,220) |
| Leaves, Transfers, Etc. | (7,105,879) | (47,539) | (3,052,835) | (1,544,755) | (238,118) |
| Gain or (Loss) from Financial Experience | (29,141,986) | (3,165,907) | 42,318,065 | (35,651,108) | (4,815,547) |
| 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 | $ 64,240,042 | $ (3,165,907) | $ (16,725,470) | $ (36,316,800) | $ (4,815,547) |

**EMPLOYER CONTRIBUTION CALCULATION RESULTS FOR 2003 AND 2002**
**(Source: 2004 Actuarial Report)**

| | | 2003 | 2002 |
|---|---|---|---|
| A. | Present Value of Future Benefits | $1,104,232,664 | $1,061,481,101 |
| B. | Actuarial Asset Value | 847,227,425 | 818,150,788 |
| C. | Present Value of Future Member Contributions | 55,788,166 | 53,640,579 |
| D. | Unfunded Actuarial Accrued Liability | 138,444,270 | 129,575,829 |
| E. | Present Value of Future Normal Costs (A-B-C-D) | 62,772,803 | 60,113,905 |
| F. | Present Value of Future Payrolls | 691,485,591 | 663,797,949 |
| G. | Normal Cost as a Percentage of Payroll (E/F) | 9.078% | 9.056% |
| H. | Current Payroll of Active Members * | 94,725,883 | 89,974,172 |
| I. | Normal Cost - Beginning of Year (G x H) | 8,599,216 | 8,148,061 |
| J. | 30-Year Amortization of (D), from 1/1/95 (21 years remaining) | 12,797,410 | 9,111,229 |
| K. | Total City Contribution (I + J) | 21,396,626 | 17,259,290 |

* For Members under Expected Retirement Age.

**ACTIVE MEMBERSHIP DATA**
**FOR THE TEN YEARS ENDED DECEMBER 31, 2003**
**(Source: 2004 Actuarial Report)**

| Valuation Date | Total Active Members | Percentage Change | Annual Payroll | Average Annual Pay | % Increase in Average Pay |
|---|---|---|---|---|---|
| | | -%- | -$- | -$- | -%- |
| 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 |
| 12/31/03 | 3,321 | 3.1 | 106,240,559 | 31,991 | 1.6 |

**SCHEDULE OF RETIREES AND BENEFICIARIES ADDED**
**FOR THE TEN YEARS ENDED DECEMBER 31, 2003**
**(Source: 2004 Actuarial Report)**

| | Change in Number at EOY | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Valuation Date | Additions | Annual Allowances | Deletions | Annual Allowances | Number of Annuitants | Percentage Change in Membership | Annual Annuities | Percentage Change in Annuities | Average Annual Allowances |
| | | -$- | | -$- | | -%- | -$- | -%- | -$- |
| 12/31/94 | 146 | 2,313,546 | 71 | 598,503 | 1,467 | 5.4 | 21,151,134 | 6.8 | 14,418 |
| 12/31/95 | 54 | 2,155,427 | 19 | 399,966 | 1,502 | 2.4 | 22,906,595 | 8.3 | 15,251 |
| 12/31/96 | 194 | 2,479,341 | 39 | 420,162 | 1,657 | 10.3 | 24,965,774 | 9.0 | 15,067 |
| 12/31/97 | 98 | 1,922,794 | 32 | 405,614 | 1,723 | 3.9 | 26,482,954 | 6.1 | 15,370 |
| 12/31/98 | 152 | 2,802,370 | 64 | 567,931 | 1,811 | 5.1 | 28,717,393 | 8.4 | 15,857 |
| 12/31/99 | 173 | 3,332,956 | 59 | 599,806 | 1,925 | 6.3 | 31,450,543 | 9.5 | 16,338 |
| 12/31/00 | 216 | 5,562,177 | 135 | 3,701,424 | 2,006 | 4.2 | 33,311,296 | 5.9 | 16,606 |
| 12/31/01 | 137 | 3,488,781 | 71 | 1,596,748 | 2,072 | 3.3 | 35,203,329 | 5.7 | 16,990 |
| 12/31/02 | 129 | 2,808,183 | 66 | 891,291 | 2,135 | 3.0 | 37,120,221 | 5.4 | 17,387 |
| 12/31/03 | 127 | 3,029,116 | 70 | 1,157,493 | 2,192 | 2.7 | 38,991,844 | 5.0 | 17,788 |

**TOTAL MEMBERSHIP DATA**
**(Source: 2004 Actuarial Report)**

Actives:

| | 2003 | | 2002 | |
|---|---|---|---|---|
| | Count | Average Salary | Count | Average Salary |
| BREC | 376 | $23,401 | 229 | $25,814 |
| Regular | 2,370 | 30,502 | 2,411 | 29,138 |
| Fire | 512 | 43,610 | 509 | 43,711 |
| Police | 63 | 44,814 | 71 | 41,224 |
| Total/Average | 3,321 | $31,991 | 3,220 | $31,472 |

Annuitants:

| | 2003 | | 2002 | |
|---|---|---|---|---|
| | Count | Average Annuity | Count | Average Annuity |
| Retirees and Survivors | 2,022 | $18,172 | 1,958 | $17,797 |
| Disabilities | 170 | 13,220 | 177 | 12,845 |
| DROP | 391 | 31,495 | 366 | 31,425 |
| Total/Average | 2,583 | $19,863 | 2,501 | $19,441 |

Inactive Members:

| | 2003 | | 2002 | |
|---|---|---|---|---|
| | Count | Average Deferred | Count | Average Deferred |
| Deferred Vested | 38 | $8,928 | 36 | $9,985 |

1953 50 2003

Employees' Retirement System

YEARS OF SERVICE

CP Employees' Retirement System

ERS

# Actuarial Section Police Guarantee Trust

CP Employees' Retirement System

City of Baton Rouge and Parish of East Baton Rouge

ERS

Stanley,
Holcombe
& Associates, Inc.

June 15, 2004

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 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, 2004. 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 2004 valuation will apply to the year 2005.

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. Last year, the actuarial valuation methodology for PGT was changed to match the change made to the CPERS methodology in the preceding year. 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 2003, 2002 and 2001, there is an unfunded liability in the PGT of $907,125 as of December 31, 2003.

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(770) 933-1933 • Fax (770) 933-8918 • www.stanleyholcombe.com

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 method of determining the actuarial value of assets is the same method as is currently used for CPERS, effective with the January 1, 2003 valuation. Under this 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, 2003 is $26,468,255.

In performing the January 1, 2004 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, 2004 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 assumptions used for the January 1, 2003 and January 1, 2004 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 Actuarial 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 2003 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. In addition, we prepared the Required Supplementary Information under GASB Statement No. 25, which includes the Schedule of Funding Progress, the Schedule of Employer Contributions, and the Notes to the Schedules of Trend Information.

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: 2004 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.<br><br>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.<br><br>(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.<br><br>(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.<br><br>B. Active members at February 26, 2000:<br><br>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: 2004 PGT Actuarial Report)

| | |
|---|---|
| Valuation Date: | December 31, 2003. |
| 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% |
| 4-10 | 40% |
| 11-15 | 20% |
| 16+ | 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:<br><br>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, 2003 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 FOUR YEARS ENDED DECEMBER 31, 2003 (Source: 2004 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 |
| 12/31/03 | 8,231,086 | -- | 3,182,942 | 10,890,774 | 26,468,255 | 100.0 | 100.0 | 100.0 | 100.0 |

* Including DROP accounts.

** Including DROP participants' future benefits.

Note: Only four years of data are available.

**ACTIVE MEMBERSHIP DATA**
**FOR THE FIVE YEARS ENDED DECEMBER 31, 2003**
**(Source: 2004 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 |
| 12/31/03 | 419 | (7.9) | 19,324,588 | 46,121 | 6.0 |

**SCHEDULE OF RETIREES AND BENEFICIARIES ADDED**
**FOR THE FIVE YEARS ENDED DECEMBER 31, 2003**
**(Source: 2004 PGT Actuarial Report)**

| | Change in Number at EOY | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Valuation Date | Additions | Annual Allowances -$- | Deletions | Annual Allowances -$- | Number of Annuitants* | Percentage Change in Membership -%- | Annual Annuities** -$- | Percentage Change in Annuities -%- | Average Annual Allowances -$- |
| 12/31/99 | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| 12/31/00 | 28 | 930,641 | -- | -- | 28 | -- | 930,641 | -- | 33,237 |
| 12/31/01*** | 4 | 69,088 | 22 | 815,455 | 10 | (64.3) | 184,274 | (80.2) | 18,427 |
| 12/31/02 | 4 | 18,088 | 2 | 86,057 | 12 | 20.0 | 116,305 | (36.9) | 9,692 |
| 12/31/03 | 4 | 50,585 | 1 | 45,062 | 15 | 25.0 | 121,828 | 4.7 | 8,122 |

* Includes only those annuitants who receive full or partial monthly retirement benefits from PGT.

** Includes only monthly annuities paid through PGT annualized

*** 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.

**TOTAL MEMBERSHIP DATA**
**(Source: 2004 PGT Actuarial Report)**

Actives:

| | 2003 | | 2002 | |
|---|---|---|---|---|
| | Count | Average Salary | Count | Average Salary |
| Police | 419 | $ 46,121 | 455 | $ 43,502 |

Annuitants:

| | 2003 | | 2002 | |
|---|---|---|---|---|
| | Count | Average Annuity | Count | Average Annuity |
| Retirees and Survivors | 15 | $29,372 | 12 | $ 27,252 |
| Disabilities | -- | -- | -- | -- |
| DROP | 75 | 40,790 | 72 | 39,969 |
| Total | 90 | 38,887 | 84 | 38,153 |

Inactive Members:

| | 2003 | | 2002 | |
|---|---|---|---|---|
| | Count | Average Deferred Annuity | Count | Average Deferred Annuity |
| Deferred Vested | -- | -- | -- | -- |

# Statistical Section

CP Employees' Retirement System

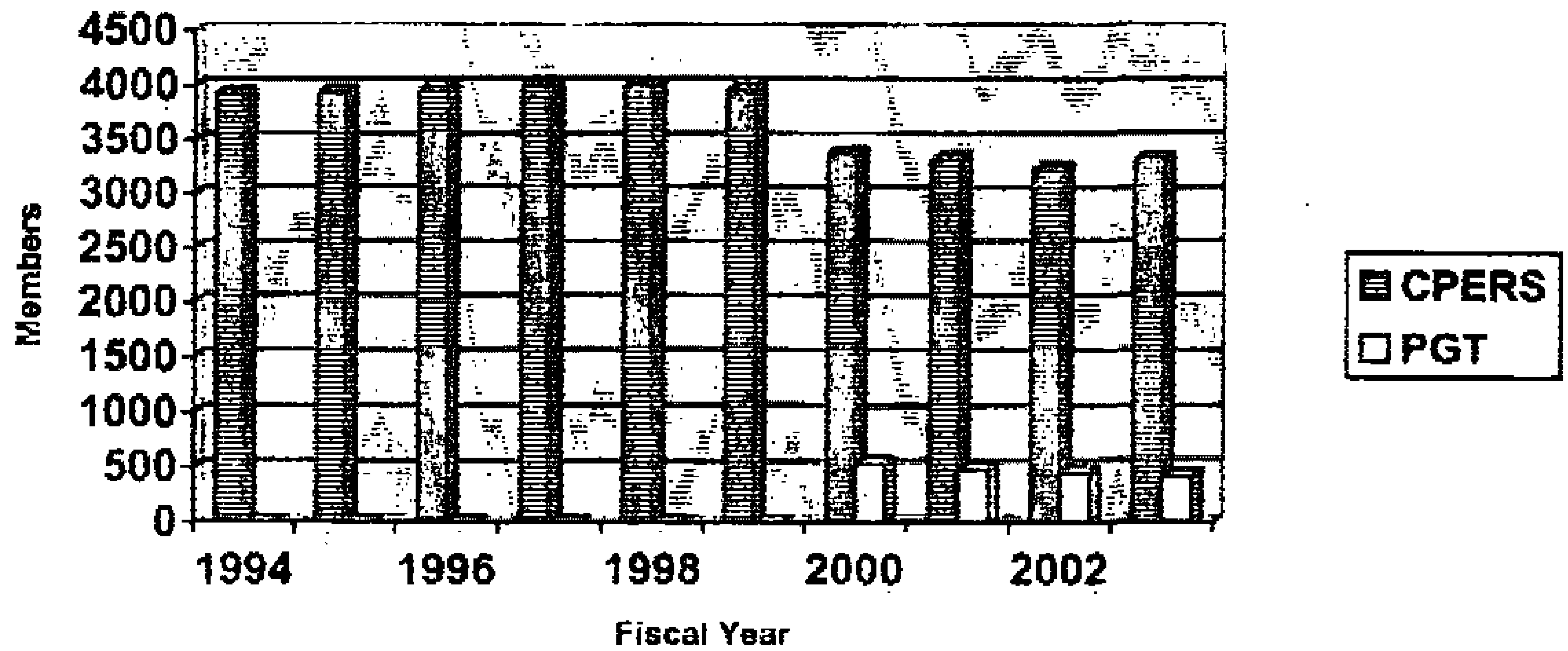
City of Baton Rouge and Parish of East Baton Rouge

ERS

## TEN-YEAR INFORMATION ON SELECTED DATA

### NUMBER OF ACTIVE MEMBERS

| | CPERS | | PGT | |
|---|---|---|---|---|
| Fiscal Year | Members | % Increase Each Year | Members | % Increase Each Year |
| 1994 | 3,917 | N/A | 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%) |
| 2003 | 3,321 | 3.1% | 419 | (7.9%) |

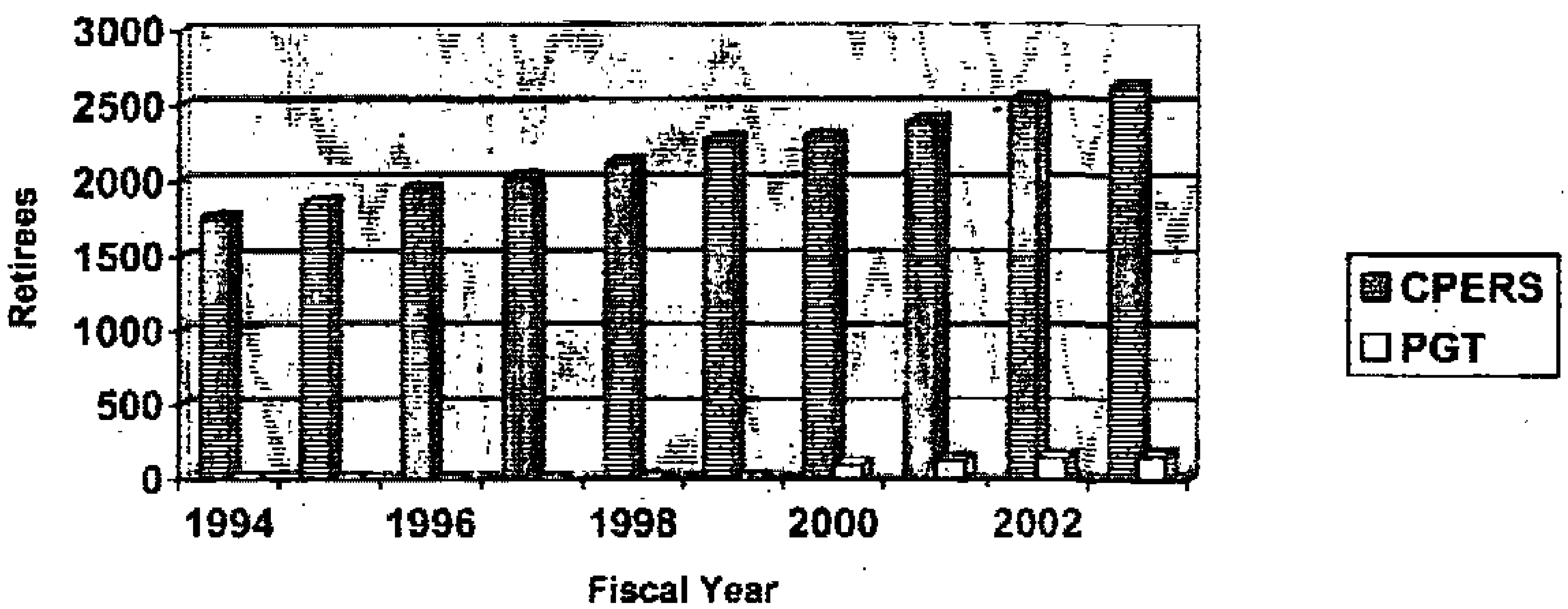


## TEN-YEAR INFORMATION ON SELECTED DATA (CONTINUED)

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

| | CPERS | | PGT | |
|---|---|---|---|---|
| Fiscal Year | Retirees | % Increase Each Year | Retirees* | % Increase Each Year |
| 1994 | 1,752 | N/A | 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% |
| 2003 | 2,621 | 3.3% | 163 | 9.4% |

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



## TEN-YEAR INFORMATION ON SELECTED DATA (CONTINUED)

### NUMBER OF SERVICE RETIREES AND BENEFIT EXPENSES

| | CPERS | | PGT | |
|---|---|---|---|---|
| Fiscal Year | Service Retirees | Benefit Expenses | Service Retirees* | Benefit Expenses |
| 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 |
| 2003 | 2,192 | 39,037,900 | 15 | 130,839 |

* 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 Retirements | Benefit Expenses | Deferred Retirements | Benefit Expenses |
| 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 |
| 2003 | 520 | 9,305,178 | 32 | 727,756 |

*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 (CONTINUED)

### AVERAGE MONTHLY SERVICE RETIREE BENEFIT

| | CPERS | | PGT | |
|---|---|---|---|---|
| Fiscal Year | Average Monthly Benefit | % Increase Each Year | Average Monthly Benefit | % Increase Each Year |
| 1994 | $1,252 | N/A | 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%) |
| 2003 | 1,484 | 2.80% | 727 | (11.34%) |

### 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 |
| 2003 | 5 | 51,279 | N/A | N/A |

### NUMBER OF REFUNDS OF CONTRIBUTIONS

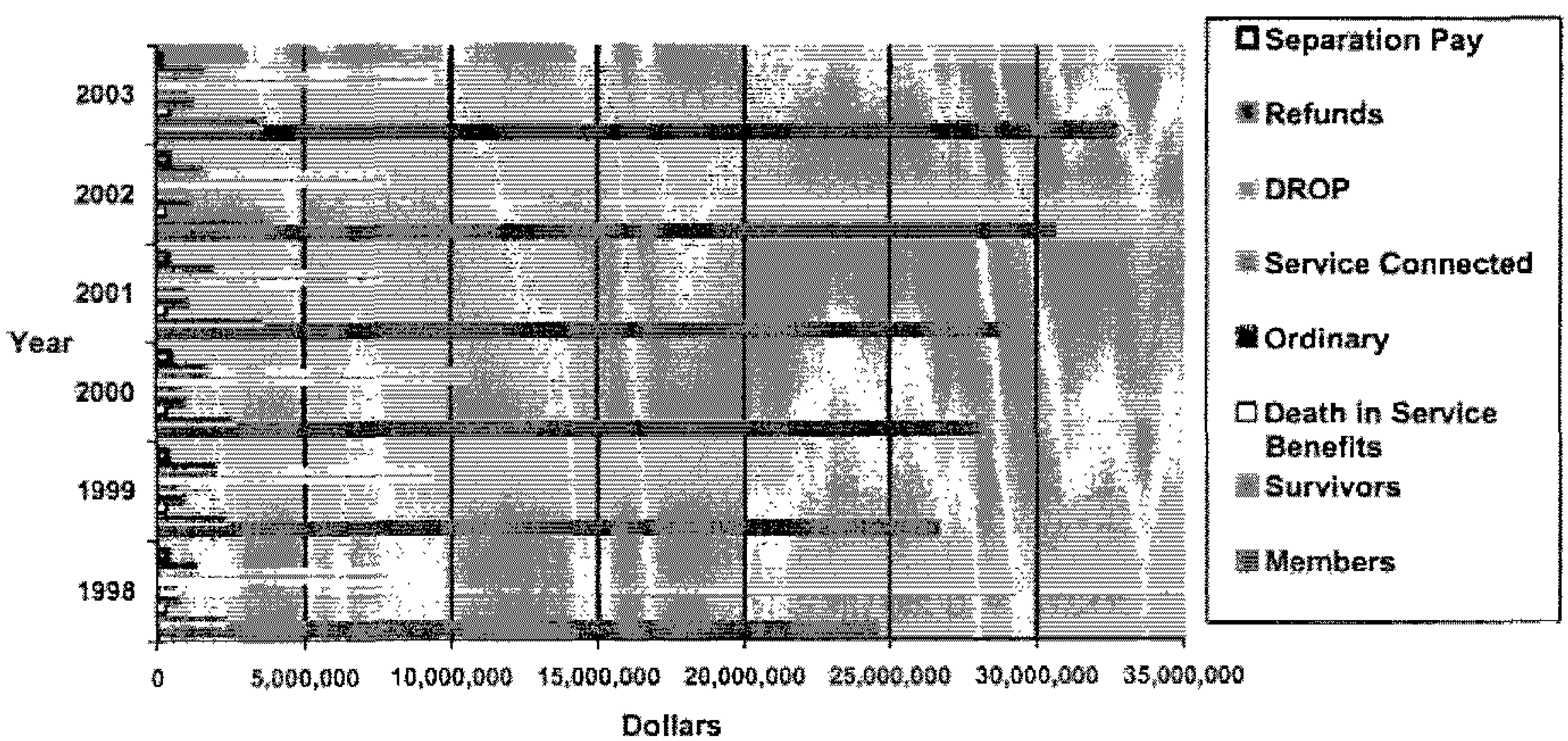
| | CPERS | | PGT | |
|---|---|---|---|---|
| Fiscal Year | Number of Refunds | % Increase Each Year | Number of Refunds | % Increase Each Year |
| 1994 | 235 | N/A | N/A | N/A |
| 1995 | 273 | 16.17% | N/A | N/A |
| 1996 | 298 | 9.16% | N/A | N/A |
| 1997 | 261 | (12.42%) | N/A | N/A |
| 1998 | 225 | (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% |
| 2003 | 236 | 1.72% | 5 | 25.00% |

## TEN-YEAR INFORMATION ON SELECTED DATA (CONTINUED)

### 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 |
| 2003 | 32,606,340 | 3,573,038 | 452,365 | 1,187,346 | 1,218,810 | 9,305,178 | 1,681,537 | 218,298 | 50,242,912 |

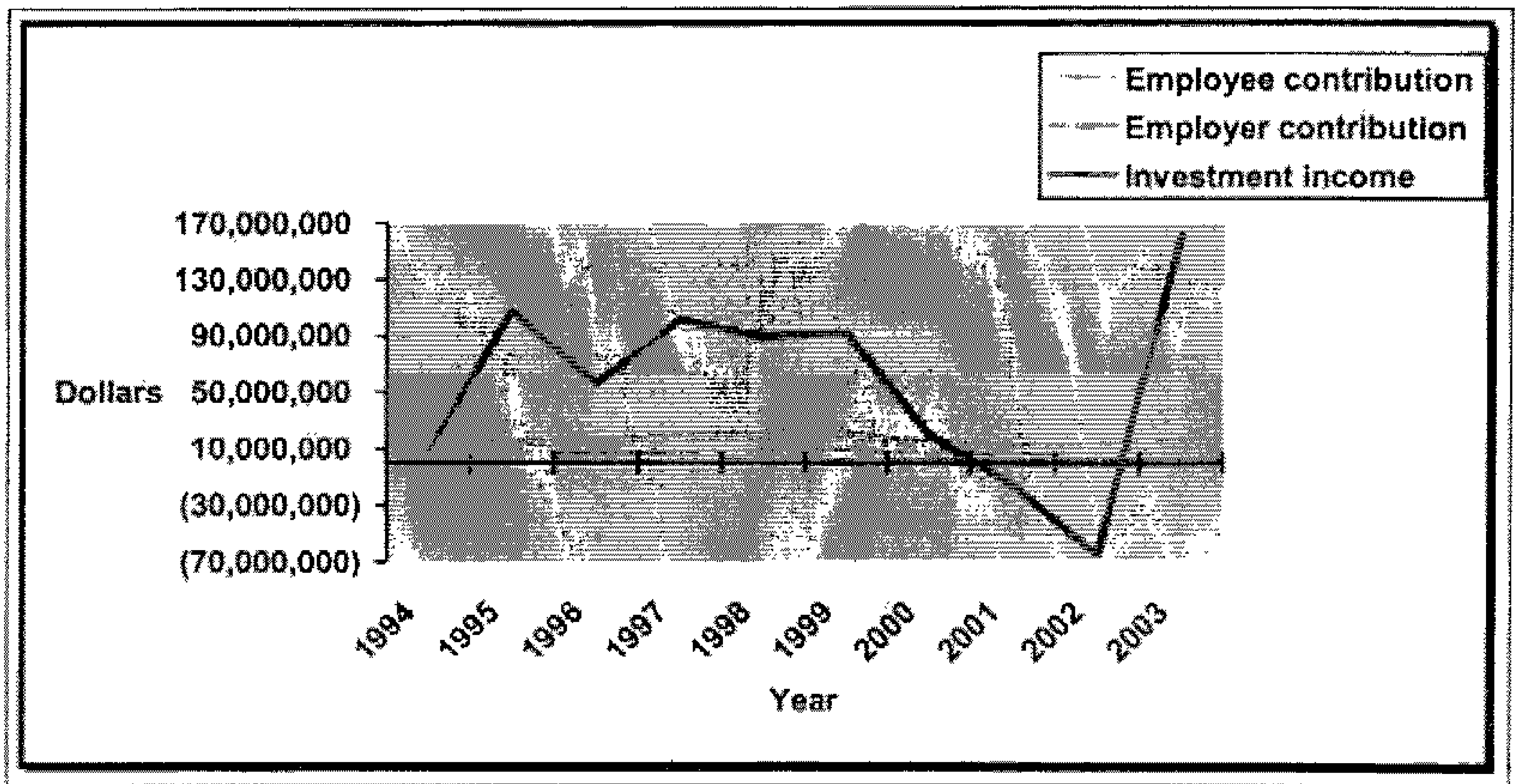
* Only six years of data are available.



## TEN-YEAR INFORMATION ON SELECTED DATA (CONTINUED)

### REVENUES BY SOURCE

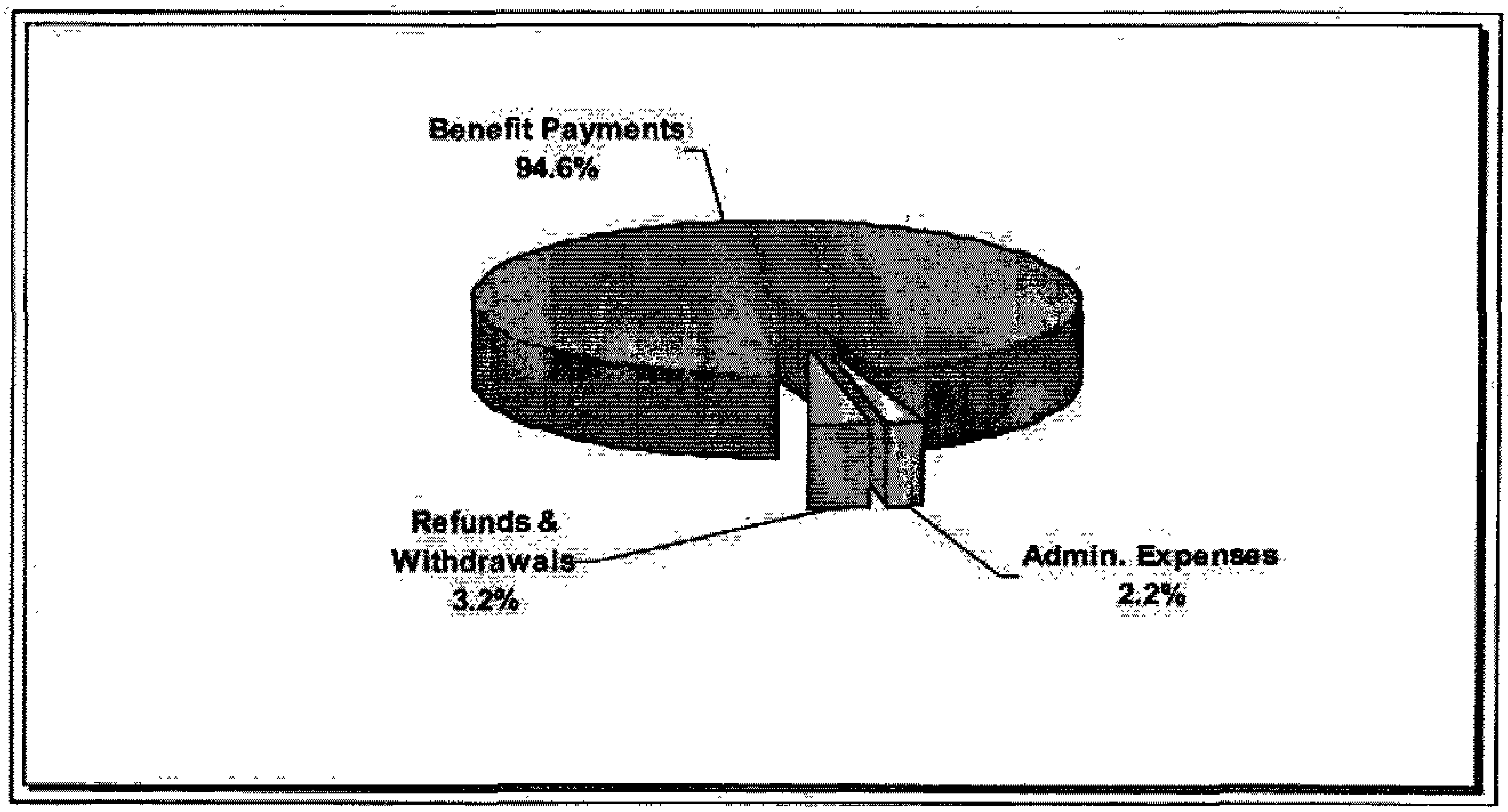
| | CPERS | | | PGT | | | |
|---|---|---|---|---|---|---|---|
| Fiscal Year | Member Contributions | Employer Contributions | Net Investment Income | Member Contributions | Employer Contributions | Net Investment Income | Total |
| 1994 | $ 8,071,425 | $12,559,091 | $ 8,078,771 | N/A | N/A | N/A | $ 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) |
| 2003 | 9,063,451 | 14,531,806 | 157,622,501 | 49,586 | 76,982 | 4,926,746 | 186,271,072 |



## TEN-YEAR INFORMATION ON SELECTED DATA (CONTINUED)

### EXPENSES BY TYPE

| | CPERS | | | PGT | | | |
|---|---|---|---|---|---|---|---|
| Fiscal Year | Benefit Payments | Refunds and Withdrawals | Admin. Expenses | Benefit Payments | Refunds and Withdrawals | Admin. Expenses | Total |
| 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 |
| 2003 | 48,561,375 | 1,681,537 | 954,294 | 988,682 | 644 | 219,814 | 52,406,346 |



## TEN-YEAR INFORMATION ON SELECTED DATA (CONTINUED)

### NUMBER OF ADMINISTRATIVE STAFF POSITIONS

| Fiscal Year | Staff | % Increase Each Year |
|---|---|---|
| 1994 | 10 | N/A |
| 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% |
| 2003 | 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

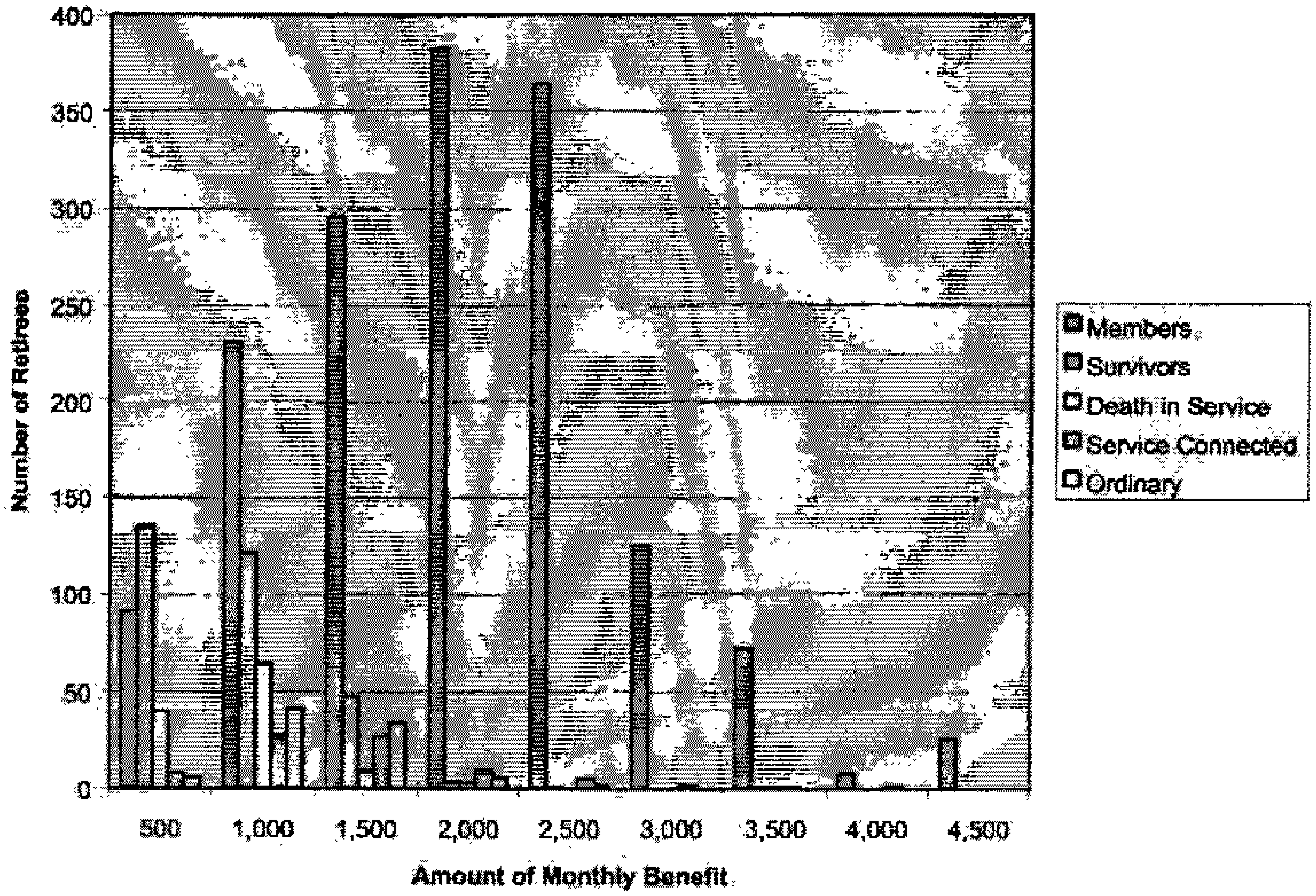
Eastside Fire Protection District

East Baton Rouge Recreation and Park Commission (BREC)

Office of the Coroner of East Baton Rouge Parish

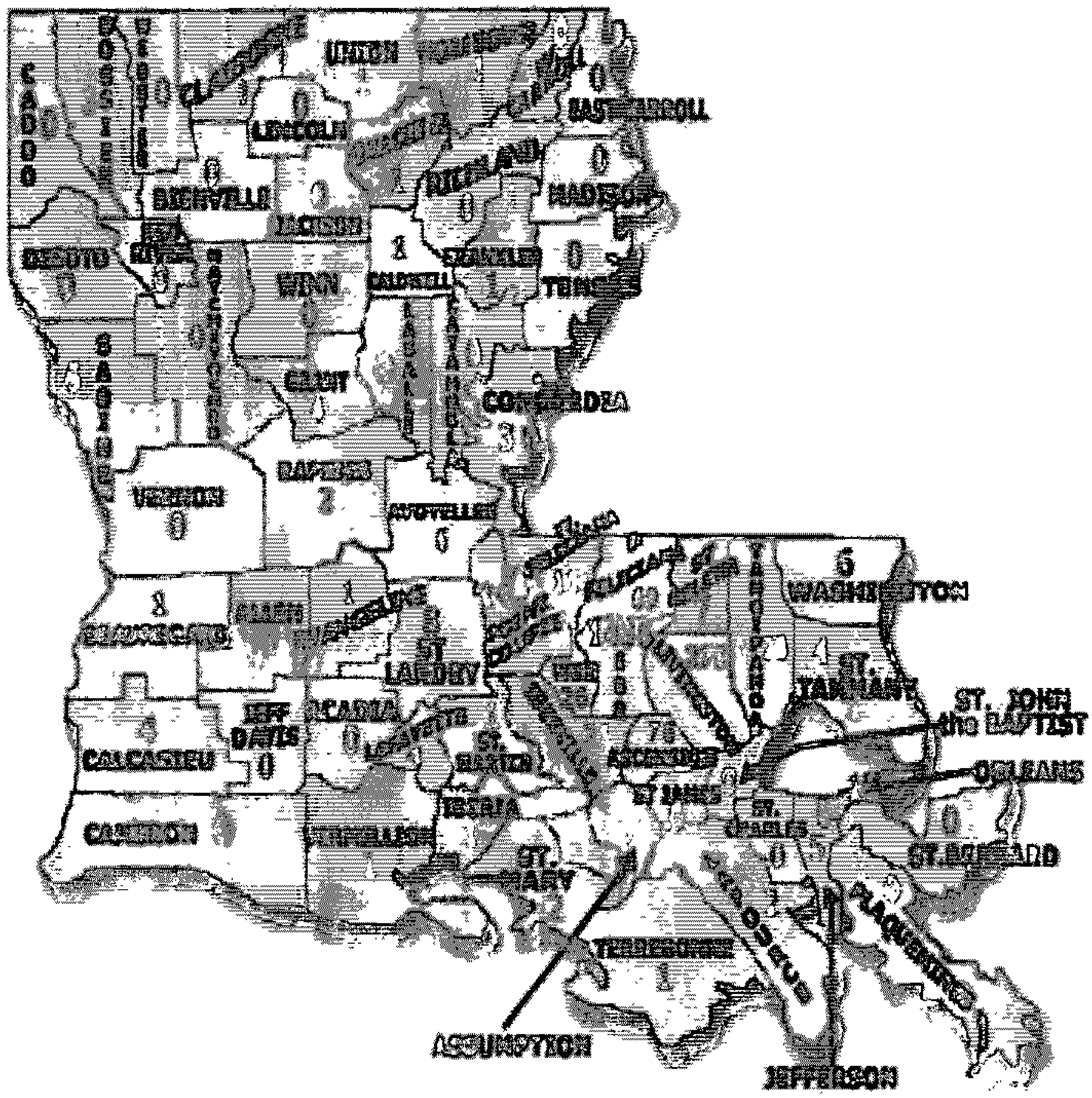
## SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT

| Amount of Monthly Benefit | Number of Retirees | Types of Retirement: Service Benefits: Members | Service Benefits: Survivors | Service Benefits: Death in Service | Disability Benefits: Service Connected | Disability Benefits: Ordinary |
|---|---|---|---|---|---|---|
| $1-500 | 280 | 91 | 135 | 40 | 8 | 6 |
| 501-1,000 | 484 | 231 | 121 | 64 | 27 | 41 |
| 1,001-1,500 | 415 | 296 | 48 | 9 | 28 | 34 |
| 1,501-2,000 | 404 | 382 | 4 | 3 | 9 | 6 |
| 2,001-2,500 | 372 | 364 | 1 | -- | 5 | 2 |
| 2,501-3,000 | 127 | 125 | -- | -- | 2 | -- |
| 3,001-3,500 | 75 | 72 | 1 | 1 | 1 | -- |
| 3,501-4,000 | 9 | 8 | -- | -- | 1 | -- |
| Above 4,000 | 26 | 26 | -- | -- | -- | -- |
| Totals | 2,192 | 1,595 | 310 | 117 | 81 | 89 |



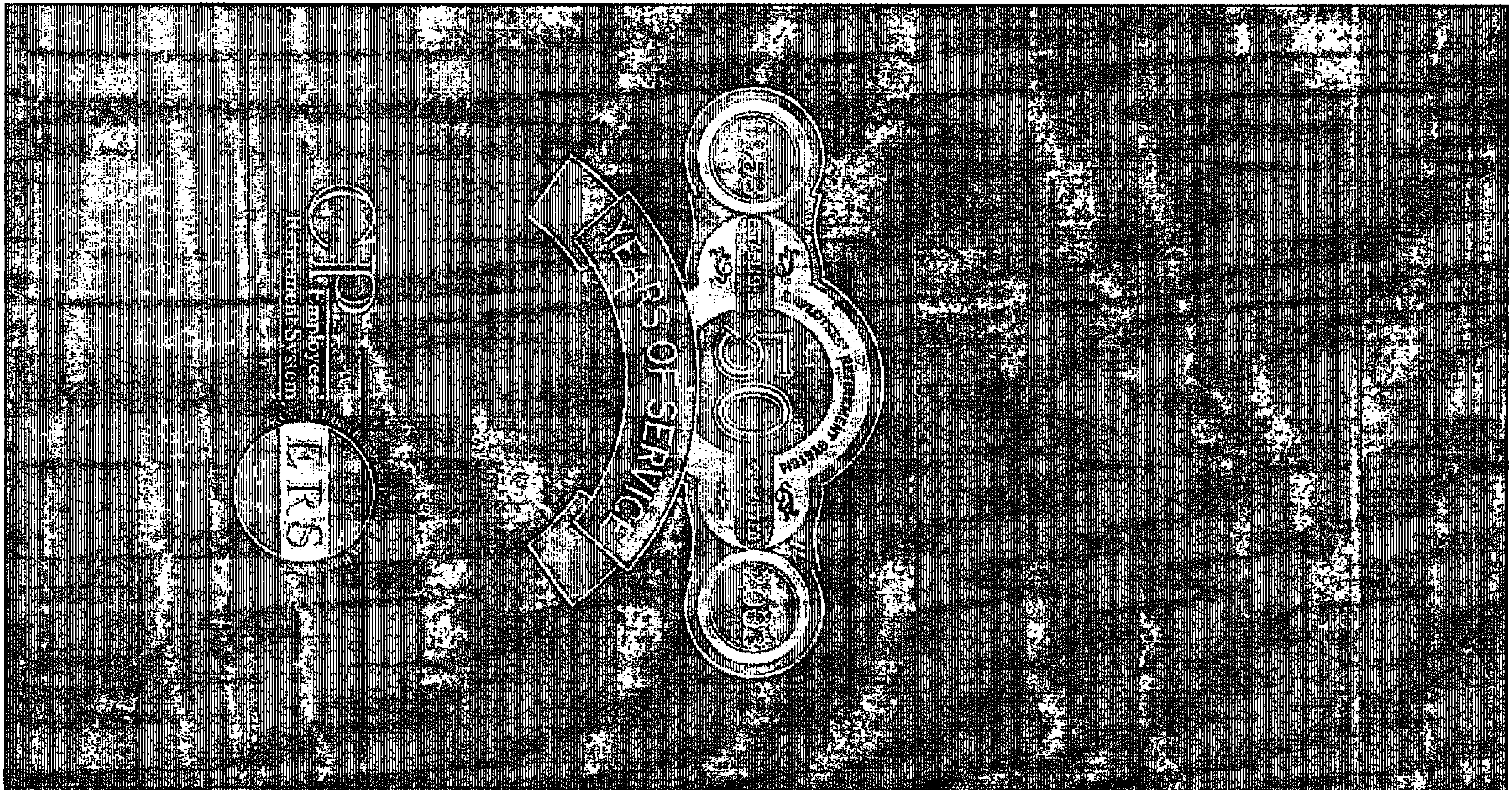
# RETIREES AT DECEMBER 31, 2003

## Louisiana Breakdown By Parish-2045




| | |
|---|---|
| ALABAMA | 5 |
| ARKANSAS | 7 |
| ARIZONA | 3 |
| CALIFORNIA | 3 |
| COLORADO | 2 |
| DIST. of COLUMBIA | 1 |
| FLORIDA | 12 |
| GEORGIA | 5 |
| ILLONOIS | 2 |
| KENTUCKY | 3 |
| MAINE | 1 |
| MARYLAND | 1 |
| MICHIGAN | 1 |
| MINNESOTA | 1 |
| MISSISSIPPI | 53 |
| MISSOURI | 8 |
| MONTANA | 1 |
| NEVADA | 1 |
| OHIO | 1 |
| OKLAHOMA | 3 |
| OREGON | 1 |
| TENNESSEE | 6 |
| TEXAS | 24 |
| W. VIRGINIA | 2 |
| **TOTALS** | **147** |

**Total (Louisiana** = **2045**
**Total (Other)** **147**
**Grand Total** = **2192**(Does not include DROP or Deferred Vested)
(Included Retirees, & Survivors, Disabilities)




# Alternative Retirement Plans

CP Employees' Retirement System

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.

CP Employees' Retirement System

City of Baton Rouge and Parish of East Baton Rouge

ERS

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