



**Department of Finance  
Accounting Division**

City of Baton Rouge  
Parish of East Baton Rouge

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May 27, 2005

The Honorable Mayor-President  
and Members of the Metropolitan Council  
City of Baton Rouge  
Parish of East Baton Rouge  
Baton Rouge, Louisiana 70802

Dear Mayor-President and Council Members:

Pursuant to Louisiana State Statutes and The Plan of Government, I hereby issue the Comprehensive Annual Financial Report (CAFR) for the consolidated government of the City of Baton Rouge and Parish of East Baton Rouge (City-Parish) for the fiscal year ended December 31, 2004. The Accounting Division of the City-Parish Finance Department prepared this report in accordance with Generally Accepted Accounting Principles (GAAP). We believe the data, as presented, is accurate in all material respects; that it is presented in a manner designed to set forth fairly the financial position and results of operations of the City-Parish as measured by the financial activities of its various funds and the entity-wide presentation; and that disclosures necessary to enable readers to gain an understanding of City-Parish financial affairs have been included. Responsibility for the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the local government.

The City-Parish financial statements have been audited by Postlethwaite & Netterville, APAC, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and the disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the Consolidated Government of the City of Baton Rouge, Parish of East Baton Rouge, Louisiana, financial statements for the fiscal year ended December 31, 2004, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first document of the financial section of this report.

The City-Parish is required to undergo an annual single audit in conformance with the provisions of the Single Audit Act of 1996 and the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Information related to this single audit, including the Schedule of Expenditures of Federal Awards, findings and recommendations, and the auditors' reports on the internal control structure and compliance with applicable laws and regulations, is presented immediately following the Statistical Section of this publication.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of *Management's Discussion and Analysis (MD&A)*. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City-Parish's MD&A can be found immediately following the report of the independent auditors.

## Profile of the Government



The Parish of East Baton Rouge was established as a division of government of the *West Florida Republic* in 1810. The Parish later became a local governmental unit of the State of Louisiana and the United States when Louisiana was admitted to the Union in 1812. The City of Baton Rouge was incorporated as a municipality on July 6, 1817. These two government entities operated as separate local government units until January 1, 1949. At an election on August 12, 1947, the voters of both the parish and the city adopted the current Plan of Government (as amended) which consolidated the administration of most local government services for the city and the parish. Baton Rouge was one of the first consolidated forms of local government established in the United States. The elected Mayor-President serves as the leader of the executive branch of City-Parish government. The legislative branch is the elected Metropolitan Council,

which is composed of 12 district representatives.

The City-Parish provides a full range of services to the general public, including police and fire protection, emergency medical services, public works, public health and social services, public transportation, planning and zoning, economic development, an airport, construction and maintenance of streets and infrastructure, libraries, general administrative services, sewage treatment, and solid waste disposal.



A determination of the financial reporting entity to be included in this CAFR is made through the application of criteria established by the Governmental Accounting Standards Board (GASB), Statement 14. A complete explanation of the financial reporting entity is included in the Summary of Significant Accounting Policies in the Notes to the Financial Statements.

The City-Parish financial reporting entity consists of the following:

- The Primary Government - This is the City-Parish (all funds under the auspices of the Mayor-President and the Metropolitan Council).
- Legally separate component units - These units of government are legally separate from the City-Parish government but have a sufficiently close relationship with the government to warrant inclusion in the consolidated financial report.

The financial statements included in this CAFR are as follows:

| <u>Name of Organization</u>   | <u>Type of Unit</u>      |
|---|--------------------------|
| ▶ The City-Parish   | Primary Government       |
| ▶ City of Baton Rouge and Parish of East Baton Rouge Employees' Retirement System | Blended Component Unit   |
| ▶ District Attorney of the Nineteenth Judicial District                           | Discrete Component Unit  |
| ▶ Nineteenth Judicial District Court  | Discrete Component Unit  |
| ▶ East Baton Rouge Parish Family Court  | Discrete Component Unit  |
| ▶ East Baton Rouge Parish Juvenile Court  | Discrete Component Unit  |
| ▶ Nineteenth Judicial District Indigent Defender Board                            | Discrete Component Unit  |
| ▶ East Baton Rouge Parish Clerk of Court  | Discrete Component Unit  |
| ▶ Capital Region Planning Commission  | Discrete Component Unit  |
| ▶ East Baton Rouge Parish Coroner   | Discrete Component Unit  |
| ▶ Parish Fire Protection Districts  | Discrete Component Units |
| ▶ Capital Area Transit System   | Discrete Component Unit  |

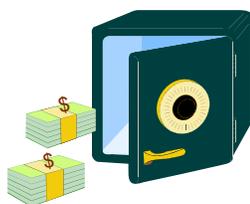
An explanation of the accounting policies of the City-Parish is contained in the Notes to the Financial Statements. The basis of accounting, fund structure, and other significant information on financial policies is explained in detail in the Notes to the Financial Statements.

Budgetary control is maintained by the encumbrance of appropriations with purchase orders prior to their release to vendors. Purchase orders that exceed appropriation balances are not released unless additional appropriations are made available. The annual operating budget, or financial plan, is proposed by the Mayor-President and enacted by the Metropolitan Council. Management control for the operating budget is maintained at the fund and department level. Additional details on the budget process are explained in the Notes to the Financial Statements.

Budget-to-actual comparisons are provided in this report for each individual governmental fund. For the General Fund, this comparison is presented in Exhibit A-7. The Capital Projects Fund budget statement is presented on a project length basis as legally adopted by the Metropolitan Council on Exhibit C-3. For other governmental funds, the annual budget comparison is presented in the Combining and Individual Fund Statements and Schedules, Exhibits C-4 through C-24.

Under the Plan of Government, the Finance Department is entrusted with maintaining accounting systems for the City, Parish, and districts over which the Metropolitan Council is the governing body, in accordance with the best-recognized practices in governmental accounting. It keeps the records for, and exercises financial and budgetary control over, each City-Parish department, office, and agency.

In developing and evaluating the accounting system of the City-Parish, the Finance Department considers the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, 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.



As a recipient of federal and state financial assistance, the City-Parish government is responsible for ensuring that adequate internal controls are in effect. All internal control evaluations occur within the framework described. The Finance Department believes that the internal controls of the City-Parish adequately safeguard assets and provide reasonable assurance of the proper recording of financial transactions.

## FACTORS AFFECTING FINANCIAL CONDITION

### Economic Condition and Outlook

The City of Baton Rouge is the state capital and the second largest city in Louisiana. It is located on the Mississippi River in the southeast region of the state and is a major center for commerce, industry, tourism, and many diverse cultural activities. The City is the principal home of two major state universities: Louisiana State University and Southern University. The North American Free Trade Agreement (NAFTA), approved by Congress in 1993, enables Baton Rouge, because of its location, to take economic advantage of one of the world's largest free trade zones.



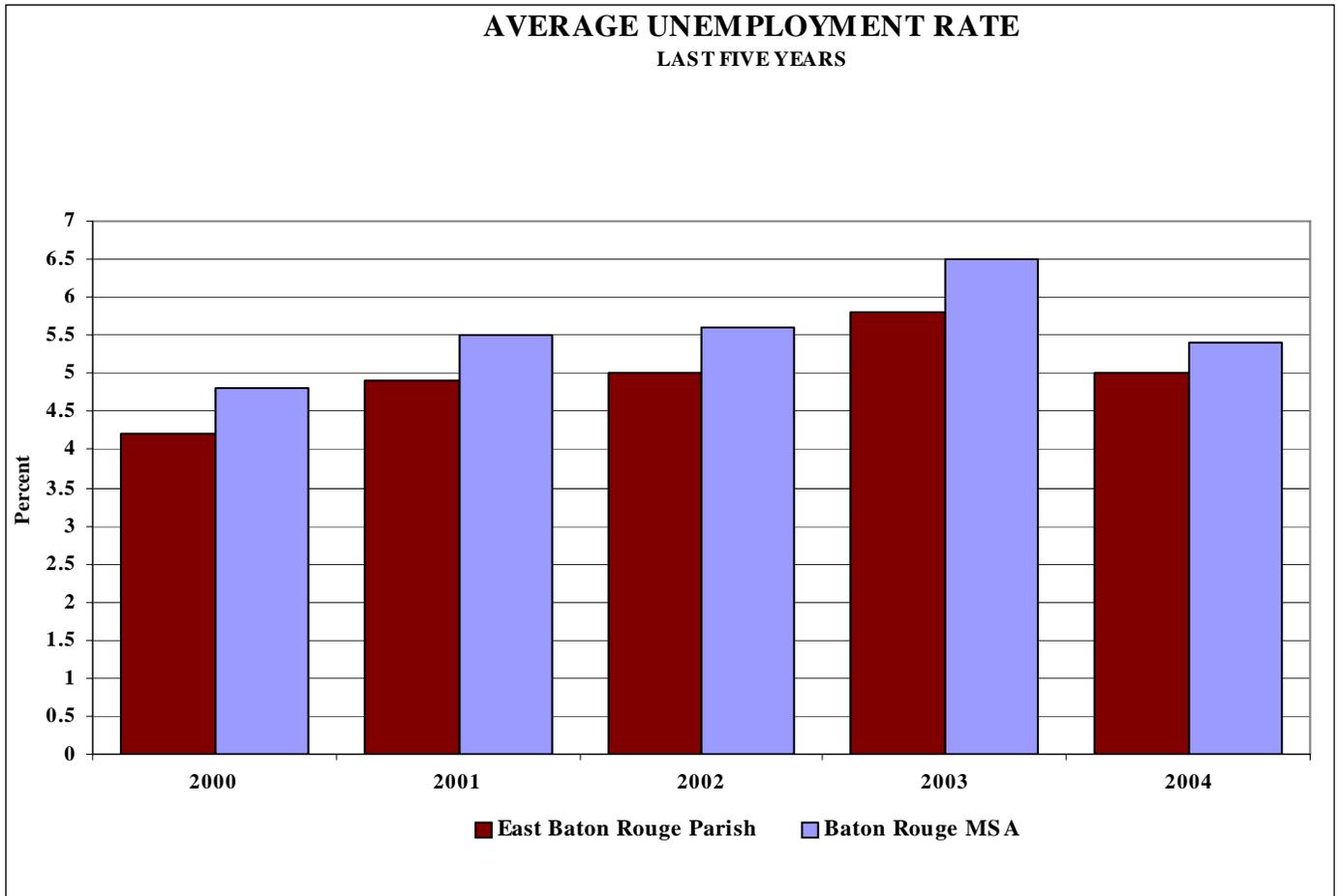
A number of Fortune 500 companies engaged in oil refining, petrochemical processing, and wood products are found in the industrial corridor along the Mississippi River near Baton Rouge. These industries are major employers of Baton Rouge's labor force. Other important industries include government, construction, banking and financial services, insurance, real estate, and wholesale and retail trade.

According to the Louisiana Department of Labor, the annual average rate of local unemployment fell in 2004, as reflected in the following chart:

|                     | <u>East Baton<br/>Rouge Parish</u> | <u>Baton Rouge MSA</u> <sup>(1)</sup> |
|---------------------|------------------------------------|---------------------------------------|
| 2000                | 4.2                                | 4.8                                   |
| 2001                | 4.9                                | 5.5                                   |
| 2002                | 5.0                                | 5.6                                   |
| 2003                | 5.8                                | 6.5                                   |
| 2004 <sup>(2)</sup> | 5.0                                | 5.4                                   |

<sup>(1)</sup> Metropolitan Statistical Area (includes East Baton Rouge, West Baton Rouge, Livingston, and Ascension Parishes)

<sup>(2)</sup> Preliminary Figures



According to leading economists, the Baton Rouge Metropolitan Statistical Area (MSA) will see little job growth within the next two years. The petrochemical industry is a huge factor in the MSA's economy. When the chemical and refining industries expand, so does industrial construction. The national recession hit chemical sales in this sector very hard and weakened the price of chemical products. The projected national recovery should offset these lower prices in the next two years. High natural gas prices in the area have raised operating costs in a declining demand market and caused several chemical firms in the MSA to announce layoffs or to close either temporarily, partially, or completely. The chemical industry continues to struggle as a result of the high natural gas prices and foreign competition. On a positive note, a considerable number of construction projects are expected to begin or continue, and some jobs will be added by other sectors of the economy.

The Baton Rouge economy grew slightly in 2004 as reflected by the growth in sales and use tax collections. General sales and use tax (2 percent) revenues for the operations of the City and Parish combined were \$3,798,003 more than 2003 revenues, representing a 2.92 percent increase. Sales tax collections for the ½ percent sewerage tax were \$ 400,958 more than last year and the collections of the ½ percent road and street improvement tax increased from 2003 by \$402,530, both an approximate 1.3 percent increase. The general sales and use tax plays a significant role in financing the operations of the General Fund. Based primarily on the projections of Dr. James A. Richardson, John Rhea Alumni Professor of Economics at Louisiana State University, and Dr. Loren C. Scott, Professor Emeritus in the Department of Economics at Louisiana State University, the City-Parish Metropolitan Council adopted the 2005 General Fund Budget with a conservative sales and use tax growth rate of 1 percent for the coming year.

### **Major Initiatives in 2004**

On October 28, 2004, the Parish issued \$24,865,000 of Public Improvement (Sewer) Sales Tax Bonds to advance refund a portion of the \$65.0M Series ST-1996 Public Improvement (Sewer) Sales Tax Bonds (original net interest cost 5.66%; principal refunded - \$24,860,000). Gross cash savings of principal and interest on the refunding were realized by the Comprehensive Sewerage System Fund in the amount of \$3,674,062, and the net economic gain was \$3,125,410, as detailed in Note 10(a)14 of the Notes to Financial Statements.

On November 12, 2004, the East Baton Rouge Sewerage Commission authorized the issuance of \$25,000,000 of Sewer Revenue Bonds. The bonds were issued through a loan and pledge agreement with the Louisiana Department of Environmental Quality (DEQ) for the purpose of construction, improvement, rehabilitation and expansion of the Sanitary Sewer Construction Program discussed later in this memorandum. The loan carries an interest rate of 3.45 percent and an administrative fee of 0.5 percent, for a total of 3.95 percent with maturity dates from 2007 through 2026. Funds will be drawn on a reimbursement basis from DEQ over a projected 36 month construction schedule. Interest and principal shall be payable only on the amount drawn. At December 31, 2004, principal drawn and outstanding was \$97,012.

E-government is about government agencies working together using technology to better provide taxpayers with government services and information. The first phase of e-government, which included five core processes, was completed in 2004. Citizens of the parish now have the ability to go online and inquire about the status of building permits, pay parking and traffic fines, remit sales taxes, renew business licenses, and submit requests for services. In January of 2004, the Information Services Department launched the Geographical Information System (GIS) online service to the citizens of the parish. In addition, an automated citizens' information system called "Ask BR" was added to the City-Parish web site. This system provides citizens with convenient access to community and government information 24 hours a day, seven days a week via the Internet and/or telephone.

### **Long-Term Financial Planning**

In August of 2001, the Parish of East Baton Rouge entered into a Consent Decree with the U.S. Environmental Protection Agency (EPA) and the State of Louisiana, as represented by the Department of Environmental Quality (DEQ), to remedy violations of the Clean Water Act and National Pollution Discharge Elimination System (NPDES) permits issued to the Parish for its sewerage treatment plants. The Consent Decree requires the City-Parish to devise a capital improvements program that will reduce sanitary sewer overflows during peak rainfall events. This program must be completed by December 31, 2014.

### **Sanitary Sewer Overflow Construction Program**

The Sanitary Sewer Overflow (SSO) Corrective Action Plan was developed by an outside engineering firm and its findings were presented to the Mayor-President and the Metropolitan Council in the fall of 1998. The purpose of the SSO Corrective Action Plan is to: (1) protect the public health through the control of sewer overflows; (2) comply with national, state, and local laws; (3) develop a computerized model of the sanitary sewer collection system; (4) develop standard specifications and design criteria for rehabilitation and new construction; (5) determine the effectiveness of sewer rehabilitation through the collection of flow data; and (6) resolve infiltration issues to provide for future growth.

As a result of the SSO Corrective Action Plan and a value engineering study coordinated by the U.S. Army Corps of Engineers, the Metropolitan Council implemented a \$618 million SSO Construction Program in August of 2001. This was approved in conjunction with the aforementioned Consent Decree with the EPA and DEQ. Highlights of this construction alternative include the construction of one large storage basin, deep underground gravity sewers, three ballasted flocculation waste water treatment facilities, storage tanks in outlying areas of the Parish, and rehabilitation of selected areas of the sanitary sewer collection system.

Financing of the SSO Corrective Action Plan began in August of 1999 with the passage of Ordinance 11542. This ordinance authorized a 95 percent increase in sewer user fees that was phased in over a three-year period beginning January 1, 2000, through January 1, 2002. In 2002, the Metropolitan Council approved an additional 10 percent increase that took effect January 1, 2003. The 2002 ordinance included an annual 4 percent increase in the fee beginning January 1, 2004, and continuing each subsequent year until the program is completed.

The SSO Construction Program will be financed significantly by the issuance of long-term debt secured by sewer user fees and sewer sales taxes. The user fee increases approved by the Metropolitan Council will provide the Parish with a stronger user fee revenue base to secure bonds backed by the sewer user fee. It is estimated that approximately \$300 million in sewer user fee bonds will be issued.

### AWARDS AND ACKNOWLEDGMENTS

The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Baton Rouge and Parish of East Baton Rouge for its Comprehensive Annual Financial Report for the fiscal year ended December 31, 2003. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

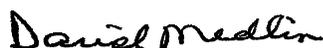
In order to be awarded a Certificate of Achievement for Excellence in Financial Reporting by GFOA, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report with contents conforming to program standards. Such reports must satisfy both Generally Accepted Accounting Principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The City-Parish has received this award each year for the 17-year period ending December 31, 2003. I believe our current report conforms to the Certificate of Achievement Program requirements, and we are submitting it to GFOA to determine its eligibility for a certificate.

In addition, the City-Parish also received the GFOA's Award for Distinguished Budget Presentation for its annual operating budget prepared for the fiscal year covered by this Comprehensive Annual Financial Report. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, an operations guide, a financial plan, and a communications device.

The preparation of this report on a timely basis could not have been accomplished without the dedicated services of a highly qualified staff. I also acknowledge the thorough, professional, and timely manner in which the audit was conducted by our independent auditors, Postlethwaite & Netterville, APAC. Thanks to the Mayor-President and the Metropolitan Council for your support of excellence in financial reporting and fiscal integrity.

Respectfully submitted,



David M. Medlin, CPA  
Finance Director