



**Department of Finance
Accounting Division**

City of Baton Rouge
Parish of East Baton Rouge

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May 26, 2006

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, 2005. 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, 2005, 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:

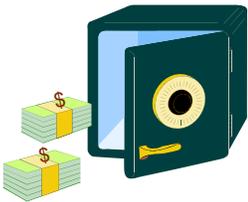
<u>Name of Organization</u>	<u>Type of Unit</u>
▶ The City-Parish	Primary Government
▶ City of Baton Rouge and Parish of East Baton Rouge Employees' Retirement System	Blended Component Unit
▶ District Attorney of the Nineteenth Judicial District	Discrete Component Unit
▶ Nineteenth Judicial District 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, Library Board of Control Special Revenue Fund and Grants Special Revenue Fund, this comparison is presented in Exhibits A-7 through A-9. The Capital Projects Fund budget statement is presented on a project length basis as legally adopted by the Metropolitan Council on Exhibit B-3. For other governmental funds, the annual budget comparison is presented in the Combining and Individual Fund Statements and Schedules, Exhibits B-4 through B-23.

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, post-Hurricane Katrina, the largest city in Louisiana. Immediately following Katrina, Baton Rouge's population increased significantly with evacuees. According to local economists, the Baton Rouge Metropolitan Statistical Area (MSA) is projected to be the largest MSA in the state in 2006.



Baton Rouge 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.

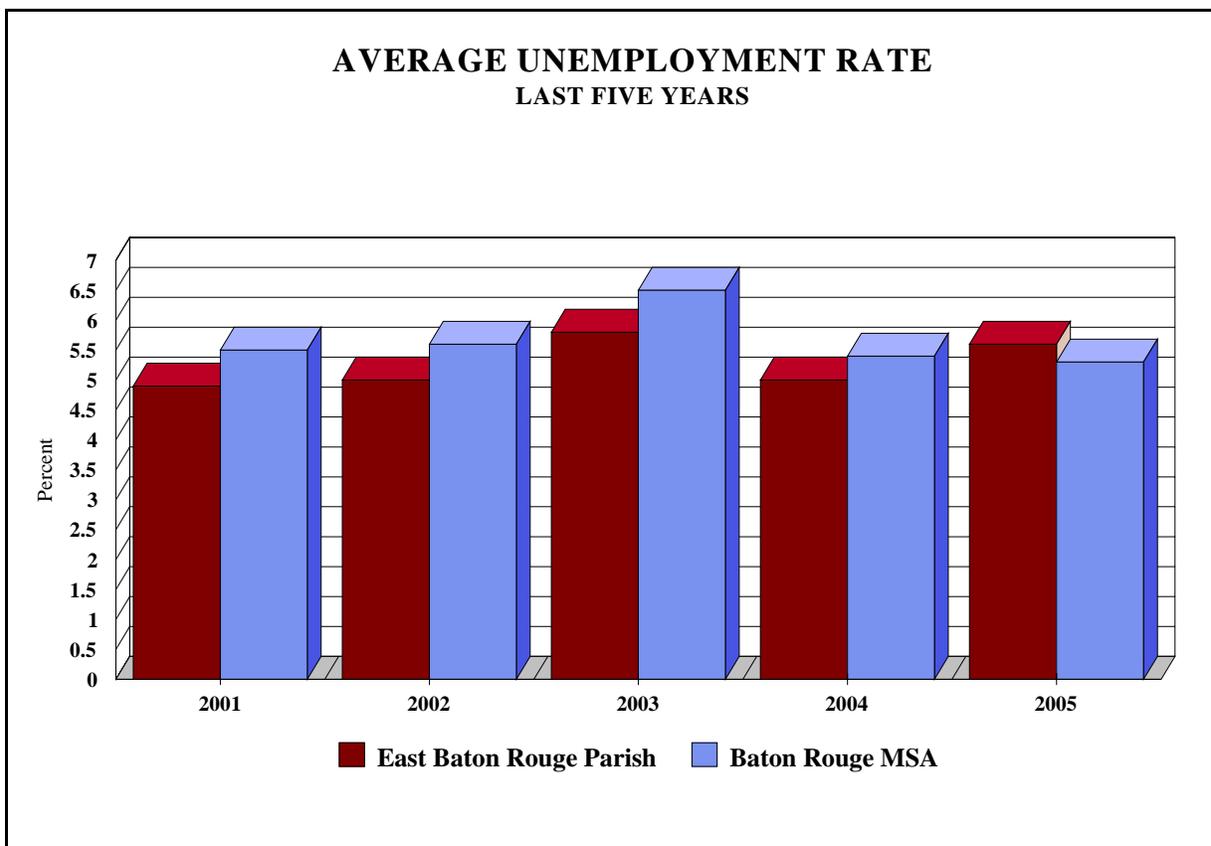
A number of Fortune 500 companies engaged in oil refining, petrochemical processing, and wood products are found in the industrial corridor along the Mississippi River near Baton Rouge. These industries are major employers of Baton Rouge's labor force. Other important industries include government, construction, 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 in the Baton Rouge MSA fell in 2005, as reflected in the following chart:

	<u>East Baton Rouge Parish</u>	<u>Baton Rouge MSA</u> ⁽¹⁾
2001	4.9	5.5
2002	5.0	5.6
2003	5.8	6.5
2004	5.0	5.4
2005 ⁽²⁾	5.6	5.3

⁽¹⁾ Metropolitan Statistical Area (includes East Baton Rouge, West Baton Rouge, Livingston, Ascension, East Feliciana, Iberville, Pointe Coupee, St. Helena, and West Feliciana Parishes)

⁽²⁾ Preliminary Figures



The economy of East Baton Rouge Parish has been impacted by Hurricanes Katrina and Rita, experiencing growth in both employment and sales tax collections as a result of unprecedented population growth. Following are comments from Dr. James A. Richardson, Alumni Professor of Economics at Louisiana State University, and Dr. Loren C. Scott, Professor Emeritus of Economics at Louisiana State University, on their predictions of sales and use tax revenue growth in East Baton Rouge Parish for 2006.

“The Baton Rouge economy, pre-Katrina, was modestly recovering from the 2001-2002 recession in which the area lost 5,400 jobs. It took two years to recover the jobs lost in 2001-2002, and for 2005 employment growth was expected to be only about 0.2 percent. Overall growth for 2006 and 2007 was projected to be about 4,400 jobs per year or a growth

rate of 1.3 percent. Katrina has, of course, had a powerful impact on the New Orleans area and on the Baton Rouge Metropolitan Area. Some of the impact of Katrina will be temporary, though the definition of temporary may vary from person to person, and some of the impact of Katrina on Baton Rouge will be permanent.

The projected pre-Katrina employment growth for Baton Rouge of 1.3 percent per year is still the baseline expected growth for the next two years. This employment growth, based on the historical relationship between employment growth and sales tax collections, suggests a baseline growth in sales tax collections of between 2.5 percent and 3.5 percent. In 2005, the City-Parish has experienced sales tax growth of almost 6 percent for the first seven months of the year, and a growth rate of about 4.5 percent if the impact of the American Bowling Congress Tournament is discounted. The employment projections do not suggest a sustained 4.5 percent growth in sales taxes. We recommend the City-Parish allow for a 2.5 percent to 3.5 percent growth rate for baseline sales tax collections.

The Katrina impact is subject to assumptions regarding how long many of the New Orleans residents stay in Baton Rouge or, at least, have to shop in the Baton Rouge area; how many may decide to make Baton Rouge a permanent place for business and raising a family; and how quickly New Orleans can get back to normal with houses, schools, shopping, and jobs available. Based on information from the Baton Rouge Chamber of Commerce and school attendance records, it appears that Baton Rouge will have about 50,000 new residents for the duration of 2006. This will lead to additional burdens on the City-Parish in terms of services to be provided and additional sales tax collections. This additional population will augment the sales tax collections for 2006 by about \$4 million to \$5 million. It is not clear that these persons will remain in Baton Rouge permanently. Hence, it would be prudent not to commit these sales tax collections to recurring responsibilities of government at this time.”

Growth in general sales and use tax (2 percent) revenues in 2005 for the operations of the City and Parish combined were \$16,005,372 more than 2004 revenues, representing an 11.97 percent increase. Sales tax collections for the ½ percent sewerage tax were \$4,811,092 more than last year and the collections of the ½ percent road and street improvement tax increased from 2004 by \$4,809,918, both an approximate 15.44 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. Richardson and Dr. Scott, the City-Parish Metropolitan Council adopted the 2006 General Fund Budget with a sales and use tax growth rate of 3.5 percent for the coming year. Until the level of sustained sales tax growth is determined, excess collections will be used on one-time expenditures such as capital improvement projects.

Major Initiatives in 2005

On May 5, 2005, the Parish issued \$33,255,000 of Public Improvement (Sewer) Sales Tax Revenue Bonds to advance refund the callable portion of the \$43.0 million Series ST - 1999 Public Improvement (Sewer) Sales Tax Revenue Bonds (original net interest cost 5.69%; principal refunded - \$32,110,000). Gross cash savings of principal and interest on the refunding were realized by the Comprehensive Sewerage System Fund in the amount of \$1,626,090, and the net economic gain was \$1,157,956, as detailed in Note 10(a)14 of the Notes to Financial Statements.

On November 3, 2005, the Parish issued \$25,855,000 of Public Improvement (Sewer) Sales Tax Revenue Bonds to current refund a portion of the \$65.0 million Series ST - 1996 Public Improvement (Sewer) Sales Tax Revenue Bonds (original net interest cost 5.66%). The entire principal amount refunded of \$26,100,000 was called on February 1, 2006. Gross cash savings of principal and interest on the refunding were realized by the Comprehensive Sewerage System Fund in the amount of \$1,369,055, and the net economic gain was \$1,153,019, as detailed in Note 10(a)14 of the Notes to Financial Statements.

Long-Term Financial Planning

Sewer Improvement Program

On August 1, 2005, the City-Parish presented an alternative Sanitary Sewer Overflow Capital Improvements Program to the EPA for approval. This alternative program consists of a rehabilitation of the sewer system rather than the construction of the complex tunnel system originally proposed in 2003. The rehabilitation program is designed to provide a more cost efficient means of controlling sewer overflows and providing capacity for the future growth of East Baton Rouge Parish.

One-Half Percent Road and Street Improvement Program

On October 15, 2005, the citizens of East Baton Rouge Parish approved an extension of the current one-half percent (½%) sales and use tax for street and road improvements. The proposition offered to voters extended the so-called “pot-hole” tax for an additional 23 years until 2030, and allowed for 70% of the proceeds to be used for the construction of new roads, widening of existing roads, intersection and signalization improvements, as well as other transportation improvements. In this new program, the issuance of bonds was authorized, which will allow for an accelerated road construction schedule and reduce rising costs of projects due to inflation.

During 2005, a series of public hearings was held in each Council District to solicit input from citizens and their elected representatives. The staff of the Department of Public Works prepared a list of transportation improvement projects which offered the greatest congestion relief, provided much-needed connectivity throughout the Parish, were able to be constructed, and provided the best return on investment. Simultaneously, the public was asked to offer projects with the greatest value to the community, which enhanced quality of life and improved the overall aesthetics of the street and road system. This discussion led to the dedication of a portion of the tax (3%) for beautification and street enhancement projects. The remaining portion (27%) will continue the successful road rehabilitation program.

It is anticipated that approximately 750 miles of additional City-Parish streets and roads will be rehabilitated during the next 25 years. The rehabilitation program will continue as it currently functions, with projects prioritized on a six-month basis. The beautification allocation will include projects such as new sidewalk and curb construction, sidewalk repairs and improvements to meet A.D.A. standards, traffic signal synchronization, landscaping, and the maintenance thereof. Special attention will be given to projects which provide safe pedestrian routes to and from area schools and other public facilities.

It is estimated that over the 25-year period from January 1, 2006, through December 31, 2030, the tax will fund \$831 million in projects to be administered by the City-Parish government. The transportation improvement component will include \$523 million for projects throughout the parish. The remainder of the tax will provide \$308 million for the rehabilitation and beautification components.

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, 2004. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

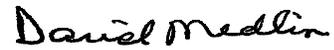
In order to be awarded a Certificate of Achievement for Excellence in Financial Reporting by GFOA, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report with contents conforming to program standards. Such reports must satisfy both Generally 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 18-year period ending December 31, 2004. 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. This was the fifteenth consecutive year that the department received this award. 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. We thank the Mayor-President and the Metropolitan Council for their support of excellence in financial reporting and fiscal integrity.

Respectfully submitted,

A handwritten signature in black ink that reads "David M. Medlin". The signature is written in a cursive, slightly slanted style.

David M. Medlin, CPA
Finance Director