



LOUISIANA
Popular Annual Financial Report

For the fiscal year ended June 30, 2016

Introduction

The Popular Annual Financial Report (PAFR) is prepared within six months after the fiscal year-end in accordance with Louisiana Revised Statute (LRS) 39:80(B) with the express purpose of providing a brief, objective and easily understood analysis of the State's financial performance for the preceding year, as well as facilitating wide dissemination of the report to the public. It presents selected information about the State's revenues, expenditures, financial position, budget, service efforts and performance. The information is presented in a non-technical format and is intended to summarize and explain the basic financial condition and the operations of the State for the fiscal year covered by the Comprehensive Annual Financial Report (CAFR) for the State of Louisiana.

The CAFR is prepared in accordance with Generally Accepted Accounting Principles (GAAP) and is independently audited by the Louisiana Legislative Auditor. Conversely, the PAFR is unaudited and includes financial data that departs from GAAP.

A copy of the CAFR can be obtained on the Office of Statewide Reporting and Accounting Policy's (OSRAP) website at www.doa.la.gov/Pages/osrap/CAFR/CAFR.aspx. The source of all illustrations is the 2016 and/or prior years CAFRs unless otherwise indicated.

Basis of Accounting

GAAP Basis

The State's GAAP basis government-wide financial statements provide a broad overview of the finances of the State as a whole. The government-wide financial statements are presented on the full-accrual basis of accounting, which is similar to the basis of accounting used by private-sector entities. The government-wide statements provide information about the short and long-term economic effects of past policy decisions such as the administration of government programs, capital financing, debt issuance, and funding obligations for post-employment benefits for the State's employees. Consistent with the long-term focus, the government-wide financial statements report the State's economic resources rather than those financial resources that are currently available. For example, suppose the State makes a cash purchase of a building that will be used in the administration of a certain government program. Although the State has expended current financial resources (cash), the building is an economic resource that contributes to the provision of government programs throughout its useful life. Therefore, the building and other similar capital assets are reported in the government-wide financial statements.

Budgetary Basis

The State's budgetary basis of accounting focuses on the short-term, rather than the long-term focus of the government-wide financial statements discussed above. Budgetary basis information is useful in 1) assessing whether the State was able to finance current year expenditures of current financial resources with current year collections of current financial resources and 2) demonstrating compliance with finance-related laws and regulations.

Financial Results

Financial Position

Financial position is the difference between a government's resources and the claims of other parties on those resources at a point in time. Financial position is strong if a government has ample resources in excess of the claims of others on those resources. The greater the financial position, the more a government is prepared to weather future revenue shortfalls or finance unexpected contingencies without disrupting the delivery of critical government services.

Condensed Statement of Net Position (in thousands)	
Current and other assets	\$ 13,401,848
Capital Assets	16,322,138
Total Assets	29,723,986
Total Deferred Outflows of Resource	1,436,627
Other Liabilities	4,469,154
Long-term debt outstanding	20,294,014
Total Liabilities	24,763,168
Total Deferred Inflows of Resources	338,270
Net Investment in Capital Assets	12,094,269
Restricted	5,765,994
Unrestricted	(11,801,088)
Total Net Position	\$ 6,059,175

The State's financial position (net position) at June 30, 2016 was approximately \$6.1 billion. A large portion of this amount, however, is comprised of the State's net investment in capital assets. The net investment in capital assets component of net position is equal to the carrying amount of the State's capital assets less the outstanding debt used to finance those assets. Consequently, this element of net position is not in spendable form and is therefore not available to finance the State's on-going operations and obligations. \$5.8 billion of net position is restricted by law or by external parties for certain uses. The unrestricted component of net position would normally be available to finance the State's on-going operations and obligations. However, unrestricted net position was negative at year-end. The negative balance in unrestricted net position is mainly attributable to the continued issuance of debt to finance capital grant expenditures to local governments and private entities and the underfunding of accrued post-employment benefits.

Financial Performance

Financial performance measures the changes in a government's financial position that occurred during a given period. Phrased another way: how well did a government's revenues cover its expenses? Revenues in excess of expenses for the period indicate that financial position has increased since the prior year-end. Insufficient revenues to cover expenses during the period means that financial position has decreased since the prior year-end.

Condensed Statement of Activities (in thousands)	
Revenues	
Program Revenues:	
Charges for Services	\$ 2,934,545
Operating Grants & Contributions	10,798,211
Capital Grants & Contributions	754,065
General Revenues:	
Income Taxes	3,330,491
Sales & Use Taxes	3,294,191
Other Taxes	2,093,893
Other	1,579,357
Total Revenues	24,784,753
Total Expenses	25,733,059
Net Increase (Decrease) before Extraordinary Item & Transfers	(948,306)
Extraordinary Item	1,000,000
Net Increase (Decrease)	51,694
Net Position - Beginning, as Restated	6,007,481
Net Position - Ending	\$ 6,059,175

The Statement of Activities reports how net position changed from the prior year. The State's net position increased from the prior year by approximately \$51.7 million. The change was largely attributable to the following factors:

- * the decrease in expenditures during the year of debt proceeds to fund capital grants to local governments and private entities;
- * the spend-down of revenue collections to fund current year operations of the Medicaid program;
- * a decrease in liabilities for claims against the State;
- * the recognition of the \$1 billion settlement with British Petroleum for the economic damages resulting from the Deepwater Horizon Incident .



General Fund Budgetary Data

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND				
BUDGET TO ACTUAL (NON-GAAP BUDGETARY BASIS)				
FOR THE YEAR ENDED JUNE 30, 2016				
(EXPRESSED IN THOUSANDS)				
	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH
	ORIGINAL	FINAL	BUDGETARY BASIS	FINAL BUDGET
				POSITIVE (NEGATIVE)
REVENUES:				
INTERGOVERNMENTAL	\$ 9,510,223	\$ 9,869,842	\$ 8,865,848	\$ (1,003,994)
TOTAL REVENUES	<u>9,510,223</u>	<u>9,869,842</u>	<u>8,865,848</u>	<u>(1,003,994)</u>
EXPENDITURES:				
CURRENT:				
GENERAL GOVERNMENT	1,208,489	1,224,893	1,059,159	165,734
CULTURE, RECREATION & TOURISM	96,061	98,083	84,363	13,720
TRANSPORTATION & DEVELOPMENT	636,635	647,332	608,952	38,380
PUBLIC SAFETY	1,941,819	1,955,253	1,457,015	498,238
HEALTH & WELFARE	10,368,525	10,614,633	10,139,875	474,758
CORRECTIONS	740,670	759,090	733,186	25,904
YOUTH DEVELOPMENT	118,056	121,761	106,318	15,443
CONSERVATION & ENVIRONMENT	515,626	559,238	358,526	200,712
EDUCATION	6,287,180	6,329,576	6,156,178	173,398
AGRICULTURE & FORESTRY	84,355	83,571	76,999	6,572
ECONOMIC DEVELOPMENT	151,252	189,823	139,795	50,028
MILITARY & VETERANS AFFAIRS	167,515	176,729	145,954	30,775
WORKFORCE SUPPORT & TRAINING	286,902	289,671	244,715	44,956
TOTAL EXPENDITURES	<u>22,603,085</u>	<u>23,049,653</u>	<u>21,311,035</u>	<u>1,738,618</u>
EXCESS(DEFICIENCY) OF REVENUES				
OVER(UNDER) EXPENDITURES	<u>(13,092,862)</u>	<u>(13,179,811)</u>	<u>(12,445,187)</u>	<u>(734,624)</u>
OTHER FINANCING SOURCES (USES):				
TRANSFERS IN	12,995,658	13,119,122	12,375,954	(743,168)
TRANSFERS OUT	(330,500)	(245,274)	(250,352)	(5,078)
SALES OF GENERAL CAPITAL ASSETS	--	--	(7)	(7)
TOTAL OTHER FINANCING SOURCES/(USES)	<u>12,665,158</u>	<u>12,873,848</u>	<u>12,125,595</u>	<u>(748,253)</u>
NET CHANGE IN BUDGETARY FUND BALANCE	<u>(427,704)</u>	<u>(305,963)</u>	<u>(319,592)</u>	<u>(13,629)</u>
BUDGETARY FUND BALANCE - BEGINNING	<u>305,964</u>	<u>305,963</u>	<u>188,876</u>	<u>(117,087)</u>
BUDGETARY FUND BALANCE - ENDING	<u>\$ (121,740)</u>	<u>\$ --</u>	<u>\$ (130,716)</u>	<u>\$ (130,716)</u>

The State's budget is enacted each year by the Legislature as elected by the citizens of the State. The Legislature is required to enact a balanced budget. The budget is developed based on the governmental services that citizens demand as constrained by the State's resources available to pay for those services. The General Fund reports substantially all of the governmental services provided to the citizenry. Spending in compliance with budgeted amounts helps to ensure the State is providing services that citizens demand, the State is providing these services in an efficient manner, and the State is delivering services that it has the means to pay for.

Most of the State's operating expenditures are reported in the General Fund. These expenditures are funded by a variety of sources including federal revenues and transfers of interagency receipts; agency self-generated revenues; and taxes, licenses, and fees from the Bond Security and Redemption Fund and other statutorily dedicated funds.

Budgeted expenditures are constrained by annual revenue projections forecasted by the Revenue Estimating Conference (REC). Actual expenditures financed with federal receipts and General Fund taxes, licenses, and fees are limited to current budget. Actual expenditures of all other revenues are limited to the lesser of budget or actual collections. Over the course of the year, agencies may request budget adjustments based on actual need.

Despite downward adjustments to General Fund taxes, license and fee revenue forecasts for the year, final budgeted expenditures were \$446.6 million greater than the original budget adopted by the Legislature. The increased budgeted expenditures were tied to additional collections of federal revenue, other fees and self-generated revenues, interagency transfers, and transfers from statutorily dedicated funds. These increases included additional appropriations to the Medicaid program, the Department of Public Safety and the Coastal Protection and Restoration Agency to expend BP settlement dollars for coastal projects, the Minimum Foundation Program to fully fund the allocation to public schools, and the Department of Economic Development and Military and Veterans Affairs.

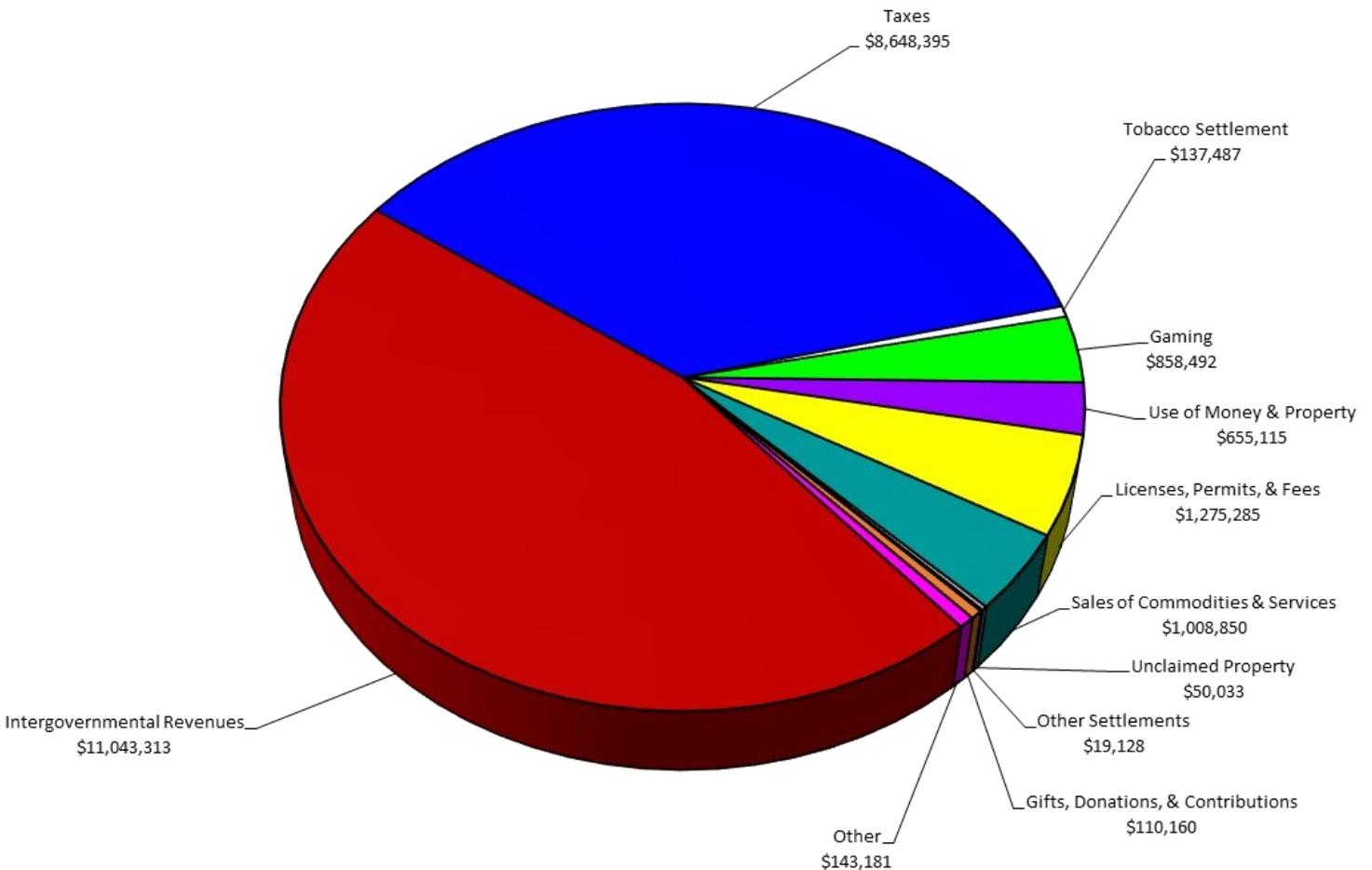


Actual budgetary basis General Fund expenditures were \$1.7 billion lower than final budgeted amounts. This variance is mainly because forecasts for budgeted expenditures of federal receipts are largely based on remaining grant balances. Since the entire remaining allocations of grants are rarely spent within one year, budgeted amounts are inflated relative to actuals. In other instances, funds were received in accordance with the budget; however, delays in expenditures occurred due to various factors. In these cases, the cash and budget authority in the amount of \$116.5 million was carried forward to fiscal year 2017.

Revenues

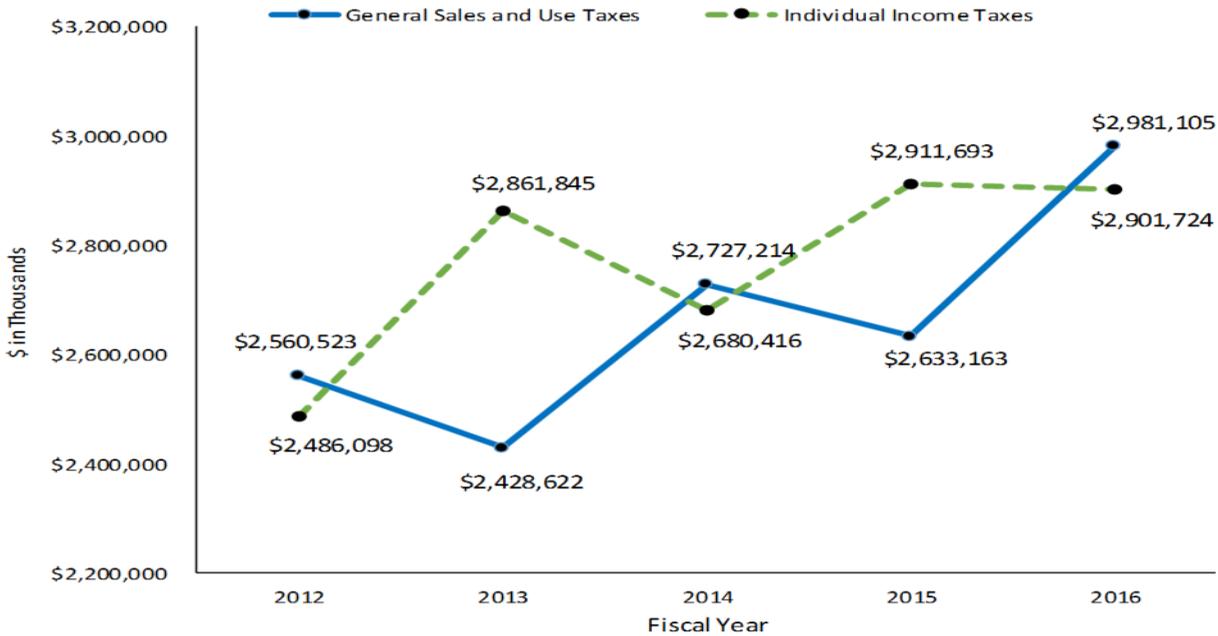
During FY 2016, 46.1% of the State's revenues were from the federal government and 53.9% were derived from the State's own revenue generating authority. The State's own-source revenues are comprised mainly of taxes supplemented with gaming revenues; licenses, permits, and fees; and sales of commodities and services. Taxes include sales and use, individual income, severance, gas and fuels, and insurance premium taxes. Gaming revenues consist of profit-sharing with the Louisiana Lottery Corporation and gaming franchise fees. Licenses, permits, and fees consist of charges to users related to regulated activities such as vehicle licenses collected by the Office of Motor Vehicles. Sales of commodities and services consist of sales to entities outside the primary government.

Sources of Revenue - Governmental Funds
(\$ in thousands)



The two largest tax revenue streams are general sales and use taxes and individual income taxes. The chart below shows the trends in general sales and use taxes and individual income taxes over the last five fiscal years. General sales and use taxes has increased over the last five fiscal years with the largest increase in fiscal year 2016 mainly due to the additional one cent sales tax effective on April 1, 2016. Individual income taxes has also increased over the last five fiscal years due to the increases in personal incomes.

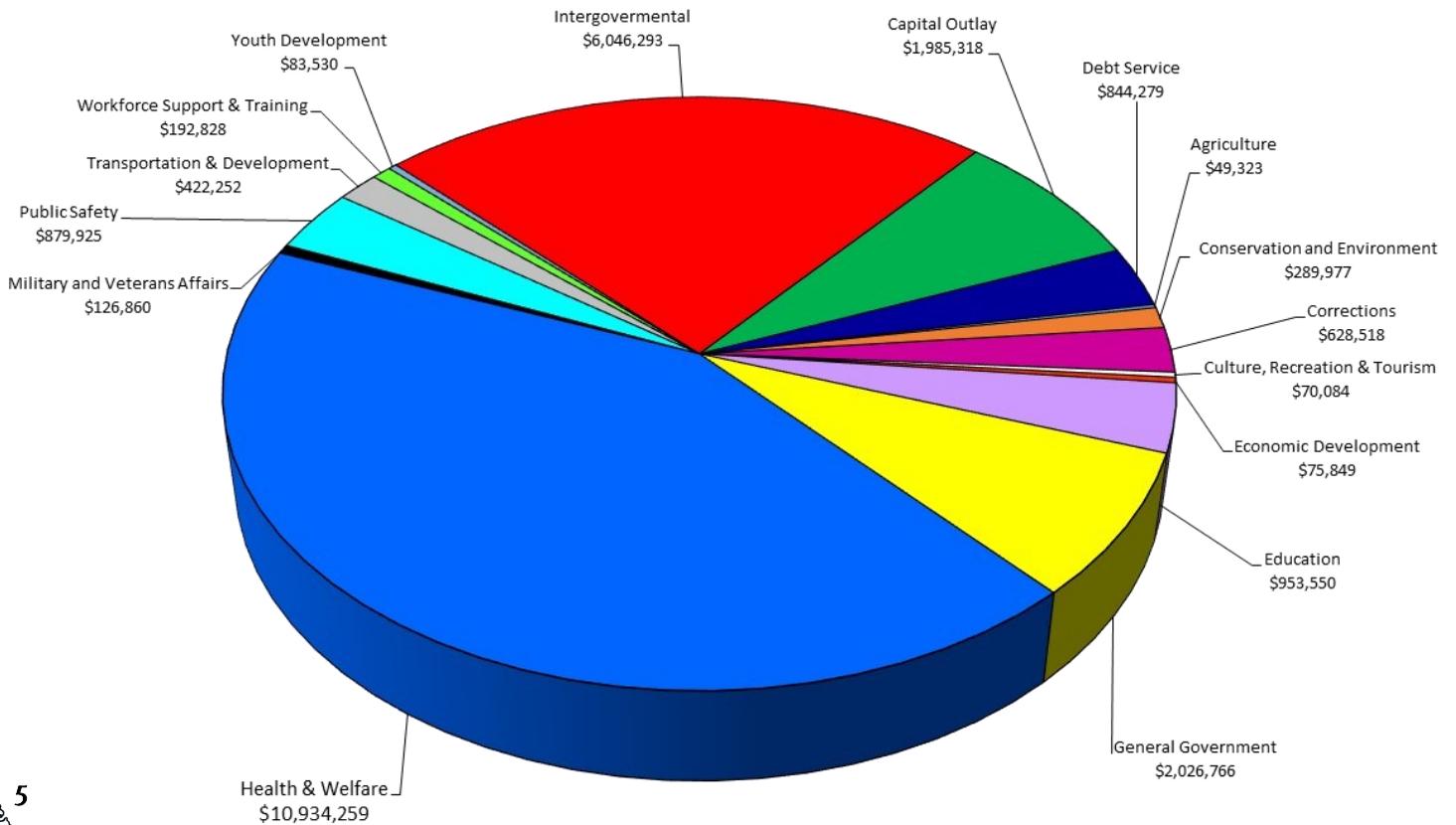
**General Sales and Use Tax and Individual Income Taxes
(Last 5 Fiscal Years)**



Source: Integrated Statewide Information

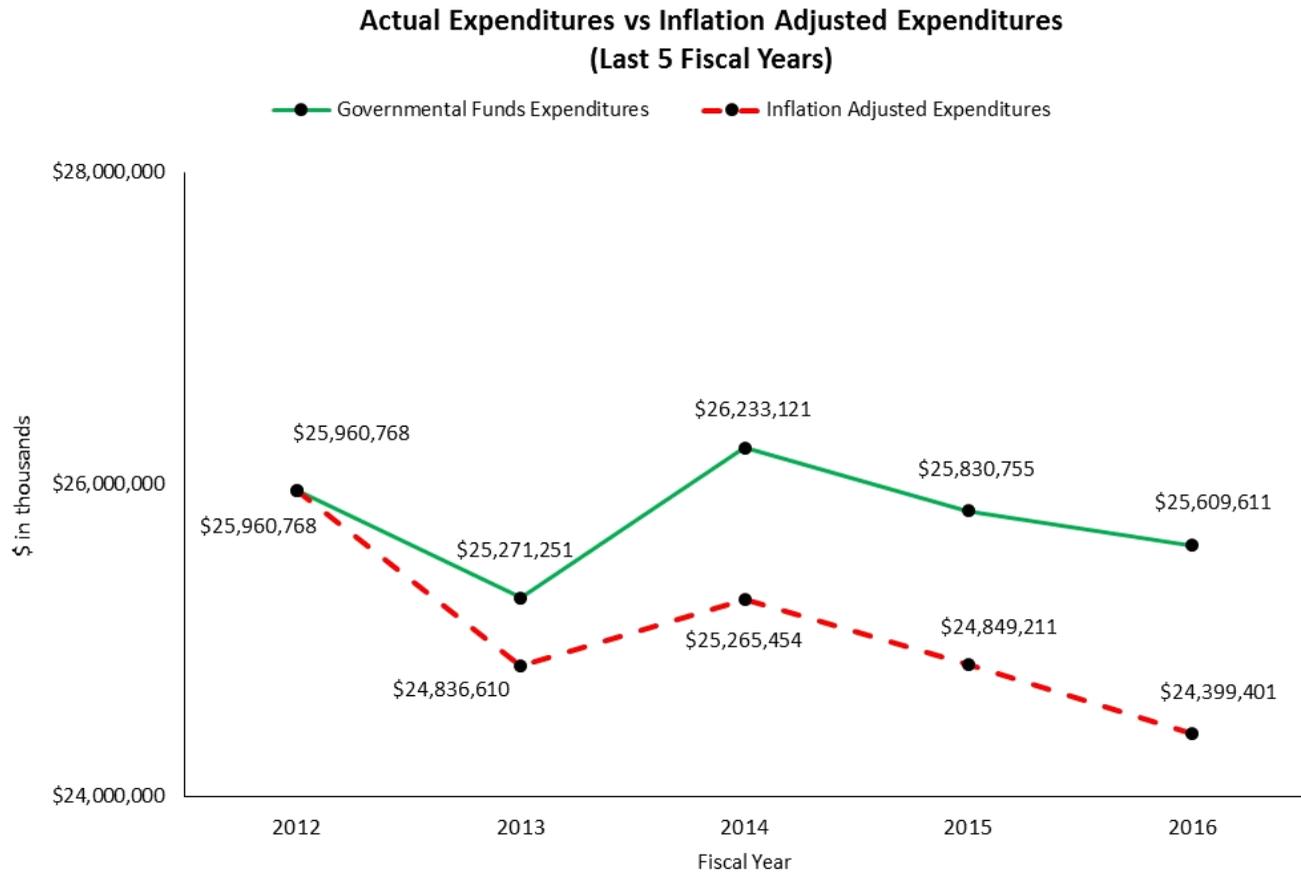
Expenditures

**Governmental Fund Expenditures by Category
(\$ in thousands)**



The State's expenditures are largely for health and welfare programs including large federal programs such as Medicaid and the Supplemental Nutrition Assistance Program (SNAP). Another large portion of state expenditures are provided to local governments including funding for K – 12 education through the Minimum Foundation Program provided to public school districts and funds provided through revenue sharing programs to parishes. General government includes expenditures of the judicial and legislative branches as well as general administrative functions such as the Office of Group Benefits. Capital outlay includes expenditures for State-owned capital assets such as roads, bridges, and buildings and capital grants to other entities.

The trend in state expenditures the last five fiscal years largely tracks the trend in revenues. This is because budgeted expenditures are based on revenue forecasts by the Revenue Estimating Conference (REC) and the requirement for the Legislature to pass a balanced budget each year. Not only does a decline in revenue generally impede the State from maintaining the same level of services to its citizenry, inflation also has the same effect by reducing the State's purchasing power. Inflation-adjusted expenditures for the last five fiscal years are included to illuminate the extent to which service delivery (approximated by spending) has been impaired in terms of real dollars.



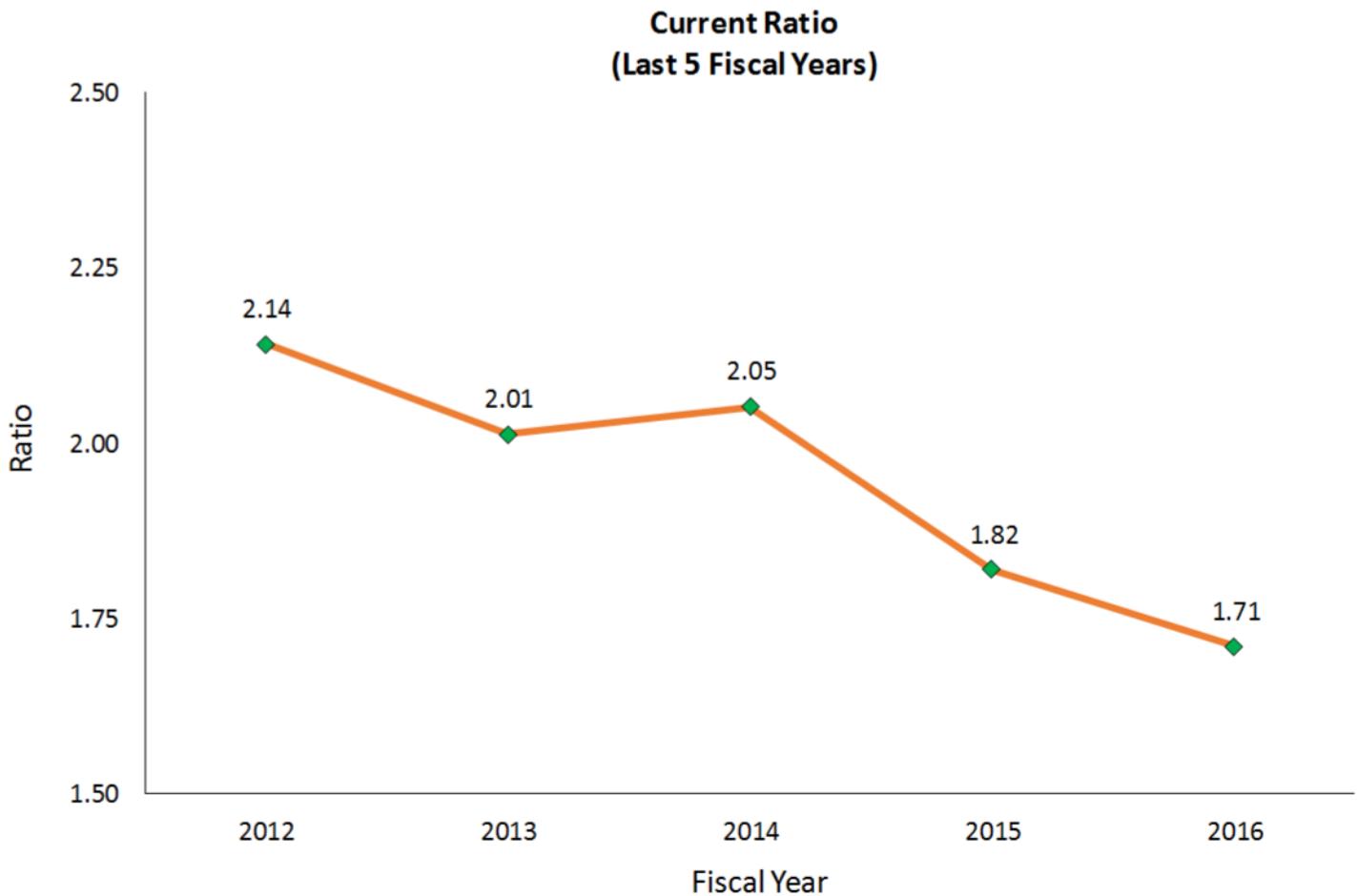
Source: 2012-2016 CAFR & the Bureau of Labor Statistics



Liquidity

Liquidity is defined as the ease with which an entity can pay its debts. A government is considered to be relatively liquid when cash and other assets that are easily converted to cash (liquid assets) exceed its short-term liabilities. Conversely, a government is considered to be relatively illiquid when its liquid assets are less than its short-term obligations.

The *current ratio*, is used in assessing liquidity. The current ratio equals liquid assets divided by short-term liabilities. A current ratio greater than 1.0 indicates that the State is liquid while a current ratio less than 1.0 indicates that the State is illiquid. The current ratio decreased in fiscal year 2016 from the prior year due largely to the spend down of cash and investments related to the state funds committed for the Medicaid program and proceeds of bond issues. This decrease in current assets was accompanied by a decrease in current liability; however, current assets decreased by a greater amount resulting in a declining current ratio.



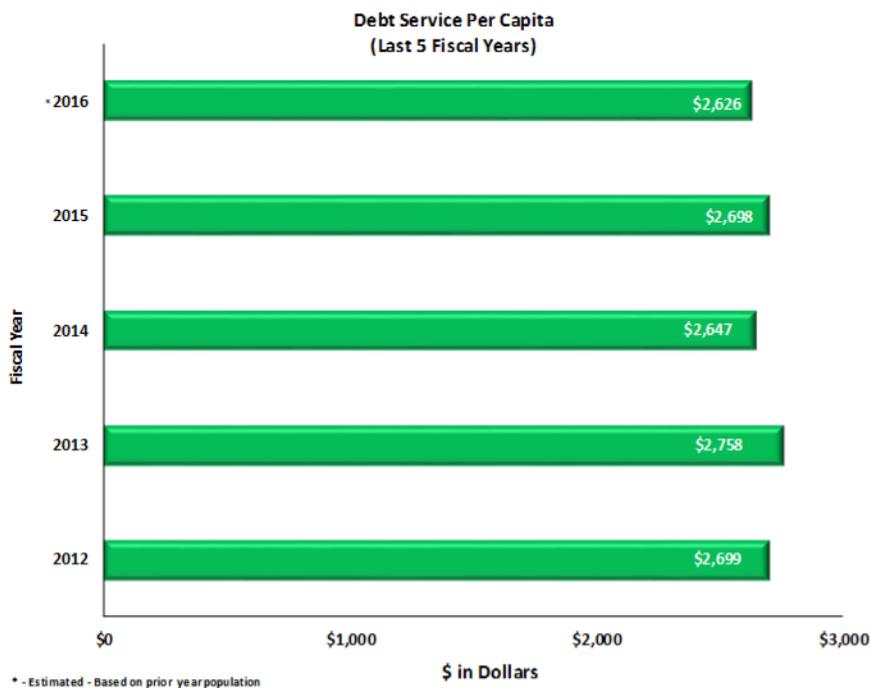
Liquidity is also assessed in terms of how many days the State can pay its operating expenses with the cash it currently has on hand. This metric, known as *days cash on hand*, is calculated by dividing expenses by 365 days to derive the average expenses per day. Total cash on hand is then divided by the average expenses per day. The higher the days cash on hand, the more liquid the State is considered to be. In fiscal year 2016, days cash on hand was approximately 20 days. This means the State's governmental activities could continue operations on its cash reserves without additional cash collections or a slow-down of expenditures for 20 days. Days cash on hand decreased from the prior fiscal year due to the spend down of cash mentioned in the previous section and due to the State reporting some money market accounts as investments in fiscal year 2016 vs cash equivalents in fiscal year 2015 .

Bonded Debt

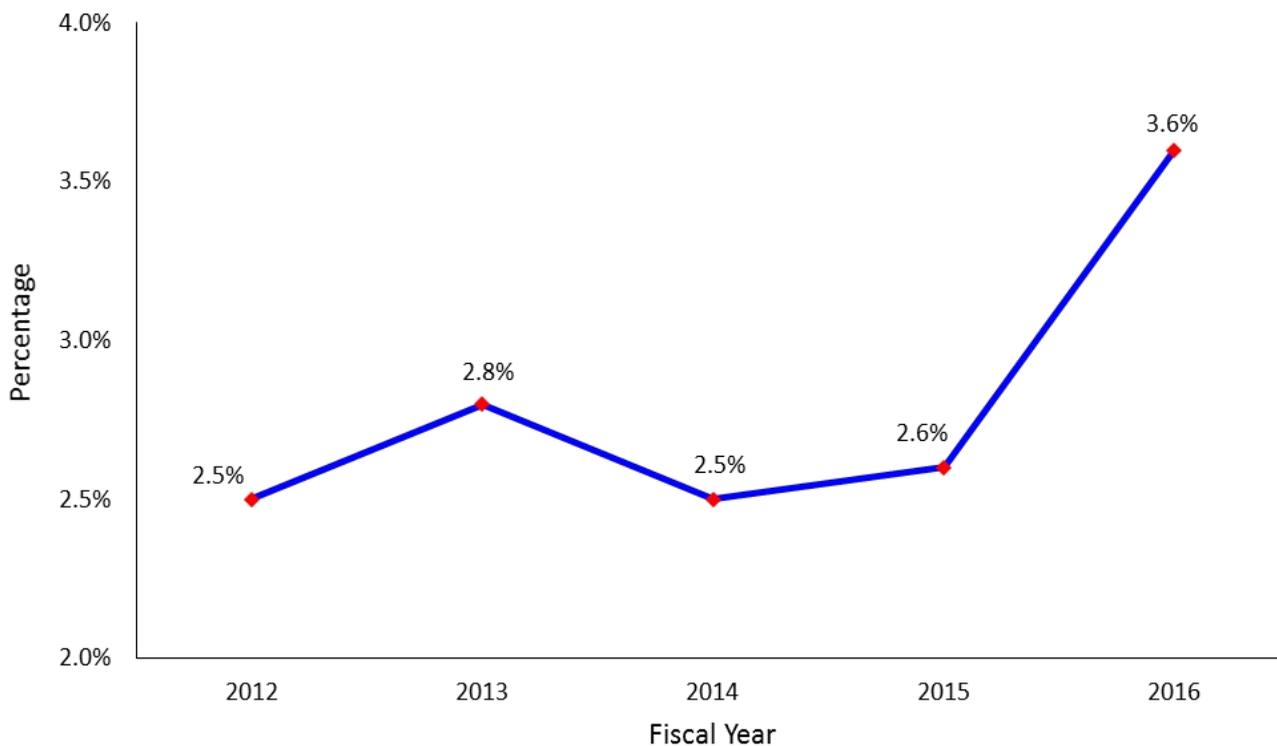
Bonds are issued to access monies today that otherwise wouldn't be collected until future periods. Issuing debt is useful in funding projects and programs today that would normally be completed over many years. However, if a government borrows too heavily, the government may have to spend a large portion of its revenues paying principal and interest on the debt, rather than providing governmental services to its citizens.

Assessing the extent to which a government has issued too much debt depends on many variables including the government's capacity to raise revenues, expenditure levels, and ability to access credit markets, and other factors. However, it's generally useful to benchmark certain debt metrics against other similar governments.

Debt per capita provides information about the debt burden placed on each citizen, who is ultimately responsible for repaying debt through taxes, fees, or other charges. According to Moody's *State Debt Medians 2016* report, the median debt per capita for states was \$1,026. Of the 50 states, Louisiana had the 14th most debt per capita.



**Debt Service as a Percentage of Noncapital Expenditures
(Last 5 Fiscal Years)**



Over the past five years Louisiana’s debt service expenditures as a percentage of noncapital expenditures ranged from 2.5% - 3.6%. This metric gives an idea of how much of the State’s operating budget is consumed by servicing debt rather than providing direct services to its citizens. According to the Moody’s report, Louisiana had the 35th lowest debt service ratio of the 50 states.

Funding for Postemployment Benefits

The State provides pensions and post-employment benefits other than pensions (called OPEB which includes health and life insurance benefits) to its retirees. Defined benefit plans provide a pre-determined level of benefits for an uncertain amount of time. In the case of pensions, the State provides specified amounts to retirees until death that is predetermined by a formula based on the individual’s earning history. In the case of OPEB, the State assumes the risk of paying a share of health care costs or health care premiums for retirees until death.

The State is a participating employer in seven defined benefit pension plans. Pension benefits are pre-funded. This means the State and participating employees contribute to the pension system while employees are in active service to pay for the pension benefits the employee is entitled to at retirement. Employee contributions are established in statute. Employer contributions are actuarially determined each year by the Public Retirement System Actuarial Committee (PRSAC).

The State fully funds the actuarial determined contributions that are developed to fund the additional pension benefits earned by all employees during the year and to amortize unfunded liabilities of prior years.

The State participates in two OPEB plans: one administered by the Office of Group Benefits and the other administered by Louisiana State University. Unlike pension benefits, the State does not prefund OPEB benefits. Rather, employer contributions are made on a pay-as-you-go basis. Therefore, no assets are set aside to offset the actuarially accrued liability resulting in a funded ratio of 0%.

The following chart shows the ratio of assets set aside to fund the actuarial accrued liabilities of the defined benefit pension plans in which the State participates:

Funded Percentage of Actuarial Accrued Liability					
Last 5 Fiscal Years					
	2012	2013	2014	2015	2016
District Attorneys' Retirement System	83%	86%	92%	97%	98%
Louisiana Clerks' of Courts Retirement System	71%	71%	75%	79%	80%
Louisiana State Employees' Retirement System	56%	60%	59%	62%	63%
Registrar of Voters Employees' Retirement System	74%	74%	78%	82%	83%
Louisiana School Employees' Retirement System	62%	62%	67%	71%	73%
Louisiana State Police Retirement System	55%	59%	66%	69%	70%
Teachers' Retirement System of Louisiana	55%	56%	57%	61%	62%

Source: Retirement Systems' Actuarial Valuation Reports

Operating Indicators

The following table presents key operating indicators for the State for the last five fiscal years:

OPERATING INDICATORS BY FUNCTION/PROGRAM LAST FIVE YEARS					
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
GENERAL GOVERNMENT					
AGRICULTURE - CROPS (in thousands) - [1]	*	\$2,024,038	\$2,649,907	\$2,766,125	\$2,962,500
AGRICULTURE - LIVESTOCK (in thousands) - [1]	*	\$1,273,555	\$1,342,101	\$1,159,661	\$1,165,382
AGRICULTURE - TIMBER (in thousands) - [1]	*	\$463,747	\$386,975	\$425,046	\$337,288
ELECTIONS - REGISTERED VOTERS (in thousands) - [1]	*	2,910	2,948	2,918	2,920
REVENUE - TAX RETURNS FILED (in thousands) - [2]	3,808	2,858	3,517	3,577	3,952
REVENUE - TAX RETURNS FILED ELECTRONICALLY - [2]	80%	80%	77%	74%	61%
CULTURE, RECREATION, AND TOURISM					
STATE PARKS VISITORS (in thousands) - [2]	1,994	1,899	1,747	1,967	2,151
TRANSPORTATION AND DEVELOPMENT					
NUMBER OF BRIDGES - [1]	12,748	12,907	12,982	12,955	13,095
PUBLIC SAFETY					
STATE POLICE ROAD PATROL MILEAGE (in thousands) - [2]	13,425	12,788	8,555	8,958	11,305
HEALTH AND WELFARE					
LDH - MEDICAID CLAIMS PROCESSED (in thousands) - [2]	61,836	57,690	53,814	56,395	60,498
LDH - CHILDREN IMMUNIZED - [3]	*	96%	94%	94%	93%
CORRECTIONS					
AVERAGE DAILY COST PER INMATE BED - [2]	\$53.74	\$53.79	\$50.21	\$53.43	\$54.82
CONSERVATION AND ENVIRONMENT					
WLF - FISH AND SHELLFISH (in thousands) - [1]	*	\$384,519	\$413,854	\$317,515	\$265,092
WLF - ALLIGATOR AND GAME (in thousands) - [1, 6]	*	*	\$97,431	\$39,106	\$84,738
WLF - HUNTER DAYS ANNUALLY (in millions) - [1]	*	6.0	7.0	7.0	5.4
WLF - LICENSED COMMERCIAL FISHERMEN - [1]	*	13,929	13,651	13,272	13,629
EDUCATION					
GRADES K-12 (number of students) - [3]	*	690,267	717,896	713,110	707,464
AVERAGE ACT SCORE - [4]	19.5	19.2	19.1	20.3	20.3
START PRINCIPAL DEPOSITS (in thousands, cumulative) - [1]	*	\$72,618	\$71,619	\$64,111	\$62,913
TOPS TUITION AWARDS (in thousands) - [2]	\$262,489	\$249,995	\$244,627	\$192,085	\$166,886
TOPS AWARDS RECIPIENTS (number of students) - [2]	51,106	48,790	48,224	46,263	44,433
COLLEGES & UNIVERSITIES (number of students) - [5]	*	215,200	216,123	216,613	221,831
* Information for this year is not yet available					
Sources: [1] based on calendar years					
[2] based on fiscal years					
[3] based on school year reported on October 1					
[4] based on graduating class					
[5] based on preliminary amounts reported on September 1					
[6] 2013 was a transition year to coincide tag year with fiscal year					

WEBSITE ADDRESSES

State of Louisiana
Office of the Governor
Division of Administration
Office of Statewide Reporting and Accounting Policy

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