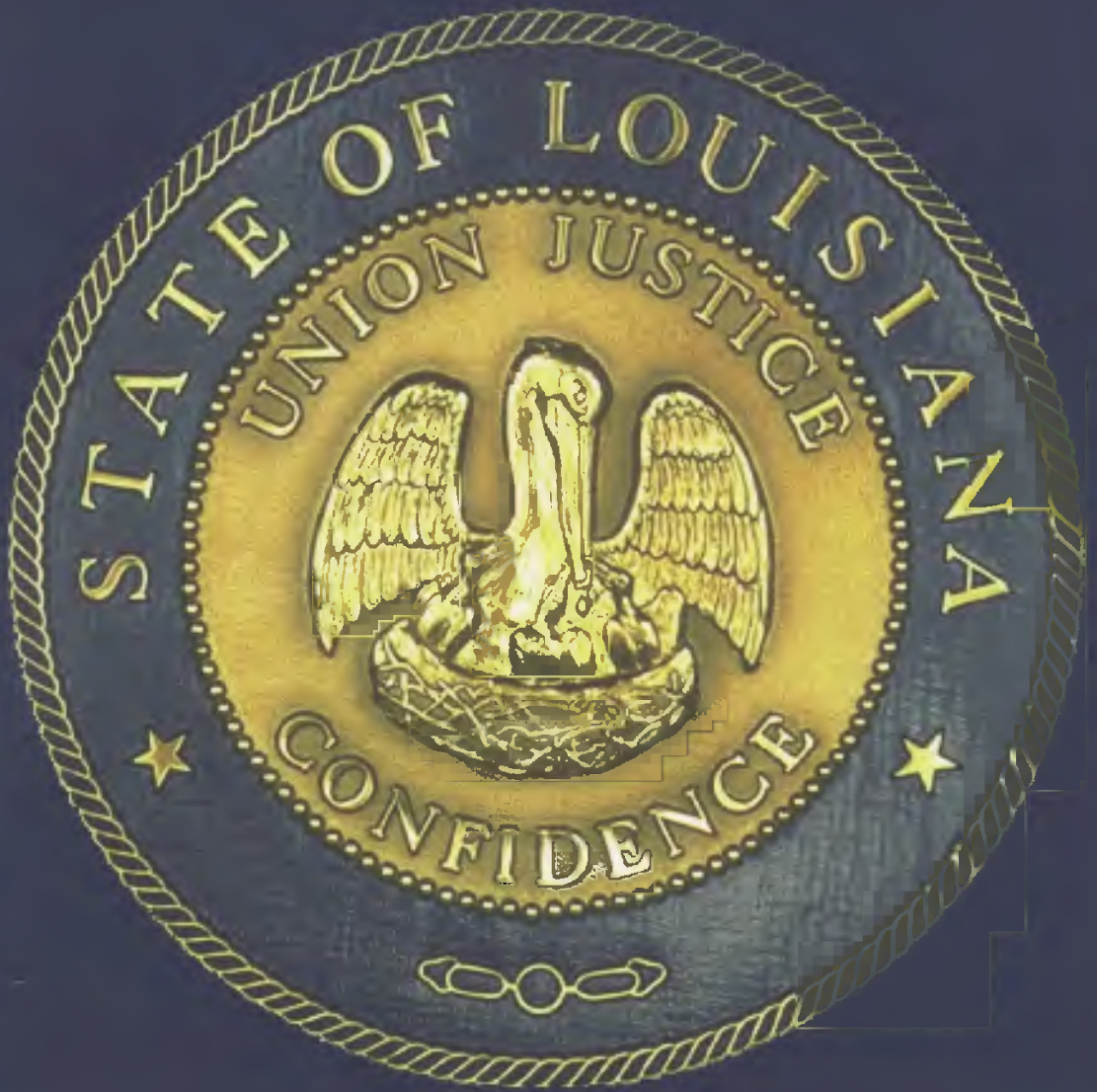


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Popular
Annual Financial Report
For the fiscal year ended

STATE OF LOUISIANA

POPULAR ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2005

The Popular Annual Financial Report (Popular Report) is prepared after each fiscal year end to comply with statutory requirements 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 basic information about the State of Louisiana's revenues, expenditures, financial position, budget and performance. The information, presented in a non-technical format, is intended to summarize basic financial information about our State.

The financial information included in this report is supported in detail in the State's Comprehensive Annual Financial Report (CAFR). The financial data presented in the "Government-wide Financial Analysis", "General Fund Balance Sheet", and "Unreserved and Undesignated General Fund Balance" sections of this report use the same measurement focus and basis of accounting as the CAFR.

The CAFR is prepared in accordance with generally accepted accounting principles (GAAP) and is independently audited by the Office of the Legislative Auditor of the State of Louisiana. Conversely, this report is unaudited and includes financial data (in the "Government-wide Financial Analysis" section) that departs from GAAP since it does not include the entire GAAP reporting entity (such as component units of the state) and includes only selected financial data. Additionally, the data found in the "Budgetary Information" section departs from GAAP because it is prepared on a non-GAAP budgetary basis.

The CAFR can be obtained on the internet at www.doa.state.la.us/osrap/library/Publications/cafr05.pdf or by contacting the Office of Statewide Reporting and Accounting Policy, P.O. Box 94095, Baton Rouge, LA 70804-9095.

ECONOMIC OUTLOOK

After a year in 2004 when the Louisiana economy began to grow again, the state suffered a severe blow to its economy as Hurricanes Katrina and Rita created extensive physical damage and economic havoc over the entire southern coast of Louisiana. Employment dropped nearly 250,000 jobs overnight. The New Orleans area and surrounding parishes' ability to support industries was greatly diminished due to the destruction of homes which provided shelter for workers in the New Orleans area combined with the movement of families out of the region and have contributed to a major financial blow to government

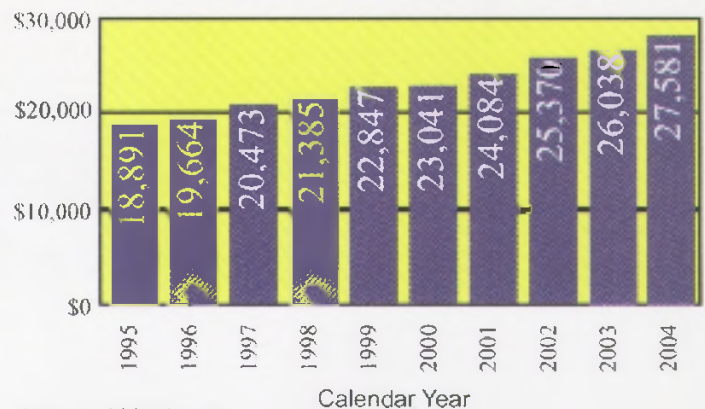
at all levels. Some of the key drivers of the Louisiana economy are now facing significant uncertainty. For example, mineral revenues will be affected since Katrina and Rita damaged oil and gas production platforms, rigs, processing plants, and other oil and gas related facilities. Also, gaming revenues could suffer since gaming facilities in the New Orleans area rely on both local customers and tourists, both of which have been reduced because of the hurricanes. (Source: *The Louisiana Economic Outlook: 2006 and 2007* by Loren Scott and James A. Richardson)

Unemployment Rate
Last 10 Calendar Years



Source: 2005 CAFR

Income Per Capita
Last 10 Calendar Years



Source: 2005 CAFR

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Government-wide activities provide a broad overview of the state's finances similar to a private sector business. The government-wide activities presented here reflect the combined financial position and operating results of the State, not including fiduciary funds (such as pension funds) or component units. Component units are entities which the state has some accountability for that are required to be separately reported in the state's CAFR.

By comparison to last fiscal year, the government-wide statements of the State reflect total assets of \$24.8 billion (a \$2.2 billion increase over last year) and total liabilities of \$9.5 billion (a \$962 million increase). As a result, total

net assets (assets less liabilities) equaled \$15.3 billion at June 30, 2005, which is an increase of \$1.2 billion or 8.4% over last year. The unrestricted net assets deficit of \$4 billion is an increase of \$348 million over last year's. This "deficit" represents a negative balance after the State pays all its obligations and sets aside assets it cannot spend due to legal requirements established by the legislature, the State Constitution, and other agreements with donors and grantors. A major cause of this deficit in unrestricted net assets is that the State's financial statements report debt for capital assets owned by local governments but financed by the state. These assets are carried on the local government's financial statements.

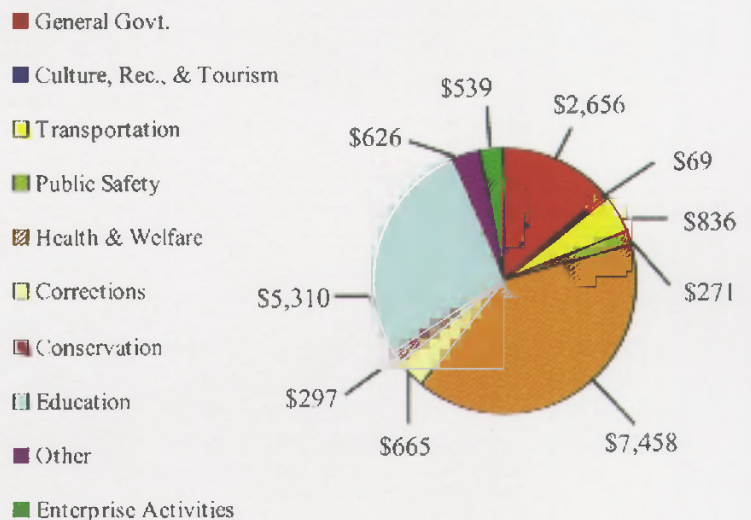
EXPENSES

On a government-wide basis, the state spent \$18.7 billion during fiscal year 2004-2005 to provide services to Louisiana citizens. As depicted in the accompanying chart, health and welfare represents the state's largest spending category, accounting for 41 percent of the state's spending. Education represents the second largest spending category, accounting for over 29 percent of the state's spending.

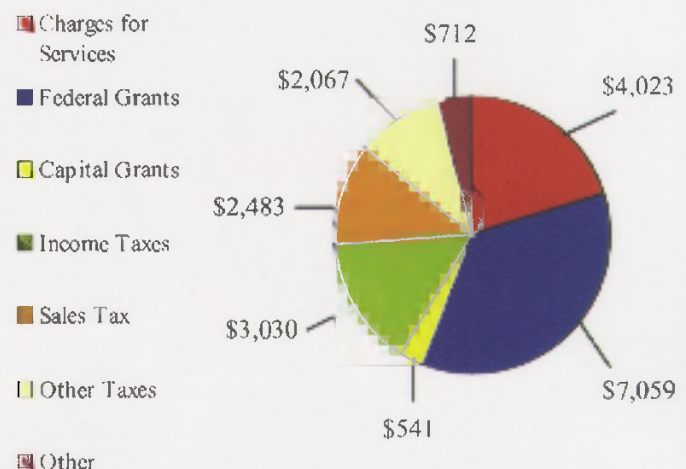
REVENUES

State revenues totaled \$19.9 billion in fiscal year 2004-2005. Fund balances and other state assets were also used to support government programs. As the accompanying chart shows, 37 percent of the state's revenues came from the federal government and were earmarked for specific uses.

Government-wide Expenses (In Millions)



Government-wide Revenues (In Millions)



GENERAL FUND BALANCE SHEET

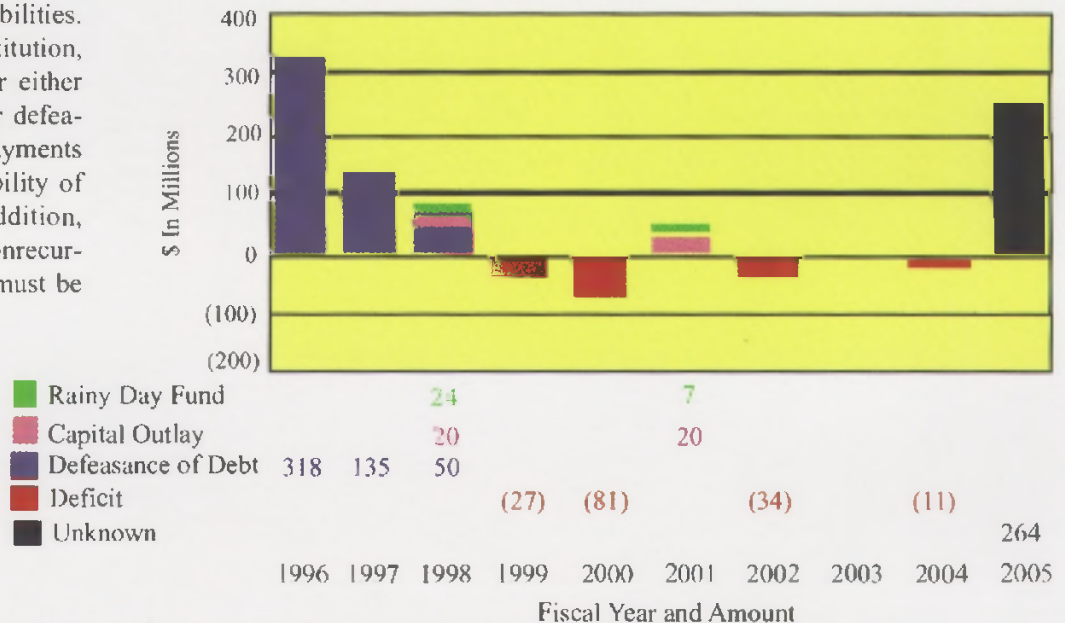
While the foregoing discussion on the government-wide financial statements shows the condition of the entire State, of special interest is the balance sheet of the General Fund, which is the chief operating fund of the State. The fund's assets of \$2.3 billion and obligations of \$1.7 billion leave a total fund balance of \$576 million. Much of this balance (the "reserved fund balance" and the "designated fund bal-

ance") is usually reserved or designated for various specific purposes, while any remaining amount (the "unreserved and undesignated fund balance") is theoretically the amount left over after all of the State's obligations have been met. For fiscal year 2005, the total available assets exceeded the total liabilities, reservations, and designations, resulting in a surplus of \$264 million.

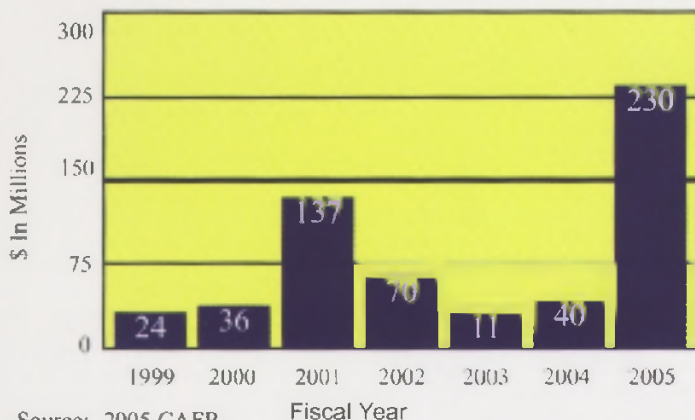
UNRESERVED/UNDESIGNATED GENERAL FUND BALANCE

One measure of the financial performance of the State is the comparison of the unreserved and undesignated fund balance (the surplus or deficit) of the General Fund for the last several years. This fund balance is theoretically the amount "left over" after assets are compared against liabilities. According to the Louisiana Constitution, any surplus can only be used for either capital construction, retirement or defeasance of debt, or providing payments against the unfunded accrued liability of the retirement systems. In addition, beginning in 1998, 25% of any nonrecurring revenue, such as surpluses, must be placed in the Budget Stabilization or "Rainy Day" Fund. As previously mentioned, fiscal year 2005 closed with the General Fund having a surplus of \$264 million after some of the total fund balance was either

reserved or designated. As of this printing, it is not known how this surplus will be used. The following table shows the General Fund surpluses and deficits for the last 10 years and how any surpluses were spent.



RAINY DAY FUND DEPOSITS



Source: 2005 CAFR

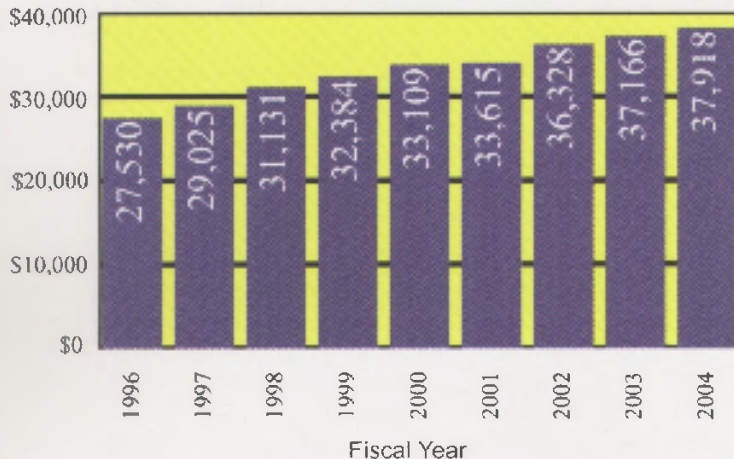
The Budget Stabilization Fund or "rainy day fund" was created in 1990 for use as a source of funding in times of declining revenues. The fund receives its monies from non-recurring revenues, mineral revenues, monies in excess of the expenditure limit, and other monies appropriated by the legislature. The monies can be spent if the forecast for recurring revenues for the next fiscal year is less than the current fiscal year, or if a deficit for the current fiscal year is projected due to a decrease in recurring revenues. For fiscal year 2005, deposits into the fund totaled \$230 million. Since its inception, deposits have totaled \$548 million, expenditures \$86 million, leaving a balance in the fund of \$462 million at the end of fiscal year 2005.

EDUCATION (K-12)

Improving Teacher Quality

As the following chart shows, teacher salaries have increased over \$10,000 (38%) from fiscal year 1996 through fiscal year 2004. As of the publication date of this document, the figures for fiscal year 2005 were not available.

Average Teacher Salaries



TOBACCO SETTLEMENT

Louisiana is one of 46 states receiving a share of the 1998 settlement with the five largest tobacco manufacturers. The monies received provide funding for the Louisiana Fund and the Millennium Trust Fund. The Millennium Trust Fund is comprised of three funds: the Education Excellence Fund, the Tuition Opportunity Program for Students (TOPS) Fund, and the Health Excellence Fund. The monies received by these funds are restricted for health and education initiatives aimed at the development of Louisiana's children, and specific tobacco-related health initiatives.

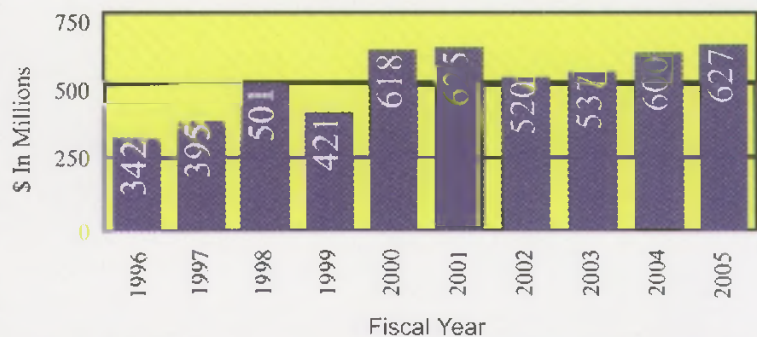
In 2002, Louisiana sold 60% of the future proceeds of the settlement to the Tobacco Settlement Financing Corporation, a special purpose public corporate entity that sold bonds to purchase the interest in the future proceeds. Including the proceeds from the bond sale in 2002, over \$1.65 billion dollars of the settlement has been placed into the three Millennium Trust Funds since the state began receiving the settlement funds. During fiscal year 2005, a total of \$87.5 million was received into the three funds.

TRANSPORTATION

The State of Louisiana had 13,206 bridges and 60,950 miles of roads and streets open to traffic at the end of calendar year 2004. A total of 16,697 miles of state highways include 12 U.S. Interstates totaling 893 miles and 2,211 miles of U.S. Routes. The remaining 44,253 miles consist of 33,332 miles of parish roads and 10,921 miles of city streets.

Construction continues to occur at a high level over the past several years compared to pre-2000. Fiscal year 2005 saw the initiation of \$627 million in new projects. The chart on the right depicts the progress that has occurred since 1996.

Highway Projects Approved & Awarded To Contractors



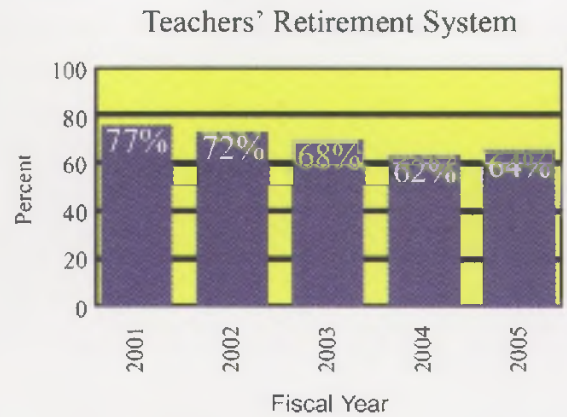
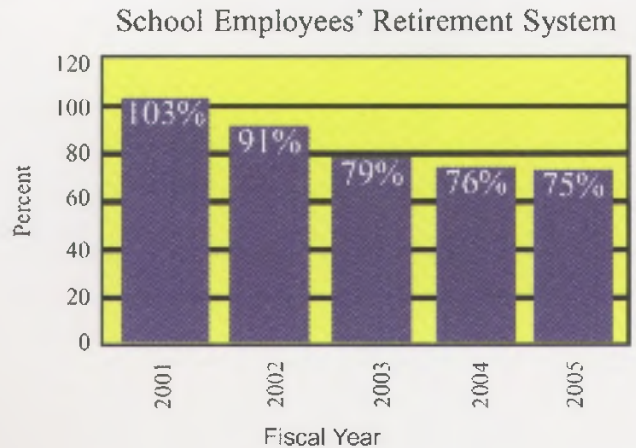
STATE PARKS & TOURISM

While Katrina and Rita wreaked havoc shortly after the fiscal year end in the greater New Orleans and southwest Louisiana, most of the state saw minimal damages from the storm. The Louisiana Office of Tourism is promoting these areas of the state as a key to restoring the state's vital tourism industry which is the state's second largest industry and a key economic driver. This industry sustains more than 120,000 jobs and is a \$9.4 billion industry. Despite the dramatic effects of the hurricanes, the Office of Tourism is gearing up for a very important year with the 150th anniversary of Mardi Gras and the Centennial Celebration of the Louisiana State Museum system. This year-long Centennial Celebration will be kicked off by the grand opening of the new Louisiana State Museum in

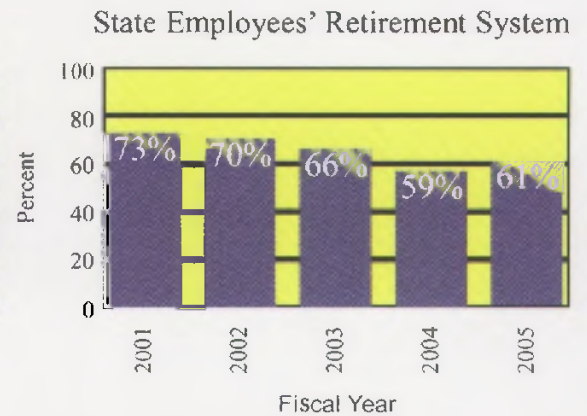
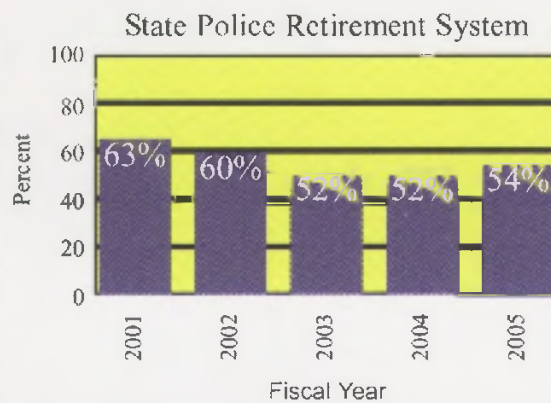
Baton Rouge in early 2006.

The system of state parks continues to be an important attraction for residents and visitors to the state, especially with the improvements being made throughout the system. For example, a new state park (South Toledo Bend State Park) was opened during 2005, and one more new park (Palmetto Island State Park) will open within the next year. In addition to the new state parks, many of the existing parks will see major additions such as new cabins, boardwalks, boat docks, fishing piers and other renovations. The State currently operates 24 State Parks covering 30,984 acres of area and 21 State Historic Sites covering 2,617 acres.

RETIREMENT SYSTEMS FUNDING



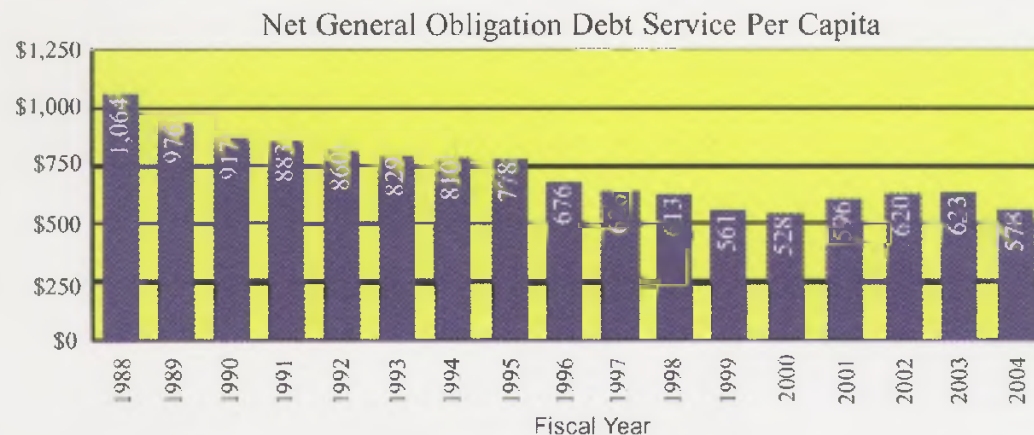
A retirement system's "Unfunded Accrued Liability" (UAL) is the amount expected to be paid in future retiree benefits over and above current resources, while the "Funded Percentage" is the percentage of this liability currently funded. The State's



four retirement systems have unfunded accrued liabilities. Three of the four systems' funded percentages increased during this fiscal year, while only one experienced a decrease. Any funded percentage decreases are mainly due to increasing annual benefit payments and increases in the actuarial accrued liabilities. The graphs above show the trends of the funded percentages of the retirement systems over the past five years. The Louisiana School Employees' Retirement System, which is now experiencing an unfunded accrued liability, was fully funded prior to fiscal year 2002, at 103% in fiscal year 2001.

STATE DEBT

Louisiana Revised Statutes (LRS) 39:1365(25) and 39:1402(D) limit the authorization and issuance, respectively, of general obligation bonds. Good debt management has produced positive results. "Debt service per capita" is the amount the State will pay per person for the general obligation debt of the State, less amounts to be received from local governments for their portion of the debt. Based on U.S. Census Bureau population statistics, the debt service per capita for fiscal year 2004 was



\$578. (Fiscal year 2005 is not available due to the unavailability of the 2005 population estimate at the date of this printing.) Despite several years of small increases since 2001 until this most recent reported year, debt service per person in Louisiana has decreased by \$486, or 46% per person, since 1988.

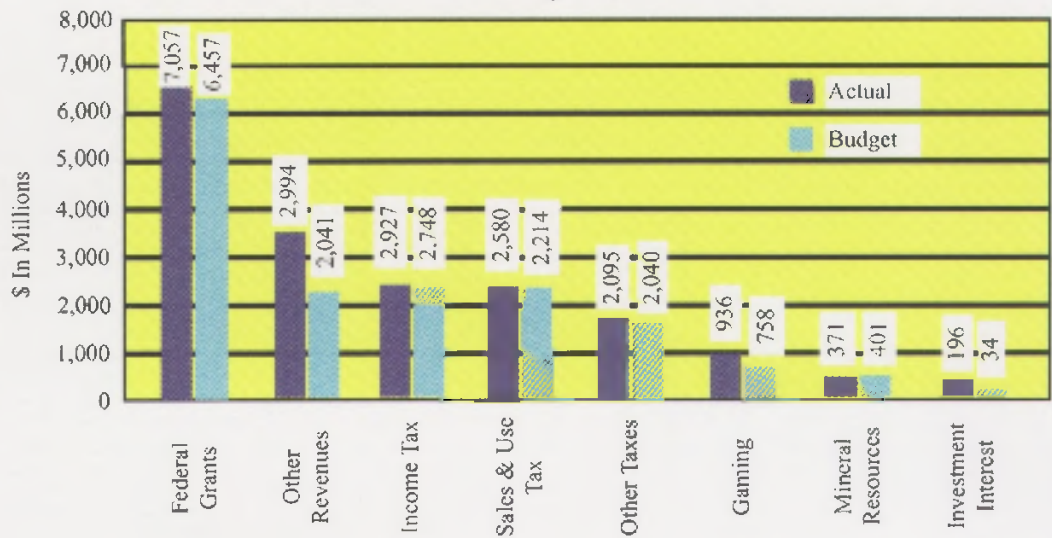
Source: 2005 CAFR

BUDGETARY INFORMATION

REVENUE BUDGET

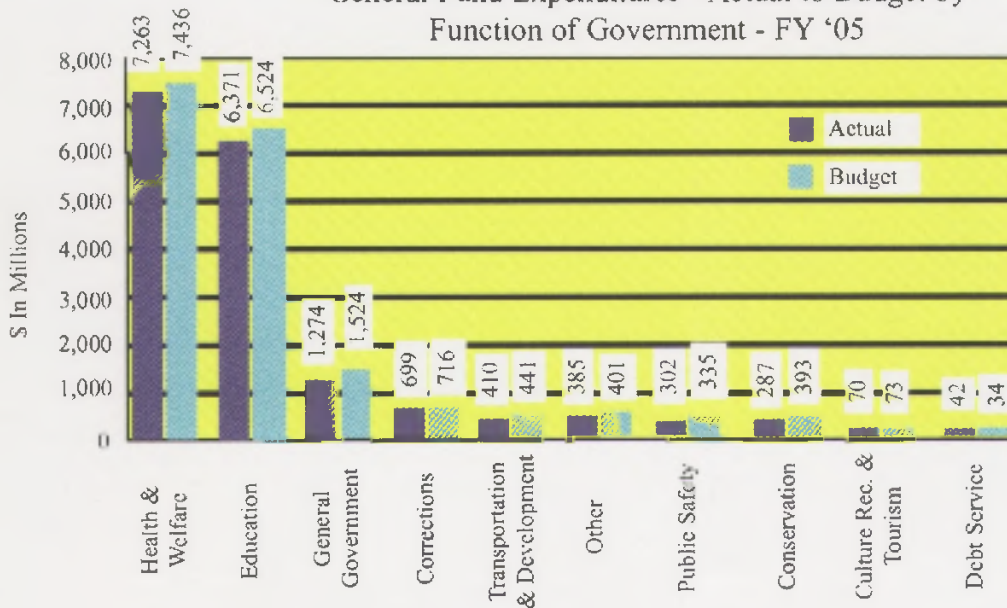
The State of Louisiana is legally required to prepare a balanced annual budget, and all State agencies are required to adhere to the budget during the fiscal year. The revenues are presented by the source of the revenue, mostly from federal grants and various taxes. The chart depicts the budgeted and actual revenues and illustrates the performance of the State in adhering to the legally adopted revenue budget which includes the General Fund and other budgeted funds.

Revenues - Actual to Budget by Source of Revenue - FY '05



GENERAL FUND EXPENDITURES BUDGET

General Fund Expenditures - Actual to Budget by Function of Government - FY '05



While the Revenue chart depicts the revenue budget by sources of revenue, the Expenditure chart depicts actual and budgeted expenditures for the General Fund, which is the chief operating fund of the State. This chart illustrates the budgeted and actual expenditures of the General Fund by function of government such as health & welfare, education, and transportation & development. It also illustrates the State's performance in adhering to the legally adopted expenditure budget.

STATE AGENCY WEBSITE ADDRESSES

State of Louisiana	www.louisiana.gov
Governor's Office	www.gov.state.la.us
Division of Administration	www.doa.louisiana/doa/doa.htm
Department of Agriculture & Forestry	www.ldaf.state.la.us
Office of Attorney General	www.ag.state.la.us
Department of State Civil Service	www.dscs.state.la.us
Department of Corrections	www.corrections.state.la.us
Department of Culture, Recreation & Tourism	www.crt.state.la.us
Department of Economic Development	www.led.louisiana.gov
Department of Education	www.doe.state.la.us
Department of Environmental Quality	www.deq.louisiana.gov
Department of Health & Hospitals	www.dhh.louisiana.gov
Department of Insurance	www.ldi.state.la.us
Department of Labor	www.ldol.louisiana.gov
Department of Natural Resources	www.dnr.louisiana.gov
Department of Public Safety	www.dps.louisiana.gov
Department of Revenue	www.rev.louisiana.gov
Department of State (Secretary of State)	www.sos.louisiana.gov
Department of Social Services	www.dss.state.la.us
Department of Transportation & Development	www.dotd.louisiana.gov
Department of the Treasury	www.treasury.louisiana.gov
Department of Wildlife & Fisheries	www.wlf.state.la.us
Board of Regents for Higher Education	www.regents.state.la.us
Louisiana Legislative Auditor	www.lla.state.la.us
Louisiana Performance Accountability System	www.doa.state.la.us/opb/lapas/lapas.htm
Louisiana Public Service Commission	www.lpsc.org
Louisiana State Library	www.state.lib.la.us
Louisiana State Legislature	www.legis.state.la.us
Louisiana State Museum	www.lsm.crt.state.la.us
Louisiana State Police	www.lsp.org
Louisiana State Employees' Retirement System	www.lasers.state.la.us
Louisiana School Employees' Retirement System	www.lasers.state.la.us
Teachers' Retirement System of Louisiana	www.trsl.org

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