

# STATE OF LOUISIANA LEGISLATIVE AUDITOR

Louisiana Public Employees  
Deferred Compensation Plan  
State of Louisiana  
Baton Rouge, Louisiana

June 7, 2000



***Financial and Compliance Audit Division***

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***Daniel G. Kyle, Ph.D., CPA, CFE  
Legislative Auditor***

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**LOUISIANA PUBLIC EMPLOYEES  
DEFERRED COMPENSATION PLAN  
STATE OF LOUISIANA  
Baton Rouge, Louisiana**

**General Purpose Financial Statements  
and Independent Auditor's Reports  
As of December 31, 1999**

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge office of the Legislative Auditor.

June 7, 2000

**LOUISIANA PUBLIC EMPLOYEES  
DEFERRED COMPENSATION PLAN  
STATE OF LOUISIANA**

General Purpose Financial Statements  
and Independent Auditor's Reports  
As of December 31, 1999

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DANIEL G. KYLE, PH.D., CPA, CFE  
LEGISLATIVE AUDITOR

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May 22, 2000

Independent Auditor's Report  
on the Financial Statements

**LOUISIANA PUBLIC EMPLOYEES  
DEFERRED COMPENSATION COMMISSION  
LOUISIANA PUBLIC EMPLOYEES  
DEFERRED COMPENSATION PLAN  
STATE OF LOUISIANA  
Baton Rouge, Louisiana**

We have audited the accompanying general purpose financial statements of the Louisiana Public Employees Deferred Compensation Plan as of and for the year ended December 31, 1999, as listed in the foregoing table of contents. These financial statements are the responsibility of management of the Louisiana Public Employees Deferred Compensation Plan. Our responsibility is to express an opinion on the financial statements based on our audit. We did not audit the financial statements of the Government Guaranteed Fund IV, an investment product managed by Great-West Life & Annuity Insurance Company, which represents 21.6% of the total assets of the Louisiana Public Employees Deferred Compensation Plan Expendable Trust Fund. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Government Guaranteed Fund IV, is based on the report of the other auditors.

*We conducted our audit in accordance with generally accepted auditing standards and 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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 audit and the report of the other auditors provide a reasonable basis for our opinion.*

In our opinion, based on our audit and the report of the other auditors, the accompanying general purpose financial statements present fairly, in all material respects, the financial position of the Louisiana Public Employees Deferred Compensation Plan as of December 31, 1999, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

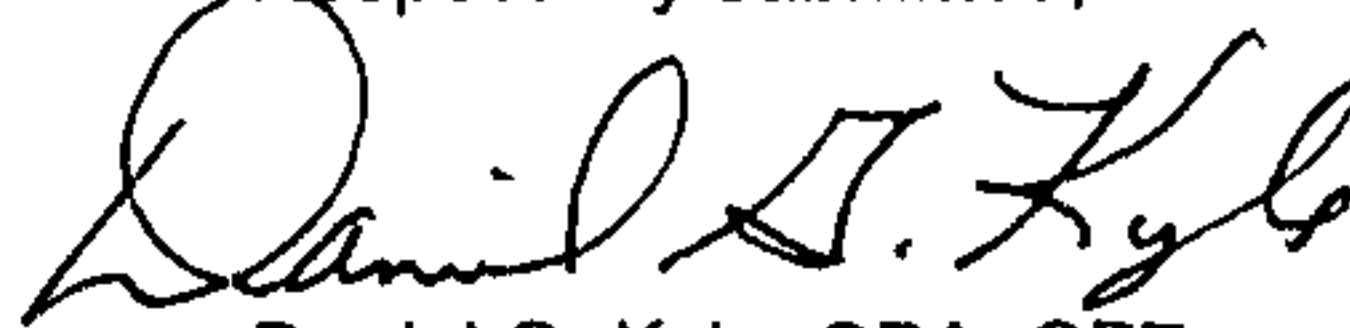
LEGISLATIVE AUDITOR

LOUISIANA PUBLIC EMPLOYEES  
DEFERRED COMPENSATION COMMISSION  
LOUISIANA PUBLIC EMPLOYEES  
DEFERRED COMPENSATION PLAN  
STATE OF LOUISIANA  
Audit Report, December 31, 1999

As discussed in note 5 to the financial statements, the Louisiana Public Employees Deferred Compensation Plan implemented the provisions of Governmental Accounting Standards Board Statement No. 32, which required the Plan to change its method of reporting Plan assets and its results of operations for the year ended December 31, 1999, from an agency fund to an expendable trust fund.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 22, 2000, on our consideration of Louisiana Public Employees Deferred Compensation Plan's internal control over financial reporting and its compliance with certain provisions of laws, regulations, and contracts.

Respectfully submitted,



Daniel G. Kyle, CPA, CFE  
Legislative Auditor

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**LOUISIANA PUBLIC EMPLOYEES  
DEFERRED COMPENSATION PLAN  
STATE OF LOUISIANA**

**Balance Sheet, December 31, 1999**

**ASSETS**

Cash (note 2)	\$236,806
Investments (note 3)	414,835,616
Cash surrender value of life insurance (note 3)	1,066,013
Contributions receivable	1,808,637
Due from plan administrator (note 7)	99,317
Administrator guarantee (note 9)	2,504,032
	<hr/>
TOTAL ASSETS	<u>\$420,550,421</u>

**LIABILITIES AND FUND BALANCES**

Liabilities - accounts payable	\$236,806
	<hr/>
Fund Balances:	
Reserved for participant benefits	420,250,076
Unreserved - undesignated	63,539
Total Fund Balances	<u>420,313,615</u>
	<hr/>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$420,550,421</u>

The accompanying notes are an integral part of this statement.



**LOUISIANA PUBLIC EMPLOYEES  
DEFERRED COMPENSATION PLAN  
STATE OF LOUISIANA**

**Statement of Revenues, Expenditures, and  
Changes in Fund Balances  
For the Year Ended December 31, 1999**

<b>REVENUES</b>	
Contributions	\$48,134,320
Investment income	59,164,457
Total Revenues	<u>107,298,777</u>
<b>EXPENDITURES</b>	
Administrative fees (note 7)	1,857,764
Benefit payments	17,750,416
Other administrative expenditures (note 11)	40,508
Total Expenditures	<u>19,648,688</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>87,650,089</u>
<b>FUND BALANCE AT JANUARY 1, 1999</b>	NONE
<b>CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE (note 5)</b>	<u>332,663,526</u>
<b>FUND BALANCE AT JANUARY 1, 1999, AS RESTATED</b>	<u>332,663,526</u>
<b>FUND BALANCE AT DECEMBER 31, 1999</b>	<u><u>\$420,313,615</u></u>

The accompanying notes are an integral part of this statement.



**LOUISIANA PUBLIC EMPLOYEES  
DEFERRED COMPENSATION PLAN  
STATE OF LOUISIANA**

Notes to the Financial Statements  
As of December 31, 1999

**INTRODUCTION**

As required by Louisiana Revised Statutes (R.S.) 42:1301-1309, the Louisiana Public Employees Deferred Compensation Plan (the Plan) is supervised by the Louisiana Public Employees Deferred Compensation Commission, a political subdivision of the State of Louisiana within the executive branch of government. The commission is composed of seven board members who serve without compensation. The Plan was established to allow employees of the state to voluntarily elect to contribute, through payroll deductions, a portion of their compensation into the Plan for the purpose of deferring the payment of federal and state income taxes on the contributions until such time as they are withdrawn by the employees. At December 31, 1999, there are approximately 26,464 participants in the Plan.

On August 20, 1986, the commission selected Great-West Life & Annuity Insurance Company as the plan administrator for a term of three years beginning on January 1, 1987, and had extended the contract through December 31, 1995. On June 19, 1995, the commission selected, through a bid process, Great-West Life & Annuity Insurance Company as the plan administrator for a term of three years beginning on January 1, 1996. On October 20, 1998, the commission exercised the first of two options to extend this contract for three years beginning on January 1, 1999. The commission has no employees.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. BASIS OF PRESENTATION**

*The accompanying financial statement has been prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and reporting principles.*

**B. REPORTING ENTITY**

GASB Codification Section 2100 has defined the Louisiana Public Employees Deferred Compensation Plan as a related organization of the State of Louisiana. Although four of the seven board members of the Plan are elected or appointed officials of the State of Louisiana, the state is not financially accountable for the Plan.

In previous years, the Plan was considered a component unit (agency fund) of the State of Louisiana since the state had a fiduciary responsibility for the administration of the Plan and, under the provisions of Section 457 of the Internal Revenue Code (IRC), Plan

**LOUISIANA PUBLIC EMPLOYEES  
DEFERRED COMPENSATION PLAN  
STATE OF LOUISIANA**  
*Notes to the Financial Statements (Continued)*

assets could be used to satisfy debts of the state. Because of an amendment to Section 457 as described in note 5, the IRC now requires that all assets and income of the Plan be held in trust for the exclusive benefit of participants and their beneficiaries. In addition, the Division of Administration - Office of Statewide Reporting, has determined that, based on the IRC changes, the state has no fiduciary responsibility for the administration of the Plan.

The accompanying financial statements present information only as to the balances of the Louisiana Public Employees Deferred Compensation Plan, a related organization of the State of Louisiana. Annually, the State of Louisiana issues general purpose financial statements which disclose the Plan as a related organization of the state. The general purpose financial statements are audited by the Louisiana Legislative Auditor.

**C. FUND ACCOUNTING**

The Louisiana Public Employees Deferred Compensation Plan uses a fiduciary fund (*expendable trust fund*) to report on its financial position. The *expendable trust fund* accounts for the receipt of contributions and the payment of benefits to participants. Benefits are funded through employee contributions and investment income on these contributions.

**D. BASIS OF ACCOUNTING**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Expendable trust funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The operating statement presents increases and decreases in net current assets. Expendable trust funds use the modified accrual basis of accounting. Accordingly, revenues are recognized when they become measurable and available and expenditures are generally recognized when the related fund liability is incurred.

**E. CASH AND INVESTMENTS**

Cash includes demand deposits. Under state law, the Plan may deposit funds within a fiscal agent bank organized under the laws of the State of Louisiana, the laws of any other state in the Union, or the laws of the United States. The plan administrator is authorized to invest in various investment products, including mutual funds, United States Treasury bills or notes, life insurance, fixed or variable annuities, and other investments approved by the commission.

**LOUISIANA PUBLIC EMPLOYEES  
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Notes to the Financial Statements (Continued)

Investments in the fixed earnings and variable earnings options are valued at the fixed earnings rates or variable unit values as reported by the investment carriers, which approximates fair value. These values represent contributions received plus investment income earned to date less applicable charges and amounts withdrawn. Purchases and sales of fixed and variable earnings investments are recorded on the trade date.

**2. CASH**

At December 31, 1999, the Plan has cash in demand deposits totaling \$236,806. The commission has directed that the deposits of the Plan in excess of federal insurance be secured by the pledge of securities owned by the fiscal agent banks. Deposit balances (bank balances) of \$1,121,051 at December 31, 1999, are fully secured by federal deposit insurance (GASB Category 1).

**3. INVESTMENTS**

Investments of \$414,835,616, as presented on Statement A, are valued at fair value. The Plan maintains investments with several product companies offering different types of investment options. The following itemizes the various product companies, the carrying value of the investments at December 31, 1999, the valuation method used in determining the carrying value, and the fair value of investments at December 31, 1999:

<u>Product/Company Investment Options</u>	<u>Valuation Method</u>	<u>Carrying Value at December 31, 1999</u>	<u>Fair Value at December 31, 1999</u>
Investments not categorized:			
Great-West Life & Annuity Insurance Company:			
Insurance contracts - fixed annuity	Fair value	\$60,138,631	\$60,138,631
Maxim Series Fund - mutual fund	Fair value	160,289,640	160,289,640
American Century Investors Fund - mutual fund	Fair value	84,603,520	84,603,520
Fidelity Advisor Growth Opportunities Fund - mutual fund	Fair value	19,052,392	19,052,392
Total Great-West Life & Annuity Insurance Company		324,084,183	324,084,183
Government Guaranteed Fund IV - United States government obligations	Amortized cost	93,284,162	90,683,767
Commercial Life Insurance Company - annuity	Fair value	67,666	67,666
Total Investments		\$417,436,011	\$414,835,616



**LOUISIANA PUBLIC EMPLOYEES  
DEFERRED COMPENSATION PLAN  
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Notes to the Financial Statements (Continued)

The Plan also has an investment in life insurance with Reliance Standard Life Insurance Company. This investment is valued at the cash surrender value of the life insurance policies, which is \$1,066,013 at December 31, 1999.

**4. PLAN RESTRICTIONS**

The deferred compensation plan is authorized under Section 457 of the Internal Revenue Code. Amounts deferred by participants are limited to the lesser of \$8,000, or 33 1/3% of the participants' includible compensation. Any amounts deferred are not subject to federal or state income tax withholdings nor are they includible as gross income until actually paid or otherwise made available to the participant. Of the 200 state agencies, offices, boards, commissions, colleges and universities participating in the Plan as of December 31, 1999, three contribute an employer's match to certain employees' contributions limited to 6.2% of the employees' compensation. Contributions by these three employers for the year ended December 31, 1999, totaled \$744,997.

Participants of the Plan may withdraw funds from the Plan only upon retirement or disability as determined in accordance with retirement laws of the state, termination of employment with the state, or financial hardship as approved by the Plan's hardship committee. Upon retirement or disability, employees may select various benefit options, including lump sum payments and periodic payments for a designated term that is not in excess of the life expectancy of the participant or the joint and last survivor life expectancy of the participant and his or her spouse.

It is the opinion of the state's legal counsel, the Louisiana Attorney General, that the state has no liability for losses under the Plan but does have the duty of due care that would be required of an ordinary prudent investor. Of the \$420,250,076 in the Plan at December 31, 1999, \$386,103,385 is applicable to the State of Louisiana, while the remaining \$34,146,691 represents the assets of other governmental jurisdictions participating in the Plan.

As of April 1, 1987, the Government Securities Fund was closed to new Plan participants. Participants joining the Plan after this date are restricted to the Great-West Life investment options. The Government Securities Fund is now reported as the Government Guaranteed Fund IV.

**5. CHANGE IN ACCOUNTING PRINCIPLE**

The Small Business Job Protection Act of 1996 (Public Law 104-188) amended Section 457 of the Internal Revenue Code to require that amounts deferred under a Section 457 plan be held in trust for the exclusive benefit of participating employees and not be accessible by the government or its creditors. As a result, Governmental Accounting Standards Board (GASB) Statement No. 32 was issued in October 1997, which requires that the Plan be reported as an expendable trust fund effective for periods beginning after December 31, 1998, or earlier upon

**LOUISIANA PUBLIC EMPLOYEES  
DEFERRED COMPENSATION PLAN  
STATE OF LOUISIANA**  
Notes to the Financial Statements (Continued)

implementation of the trust provisions of the Act. The trust provisions of the Act were implemented by the Plan effective January 1, 1999.

The Louisiana Public Employees Deferred Compensation Plan has implemented the provisions of GASB Statement No. 32 by restating beginning fund balance as of January 1, 1999. An adjustment of \$332,663,526 was made to fund balance as of January 1, 1999, representing amounts due to participants and due to the commission activity account at December 31, 1998, less an adjustment of \$6,582,473 for investments in allocated annuity contracts previously reported as Plan investments and due to participants. Under the provisions of GASB Statement No. 25, allocated annuity contracts should be excluded from the Plan's financial statements.

**6. INVESTMENT INCOME**

The annual rate of interest credited to participant accounts on investments with the various product companies for the year ended December 31, 1999, is as follows:

<u>Product/Company</u>	<u>Product</u>	<u>Interest Rate</u>
Government Guaranteed Fund IV	Various investments:	
	January - March	5.65%
	April - June	5.55%
	July - September	5.40%
	October - December	5.50%
Great-West Life & Annuity Insurance Company - Guaranteed Fund	Fixed annuity:	
	January - March	5.56%
	April - June	5.50%
	July - September	5.45%
	October - December	5.48%

Investment income for the Maxim Series Fund, American Century Investors Fund, and Fidelity Advisor Growth Opportunities Fund are not expressed as a percentage because earnings result from gains or losses arising from investment transactions and fluctuations in fair value of the applicable investments. Investment income for the Government Guaranteed Fund IV is reported at net, less the management and insurance wrapper fees disclosed in note 9.

**7. ADMINISTRATIVE FEES**

Effective January 1, 1999, the contract between the commission and Great-West Life & Annuity Insurance Company (GWLA) was amended to reduce administrative fees from .85% to .55% of assets in the Government Guaranteed Fund IV and all Great-West Life and Annuity funds that are calculated and deducted daily on a pro rata basis. The contract was also amended to

**LOUISIANA PUBLIC EMPLOYEES  
DEFERRED COMPENSATION PLAN  
STATE OF LOUISIANA**  
Notes to the Financial Statements (Continued)

further reduce the administrative fees of .55% to .45% on any portion of participant account balances that exceed \$50,000 at the end of the calendar year. The excess fees collected (.10%) will be refunded to qualifying participant accounts on January 1 of the following year. Qualifying participant accounts were refunded \$99,317 in the first quarter of 2000 based on balances at December 31, 1999. This amount is reported on Statement A as a receivable (Due from plan administrator) at December 31, 1999. During the year ended December 31, 1999, net administrative fees of \$1,857,764 were paid to Great-West Life & Annuity Insurance Company.

**8. RELATED PARTY TRANSACTIONS**

In addition to acting in the capacity of plan administrator of the Louisiana Public Employees Deferred Compensation Plan, Great-West Life Assurance Company, through its wholly-owned subsidiary, Great-West Life & Annuity Insurance Company, offers fixed annuity and mutual fund products to Plan participants. At December 31, 1999, investments in these products represent 98.7% of total Plan assets. Of this figure, 84.3% represents monies held in separate asset accounts, which are not subject to the general creditors of Great-West Life & Annuity Insurance Company.

**9. GOVERNMENT GUARANTEED FUND IV**

In June 1994, the commission entered into an agreement for the Great-West Life & Annuity Insurance Company to provide management advisory services for the Government Guaranteed Fund IV. Effective January 1, 1999, the annual fee for these services include a .12% fund management fee and a .22% insurance wrapper fee on investments in the fund to be paid to the administrator at the end of each quarter on a pro rata basis. The insurance wrapper guarantees that each Government Guaranteed Fund IV participant will receive the full book value of his/her account upon transfer and/or distribution from the Plan. During the year ended December 31, 1999, management and insurance wrapper fees of \$252,165 were charged by Great-West Life & Annuity Insurance Company.

At December 31, 1999, the participant account balances that comprise the Government Guaranteed Fund IV total \$93,187,799. The fair value of the net assets of the Government Guaranteed Fund IV as of December 31, 1999, is \$90,683,767. The difference of \$2,504,032 between the participant account balances and the net assets value is guaranteed by an insurance wrapper through Great-West Life & Annuity Insurance Company and is reported as "Administrator guarantee" on Statement A at December 31, 1999. The insurance wrapper guarantees that each Government Securities Fund and Great-West Guaranteed Fund participant will receive the full book value of his/her account upon transfer and/or distribution from the Plan. Participant distributions are based on the amount of their account balance, whereas distributions as a result of termination of the group annuity contract are based on net



**LOUISIANA PUBLIC EMPLOYEES  
DEFERRED COMPENSATION PLAN  
STATE OF LOUISIANA**  
Notes to the Financial Statements (Concluded)

assets attributable to the contract and can be made to the Plan through (1) transfer of the underlying securities and any remaining cash balance or (2) transfer of the cash balance after sale of the fund's securities.

**10. LITIGATION**

There is no pending litigation at December 31, 1999.

**11. OTHER ADMINISTRATIVE EXPENDITURES**

The Louisiana Public Employees Deferred Compensation Commission maintains a commission activity account that is included within the expendable trust fund balances shown on Statement A. Of the administrative fees charged to Plan participants as detailed in note 7, .01% is retained in the commission activity account to fund commission expenditures. Commission expenditures for the year ended December 31, 1999, totaled \$40,508, and are reported as other administrative expenditures on Statement B.

**12. CHANGES IN INVESTMENT PRODUCTS**

Effective February 5, 1999, the Maxim Midcap Portfolio (Growth Fund I) was discontinued. During the year ended December 31, 1999, the commission elected to make the following new investment options available effective February 15, 2000: Janus Twenty Fund, INVESCO Dynamics Fund, American Century Equity Income Fund, and the Janus Worldwide Fund.



**OTHER REPORT REQUIRED BY  
GOVERNMENT AUDITING STANDARDS**

The following pages contain a report on compliance with laws and regulations and on internal control as required by *Government Auditing Standards*, issued by the Comptroller General of the United States. This report is based solely on the audit of the financial statements and includes, where appropriate, any reportable conditions and/or material weaknesses in internal control or compliance matters that would be material to the presented financial statements.



DANIEL G. KYLE, PH.D., CPA, CFE  
LEGISLATIVE AUDITOR

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May 22, 2000

Report on Compliance and on Internal Control Over  
Financial Reporting Based on an Audit of the Financial Statements  
Performed in Accordance With Government Auditing Standards

**LOUISIANA PUBLIC EMPLOYEES  
DEFERRED COMPENSATION COMMISSION  
LOUISIANA PUBLIC EMPLOYEES  
DEFERRED COMPENSATION PLAN  
STATE OF LOUISIANA  
Baton Rouge, Louisiana**

We have audited the general purpose financial statements of the Louisiana Public Employees Deferred Compensation Plan, as of and for the year ended December 31, 1999, and have issued our report thereon dated May 22, 2000. We conducted our audit in accordance with generally accepted auditing standards 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 Louisiana Public Employees Deferred Compensation Plan's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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 Louisiana Public Employees Deferred Compensation Plan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose 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

**EXHIBIT A**

LEGISLATIVE AUDITOR

LOUISIANA PUBLIC EMPLOYEES  
DEFERRED COMPENSATION COMMISSION  
LOUISIANA PUBLIC EMPLOYEES  
DEFERRED COMPENSATION PLAN  
STATE OF LOUISIANA

Compliance and Internal Control Report

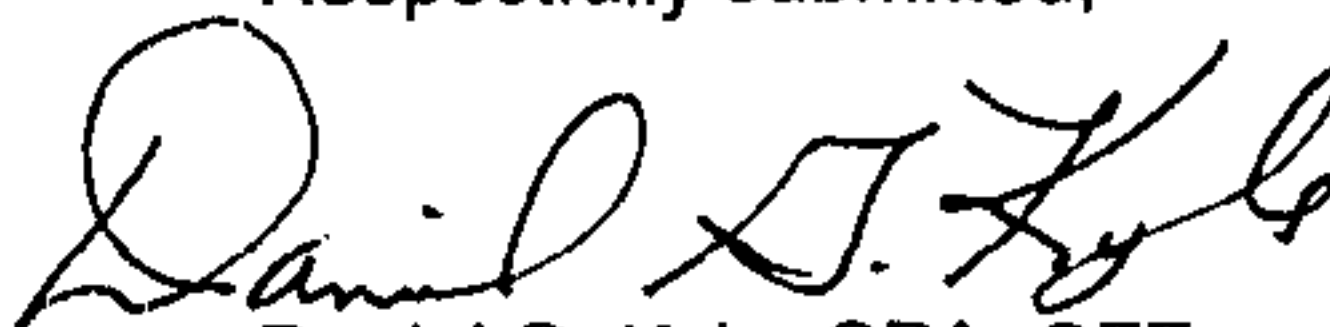
May 22, 2000

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control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose 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 operations that we consider to be material weaknesses.

This report is intended for the information and use of the Plan and its management and is not intended to be and should not be used by anyone other than these specific parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,



Daniel G. Kyle, CPA, CFE  
Legislative Auditor

BQD:THC:RCL:ss

[DEFCOMP]

EXHIBIT A