STATE OF LOUISIANA

LOUISIANA PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN
STATE OF LOUISIANA
BATON ROUGE, LOUISIANA

FINANCIAL STATEMENTS
DECEMBER 31, 2003
ISSUED JULY 28, 2004

LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
POST OFFICE BOX 94397
BATON ROUGE, LOUISIANA 70804-9397

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.

This document is produced by the Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. Five copies of this public document were produced at an approximate cost of $11.05. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:31. This report is available on the Legislative Auditor's Web site at www.lla.state.la.us. When contacting the office, you may refer to Agency ID No. 5106 or Report ID No. 04500574 for additional information.

In compliance with the Americans With Disabilities Act, if you need special assistance relative to this document, or any documents of the Legislative Auditor, please contact Wayne "Skip" Irwin, Director of Administration, at 225/339-3800.

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STEVE J. THERIOT, CPA
LEGISLATIVE AUDITOR

July 9, 2004

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 statement of net assets available for benefits of the Louisiana Public Employees Deferred Compensation Plan as of December 31, 2003, and the related statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Louisiana Public Employees Deferred Compensation Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Stable Asset Fund VII, an investment product managed by Great-West Life & Annuity Insurance Company, which represents 48.3% of the total assets of the Louisiana Public Employees Deferred Compensation Plan Pension 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 Stable Asset Fund VII, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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. The financial statements of the Stable Asset Fund VII were not audited in accordance with *Government Auditing Standards*. 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 the 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 financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Louisiana Public Employees Deferred Compensation Plan as of December 31, 2003, and the changes in net assets available for benefits for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated July 9, 2004, on our consideration of the Louisiana Public Employees Deferred Compensation Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis on pages 5 through 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Respectfully submitted,

Steve J. Theriot, CPA
Legislative Auditor

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[DEFCOMP03]

Our discussion and analysis of the Louisiana Public Employees Deferred Compensation Plan's financial performance provides an overview of the Plan's financial activities for the fiscal year ended December 31, 2003. Please read it in conjunction with the Plan's financial statements.

This annual report consists of a series of financial statements. The Statement of Net Assets Available for Plan Benefits and the Statements of Changes in Net Assets Available for Plan Benefits provide information about the activities of the Plan. These statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Condensed Financial Information:

	As of and for the year ended December 31, 2003	As of and for the year ended December 31, 2002	Percentage Change
Total assets	$542,940,823	$429,942,807	26.28%
Total liabilities	(740,761)	(343,383)	115.72%
Total net assets	$542,200,062	$429,599,424	26.21%
Additions:			
Contributions	$72,765,929	$64,586,122	12.66%
Investment income	65,281,604	(31,020,966)	310.44%
Total plan additions	138,047,533	33,565,156	311.28%
Deductions:			
Benefit payments	24,545,121	27,688,178	(11.35%)
Administrative fees	676,090	607,529	11.29%
Other administrative expenses	225,684	111,161	103.02%
Total plan deductions	25,446,895	28,406,868	(10.42%)
Change in plan assets	$112,600,638	$5,158,288	

Analysis of balances and transactions of individual funds:

The Plan grew by 26.21% in 2003 as the stock market provided positive returns after three difficult years of declines. Participant contributions to the Plan increased by 12.66% in 2003, as well as benefit payments of $24,545,121 to those who retired and/or severed from employment.

While short-term interest rates were at historical lows in 2003, participants enjoyed fixed income returns in the mid to low 4% ranges. In 2003, two variable funds experienced minor changes as the Berger Small Cap Value Fund was renamed as the Janus Small Cap Value Fund, and the Maxim INVESCO Small Cap Growth Fund changed sub-advisors to become the Maxim MFS Small Cap Growth Fund.

Description of currently known facts:

The passage of the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) in June 2001 created much opportunity for retirement savings and portability for individuals. In 2003, 153 employees transferred assets from the Plan to their public retirement system to purchase service credits.

The Commission, in fulfilling its fiduciary responsibilities, monitored the performance of the Plan's core fixed and variable investment options. With assistance by the Plan consultant, the Commission closely followed the SEC Regulatory issues that affected the mutual fund industry, including several of the investment companies that manage Plan investment options.

To provide investment selection assistance to participants, the Commission entered into a one-year trial period effective June 2003 to offer on-line investment advice services through Advised Assets Group, which is a subsidiary of Great-West Life & Annuity Insurance Company. The Commission will be reviewing the service, as well as other alternatives to see which, if any should be continued as a standard feature of the plan.

Respectfully submitted,

Emery J. Bares
Chairman
Louisiana Deferred Compensation Commission

LOUISIANA PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN
STATE OF LOUISIANA

Statement of Net Assets Available for Benefits
December 31, 2003

ASSETS	
Cash (note 2)	$722,506
Investments (note 3)	540,511,197
Cash surrender value of life insurance (note 3)	898,039
Contributions receivable	668,710
Due from plan administrator (note 10)	140,371
Total assets	542,940,823
LIABILITIES	
Accounts payable	740,761
Total liabilities	740,761
NET ASSETS AVAILABLE FOR BENEFITS	$542,200,062

The accompanying notes are an integral part of this statement.

LOUISIANA PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN
STATE OF LOUISIANA

Statement of Changes in Net Assets Available for Benefits
For the Year Ended December 31, 2003

ADDITIONS	
Contributions:	
Employee	$72,123,430
Employer (note 4)	642,499
Investment income (note 5)	65,281,604
Total additions	138,047,533
DEDUCTIONS	
Administrative fees (note 6)	676,090
Benefit payments	24,545,121
Other administrative expenses (note 10)	225,684
Total deductions	25,446,895
NET INCREASE	112,600,638
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	429,599,424
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR	$542,200,062

The accompanying notes are an integral part of this statement.

LOUISIANA PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN
STATE OF LOUISIANA
As of and for the Year Ended December 31, 2003

INTRODUCTION

As required by Louisiana Revised Statutes (R.S.) 42:1301-1308, 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 in accordance with Section 457 of the *Internal Revenue Code of 1986,* as amended, for the purpose of allowing employees and independent contractors of the state to voluntarily elect to contribute 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 participants. At December 31, 2003, approximately 33,289 participants are in the Plan. The commission has no employees.

On December 18, 2001, the commission selected, through a bid process, Great-West Life & Annuity Insurance Company as the plan administrator for a term of eight years beginning on January 1, 2002, with an option to extend the term through December 31, 2012.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and reporting principles.

B. REPORTING ENTITY

Using the criteria in GASB Codification Section 2100, the Louisiana Public Employees Deferred Compensation Plan has been defined 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 since, under Section 457 of the Internal Revenue Code (IRC), all assets and income of the Plan are held in trust for the exclusive benefit of the participants and their beneficiaries. In addition, administrative and investment services for the Plan are provided by an insurance company.

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 basic financial statements which disclose the Plan as a related organization of the state. The basic financial statements are audited by the Louisiana Legislative Auditor.

C. FUND ACCOUNTING

The Louisiana Public Employees Deferred Compensation Plan uses a pension trust fund to report on its net assets and changes in net assets. Pension trust funds are used to account for resources that are required to be held in trust for the members and beneficiaries of employee benefit plans. The pension trust fund accounts for contributions from participants and the employers, investment income, and benefits distributed to participants.

D. BASIS OF ACCOUNTING

Basis of accounting refers to the timing of recognition of revenues and expenses in the accounts and reporting in the financial statements, regardless of the measurement focus applied. The transactions of the plan are accounted for using the accrual basis of accounting and on a flow of economic resources measurement focus where the aim is to report all inflows, outflows, and balances affecting or reflecting an entity's net assets. Accordingly, revenue is recognized when earned and expenses are recognized when incurred. The Plan uses the following practices in recognizing revenues and expenses:

Contributions

Employer and employee contributions are recognized in the period when the compensation used to calculate the contributions is reported on Internal Revenue Service (IRS) Form W-2.

Investment Income

Investment income is accrued as earned, net of applicable investment management fees.

Plan Expenses

Investment management fees are netted daily from investment income and, therefore, are not a liability of the Plan at December 31, 2003.

Benefits Paid to Participants

Benefits are recorded when paid.

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.

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, 2003, the Plan has cash in demand deposits totaling $722,506. 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 $1,139,545 at December 31, 2003, are fully secured by federal deposit insurance (GASB Category 1).

3. INVESTMENTS

Investments of $540,511,197, 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 and the fair value of the investments at December 31, 2003:

Product/Company Investment Options	Fair Value at December 31, 2003
Investments not categorized:	
Great West Life & Annunity Insurance Company:	
Aggressive Profile - profile fund	$6,125,301
American Century Investors Fund - mutual funds	58,163,598
BGI Russell 1000 Stock Index Fund - mutual fund	79,606,534
Conservative Profile - profile fund	3,393,745
INVESCO Dynamics Fund - mutual fund	7,377,972
Janus Funds - mutual funds	28,156,903
Legg Mason Value Trust Fixed Income - mutual fund	5,170,602
Maxim Series Fund - mutual funds	64,741,569
MFS Massachusetts Investors Growth Fund - A - mutual fund	1,761,359
Moderate Profile - profile fund	13,325,037
PIMCO Total Return Administrative Fund - mutual fund	4,726,535
RS Emerging Growth Fund - mutual fund	4,110,815
Strong Growth & Income Fund - mutual fund	1,360,193
Total Great West Life & Annunity Insurance Company	278,020,163
Stable Asset Fund VII - United States government obligations (1)	262,424,819
Commercial Life Insurance Company - annuity	66,215
Total Investments	$540,511,197

(1) Short-term investments of $3.6 million were valued at amortized costs while the remaining balance of $258,824,819 was valued by independent pricing services (fair value).

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 $898,039 at December 31, 2003.

4. PLAN RESTRICTIONS

The deferred compensation plan is authorized under Section 457 of the Internal Revenue Code. Amounts deferred by participants are limited to $12,000. Any amounts deferred are not subject to federal or state income tax withholding nor are they includible as gross income until actually paid or otherwise made available to the participant. Of the 176 state agencies, offices, boards, commissions, colleges, and universities participating in the Plan as of December 31, 2003, 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, 2003, totaled $642,499.

Participants of the Plan may withdraw funds from the Plan upon retirement as determined in accordance with retirement laws of the state, separation of service with the state, or financial hardship as approved by the Plan's hardship committee. In addition, beneficiaries of the participant may withdraw funds upon the death of the participant. Upon retirement, participants 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 life expectancy of the beneficiary. Participants may also withdraw funds, or be required to do so by the commission, if contributions have not been made in the past 24 months and if the total balance of the participant’s account is less than $5,000.

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 $542,200,062 in the Plan at December 31, 2003, a total of $469,193,282 is applicable to the State of Louisiana, while the remaining $73,006,780 represents the assets of other governmental jurisdictions participating in the Plan.

5. INVESTMENT INCOME

The annual rate of interest credited to participant accounts on investments with the various product companies for the year ended December 31, 2003, is as follows:

Product/Company	Product	Annual Interest Rate
Stable Value Fixed Income Fund	Fixed annuity:	
	January - March	4.85%
	April - June	4.30%
	July - September	4.00%
	October - November	4.00%

Investment income for the Stable Value Fixed Income Fund is reported at net, less the investment management fees disclosed in note 8.

Investment income for the Maxim Series Funds, American Century Investors Funds, BGI Russell 1000 Stock Index Fund, INVESCO Dynamics Fund, Janus Funds, Legg Mason Value Trust Fixed Income Fund, MFS Massachusetts Investors Growth Fund - A, PIMCO Total Return Administrative Fund, RS Emerging Growth Fund, Strong Growth & Income Fund, and the three portfolio funds (Aggressive, Conservative, and Moderate) 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.

6. ADMINISTRATIVE FEES

Beginning January 1, 2002, the contract between the commission and Great-West Life & Annuity Insurance Company provides for an administrative fee of .14% of assets in the Stable Value Fixed Income Fund and all Great-West Life and Annuity funds that are calculated and deducted daily on a pro rata basis. During the year ended December 31, 2003, net administrative fees of $676,090 were paid to Great-West Life & Annuity Insurance Company.

7. 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, 2003, investments in these products represent 99.5% of total Plan assets. These investments are held in separate asset accounts, which are not subject to the general creditors of Great-West Life & Annuity Insurance Company.

8. STABLE ASSET FUND VII

Effective January 1, 2002, the commission entered into an agreement for the Great-West Life & Annuity Insurance Company to provide investment management services for the Stable Asset Fund VII. The contract provides for an annual fee of .34% of investments in the fund to be paid to the investment manager at the end of each quarter on a pro rata basis. These fees are in addition to the administrative fee and the fee for the commission activity fund as detailed in notes 6 and 10, respectively. During the year ended December 31, 2003, Great-West Life & Annuity Insurance Company charged fees of $817,958 for investment management services.

At December 31, 2003, the participant account balances, which comprise the Stable Asset Fund VII, total $254,694,538. The fair value of the net assets of the Stable Asset Fund VII as of December 31, 2003, is $262,424,819. 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 assets attributable to the contract and can be made to the Plan through transfer of the cash balance after sale of the fund's securities.

9. LITIGATION

There is no pending litigation at December 31, 2003.

10. COMMISSION ACTIVITY FUND

The Louisiana Public Employees Deferred Compensation Commission maintains an account referred to as the Commission Activity Fund (CAF) that is included within the pension trust fund balances shown on Statement A. These funds are the property of the Plan and are used for expenses of the commission in discharge of its duties on behalf of the Plan. The CAF has a balance of $680,253 at December 31, 2003. In addition to the fees detailed in notes 6 and 8, the commission determines the fees that are necessary to fund the CAF. For the fiscal year ending December 31, 2003, the commission set the fee to be deducted from Plan participants at .11%. The amount collected for the fourth quarter, $140,371, is reported on Statement A as a receivable (due from plan administrator) at December 31, 2003. During the fiscal year ending December 31, 2003, the CAF collected fees of $510,174. Commission expenses paid from these fees and investment income earned on the CAF balance for the year ended December 31, 2003, totaled $225,684 and are reported as other administrative expenses on Statement B.

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.

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July 9, 2004

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 financial statements of the Louisiana Public Employees Deferred Compensation Plan, as of and for the year ended December 31, 2003, and have issued our report thereon dated July 9, 2004. We did not audit the financial statements of the Stable Asset Fund VII. Those financial statements were audited by other auditors whose report has been furnished to us. This report, insofar as it relates to that fund, is based solely on the report of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Stable Asset Fund VII were not audited in accordance with *Government Auditing Standards*.

Compliance

As part of obtaining reasonable assurance about whether the Louisiana Public Employees Deferred Compensation Plan's 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 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 control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the 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 operation that we consider to be material weaknesses.

This report is intended solely 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 specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,

Steve J. Theriot, CPA
Legislative Auditor

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