CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

June 11, 2012

State of Wisconsin Deferred Compensation Board
801 W Badger Road
P.O. Box 7931
Madison, Wisconsin 53707-7931

This letter is to provide you with information about significant matters related to our audit of the financial statements of the State of Wisconsin Public Employees Deferred Compensation Plan and Trust (the Plan) for the year ended December 31, 2011. It is intended solely for the State of Wisconsin Deferred Compensation Board and should not be used by anyone other than this specified party.

The following are our observations arising from the audit that are relevant to your responsibilities in overseeing the financial reporting process.

**Auditor's Responsibilities Under Generally Accepted Auditing Standards.** Our audit was performed for the purpose of forming and expressing an opinion about whether the financial statements, that have been prepared by management with your oversight, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit does not relieve you or management of your responsibilities.

**Other Information in Documents Containing Audited Financial Statements.** In connection with the Plan's financial statements, we did not perform any procedures or corroborate other information included in the financial statements. However, we read management's discussion and analysis of financial performance and considered whether the information or the manner in which it was presented was materially inconsistent with information or the manner of presentation of the financial statements. Based on our reading, we concluded that the information did not require revision.

**Significant Issues Discussed with Management Prior to Retention.** We discuss various matters with management each year prior to retention as the Plan's auditors. These discussions occur in the normal course of our professional relationship. There were no significant issues, including the application of accounting principles and auditing standards, which were discussed with management prior to our retention as auditors.

**Consultations with Other Accountants.** We were informed by management that they made no consultations with other accountants on the application of generally accepted accounting principles and generally accepted auditing standards.

**Qualitative Aspects of Accounting Practices.**

*Accounting Policies*
Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Plan are described in Note 1 to the financial statements. There were no significant accounting policies or their application which were either initially selected or changed during the year.

There were no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

*Accounting Estimates*
Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were significant accounting estimates of financial data which would be particularly sensitive and require substantial judgments by management. These estimates relate to the valuation of the Great-West Life Group Annuity policies and the Stable Value Fund.

The Stable Value Fund is valued at contract value, which approximates fair value. The contract value, as estimated by Galliard Capital Management, is guaranteed through a related contract with a separate provider. The credited interest rates are reset periodically according to terms set forth in the contract and are actuarially determined. The value of the Great-West Life Group Annuity contract represents reserves established by the insurance carrier and is based upon actuarial assumptions as to anticipated mortality, withdrawals and investment yield. Such assumptions are periodically reviewed and updated by the carrier and any resulting adjustments are reflected as interest income.

*Financial Statement Disclosures*
Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive financial statement disclosures.

**Difficulties Encountered in Performing the Audit.** We encountered no significant difficulties in dealing with management related to the performance of our audit.

**Corrected Misstatements.** There were no material misstatements detected as a result of audit procedures and corrected by management that were material, either individually or in the aggregate, to the financial statements taken as a whole.

**Representations from Management.** We have obtained the representations from management that are shown in the attached Exhibits.

**Disagreements with Management.** There were no disagreements with management on financial accounting and reporting matters, auditing procedures, or other matters which would be significant to the Plan's financial statements or our report on those financial statements.

Please contact Thomas Rey of CliftonLarsonAllen if you have any questions regarding the matters included in this letter.

CliftonLarsonAllen LLP

etf
WISCONSIN DEPARTMENT OF EMPLOYEE TRUST FUNDS

**STATE OF WISCONSIN**
**Department of Employee Trust Funds**
**Robert J. Conlin**
SECRETARY

801 W Badger Road
PO Box 7931
Madison WI 53707-7931

1-877-533-5020 (toll free)
Fax (608) 267-4549
http://etf.wi.gov

June 11, 2012

CliftonLarsonAllen LLP
Attention: Thomas Rey
9515 Deereco Road, Suite 500
Timonium, MD 21093

Dear ~~Mr.~~ Rey: TR

We are providing this letter in connection with your audits of the financial statements and supplemental schedules of the State of Wisconsin Public Employees' Deferred Compensation Plan & Trust as of December 31, 2011 and 2010, and for the years then ended for the purpose of expressing an opinion as to whether the financial statements present fairly the net assets and changes in net assets of the State of Wisconsin Public Employees' Deferred Compensation Plan & Trust in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation in the financial statements of net assets and changes in net assets in conformity with accounting principles generally accepted in the United States of America and for the fair presentation of the accompanying supplemental schedules. Although CliftonLarsonAllen may have made suggestions as to the form and content of the financial statements or even prepared them in whole or in part, we acknowledge our responsibility for the review and approval of the financial statement amounts and disclosures, and understand

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, as of June 11, 2012, the following representations made to you during your audit.

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America and the notes include all disclosures required by laws and regulations to which the Plan is subject.

2. We have made available to you all:

    a. Financial records and related data.

    b. Minutes of the meetings of the Deferred Compensation Board, or summaries of actions of recent meetings for which minutes have not yet been prepared.

    c. Amendments to the plan instrument (including amendments made to comply with applicable laws), the trust agreement, or insurance contracts.

3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

4. We have reviewed and approved all adjustments and corrections made to the financial statements and acknowledge that the adjustments are complete and accurate.

5. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.

6. We have no knowledge of any fraud or suspected fraud affecting the entity involving:

   a. Management.

   b. Employees who have significant roles in internal control.

   c. Others where the fraud could have a material effect on the financial statements.

7. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, participants, regulators, beneficiaries, service providers, third-party administrators, or others. We have no:

   a. Plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

   b. Present intentions to terminate the Plan.

8. The values of non-readily marketable investments represent a good faith estimate of fair value determined by the Deferred Compensation Board.

9. The following have been properly recorded or disclosed in the financial statements:

   a. Related-party transactions and related amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements and guarantees

   b. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line of credit, or similar arrangements.

   c. Guarantees, whether written or oral, under which the Plan is contingently liable.

   d. Agreements to repurchase assets previously sold have been properly disclosed.

   e. Estimates that might be subject to material change within one year from the date of the financial statements. We have identified all accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates, and we believe the estimates are reasonable in the circumstances.

f. Concentrations existing at the date of the financial statements that make the Plan vulnerable to the risk of severe impact within one year from the date of the financial statements. We understand that concentrations include the nature and type of investments held by the Plan, or markets for which events could occur which would significantly disrupt normal finances within the next year.

g. Amendments to the plan instrument, if any.

h. The current versions of the plan and trust documents have been filed with the appropriate agency.

10. We believe the Plan and trust established under the Plan are qualified under the appropriate section of the Internal Revenue Code, and we intend to continue them as a qualified plan and trust.

11. There are no:

a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

b. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed.

c. Other matters (e.g., breach of fiduciary responsibilities, nonexempt transactions, loans or loans in default, events reportable to the Pension Benefit Guaranty Corporation, or events that may jeopardize the tax status) that legal counsel have advised us that must be disclosed.

12. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed.

13. There are no:

a. Material transactions that have not been properly recorded in the accounting records underlying the financial statements.

b. Investments, loans, or leases in default or considered to be uncollectible that have not been disclosed in the supplemental schedules.

14. The Plan has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets, nor has any asset been pledged (except as has been made known to you and disclosed in the financial statements).

15. The Plan has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

16. We have apprised you of all communications, whether written or oral, with regulatory agencies concerning the operation of the Plan.

17. No events have occurred subsequent to the financial statement date and through the date of this letter that would require adjustment to, or disclosure in, the financial statements.

Please contact me at 608-266-6611 if you have any questions.

Sincerely,

Shelly Schueller

Shelly Schueller
Deferred Compensation Director

Great-West RETIREMENT SERVICES®

Securities offered through
GWFS Equities, Inc.
A Great-West Company

8515 East Orchard Road
Greenwood Village, CO 80111
(303) 737-3000 Tel
(800) 537-2033

June 11, 2012

CliftonLarsonAllen LLP
Attention: Thomas Rey
9515 Deereco Road, Suite 500
Timonium, MD 21093

We are providing this letter in connection with your audits of the financial statements and supplemental schedules of the State of Wisconsin Public Employees' Deferred Compensation Plan & Trust as of December 31, 2011 and 2010, and for the years then ended for the purpose of expressing an opinion as to whether the financial statements present fairly the net assets and changes in net assets of the State of Wisconsin Public Employees' Deferred Compensation Plan & Trust in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation in the financial statements of net assets and changes in net assets in conformity with accounting principles generally accepted in the United States of America and for the fair presentation of the accompanying supplemental schedules. Although CliftonLarsonAllen may have made suggestions as to the form and content of the financial statements or even prepared them in whole or in part, we acknowledge our responsibility for the review and approval of the financial statement amounts and disclosures, and understand

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, as of June 11, 2012, the following representations made to you during your audit.

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America and the notes include all disclosures required by laws and regulations to which the Plan is subject.

2. We have made available to you all:

    a. Financial records and related data.

    b. Amendments to the plan instrument (including amendments made to comply with applicable laws), the trust agreement, or insurance contracts.

3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

4. We have reviewed and approved all adjustments and corrections made to the financial statements and acknowledge that the adjustments are complete and accurate.

5. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.

6. We have no knowledge of any fraud or suspected fraud affecting the entity involving:

   a. Great-West Retirement Services

   b. Employees who have significant roles in internal control.

   c. Others where the fraud could have a material effect on the financial statements.

7. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, participants, regulators, beneficiaries, service providers, third-party administrators, or others.

8. As the Plan's custodian we have no:

   a. Plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

   b. Present intentions to terminate the Plan.

9. The values of nonreadily marketable investments represent a good faith estimate of fair value as determined by the Deferred Compensation Board.

10. The following have been properly recorded or disclosed in the financial statements:

   a. Related-party transactions and related amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements and guarantees.

   b. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line of credit, or similar arrangements.

   c. Guarantees, whether written or oral, under which the Plan is contingently liable.

   d. Agreements to repurchase assets previously sold have been properly disclosed.

   e. Estimates that might be subject to material change within one year from the date of the financial statements. We have identified all accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates, and we believe the estimates are reasonable in the circumstances.

   f. Concentrations existing at the date of the financial statements that make the Plan vulnerable to the risk of severe impact within one year from the date of the financial statements. We understand that concentrations include the nature and type of investments held by the Plan, or markets for which events could occur which would significantly disrupt normal finances within the next year.

   g. Amendments to the plan instrument, if any.

11. The current version of the Plan and Trust documents have been filed with the appropriate agency.

12. We believe the Plan and trust established under the Plan are qualified under the appropriate section of the Internal Revenue Code, and we intend to continue them as a qualified plan and trust.

13. There are no:

    a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

    b. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed.

    c. Other matters (e.g., breach of fiduciary responsibilities, nonexempt transactions, loans or loans in default, events reportable to the Pension Benefit Guaranty Corporation, or events that may jeopardize the tax status) that legal counsel have advised us that must be disclosed.

14. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed.

15. There are no:

    a. Material transactions that have not been properly recorded in the accounting records underlying the financial statements.

    b. Investments, loans, or leases in default or considered to be uncollectible that have not been disclosed in the supplemental schedules.

16. The Plan has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets, nor has any asset been pledged (except as has been made known to you and disclosed in the financial statements).

17. The Plan has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

18. We have apprised you of all communications, whether written or oral, with regulatory agencies concerning the operation of the Plan.

19. No events have occurred subsequent to the financial statement date and through the date of this letter that would require adjustment to, or disclosure in, the financial statements.

20. We have elected to not receive investment account statements from Vanguard Group. We receive all pricing information related to Vanguard securities directly from Vanguard through the FUNDLinx system. We acknowledge that we are responsible for the controls related to these functions. All information provided to you regarding the units owned and the market values of these funds is correct.

Liz Davidsen, Lead Account Manager

# STATE OF WISCONSIN PUBLIC EMPLOYEES DEFERRED COMPENSATION PLAN AND TRUST

Madison, Wisconsin

## FINANCIAL STATEMENTS

December 31, 2011 and 2010

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CliftonLarsonAllen

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

## Independent Auditor's Report

State of Wisconsin Deferred
Compensation Board

We have audited the accompanying statements of net assets available for plan benefits of the State of Wisconsin Public Employees Deferred Compensation Plan and Trust (the Plan), as of December 31, 2011 and 2010 and the related statements of changes in net assets available for plan benefits for the years ended December 31, 2011 and 2010. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for plan benefits as of December 31, 2011 and 2010 and the changes in net assets available for plan benefits for the years ended December 31, 2011 and 2010 in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2 through 4 be presented to supplement the basic financial statements, such information although not a part of the basic financial statements is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. However, we did not audit the information and express no opinion on it.

CliftonLarsonAllen LLP

Baltimore, Maryland
June 11, 2012

## STATE OF WISCONSIN PUBLIC EMPLOYEES DEFERRED COMPENSATION PLAN AND TRUST MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents management's discussion and analysis of the Wisconsin Public Employees Deferred Compensation Plan and Trust (the Plan) financial performance, which provides an overview of the Plan's financial position and activities as of December 31, 2011, 2010 and 2009 and for the years then ended. It is presented as required supplemental information to the financial statements.

### FINANCIAL HIGHLIGHTS

- Net assets available for plan benefits decreased by approximately $51.0 million during the year ended December 31, 2011 from $2.7 billion at December 31, 2010 to $2.6 billion at December 31, 2011. This decrease was primarily due to employee contributions offset by distributions to participants. Net assets available for plan benefits increased by approximately $370.0 million during the year ended December 31, 2010 from $2.3 billion at December 31, 2009 to $2.6 billion at December 31, 2010. This increase was primarily due to investment gains on variable earnings investments during 2010. Refer to fund rate of return information in the next bulleted highlight.

- Investment income earned on mutual funds decreased from $275.8 million for the year ended December 31, 2010 to $1.4 million for the year ended December 31, 2011 due to less favorable market conditions in 2011 as compared to 2010. Investment income earned in mutual funds decreased from $342.1 million for the year ended December 31, 2009 to $275.8 million for the year ended December 31, 2010 due to unfavorable market conditions during 2010. The plan's rate of return on mutual fund investments was approximately (0.01%), 11.22% and 20.10% for the years ending December 31, 2011, 2010 and 2009, respectively.

- Interest income earned on fixed earning investments was $16.5 million, $18.9 million and $19.9 million for the years ended December 31, 2011, 2010 and 2009, respectively. Changes in interest income relate directly to the balance of fixed earning investments during the year and changes in their respective interest rates.

- The change in the value of the self-directed option (SDO) directly relates to participant contributions and income earned on participant SDO accounts. The value of the SDO decreased from December 31, 2010 to December 31, 2011 by $2.8 million, compared to an increase of $8.3 million from December 31, 2009 to December 31, 2010.

- Employee contributions increased from $145.9 million for the year ended December 31, 2010 to $147.5 million for the year ended December 31, 2011. Employee contributions increased from $142.7 million for the year ended December 31, 2009 to $145.9 million for the year ended December 31, 2010. These changes were primarily due to changes in the average contribution per participant as well as fluctuations in the number of active plan participants from year to year. There were 44,766, 44,901 and 43,759 active plan participants as of December 31, 2011, 2010 and 2009, respectively.

**FINANCIAL HIGHLIGHTS** (CONTINUED)

- Distributions to participants increased from $92.0 million for the year ended December 31, 2010 to $120.8 million for the year ended December 31, 2011. Distributions to participants increased from $66.9 million for the year ended December 31, 2009 to $92.0 million for the year ended December 31, 2010. These changes were primarily due to changes in the number of individuals receiving distributions from year to year. There were 6,813, 6,073 and 5,759 individuals who received a distribution during the years ended December 31, 2011, 2010 and 2009, respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of the Statements of Net Assets Available for Plan Benefits and the Statements of Changes in Net Assets Available for Plan Benefits. These statements provide information about the financial position and activities of the Plan as a whole. These amounts are included in the Statement of Fiduciary Net Assets on the State of Wisconsin's financial statements.

The following Summary of Net Assets Available for Plan Benefits and the Summary of Changes in Net Assets Available for Plan Benefits provide information about the financial position and activities of the Plan as a whole.

**Table 1**
**Summary of Net Assets Available for Plan Benefits**

| | December 31, 2011 | December, 31, 2010 | December 31, 2009 |
|---|---|---|---|
| Investments | $ 2,693,011,918 | $ 2,642,126,725 | $ 2,275,145,616 |
| Receivables - contributions | 714,309 | 535,749 | 543,450 |
| Total assets | 2,693,726,227 | 2,642,662,474 | 2,275,689,066 |
| Administrative expenses payable | 2,051,142 | 1,987,426 | 2,024,690 |
| **Net assets available for plan benefits** | $ 2,691,675,085 | $ 2,640,675,048 | $ 2,273,664,376 |

**Table 2**
**Summary of Changes in Net Assets Available for Plan Benefits**

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| **Additions** | | | |
| Employee contributions | $ 147,517,466 | $ 145,884,476 | $ 142,666,142 |
| Transfers-in from other plans | 11,492,572 | 12,128,859 | 8,129,207 |
| Investment income: | | | |
| Interest income | 16,464,357 | 18,914,964 | 19,877,682 |
| Mutual fund investment income | 1,414,346 | 275,838,067 | 342,069,884 |
| Change in value of self-directed option | (2,792,554) | 8,285,757 | 11,923,445 |
| Total additions | 174,096,187 | 461,052,123 | 524,666,360 |
| **Deductions** | | | |
| Distributions to participants | 120,783,449 | 92,022,449 | 66,883,166 |
| Administrative expenses | 1,926,503 | 1,626,351 | 1,264,021 |
| Change in value of group annuity policy | 386,198 | 392,651 | 318,636 |
| Total deductions | 123,096,150 | 94,041,451 | 68,465,823 |
| **Net increase** | $ 51,000,037 | $ 367,010,672 | $ 456,200,537 |

## FINANCIAL CONTACT

The Plan's financial statements are designed to present users with a general overview of the Plan's finances and to demonstrate the trustees' accountability. If you have questions about the report or need additional financial information, contact the Deferred Compensation Director for the Department of Employee Trust Funds at P.O. Box 7931, Madison, Wisconsin 53707-7931.

# FINANCIAL STATEMENTS

**STATE OF WISCONSIN PUBLIC EMPLOYEES**
**DEFERRED COMPENSATION PLAN AND TRUST**
**STATEMENTS OF NET ASSETS AVAILABLE FOR PLAN BENEFITS**
**December 31, 2011 and 2010**

| | 2011 | 2010 |
|---|---|---|
| **ASSETS** | | |
| Investments: | | |
| Fixed earnings investments | $ 643,398,610 | $ 579,873,405 |
| Variable earnings investments | 1,994,183,073 | 2,003,644,333 |
| Self-directed option | 53,277,714 | 56,070,268 |
| Annuity investments | 2,152,521 | 2,538,719 |
| Total investments | 2,693,011,918 | 2,642,126,725 |
| Receivable - contributions | 714,309 | 535,749 |
| Total assets | 2,693,726,227 | 2,642,662,474 |
| **LIABILITIES** | | |
| Administrative expenses payable | 2,051,142 | 1,987,426 |
| **NET ASSETS AVAILABLE FOR PLAN BENEFITS** | $ 2,691,675,085 | $ 2,640,675,048 |

The accompanying notes are an integral part of the financial statements.

**STATE OF WISCONSIN PUBLIC EMPLOYEES**
**DEFERRED COMPENSATION PLAN AND TRUST**
**STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR PLAN BENEFITS**
**Years Ended December 31, 2011 and 2010**

| | 2011 | 2010 |
|---|---|---|
| **ADDITIONS** | | |
| Employee contributions | $ 147,517,466 | $ 145,884,476 |
| Transfers-in from other plans | 11,492,572 | 12,128,859 |
| Investment income: | | |
| Interest income | 16,464,357 | 18,914,964 |
| Investment income from variable earnings investments | 1,414,346 | 275,838,067 |
| Change in value of self-directed option | (2,792,554) | 8,285,757 |
| Total additions | 174,096,187 | 461,052,123 |
| **DEDUCTIONS** | | |
| Distributions to participants | 120,783,449 | 92,022,449 |
| Administrative expenses | 1,926,503 | 1,626,351 |
| Change in value of group annuity policy | 386,198 | 392,651 |
| Total deductions | 123,096,150 | 94,041,451 |
| **NET INCREASE** | 51,000,037 | 367,010,672 |
| **NET ASSETS AVAILABLE FOR PLAN BENEFITS, BEGINNING OF PERIOD** | 2,640,675,048 | 2,273,664,376 |
| **NET ASSETS AVAILABLE FOR PLAN BENEFITS, END OF PERIOD** | $ 2,691,675,085 | $ 2,640,675,048 |

The accompanying notes are an integral part of the financial statements.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### General

The State of Wisconsin Public Employees Deferred Compensation Plan and Trust (the Plan) was established in 1981 pursuant to Wisconsin State Statute Section 40.80.

In accordance with Section 457 of the Internal Revenue Code (IRC), the Plan limits the amount of an employee's annual contributions to an amount not to exceed the lesser of $16,500 for calendar years 2011 and 2010 or 100% of the employee's eligible compensation. In 2010, the federal government passed the Small Business Jobs Act of 2010, which allows 457 plans such as the Wisconsin Deferred Compensation (WDC) Program to offer a Roth contribution option effective January 1, 2011. Roth contributions are made with after-tax dollars. Participants may withdraw WDC Roth contributions and earnings income tax and penalty free once they have held the account for at least five years and severed employment. The WDC opened the WDC Roth contribution option to participants on July 1, 2011. The Plan also provides certain catch-up contribution provisions for participants age 50 or older and for participants within three years of their normal retirement age. Amounts contributed by employees are deferred for federal and state income tax purposes until benefits are paid to the employees. The Plan allows the employer to make contributions to the Plan on behalf of employees. No such contributions were made in 2011 or 2010.

Under the Plan provisions, employees of the State of Wisconsin and public employers in Wisconsin that elect to participate are eligible to contribute to the Plan through payroll deductions. As of December 31, 2011 and 2010, approximately 30% of the Plan assets were applicable to State employees and the remaining 70% represent the assets of other Wisconsin public employers participating in the Plan.

Under provisions of the Small Business Job Protection Act of 1996 (SBJPA), which became effective for plan years beginning after December 31, 1996, assets of IRC Section 457 plans must be held in a trust, custodial account, or annuity contract for the exclusive benefit of employees and beneficiaries. In March 2006, Wisconsin Act 150 was signed into law, creating Code Section s.40.80 (2)(g) of the Wisconsin Statutes. Section s.40.80 (2)(g) incorporates requirements of the federal tax code by establishing the Wisconsin Deferred Compensation (WDC) Program as a trust. Furthermore, it established the Deferred Compensation Board members as trustees with fiduciary responsibilities.

The Plan is governed by the Wisconsin Deferred Compensation Board (the Board) and is administered by a third party. The Board is also the trustee of the Plan.

Employees electing to participate in the Plan may contribute to or exchange within any of the following investment options:

- Fixed earnings investment of the Stable Value option managed by Galliard Capital Management, Inc.
- Fixed earnings investment with M&I Bank of Southern Wisconsin.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**General** (continued)

- Group annuity option managed and underwritten by Great-West Life & Annuity Insurance Company
- Variable earnings investments options consisting of select mutual funds.
- Self-directed option – Personal Choice Retirement Accounts (PCRA) offered by Charles Schwab & Co., Inc. Participants may exchange funds accumulated in the core options of the Plan to a PCRA account, which provides approximately 3,000 additional investment offerings other than the Plan's core options.

Employees may withdraw the value of the funds contributed to the Plan upon termination of employment with the employer, retirement, death, or financial hardship. Employees, or their beneficiaries, may select various payout options which include lump sum or periodic payments.

### Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and present the net assets available for plan benefits and the net changes in those assets.

### Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

### Contributions and Contributions Receivable

Employee contributions are recognized when such amounts are withheld. Contributions receivable represent amounts withheld from employees but not yet received or remitted to the investment carriers at fiscal year-end and these receivables approximate fair value.

### Investment Valuation

Fixed earnings investment values represent contributions received plus interest income earned to date less applicable charges and amounts withdrawn.

Variable earnings investments (mutual funds) and personal choice retirement accounts are presented at fair values based on published quotations. All purchases and sales are recorded on a trade-date basis.

Assets held for annuity payout reserves and allocated insurance contracts are actuarially valued as reported by Great-West Life and approximate fair value

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Distributions

Distributions are recorded at the time withdrawals are made from participant accounts.

### Mutual Fund Investment Income

Mutual fund investment income consists of dividend income and realized and unrealized gains and losses attributed to the mutual funds and personal choice retirement accounts.

### Interest Income

During 2011, the Stable Value option paid interest ranging from 3.13% to 3.78% (ranging from 3.93% to 4.22% during 2010). At December 31, 2011 and 2010, the actual crediting rate was 3.13% and 3.93%, respectively.

During 2011, the BMO Harris Bank, previously M&I Bank of Southern Wisconsin paid interest ranging from 0.26% to 0.60% (during 2010, interest paid ranged from 0.26% to 0.48%). At December 31, 2011 and 2010, the actual crediting rate was 0.60% and 0.42%, respectively.

Interest income is recorded as earned on the accrual basis.

### Participants' Accounts

Earnings are credited to individual participants' accounts based upon the investment performance of each specific option selected.

### Transfers-In from Other Plans

Transfers-in represent the balances of assets transferred by employees from other eligible plans.

### Related Party Transactions

Certain members of the Deferred Compensation Board, Wisconsin Retirement Board, Teachers Retirement Board, Group Insurance Board and Employee Trust Funds Board are participating or retired members of the Plan.

**STATE OF WISCONSIN PUBLIC EMPLOYEES**
**DEFERRED COMPENSATION PLAN AND TRUST**
**NOTES TO FINANCIAL STATEMENTS**
**December 31, 2011 and 2010**

## NOTE 2 – INVESTMENTS

Investments held in the name of the Plan at December 31, 2011 and 2010 were as follows. Investments marked with an asterisk (*) represent individual investment options, which exceed 5% of net assets available for plan benefits as of December 31, 2011 and 2010. Investments marked with two asterisk (**) represent international mutual funds.

| | Fair and Carrying Value | | | |
|---|---|---|---|---|
| | 2011 | | 2010 | |
| Fixed earnings investments: | | | | |
| Stable Value | $ 550,754,468 | * | $ 504,222,901 | * |
| BMO Harris Bank | 92,644,142 | | 75,650,504 | |
| Total fixed earnings investments | 643,398,610 | | 579,873,405 | |
| Variable earnings investments: | | | | |
| Fidelity Contrafund | 363,704,844 | * | 385,783,862 | * |
| Vanguard Wellington Fund Admiral Shares | 284,815,033 | * | 276,902,193 | * |
| Vanguard Institutional Index Fund Plus Shares - Institutional Plus Shares | 213,529,501 | * | 212,274,941 | * |
| T. Rowe Price Mid-Cap Growth Fund | 239,236,598 | * | 252,082,057 | * |
| DFA US Micro Cap Fund | 144,805,101 | * | 151,691,654 | * |
| Euro - Pacific Growth Fund - Class W | - | | 131,449,824 | * & ** |
| Vanguard Long-Term Investment Grade Fund Admiral Shares | 108,994,743 | | 93,497,704 | |
| Vanguard Admiral Treasury Money Market Fund - Admiral Shares | 41,733,871 | | 47,957,464 | |
| BlackRock Mid Cap Equity Index Fund - Class F | - | | 91,444,578 | |
| BlackRock Mid Cap Equity Index Fund - Collective W | 93,459,446 | | - | |
| Federated U.S. Government Securities Fund - 2-5 Institutional Shares | 36,008,739 | | 35,720,336 | |
| BlackRock EAFE Equity Index Fund - Class W | 63,462,260 | ** | 61,230,815 | ** |
| American Funds Europacific Fund - Class R5 | 105,290,115 | ** | - | |
| Vanguard Target Retirement 2015 Fund | 60,787,062 | | 52,181,872 | |
| Vanguard Target Retirement 2025 Fund | 55,031,687 | | 46,514,533 | |
| Vanguard Target Retirement 2055 Fund | 787,448 | | - | |
| BlackRock U.S. Debt Index Fund - Class W | 47,079,547 | | 41,068,126 | |
| BlackRock Russell 2000 Index Collective T | 31,781,566 | | 34,951,540 | |
| Calvert Social Investment Fund - Equity Portfolio - Class I | 27,063,654 | | 25,228,837 | |
| Vanguard Target Retirement 2035 Fund | 35,061,051 | | 30,344,712 | |
| Vanguard Target Retirement Income Fund | 22,798,998 | | 17,510,859 | |
| Vanguard Target Retirement 2045 Fund | 18,751,809 | | 15,808,426 | |
| Total variable earnings investments | 1,994,183,073 | | 2,003,644,333 | |
| Self-directed option: | | | | |
| Personal Choice Retirement Accounts - Charles Schwab | 53,277,714 | | 56,070,268 | |
| Group Annuity Policy: | | | | |
| Great West Life | 2,152,521 | | 2,538,719 | |
| **Total investments** | $ 2,693,011,918 | | $ 2,642,126,725 | |

## NOTE 2 – INVESTMENTS (CONTINUED)

At December 31, 2011, $2 of the fixed earning investments on deposit at Vanguard Admiral Treasury Money Market and $2,051,140 of the Stable Value option fixed earnings investment totaling $2,051,142 was payable to the Board for Plan administration costs. At December 31, 2010, $1 of the fixed earnings investment on deposit at Vanguard Admiral Treasury Money Market and $1,987,425 of the Stable Value option fixed earnings investment totaling $1,987,426 were payable to the Board for Plan administration costs.

The fixed earning investments with BMO Harris Bank are insured by the Federal Deposit Insurance Corporation up to $250,000 per participant. At December 31, 2011 and 2010, 247 and 190 accounts of individual participants held more than $250,000, respectively.

***Custodial credit risk*** is the risk that, in the event of a failure of the counterparty, the Plan would not be able to recover the value of its deposits, investments, or collateral securities that were in the possession of an outside party. Investment securities are exposed to custodial credit risk if they are uninsured or not registered in the name of the Plan and are held by either the counterparty or the counterparty's trust department or agent, but not in the Plan's name.

The Stable Value option and the mutual funds do not have securities that are used as evidence of the investments and therefore are not exposed to custodial credit risk.

***Interest rate risk*** is the risk that changes in interest rates that will adversely affect the value of an investment.

As of December 31, 2011 and 2010, the Plan had the following investments and maturities in its fixed earnings and mutual fund investments, which included investments in bonds.

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | **Fair Value** | **Weighted Average Maturity** | **Fair Value** | **Weighted Average Maturity** |
| Fixed earnings investment: | | | | |
| Stable Value | $ 550,754,468 | 2.65 | $ 504,222,901 | 3.72 |
| Variable earnings investments: | | | | |
| Vanguard Wellington Fund Admiral Shares | 284,815,033 | 9.20 | 276,902,193 | 8.60 |
| Vanguard Long-Term Investment Grade Fund Admiral Shares | 108,994,743 | 24.40 | 93,497,704 | 23.80 |
| Vanguard Target Retirement 2015 Fund | 60,787,062 | 7.45 | 52,181,872 | 6.64 |
| Vanguard Target Retirement 2025 Fund | 55,031,687 | 7.30 | 46,514,533 | 7.00 |
| Federated U.S. Government Securities Fund - 2-5 Institutional Shares | 36,008,739 | N/A | 35,720,336 | 3.30 |
| BlackRock U.S. Debt Index Fund - Class W | 47,079,547 | 6.32 | 41,068,126 | 6.33 |
| Vanguard Target Retirement 2035 Fund | 35,061,051 | 7.30 | 30,344,712 | 7.00 |
| Vanguard Target Retirement 2045 Fund | 18,751,809 | 7.30 | 15,808,426 | 7.00 |
| Vanguard Target Retirement Income Fund | 22,798,998 | 7.96 | 17,510,859 | 7.25 |

**NOTE 2 – INVESTMENTS** (CONTINUED)

***Credit risk*** is the risk that the Plan will lose money because of the default of the security of the issuer or investment counterparty. The stable value option and the variable earnings mutual funds are unrated.

***Concentration of credit risk*** is the risk of loss attributed to the magnitude of the Plan's investment in a single issuer. The Plan's investments are managed by several fund managers. The concentrations of investments are determined by the participants' elections to invest in the available investment options as selected by the Board. The investments that exceed 5% are identified on page 11.

***Foreign currency risk*** is the risk that changes in exchange rates will adversely affect the fair value of the investment. The Plan allows the option of investments in mutual funds of countries outside the U.S. that invest in securities not required to disclose the individual assets within the fund. The fair value of these investments was $168,752,375 and $192,680,639 as of December 31, 2011 and 2010, respectively. The individual funds are identified on page 11.

An agreement was reached between the Board and Great-West Life on April 27, 1994, whereby the Plan purchased a single premium group annuity policy on May 1, 1994 for $12,946,917 (the balance in the annuity payout reserve at the time of purchase). Under the terms of the policy, Great-West Life assumed the contractual liability for the remaining annuity terms and amounts and assumed all risk related to market fluctuation. The actuarial value of the group annuity contracts, as determined by Great-West Life, was $2,152,521 and $2,538,719 at December 31, 2011 and 2010, respectively.

**NOTE 3 – PLAN ADMINISTRATION**

The Plan receives periodic recordkeeping fee payments from certain investment companies. Such fees are paid to the Board to support Board costs, which include the contractual fee paid to the third-party administrator, Great-West Life.

Each participant in the Plan is charged a fee based upon their account balance and a tiered dollar charge.

| Participant Account Balance | Monthly/Annual Participant Fee |
|---|---|
| $1 - $5,000 | $0/$0 |
| $5,001 - $25,000 | $1/$12 |
| $25,001 - $50,000 | $2/$24 |
| $50,001 - $100,000 | $4/$48 |
| $100,001+ | $5.50/$66 |

Fees assessed in excess of the Plan administrative expenses as of December 31, 2011 and 2010 were $2,051,142 and $1,987,426, respectively. At the Board's discretion, these excess fees are invested and available to defray future administrative expenses and participant fee increases.

## NOTE 4 – TAX STATUS

The Plan is reviewed by legal counsel to ensure conformity with Section 457 of the IRC. Accordingly, any amount of compensation deferred under the Plan and any income attributable to the amounts so deferred shall be included in the gross income of the participant only for the taxable year in which such compensation or other income is paid or otherwise made available to the participant or other beneficiary.

## NOTE 5 – CONTINGENCIES

The Plan is subject to various threatened and pending claims. It is the opinion of management that the ultimate liability arising from such threatened and pending claims will not have a material effect on the financial position of the Plan. The Plan is exposed to various other liabilities and risks related to the fiduciary responsibility of directors and officers.

## NOTE 6 – RISK AND UNCERTAINTIES

The Plan, as directed by participants, may invest in various types of investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is possible that changes in the values of investment securities may occur in the near term and that such changes could materially affect the amounts reported in the Statements of Net Assets Available for Plan Benefits.

## NOTE 7 – PLAN TERMINATION

The State may terminate the Plan at any time, although no intent to terminate the Plan has been expressed. In the event of termination, all participants will remain fully vested.

## NOTE 8 – SUBSEQUENT EVENTS

The Plan evaluated subsequent events through June 11, 2012 the date the financial statements were available to be issued. Events or transactions occurring after December 31, 2011, but prior to June 11, 2012 that provided additional evidence about conditions that existed at December 31, 2011, have been recognized in the financial statements for the year ended December 31, 2011. Events or transactions that provided evidence about conditions that did not exist at December 31, 2011, but arose before the financial statements were available to be issued have not been recognized in the financial statements for the year ended December 31, 2011.