

**STATE OF WISCONSIN PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN
AND TRUST
Madison, Wisconsin**

**FINANCIAL STATEMENTS
December 31, 2012 and 2011**

5-22-13
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INDEPENDENT AUDITOR'S REPORT

State of Wisconsin Public Employees Deferred Compensation Plan and Trust Board
State of Wisconsin Public Employees Deferred Compensation Plan and Trust
Madison, Wisconsin

We have audited the accompanying statements of net position available for plan benefits of the State of Wisconsin Public Employees Deferred Compensation Plan and Trust (the Plan) as of December 31, 2012 and 2011, and the related statements of changes in net position available for plan benefits for the years then ended, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the accompanying table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of State of Wisconsin Public Employees Deferred Compensation Plan and Trust as of December 31, 2012 and 2011, and the results of its operations for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis on pages 3 through 5 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.

Baltimore, Maryland

DATE XX, 2013

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**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, 2012, 2011 and 2010 and for the years then ended. It is presented as required supplemental information to the financial statements.

FINANCIAL HIGHLIGHTS

- Net position available for plan benefits increased by approximately \$300 million during the year ended December 31, 2012 from \$2.7 billion at December 31, 2011 to \$3.0 billion at December 31, 2012. This increase was primarily due to employee contributions and investment income. Net position available for plan benefits increased by approximately \$51.0 million during the year ended December 31, 2011 from \$2.6 billion at December 31, 2010 to \$2.7 billion at December 31, 2011. This increase was primarily due to employee contributions and investment income offset by distributions to participants. Refer to fund rate of return information in the next bulleted highlight.
- Investment income earned on mutual funds increased from \$1.4 million for the year ended December 31, 2011 to \$289 million for the year ended December 31, 2012 due to more favorable market conditions in 2012 as compared to 2011. Investment income earned in 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 during 2011. The plan's rate of return on mutual fund investments was approximately 13.51%, 0.07% and 11.22% for the years ending December 31, 2012, 2011 and 2010, respectively.
- Interest income earned on fixed earning investments was \$15.6 million, \$16.5 million and \$18.9 million for the years ended December 31, 2012, 2011 and 2010, 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 increased from December 31, 2011 to December 31, 2012 by \$6.7 million, compared to a decrease of \$11 million from December 31, 2010 to December 31, 2011.
- Employee contributions decreased from \$147.5 million for the year ended December 31, 2011 to \$136.7 million for the year ended December 31, 2012. 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. Part of the decrease from 2011 to 2012 can likely be attributed to the 2011 Wisconsin Acts 10 and 32. This new state legislation led to increases in employee-paid contributions to their health insurance premiums and the state's defined benefit plan, and resulted in many participants having fewer discretionary funds available to contribute to the Plan. The change from 2010 to 2011 was primarily due to the change in the average contribution per participant as well as fluctuations in the number of active plan participants from year to year. There were 44,866, 44,766 and 44,901 active plan participants as of December 31, 2012, 2011 and 2010, respectively.

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

FINANCIAL HIGHLIGHTS (CONTINUED)

- Distributions to participants increased from \$120.8 million for the year ended December 31, 2011 to \$122.6 million for the year ended December 31, 2012. 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. These changes were primarily due to changes in the number of individuals receiving distributions from year to year. There were 7,447, 6,813 and 6,073 individuals who received a distribution during the years ended December 31, 2012, 2011 and 2010, respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of the Statements of Net Position Available for Plan Benefits and the Statements of Changes in Net Position 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 Position on the State of Wisconsin's financial statements.

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

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

	December 31, 2012	December, 31, 2011	December 31, 2010
Investments	\$ 3,026,946,167	\$ 2,693,011,918	\$ 2,642,126,725
Receivables - contributions	375,416	714,309	535,749
Total assets	3,027,321,583	2,693,726,227	2,642,662,474
Administrative expenses payable	1,970,087	2,051,142	1,987,426
Net position available for plan benefits	<u>\$ 3,025,351,496</u>	<u>\$ 2,691,675,085</u>	<u>\$ 2,640,675,048</u>

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

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Additions			
Employee contributions	\$ 136,726,664	\$ 147,517,466	\$ 145,884,476
Transfers-in from other plans	13,130,224	11,492,572	12,128,859
Investment income:			
Interest income	15,558,042	16,464,357	18,914,964
Mutual fund investment income	289,397,148	1,414,346	275,838,067
Change in value of self-directed option	<u>3,929,276</u>	<u>(2,792,554)</u>	<u>8,285,757</u>
Total additions	<u>458,741,354</u>	<u>174,096,187</u>	<u>461,052,123</u>
Deductions			
Distributions to participants	122,588,572	120,783,449	92,022,449
Administrative expenses	2,159,835	1,926,503	1,626,351
Change in value of group annuity policy	<u>316,536</u>	<u>386,198</u>	<u>392,651</u>
Total deductions	<u>125,064,943</u>	<u>123,096,150</u>	<u>94,041,451</u>
Net increase	<u>\$ 333,676,411</u>	<u>\$ 51,000,037</u>	<u>\$ 367,010,672</u>

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.

5-22-13

FINANCIAL STATEMENTS

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**STATE OF WISCONSIN PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN AND TRUST
STATEMENTS OF NET POSITION AVAILABLE FOR PLAN BENEFITS
December 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
ASSETS		
Investments:		
Fixed earnings investments	\$ 676,658,133	\$ 643,398,610
Variable earnings investments	2,291,245,059	1,994,183,073
Self-directed option	57,206,990	53,277,714
Annuity investments	<u>1,835,985</u>	<u>2,152,521</u>
Total investments	3,026,946,167	2,693,011,918
Receivable - contributions	<u>375,416</u>	<u>714,309</u>
Total assets	3,027,321,583	2,693,726,227
LIABILITIES		
Administrative expenses payable	<u>1,970,087</u>	<u>2,051,142</u>
NET POSITION AVAILABLE FOR PLAN BENEFITS	<u>\$ 3,025,351,496</u>	<u>\$ 2,691,675,085</u>

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 POSITION AVAILABLE FOR PLAN BENEFITS
Years Ended December 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
ADDITIONS		
Employee contributions	\$ 136,726,664	\$ 147,517,466
Transfers-in from other plans	13,130,224	11,492,572
Investment income:		
Interest income	15,558,042	16,464,357
Investment income from variable earnings investments	289,397,148	1,414,346
Change in value of self-directed option	<u>3,929,276</u>	<u>(2,792,554)</u>
 Total additions	 <u>458,741,354</u>	 <u>174,096,187</u>
DEDUCTIONS		
Distributions to participants	122,588,572	120,783,449
Administrative expenses	2,159,835	1,926,503
Change in value of group annuity policy	<u>316,536</u>	<u>386,198</u>
 Total deductions	 <u>125,064,943</u>	 <u>123,096,150</u>
 NET INCREASE	 333,676,411	 51,000,037
 NET POSITION AVAILABLE FOR PLAN BENEFITS, BEGINNING OF PERIOD	 <u>2,691,675,085</u>	 <u>2,640,675,048</u>
 NET POSITION AVAILABLE FOR PLAN BENEFITS, END OF PERIOD	 <u>\$ 3,025,351,496</u>	 <u>\$ 2,691,675,085</u>

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

**STATE OF WISCONSIN PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN AND TRUST
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011**

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 \$17,000 or 100% and \$16,500 or 100% of the employee's includable compensation for years 2012 and 2011, respectively. 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 2012 or 2011.

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, 2012 and 2011, 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 BMO Harris Bank

**STATE OF WISCONSIN PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN AND TRUST
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011**

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 position available for plan benefits and the net changes in position.

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 investments are value as reported by Galliard Capital Management and BMO Harris Bank at fair value, which represents contributions received plus interest income earned to date less applicable charges and amounts withdrawn.

**STATE OF WISCONSIN PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN AND TRUST
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment Valuation (Continued)

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

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 2012, the Stable Value option paid interest ranging from 2.63% to 3.01% (ranging from 3.13% to 3.78% during 2011). At December 31, 2012 and 2011, the actual crediting rate was 2.63% and 3.13%, respectively.

During 2012, the BMO Harris Bank, previously M&I Bank of Southern Wisconsin paid interest ranging from 0.45% to 0.58% (during 2011, interest paid ranged from 0.26% to 0.60%). At December 31, 2012 and 2011, the actual crediting rate was 0.45% and 0.60%, 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, 2012 and 2011**

NOTE 2 – INVESTMENTS

Investments held in the name of the Plan at December 31, 2012 and 2011 were as follows. Investments marked with an asterisk (*) represent individual investment options, which exceed 5% of the net position available for plan benefits as of December 31, 2012 and 2011. Investments marked with two asterisk (**) represent international mutual funds.

	<u>Fair and Carrying Value</u>	
	<u>2012</u>	<u>2011</u>
Fixed earnings investments:		
Stable Value	\$ 579,012,885 *	\$ 550,754,468 *
BMO Harris Bank	97,645,248	92,644,142
Total fixed earnings investments	<u>676,658,133</u>	<u>643,398,610</u>
Variable earnings investments:		
Fidelity Contrafund	405,451,290 *	363,704,844 *
Vanguard Wellington Fund Admiral Shares	329,418,406 *	284,815,033 *
T. Rowe Price Mid-Cap Growth Fund	263,466,756 *	239,236,598 *
Vanguard Institutional Index Fund Plus Shares - Institutional Plus Shares	242,186,672 *	213,529,501 *
DFA US Micro Cap Fund	163,616,396 *	144,805,101 *
Vanguard Long-Term Investment Grade Fund Admiral Shares	130,984,350	108,994,743
American Funds Europacific Fund - Class R6	124,794,984 **	-
BlackRock Mid Cap Equity Index Fund - Collective W	106,514,373	93,459,446
BlackRock EAFE Equity Index Fund - Class W	74,361,486 **	63,462,260 **
Vanguard Target Retirement 2015 Fund	74,059,423	60,787,062
Vanguard Target Retirement 2025 Fund	72,112,419	55,031,687
BlackRock U.S. Debt Index Fund - Class W	55,511,920	47,079,547
Vanguard Target Retirement 2035 Fund	47,270,986	35,061,051
Vanguard Admiral Treasury Money Market Fund - Admiral Shares	37,914,616	41,733,871
Federated U.S. Government Securities Fund - 2-5 Institutional Shares	36,151,224	36,008,739
BlackRock Russell 2000 Index Collective T	35,839,164	31,781,566
Vanguard Target Retirement Income Fund	34,073,470	22,798,998
Calvert Social Investment Fund - Equity Portfolio - Class I	30,671,828	27,063,654
Vanguard Target Retirement 2045 Fund	25,356,618	18,751,809
American Funds Europacific Fund - Class R5	-	105,290,115 **
Vanguard Target Retirement 2055 Fund	1,488,678	787,448
Total variable earnings investments	<u>2,291,245,059</u>	<u>1,994,183,073</u>
Self-directed option:		
Personal Choice Retirement Accounts - Charles Schwab	57,206,990	53,277,714
Group Annuity Policy:		
Great West Life	1,835,985	2,152,521
Total investments	<u>\$ 3,026,946,167</u>	<u>\$ 2,693,011,918</u>

**STATE OF WISCONSIN PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN AND TRUST
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011**

NOTE 2 – INVESTMENTS (CONTINUED)

At December 31, 2012, the Stable Value option fixed earnings investment totaling \$1,970,087 was payable to the Board for Plan administration costs. 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.

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, 2012 and 2011, 281 and 247 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, 2012 and 2011, the Plan had the following investments and maturities in its fixed earnings and mutual fund investments, which included investments in bonds.

	2012		2011	
	Fair Value	Weighted Average Maturity	Fair Value	Weighted Average Maturity
Fixed earnings investment:				
Stable Value	\$ 579,012,885	3.64	\$ 550,754,468	2.65
Variable earnings investments:				
Vanguard Wellington Fund Admiral Shares	329,418,406	8.90	284,815,033	9.20
Vanguard Long-Term Investment Grade Fund Admiral Shares	130,984,350	24.90	108,994,743	24.40
Vanguard Target Retirement 2015 Fund	74,059,423	7.19	60,787,062	7.45
Vanguard Target Retirement 2025 Fund	72,112,419	6.90	55,031,687	7.30
BlackRock U.S. Debt Index Fund - Class W	55,511,920	6.32	47,079,547	6.32
Vanguard Target Retirement 2035 Fund	47,270,986	6.90	35,061,051	7.30
Federated U.S. Government Securities Fund - 2-5 Institutional Shares	36,151,224	3.70	36,008,739	3.70
Vanguard Target Retirement Income Fund	34,073,470	7.67	22,798,998	7.96
Vanguard Target Retirement 2045 Fund	25,356,618	6.90	18,751,809	7.30

**STATE OF WISCONSIN PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN AND TRUST
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011**

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 12.

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 \$199,156,470 and \$168,752,375 as of December 31, 2012 and 2011, respectively. The individual funds are identified on page 12.

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 \$1,835,985 and \$2,152,521 at December 31, 2012 and 2011, 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, 2012 and 2011, were \$1,970,087 and \$2,051,142, respectively. At the Board’s discretion, these excess fees are invested and available to defray future administrative expenses and participant fee increases.

**STATE OF WISCONSIN PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN AND TRUST
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011**

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 Position 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 XX, 2013** the date the financial statements were available to be issued. Events or transactions occurring after December 31, 2012, but prior to **June XX, 2013** that provided additional evidence about conditions that existed at December 31, 2012, have been recognized in the financial statements for the year ended December 31, 2012. Events or transactions that provided evidence about conditions that did not exist at December 31, 2012, 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, 2012.