

An aerial photograph of a vast, brown agricultural field. The field is divided into sections by numerous parallel, vertical furrows. In the lower right quadrant, a small red tractor is visible, moving across the field and leaving a trail of fresh furrows behind it. The overall scene is a typical representation of large-scale farming.

# State of Wisconsin

## Public Employees Deferred Compensation Plan and Trust

*2022 Audit Summary*

For the June 8, 2023 Board Meeting

**WIPFLI**

# Presenter



## Bryan Johnson, CPA

*Senior Manager, Audit*

- 11 Years experience, including 10 years with ETF engagements
- Member of Wipfli's Technical Issues Committee on Audits of Employee Benefit Plans



An aerial photograph of a winding road through a dense forest, overlaid with a blue tint. The road curves through the trees, and a small body of water is visible in the center of the curve. The overall image has a monochromatic blue color scheme.

# Financial Statement

## Audit



# Audit Opinion (page 1)

- Unqualified opinion: “In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position Wisconsin Public Employees Deferred Compensation Plan and Trust as of December 31, 2022, and the changes in financial net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.”
- The Management Discussion and Analysis is unaudited
- Still in draft format until the Board approves

## Independent Auditor's Report

Deferred Compensation Board  
Department of Employee Trust Funds  
State of Wisconsin  
Madison, Wisconsin

### Opinion

We have audited the accompanying financial statements of State of Wisconsin Public Employees Deferred Compensation Plan and Trust, which comprise the statement of fiduciary net position available for plan benefits as of December 31, 2022, and the related statement of changes in fiduciary net position available for plan benefits for the year then ended and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position Wisconsin Public Employees Deferred Compensation Plan and Trust as of December 31, 2022, and the changes in financial net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Wisconsin Public Employees Deferred Compensation Plan and Trust, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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. In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Wisconsin Public Employees Deferred Compensation Plan and Trust's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements. In performing an audit in accordance with GAAS, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit 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 Wisconsin Public Employees Deferred Compensation Plan and Trust's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Wisconsin Public Employees Deferred Compensation Plan and Trust's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

# Statement of Net Position

- Total assets decreased to \$6 billion
- Minimal accrual for administrative expenses
- Assets by investment type (investment mix) similar to previous years
- Investments are participant directed

## Summary of Fiduciary Net Position Available for Plan Benefits

	Other Employee Benefit Trust Fund			
	December 31, 2022	December 31, 2021	\$ Change	% Change
Cash and Cash Equivalents	\$ 133,369,092	\$ 129,704,028	\$ 3,665,064	2.8 %
Investments	5,886,556,730	7,165,915,200	(1,279,358,470)	(17.9)
Contributions Receivable	309,868	238,872	70,996	29.7
<b>Total Assets</b>	<b>6,020,235,690</b>	<b>7,295,858,100</b>	<b>(1,275,622,410)</b>	<b>(17.5)</b>
Administrative Expenses Payable	208,056	211,870	(3,814)	(1.8)
<b>Total Liabilities</b>	<b>208,056</b>	<b>211,870</b>	<b>(3,814)</b>	<b>(1.8)</b>
<b>Net Position Available for Plan Benefits</b>	<b>\$ 6,020,027,634</b>	<b>\$ 7,295,646,230</b>	<b>\$(1,275,618,596)</b>	<b>(17.5)%</b>

# Statement of Changes in Net Position

- There was significant growth in net assets over the last several years: 12.6% in 2021, 13.9% in 2020, and 19.8% in 2019
- Current year had poor market returns, leading to the decline in overall net assets for 2022
- Contributions increased 5%
- Distributions and expenses remain similar to prior years.

## Summary of Changes In Fiduciary Net Position Available for Plan Benefits

	Other Employee Benefit Trust Fund			
	2022	2021	\$ Change	% Change
<b>Additions</b>				
Employee Contributions	\$ 215,122,048	\$ 204,783,029	\$ 10,339,019	5.0 %
Transfers-in From Other Plans	26,527,340	38,908,508	(12,381,168)	(31.8)
Net Investment Income (Loss)	(1,147,025,338)	937,912,740	(2,084,938,078)	(222.3)
<b>Total Additions</b>	<b>(905,375,950)</b>	<b>1,181,604,277</b>	<b>(2,086,980,227)</b>	<b>(176.6)</b>
<b>Deductions</b>				
Distributions to Participants	362,090,265	358,098,067	3,992,198	1.1
Administrative Expenses	8,152,381	7,927,512	224,869	2.8
<b>Total Deductions</b>	<b>370,242,646</b>	<b>366,025,579</b>	<b>4,217,067</b>	<b>1.2</b>
<b>Net Increase (Decrease)</b>	<b>\$ (1,275,618,596)</b>	<b>\$ 815,578,698</b>	<b>\$ (2,091,197,294)</b>	<b>(256.4)%</b>

# Statement of Changes in Net Position

- Current year MD&A includes additional insight into administrative expenses. Empower fees were increased 3.5% (approved by the Board) based on meeting various objectives.

## Administrative Expenses

	<u>2022</u>	<u>2021</u>	<u>\$ Change</u>	<u>% Change</u>
Advisory Service Fees	\$ 4,129,117	\$ 3,892,810	\$ 236,307	6.1 %
Investment Option Reimbursements	(51,063)	(118,779)	67,716	57.0
Third Party Administrator Fee	3,874,140	3,743,130	131,010	3.5
Department Administrative Fee	154,566	333,856	(179,290)	(53.7)
Audit Fees	38,490	63,245	(24,755)	(39.1)
Other Fees	7,131	13,250	(6,119)	(46.2)
Administrative Expenses	<u>\$ 8,152,381</u>	<u>\$ 7,927,512</u>	<u>\$ 224,869</u>	<u>2.8 %</u>

# Notes to the Financial Statements

- No significant plan changes, accounting rule changes, or amendments.
- Audit went smoothly, with ETF and Empower providing information/documentation timely





Thank you

**WIPFLI**

[www.wipfli.com](http://www.wipfli.com)