

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

**FINANCIAL STATEMENTS
December 31, 2007 and 2006**

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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, 2007 and 2006 and the related statements of changes in net assets available for plan benefits for the year ended December 31, 2007 and thirteen-month period ended December 31, 2006. 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, 2007 and 2006 and the changes in net assets available for plan benefits for the year ended December 31, 2007 and thirteen-month period ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Clifton Gunderson LLP

Baltimore, Maryland
April 15, 2008

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

This discussion and analysis of the Wisconsin Public Employees Deferred Compensation Plan and Trust (the Plan) financial performance provides an overview of the Plan's financial activities for the year ended December 31, 2007 and the thirteen-month period ended December 31, 2006. It is presented as required supplemental information to the financial statements.

FINANCIAL HIGHLIGHTS

- Net assets available for plan benefits increased by approximately \$259 million during the year ended December 31, 2007 from \$2.04 billion at December 31, 2006 to \$2.30 billion at December 31, 2007. Net assets available for plan benefits increased approximately \$290 million during the prior period from \$1.75 billion at November 30, 2005 to \$2.04 billion at December 31, 2006.
- Mutual fund investment income decreased from a \$186.5 million gain for the thirteen month period ended December 31, 2006 to a \$167.3 million gain for the year ended December 31, 2007 due to slightly less favorable market conditions. Mutual fund investment income increased from a \$106.5 million gain for the eleven month period ended November 30, 2005 to a \$186.5 million gain for the thirteen month period ended December 31, 2006. The increase was attributable to more favorable market conditions as compared to 2005 for the equity assets held by the Plan.
- Employee contributions decreased from \$142.2 million for the thirteen month period ended December 31, 2006 to \$140.7 million for the year ended December 31, 2007. The decrease was primarily due to the one month difference between the periods. Employee contributions increased from \$115.4 million for the eleven month period ended November 30, 2005 to \$142.2 million for the thirteen month period ended December 31, 2006. This increase was primarily due to the difference between the thirteen and eleven month periods.
- Distributions to participants increased from \$73.0 million for the thirteen month period ended December 31, 2006 to \$88.8 million for the year ended December 31, 2007. Distributions to participants increased from \$67.6 million for the eleven month period ended November 30, 2005 to \$73.0 million for the thirteen month period ended December 31, 2006. These increases are primarily due to an increase in the number of retirees.

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 Plan's net assets available for plan benefits increased during the year ended December 31, 2007 by \$259,171,037 from \$2,040,092,773 to \$2,299,263,810. The Plan's net assets available for plan benefits increased during the thirteen month period ended December 31, 2006 by \$290,705,475 from \$1,749,387,298 to \$2,040,092,773. These increases relate to generally favorable market conditions and contributions from participants partially offset by distributions to participants. The analysis below focuses on Net Assets Available for Plan Benefits (Table 1) and Changes in Net Assets Available for Plan Benefits (Table 2).

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

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

	<u>December 31, 2007</u>	<u>December, 31, 2006</u>	<u>November 30, 2005</u>
Investments	\$ 2,301,343,666	\$ 2,041,165,878	\$ 1,750,612,700
Receivables - contributions	<u>655,814</u>	<u>785,611</u>	<u>458,657</u>
Total assets	2,301,999,480	2,041,951,489	1,751,071,357
Administrative expenses payable	<u>2,735,670</u>	<u>1,858,716</u>	<u>1,684,059</u>
Net assets available for plan benefits	<u>\$ 2,299,263,810</u>	<u>\$ 2,040,092,773</u>	<u>\$ 1,749,387,298</u>

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

	<u>2007 (Twelve Months)</u>	<u>2006 (Thirteen Months)</u>	<u>2005 (Eleven Months)</u>
Additions			
Employee contributions	\$ 140,659,769	\$ 142,166,202	\$ 115,390,941
Transfers-in from other plans	13,635,881	6,392,134	14,786,382
Interest income	20,285,990	22,057,281	14,276,991
Investment income:			
Mutual fund investment income	167,263,672	186,469,101	106,472,373
Change in value of self-directed option	<u>8,421,645</u>	<u>8,891,067</u>	<u>4,831,776</u>
Total additions	<u>350,266,957</u>	<u>365,975,785</u>	<u>255,758,463</u>
Deductions			
Distributions to participants	88,761,672	73,039,324	67,578,586
Administrative expenses	1,810,920	1,771,177	1,362,729
Change in value of group annuity policy	<u>523,328</u>	<u>459,809</u>	<u>413,270</u>
Total deductions	<u>91,095,920</u>	<u>75,270,310</u>	<u>69,354,585</u>
Net increase	<u>\$ 259,171,037</u>	<u>\$ 290,705,475</u>	<u>\$ 186,403,878</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.

FINANCIAL STATEMENTS

**STATE OF WISCONSIN PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN AND TRUST
STATEMENTS OF NET ASSETS AVAILABLE FOR PLAN BENEFITS
December 31, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
ASSETS		
Investments	\$ 2,301,343,666	\$ 2,041,165,878
Receivable - contributions	<u>655,814</u>	<u>785,611</u>
Total assets	2,301,999,480	2,041,951,489
LIABILITIES		
Administrative expenses payable	<u>2,735,670</u>	<u>1,858,716</u>
NET ASSETS AVAILABLE FOR PLAN BENEFITS	<u>\$ 2,299,263,810</u>	<u>\$ 2,040,092,773</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 ASSETS AVAILABLE FOR PLAN BENEFITS
Year Ended December 31, 2007 and Thirteen-Month Period Ended December 31, 2006**

	<u>2007</u>	<u>2006</u>
ADDITIONS		
Employee contributions	\$ 140,659,769	\$ 142,166,202
Transfers-in from other plans	13,635,881	6,392,134
Interest income	20,285,990	22,057,281
Investment income:		
Mutual fund investment income	167,263,672	186,469,101
Change in value of self-directed option	<u>8,421,645</u>	<u>8,891,067</u>
 Total additions	 <u>350,266,957</u>	 <u>365,975,785</u>
DEDUCTIONS		
Distributions to participants	88,761,672	73,039,324
Administrative expenses	1,810,920	1,771,177
Change in value of group annuity policy	<u>523,328</u>	<u>459,809</u>
 Total deductions	 <u>91,095,920</u>	 <u>75,270,310</u>
 NET INCREASE	 259,171,037	 290,705,475
 NET ASSETS AVAILABLE FOR PLAN BENEFITS, BEGINNING OF PERIOD	 <u>2,040,092,773</u>	 <u>1,749,387,298</u>
 NET ASSETS AVAILABLE FOR PLAN BENEFITS, END OF PERIOD	 <u>\$ 2,299,263,810</u>	 <u>\$ 2,040,092,773</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, 2007 and 2006**

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 \$15,500 in 2007 (\$15,000 in 2006) or 100% of the employee's includable compensation. 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 2007 or 2006.

Under the Plan provisions, employees of the State of Wisconsin and municipalities in Wisconsin (employer) that elect to participate are eligible to contribute to the Plan through payroll deductions. As of December 31, 2007 and 2006, approximately 72% and 79% of the Plan assets were applicable to State employees and the remaining 28% and 21% represent the assets of other Wisconsin municipalities 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 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 or exchange to any of the following investment options:

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

**STATE OF WISCONSIN PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN AND TRUST
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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), including 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 Annuity Insurance Company (Great-West Life).

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.

Interest Income

During 2007, the Stable Value option paid interest ranging from 5.08% to 5.17% (ranging from 5.10% to 5.27% during 2006). At December 31, 2007 and 2006, the actual crediting rate was 5.17% and 5.23%, respectively.

Interest income is recorded as earned on the accrual basis.

**STATE OF WISCONSIN PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN AND TRUST
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 represents 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 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, 2007 and 2006**

NOTE 2 – INVESTMENTS

Investments held in the name of the Plan at December 31, 2007 and 2006 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, 2007 and 2006.

	<u>Fair and Carrying Value</u>	
	<u>2007</u>	<u>2006</u>
Fixed earnings investment:		
Stable Value	\$ 373,000,246 *	\$ 355,706,616 *
M&I Bank of Southern Wisconsin	53,464,779	41,371,121
Variable earnings investments:		
Fidelity Contrafund	434,894,511 *	367,770,811 *
Vanguard Wellington Fund Admiral Shares	253,834,692 *	232,722,516 *
Vanguard Institutional Index Fund Plus Shares - Institutional Plus Shares	232,944,077 *	230,711,432 *
T. Rowe Price Mid-Cap Growth Fund	219,174,958 *	186,598,294 *
DFA US Micro Cap Fund	136,446,560 *	155,216,553 *
Euro - Pacific Growth Fund - Class W	125,901,479 *	89,737,154
Vanguard Long-Term Investment Grade Fund Admiral Shares	67,826,704	64,363,521
Vanguard Admiral Treasury Money Market Fund - Admiral Shares	65,804,038	62,171,285
BGI Mid Cap Equity Index Fund - Class W	63,491,755	57,156,421
BGI EAFE Equity Index Fund - Class W	60,110,976	45,513,422
Vanguard Target Retirement 2015 Fund	28,774,318	15,069,018
Vanguard Target Retirement 2025 Fund	22,577,524	10,036,527
Federated U.S. Government Securities Fund - 2-5 Institutional Shares	22,189,794	18,310,389
BGI Russell 2000 Index Collective T	20,911,258	18,623,915
Calvert Social Investment Fund - Equity Portfolio - Class I	17,430,642	15,516,574
BGI U.S. Debt Index Fund - Class W	16,193,167	12,175,932
Vanguard Target Retirement 2035 Fund	14,085,087	6,644,840
Vanguard Target Retirement 2045 Fund	8,465,182	4,244,755
Vanguard Target Retirement Income Fund	8,259,049	3,840,229
Self-directed option:		
Personal Choice Retirement Accounts - Charles Schwab	51,880,569	43,458,924
Group Annuity Policy:		
Great West Life	<u>3,682,301</u>	<u>4,205,629</u>
Total investments	<u>\$ 2,301,343,666</u>	<u>\$ 2,041,165,878</u>

**STATE OF WISCONSIN PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN AND TRUST
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006**

NOTE 2 – INVESTMENTS (CONTINUED)

At December 31, 2007, \$5,231 of the fixed earnings investments on deposit at Vanguard Admiral Treasury Money Market and \$2,730,439 of the Stable Value option fixed earnings investment totaling \$2,735,670 was payable to the Board for Plan administration costs. At December 31, 2006, \$71 of the fixed earnings investment on deposit at Vanguard Admiral Treasury Money Market and \$1,858,645 of the Stable Value option fixed earnings investment totaling \$1,858,716 were payable to the Board for Plan administration costs.

The fixed earnings investments with M&I Bank of Southern Wisconsin are insured by the Federal Deposit Insurance Corporation up to \$250,000 per participant. Ninety-six accounts of individual participants held more than \$250,000 at December 31, 2007.

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.

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 \$3,682,301 and \$4,205,629 at December 31, 2007 and December 31, 2006, respectively.

As of December 31, 2007 the Plan had the following investments and maturities in its fixed earnings investments and 9 of its mutual funds, which include investments in bonds.

	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
Fixed earnings investment:		
Stable Value	\$ 373,000,246	3.90
Variable earnings investments:		
Vanguard Wellington Fund Admiral Shares	253,834,692	8.80
Vanguard Long-Term Investment Grade Fund Admiral Shares	67,826,704	22.30
Vanguard Target Retirement 2015 Fund	28,774,318	7.30
Vanguard Target Retirement 2025 Fund	22,577,524	7.30
Federated U.S. Government Securities Fund: 2-5 Institutional Shares	22,189,794	4.10
BGI U.S. Debt Index Fund – Class W	16,193,167	6.77
Vanguard Target Retirement 2035 Fund	14,085,087	7.30
Vanguard Target Retirement 2045 Fund	8,465,182	7.30
Vanguard Target Retirement Income Fund	8,259,048	7.98

**STATE OF WISCONSIN PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN AND TRUST
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006**

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 Annuity Insurance Company (Great-West Life).

Each participant in the Plan is charged a fee based upon their account balance and a tiered dollar charge ranging from \$6.00 to \$120.00 annually, assessed monthly. During 2007 these fees were reduced to no charge for accounts under \$5,000 and a tiered dollar charge for all other accounts ranging from \$12.00 to \$66.00 annually. Fees assessed in excess of the Plan administrative expenses as of December 31, 2007 and 2006 were \$2,735,670 and \$1,858,716, 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.