

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

**FINANCIAL STATEMENTS
November 30, 2005 and December 31, 2004**

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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 November 30, 2005 and December 31, 2004 and the related statements of changes in net assets available for plan benefits for the eleven-month and twelve-month periods then ended. 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 November 30, 2005 and December 31, 2004, and the changes in its net assets available for plan benefits for the eleven-month and twelve-month periods then ended 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
March 22, 2006

**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 eleven-month period ended November 30, 2005 and the twelve-month period ended December 31, 2004. It is presented as required supplemental information to the financial statements.

Overview of Financial Statements

The Statements of Plan Net Assets provide the financial position of the Plan at November 30, 2004, including comparative amounts for the year ended December 31, 2004.

The Statements of Changes in Plan Net Assets summarize the Plan's financial activities that occurred during the eleven months ended November 30, 2005 and amounts for the prior year.

The Summary of Significant Accounting Policies and Notes to Financial Statements provide additional information that is essential to a full understanding of the financial statements. The notes are an integral part of the financial statements and include detailed information not readily evident in the basic financial statements.

Financial Highlights

- Net assets available for plan benefits increased by approximately \$186 million during the current period from \$1.56 billion at December 31, 2004 to \$1.75 billion at November 30, 2005. Net assets available for plan benefits increased by approximately \$216 million from \$1.35 billion at December 31, 2003 to \$1.56 billion at December 31, 2004.
- Mutual fund investment income decreased from \$132 million gain for the year ended December 31, 2004 to a \$106 million gain for the eleven-month period ended November 30, 2005. The decrease is attributable to less favorable market conditions in 2005 for the equity assets held by the Plan and income was only earned for eleven months in 2005. Mutual fund investment income decreased from \$225 million for the year ended December 31, 2003 to \$132 million for the year ended December 31, 2004. The decrease was attributable to less favorable market conditions in 2004 for the equity assets held by the Plan.
- Employee contributions decreased from \$118 million for the year ended December 31, 2004 to \$115 million for the eleven-month period ended November 30, 2005. The overall decrease is due to the eleven months versus twelve months of contributions. Employee contributions increased from \$106 million for the year ended December 31, 2003 to \$118 million for the year ended December 31, 2004. This increase is primarily due to changes in maximum deferral amounts as a result of the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) effective January 1, 2002.

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MANAGEMENT'S DISCUSSION AND ANALYSIS**

- Distributions to participants increased from \$64 million for the year ended December 31, 2004 to \$67.6 million for the eleven-month period ended November 30, 2005. Distributions to participants increased from \$54 million for the year ended December 31, 2003 to \$64 million for the year ended December 31, 2004.
- Administrative expenses were approximately the same for the year ended December 31, 2004 and for the eleven-month period ended November 30, 2005. Administrative expenses increased from \$1.17 million for the year ended December 31, 2003 to \$1.3 million for the year ended December 31, 2004.

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 eleven-month period ended November 30, 2005 by \$186,403,878 from \$1,562,983,420 to \$1,749,387,298. The Plan's net assets available for plan benefits increased during the year ended December 31, 2004 by \$216,471,197 from \$1,346,512,223 to \$1,562,983,420. 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).

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Investments	\$ 1,750,612,700	\$ 1,564,082,815	\$ 1,348,051,900
Receivables	<u>458,657</u>	<u>430,845</u>	<u>103,483</u>
Total assets	1,751,071,357	1,564,513,660	1,348,155,383
Administration fees payable	<u>1,684,059</u>	<u>1,530,240</u>	<u>1,643,160</u>
Net assets available for plan benefits	<u>\$ 1,749,387,298</u>	<u>\$ 1,562,983,420</u>	<u>\$ 1,346,512,223</u>

**STATE OF WISCONSIN PUBLIC EMPLOYEES
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MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>
ADDITIONS TO NET ASSETS			
ATTRIBUTED TO			
Employee contributions	\$ 115,390,941	\$ 118,465,646	\$ 106,009,021
Transfers-in from other plans	14,786,382	14,260,287	11,168,805
Interest income	14,276,991	12,504,973	11,605,370
Investment income:			
Mutual fund investment income	106,472,373	132,084,062	224,714,292
Change in value of self-directed option	<u>4,831,776</u>	<u>5,244,468</u>	<u>7,860,788</u>
Total additions	<u>255,758,463</u>	<u>282,559,436</u>	<u>361,358,276</u>
DEDUCTIONS FROM NET ASSETS			
ATTRIBUTED TO			
Distributions to participants	67,578,586	64,178,339	53,756,740
Administrative expenses	1,362,729	1,347,509	1,165,798
Change in value of group annuity policy	<u>413,270</u>	<u>562,391</u>	<u>516,662</u>
Total deductions	<u>69,354,585</u>	<u>66,088,239</u>	<u>55,439,200</u>
NET INCREASE	<u>\$ 186,403,878</u>	<u>\$ 216,471,197</u>	<u>\$ 305,919,076</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 trustee's 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.

**STATE OF WISCONSIN PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN AND TRUST
STATEMENTS OF NET ASSETS AVAILABLE FOR PLAN BENEFITS
November 30, 2005 and December 31, 2004**

	2005	2004
ASSETS		
INVESTMENTS	\$ 1,750,612,700	\$ 1,564,082,815
RECEIVABLES - CONTRIBUTIONS	458,657	430,845
TOTAL ASSETS	1,751,071,357	1,564,513,660
LIABILITIES		
ADMINISTRATIVE FEES PAYABLE	1,684,059	1,530,240
NET ASSETS AVAILABLE FOR PLAN BENEFITS	\$ 1,749,387,298	\$ 1,562,983,420

These financial statements should be read only in connection with
the accompanying summary of significant accounting policies
and notes to financial statements

**STATE OF WISCONSIN PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN AND TRUST
STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR PLAN BENEFITS
Eleven-Month Period Ended November 30, 2005 and Twelve-Month Period Ended December 31, 2004**

	2005	2004
ADDITIONS TO NET ASSETS ATTRIBUTED TO		
Employee contributions	\$ 115,390,941	\$ 118,465,646
Transfers-in from other plans	14,786,382	14,260,287
Interest income	14,276,991	12,504,973
Investment income:		
Mutual fund investment income	106,472,373	132,084,062
Change in value of self-directed option	4,831,776	5,244,468
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DEDUCTIONS FROM NET ASSETS ATTRIBUTED TO		
Distributions to participants	67,578,586	64,178,339
Administrative expenses	1,362,729	1,347,509
Change in value of group annuity policy	413,270	562,391
Total deductions	<u>69,354,585</u>	<u>66,088,239</u>
NET INCREASE	186,403,878	216,471,197
NET ASSETS AVAILABLE FOR PLAN BENEFITS, BEGINNING OF YEAR	<u>1,562,983,420</u>	<u>1,346,512,223</u>
NET ASSETS AVAILABLE FOR PLAN BENEFITS, END OF YEAR	<u>\$ 1,749,387,298</u>	<u>\$ 1,562,983,420</u>

These financial statements should be read only in connection with
the accompanying summary of significant accounting policies
and notes to financial statements

**STATE OF WISCONSIN PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN AND TRUST
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
November 30, 2005 and December 31, 2004**

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 \$14,000 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 2005 or 2004.

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 November 30, 2005 and December 31, 2004, approximately 73% and 75% of the Plan assets were applicable to State employees and the remaining 27% and 25% 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 by January 1, 1999. The Deferred Compensation Board has attempted to comply with Section 457(g), created by that legislation, by amending its own description of the Plan to state that funds are held in trust for employees and that the Board members are the trustees.

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 investments underwritten by M&I Bank of Southern Wisconsin and a Stable Value option managed by Galliard Capital Management, Inc.
- 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 funds offerings other than the Plan's core options.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
November 30, 2005 and December 31, 2004**

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.

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).

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount of investments and contributions receivable approximates their fair value.

**STATE OF WISCONSIN PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN AND TRUST
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
November 30, 2005 and December 31, 2004**

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

The interest yields paid for fixed earnings investment deposits by M&I Bank of Southern Wisconsin, ranged between 2.495% and 3.657% during 2005 and ranged between .958% and 1.624% during 2004. The interest yield paid on the fixed earnings investments by M&I Bank of Southern Wisconsin was 3.657% and 1.624% at November 30, 2005 and December 31, 2004, respectively.

During 2005, the Stable Value option paid interest ranging from 4.90% to 5.15% (ranging from 4.87% to 5.04% during 2004). At November 30, 2005 and December 31, 2004, the actual crediting rate was 5.08% and 4.91%, 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

Transfers-in represent the transfer of asset balances for employees who transferred assets from other eligible Plans.

**STATE OF WISCONSIN PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN AND TRUST
NOTES TO FINANCIAL STATEMENTS
November 30, 2005 and December 31, 2004**

NOTE 1 – INVESTMENTS

Investments held in the name of the Plan at November 30, 2005 and December 31, 2004 were as follows. Investments marked with an asterisk (*) represent individual investment options, which exceed 5% of net assets available for plan benefits as of November 30, 2005 and December 31, 2004, respectively.

	<u>Fair and Carrying Value</u>	
	<u>2005</u>	<u>2004</u>
Fixed earnings investment:		
Stable Value	\$ 321,225,236*	\$ 281,220,707*
M&I Bank of Southern Wisconsin	29,822,935	29,814,228
Variable earnings investments:		
Fidelity Contrafund	325,940,647*	260,577,116*
Vanguard Institutional Index Fund Plus Shares – Institutional Plus Shares	211,566,150*	210,767,539*
Vanguard Wellington Fund Admiral Shares	197,791,514*	170,962,425*
T. Rowe Price Mid-Cap Growth Fund	171,131,090*	143,031,676*
Dimensional Fund Advisors, Inc. U.S. Micro Cap Portfolio	134,034,560*	129,005,026*
Vanguard Long-Term Investment Grade Fund Admiral Shares	62,147,910	53,388,700
BGI Mid Cap Equity Index Fund – Class W	50,283,849	35,540,327
Euro – Pacific Growth Fund – Class R5	44,120,195	-
Vanguard Admiral Treasury Money Market Fund – Admiral Shares	31,463,388	25,633,841
BGI EAFE Equity Index Fund – Class W	27,959,768	16,419,432
Janus Fund	22,797,757	63,345,708
T. Rowe Price International Stock Fund	17,301,201	61,272,029
Federated U.S. Government Securities Fund: 2-5 Institutional Shares	17,296,149	16,535,572
Calvert Social Investment Fund – Equity Portfolio-Class I	13,634,757	10,293,308
BGI Small Cap Index Fund – Class W	12,186,440	7,522,412
BGI U.S. Debt Index Fund – Class W	9,389,582	7,540,277
Vanguard Target Retirement 2015 Fund	4,882,238	-
Vanguard Target Retirement 2025 Fund	2,568,739	-
Vanguard Target Retirement Income Fund	1,810,016	-
Vanguard Target Retirement 2035 Fund	1,135,432	-
Vanguard Target Retirement 2045 Fund	513,240	-
The Dreyfus Premier Third Century Fund Class R	-	6,117,704
Self-directed option:		
Personal Choice Retirement Accounts – Charles Schwab	34,567,858	29,736,081
Group annuity policy:		
Great-West Life	4,665,338	5,078,608
Other:		
US Bank	376,711	280,091
In-Transit	-	8
Total investments	<u>\$ 1,750,612,700</u>	<u>\$ 1,564,082,815</u>

**STATE OF WISCONSIN PUBLIC EMPLOYEES
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NOTES TO FINANCIAL STATEMENTS
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NOTE 1 - INVESTMENTS (CONTINUED)

At November 30, 2005, \$376,711 of the fixed earnings investments on deposit at US Bank and \$1,307,348 of the Stable Value option fixed earnings investment was payable to the Board for Plan administration costs. At December 31, 2004, \$280,091 of the fixed earnings investment on deposit at US Bank and \$1,250,149 of the Stable Value option fixed earnings investment were payable to the Board for Plan administration costs.

The fixed earnings investments with M&I Bank of Southern Wisconsin are insured with the Federal Deposit Insurance Corporation up to \$100,000 per participant at November 30, 2005 and December 31, 2004. Thirty-seven and twenty-five accounts of individual participants held more than \$100,000 at November 30, 2005 and December 31, 2004, respectively.

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 \$4,665,338 and \$5,078,608 at November 30, 2005 and December 31, 2004, respectively.

The plan conforms to the reporting requirements of Governmental Accounting Standards Board Statement No. 40. As of November 30, 2005 the Plan had the following investments and maturities in its fixed earnings investments and 7 of its mutual funds which include investments in bonds.

	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
Fixed earnings investment:		
Stable Value	\$ 321,225,236	3.00
M&I Bank of Southern Wisconsin	29,822,935	0.33
Variable earnings investments:		
Vanguard Wellington Fund Admiral Shares	197,791,514	7.80
Vanguard Long-Term Investment Grade Fund Admiral Shares	62,147,910	20.90
Federated U.S. Government Securities Fund:		
2-5 Institutional Shares	17,296,149	3.74
BGI U.S. Debt Index Fund – Class W	9,389,582	6.82
Vanguard Target Retirement 2015 Fund	4,882,238	7.02
Vanguard Target Retirement 2025 Fund	2,568,739	6.80
Vanguard Target Retirement Income Fund	1,810,016	8.15

**STATE OF WISCONSIN PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN AND TRUST
NOTES TO FINANCIAL STATEMENTS
November 30, 2005 and December 31, 2004**

NOTE 2 – PLAN ADMINISTRATION

The Plan receives periodic record keeping 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, Nationwide Retirement Solutions, Inc. (NRS).

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. Fees assessed in excess of the Plan administrative expenses for the eleven-month period ended November 30, 2005 and the twelve-month period ended December 31, 2004 were \$1,684,059 and \$1,530,240, respectively. These excess fees are available for future administrative expenses at the Board's discretion.

In accordance with the agreement with the Plan, NRS maintains a minimum of \$200,000 on deposit in cash in a Plan account during the terms of the contract. The deposit will be used to reimburse the Plan for any losses due to changes in market value between the date mutual fund investments are credited to the participants' accounts and the mutual fund trade date.

Deposits are made to this account on a daily basis by employers and these amounts are subsequently transferred and invested. The \$216,658 balance in this account is not recorded in the financial statements as of November 30, 2005 and consists of the \$200,000 deposit and \$16,658 of contributions received but not invested by the Plan.

NOTE 3 – 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 4 – 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 5 – SUBSEQUENT EVENT

Effective December 1, 2005, the Plan contracted with a new third party administrator, Great West Retirement Services (GWRS). The transfer agreement between the State of Wisconsin Deferred Compensation Board and Nationwide Retirement Solutions provided for plan assets to be transferred to GWRS beginning December 1, 2005.

This information is an integral part of the
accompanying financial statements.