STATE OF WISCONSIN PUBLIC EMPLOYEES DEFERRED COMPENSATION PLAN AND TRUST

Financial Statements

December 31, 2001 and 2000

(With Independent Auditors' Report Thereon)

191 West Nationwide Boulevard
Suite 500
Columbus, OH 43215-2568

Telephone 614 249 2300
Fax 614 249 2348

February 27, 2002

State of Wisconsin Deferred Compensation Board:

We have audited the financial statements of the State of Wisconsin Deferred Compensation Plan and Trust (the Plan) for the year ended December 31, 2001, and have issued our report thereon dated February 27, 2002. Under auditing standards generally accepted in the United States of America, we are providing you with the following information related to the conduct of our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America

We have a responsibility to conduct our audit in accordance with auditing standards generally accepted in the United States of America. In carrying out this responsibility, we planned and performed the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Because of the nature of audit evidence and the characteristics of fraud, we are to obtain reasonable, not absolute, assurance that material misstatements are detected. We have no responsibility to plan and perform the audit to obtain reasonable assurance that misstatements, whether caused by error or fraud, that are not material to the financial statements are detected.

In addition, in planning and performing our audit, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control.

Significant Accounting Policies and Reporting Issues

The significant accounting policies used by the Plan are described in note 2 to the financial statements. We noted no new accounting policies were adopted during the year nor were there any changes to the application of existing policies. We noted no transactions entered into by the Plan during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based upon management's current judgments. 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 markedly from management's current judgments.

Significant management judgments and accounting estimates are made in the valuation of investments which is more fully described in note 2 to the financial statements.

Significant Audit Adjustments

In connection with our audit of your financial statements, we noted no significant financial statement misstatements that were proposed or had not been corrected in your books and records as of and for the year ended December 31, 2001.

Disagreements with Management

There were no disagreements with management on financial accounting and reporting matters that, if not satisfactorily resolved, would have caused a modification of our report on the Plan's financial statements.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

Major Issues Discussed with Management Prior to Retention

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Plan's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Consultation with Other Accountants

To the best of our knowledge, management has not consulted with or obtained opinions, written or oral, from other independent accountants during the past year that were subject to the requirements of AU 625, *Reports on the Application of Accounting Principles.*

* * * * *

This report is intended solely for the information and use of the State of Wisconsin Deferred Compensation Board and management and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP

STATE OF WISCONSIN PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN AND TRUST

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KPMG

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Telephone 614 249 2300
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Independent Auditors' Report

State of Wisconsin Deferred
Compensation Board:

We have audited the accompanying statements of net assets available for benefits of the State of Wisconsin Public Employees Deferred Compensation Plan and Trust (the Plan) as of December 31, 2001 and 2000, and the related statements of changes in net assets available for benefits for the years 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 benefits of the Plan as of December 31, 2001 and 2000, and the changes in net assets available for benefits for the years then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

February 27, 2002

STATE OF WISCONSIN PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN AND TRUST

Statements of Net Assets Available for Benefits

December 31, 2001 and 2000

Assets	2001	2000
Investments (note 3)	$ 1,131,615,190	1,179,297,437
Contributions receivable	203,780	542,645
Total assets	1,131,818,970	1,179,840,082
Liabilities		
Due to the board for administrative expenses (note 4)	2,274,861	2,230,902
Net assets available for benefits	$ 1,129,544,109	1,177,609,180

See accompanying notes to financial statements.

STATE OF WISCONSIN PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN AND TRUST

Statements of Changes in Net Assets Available for Benefits

Years ended December 31, 2001 and 2000

		2001	2000
Additions:			
Employee contributions	$	85,516,177	80,053,504
Transfers-in		8,156,074	8,674,057
Interest income		11,787,298	10,969,308
Mutual fund investment loss		(110,826,182)	(76,241,660)
Change in value of self-directed option (note 1)		(4,228,499)	(5,080,420)
Total additions		(9,595,132)	18,374,789
Deductions:			
Distributions to participants		36,763,431	35,559,285
Administrative expenses, sales and asset charges (note 4)		1,085,693	1,167,147
Change in value of group annuity policy (note 3)		620,815	788,104
Total deductions		38,469,939	37,514,536
Net deductions		(48,065,071)	(19,139,747)
Net assets available for benefits, beginning of year		1,177,609,180	1,196,748,927
Net assets available for benefits, end of year	$	1,129,544,109	1,177,609,180

See accompanying notes to financial statements.

(1) General Description of the Plan

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 $8,000 or 33-1/3% of the employee's includable compensation. 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 2001 or 2000.

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, 2001 and 2000, respectively, $856,607,757 and $907,542,773 of Plan assets were applicable to the State and the remaining $272,936,352 and $270,066,407, respectively, 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. At December 31, 2001 and 2000, the Plan met the requirements of the SBJPA.

The Plan is governed by the Wisconsin Deferred Compensation Board (the Board) and is administered by a third party (see note 4). 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 options:

- Variable earnings investments consisting of various mutual funds.

- Fixed earnings investments underwritten by M & I Bank of Southern Wisconsin and a Stable Value option managed by Galliard Capital Management, Inc. (see note 3). Galliard Capital Management, Inc. authorized J.P. Morgan & Co., Inc. and Monumental Life Insurance Co. during 1999 as additional fund advisors for the Stable Value option.

- 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, periodic or annuity payments which may be actuarially determined.

(Continued)

(2) Summary of Significant Accounting Policies

(a) 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 and Annuity Insurance Company (Great-West Life).

(b) 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.

(c) Interest Income

The interest yields paid for fixed earnings investment deposits by M & I Bank of Southern Wisconsin, ranged between 1.94% and 6.10% during 2001. The interest yields paid for fixed earnings investment deposits by Firstar Bank Madison, N.A. (Firstar) ranged between 5.27% and 6.22% during 2000. On December 29, 2000, all fixed earnings investment deposits with Firstar were transferred to M & I Bank of Southern Wisconsin. The interest yield paid on the fixed earnings investments was 1.94% and 6.22% at December 31, 2001 and 2000, respectively.

During 2001, the stable value option paid interest at an average annualized yield of 6.60% (6.32% during 2000), ranging from 6.41% to 6.80% (ranging from 6.20% to 6.51% during 2000). At December 31, 2001 and 2000, the actual crediting rate was 6.43% and 6.41%, respectively.

Interest income is recorded as earned on the accrual basis.

(d) Transfers-In

Transfers-in represent the transfer of asset balances for employees who previously participated in other Section 457 plans.

(e) Mutual Fund Investment Loss

Mutual fund investment loss consists of dividend income and realized and unrealized gains and losses attributable to the mutual funds.

(f) ***Participants' Accounts***

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

(g) ***Fair Value of Financial Instruments***

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

(h) ***Estimates***

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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

(3) Investments

Investments held in the name of the Plan at December 31, 2001 and 2000 were as follows. Investments marked with an asterisk represent individual investment options which exceed 5% of net assets available for benefits as of December 31, 2001 and 2000, respectively.

	Fair Value and Carrying Value	
	2001	**2000**
Fixed earnings investments:		
Stable Value	$ 169,957,540*	151,647,627*
M & I Bank of Southern Wisconsin	36,877,982	31,323,684
Variable earnings investments (mutual funds):		
Vanguard Institutional Index Fund Plus Shares	172,355,590*	196,229,270*
Fidelity Contrafund	165,197,082*	188,007,115*
Janus Fund	159,962,040*	217,143,346*
Vanguard Wellington Fund Admiral Shares	105,459,833*	90,755,185*
T. Rowe Price Mid-Cap Growth Fund	74,481,669*	65,989,091*
T. Rowe Price International Stock Fund	53,740,211	68,300,852
Dimensional Fund Advisors, Inc. U.S. Micro Cap Portfolio	49,666,554	35,490,113
Vanguard Long-term Corporate Fund Admiral Shares	34,693,178	27,107,641
Dreyfus Premier Third Century Fund Class R	31,580,475	40,858,978
Vanguard Admiral Treasury Money Market Fund	30,726,066	30,376,292
Federated U.S. Government Securities Fund: 2-5 Institutional Shares	14,373,404	10,223,882
Mid Cap Equity Index Fund	4,951,083	—
U.S. Debt Fund	1,899,760	—
EAFE Equity Index Fund	539,021	—
Self-directed option:		
Personal Choice Retirement Account – Charles Schwab	18,142,743	17,791,421
Group annuity policy – Great-West Life	6,818,324	7,439,139
Other:		
Firstar Bank Madison, N.A.	192,635	613,801
Total	$ 1,131,615,190	1,179,297,437

At December 31, 2001, $192,635 of the fixed earnings investment on deposit at Firstar Bank Madison, N.A. and $2,082,226 of the Stable Value option fixed earnings investment was payable to the Board for Plan administration costs (note 4). At December 31, 2000, $613,801 of the fixed earnings investment on deposit at Firstar Bank Madison, N.A. and $1,617,101 of the Stable Value option fixed earnings investment was payable to the Board for Plan administration costs.

The fixed earnings investments with M & I Bank of Southern Wisconsin and Firstar Bank Madison, N.A. are insured with the Federal Deposit Insurance Corporation up to $100,000 per participant at December 31, 2001 and 2000. Thirty-eight and thirty-three accounts held more than $100,000 on behalf of individual participants at December 31, 2001 and 2000, respectively.

The Stable Value option included $0 and $19,104,605 invested with Great-West Life and $53,717,274 and $38,396,880 managed by Galliard Capital Management, Inc. at December 31, 2001 and 2000, respectively. Additionally, the Stable Value option included $58,120,133 and $47,073,071 held by J.P. Morgan & Co., Inc. and $58,120,133 and $47,073,071 held by Monumental Life Insurance Co. at December 31, 2001 and 2000, 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 $6,818,324 and $7,439,139 at December 31, 2001 and 2000, respectively.

(4) Plan Administration

The Plan receives monthly record keeping or 12(b)1 fees for certain mutual funds which are paid by the investment companies. Such fees are paid to the Board to support Board costs, which include the contractual fee paid to National Deferred Compensation, Inc. (NDC) under the terms of an Agreement dated January 1, 1998. On May 15, 2001, the Board approved an amendment to the Agreement changing the name of the third party administrator to Nationwide Retirement Solutions, Inc. (NRS). Under the terms of the amended Agreement, NRS acts as exclusive administrator and coordinator of the Plan through December 31, 2005.

Each participant in the Plan is charged an administrative fee based upon their account balance and a tiered dollar charge ranging from $6.00 to $120.00 annually, assessed monthly. Such fees are also paid to the Board to support Board costs.

(5) 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.