Annual Report / Fiscal Year 07

State of Wisconsin Investment Board

This document includes a brief overview of the assets under management by the Investment Board and the financial statements and related notes for the fiscal years ending June 30, 2007, and June 30, 2006. A complete listing of the Board's investments held as of June 30, 2007, is available on the Internet at www.swib.state.wi.us or by contacting the State of Wisconsin Investment Board using the contact information provided on the back cover of this report.

Introduction

Success in today's investment world requires – among other things – flexibility to keep pace with new investment opportunities. During the past year, we have reviewed the investment authority SWIB has under state law. Our goal is to ensure that now and in the future SWIB has the flexibility to prudently choose the best mix of investments as financial markets rapidly change.

Under modern investment practices, those who invest the funds of others are commonly held to a "prudent expert" standard of responsibility. That is, to invest with the care, skill and diligence expected of a prudent investor acting in a similar capacity. This sets the highest fiduciary standard for investors and enhances accountability by requiring that the current investment environment be considered in formulating strategies.

"History shows that public pension funds have benefited from the flexibility to prudently choose the best mix of investments."

The Uniform Prudent Investor Act (adopted in Wisconsin and 43 other states) applies this standard to trusts and other fiduciaries, including most pension funds. Wisconsin school districts have prudent expert authority for investment of employee benefit trust funds. The standard also incorporates management decisions, including costs.

SWIB's statutory authority currently combines aspects of the prudent expert standard and a "legal list". The list restricts SWIB's authority for some specific types of investments and prevents SWIB from using all investment tools available to other investors. This may prohibit SWIB from achieving the best possible performance in fulfilling its fiduciary duties. To address this concern, the Board has hired a leading consultant–Ennis, Knupp & Associates–to conduct a fiduciary review of SWIB's statutory authority.

History shows that public pension funds have benefited from the flexibility to prudently choose the best mix of investments. According to the Employee Benefit Research Institute, a leading research and policy organization, asset growth in pubic pension funds can be traced to the lifting of statutory restrictions in the 1980s that limited many pension funds almost exclusively to investment in bonds.

Interestingly, when the Wisconsin Legislature created SWIB in 1951 it was one of the few public pension funds permitted to invest in domestic stocks. SWIB was considered a forerunner as it continued to seek investment opportunities in private equity, leveraged buy-outs, developed international markets and emerging markets. Today, these investments are considered standard by public pension funds, and the pace of change in the investment world is ever accelerating.

An important aspect of the prudent investor standard is that individual investments are considered not in isolation but in the context of the trust portfolio as a whole. Some new opportunities may appear risky when viewed alone. However, when part of a diversified mix of investments in stocks, bonds and other assets they can increase returns often without increasing the overall portfolio risk and, in some cases, may help decrease the overall portfolio's risk.

According to Ennis, Knupp, "Behind the Uniform Prudent Investor Act is a strong sentiment that trust law governing fiduciaries should keep pace with modern economic and financial realities." The Board believes it is important to work with its advisors, fund participants and policymakers to ensure that SWIB has the legal authority and flexibility needed now and in the future to make prudent investment and management choices.

James A. Senty, Chair
June 30, 2007

Consistency and change are each central to a successful investment program. Over the years SWIB has blended those two elements to provide the reliable and competitive investment returns needed to fund retirement for participants in the Wisconsin Retirement System and successfully invest the other funds trusted to its management. Investment returns provide most of the funds needed to pay retirement benefits. Favorable investment returns over the long-term mean lower costs for members and taxpayers, better retirement benefits for the members, and more predictable budgeting for state and local governments.

For the period ending June 30, 2007, Core Fund returns have been as follows:

	One Year	Five Years	Ten Years
Core Fund	18.0%	12.4%	8.9%
Benchmark	17.2%	11.9%	8.3%

It is worth noting that the positive ten-year numbers include the three extraordinary years following the "dot-com bubble," when Internet companies were riding an enormous wave of enthusiasm that pushed their stock prices to unsustainable levels. That highlights the importance of maintaining a diversified portfolio with a long-term investment focus as many investors were hit hard when the bubble broke. As we watch market developments resulting from recent lending excesses, those same two factors (along with careful risk management) remain key to success.

I have spent my career helping to invest and manage pension funds and am pleased to have joined SWIB during the summer of 2007. This is an exciting and challenging time for institutional investors in general and SWIB in particular. Financial markets are evolving at a dizzying rate. Trends begin, develop and conclude at unprecedented speed. Amidst that change SWIB is working to adapt, but maintain its long-term focus and foundation for continued success.

"Trends begin, develop and conclude at unprecedented speed. Amidst that change SWIB is working to adapt, but maintain its long-term focus and foundation for continued success. "

Several initiatives are underway or contemplated at SWIB. Briefly speaking:

- We are revising our approach to stock investing to better address globalized markets and an evolving business environment.
- We are preparing to manage more assets with SWIB staff rather than through external money managers.
- We are requesting resources to properly handle more assets internally and to enable SWIB to compete for the highly skilled staff needed for that task.
- We are reviewing and requesting revisions to laws governing SWIB's investment authority to permit us to address the radically changing investment world.

We look forward to continuing our work with participants and policymakers as we enhance our operations to maintain SWIB's record of long-term investment prudence and sound results.

Keith Bozarth, Executive Director
June 30, 2007

The State of Wisconsin Investment Board (SWIB) is a state agency responsible for investing the assets of the Wisconsin Retirement System (WRS), the State Investment Fund (SIF) and five smaller trust funds established by the State. Investments are made according to the purpose and risk profile of each trust. The WRS includes the Core Retirement Investment Trust Fund (Core Trust Fund) and the Variable Retirement Investment Trust Fund (Variable Trust Fund).

VISION

SWIB strives to be a premier public investment organization, a place where professional excellence and public service thrive. Superior investment returns, the highest ethical and professional standards, teamwork and a rewarding work environment will make SWIB the investment management organization of choice.

MISSION

To provide prudent and cost-effective management of funds held in trust by the State. This is achieved with solid investment returns, consistent with the purpose and risk profile of each fund.

The Investment Board was created under section 15.76 of the statutes. The Board's duties as manager of the State's trust funds are provided in chapter 25 of the statutes.

The law also requires SWIB to make investment decisions and conduct every aspect of its operations in the best financial interest of the trust funds.

SWIB is directed by a nine-person, independent Board of Trustees and staffed with professional money managers and support personnel. The Board of Trustees appoints the executive director of the Investment Board. The executive director oversees the staff, develops and recommends agency and investment policies for Board adoption, and ensures adherence to state law and policies.

Assets Under Management - June 30, 2007

Fund	$ in Millions	% of Total
Core Retirement Investment Trust Fund	$ 80,467	86%
Variable Retirement Investment Trust Fund	7,355	8
Wisconsin Retirement System	87,822	94
State Investment Fund*	5,046	5
Various Funds		
Injured Patients and Families Compensation Fund	798	1
State Life Insurance Fund	82	0
Local Gov't Property Insurance Fund	55	0
Historical Society Trust Fund	13	0
Tuition Trust Fund	10	0
	$ 93,826	100 %

*Excludes deposits from Core Retirement Investment Trust Fund, Variable Retirement Investment Trust Fund and Various Funds.

Management costs of the State of Wisconsin Investment Board include external management and advisory fees, investment support services as well as expenses incurred to manage agency operations. The majority of expenses are fees paid to outside advisors and fund managers. Costs of other support services include custodial banking services, investment research, and legal services.

Agency operating expenses for staff compensation, overhead and equipment were $20.5 million and represented about 10% of total costs. Expenses are paid from investment earnings of the funds SWIB manages.

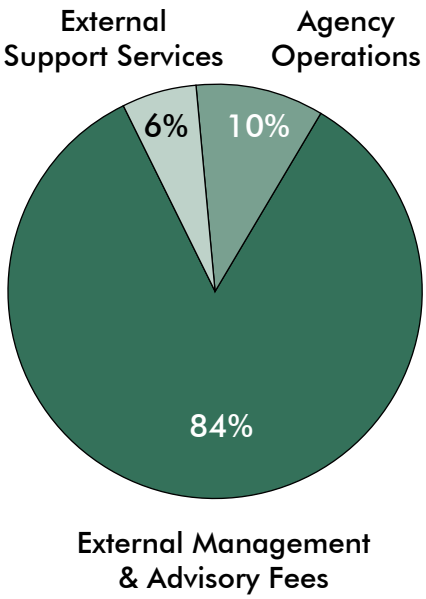
SWIB participates in an annual independent review of costs which compares SWIB to other investment managers and public pension fund peers. The 2006 analysis provided by CEM Benchmarking, Inc.[1] concluded that SWIB's total cost to manage the Core Trust Fund was 26¢ per $100 managed. The CEM report indicated that this amount is similar to the costs incurred by other funds with a similar mix of assets.

The cost to manage the Core Trust Fund was $191.0 million in 2006. This represents 94% of SWIB's total cost of management.

In addition to the Core Trust Fund, SWIB manages seven other funds. SWIB's costs to manage all funds were $202.7 million, or 24¢ per $100 managed in 2006.

Management Costs

Calendar Year Ended 12/31/06



Total Management Costs

Calendar Year Ended 12/31/06

External Management & Advisory	$170,853,800
Agency Operations	20,511,100
Consulting	2,706,900
Custodial Banking	5,216,100
Investment Research	3,434,400
Total	$202,722,300

- Costs for managing all funds were 24¢ per $100 under management.
- All management costs are funded with earnings from the funds.
- Total costs for managing all funds for the calendar year ending December 2006 were $202.7 million.
- According to CEM[1], SWIB's costs for the Core Trust Fund were considered comparable to peers based on the mix of assets managed.

[1] CEM Benchmarking Inc. is a Toronto-based, international firm that provides cost measurement and analysis of corporate and public pension funds.

The Board of Trustees is responsible for setting long-term investment policies; establishing investment portfolios and monitoring investment performance. The Board is comprised of the following:

- Six public members appointed by the Governor and confirmed by the State Senate including:
  - Four with at least 10 years investment experience.
  - One with at least 10 years financial experience and who works for a local government in the Local Government Investment Pool.
- Educator participant in the Wisconsin Retirement System (WRS) appointed by the Teachers Retirement Board.
- Non-educator participant in the WRS appointed by the Wisconsin Retirement Board.
- Secretary of the Department of Administration or designee.


James Senty


Thomas Boldt

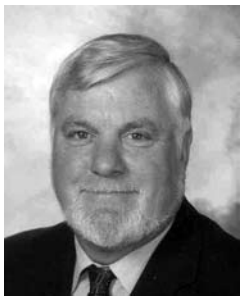

David Geertsen

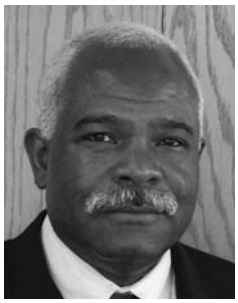

David Kruger


William Levit, Jr.


Deloris Sims


Wayne McCaffery


Eric Stanchfield


Michael Morgan

Public Members*

James Senty, Board Chair, President of Midwest Gas Companies, La Crosse

Thomas Boldt, Board Vice Chair, President of The Boldt Group, Inc./ CEO, The Boldt Co., Appleton

David Geertsen, Local Government, Finance Director, Kenosha County

David Kruger, CEO/Owner, The Fiore Companies, Madison

William Levit, Jr., Attorney, Godfrey & Kahn S.C., Milwaukee

Deloris Sims, President & CEO, Legacy Bank Inc., Milwaukee

WRS Participant Members*

Wayne McCaffery, Educator, Teacher, Stevens Point

Eric Stanchfield, Board Secretary, Non-educator, Secretary, Department of Employee Trust Funds

Department of Administration

Michael Morgan, Department Secretary

*Appointed Board members serve six-year terms.

SWIB has 104.5 authorized positions. The executive director oversees the staff. Portfolio managers, analysts and traders are responsible for daily investment decisions made within the parameters of the investment policy. Investment managers are supported by a well-trained staff with legal, technical, accounting and administrative expertise.

There are three investment groups — public equities (stocks), public fixed income, and private markets.

Domestic stocks primarily consist of investments in US companies. International stocks encompasses investments in markets for developed and emerging countries.

Fixed income investments include US government bonds and corporate bonds purchased in public markets, corporate securities, US Treasury and agency securities and global bond portfolios.

Real estate investments are commercial real estate with SWIB as a sole direct owner, or in joint ventures and partnerships. The portfolio is diversified by region and by property type. Private equity/debt primarily focus on leveraged buyouts (LBOs), venture capital, partnerships and structured investments.

Senior Management

Keith S. Bozarth
Executive Director

Gail L. Hanson
Deputy Executive Director

David C. Villa
Chief Investment Officer

Kenneth W. Johnson
Chief Operating Officer/Chief Financial Officer

L. Jane Hamblen
Chief Legal Counsel

Ledell Zellers
Human Resources Director

Ronald A. Mensink
Managing Director, Quantitative Analytics

Brandon Duck
Internal Audit Director

David C. Villa
Acting Managing Director, Public Equities

Charles R. Carpenter
Managing Director, Private Markets

J. Alain Hung
Managing Director, Public Fixed Income

Public Equities Management Team

Trish Reopelle, Equity Fund-of–Funds Management/Coordination

William A. McCorkle, Internally Managed Domestic Equities/ Portfolio Manager

Portfolio Managers

John F. Nelson

Chad A. Neumann

Managing Analysts

Joe Woerner

Nicholas Stanton

Michael Harmelink

Public Fixed Income Management Team

Portfolio Managers

Laurel A. Butler

Chirag J. Gandhi

Todd A. Ludgate

Private Markets Management Team

Real Estate Portfolio Managers

David Lewandowski

Steven C. Spiekerman

Private Equity/Debt Portfolio Managers

Chris P. Prestigiacomo

Scott A. Parrish

A majority of the investment staff holds or is pursuing the Chartered Financial Analyst (CFA) designation and the Board adheres to CFA standards. Top investment staff experience ranges between 5 and 30 years.

The Wisconsin Retirement System (WRS) makes up 94% of the assets managed by SWIB. As a fiduciary for the funds, SWIB is dedicated to earning the best possible rate of return within acceptable risk parameters consistent with "prudent expert" standards. As of June 30, 2007, the total assets of the WRS were about $87.8 billion.

The WRS includes the pension funds available through most public employers in Wisconsin other than the City of Milwaukee and Milwaukee County. Contributions made to the WRS by participating employees and their employers are invested by the Investment Board to finance retirement benefits.

More than 543,000 people participate in the WRS. Investment earnings account for the majority of the annuities paid, thus lowering the costs paid by taxpayers. Over $3.3 billion in benefits were paid in 2006 to 143,000 annuitants in the WRS.

The WRS is comprised of two trust funds. The larger of the two is the Core Trust Fund, which is a broadly diversified portfolio of stocks, bonds, real estate and other holdings. The second fund is the Variable Trust Fund, which is invested in stocks.

The process for determining the effect of investment returns on employee accounts ("effective rate") and changes in benefits for retirees differs between the Variable and Core Trust Funds.

The Department of Employee Trust Funds (ETF) is responsible for administering the benefits of the WRS. Most employees who retire receive a pension annuity initially determined by a formula (calculated by ETF) using years of service, salary and job type.

ETF computes those amounts based on the December 31 rate of return for each of the two trust funds to determine the impact on participants.

- WRS includes current and former employees of state agencies, the university system, school districts and most local governments.
- 9th largest public pension fund in the US.
- 22nd largest pension fund in the world.
- Comprised of Core Trust Fund, a balanced fund, and Variable Trust Fund, a stock fund.
- Core Fund gains and losses are spread over five years to smooth the effect on participants' accounts.
- Variable Fund annuities fully reflect prior year gains and losses of the investments.
- About 109,000 people participate in the Variable Fund.

Annualized Performance Ending 6/30/07

Retirement Funds	1-Year Return	5-Year Return	10-Year Return
Core Fund	18.0%	12.4	8.9%
Benchmark	17.2	11.9	8.3
Variable Fund	21.6%	12.5%	8.1%
Benchmark	21.5	12.8	7.3
S&P 500	20.6	10.7	7.1

The State Investment Fund (SIF) is a pool of cash balances of various state and local governmental units. The objectives of this fund are to provide safety of principal, liquidity and a reasonable rate of return. The Fixed Income Group manages the State Investment Fund.

The State Investment Fund includes retirement trust funds' cash balances pending longer-term investment by SWIB's other investment groups. This fund also functions as the State's cash management fund. By pooling the idle cash balances of all 58 state funds, it provides the State's general fund with the needed liquidity for operating expenses.

Over 1,000 local units of government also deposit revenues in the SIF until they are needed. These funds are commingled in the Local Government Investment Pool (LGIP).

The cash balances available for investment vary daily as cash is accumulated or withdrawn from the agency funds. The SIF is invested primarily in obligations of the US government and its agencies, and high quality commercial bank and corporate debt obligations. Net assets of the State Investment Fund as of June 30, 2007, were $6.2 billion.

Portfolio characteristics as of June 30, 2007

- 80% of Fund invested in US government securities.
- Average maturity 36 days versus iMoneyNet* at 43 days.
- Short-term liquidity (0 - 3 months) equal to 183% of LGIP and 94% of SIF.
- 34% of portfolio assets change rates overnight, 94% in three months.

Portfolio rankings

- SIF provided a superior rate of return, ranking 1st out of 215 government money market funds.
- SIF also ranked 7th out of 1,262 money market funds (top 1%).*

Source: The iMoneyNet financial company money fund statistics.

To achieve our objectives, the SIF adheres to rigorous quality standards, pays careful attention to maturity schedules and places emphasis on high marketability. Enhanced return is sought through intensive portfolio management, which considers probable changes in the general structure of interest rates.

Earnings for the SIF are calculated and distributed monthly, based on the participant's average daily balance as a percent of the total pool.

* iMoneyNet All Taxable Money Market Index

State Investment Fund Annualized Time-Weighted Returns

Fiscal Year	Return
1998	5.4%
1999	5.0
2000	5.5
2001	6.0
2002	2.5
2003	1.5
2004	1.0
2005	2.1
2006	4.2
2007	5.4

SWIB manages five funds for various state agencies. These funds make up just over 1% of the total assets managed. Each is invested to meet specific objectives.

INJURED PATIENTS AND FAMILIES COMPENSATION FUND

The Fund was created by statute in 1975 to provide excess medical malpractice coverage for Wisconsin health care providers. Health care providers obtain primary medical malpractice insurance from private insurance companies in an amount required by law. Coverage in excess of the primary insurance is purchased by the Fund. The program is administered by the Office of the Commissioner of Insurance.

STATE LIFE INSURANCE FUND

The Fund is a state-sponsored life insurance program for the residents of Wisconsin. The applicant must be a state resident at the time of application for coverage through the Fund. The Fund operates on a nonprofit basis and receives no subsidies from the state.

LOCAL GOVERNMENT PROPERTY INSURANCE FUND

The purpose of the Fund is to make reasonably priced property insurance available for tax-supported local government property such as government buildings, schools, libraries, and motor vehicles. The Fund provides policy and claim service to the policyholders.

HISTORICAL SOCIETY TRUST FUND

The State Historical Society of Wisconsin is both a state agency and a private membership organization. SWIB is responsible for investing the endowment funds of the Historical Society to help with its goal to promote a wider appreciation of the American heritage, with an emphasis on the collection, advancement, and dissemination of knowledge of the history of Wisconsin and the region.

TUITION TRUST FUND

The Tuition Trust Fund was created to invest the funds for EdVest Wisconsin, a state-sponsored way to save for the cost of college expenses. This Fund is currently closed to new participants. Other options are administered through the Office of the State Treasurer.

Contact information

Injured Patients and Families Fund

(608) 266-6830 (Madison)
http://oci.wi.gov/pcf.htm

State Life Insurance Fund

(608) 266-0107 (Madison)
(800) 562-5558 (toll-free)
http://oci.wi.gov/slif.htm

Local Government Property Insurance Fund

(608) 266-3585 (Madison)
(800) 236-8517 (toll-free)
http://oci.wi.gov/lgpif.htm

State Historical Society

(608) 264-6400
http://www.wisconsinhistory.org/

EdVest

(608) 264-7899 (Madison)
(888) 338-3789 (toll-free)
http://www.ost.state.wi.us/home/edvest.html

SWIB's Investor Responsibility Program involves working with directors and management of a company with a goal of increasing economic value. It is one way SWIB works to fulfill its fiduciary obligation to the WRS beneficiaries.

The program includes three main areas: corporate governance, corporate citizenship and litigation. Its strategy is developed by SWIB's governance and investment staff working together within parameters approved by Trustees.

It has two primary goals: (a) to protect and increase SWIB's long-term returns and (b) to meet SWIB's fiduciary obligation to manage shareholder rights as an asset of the trust funds.

Corporate governance — the relationship between the shareholders, directors and management of a company, as defined by the corporate charter, bylaws, formal policy and rule of law — makes up the largest part of our program. Governance issues are considered when voting our proxies and evaluating investments. Each year, SWIB identifies key issues based on staff recommendations and national governance trends.

Then, SWIB monitors companies within its portfolios that could benefit from improvements in the identified areas. SWIB determines ways to work with company management, corporate boards and other shareholders to make positive changes.

Initially, we contact company management and company directors to resolve concerns. If companies are non-responsive, SWIB may vote against proposals or choose to withhold its proxy votes from certain director candidates. We may also seek adoption of a shareholder resolution or decide to sell the stock.

Policies for voting corporate citizenship resolutions also reinforce investment goals to enhance returns. SWIB considers sustainability issues when initially investing in a company. Making investments or using proxy votes solely for promoting social or political causes or goals is contrary to our fiduciary duties.

We believe the social acceptability of products and practices are an economic consideration that should be part of the investment decision.

As a large investor it is difficult to avoid losses associated with corporate governance failure and fraud. It is our fiduciary duty to take reasonable steps, including litigation, to recover such losses. SWIB manages its legal claims and follows Board approved guidelines to identify cases where it could consider acting as lead plaintiff.

Key Corporate Governance Issues

1. Effective corporate boards. SWIB supports effective board of directors with a majority of independent directors who are willing to act in the best interest of the company shareholders. An independent director has no conflicts of interest with shareholders and is one whose only connection to the corporation is as a director and shareholder.
2. Director elections. SWIB supports election of directors with a majority vote of shareholders. Although shareholders can currently withhold a vote for a director, the company can decide if the director will remain in office. SWIB supports shareholder ability to nominate directors when needed.
3. Executive compensation plans. SWIB supports effective compensation committees that establish plans to compensate executives at reasonable levels but believes compensation should strongly correlate with performance. SWIB supports increased transparency and disclosure of compensation components including the goal setting process and method of attainment. SWIB also supports advisory votes on compensation plans.

Financial Section

STATE OF WISCONSIN
Legislative Audit Bureau

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Madison, Wisconsin 53703
(608) 266-2818
Fax (608) 267-0410
leg.audit.info@legis.wisconsin.gov

Janice Mueller
State Auditor

INDEPENDENT AUDITOR'S REPORT

Senator Jim Sullivan and
Representative Suzanne Jeskewitz, Co-chairpersons
Joint Legislative Audit Committee

Members of the Board of Trustees and
Mr. Keith S. Bozarth, Executive Director
State of Wisconsin Investment Board

We have audited the accompanying Statement of Net Investment Assets for the Retirement Investment Trust Funds (Core Retirement Investment Trust Fund and Variable Retirement Investment Trust Fund) of the State of Wisconsin as of June 30, 2007, and the related Statement of Changes in Net Investment Assets for the year then ended. These financial statements are the responsibility of the State of Wisconsin Investment Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements referred to in the first paragraph present only the investment activity of the Retirement Investment Trust Funds attributable to the transactions of the State of Wisconsin Investment Board. The financial statements do not purport to, and do not, present the financial activity of the Retirement Investment Trust Funds attributable to the Department of Employee Trust Funds. Further, they do not purport to, and do not, present fairly the financial position and results of operations of the Investment Board or of the State of Wisconsin in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the net investment assets of the Retirement Investment Trust Funds as of June 30, 2007, and the changes in net investment assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As explained in Note 2, the financial statements include investments that do not have readily ascertainable market prices and are valued based on a variety of third-party pricing methods. We have reviewed the procedures used by the Investment Board in arriving at estimates of the values of such investments and have inspected underlying documentation, and, given the circumstances, we believe the procedures are reasonable and the documentation appropriate. However, because of the inherent uncertainty of valuation, those estimated values may differ from the values that would have been used had a ready market for the investments existed.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Retirement Investment Trust Funds of the State of Wisconsin. The supplementary information included as Management's Discussion and Analysis, which precedes the financial statements, is presented for purposes of additional analysis and is not a required part of the financial statements referred to in the first paragraph. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it. The introduction section of the annual report has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we will also issue a report dated November 21, 2007, on our consideration of the Investment Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report, which is included in a management letter to the Investment Board, is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

LEGISLATIVE AUDIT BUREAU

November 21, 2007 by Janice Mueller

Janice Mueller
State Auditor

Management Discussion and Analysis

The State of Wisconsin Retirement Funds' narrative discussion and analysis of the financial activities for the fiscal year ended June 30, 2007 is presented by management as an introduction to the financial statements. It is meant to assist the reader in understanding the financial statements by providing an overall review of the financial activities during the year as well as to provide a comparison of the prior year's activity and results.

Overview of Basic Financial Statements

Following this section are the financial statements and footnotes which reflect only the investment activity of the funds. Retirement reserves, contribution revenue and benefit expense are excluded from presentation in these statements.

-The **Statement of Net Investment Assets** provides information on the financial position of the funds at year-end. It indicates the investment assets available for payment of future benefits and any current liabilities related to the investments.

-**The Statement of Changes in Net Investment Assets** presents the results of the investing activities during the year. The changes reflected on this statement support the overall change that has occurred to the prior year's net assets on the Statement of Net Investment Assets.

-The **Notes to the Financial Statements** offer additional discussion that is essential to the full understanding of the data presented in the financial statements. The notes give more detail about accounting policies, significant account balances and activities, material risks, obligations, contingencies and subsequent events, if any.

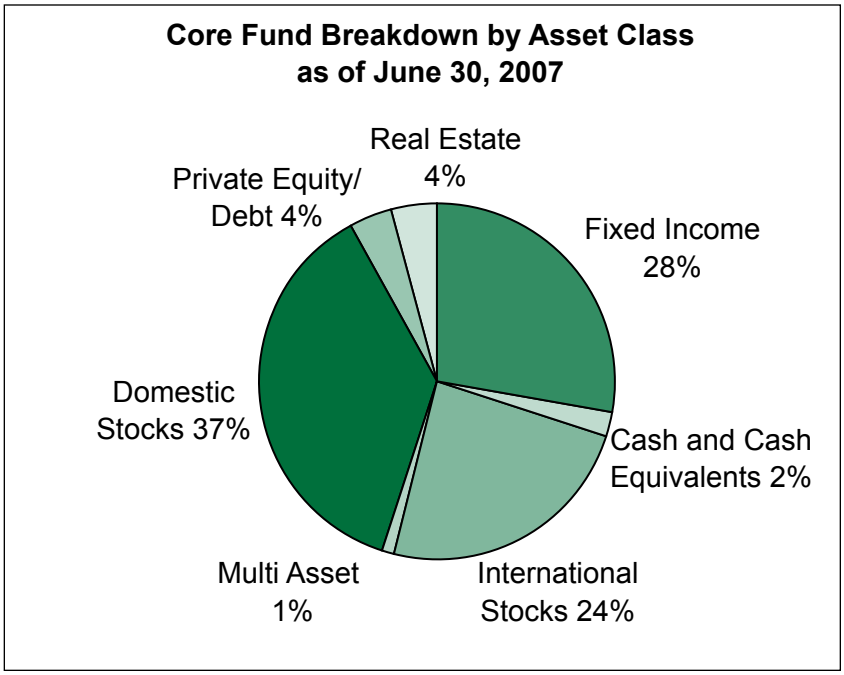
The financial statements and related notes are prepared in accordance with Governmental Accounting Standards Board Pronouncements.

Retirement Trust Funds

Approximately 543,000 people participate in the Wisconsin Retirement System (WRS), including current and former employees of Wisconsin's state agencies and most local governments. Contributions made to the WRS by these employees and their employers are invested by the State of Wisconsin Investment Board to finance retirement and other benefits. The WRS is comprised of the Core Retirement Investment Trust Fund and the Variable Retirement Investment Trust Fund collectively, whose combined net investment assets total $87.8 billion as of June 30, 2007.

CORE RETIREMENT INVESTMENT TRUST FUND

The larger of the two trust funds comprising the Wisconsin Retirement System is the Core Retirement Investment Trust Fund (Core Fund) totaling $80.5 billion. All WRS members have at least half — if not all — of their pension account in the Core Fund. It is a fully diversified, balanced fund invested for the long-term needs of the WRS. Diversification helps to stabilize the effects of market changes. The basic investment objective of this trust fund is to achieve an average 7.8% annual return over the long-term and an annual rate of return of 3.7% a year above wage-rate growth. This objective is based on the market rate of return and actuarial assumptions needed to meet obligations of the pension system.



The Core Fund net investment assets increased approximately $10.5 billion, or 15%, net of payments to beneficiaries for the year ended June 30, 2007. This was primarily due to total investment returns of 18%. Asset class returns for fiscal year 2007 were: public equities 23.4%, fixed income 6.4%, real estate 20.6%, private equity 23.3%. Net investment assets were decreased by net disbursements made by the Department of Employee Trust Funds mainly for net benefit payments.

The statements presented here reflect the investment activity of these funds, as well as net cash flows from the Department of Employee Trust Funds which include benefit payments, contribution receipts and transfers to/from the Variable Retirement Investment Trust Fund. Retirement reserves, contribution revenue, and benefit expense are excluded from presentation in these statements.

Core Retirement Investment Trust Fund Condensed Financial Information			
Fiscal Year Ended:	2007	2006	% Change
Cash and Cash Equivalents	$ 1,681,398,319	$ 1,009,040,194	67%
Other Current Assets	369,884,434	408,382,994	(9%)
Invested Securities Lending Collateral	7,135,002,856	5,737,851,027	24%
Other Assets	6,320,303	3,524,562	79%
Investments	$78,765,217,685	$68,785,314,741	15%
Total Investment Assets	$87,957,823,597	$75,944,113,518	16%
Current Liabilities	$ 355,840,613	$ 222,161,733	60%
Securities Lending Collateral Liability	7,135,002,856	5,737,851,027	24%
Total Liabilities	$ 7,490,843,469	$ 5,960,012,760	26%
Net Investment Assets	$80,466,980,128	$69,984,100,758	15%
Investment Revenue	$12,438,006,007	$ 7,755,575,643	60%
Investment Expense	203,942,429	180,346,957	13%
Net Investment Income	$12,234,063,578	$ 7,575,228,686	62%
Net Disbursements	1,751,184,208	1,587,005,789	10%
Net Increase in Net Investment Assets	$10,482,879,370	$ 5,988,222,897	75%

Cash and cash equivalents increased nearly 67% over the previous fiscal year end balance. A large portion of this increase can be attributed to securitized cash positions within fixed income portfolios. In fiscal year 2007, some internal fixed income portfolios began utilizing interest rate futures for duration management purposes, whereby cash is effectively invested in fixed income investments. Some of the increase in cash is also reflective of the interest rate environment experienced at the close of the fiscal year. The relatively flat yield curve did not offer much incentive, in terms of yield, for holding longer duration instruments. Also contributing to the increased cash balance at year end was the strategic decision by equity managers to hold cash in order to opportunistically purchase undervalued securities as they become available in the market place.

The securities lending collateral and the securities lending collateral liability increased 24% over the previous year end. The increase was mainly due to the growth of our lendable assets during the year as well as an increase in mergers and acquisitions, fueling securities lending activity in general in the last half of fiscal year 2007.

Current liabilities increased by 60% over the previous fiscal year due to more investment purchases pending over the current fiscal year end.

Expenses increased 13% when comparing fiscal year 2007 to 2006. Nearly all of the change is due to increases in external investment management fees. Assets under management that are subject to base management fees, have increased $7.9 billion (15%) over the past year. This increase translated to $10.5 million more in base management fees in fiscal year 2007. International and emerging market equity portfolios experienced high returns in fiscal year 2007, thereby increasing the assets under management for these portfolios. These asset classes carry higher management fees relative to domestic markets, contributing to the overall increase in management fee expense in 2007.

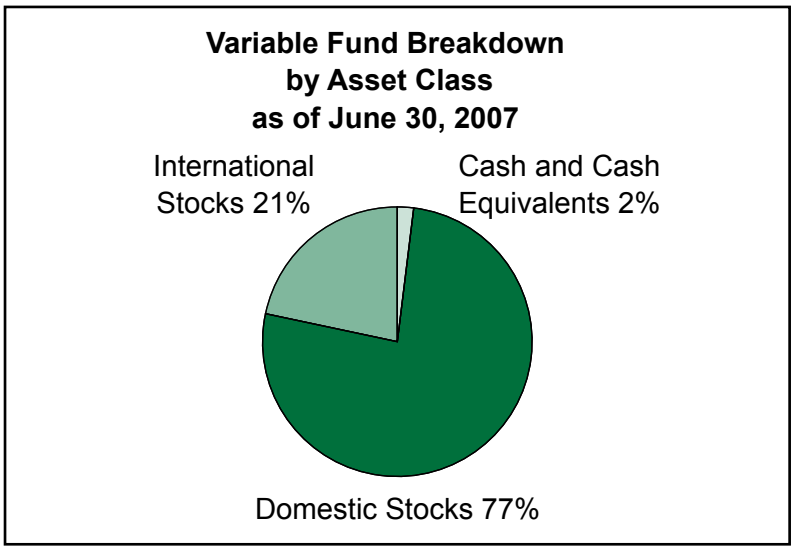
Management fees incurred on private market assets increased by nearly $11 million over the fiscal year. Two factors contributed to this increase. First, the assets under management have grown by $1.5 billion (44%) over the past year. Second, this asset type has higher fees at the beginning of an investment's life because management fees are based on

committed assets, rather than assets under management. During the fiscal year, SWIB committed to funding an additional $2.4 billion in assets.

Net disbursements edged up slightly when compared to fiscal year 2006. This line item represents the net cash flows of non-investment related activity such as net benefit payments/receipts, and expenses related to administering the benefit programs.

VARIABLE RETIREMENT INVESTMENT TRUST FUND

The Wisconsin Legislature passed, and the Governor signed into law, 1999 Wisconsin Act 11 which reopened the Variable Retirement Investment Trust Fund (Variable Fund) for new contributions, effective January 1, 2001. Act 11 allows active employees participating in the WRS to put half of their pension fund contributions into this stock fund. Approximately 20% of WRS members participate in the Fund, which totaled $7.3 billion at the end of fiscal year 2007. It is 97.6% invested in equities with the remaining assets held in money market investments. Employees who choose this fund accept a higher degree of risk for the potential of greater long-run returns. The investment objective of the Variable Fund is for the returns to exceed the returns for similar equity-oriented portfolios over a full market cycle.



The Variable Fund net investment assets increased $917 million over the fiscal year. The increase stemmed from the equity portfolios returning 21.7% for the fiscal year ended June 30, 2007. Investment returns and employee and employer contributions were offset by disbursements out of the Fund. These disbursements include annuity payments to retirees and active participants opting out of the Variable Fund. At the end of each calendar year, individual participants in the Variable Fund may elect to terminate their Variable Fund participation and transfer their account to the Core Fund.

Variable Retirement Investment Trust Fund Condensed Financial Information

Fiscal Year Ended:	2007	2006	% Change
Cash and Cash Equivalents	$ 110,784,705	$ 74,835,155	48%
Other Current Assets	13,545,363	14,603,576	(7%)
Invested Securities Lending Collateral	270,231,434	104,281,904	159%
Investments	7,246,616,235	6,358,890,898	14%
Total Investment Assets	$7,641,177,737	$6,552,611,533	17%
Current Liabilities	$ 16,317,619	$ 11,207,894	46%
Securities Lending Collateral Liability	270,231,434	104,281,904	159%
Total Liabilities	$ 286,549,053	$ 115,489,798	148%
Net Investment Assets	$7,354,628,684	$6,437,121,735	14%
Investment Revenue	$1,353,404,266	$ 764,627,343	77%
Investment Expense	10,589,653	9,075,052	17%
Net Investment Income	$1,342,814,613	$ 755,552,291	78%
Net Disbursements	425,307,664	336,742,451	26%
Net Increase in Net Investment Assets	$ 917,506,949	$ 418,809,840	119%

Cash and cash equivalents balances increased by 48% over the prior fiscal year end. As was the case with the Core Fund's increased cash balance, this increase was primarily due to the strategic decision by equity managers to hold cash in order to opportunistically purchase undervalued securities as they become available in the market place.

The percentage change between fiscal years for both Other Current Assets and Current Liabilities can be explained by a decrease in sales and an increase in purchases pending settlement over fiscal year end.

The securities lending collateral and the securities lending collateral liability increased approximately 159% over the previous year end. As was the case with the Core Fund, the increase was mainly due to the growth of our assets during the year and an increase in lending activity. The disproportionate increase in the Variable Fund collateral can be attributed to the make-up of the fund. Since this fund is primarily comprised of domestic equity investments, changes in these balances, relative to fixed income assets, will be magnified. In looking at the June data for both years, the average on-loan balance for domestic equity increased nearly 3.4 times over the 2006 level, while international equity increased by almost 44%. Conversely, the average on-loan market value for domestic fixed income actually decreased during the same time period.

Expenses increased 17% when comparing fiscal year 2006 to fiscal year 2007. The vast majority of this increase is due to a $1.5 million increase in international and domestic equity base management fees in fiscal year 2007. For international equity portfolios, the expense growth of approximately $300,000, or 18%, is directly correlated with asset growth of $118.5 million, or 25%, during this time period. During the same time period, base management fees for domestic portfolios increased by $1.2 million, or 30%, outpacing asset growth of $128.8 million, or 5%. The apparent disproportionate growth of expenses relative to assets can be explained by noting that several externally managed domestic portfolios were initially funded by a transfer from internal domestic equity portfolios in fiscal year 2006. Due to the timing of the funding of these portfolios, only a partial year of management fee expense is represented in the fiscal year 2006 expense totals.

Total Rate of Return - As of June 30, 2007

Total rate of return (time-weighted) is widely accepted for comparing investment results. It combines current yield plus changes in current market value.

Time Weighted Total Rate of Return		
Fiscal Year	Core Fund	Variable Fund
1998	17.6	20.6
1999	9.8	15.1
2000	12.5	17.8
2001	(5.4)	(13.5)
2002	(4.8)	(14.7)
2003	4.6	(1.9)
2004	16.6	23.0
2005	11.1	8.6
2006	12.2	12.9
2007	18.0	21.6
10 Yr. Annualized Return	8.9%	8.1%

RETIREMENT FUNDS
Statement of Net Investment Assets
as of June 30, 2007

	Core Retirement Investment Trust Fund	Variable Retirement Investment Trust Fund
Assets		
Cash and Cash Equivalents	$ 1,681,398,319	$ 110,784,705
Receivable:		
Interest & Dividends	186,513,129	3,601,967
Securities Lending Income	3,186,669	194,608
Investment Sales	178,466,140	8,827,858
Foreign Currency Contracts	0	920,930
Invested Securities Lending Collateral	7,135,002,856	270,231,434
Financial Futures Contracts	1,718,496	0
Other Assets	6,320,303	0
Investments (at fair value):		
Fixed Income	22,517,169,352	0
Preferred Securities	151,505,878	12,574,140
Convertible Securities	48,609,991	0
Stocks	49,674,006,101	7,234,042,095
Limited Partnerships	4,787,913,646	0
Commercial Mortgages	180,641,233	0
Real Estate Owned	567,681,534	0
Debt on Real Estate	(61,930,959)	0
Multi Asset	899,620,909	0
Total Investment Assets	$ 87,957,823,597	$ 7,641,177,737
Liabilities		
Payable for Investment Purchased	315,257,509	14,044,224
Interest Payable	265,350	0
Foreign Currency Contracts	802,937	0
Vouchers Payable	38,181,102	2,273,395
Deposits Held in Custody for Others	1,333,715	0
Securities Lending Collateral Liability	7,135,002,856	270,231,434
Total Investment Liabilities	$ 7,490,843,469	$ 286,549,053
Net Investment Assets Held in Trust	$ 80,466,980,128	$ 7,354,628,684

The accompanying notes on pages 24 through 35 are an integral part of this statement.

RETIREMENT FUNDS
Statement of Changes in Net Investment Assets
For the Fiscal Year Ended June 30, 2007

	Core Retirement Investment Trust Fund	Variable Retirement Investment Trust Fund
Additions:		
Investment Income:		
Net Increase in the Fair Value of Investments	$ 11,269,667,275	$ 1,302,295,594
Interest	617,710,860	4,271,843
Dividends	440,958,817	46,090,139
Securities Lending Commissions	355,417,589	10,412,809
Other Income	97,792,883	0
Less:		
Investment Expense	(203,942,429)	(10,589,653)
Securities Lending Rebates	(340,970,670)	(9,502,424)
Securities Lending Fees	(2,570,747)	(163,695)
Total Investment Income	$ 12,234,063,578	$ 1,342,814,613
Deductions:		
Net Disbursements - Department of Employee Trust Funds	(1,751,184,208)	(425,307,664)
Net Increase	$ 10,482,879,370	$ 917,506,949
Net Investment Assets Held in Trust:		
Beginning of Year	69,984,100,758	6,437,121,735
End of Year	$ 80,466,980,128	$ 7,354,628,684

The accompanying notes on pages 24 through 35 are an integral part of this statement.

1. Description of Funds

The State of Wisconsin Investment Board (SWIB) has control of the investment and collection of principal, interest, and dividends of all monies invested of the Core Retirement Investment Trust Fund and the Variable Retirement Investment Trust Fund. The statements presented here reflect only the investment activity of these funds. Excluded from presentation in the statements are, for example, retirement reserves, contribution revenue, and benefit expense. The investment expenses account on the retirement fund financial statements represents the expenses that are allowed to be charged directly to the trust funds per Wisconsin Statutes s. 25.18(1)(a) and (m) and SWIB's administrative receipts and disbursements. The directly charged expenses include external management fees, legal fees, custodial bank fees, and investment consulting fees.

SWIB's administrative receipts and disbursements related to the investment function are appropriated under the state's General Fund. The administrative receipts and disbursements allocated to the Core Fund and Variable Fund are billed to the respective Fund and included in the Statement of Changes in Net Investment Assets as "Investment Expense".

A. Core Retirement Investment Trust Fund

The Core Retirement Investment Trust Fund (Core Fund) consists primarily of the assets of the retirement fund. The Wisconsin Retirement System (WRS) is administered by the Department of Employee Trust Funds (DETF) in accordance with Chapter 40 of the Wisconsin Statutes. All retirement fund contributions are invested in this trust fund unless participants have elected to have part of their contributions invested in the Variable Retirement Investment Trust Fund. In addition to the retirement contributions, the assets of various other benefit programs are invested as part of the Core Retirement Investment Trust Fund as listed in the table below.

The Core Fund is managed by SWIB with oversight by a Board of Trustees as authorized in Wisconsin Statutes s. 25.14 and 25.17. The Core Fund and SWIB are not registered with the Securities and Exchange Commission as an investment company. The investments of the Core Fund consist of a highly diversified portfolio of securities. Wisconsin Statutes 25.17(3) (a) allow investments in loans, securities and any other investments as authorized by s. 620.22. Permitted classes of investments include bonds of governmental units or of private corporations, loans secured by mortgages, preferred or common stock, real property and other investments not specifically prohibited by statute.

Other Benefit Programs Within the Core Fund

	June 30, 2007
Accumulated Sick Leave	$2,256,785,564
Long Term Disability Insurance	329,061,717
Duty Disability	311,313,195
Police and Firefighters	74,289,263
Income Continuation Insurance	98,903,604
Milwaukee Retirement System	126,355,264
Total	$3,196,708,607

B. Variable Retirement Investment Trust Fund

The Variable Retirement Investment Trust Fund (Variable Fund) also consists primarily of the assets of the retirement fund. In addition, the Milwaukee Retirement Systems had $18.8 million invested in the Variable Fund as of June 30, 2007.

Participation in the Variable Fund is at the option of the employee. Participants have elected to credit one-half of their retirement contributions and matching amounts of employer contributions to this fund, and have the remainder credited to the Core Fund. Individual participants in the Variable Fund program have a one time option to terminate their Variable Fund participation and transfer their account to the Core Fund.

The Variable Fund is managed by SWIB with oversight by a Board of Trustees as authorized by Wisconsin Statutes s. 25.14 and 25.17. The Variable Fund and SWIB are not registered with the Securities and Exchange Commission as an investment company. Wisconsin Statutes s. 25.17(5) states assets of the Variable Fund shall be invested primarily in equity securities which shall include common stocks, real estate or other recognized forms of equities whether or not subject to indebtedness, including securities convertible into common stocks and securities of corporations in the venture capital stage. The Variable Fund consists primarily of common stock and bonds convertible into common stock, although, because of existing conditions in the securities market, there may temporarily be other types of investments.

2. Significant Accounting Policies

A. Basis of Presentation

The accompanying financial statements were prepared in conformity with generally accepted accounting principles (GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB).

B. Basis of Accounting

The accompanying statements are prepared based upon the flow of economic resources measurement focus and the full accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and become measurable, and expenses are recognized in the period incurred, if measurable. Security transactions and the related gains and losses are recorded on a trade date basis. Dividend income is recorded on the ex-dividend date, and interest income is accrued as earned.

SWIB applies all applicable GASB pronouncements and those Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989 which do not conflict with or contradict GASB pronouncements.

C. Valuation of Securities

The investments of the Core Fund and the Variable Fund are valued at fair value, per Wisconsin Statutes s. 25.17(14). Monthly, the investments are adjusted to fair value, with unrealized gains and losses reflected in the Statement of Changes in Net Investment Assets as "Net Increase (Decrease) in Fair Value of Investments".

Generally, fair value information represents actual bid prices or the quoted yield equivalent for securities of comparable maturity, quality and type as obtained from one or more major investment brokers. If quoted market prices are not available, a variety of third party pricing methods are used, including appraisals, certifications, pricing models and other methods deemed acceptable by industry standards.

Commercial mortgages are priced via a matrix pricing system. The traditional discounted cash flow methodology is employed, where discounted rates, based on current yields in the base Treasury, consider factors such as coupon rates, term to maturity, Moody's and S&P ratings, and sector/industry information.

Private placements are priced using a multi-tiered approach that prices each holding based on the best available information using the following hierarchy of pricing sources:

1. Custodian supplied prices for assets that are in the Lehman Aggregate Bond Index
2. Prices provided by a third party with expertise in the bond market
3. Modeled prices utilizing CMS BondEdge where spreads are supplied by a contracted third party

In a few instances private placements cannot be priced by one of the above three sources. In these circumstances the investment is priced using an alternative bond index price or if no independent quotation exists, the investment is priced by SWIB management, usually at cost.

Limited partnerships' fair value is estimated based on periodic reports from the limited partnerships' management. Annually, the reports are audited by independent auditors.

The basis for valuing real estate is independent appraisals, which are prepared once every three years. In years when appraisals are not performed the asset managers are responsible for providing market valuations. These valuations are based on generally accepted industry standards and are most typically based on discounted cash flow and comparable sales methodologies.

A limited number of securities are carried at cost. Certain non-public or closely held stocks are not reported at fair value, but are carried at cost since no independent quotation is available to price these securities.

All derivative financial instruments are reported at fair value in the Statement of Net Investment Assets. The instruments are marked to fair value at least monthly, with valuation changes recognized in income. Gains and losses are recorded in the Statement of Changes in Net Investment Assets as "Net Increase (Decrease) in Fair Value of Investments" during the period the instruments are held and when the instrument is sold or expires. The nature and use of derivative instruments is discussed in Note 5.

D. Use of Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates that affect amounts reported herein. Due to the inherent uncertainty involved, actual results could differ from those estimates.

3. Deposit and Investment Risk

SWIB recognizes that risk issues permeate the entire investment process from asset allocation to performance evaluation. SWIB monitors risk through multiple forms of analysis and reporting. Inspection of levels of diversification, nominal risk exposures, risk/return plots, value at risk, tracking error, and worst case scenario modeling forms the core of the monitoring process. Comprehensive reporting is presented to SWIB's Investment Committee and the Board of Trustees. In addition, portfolios and asset classes are reviewed monthly for compliance with investment guidelines.

A. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to SWIB. With the exception of derivative instrument credit risk, there are no fund wide investment guidelines related to credit risk exposures within the Core Fund and Variable Fund. Information regarding SWIB's credit risk related to derivatives is found in Note 5. Other fixed income credit risk investment guidelines spell out the minimum ratings at the time of purchase by individual portfolios or groups of portfolios based on the portfolios' investment objectives. In addition, some fixed income portfolios are required to carry a minimum weighted average rating at all times.

The following schedule displays the lowest credit rating assigned by several nationally recognized statistical rating organizations on debt securities held by the Core Fund and the Variable Fund as of June 30, 2007. Included in this schedule are fixed income securities including certain short term securities classified as cash equivalents on the Statement of Net Investment Assets. Obligations of the United States and obligations explicitly guaranteed by the US government have been included in the AAA rating below although they are considered to be without credit risk. The table below also includes investments in externally managed commingled or pooled funds which have not been rated by an independent rating agency. Although the funds themselves do not carry ratings, external management investment guidelines govern minimum credit quality standards for the investments within each portfolio. These standards are determined based on the investment objectives and risk parameters of each fund.

Credit Quality Distribution

Ratings	Fair Value	% of Total
P-1	$1,266,495,659	4%
AAA	7,795,783,199	25%
AA	2,749,851,381	9%
A	1,930,833,547	6%
BBB	672,360,925	2%
BB	389,800,245	2%
B	311,584,376	1%
CCC	92,800,993	0%
CC	4,518,873	0%
C	5,073,100	0%
D	8,260,276	0%
Commingled or Pooled Funds	14,331,157,949	46%
Not Rated	1,621,981,138	5%
Total	$31,180,501,661	100%

B. Custodial Credit Risk

The Retirement Funds do not have a deposit or investment policy specifically related to custodial credit risk.

Deposits — Custodial credit risk related to deposits is the risk that, in the event of the failure of a depository financial institution, SWIB will not be able to recover deposits that are in possession of an outside party. Bank deposits as of June 30, 2007 were $167.3 million. A portion of the deposits, totaling $41.7 million are covered by federal depository insurance. The remaining uninsured and uncollateralized deposits, totaling $125.6 million, were held in foreign currencies or margin accounts in SWIB's custodian's nominee name. In addition, SWIB held a number of time deposits with foreign financial institutions with a fair value of $624.3 million, all of which were uncollateralized and uninsured.

Investments — Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, SWIB will not be able to recover the value of investments that are in the possession of an outside party. As of June 30, 2007 the Retirement Funds held 11 tri-party repurchase agreements totaling $1.0 billion. SWIB's securities lending collateral account and cash management account participate in repurchase agreement pools, purchasing only a portion of a

repurchase agreement in which the manager of these accounts is the buyer-lender. Since the manager that purchased the repurchase agreement is the counterparty, the securities are not held in SWIB's name. They are held in the counterparty's name and held by the counterparty's agent.

C. Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an organization's investment in a single issuer. SWIB limits concentrations of credit risk by establishing investment guidelines for individual portfolios or groups of portfolios that generally restrict issuer concentrations in any one company or Rule 144A securities to be less than 5% of assets.

D. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. SWIB uses a number of different methods to analyze interest rate risk.

Generally, SWIB analyzes long or intermediate term portfolios' interest rate risk using various duration calculations. Modified duration, which is stated in years, is the measure of price sensitivity of a fixed income security to an interest rate change of 100 basis points. The calculation is based on the weighted average of the present values for all cash flows. Some pooled investments are analyzed using an option adjusted duration calculation which is similar to the modified duration method. Option adjusted duration incorporates the duration shortening effect of any embedded call provisions in the securities.

On the other hand, short term portfolios use the weighted average maturity to analyze interest rate risk. Weighted average maturity is the maturity of each position in a portfolio weighted by the dollar value of the position to compute an average maturity for the portfolio as a whole. This measure indicates a portfolio's sensitivity to interest rate changes: a longer average weighted maturity implies greater volatility in response to interest rate changes.

SWIB's investment guidelines related to interest rate risk vary by portfolio. Some fixed income portfolios are required to be managed within a range of a targeted duration, while others are required to maintain a weighted average maturity at or below a specified number of days or years.

The following presents the interest rate exposure for the Core and Variable Fund assets. In prior years, this schedule was prepared using modified duration as the interest rate measurement for the securities lending collateral reinvestment pool. However, in order to more accurately reflect the tools utilized by the investment manager to manage interest rate risk for these short term instruments, weighted average maturity, where reset dates are assumed to be the effective maturity date for the security, is presented. Longer term instruments held by the Retirement Funds continue to be presented using modified duration, as this measure more accurately states the interest rate sensitivity of these investments.

Interest Rate Sensitivity by Investment Type

Investment Type	Fair Value	Modified Duration (years)
Asset Backed Securities	$ 8,525,183	1.92
Certificate of Deposit	22,996,846	0.51
Commercial Paper	161,073,413	0.12
Corporate Bonds	2,499,473,245	5.08
Corporate Bonds	15,985,816	N/A
Government Agency	884,784,414	2.94
Commercial Mortgages	180,641,233	2.66
Municipal Bonds	4,166,150	9.33
Private Placements	470,962,419	5.15
Repurchase Agreements	112,352,693	0.01
Sovereign Debt	3,552,656,145	5.65
Sovereign Debt	3,246,592	N/A
United States Treasury Securities	3,186,049,568	8.58
	$11,102,913,717	
Intermediate and Long Term Pooled Investments		
Emerging Market Fixed Income	492,988,448	6.23
Global Fixed Income	1,218,907,167	5.81
Domestic Fixed Income	10,274,373,968	4.84
Total Intermediate and Long Term Pooled Investments	$11,986,269,583	
Securities Lending Collateral Pool		**Weighted Average Maturity (days)**
Asset Backed Securities	939,743,386	39
Certificate of Deposit	194,000,000	47
Commercial Paper	916,462,979	26
Corporate Bonds	2,807,527,843	48
Repurchase Agreements	888,695,787	2
Pool Investments	925,183,925	41
Total Securities Lending Pool Investments	$ 6,671,613,920	
Short Term Pooled Investments	$ 1,419,704,441	39
Total Fair Value	$31,180,501,661	

N/A = data not available

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. It includes the risk that currencies in which a portfolio's investments are denominated or currencies in which a portfolio has taken on an active position will decline in value relative to the U.S. dollar.

Foreign currency exchange rates may fluctuate significantly for a number of reasons, including the forces of supply and demand in the foreign exchange markets, actual or perceived changes in interest rates, and intervention by U.S. or foreign governments or central banks, or by currency controls or political developments in the U.S. or abroad. The Retirement Funds hold foreign currency denominated cash and securities invested directly in designated actively managed portfolios and indirectly through its investment in certain commingled investment funds.

SWIB's policies include foreign currency risk management objectives relating to each individual portfolio. These guidelines address the foreign currency management activities permitted for each portfolio based on the portfolios mandates, risk tolerances and objectives.

As of June 30, 2007 the Core Fund and the Variable Fund assets were denominated in the currencies shown in the schedule on pages 32 and 33.

4. Securities Lending Transactions

State statutes and Board policies permit SWIB to use investments of the Core and Variable Funds to enter into securities lending transactions. These transactions involve the lending of securities to broker-dealers and other entities in exchange for collateral, in the form of cash or securities, with the simultaneous agreement to return the collateral for identical securities in the future. SWIB's securities custodian is an agent in lending the funds' directly held domestic and international securities. When the Retirement Funds' domestic securities are delivered to a borrower as part of a securities lending agreement, the borrower is required to place collateral equal to 102 percent of the loaned securities' fair value, including interest accrued, as of the delivery date with the lending agent. In the event that foreign securities are loaned, the borrower is required to place collateral totaling 105 percent of the loaned securities' fair value, including interest accrued, as of the delivery date with the lending agent except when the collateral is denominated in the same currency as the loaned security. In this case, collateral is required to total 102 percent of the loaned securities' fair value, including interest accrued, as of the delivery date.

Cash collateral is reinvested by the lending agent or its affiliate in accordance with contractual investment guidelines which are designed to insure the safety of principal and obtain a moderate rate of return. The investment guidelines include very high credit quality standards and also allow for a portion of the collateral investments to be invested with short-term securities. The earnings generated from the collateral investments, less the amount of rebates paid to the dealers and fees paid to agents, results in the gross earnings from lending activities, which are then split on a percentage basis with the lending agent.

At year end, the Retirement Funds had no credit risk exposure to borrowers because the amounts the Retirement Funds owed the borrowers exceeded the amounts the borrowers owed the Retirement Funds. The contract with the lending agent requires it to indemnify the Retirement Funds if the borrowers fail to return the loaned securities and the collateral is inadequate to replace the securities lent. The Retirement Funds are also indemnified against losses resulting from violations of investment guidelines.

The majority of securities loans can be terminated on demand by the Retirement Funds or the borrower. The average term of the loans is approximately one week which is shorter than the weighted average maturity of 32 days for investments made with the US dollar cash collateral and the weighted average maturity of 41 days for investments made with foreign cash collateral at June 30, 2007.

Pledging or selling collateral securities cannot be done without a borrower default. The quantity or dollar value of securities lending contracts that the Retirement Funds enter into is not restricted by statute.

The Retirement Funds also earn securities lending income as part of total net earnings from the investment in several commingled funds. These earnings are automatically reinvested in the commingled fund, and as a result the earnings are combined with all other earnings and gains and losses for these funds, and reported in the Statement of Changes in Net Investment Assets as "Net Increase (Decrease) in the Fair Value of Investments".

5. Derivative Financial Instruments

Derivatives offer a very liquid, low cost and effective way to establish or hedge existing portfolio positions. Investment guidelines define allowable derivative activity for each portfolio and are based on the investment objectives which have been established by the Board. Where derivatives are permitted, guidelines stipulate allowable instruments and the manner in which they are to be used. For those portfolios given the authority to utilize derivatives, all derivative issuers or counterparties used must be a recognized exchange or a bank or broker dealer with an actual credit rating of at least: (1) 'B/C' or better

Currency Exposures by Investment Type as of June 30, 2007

Currency	Cash and Cash Equivalents	Convertible Securities	Equity	Fixed Income
Argentina Peso	$ 428,001	$ 0	$ 0	$ 728,582
Australian Dollar	5,066,272	0	362,771,479	109,398,336
Brazil Real	943,726	0	4,703,046	50,375,132
British Pound Sterling	19,041,211	0	1,761,651,671	395,648,162
Canadian Dollar	9,090,415	0	448,452,772	109,111,204
Columbian Peso	0	0	0	12,473,651
Czech Koruna	1,494	0	0	0
Danish Krone	281,411	0	39,156,013	25,977,057
Euro Currency Unit	40,629,933	0	2,966,800,164	1,340,079,504
German Mark	0	0	0	225,115
Hong Kong Dollar	3,928,320	0	136,977,985	0
Hungarian Forint	350,284	0	16,016,793	0
Iceland Krona	0	0	0	3,011,363
Indian Rupee	1,023,289	0	18,627,338	0
Indonesian Rupian	0	0	2,037,718	33,332,203
Israeli Shekel	403,831	0	32,975,348	0
Italian Lira	0	0	0	1,332,227
Japanese Yen	25,384,632	0	1,768,851,597	812,605,848
Malaysian Ringgit	514,510	0	9,333,665	55,822,367
Mexican New Peso	2,457,497	0	47,114,885	61,072,635
Taiwan Dollar	2,261,498	0	187,018,593	0
Turkish Lira	1,011,804	0	46,277,771	10,693,154
New Zealand Dollar	649,646	0	3,378,287	59,121,121
Norwegian Krone	1,444,703	0	73,907,495	6,315,938
Peruvian Nuevo Sol	148,090	0	0	4,418,344
Philippines Peso	157,465	0	7,281,243	0
Polish Zloty	33,404	0	6,453,484	67,324,431
South African Rand	915,479	0	36,418,836	36,712,754
Singapore Dollar	2,907,433	0	73,612,861	57,599,880
South Korean Won	0	0	185,247,663	9,071,067
Swedish Krona	5,499,170	0	143,580,116	113,697,361
Swiss Franc	4,914,207	0	443,051,888	0
Thailand Baht	48,922	0	42,407,669	0
Uruguayan Peso	0	0	0	4,984,162
Total Foreign Currency Exposure	$ 129,536,647	$ 0	$ 8,864,106,380	$ 3,381,131,598
United States Dollar	$ 1,662,646,377	$ 48,609,991	$ 48,043,941,816	$ 19,136,037,754
Total Investments by Currency Exposure	$ 1,792,183,024	$ 48,609,991	$ 56,908,048,196	$ 22,517,169,352

Currency Exposures by Investment Type as of June 30, 2007

Currency	Preferred Securities	Limited Partnerships	Mortgages	Real Estate	Multi Asset	Total Exposure by Currency
Argentina Peso	$ 0	$ 0	$ 0	$ 0	$ 0	$ 1,156,583
Australian Dollar	0	0	0	0	0	$ 477,236,087
Brazil Real	112,371,977	0	0	0	0	$ 168,393,881
British Pound Sterling	0	124,062,598	0	0	0	$ 2,300,403,642
Canadian Dollar	0	30,912,426	0	0	0	$ 597,566,817
Columbian Peso	0	0	0	0	0	$ 12,473,651
Czech Koruna	0	0	0	0	0	$ 1,494
Danish Krone	0	0	0	0	0	$ 65,414,481
Euro Currency Unit	36,360,698	260,447,576	0	0	0	$ 4,644,317,875
German Mark	0	0	0	0	0	$ 225,115
Hong Kong Dollar	0	0	0	0	0	$ 140,906,305
Hungarian Forint	0	0	0	0	0	$ 16,367,077
Iceland Krona	0	0	0	0	0	$ 3,011,363
Indian Rupee	0	0	0	0	0	$ 19,650,627
Indonesian Rupian	0	0	0	0	0	$ 35,369,921
Israeli Shekel	0	0	0	0	0	$ 33,379,179
Italian Lira	0	0	0	0	0	$ 1,332,227
Japanese Yen	0	0	0	0	0	$ 2,606,842,077
Malaysian Ringgit	0	0	0	0	0	$ 65,670,542
Mexican New Peso	0	0	0	0	0	$ 110,645,017
Taiwan Dollar	0	0	0	0	0	$ 189,280,091
Turkish Lira	0	0	0	0	0	$ 57,982,729
New Zealand Dollar	0	0	0	0	0	$ 63,149,054
Norwegian Krone	0	0	0	0	0	$ 81,668,136
Peruvian Nuevo Sol	0	0	0	0	0	$ 4,566,434
Philippines Peso	0	0	0	0	0	$ 7,438,708
Polish Zloty	0	0	0	0	0	$ 73,811,319
South African Rand	0	0	0	0	0	$ 74,047,069
Singapore Dollar	0	0	0	0	0	$ 134,120,174
South Korean Won	11,526,624	0	0	0	0	$ 205,845,354
Swedish Krona	0	0	0	0	0	$ 262,776,647
Swiss Franc	0	0	0	0	0	$ 447,966,095
Thailand Baht	0	0	0	0	0	$ 42,456,591
Uruguayan Peso	0	0	0	0	0	$ 4,984,162
Total Foreign Currency Exposure	$ 160,259,299	$ 415,422,600	$ 0	$ 0	$ 0	$12,950,456,524
United States Dollar	$ 3,820,719	$4,372,491,046	$ 180,641,233	$ 567,681,534	$ 899,620,909	$74,915,491,379
Total Investments by Currency Exposure	$ 164,080,018	$4,787,913,646	$ 180,641,233	$ 567,681,534	$ 899,620,909	$87,865,947,903

from Fitch; (2) 'A1/P1' or better on short term debt from S&P or Moody's; or (3) 'A' or better on long term debt from S&P or Moody's.

Below are the types of derivatives that SWIB uses in its dedicated account portfolios. SWIB also invests in derivative instruments indirectly through several commingled funds. These derivatives have not been included in the following totals.

A. Foreign Currency Forwards and Options

Currency exposure management is permitted through the use of exchange traded currency instruments, and through the use of spot and forward contracts in foreign currencies. Direct hedging of currency exposure back to the U. S. dollar is permitted when consistent with the strategy of the portfolio. Cross-currency exposure management to transfer out of an exposed currency and into a benchmark currency is permitted. In certain cases, currencies of non-benchmark countries may be held through the use of forward contracts provided that the notional value of any single non-benchmark currency does not exceed 5% of the market value of the portfolio. Losses may arise from future changes in the value of the underlying currency, or if the counterparties do not perform under the terms of the contract.

During the fiscal year presented in these financial statements SWIB's currency exposure management involved the use of foreign currency spot and forward contracts. Generally, SWIB enters into these contracts to hedge foreign exchange risk. The following table presents the fair value of foreign currency forward contract assets and liabilities held by the Core and Variable Funds as of June 30, 2007.

B. *Futures Contracts*

Foreign Currency Forward Contracts
June 30, 2007

	Core Fund	Variable Fund
Pending Receivable	$ 3,623,608,057	$ 137,327,081
Pending Payable	(3,624,410,995)	136,406,152)
Foreign Currency Forward Contract Asset (Liability)	$ (802,938)	$ 920,929

A financial futures contract is an exchange traded agreement to buy or sell a financial instrument at an agreed upon price and time in the future. Upon entering into a futures contract, collateral is deposited with the broker, in SWIB's name, in accordance with the initial margin requirements of the broker. Futures contracts are marked to market daily by the board of trade or exchange on which they are traded. The resulting gain/loss is received/paid the following day until the contract expires. Futures contracts involve, to varying degrees, risk of loss in excess of the variation margin disclosed in the Statement of Net Investment Assets. Losses may arise from future changes in the value of the underlying instrument, or if the counterparties do not perform under the terms of the contract.

Investment guidelines allow certain fixed income portfolio managers to manage interest rate exposure, adjust duration and manage anticipated cash flows through the use of exchange-traded interest rate instruments. Guidelines stipulate that derivatives are not to be used to establish a leveraged position. Their use is permitted, however for the purposes of replicating a position that could be taken through the purchase or sale of an allowable bond. The Retirement Funds were invested in exchange-traded interest rate futures contracts with a net exposure totaling ($889.8) million as of June 30, 2007.

Externally managed equity portfolios are permitted by investment guidelines to use exchange-traded equity index futures contracts to equitize cash holdings provided these positions do not exceed 5% of the fair value of the portfolio. Some international equity managers are allowed to invest in equity futures and options provided the equity equivalent value of the equity futures and optioned equities does not exceed 20% of the total assets in the portfolio. The Retirement Funds' net equity futures exposure as of June 30, 2007 was $36.9 million.

C. *Asset Backed Securities*

The Core Fund holds asset backed securities, which are reported at fair market value in the Statement of Net Investment Assets.

Asset backed securities are debt securities whose value is derived from payments and prepayments of principal and interest generated from whole loan mortgages, mortgage pass-through securities, credit card receivables, car loan and leases receivables, insurance proceeds receivable, as well as, airline and railroad car loan receivables. In some cases, cash flows are distributed to different investment classes or traunches in accordance with the security's established payment order. Some traunches have more stable cash flows relative to changes in interest rates while others are significantly more

sensitive to interest rate fluctuations. In a declining interest rate environment, some asset backed securities may be subject to a reduction in interest payments as a result of prepayments of underlying mortgages, leases, or loans which make up the collateral pool. A reduction in interest payments causes a decline in cash flows and thus a decline in the fair value of the security. Rising interest rates may cause an increase in anticipated interest payments, thus an increase in fair value of the security. The Core Fund holds only high quality, senior traunches, resulting in minimal risks of default and prepayment. The degree of prepayment risk also varies with the type of underlying assets. Mortgage backed securities tend to have a higher degree of prepayment risk due to the long term nature of the security. SWIB held mortgage backed securities with a fair value totaling $404.6 million at June 30, 2007.

D. Options

Option contracts give the purchaser of the contract the right to buy (call) or sell (put) the security or index underlying the contract at an agreed upon price on or before the expiration of the option contract. The seller of the contract is subject to market risk, while the purchaser is subject to credit risk and market risk to the extent of the premium paid to enter into the contract. SWIB investment guidelines allow internal U.S. equity portfolios to buy put options and sell call options in connection with existing portfolio positions. Generally, external international equity managers are allowed to invest in options as long as the equity equivalent value of the optioned equities does not exceed 20% of total portfolio assets. In addition, most fixed income portfolios are permitted to enter into option contracts to manage interest rate exposure. The Retirement Funds held no options at June 30, 2007

E. Credit Default Swaps

Certain fixed income portfolios are permitted to manage credit exposures through the use of credit default swaps. A credit default swap (CDS) is an over-the-counter contract whereby the credit risk associated with an investment is transferred by entering into an agreement with another party who, in exchange for periodic fees, agrees to make payments in the event of a default or other predetermined credit event. This agreement effectively introduces credit exposure to the seller's portfolio without actually holding the bond, basket of investments or bond index. One of the main advantages of CDS is that it allows for exposure to credit risk while limiting exposure to other risks such as interest rate, currency, and call risk, that often come with a typical bond. Losses may arise in the event of the bond issuer's bankruptcy or failure to make a coupon payment, or if the counterparties do not perform under the terms of the contract. Liquidity in the cash bond market may also affect performance of these instruments, if the contract is structured to have a physical, rather than a cash settlement.

As with other over-the-counter derivative products, Investment Guidelines require counterparties be a recognized exchange or bank or broker dealer with an actual credit rating of at least: (1) 'B/C' or better from Fitch; (2) 'A1/P1' or better on short term debt from S&P or Moody's; or (3) 'A' or better on long term debt from S&P or Moody's.

As of June 30, 2007, one externally managed portfolio in the Core Fund held CDS positions. Because this manager holds the view that a specific credit market will improve, they entered into an agreement to sell protection in the 3rd quarter of fiscal year 2007. As a result, SWIB receives periodic payments based upon the negotiated deal spread. Under the terms of the contracts, SWIB would assume coupon and/or principal payments to the counterparty in the event of a default. These contracts have a total notional value of $5.6 million and mature in 2012, although they can be effectively nullified by entering into a reverse agreement at an earlier date, at the manager's discretion.

6. Summary of Investments

The following schedules provide summary information by investment classification for the Core Fund and Variable Fund, at June 30, 2007:

Core Retirement Investment Trust Fund - June 30, 2007				
Classification	**Coupon Rate (%)**	**Maturity Dates**	**Cost**	**Fair Value**
Fixed Income	Variable and 0 to 20.00	7/2007 to 12/2055	$21,242,927,465	$22,517,169,352
Preferred Securities	N/A	N/A	95,766,251	151,505,878
Convertible Securities	.50 to 12.00	8/2007 to 3/2024	44,216,854	48,609,991
Stocks	N/A	N/A	33,833,027,201	49,674,006,101
Limited Partnerships	N/A	N/A	4,193,881,082	4,787,913,646
Commercial Mortgages	6.77 to 7.44	12/2007 to 12/2014	175,502,842	180,641,233
Real Estate	N/A	N/A	388,926,638	567,681,534
Debt on Real Estate	5.05 to 5.15	6/2015 to 12/2015	(61,930,959)	(61,930,959)
Multi Asset	N/A	N/A	549,000,000	899,620,909
			$60,461,317,374	$78,765,217,685

Variable Retirement Investment Trust Fund June 30, 2007		
Classification	**Cost**	**Fair Value**
Preferred Securities	$ 6,881,208	$ 12,574,140
Stocks	5,381,433,523	7,234,042,095
	$5,388,314,731	$7,246,616,235

7. Milwaukee Retirement System

The Milwaukee Retirement System (MRS), consisting of several funds within the Milwaukee Public School Retirement System, invests in the Core Fund and Variable Fund through the WRS. Since the MRS is a separate legal entity from the WRS, both the Core Fund and the Variable Fund qualify as external investment trust funds. Participation by the MRS in the Core Fund and Variable Fund is described in the DETF Administrative Code, Chapter 10.12. MRS provides assets to DETF for investment in the Core Fund and Variable Fund which are managed by SWIB. Each month the DETF distributes the pro-rata share of the total Core Fund's earnings less administrative expenses, as well as the Variable Fund's earnings less administrative expenses. The MRS accounts are adjusted to fair value and gains/losses are recorded directly in the accounts per DETF Administrative Code 10.12(2). No State statute, legal provision, or legally binding guarantee exists to support the value of MRS's portion of the Core Fund or the Variable Fund.

8. Unfunded Capital Commitments

The Core Fund has committed to fund various limited partnerships and side-by-side agreements related to its private equity and real estate holdings. Commitments that have not been funded totaled $4.2 billion as of June 30, 2007. Unfunded commitments are not included in the financial statements since the timing of the funding is not certain.

9. Debt on Real Estate

At June 30, 2007, two real estate properties with a fair value of $127.5 million had been financed in part with $62.5 million par value ($61.9 million fair value) in mortgage debt. With the exception of annual principal payments of $1,000, all payments are interest only, until June 2015 when a $28 million note becomes due, followed by another $34.5 million note in December 2015. At the end of the prior fiscal year, SWIB held four real estate properties with a fair value of $207.5 million which had been financed in part with $85.6 million par value ($83.2 million fair value) in mortgage debt. Two of these properties were sold in fiscal year 2007. The following schedule shows the payment requirements of the debt as of June 30, 2007:

Fiscal Year	Principal	Interest
2008	$ 1,000	$ 3,184,174
2009	1,000	3,184,124
2010	1,000	3,184,073
2011	1,000	3,184,023
2012	1,000	3,183,972
2013-2015	62,493,000	10,422,512
Total	$62,498,000	$26,342,878

STATE OF WISCONSIN
Legislative Audit Bureau

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Janice Mueller
State Auditor

INDEPENDENT AUDITOR'S REPORT

Senator Jim Sullivan and
Representative Suzanne Jeskewitz, Co-chairpersons
Joint Legislative Audit Committee

Members of the Board of Trustees and
Mr. Keith S. Bozarth, Executive Director
State of Wisconsin Investment Board

We have audited the accompanying Statement of Net Assets for the State Investment Fund of the State of Wisconsin as of June 30, 2007 and 2006, and the related Statement of Operations and Changes in Net Assets for the years then ended. These financial statements are the responsibility of the State of Wisconsin Investment Board'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

The financial statements referred to in the first paragraph present only the State Investment Fund and do not purport to, and do not, present fairly the financial position and results of operations of the Investment Board or of the State of Wisconsin in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the net assets of the State Investment Fund as of June 30, 2007 and 2006, and the results of its operations and changes in net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the financial statements of the State Investment Fund. The supplementary information included as Management's Discussion and Analysis, which precedes the financial statements, is presented for purposes of additional analysis and is not a required part of the financial statements referred to in the first paragraph. We have applied certain limited procedures, which consisted principally of inquiries

of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and, accordingly, we express no opinion on it. The introduction section of the annual report has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 22, 2007, on our consideration of the Investment Board's internal control over financial reporting for the State Investment Fund and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report, which is included in a management letter to the Investment Board, is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

LEGISLATIVE AUDIT BUREAU

August 22, 2007 by Janice Mueller

Janice Mueller
State Auditor

Management Discussion and Analysis

Management's Discussion and Analysis provides general information on the financial activities of the State Investment Fund (SIF). The SIF temporarily invests the operating funds of: 1) State of Wisconsin Agencies, 2) the State's public retirement funds, and 3) the Wisconsin Local Government Investment Pool (LGIP). At June 30th the ownership of the SIF was as follows:

	2007	2006	2005
1. Various State of Wisconsin Agencies	29%	30%	28%
2. Wisconsin Public Retirement Funds	17%	9%	15%
3. Local Government Investment Pool	54%	61%	57%

Following this section are the Financial Statements and Notes to the Financial Statements. The Statement of Net Assets provides information on the types of investments and the liabilities of the SIF. The Statement of Operations and Changes in Net Assets provides information on the net investment income of the fund and its net assets at year end. The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the fund financial statements. Condensed SIF financial information for the fiscal years ended June 30, 2007, 2006, and 2005 is as follows:

SIF Condensed Financial Information					
Fiscal Year Ended:	2007	% Chg.	2006	% Chg.	2005
Total Assets	$ 6,473,796,855	28.4%	$ 5,042,059,008	(2.9%)	$ 5,192,261,599
Total Liabilities	249,106,855	(19.7%)	310,358,008	(18.4%)	380,167,796
Net Assets	$ 6,224,690,000	31.6%	$ 4,731,701,000	(1.7%)	$ 4,812,093,803
Investment Revenue	307,435,486	37.4%	$ 223,789,411	93.0%	$ 115,968,159
Expenses	1,810,084	18.3%	1,529,439	(9.3%)	1,685,823
State Working Bank	2,918,217	(14.0%)	3,392,340	21.8%	2,784,478
Net Investment Income	$ 302,707,185	38.3%	$ 218,867,632	96.3%	$ 111,497,858
Average Daily Cash Balance	$ 5,811,424,524	9.7%	$ 5,297,875,389	2.3%	$ 5,177,694,170
Time Weighted Annual Yield	5.40%		4.23%		2.08%

Because the SIF is used to temporarily invest participants' operating cash flows, investments are in highly liquid, short-term fixed income securities. At June 30, 2007, SIF Net Assets had increased by $1,492,989,000 from the prior year due to participant contributions exceeding withdrawals. The Average Daily Cash Balance was also 9.7% higher than the previous year and peaked at $6.977 billion in February 2007. At June 30, 2006, SIF Net Assets had decreased by $80,392,803 from the prior year due to participant withdrawals exceeding contributions. The Average Daily Cash Balance was also slightly higher than the previous year and peaked at $6.241 billion in March 2006.

The Net Investment Income increases of 38.3% and 96.3% for FY 2007 and FY 2006, respectively, were largely due to the Federal Open Markets Committee raising the Fed Funds Target rate eight times during the fiscal year 2006, from 3.25% to 5.25% and retaining a consistent rate of 5.25% during FY 2007. This also caused the Time Weighted Annual Yield to increase from 4.23% to 5.40% during FY 2007 and 2.08% to 4.23% during FY 2006.

STATE INVESTMENT FUND
Statement of Net Assets
As of June 30, 2007 and June 30, 2006

	June 30, 2007	June 30, 2006
Assets		
Investments (at fair value):		
Repurchase Agreements	$ 2,011,000,000	$ 2,789,000,000
Government and Agency	3,155,380,204	1,217,783,613
Commercial Paper	730,499,065	374,309,451
Certificates of Deposit (CDs)	516,965,000	650,000,000
Asset Backed Securities	0	0
Mortgage Backed Securities	250,889	364,205
Yankee/Euro Issues	50,000,000	0
Total Net Investments (at fair value)	$ 6,464,095,158	$ 5,031,457,269
Other Assets:		
Accrued Interest Receivable	9,701,697	10,601,739
Total Assets	$ 6,473,796,855	$ 5,042,059,008
Liabilities		
Check Float Invested	$ 221,548,672	$ 288,307,518
Earnings Distribution Payable	27,458,183	21,960,490
Accrued Expenses	100,000	90,000
Total Liabilities	$ 249,106,855	$ 310,358,008
NET ASSETS	$ 6,224,690,000	$ 4,731,701,000
Net Assets consist of:		
Participating Shares	$ 6,224,690,000	$ 4,731,701,000
Undistributed Unrealized Gains (Losses)	0	0
NET ASSETS	$ 6,224,690,000	$ 4,731,701,000

The accompanying notes on pages 41 through 44 are an integral part of this statement.

STATE INVESTMENT FUND
Statement of Operations and Changes in Net Assets
For the Fiscal Years Ended June 30, 2007 and 2006

	2007	2006
Investment Revenue	$ 307,435,486	$ 223,789,411
Expenses		
Management Operating Expense Allocation	$ 1,421,850	$ 1,152,585
Custodial Bank Charges	175,000	175,000
Electronic Services	206,654	195,321
Legal and Consulting Fees	6,580	6,533
Total Expenses	$ 1,810,084	$ 1,529,439
Net Investment Revenue	$ 305,625,402	$ 222,259,972
State Working Bank Charges	2,918,217	3,392,340
Net Investment Income	$ 302,707,185	$ 218,867,632
Distributions Paid and Payable	302,707,185	218,741,435
Change in Undistributed Unrealized Gains (Losses)	$ 0	$ 126,197
Beginning of Period Undistributed Unrealized Gains (Losses)	0	(126,197)
End of Period Undistributed Unrealized Gains (Losses)	$ 0	$ 0
Participant Transactions		
Receipts by Transfer to Fund	$ 27,949,573,000	$ 25,408,377,000
Disbursements by Transfer from Fund	(26,456,584,000)	(25,488,896,000)
Net Change in Participating Shares	$ 1,492,989,000	$ (80,519,000)
Beginning of Period Participating Shares	4,731,701,000	4,812,220,000
End of Period Participating Shares	$ 6,224,690,000	$ 4,731,701,000
NET ASSETS	$ 6,224,690,000	$ 4,731,701,000

The accompanying notes on pages 41 through 44 are an integral part of this statement.

1. Description of Fund

The State Investment Fund (SIF) pools the cash of the State of Wisconsin and its Agencies, certain retirement funds, and various local government units (Local Government Investment Pool – LGIP) into a commingled fund with the investment objective of safety of principal and liquidity while earning a competitive money market rate of return. Only State of Wisconsin Agencies are required to invest their operating cash in the SIF. In the State's Comprehensive Annual Financial Report (CAFR), each State Agency's pro rata portion of the SIF is reported in their Generally Accepted Accounting Principles (GAAP) fund as "Cash and Cash Equivalents" while the funds of various local governments are reported as a separate fiduciary investment trust fund entitled "Local Government Pooled Investment Fund". The staff of the State of Wisconsin Investment Board (SWIB) manages the SIF with oversight by the Board of Trustees as authorized in Wisconsin Statutes 25.14 and 25.17. The SWIB is not registered with the SEC as an investment company.

Wisconsin Statutes 25.17(3)(b), (ba), (bd), and (dg) enumerate the various types of securities in which the SIF can be invested, which include direct obligations of the United States or its agencies, corporations wholly owned by the United States or chartered by an act of Congress, securities guaranteed by the United States, the unsecured notes of financial and industrial issuers, direct obligations of or guaranteed by the government of Canada, certificates of deposit issued by banks in the United States and solvent financial institutions in Wisconsin and bankers acceptances.

The Board of Trustees may approve other prudent investments and has granted derivatives authority, subject to review and approval of the SWIB Investment Committee, limited to positions in financial futures, forwards, options and swaps and only if the purpose is to hedge existing positions, to adjust portfolio duration within statutory guidelines, or otherwise to reduce the interest rate risk to which SWIB is subjected in the normal course of business. Interest only and principal only securities, inverse floaters, and off balance sheet synthetic derivatives are not permitted.

2. Significant Accounting Policies

A. Basis of Presentation

The accompanying financial statements of the investment activity of the SIF are prepared in accordance with Generally Accepted Accounting Principles (GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB).

B. Basis of Accounting

The accompanying statements are prepared based upon the flow of economic resources measurement focus and the full accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and become measurable, and expenses are recognized in the period incurred, if measurable. Security transactions and the related gains and losses are recorded on a trade date basis. Interest income is accrued as earned and dividend income is recorded on the ex-dividend date.

SWIB applies all applicable GASB pronouncements and those Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements.

C. Valuation of Securities

Generally, investments are valued at fair value for financial statement purposes and amortized cost for purposes of calculating income to participants (See Footnote 3). The Bank of New York, as custodial bank, compiles fair value information for applicable securities by utilizing third party pricing services. The fair value of investments is determined at the end of each month.

Government/U.S. Agency securities and Commercial Paper are priced using matrix pricing. This method estimates a security's fair value by using quoted market prices for securities with similar interest rates, maturities, and credit ratings. Further, beginning with fiscal year 2005, short-term debt investments with remaining maturities of up to ninety days are valued using amortized cost to estimate fair value, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors.

Repurchase Agreements and nonnegotiable Certificates of Deposit are valued at cost because they are nonparticipating contracts that do not capture interest rate changes in their value. In addition, a bond issued by a State of Wisconsin Agency,

having a par value at June 30, 2007 and 2006 of $0.3 million and $0.4 million repectively, is valued at par, which management believes approximates fair value.

Summary Information by Investment Classification

	June 30, 2007				June 30, 2006	
	Interest Rates	Maturity Dates	Book Value (Amort. Cost)	Fair Value	Book Value (Amort. Cost)	Fair Value
Repurchase Agreements	4.40-5.30	07/02/07	$ 2,011,000,000	$ 2,011,000,000	$ 2,789,000,000	$ 2,789,000,000
Government and Agency	5.15-5.22	07/02/07-10/19/07	3,155,380,204	3,155,380,204	1,217,783,613	1,217,783,613
Commercial Paper	5.27-5.36	07/02/07-09/12/07	730,499,065	730,499,065	374,309,451	374,309,451
Certificates of Deposit	3.98-5.70	07/16/07-09/15/08	516,965,000	516,965,000	650,000,000	650,000,000
Asset Backed Securities	N/A	N/A	0	0	0	0
Mortgage Backed Securities	6.32	05/27/09	250,889	250,889	364,205	364,205
Yankee/Euro Issues	5.28	08/06/07	50,000,000	50,000,000	0	0
Total Investments			$ 6,464,095,158	$ 6,464,095,158	$ 5,031,457,269	$ 5,031,457,269
Ratio of Fair Value to Book Value				100.00%		100.00%

D. Management Operating Expenses

Management operating expenses are SWIB's administrative costs that are allocated to the SIF participants.

E. State Working Bank Charges

State Working Bank Charges represent charges for various state banking services such as lockbox, e-pay, and depository services. These expenses are allocated to SIF participants based on their proportionate usage of banking services and, accordingly, reduce the participant's share of the Net Investment Revenue.

3. Pool Earnings and Pool Shares

For purposes of calculating earnings to each participant, all investments are valued at amortized cost. Specifically, the SIF distributes income to pool participants monthly, based on their average daily share balance. Distributed net income includes interest income based on stated rates (both paid and accrued), amortization of discounts and premiums on a straight-line basis, realized investment gains and losses calculated on an amortized cost basis, and investment and administrative expenses. This method differs from the fair value method used to value investments in these financial statements, because the amortized cost method is not designed to distribute to participants all unrealized gains and losses in the fair values of the pool's investments. The total difference between the fair values of the investments in the pool and the values distributed to the pool participants using the amortized cost method described above is reported in the equity section of the statement of net assets as "Undistributed Unrealized Gains (Losses)".

Pool shares are bought and redeemed at $1.00 based on the amortized cost of the investments in the fund. The State of Wisconsin does not provide any legally binding guarantees to support the value of pool shares. However, LGIP investments, except for investments in U.S. Government/Agencies, State of Wisconsin Agencies, and Wisconsin Banks, are insured against credit loss by the Financial Security Assurance Corporation. Further, the Federal Deposit Insurance Cor-

poration (FDIC) insures the pro rata share of Certificates of Deposit held by the LGIP. Finally, the State of Wisconsin appropriation for losses on public deposits protects a depositing municipality by up to $400,000 if the local governing body has designated the LGIP as a public depository.

4. Deposit and Investment Risk

SWIB recognizes that risk issues permeate the entire investment process from asset allocation to performance evaluation. SWIB monitors risk through multiple forms of analysis and reporting. For the SIF, evaluations of levels of diversification, nominal risk exposures including sector, maturity, and interest rate exposures, and risk/return plots form the core of the monitoring process. In addition, portfolios and asset classes are reviewed daily for compliance with investment guidelines. At least quarterly, comprehensive reporting is presented to SWIB's Compliance and Investment Committees and the Board of Trustees.

A. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the SIF. The SIF's investment guidelines establish numerous, very specific maximum exposure limits based on the minimum credit ratings as issued by Nationally Recognized Statistical Rating Organizations (NRSROs). As of June 30, 2007 and 2006, these credit ratings and aggregate exposures by investment type were as follows:

Credit Quality Distribution for Securities

		2007		2006	
	Rating	Fair Value	%	Fair Value	%
Repurchase Agreements (Collateral):					
US Government Debt	AAA/Aaa	$1,508,250,000	23.3%	$2,234,250,000	44.4%
Govt Sponsored Entity US Agency	AAA/Aaa	502,750,000	7.8%	554,750,000	11.0%
Federal Home Loan Board	A-1+/P-1	917,114,301	14.2%	499,300,563	9.9%
Federal Home Loan Mortgage Corp	A-1+/P-1	1,183,997,411	18.3%	256,219,917	5.1%
Federal National Mortgage Assoc	A-1+/P-1	1,054,268,492	16.3%	412,264,451	8.2%
Federal Home Loan Board-Note	AAA/Aaa	0	0.0%	24,998,682	0.5%
Federal Home Loan Mortgage Corp-Note	AAA/Aaa	0	0.0%	25,000,000	0.5%
Commercial Paper	A-1+/P-1	705,594,037	10.9%	349,373,701	7.0%
Commercial Paper	A-1 /P-1	24,905,028	0.4%	24,935,750	0.5%
Certificates of Deposit:					
Non-Negotiable (Var Wisc Banks)	NR	466,965,000	7.2%	500,000,000	9.9%
Negotiable	A-1+/P-1	50,000,000	0.8%	150,000,000	3.0%
Yankee	A-1+/P-1	50,000,000	0.8%	0	0.0%
Mortgage Backed Securities	NR	250,889	0.0%	364,205	0.0%
Totals		$6,464,095,158	100.0%	$5,031,457,269	100.0%

B. Custodial Credit Risk

Deposits — Custodial credit risk related to deposits is the risk that, in the event of the failure of a depository financial institution, SWIB will not be able to recover deposits that are in possession of an outside party. SWIB does not have a deposit policy specifically for custodial credit risk. As of June 30, 2007 and 2006, the SIF held certificates of deposit with an estimated fair value of $467 million (2006 - $500 million) invested pursuant to the Wisconsin Certificate of Deposit Program (administered by Bankers Bank) implemented in July 1987. Investment guidelines provide that banks accepted into this program must accept deposits in Wisconsin and meet credit-screening criteria designed to assure the safety of the deposits. Approximately $394 million (2006 - $421 million) is insured through FDIC insurance and the State of Wisconsin appropriation for losses on public deposits. The remaining $72 million (2006 - $79 million) is considered uninsured and uncollateralized. The actual coverage of these deposits fluctuates daily based on the allocable share of participants' accounts.

C. Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an organization's investment in a single issuer. The SIF's investment guidelines limit concentrations of credit risk by establishing numerous maximum issuer and/or issue exposure limits based on credit rating. These guidelines do not place a limit on maximum exposure for any U.S. Agency. As of June 30, 2007 the SIF has more than five percent of its investments in FHLB (14.2%), FHLMC (18.3%), FNMA (16.3%), and Repurchase Agreement collateral consisting of various securities issued by these same three U.S. Agencies (7.8%). As of June 30, 2006 the SIF had more than five percent of its investments in FHLB (10.4%), FHLMC (5.6%), FNMA (8.2%), and Repurchase Agreement collateral consisting of various securities issued by these same three U.S. Agencies (11.0%). Since the Repurchase Agreements mature each day, new collateral, consisting of a different blend of U. S. Treasury and Agency securities, is assigned each night.

D. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The SIF uses the weighted average maturity method to analyze interest rate risk and investment guidelines mandate that the weighted average maturity for the entire portfolio will not exceed one year.

Weighted Average Maturities (WAM) for Securities

	2007		2006	
	Fair Value	WAM (Days)	Fair Value	WAM (Days)
Repurchase Agreements	$ 2,011,000,000	2	$ 2,789,000,000	3
Government and Agencies	3,155,380,204	46	1,217,783,613	17
Commercial Paper	730,499,065	33	374,309,451	14
Certificates of Deposit	516,965,000	116	650,000,000	109
Asset Backed Securities	0	--	0	--
Mortgage Backed Securities	250,889	697	364,205	911
Yankee/Euro Issues	50,000,000	37	0	--
Total Fair Value	$ 6,464,095,158		$ 5,031,457,269	
Portfolio Weighted Ave. Maturity		36		21

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. SIF guidelines allow the investment in Canadian or Euro denominated issues provided they are fully hedged against foreign currency risk. As of June 30, 2007 and 2006, the SIF did not own any issues denominated in a foreign currency.

5. Related Party Transactions

The SIF held one bond issued by a State of Wisconsin agency, the Department of Veterans Affairs, with a remaining par and carrying value of $0.3 million and $0.4 million at June 30, 2007 and 2006 respectively. Management believes the rate of interest received is comparable to rates for bonds with similar characteristics issued by an unaffiliated third party.

STATE OF WISCONSIN
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Janice Mueller
State Auditor

INDEPENDENT AUDITOR'S REPORT

Senator Jim Sullivan and
Representative Suzanne Jeskewitz, Co-chairpersons
Joint Legislative Audit Committee

Members of the Board of Trustees and
Mr. Keith S. Bozarth, Executive Director
State of Wisconsin Investment Board

We have audited the accompanying Statements of Net Investment Assets for the Various Funds (Local Government Property Insurance Fund, State Life Insurance Fund, Injured Patients and Families Compensation Fund, Historical Society Trust Fund, and EdVest Tuition Trust Fund) of the State of Wisconsin as of June 30, 2007 and 2006, and the related Statements of Changes in Net Investment Assets for the years then ended. These financial statements are the responsibility of the State of Wisconsin Investment Board'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

As discussed in Note 1, the financial statements referred to in the first paragraph present only the investment activity of the Various Funds attributable to the transactions of the State of Wisconsin Investment Board. The financial statements do not purport to, and do not, present the financial activity of the Various Funds attributable to other state agencies. Further, they do not purport to, and do not, present fairly the financial position and results of operations of the Investment Board or of the State of Wisconsin in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the net investment assets of the Various Funds as of June 30, 2007 and 2006, and the changes in net investment assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As explained in Note 2, the financial statements include investments that do not have readily ascertainable market prices and are valued based on a variety of third-party pricing methods. We have reviewed the procedures used by the Investment Board in arriving at estimates of the values of such investments and have inspected underlying documentation, and, given the circumstances, we believe the procedures are reasonable and the documentation appropriate. However, because of the inherent uncertainty of valuation, those estimated values may differ from the values that would have been used had a ready market for the investments existed.

Our audits were conducted for the purpose of forming an opinion on the financial statements of the Various Funds of the State of Wisconsin. The supplementary information included as Management's Discussion and Analysis, which precedes the financial statements, is presented for purposes of additional analysis and is not a required part of the financial statements referred to in the first paragraph. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it. The introduction section of the annual report has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we will also issue a report dated November 21, 2007 on our consideration of the Investment Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report, which is included in a management letter to the Investment Board, is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

LEGISLATIVE AUDIT BUREAU

November 21, 2007 by Janice Mueller

Janice Mueller
State Auditor

Management Discussion and Analysis

Management Discussion and Analysis provides general information on the investment financial activities of the Various Funds. The State of Wisconsin Investment Board (SWIB) has exclusive control of the investment and collection of principal, interest, and dividends of all monies invested of the Local Government Property Insurance Fund (LGPIF), State Life Insurance Fund (Life Fund), Injured Patients and Families Compensation Fund (IPFCF), Historical Society Trust Fund (HSTF), and EdVest Tuition Trust Fund (EdVest) (collectively known as the "Various Funds").

Following this section are the financial statements and notes. The Statement of Net Investment Assets provides information on the types of investments and the liabilities of the Various Funds. The Statement of Changes in Net Investment Assets provides information on the investment income of the Various Funds and their net assets at year end. The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the funds' financial statements. Condensed Various Funds financial information for the fiscal years ended June 30, 2007, 2006 and 2005 is as follows:

Various Funds Condensed Financial Information					
Fiscal Year Ended:	2007	% Chg.	2006	% Chg.	2005
Net Investment Assets:					
Local Govt Property Ins Fund	$ 54,734,738	3.0%	$ 53,122,557	22.3%	$ 43,436,557
State Life Insurance Fund	82,235,583	3.8%	79,220,638	(8.7%)	86,770,246
Inj Patients & Families Comp Fd	798,050,650	7.0%	746,027,152	(1.6%)	757,837,949
Historical Society Trust Fund	12,717,278	12.0%	11,356,277	2.0%	11,129,168
EdVest Tuition Trust Fund	9,609,556	(5.4%)	10,157,429	(11.6%)	11,496,037
Net Investment Income:					
Local Govt Property Ins Fund	$ 2,937,843	40.4%	$ 2,093,134	150.3%	$ 836,237
State Life Insurance Fund	5,454,705	N/A	(4,964,133)	(140.6%)	12,226,681
Inj Patients & Families Comp Fd	68,235,436	889.8%	6,893,927	(88.1%)	58,154,145
Historical Society Trust Fund	1,860,781	167.9%	694,603	(15.1%)	818,365
EdVest Tuition Trust Fund	546,713	N/A	(141,476)	(114.8%)	952,971

For both FY 2007 and FY 2006, percentage changes in the Net Investment Assets of the Various Funds were due to Net Investment Income and due to program activities within the fund that were not investment related.

For FY 2007, Net Investment Income was significantly higher in all Various Funds due to a relatively stable interest rate environment compared to the prior year and due to higher equity markets in those funds with equity exposure. At the end of FY 2007 the Injured Patients and Families Compensation Fund held four indexed stock funds, representing 17.2% of Net Investment Assets, which experienced a $30.1 million increase in fair value during the current year as compared to a $16.5 million increase in fair value during the prior year. Also, for FY 2007 the Historical Society Trust Fund held an indexed stock fund, representing 78.4% of Net Investment Assets, which experienced a $1.4 million increase in fair value during the current year as compared to a $0.6 million increase in fair value during the prior year.

For FY 2006, with the exception of the Local Government Property Insurance Fund, Net Investment Income was significantly lower in the Various Funds, primarily due to current year decreases in the fair value of bonds as a result of rising long-term interest rates. The Local Government Property Insurance Fund increase in Net Investment Income was due to shorter maturity bonds as well as a relatively high percentage of cash equivalents which earned much higher interest rates over the prior year.

VARIOUS FUNDS
Statement of Net Investment Assets
As of June 30, 2007

	Local Gov't. Property Ins. Fund	State Life Insurance Fund	Injured Patients & Families Compensation Fund	Historical Society Trust Fund	EdVest Tuition Trust Fund
Investment Assets					
Cash and Cash Equivalents	$ 54,495,500	$ 2,152,061	$ 40,958,472	$ 219,205	$ 1,510,326
Receivables:					
Investment Income Receivable	239,238	1,209,968	9,630,491	32,690	33,149
Investment Sales Receivable	0	0	0	11,035	0
Investments:					
Fixed Income	0	78,873,554	609,892,692	2,487,108	8,066,081
Stocks	0	0	137,577,835	9,967,711	0
Total Investment Assets	$ 54,734,738	$ 82,235,583	$ 798,059,490	$ 12,717,749	$ 9,609,556
Liabilities					
Investment Purchases Payable	0	0	3,685	106	0
Accounts Payable	0	0	5,155	365	0
Total Liabilities	$ 0	$ 0	$ 8,840	$ 471	$ 0
Net Investment Assets	$ 54,734,738	$ 82,235,583	$ 798,050,650	$ 12,717,278	$ 9,609,556

VARIOUS FUNDS
Statement of Changes in Net Investment Assets
For the Fiscal Year Ended June 30, 2007

	Local Gov't. Property Ins. Fund	State Life Insurance Fund	Injured Patients & Families Compensation Fund	Historical Society Trust Fund	EdVest Tuition Trust Fund
From Investment Activities:					
Investment Income:					
Net Increase (Decrease) in Fair Value of Investments	$ 32,971	$ 889,650	$ 35,490,158	$ 1,866,102	$ (17,383)
Interest	2,907,215	4,571,006	32,796,811	11,551	564,096
Investment Expenses	(2,343)	(5,951)	(51,533)	(16,872)	0
Net Investment Income	$ 2,937,843	$ 5,454,705	$ 68,235,436	$ 1,860,781	$ 546,713
From Participant Transactions:					
Net Receipts (Disbursements) - Non-Investment Activity	(1,325,662)	(2,439,760)	(16,211,938)	(499,780)	(1,094,586)
Net Increase (Decrease) in Net Investment Assets	$ 1,612,181	$ 3,014,945	$ 52,023,498	$ 1,361,001	$ (547,873)
Net Investment Assets					
Beginning of Year	53,122,557	79,220,638	746,027,152	11,356,277	10,157,429
End of Year	$ 54,734,738	$ 82,235,583	$ 798,050,650	$ 12,717,278	$ 9,609,556

The accompanying notes on pages 51 through 55 are an integral part of this statement.

VARIOUS FUNDS
Statement of Net Investment Assets
As of June 30, 2006

	Local Gov't. Property Ins. Fund	State Life Insurance Fund	Injured Patients & Families Compensation Fund	Historical Society Trust Fund	EdVest Tuition Trust Fund
Investment Assets					
Cash and Cash Equivalents	$ 48,932,996	$ 2,181,839	$ 13,615,947	$ 232,393	$ 428,503
Receivables					
Investment Income Receivable	225,301	1,188,659	8,923,960	26,464	34,570
Investment Sales Receivable	0	0	0	10,967	0
Investments					
Fixed Income	3,964,260	75,850,140	580,496,575	2,558,965	9,694,356
Stocks	0	0	143,009,008	8,528,486	0
Total Investment Assets	$ 53,122,557	$ 79,220,638	$ 746,045,490	$ 11,357,275	$ 10,157,429
Liabilities					
Investment Purchases Payable	0	0	2,788	73	0
Accounts Payable	0	0	15,550	925	0
Total Liabilities	$ 0	$ 0	$ 18,338	$ 998	$ 0
Net Investment Assets	$ 53,122,557	$ 79,220,638	$ 746,027,152	$ 11,356,277	$ 10,157,429

VARIOUS FUNDS
Statement of Changes in Net Investment Assets
For the Fiscal Year Ended June 30, 2006

	Local Gov't. Property Ins. Fund	State Life Insurance Fund	Injured Patients & Families Compensation Fund	Historical Society Trust Fund	EdVest Tuition Trust Fund
From Investment Activities:					
Investment Income					
Net Increase (Decrease) in Fair Value of Investments	$ (52,604)	$ (9,381,209)	$ (24,681,064)	$ 704,696	$ (757,442)
Interest	2,150,677	4,430,506	31,643,362	9,141	615,966
Investment Expenses	(4,939)	(13,430)	(68,371)	(19,234)	0
Increase (Decrease) in Net Investments from Investment Activities	$ 2,093,134	$ (4,964,133)	$ 6,893,927	$ 694,603	$ (141,476)
From Participant Transactions:					
Net Receipts (Disbursements) - Non-Investment Activity	7,592,866	(2,585,475)	(18,704,724)	(467,494)	(1,197,132)
Net Increase (Decrease) in Net Investment Assets	$ 9,686,000	$ (7,549,608)	$ (11,810,797)	$ 227,109	$ (1,338,608)
Net Investment Assets					
Beginning of Year	43,436,557	86,770,246	757,837,949	11,129,168	11,496,037
End of Year	$ 53,122,557	$79,220,638	$ 746,027,152	$ 11,356,277	$10,157,429

The accompanying notes on pages 51 through 55 are an integral part of this statement.

1. Description of Funds

The State of Wisconsin Investment Board (SWIB) has exclusive control of the investment and collection of principal, interest, and dividends of all monies invested of the Local Government Property Insurance Fund, State Life Insurance Fund, Injured Patients and Families Compensation Fund, Historical Society Trust Fund, and EdVest Tuition Trust Fund (collectively known as the "Various Funds"). The statements presented herein reflect only the investment activity of the Various Funds. Excluded from the presentation in the statements are, for example, claim reserves, reserves for life policies and contracts, contribution revenue, premiums earned, benefit expense, and expenditures from endowment income. Also excluded from the statements are SWIB's administrative receipts and disbursements related to the investment function.

The State Investment Fund (SIF) is used to temporarily invest the operating cash flows of the Various Funds. SWIB manages the SIF with oversight by a Board of Trustees, as authorized in Wisconsin Statutes 25.14 and 25.17. SWIB is not registered with the Securities and Exchange Commission (SEC) as an investment company.

A. Local Government Property Insurance Fund

The Local Government Property Insurance Fund (LGPIF) provides property insurance protection to local government units on an optional basis. The Office of the Commissioner of Insurance (OCI) is responsible for administering the operations of the LGPIF, while SWIB performs the investment activities for the fund. SWIB's investment objective is to ensure safety of principal and maximization of return within liquidity needs established by the OCI. Wisconsin Statute 25.17(3)(b) allows investments in direct obligations of the United States and Canada, securities guaranteed by the United States, unsecured notes of financial and industrial issuers, Yankee/Euro dollar issues, certificates of deposit issued by banks in the United States, and solvent financial institutions in this state.

B. State Life Insurance Fund

The State Life Insurance Fund (Life Fund) offers low cost life insurance protection to Wisconsin residents in amounts up to $10,000 per person. The Office of the Commissioner of Insurance is responsible for administering the operations of the Life Fund. SWIB's investment objective is to maintain a diversified portfolio of high quality publicly issued fixed income obligations that will preserve principal, maximize income while minimizing costs to policyholders, and approximate the expected life of the Fund's insurance contracts. Wisconsin Statute 25.17(3)(a) allows investments in loans, securities and any other investments as authorized by s. 620.22, Wis. Stats. Permitted classes of investments include bonds of government units or of corporations, loans secured by mortgages, preferred or common stocks, real property and other investments not specifically prohibited by statute.

C. Injured Patients and Families Compensation Fund

The Injured Patients and Families Compensation Fund (IPFCF) provides medical malpractice insurance protection to health care providers permanently practicing or operating in Wisconsin. Management of the IPFCF is vested with a Board of Governors and administration of the operations of the fund is the responsibility of the Office of the Commissioner of Insurance. Since September 1990, SWIB has been responsible for investing the securities held by this Fund. SWIB's investment objective is to maintain a diversified portfolio of investments to provide a balance between capital appreciation, preservation of capital, and current income consistent with the needs of the IPFCF. Wisconsin Statute 25.17(3)(a) allows investments in loans, securities and any other investments as authorized by s. 620.22, Wis. Stats. Permitted classes of investments include bonds of governmental units or of private corporations, loans secured by mortgages, preferred or common stock, real property and other investments not specifically prohibited by statute.

D. Historical Society Trust Fund

The State Historical Society of Wisconsin collects and preserves historical and cultural resources relating to the history of Wisconsin and the western United States, conducts historical research, facilitates and encourages education in Wisconsin history, and serves as the Trustee of the State for the preservation and care of government records. In addition to state and federal funds, the Historical Society receives gifts, grants, and bequests to assist it in carrying out its mission. The gifts, grants and bequests are deposited into the Historical Society Trust Fund (HSTF). SWIB is responsible for managing and supervising the fund's investments with an investment objective of maintaining a diversified portfolio of high quality publicly issued equities and fixed income obligations providing long-term growth in capital and income generation. Any income earned, except where reinvestment is required by the terms of the gift or bequest, may be expended by the

Historical Society in accordance with provisions of the gift, grant or bequest. The Historical Society funds available for investment are authorized to be invested in "every kind of property, real, personal or mixed, and every kind of investment, specifically including but not by the way of limitation, bonds, debentures, and other corporate obligations, stocks, preferred or common, and shares of investment companies and investment trusts, which persons of prudence, discretion, and intelligence acquire or retain for their own account."

E. EdVest Tuition Trust Fund

The EdVest Wisconsin program offers families a way to prepare for future higher education costs. When the program was established in 1997, it offered a bond-based tuition unit investment option. These units, plus investment earnings, are expected to equal one percent of the projected average annual cost of tuition at University of Wisconsin campuses in the year of their use. The Office of State Treasurer is responsible for the administration of the EdVest Wisconsin program. Wisconsin Statute 14.63(10)(b) directs SWIB to invest moneys held in the Tuition Trust Fund in investments with maturities and liquidity that are appropriate for the needs of the fund as reported by the State Treasurer in his or her quarterly reports. All income derived from such investments shall be credited to the fund. The sale of tuition units was discontinued in 2002. Other investment options are available under the EdVest program, but these are not managed by the Investment Board.

2. Significant Accounting Policies

A. Basis of Presentation

The accompanying financial statements of the investment activity of the Various Funds are prepared in accordance with generally accepted accounting principles (GAAP) in the United States of America for governments as prescribed by the Governmental Accounting Standards Board (GASB).

The Local Government Property Insurance Fund, the State Life Insurance Fund, and the Injured Patients and Families Compensation Fund operate similar to insurance enterprises and are reported by the State as proprietary funds. In reporting the investment activity of proprietary funds, SWIB applies all applicable GASB pronouncements and those Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements. The Historical Society Trust Fund is reported by the State as a governmental fund and the EdVest Tuition Trust Fund is reported by the State as a fiduciary fund.

B. Basis of Accounting

The accompanying statements are prepared based upon the flow of economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and become measurable, and expenses are recognized in the period incurred, if measurable. Security transactions and the related gains and losses are recorded on a trade date basis. Dividend income is recorded on the ex-dividend date and interest income is accrued as earned.

C. Valuation of Securities

As required by Governmental Accounting Standards Board Statement No. 31, the investments of the Various Funds are valued at fair value, with unrealized and realized gains and losses reflected in the Statement of Changes in Net Investment Assets as "Net Increase (Decrease) in Fair Value of Investments".

Generally, fair value is based on quoted market prices. Private placements are priced via a multi-tiered method. This method prices each holding based on the best available information using a hierarchy of pricing sources.

D. Use of Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates that affect amounts reported herein. Due to the inherent uncertainty involved, actual results could differ from those estimates.

E. Cash and Cash Equivalents

Cash and Cash Equivalents reported on the Statement of Net Investment Assets include bank deposits and the individual funds' shares in the State Investment Fund.

3. Deposits and Investments

SWIB recognizes that risk issues permeate the entire investment process from asset allocation to performance evaluation. SWIB monitors risk through multiple forms of analysis and reporting. Inspection of levels of diversification, nominal risk exposures, risk/return plots, and matching liabilities with assets forms the core of the monitoring process. In addition, portfolios and asset classes are reviewed monthly for compliance with investment guidelines and exceptions, if any, are remedied in a prudent manner. On a quarterly basis, guideline exceptions when identified, are reviewed by SWIB's Compliance Committee.

A. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the Various Funds. The Various Funds' (except for EdVest) investment guidelines generally require that issues be rated "A-" or better at the time of purchase based on the minimum credit ratings as issued by Nationally Recognized Statistical Rating Organizations (NRSROs). IPFCF guidelines provide that at least 80% of the bond portfolio must be rated "A3/A1-" or better, using the lower of split rating. EdVest guidelines do not specifically list a minimum credit quality. As of June 30, 2007 and 2006, these credit ratings were as follows:

Note: SIF shares are reported on the Statement of Net Investment Assets as Cash and Cash Equivalents.

Credit Quality Distribution for Fixed Income Securities - June 30, 2007

	LGPIF		Life Fund		IPFCF		Historical Society		EdVest	
	Fair Value	%	Fair Value	%	Fair Value	%	Fair Value	%	Fair Value	%
AAA	$ 0	0.0%	$35,861,114	44.2%	$268,855,215	41.2%	$ 0	0.0%	$ 7,183,735	75.0%
AA	0	0.0%	9,489,156	11.7%	78,019,310	12.0%	0	0.0%	220,161	2.3%
A	0	0.0%	21,663,592	26.7%	155,898,310	24.0%	0	0.0%	232,520	2.4%
BBB	0	0.0%	9,162,772	11.3%	84,937,907	13.1%	0	0.0%	205,228	2.1%
BB	0	0.0%	0	0.0%	9,931,950	1.5%	0	0.0%	131,437	1.4%
B	0	0.0%	870,000	1.1%	4,350,000	0.7%	0	0.0%	0	0.0%
CCC	0	0.0%	807,210	1.0%	7,900,000	1.2%	0	0.0%	93,000	1.0%
Not Rated	0	0.0%	1,019,710	1.3%	0	0.0%	2,487,108	92.0%	0	0.0%
Subtotal	$ 0	0.0%	$78,873,554	97.3%	$609,892,692	93.7%	$2,487,108	92.0%	$ 8,066,081	84.2%
SIF (unrated)	54,495,000	100.0%	2,152,000	2.7%	40,958,000	6.3%	217,000	8.0%	1,510,000	15.8%
Totals	$54,495,000	100.0%	$81,025,554	100.0%	$650,850,692	100.0%	$2,704,108	100.0%	$ 9,576,081	100.0%

Credit Quality Distribution for Fixed Income Securities – June 30, 2006

	LGPIF		Life Fund		IPFCF		Historical Society (restated)		EdVest	
	Fair Value	%	Fair Value	%	Fair Value	%	Fair Value	%	Fair Value	%
US Treasury	$ 1,980,160	3.7%	$31,646,568	40.6%	$185,707,635	31.3%	$ 0	0.0%	$ 156,726	1.6%
AAA	1,984,100	3.8%	4,948,415	6.3%	90,947,029	15.3%	0	0.0%	8,110,239	80.1%
AA	0	0.0%	6,947,266	8.9%	65,190,999	11.0%	0	0.0%	476,446	4.7%
A	0	0.0%	21,133,667	27.1%	154,173,784	25.9%	0	0.0%	407,988	4.0%
BBB	0	0.0%	7,595,294	9.7%	68,284,178	11.5%	0	0.0%	461,457	4.6%
BB	0	0.0%	0	0.0%	4,792,950	0.8%	0	0.0%	0	0.0%
B	0	0.0%	850,000	1.1%	7,650,000	1.3%	0	0.0%	0	0.0%
CCC	0	0.0%	707,380	0.9%	3,750,000	0.6%	0	0.0%	81,500	0.8%
Not Rated	0	0.0%	2,021,550	2.6%	0	0.0%	2,558,965	91.8%	0	0.0%
Subtotal	$ 3,964,260	7.5%	$75,850,140	97.2%	$580,496,575	97.7%	$2,558,965	91.8%	$ 9,694,356	95.8%
SIF (unrated)	48,932,000	92.5%	2,181,000	2.8%	13,615,000	2.3%	230,000	8.2%	428,000	4.2%
Totals	$52,896,260	100.0%	$78,031,140	100.0%	$594,111,575	100.0%	$2,788,965	100.0%	$10,122,356	100.0%

B. Custodial Credit Risk

Deposits — Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Various Funds will not be able to recover deposits that are in possession of an outside party. The Various Funds do not have a deposit policy specifically for custodial credit risk. As of June 30, 2007 and 2006 the Various Funds had $3,564 and $5,678, respectively, deposited in a bank account covered by federal depository insurance.

Investments — Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Various Funds will not be able to recover the value of investments that are in the possession of an outside party. The Various Funds do not have an investment policy specifically for custodial credit risk. As of June 30, 2007 and 2006 the Various Funds did not have any investment securities exposed to custodial credit risk.

C. Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an organization's investment in a single issuer. With the exception of EdVest, the Various Funds investment guidelines limit concentrations of credit risk by establishing maximum issuer and/or sector exposure limits. Generally, the guidelines require that no single issuer may exceed 5% of the fund investments, with the exception of U.S. Government and its Agencies, which may be unlimited. The LGPIF further limits AAA-rated mortgage-backed, AAA-rated asset-backed, and individual corporate issuers to 3% of the market value of the fund investments.

Excluding investments issued or explicitly guaranteed by the U.S. government and pooled investments, as of June 30, 2007 and 2006 no Various Fund had more than five percent of their total investments (including the SIF) in a single issuer.

D. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Various Funds use the duration method to identity and manage interest rate risk. Three of the Various Funds have investment guidelines relating to interest rate risk. The LGPIF guidelines require that a bond's maturity must not exceed ten years. The Life Fund guidelines require the Weighted Average Maturity (WAM) of the portfolio, including cash, shall be a minimum of ten years. The IPFCF guidelines require that the average duration of the aggregate bond portfolio shall be less than ten years.

Duration or WAM for Fixed Income Securities (in years) - June 30, 2007

	LGPIF		Life Fund		IPFCF		Historical Society		EdVest	
	Fair Value	Duration	Fair Value	WAM	Fair Value	Duration	Fair Value	Duration	Fair Value	Duration
Govt/Agcy	$ 0	0.00	$33,887,581	16.40	$242,016,760	4.48	$ 0	0.00	$ 7,047,741	4.95
Corporate	0	0.00	44,985,973	18.06	367,875,932	5.79	0	0.00	1,018,340	4.87
Mortgage/ABS	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
Bond Funds	0	0.00	0	0.00	0	0.00	2,487,108	5.08	0	0.00
Subtotal/Ave	$ 0	0.00	$78,873,554	17.35	$609,892,692	5.27	$2,487,108	5.08	$ 8,066,081	4.94
SIF	54,495,000	0.10	2,152,000	0.10	40,958,000	0.10	217,000	0.10	1,510,000	0.10
Total/Ave	$ 54,495,000	0.10	$81,025,554	16.89	$650,850,692	4.95	$2,704,108	4.68	$ 9,576,081	4.18

Duration or WAM for Fixed Income Securities (in years) – June 30, 2006

	LGPIF		Life Fund		IPFCF		Historical Society		EdVest	
	Fair Value	Duration	Fair Value	WAM	Fair Value	Duration	Fair Value	Duration	Fair Value	Duration
Govt/Agcy	$ 3,964,260	0.42	$33,576,809	17.40	$241,064,779	4.81	$ 0	0.00	$ 8,130,013	4.94
Corporate	0	0.00	42,273,331	18.01	339,431,796	5.04	0	0.00	1,564,343	4.08
Mortgage/ABS	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
Bond Funds	0	0.00	0	0.00	0	0.00	2,558,965	4.98	0	0.00
Subtotal/Ave	$ 3,964,260	0.42	$75,850,140	17.78	$580,496,575	4.94	$2,558,965	4.98	$ 9,694,356	4.80
SIF	48,932,000	0.06	2,181,000	0.06	13,615,000	0.06	230,000	0.06	428,000	0.06
Total/Ave	$ 52,896,260	0.09	$78,031,140	17.28	$594,111,575	4.83	$2,788,965	4.57	$10,122,356	4.60

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The Various Fund investment guidelines do not specifically address foreign currency risk with the exception that Life Fund only allows investments in U.S. dollar denominated instruments. As of June 30, 2007 and 2006 the Various Funds did not own any issues denominated in a foreign currency.

4. Derivative Financial Instruments

Interest Only Strips — Interest only strips are securities that derive cash flow from the payment of interest on underlying debt securities. EdVest held several interest only strips for yield enhancing purposes. Because the underlying securities are United States Treasury obligations, the credit risk is low. On the other hand, interest only strips are more volatile in terms of pricing, and thus the market risk is higher than traditional United States Treasury obligations.

As of June 30, 2007 and 2006, the EdVest Tuition Trust Fund held interest only strips valued at $6.9 and $8.0 million, representing approximately 72.0% and 78.8% of portfolio investments, respectively.

This publication is available on the Internet at www.swib.state.wi.us/publications.asp or by contacting the Investment Board at:

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