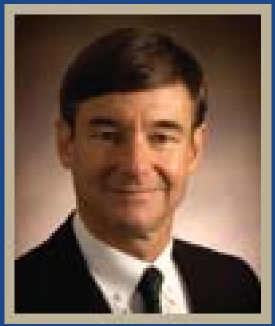
TWENTY-SEVENTH ANNUAL REPORT

2008

WASHINGTON STATE INVESTMENT BOARD

INTRODUCTION

Letter of Transmittal 5
Message from the Chair 6
Board Members and Committees 7
Executive Management and Consultants 8
Partnerships 9
Enterprise Risk Management 10
Corporate Governance 11



LETTER OF TRANSMITTAL

JUNE 30, 2008

In the past year the Washington State Investment Board (WSIB) entered a period that will test its patience and discipline as a long horizon investor as never before.

This year's return for the Commingled Trust Fund (CTF) of -1.2% is far below the prior year's exceptional gain of 21.3%. But in reality, even that modest decline is deceptively good because the investment environment worsened each quarter as fiscal year (FY) 2008 unfolded. The reason for this is widely known: beginning in July 2007, the first major cracks in the global financial system began to appear.

Home prices stopped rising. Mortgage securities and derivative products on which they were based were priced on the assumption that this could not happen on a nationwide basis. When it did, investors who relied on extraordinary leverage to produce exceptional profits and bonuses suddenly faced a catastrophic unwinding of their positions. The wreckage included mortgage companies like Countrywide and investment banks like Bear Stearns. Government policy makers at the U.S. Treasury Department and the Federal Reserve unleashed a series of ever more breathtaking programs to contain the damage and reverse the decline.

Periodic pronouncements that the worst was behind us, often expressed by the people with the largest exposures, proved to be repeatedly premature. Investor confidence was shattered. Credit markets seized up and the financial markets' problems spread into the real economy.

The depth and breadth of the decline which ensued has stunned investors. The credit market problems that started with subprime mortgages in the summer of 2007 metastasized into a severe decline in all asset classes and geographies. Any portfolio with risk assets such as equities or fixed income securities suffered losses. There was—and still is—no place to hide.

A loss is a loss. However, there is cause for some comfort that on a comparative basis the CTF continues to outperform its benchmark and peer pension funds.

Yet, readers of this report should bear in mind that it only covers the beginning of a difficult period, not the full cycle. This report describes in detail all of our portfolios, performance, operations and finances. This letter provides an overview of the WSIB's work in the past year, our plans and our intention to keep improving.

The credit quality, confidence and deleveraging problems plaguing the financial system remain in full force as this letter is being written. The exuberance generated by stellar returns is no match for the despair which accompanies severe downturns. In summary, this letter and accompanying reports aims to be both sobering and reassuring.

The facts are sobering but reassurance relies on two sources—our long horizon as an investor and faith in the resilience of capital markets and entrepreneurs. A long horizon and a diversified portfolio of high quality assets is exactly what is required to ride out the dislocation brought about by the credit crisis. Cycles are an inherent part of capital markets. This downturn may be deeper than most of us have experienced, but it is a cycle and it will turn. It is a scary time. It is also a time of opportunity for those with insight and courage.

It is easy to be confident and courageous when everything is positive. The challenge is different when returns are negative and the outlook gloomy. Our resolve to stick with our asset allocation strategy will be tested, as will our patience and discipline. While we will apply the lessons we are learning in this difficult environment, we will not be making any drastic changes. Much has changed in the investment world in the past year. But not everything. Our confidence and conviction in the ability of our investment strategy to produce satisfactory long term results is unshaken. And, most importantly, our dedication to serve the interests of our beneficiaries remains as strong as ever.

Joseph A. Dear, Executive Director

JUNE 30, 2008

After four years of double digit investment gains, the WSIB's returns slipped into negative territory at the close of the fiscal year ended June 30, 2008. Total assets under management stood at $80.5 billion, down $1.5 billion from the year before, and the state's Commingled Trust Fund (CTF) for defined benefit retirement plans posted a -1.24% rate of return and a market value of $62.2 billion, compared to $63.9 billion for FY2007.

All of the board members and staff of the WSIB would much prefer that this 27th Annual Report documenting our performance for FY 2008 ended on a more positive note, but we all know what happened in September, 2008, just two months after these performance results were calculated. With the implosion of the troubled credit markets, the 10-year performance number for the CTF dipped just below the 8% actuarial assumed rate of return that the WSIB is expected to generate over the long term. That said, the CTF still outperformed its passive benchmarks for the one, three, five, and 10-year time periods and while we cannot predict when this economic downturn will end, we can assure you that as conditions improve, so too will our performance numbers.

The WSIB has successfully navigated through stormy times before and we'll do it again. We have a highly competent group of experienced and savvy professionals working for us at all levels of the agency to add or extend investment strategies with stronger research and technical capabilities, allowing us to identify and seize new opportunities that lie ahead; maintain and expand our risk management, accounting, and other oversight procedures to ensure contract compliance and reporting accuracy; and, to strengthen our disciplined governance and investment approach by improving Board education and staff development.

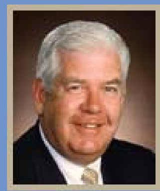
On that note, some of the high points of FY 2008 include another clean audit from the state Auditor's Office for the WSIB for the 17th consecutive year; Board approval of significant asset allocation changes for state retirement fund investments to bolster our ability to make the assumed 8% rate of return over the long-term; and, the introduction of new investment options known as target date funds for Plan 3, Deferred Compensation Program, and Judicial Retirement Account members. These new options replaced the Horizon Funds and offer a more simplified and worry-free investment plan that automatically rebalances and adjusts an individuals' asset mix as they move closer to retirement to meet their lifestyle and financial needs. Finally, it is important to mention that wisely and deliberately the WSIB did not invest in any sub-prime mortgage obligations and other lower quality products which caught so many other institutional investors off guard when these high risk schemes self destructed.

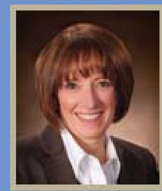
In closing, I want to thank the entire Board and staff for their excellent work and unwavering dedication to the beneficiaries of the state and local pension funds and all other public funds managed by the WSIB. We are all proud and honored to be part of this endeavor and I am confident that through good times and bad, we will continue to deliver and improve solid long-term performance for all we serve.

Glenn Gorton, Chair

BOARD MEMBERS & COMMITTEES

VOTING MEMBERS

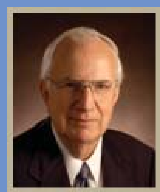

Michael J. Murphy, State Treasurer

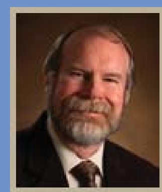

Sandra J. Matheson, Vice Chair

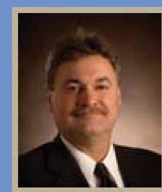

Judy Schurke


Patrick McElligott


Mason Petit


George Masten

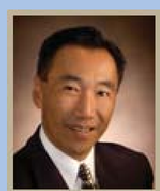

Mike Ragan

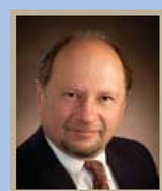

Glenn Gorton, Chair

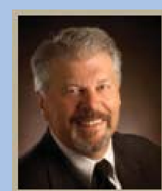

Representative Helen Sommers


Senator Lisa Brown

NON-VOTING MEMBERS


Robert S. Nakahara, CPA


Charles A. Kaminski, CFA


John W. Magnuson, CPM


Jeffrey Seely


David Nierenberg

The Administrative Committee oversees organizational, personnel, budget, legal, and legislative issues, as well as strategic asset allocation.

The Private Markets Committee develops policy and structure for private market and real estate opportunities and reviews those investments for recommendations to the Board.

The Audit Committee nominates candidates for the non-voting members, develops and monitors the Board's Conflict of Interest Policy, reviews performance-reporting and audit requirements, and deals with corporate governance policies and issues.

The Public Markets Committee develops policy and structure for public market investments (fixed income, domestic equity, international equity) and reviews individual equity managers to recommend to the Board.

The Legislature created the WSIB in 1981 as an independent board of trustees whose fiduciary responsibility is to manage investments for retirement and public trust funds with the highest standard of professional conduct for the exclusive benefit of fund participants and beneficiaries. The Board's primary investment objective is to establish policies and procedures designed exclusively to maximize return at a prudent level of risk.

Individual Board members are appointed by the Chair to serve on any of the Board's four different committees to more efficiently analyze investment and governance issues. Committee recommendations are brought to the Board for consideration and a vote.

JOSEPH A. DEAR - EXECUTIVE DIRECTOR

APPOINTED IN NOVEMBER 2002

The WSIB's executive director is appointed by the Board to oversee the staff, develop and recommend agency and investment policies for Board adoption, and ensure adherence to state policies and laws.

GARY BRUEBAKER, CFA, CPA - CHIEF INVESTMENT OFFICER

APPOINTED IN FEBRUARY 2001

The Investment Division is comprised of investment professionals who manage investments in major asset classes including public equity, private equity, real estate and fixed income. The division is also served by a senior investment officer who develops asset allocation and risk budgeting strategies and a research director that provides research and analytic support. The division deploys both internal and external investment management strategies.

THERESA J. WHITMARSH - CHIEF OPERATING OFFICER

APPOINTED IN SEPTEMBER 2003

The Operations Division provides a number of services in support of the investment function, including trade settlement, cash management, private market funding, cash and stock distributions, foreign and domestic tax matters, and investment compliance monitoring. It provides agency-wide risk management, information systems management, human resources, and administrative services.

LIZ MENDIZABAL - PUBLIC AFFAIRS DIRECTOR

APPOINTED IN MARCH 2003

Public Affairs manages duties typically found in a client services division of an investment management agency including performance reporting, annual report preparation, corporate governance and constituent communications. In addition, it manages functions unique to a public pension fund, including legislative affairs, public disclosure, and media.

INVESTMENT ACCOUNTING DATA SYSTEM

Financial Control Systems

MASTER CUSTODIAN BANK

JPMorgan Chase

INSURANCE PORTFOLIO CONSULTANT

Conning Asset Management

GENERAL INVESTMENT CONSULTANTS

Callan Associates	R.V. Kuhns & Associates Inc.
Pension Consulting Alliance	

SPECIALTY INVESTMENT CONSULTANTS

Aon	Independent Fiduciary Services

LEGAL SERVICES

Cox, Castle, & Nicholson	Paul Hastings
Foster, Pepper & Shefelman	Proskauer Rose
Goodwin Procter	Song Mondress
K & L Gates	Washington Attorney General
Orrick	

PRIVATE EQUITY CONSULTANT

Capital Dynamics, Inc.

REAL ESTATE CONSULTANT

Courtland Partners

PARTNERSHIPS

PRIVATE EQUITY PARTNERSHIPS

Advent International
Affinity Equity Partners
Apax Partners
Astorg Partners
Austin Ventures
Avenue Capital Group
Banc Funds
BC Partners
Blackstone Group
Boston Ventures
Bridgepoint Capital
Butler Capital Partners
Capital Resource Partners
CCMP Asia
Charterhouse Capital Partners
Cinven Ltd.
Clayton Dubilier & Rice
Code, Hennessy & Simmons
Contrarian Capital Management
Cornerstone Equity Investors
Cypress Group
Doughty Hanson & Co.
Elevation Partners
Endeavour Capital
Essex Woodlands
Evercore Capital Partners
First Reserve Corp.
Fisher Lynch Capital
Fortress Investment Group
Francisco Partners
Frazier & Co.
Gilbert Global Equity Partners
Green Mountain Partners
Gryphon Investors
GTCR Golder Rauner
HarbourVest Partners
Hellman & Friedman
Heritage Partners
Indigo Capital Partners
InterWest Partners
JLL Partners
Kohlberg Kravis Roberts & Co.
KSL Capital Partners
Leonard Green & Partners
Madison Dearborn Partners
MatlinPatterson Global Advisors
Menlo Ventures
Mobius Venture Capital
Morgan Stanley Venture Partners
New Enterprise Associates
Nordic Capital
Oak Investment Partners
Oaktree Capital Management
Olympus Partners
OVP Venture Partners
Palamon Capital Partners
Pathway Capital Management
Providence Equity Partners
Rice, Sangalis, Toole & Wilson
Silver Lake Partners
Spectrum Equity Investors
Sprout Group
TA Associates
Tailwind Capital Partners
TPG Partners
TSG Capital Group
U.S. Venture Partners
Varde Partners
Vestar Capital Partners
Warburg Pincus LLC
Welsh Carson Anderson & Stowe

REAL ESTATE PARTNERSHIPS

Cherokee
Corporate Properties of the Americas
Emerging Markets Fund of Funds
Evergreen Investment Advisors
Fillmore Capital Partners
Global Co-Investment
Hometown America
Hudson Advisors
Morgan Stanley
Pacific Realty
PBSC Holdings
Principal Enterprise Capital
Prosperitas
Terramar Retail Centers
Warburg Pincus LLC
Washington Holdings

TANGIBLES PARTNERSHIPS

Alinda
Campbell Group
Highstar
Sheridan

PUBLIC EQUITY FUND MANAGERS

Arrowstreet Capital, L.P.
Artio Global Investors
Barclays Global Investors, N.A.
Capital Guardian Trust Co.
Capital International, Inc.
Goldman Sachs Asset Management
Grantham, Mayo, Van Otterloo & Co. LLC
JPMorgan Asset Management, Inc.
Lazard Asset Management LLC
LSV Asset Management
Mondrian Investment Partners Ltd.
Pictet Asset Management Ltd.
Pyramis Global Asset Trust Co.
State Street Global Advisors
Western Asset Management Co.
William Blair & Co.

FRAMEWORK

A cornerstone of a successful investment strategy is effective risk management. Enterprise Risk Management (ERM) is intended to manage risk in the broadest possible terms, encompassing all forms of activity across the entire agency. The WSIB's enterprise-wide approach to risk management includes involvement of the Board, executive management, audit, operational, legal, and investment staff.

MANAGING THE ASSETS

Risks arise from the deployment of the assets under our management in a fiercely competitive environment. Thus the WSIB needs to comply with the standards that a prudent investor would use to manage the assets of others, as well as with the laws of the state of Washington and Board investment policies. The WSIB has identified two primary risks for managing assets as fiduciary risk and market risk.

- Fiduciary Risk
- Market Risk

MANAGING THE ORGANIZATION

These risks stem from building and maintaining an organization that is best suited to managing this investment effort. Our organization must operate within a governmental framework while implementing investment management strategies that are more closely aligned with private investment entities. The WSIB has identified three risks under this theme which are strategic, governmental environment, and operational.

- Strategic Risk
- Governmental and Environmental Risk
- Operational Risk

SAFEGUARDING OUR REPUTATION

Reputation Risk

The WSIB must maintain its reputation in order to be a sought after partner in the market place, a trusted fiduciary by stakeholders and the legislature, and a valued resource for the citizens of Washington state. Failure in any of these prior five risk categories will damage the WSIB's reputation and its credibility, and make it difficult, if not impossible, to achieve the goals of its constituents. The agency has dedicated resources focused on coordinating and monitoring communications for the agency. The Board has also adopted rigorous codes of conduct and conflict of interest policies to ensure that its actions meet the most stringent standards and review. Ongoing education and information assist the Board members to make informed decisions. This enables the WSIB to promote and protect our reputation.

CORPORATE GOVERNANCE

The WSIB's commitment to prudently manage and invest the retirement and public trust funds of its beneficiaries does not stop at the corporate boardroom door.

We believe our goal to maximize investment returns includes vigilant oversight of the way companies in which we invest are managed. This includes the manner in which a company's Chief Executive Officer (CEO) and board of directors carry out their corporate duties and responsibilities. The question needs to be asked: Are the CEO's performance goals aligned with maximizing shareholder value and are they practicing good corporate governance?

Increasingly, studies report that companies with good governance tend to produce higher returns on equity than poorly governed firms. A 2007 Corporate Governance survey of the largest U.S. public companies found that companies continue to evolve their governance practices, especially those relating to voting matters, director independence, qualifications and time commitments, related party transactions and shareholder proposals. The survey also found increasingly active involvement by shareholders seeking to influence corporate strategy and direction.

Between June 30, 2007 and July 1, 2008, the WSIB voted approximately 4,000 proxy ballots. Proxy votes were cast on more than 27,000 individual proposals, dealing primarily with election of directors, ratification of auditor, compensation plans, and shareholder proposals.

Of the total director votes during that time, the WSIB withheld its vote from almost 4,000 incumbent directors, primarily because of lack of board independence or unacceptable compensation practices. The WSIB's policy states that "Executive compensation should be linked directly with performance of the business the executive is charged with managing."

As a result, the WSIB:

- Voted against approximately 25% of the compensation plans proposed.
- Voted against more than 1000 compensation committee members for paying excessive compensation.
- Voted in favor of approximately 80 proposals that would give shareholders an advisory vote on executive compensation.

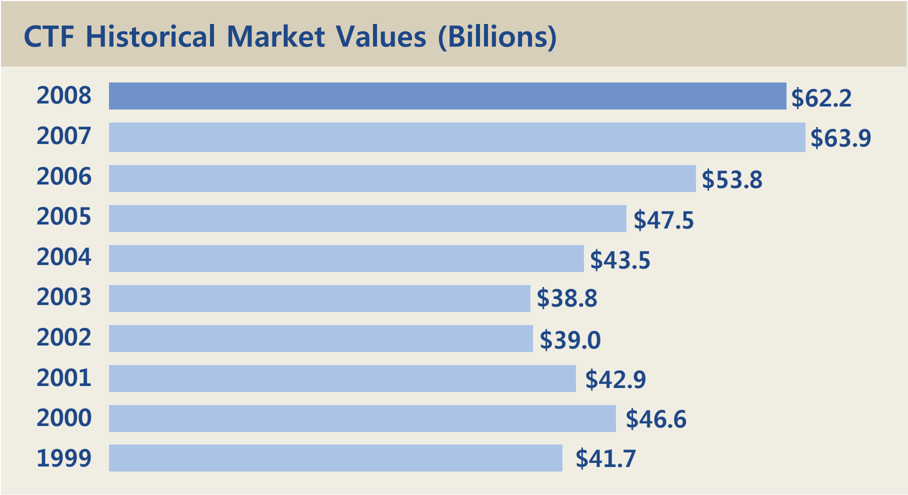
As one of the country's largest institutional investors, the WSIB believes the proxy voting ballot is one of the most effective ways to influence greater board transparency, integrity and accountability.

INVESTMENTS

Plans Under Management 15
Other Plans Under Management 18
Investing In Washington 20

RETIREMENT PLANS

The WSIB manages investments for serveral separate pension plans including: Public Employees' Retirement System (PERS), Teachers' Retirement System (TRS), School Employees' Retirement System (SERS), Law Enforcement Officers' and Firefighters' (LEOFF), Judicial Retirement Account (JRA), Washington State Patrol (WSP), Public Service Employees' Retirement System (PSERS), and the Volunteer Firefighters (VFF). The active members by system increased from 293,001 one year ago to 294,201. The total of retired members by system is 166,959.



RETIREMENT FUND PERFORMANCE

To more efficiently manage investments, reduce administrative costs, and minimize investment fees, the defined benefit retirement fund assets are pooled into the Commingled Trust Fund (CTF). Over the past 10 years, the fund has grown from $37.3 billion to $62.2 billion including employer and employee contributions, plus net investment returns, less benefit payments and fund transfers (this does not include Plan 3 self-directed defined contribution funds).

The WSIB measures fund performance by comparing the performance of investment returns of each asset class in the CTF to appropriate benchmarks. Although quarterly and yearly returns change, our long-term realizations should meet or exceed the 8.0% actuarially assumed rate of return.

It is important to remember that individual asset classes differ in their behavior and volatility from one year to the next. The fair market value of most public market investments can be determined and priced instantly. However, real estate and private equity investments are very illiquid and not easily priced, so it may take years before expected returns are apparent and realized.

STRATEGIC ASSET ALLOCATION

Strategic asset allocation is the process of selecting a mix of asset classes, such as stocks and bonds, and determining their proportions within an investment portfolio. Asset allocation decisions account for nearly 92.0% of the variation between returns on different portfolios and it is often considered to be the most important driver of investment performance. Portfolio assets are diversified to help offset declines in any one class, smooth out marketplace ups and downs, and reduce overall investment risk.

The CTF is invested in six basic asset classes including global equity, fixed income, private equity, real estate, tangible assets, and cash. The Board establishes long-term policy targets for each asset class and also sets acceptable ranges for those targets to vary. The WSIB formally reviews its strategic asset allocations at least every four years. The last asset allocation study for the CTF was completed in 2007. Changes to the allocation included combining U.S. and international equity and targeting a global country weight. In addition, a 5.0% allocation to tangible assets was established and the allocations to private equity and real estate were both increased; these allocations were funded by a reduction in fixed income and global equity.

FIXED INCOME PROGRAM

The domestic fixed income program is actively managed by WSIB staff against a performance benchmark of the Lehman Universal Index. The main sectors in the portfolio are U.S. treasuries, U.S. treasury inflation protection securities (TIPS), credit bonds, mortgage backed securities (MBS), collateralized mortgage obligations (CMO) and commercial mortgage backed securities (CMBS).

Portfolio duration relative to the benchmark was shortened during the year due to the belief that the Federal Reserve had finished lowering the federal funds rate. During the past year the yield on the 10-year treasury went from a 5.1% to a 4.0%, but hit a high of 5.2% and a low of 3.3%.

HIGHLIGHTS

- The portfolio outperformed the Lehman Universal Index returning 8.3% vs. 6.2% for the index.
- Treasuries, agencies, mortgages and ABS were underweighted for the portfolio, while TIPS, CMO and credits were overweighted.
- The portfolio's quality remained the same at Aa2, as high yield holdings continued to be underweighted relative to the index.
- Transactions totaled $2.2 billion in sales and $3.0 billion in purchases.

TANGIBLES

A new asset class, Tangible Assets, was added to the CTF's portfolio as of the fourth quarter of FY 2008. The Tangible Asset portfolio primarily targets investments in five sectors: agriculture, commodities, infrastructure, natural resource rights (such as mining), and timber. Each of these sectors has different return attributes and, thus, provides diversification benefits to the overall CTF portfolio.

The WSIB's tangible asset program focuses primarily on creating high-quality, long-term, stable income streams for the CTF. Our partnership investments target risk-adjusted returns consistent with our long-term expectations for the asset class. The majority of these externally-managed partnerships focus on income generation as their primary goal which, when combined with the potential upside from appreciation, generate returns that are expected to fall between performance expectations for fixed income and equities. In general, appreciation is expected to be approximately commensurate with inflation.

As with real estate, some of the WSIB's tangible asset partnerships do not involve co-investment with other financial investors. The majority of our partners will invest only in the private markets, so they are not subject to the potential volatility of the public markets. Over time, we expect to create a well-diversified global tangible asset portfolio with a variety of partners spread among the five target sectors (noted above) each with their own investment style and geographic diversification.

HIGHLIGHTS

- Since this is a new asset class with only a one-quarter history, there are no meaningful highlights for the portfolio to date.

REAL ESTATE PROGRAM

The WSIB's real estate program focuses primarily on creating high-quality, long-term, stable income streams for the CTF. Our partnership investments target risk-adjusted returns consistent with our long-term expectations for the asset class. The majority of these externally managed partnerships invest in high-quality properties leased to third parties. The steady income from lease payments, combined with the potential upside from appreciation, generate returns that are expected to fall between performance expectations for fixed income and equities.

The tightening of global credit markets began to constrict the velocity of new real estate transactions during the fiscal year, particularly in the latter part of the year. The sharp appreciation in commercial property values in recent years moderated considerably. Many of our partners, in anticipation of inevitable future downward pressure on values, began to write down assets during the last two quarters of the fiscal year. While this was started in advance of most of our peers, we believe this conservative approach to valuation is appropriate in the current environment. The long-term returns for the real estate portfolio still exceed its benchmark.

Many of the WSIB's partnerships do not involve co-investment with other financial investors. This provides us with superior governance provisions related to acquisition, disposition, and annual business planning processes. The majority of our partners own real estate assets as private market investments, so they are not subject to the potential volatility of the public markets. Capital is widely diversified among a variety of partners, each with their own investment style, and partnership assets are geographically diversified, including outside the U.S. Investments are made in a variety of property types to provide further diversification. Finally, diversification is enhanced by our partners investing at different points in the real estate capital structure, as well as at different times in the property life cycle. This diversification provides a degree of stability in what is likely to become a very challenging environment going forward.

HIGHLIGHTS

- For the one-year period ending June 30, 2008, the portfolio underperformed the National Council of Real Estate Investment Fiduciaries (NCREIF) Index, earning 5.9% vs. 9.2% for the index.
- For the 10 years ending June 30, 2008, the portfolio outperformed the NCREIF Index by approximately 2.5%, at 14.7% versus 12.2%.
- The two strongest drivers of the good long-term returns were the

WSIB's investments in real estate operating companies (REOCs) and investments outside the U.S.

- In a continuing trend, more relatively attractive investment opportunities were found outside the U.S.
- The WSIB continues to overweight growth markets in the U.S., especially in the southern and western regions, due to the potential long-term demographic and economic growth of these areas.

PUBLIC EQUITY PROGRAM

In October 2007, the public equity program adopted a global benchmark, the Dow Jones Global Total Markets Index, reflecting the globalization of capital markets. The CTF also reduced its asset allocation to public equity from 46.0% to 37.0% to facilitate increased allocations to alternative investments (private equity, real estate, and tangible assets).

Even though the fund moved to a global benchmark, the program was not substantially restructured and, thus, the public equity portfolio remains a combination of separate U.S. and international components. However, during the past year, four global equity managers were hired within the innovation portfolio.

Because U.S. equity markets are generally efficient, 75.0% of the WSIB's investments in this segment are in a low-cost, broad-based passive index fund. The remaining 25.0% are in enhanced index products. During the fiscal year the U.S. market was forced to start deleveraging the credit bubble that had built up over many years. The WSIB continues to believe that it is vital to have the strength, patience, and commitment to the long-term focus required to stick with valid investment strategies through temporary downturns and market volatility. This long-term focus is balanced with constant attention to improving risk control and researching new options for the portfolio.

International equity markets generally performed well in FY 2008. However, the market turmoil in the U.S. eventually spilled over into the international markets, ending previously strong returns. The WSIB's international portfolio returned -7.5% vs. -7.0% of the index. Underperformance was primarily due to modest manager underperformance and the program's underweight to emerging markets, which did comparatively better than developed markets. A disciplined long-term focus remains essential to our continued success with our investment strategies. In keeping with our belief that inefficiencies in international equity markets provide a greater opportunity to add value with active management, the WSIB's developed markets international equity program uses a combination of passive (20%) and active (80%) mandates. The entire emerging markets equity program is actively managed.

Over the next year, staff looks forward to researching improvements in the program (e.g., steps to reduce our emerging markets underweight) and researching potential new investment strategies.

HIGHLIGHTS

- The total Global Equity portfolio return underperformed the Dow Jones Global Total Index benchmark by 83 bp primarily due to the underperformance in the U.S.
- The WSIB's U.S. equity return of -13.8% underperformed the Dow Jones Wilshire 5000 (DJW) index by 130 bp due in part to the deleveraging of the U.S. market and the continuing credit crunch as well as the inability of quantitative strategies to withstand the market turbulence.
- International equity underperformed its custom benchmak by 55bp.
- The WSIB's international developed markets portfolio returned -8.7% vs. -9.0% of the index.
- Emerging markets portfolio returned 2.8% underperforming its benchmark of 3.1% by 32 bp.

CTF Performance as of June 30, 2008	1 Year	3 Year	5 Year	10 Year
Total fund	-1.2%	11.8%	13.0%	7.9%
Fixed Income	8.3%	5.0%	4.7%	6.3%
Tangibles	N/A	N/A	N/A	N/A
Real Estate	10.2%	19.7%	18.9%	15.0%
Global Equity	-10.5%	9.6%	12.7%	5.6%
Private Equity	3.0%	22.8%	23.9%	12.6%
Innovation	-14.2%	N/A	N/A	N/A

PRIVATE EQUITY PROGRAM

During the fiscal year, the Board increased the private equity allocation target to 25.0% of the CTF, up from 17.0% in the prior year. As of June 30, 2008, the private equity portfolio was valued at just over $13.8 billion, or approximately 22.3% of the CTF, compared with $11.7 billion and 18.3% at the previous fiscal year.

Leveraged buyout activity slowed significantly from the prior year, as the sub-prime mortgage crisis spread to the credit markets more broadly. Compared with recent years, debt financing for buyouts has become more difficult to obtain and more expensive, along with more restrictive covenants. The tighter credit markets, combined with a slowing economy and declining public equity markets, has put pressure on company valuations and private equity returns.

The Board continued to diversify the private equity portfolio geographically, including commitments of $1.7 billion to funds primarily targeting investments outside of the U.S. This included the Board's first commitment to a fund focused on the Latin American region.

FY 2008 was a time of transition for the industry as a whole. Although fundraising continued to be relatively strong, the pace of investments began to slow in the second half of the year, and distributions from the sale of existing investments dropped off.

HIGHLIGHTS

- $4.1 billion in commitments to funds were closed compared to $4.9 billion in the prior year.
- $4.5 billion of committed capital was drawn for investment during FY 2008 compared to $3.2 billion in FY 2007.
- $2.7 billion in distributions were returned to the WSIB compared with $3.2 billion in FY 2007.

INNOVATION PORTFOLIO

The primary investment strategy of our new innovation portfolio gives staff the ability to make investments that fall outside the traditional asset classes currently used by the Board. Secondly, this portfolio provides the Board with comfort and demonstrated success before committing large dollar amounts to different investment strategies.

HIGHLIGHTS

- Infrastructure and commodities were transferred to the new tangible assets class and staff reviewed and invested in one new investment strategy.

DEFINED CONTRIBUTION RETIREMENT PLANS

PERS 3 - $1.4 BILLION

SERS 3 - $1.1 BILLION

TRS 3 - $4.0 BILLION

As trustee of the Plan 3 retirement systems for PERS, SERS, and TRS, the WSIB is responsible for the investment of plan assets of the self-directed investment options. The administrative, accounting, and record-keeping work for these plans is provided by the Department of Retirement Systems (DRS).

DEFERRED COMPENSATION PROGRAM (DCP) AND JUDICIAL RETIREMENT ACCOUNT

DEFERRED COMPENSATION PROGRAM - $2.4 BILLION

The WSIB is responsible for investing DCP funds and providing investment options for program participants. DRS is responsible for DCP administration, accounting, and record-keeping.

JUDICIAL RETIREMENT ACCOUNT - $13.0 MILLION

The JRA is a defined contribution supplemental retirement fund for state judges. Investments are self-directed by participants in the JRA program utilizing the DCP investment options. The Office of the Administrator for the Courts administers the fund, while accounting and record-keeping is done by DRS.

DAILY-VALUED FUNDS FOR SELF-DIRECTED INVESTMENT PROGRAMS

HORIZON FUNDS - $462.0 MILLION

These internally managed, daily-valued balanced funds give participants in the self-directed defined contribution retirement plans (TRS/SERS/PERS Plan 3's, DCP, and JRA) choices between different asset allocation models to fit personal risk and return objectives.

BOND MARKET FUND - $568.3 MILLION

The goal of this daily-valued fund is to provide participants of the self-directed defined contribution retirement plans (TRS/SERS/PERS Plan 3's, DCP, and JRA) attractive returns while controlling risk by investing in high-quality corporate bonds. The fund is internally managed by the WSIB and is intended for those who want an intermediate-term investment designed to match or moderately exceed the returns of the Lehman Intermediate Credit Index.

SAVINGS POOL - $824.0 MILLION

The savings pool is intended as a conservative, short-term investment opportunity where the primary objective is to protect current income and preserve principal. The Savings Pool is a diversified portfolio of guaranteed investment contracts (GICs) and short-term cash funds.

LABOR AND INDUSTRIES' FUNDS

$11.1 BILLION

The WSIB manages Industrial Insurance funds on behalf of the Department of Labor and Industries (L&I). The L&I portfolio consists of four separate funds.

- The Accident Fund primarily pays disability benefits.
- The Medical Aid Fund pays for services required by injured workers and L&I administrative costs.
- The Pension Reserve Fund is maintained by transfers of money from the Accident Fund at the time that a new pensioner is setup.
- The Supplemental Pension Fund supplements time loss and compensates for cost-of-living increases.

PERMANENT FUNDS

$780.9 MILLION

The Permanent Funds are non-expendable trusts. The principal for each fund remains intact and investment earnings, less expenses, are reinvested or distributed to a beneficiary fund. Five of these funds were established through federal government land grants to help Washington's schools and colleges with bond repayment, capital development, and facilities maintenance. The Department of Natural Resources transfers proceeds from the sale of land and timber to the WSIB for investment purposes. Fund proceeds are invested in fixed income and short-term holdings, with the exception of the Common School Fund, which is also invested in the U.S. Equity Market Index Fund.

OTHER FUNDS

$663.8 MILLION

These funds were created by the Legislature to fund various mandates and can be liquidated as needed. These funds are invested by the WSIB until they are completely liquidated or closed by legislation.

GUARANTEED EDUCATION TUITION FUND

$1.0 BILLION

The Guaranteed Education Tuition (GET) program allows individuals or groups to purchase state college and university tuition units for future use at current prices. Program administration is under the authority of the Committee on Advanced Tuition Payment. The WSIB serves as trustee for the funds and invests them in a mix of short-term holdings, TIPS, U.S. Equity, and International Equity.

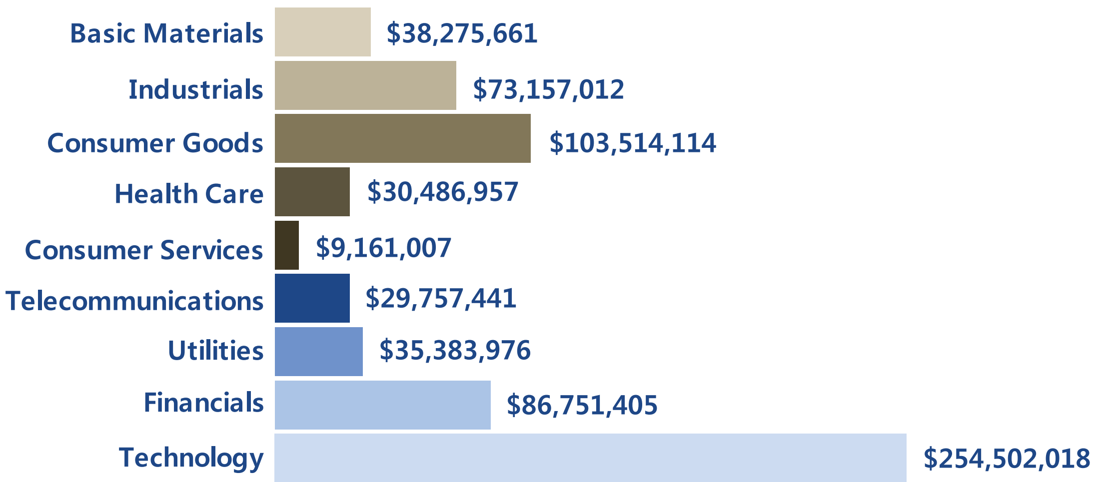
DEVELOPMENTAL DISABILITIES ENDOWMENT TRUST FUND

$17.9 MILLION

The Developmental Disabilities Endowment Trust Fund (DDEF) supports individuals with developmental disabilities through private contributions and public appropriations. The WSIB invests the fund in a mix of short-term holdings, TIPS, fixed income, and U.S. Equity.

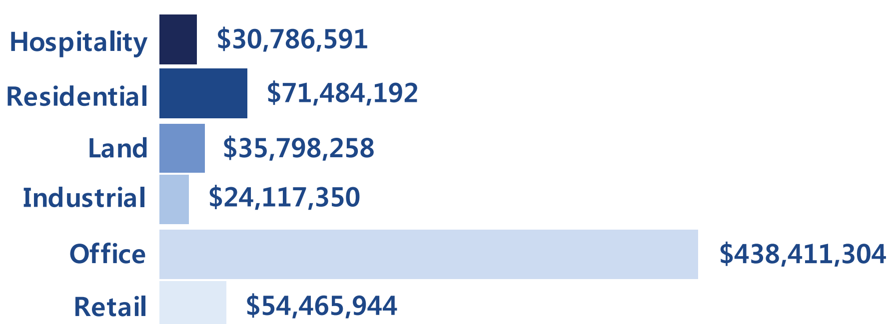
The WSIB seeks the best investment opportunities no matter where they might be located. Washington is home to many successful companies. In-state investments can be found in all of the WSIB's portfolios. For FY 2008, the fair market value for public equity was $395.3 million, fixed income $121.5 million, private equity $144.2 million, and real estate was at $655.1 million. The combined total for 2008 in-state investments was $1.3 billion.

INDUSTRY BREAKDOWN - PUBLIC EQUITY, FIXED INCOME, AND PRIVATE EQUITY



PROPERTY TYPE BREAKDOWN - REAL ESTATE AND TANGIBLE ASSETS

The total capital for real estate that the WSIB has invested in Washington properties is $655.1 million. For tangible assets it is $1.2 million in a company owning infrastructure.



FINANCIALS

Overview of Financial Statements 23
Retirement Funds 24
Labor & Industries’ Funds 36
Permanent Funds 45
Other Funds 54
Guaranteed Education Tuition Fund 59
Developmental Disabilities Endowment Trust Fund 65
WSIB Annual Budget 72

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the WSIB's basic financial statements and notes to the financial statements. The statements included are for the retirement systems' CTF, L&I Funds, Permanent Trust Funds, Other Funds, GET, and DDEF. The financial statements are reported separately due to the unique goals and objectives for each set of funds.

BASIC FINANCIAL STATEMENTS

The basic financial statements presented include the statement of net assets, which reports the assets by general asset category, the statement of changes in net assets, which reports the contributions to, withdrawals from and investment earnings for the fiscal year ending June 30, 2008.

This year, the statements and notes were prepared by Beth Vandehey, CPA and Sandy Machado.

NOTES TO THE FINANCIAL STATEMENTS

The notes to the financial statements presented are an integral part of the financial statements and include additional information not readily evident in the statements themselves.

CONTACTING WSIB'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of WSIB's investment activities.

If you have any questions about this report or need additional information, contact:

The Washington State Investment Board

2100 Evergreen Park Drive SW

PO Box 40916, Olympia, WA 98504-0916

Phone: 360-956-4600

Website: http://www.sib.wa.gov

PETERSON SULLIVAN LLP
CERTIFIED PUBLIC ACCOUNTANTS
601 UNION STREET, SUITE 2300
SEATTLE, WASHINGTON 98101
TEL 206.382.7777 • FAX 206.382.7777
http://www.pscpa.com

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF THE WASHINGTON STATE INVESTMENT BOARD

Olympia, Washington

We have audited the accompanying statement of net assets for the Retirement Funds (Commingled Trust Fund and Plan-Specific Investments) of the state of Washington as managed by the Washington State Investment Board ("the Retirement Funds") as of June 30, 2008, and the related statement of changes in net assets for the year then ended. These financial statements are the responsibility of the Washington State 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. 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.

The financial statements referred to in the first paragraph present only the investment activity of the Retirement Funds as managed by the Washington State Investment Board. The financial statements do not purport to, and do not, present the financial activity of the Washington State Department of Retirement Systems. Further, they do not purport to, and do not, present fairly the financial position and results of operations of the Washington State Investment Board or of the State of Washington.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the net assets of the Retirement Funds as of June 30, 2008, and the changes in net assets for the year then ended in conformity with accounting principles generally accepted in the United States.

As explained in Note 1, the financial statements include investments valued at $22,973,523,651 (37% of net assets), whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or, in the case of investments in partnerships, the general partners.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Retirement Funds. Management's Discussion and Analysis preceding 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.

/S/ PETERSON SULLIVAN LLP

October 31, 2008

MANAGEMENT DISCUSSION & ANALYSIS

Management's Discussion and Analysis for the Retirement Funds of the State of Washington, managed by the WSIB, is presented as an introduction to the financial statements and 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 to the prior year's activities and results. In addition to the Retirement Funds, the WSIB also manages funds for other State of Washington departments. This section of this report represents only the Retirement Funds portion. The Retirement Funds are the largest investor in funds managed by the WSIB.

Following this section of the report are the financial statements and footnotes. The Statement of Net Assets provides information on the types of investments and the liabilities of the Retirement Funds. This information is summarized in Table 1. Table 1 also compares the investment balances at June 30, 2008, with those at June 30, 2007. The Statement of Changes in Net Assets provides information on investment performance and other increases and decreases in the net assets of the Retirement Funds for the year ended June 30, 2008. This information is summarized in Table 2. Table 2 also compares the financial activities of the Retirement Funds for the year ended June 30, 2008, with those of the year ended June 30, 2007. The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements of the Retirement Funds.

As shown in Table 1, the net assets under WSIB's management within the Retirement Funds decreased by approximately $1.7 billion during the fiscal year ended June 30, 2008. The fair value of the Retirement Funds' assets is directly impacted by the returns of the various capital markets within which the WSIB invests. However, one of the benefits of the diversification gained by investing across various investment types as well as broadly within an asset class is the reduction in aggregate volatility of the total investment portfolio. The WSIB makes the asset allocation decisions for the Retirement Funds based on recommendations from its staff and other investment experts. Retirement Fund assets are rebalanced by WSIB across asset classes, as appropriate, when fair values of assets fall outside policy ranges.

In 2007, the WSIB approved the following changes to the asset allocation of the Retirement Funds: A new asset class, Tangible Assets, was added, the U.S. and international equity portfolios were combined and the targets changed to market weighting, and the private equity and real estate allocations were increased. As reflected in Table 1, this was the reason

Table 1 - Summarized Net Assets

	2008	2007	Dollar Change	Percent Change
Total Liquidity Investments	$1,477,221,112	$2,448,656,726	$(971,435,614)	-39.7%
Total Fixed Income Investments	13,631,550,179	13,107,009,223	524,540,956	4.0%
Total Public Equity Investments	23,820,379,834	30,263,550,129	(6,443,170,295)	-21.3%
Total Real Estate Investments	8,688,560,597	7,044,491,839	1,644,068,758	23.3%
Total Tangible Assets	447,753,749		447,753,749	N/A
Total Innovation Investments	555,604,967	43,018,509	512,586,458	1192%
Total Private Equity Investments	13,837,209,305	11,693,976,886	2,143,232,419	18.3%
Total Investments	62,458,279,743	64,600,703,312	(2,142,423,569)	-3.3%
Total Accruals, Net	(107,504,609)	(523,699,065)	416,194,456	79.5%
Total Net Assets at Fair Value	$62,350,775,134	$64,077,004,247	$(1,726,229,113)	-2.7%

Table 2 - Summarized Changes in Net Assets

	2008	2007	Dollar Change
Beginning Total Net Assets at Fair Value	$64,077,004,247	$53,881,056,814	$10,195,947,433
Net Withdrawal by Retirement Plans	(979,648,288)	(1,132,531,324)	152,883,036
Investment Earnings (Losses)	(738,301,470)	11,334,602,344	(12,072,903,814)
WSIB Operating Costs	(8,279,355)	(6,123,587)	(2,155,768)
Net Investment Earnings (Losses)	(746,580,825)	11,328,478,757	(12,075,059,582)
Ending Total Net Assets at Fair Value	$62,350,775,134	$64,077,004,247	$(1,726,229,113)

RETIREMENT FUNDS STATEMENT OF NET ASSETS

JUNE 30, 2008

See notes to financial statements

	Commingled Trust Fund	Plan-Specific Investments	Total	Percent of Plan Assets
ASSETS				
Investments:				
LIQUIDITY:				
Money Market Funds	$ 881,032,608	$ 175,938,603	$ 1,056,971,211	
Cash Overlay	287,382,905		287,382,905	
Currency	132,866,996		132,866,996	
Total Liquidity	1,301,282,509	175,938,603	1,477,221,112	2.4%
INTERNALLY MANAGED FIXED INCOME INVESTMENTS:				
Asset Backed Securities	610,933		610,933	
Collateralized Mortgage Obligations	1,775,287,459		1,775,287,459	
Pass Throughs	2,612,951,329		2,612,951,329	
Commercial Mortgage Backed Securities	566,006,155		566,006,155	
Corporate Bonds - Domestic	6,722,942,216		6,722,942,216	
Corporate Bonds - Foreign	385,841,826		385,841,826	
U.S. Government Treasuries	78,143,505		78,143,505	
U.S. Treasury Inflation Protected Securities	1,489,766,756		1,489,766,756	
Total Internally Managed Fixed Income Investments	13,631,550,179		13,631,550,179	21.8%
EXTERNALLY MANAGED INVESTMENTS - Domestic:				
Commingled Equity Index Funds	7,438,794,061		7,438,794,061	
Enhanced Equity Index Funds	1,767,146,555		1,767,146,555	
Commingled Enhanced Equity Index Fund	916,850,047		916,850,047	
Total Externally Managed Investments - Domestic	10,122,790,663		10,122,790,663	16.2%
EXTERNALLY MANAGED INVESTMENTS - Foreign:				
Corporate Bond - Domestic	2,284,773		2,284,773	
Corporate Bond - Foreign	51,382		51,382	
Corporate Stock - Foreign	8,478,992,771		8,478,992,771	
Commingled Index Funds	5,216,260,245		5,216,260,245	
Total Externally Managed Investments - Foreign	13,697,589,171		13,697,589,171	21.9%
ALTERNATIVE INVESTMENTS:				
Private Equity	13,837,209,305		13,837,209,305	
Real Estate	8,688,560,597		8,688,560,597	
Innovation	555,604,967		555,604,967	
Tangible Assets	447,753,749		447,753,749	
Total Alternative Investments	23,529,128,618		23,529,128,618	37.7%
Total Investments	62,282,341,140	175,938,603	62,458,279,743	100.0%
Investment Earnings Receivable	188,772,871	587,176	189,360,047	
Due From Other Agencies	8,994		8,994	
Receivables for Investments Sold	186,407,977		186,407,977	
Collateral Held Under Securities Lending Agreements	3,963,758,057		3,963,758,057	
Total Assets	66,621,289,039	176,525,779	66,797,814,818	
LIABILITIES				
Obligations Under Securities Lending Agreements	3,963,758,057		3,963,758,057	
Investment Management Fees Payable	21,606,831		21,606,831	
Payable for Investments Purchased	461,674,796		461,674,796	
Total Liabilities	4,447,039,684		4,447,039,684	
Net Assets	$ 62,174,249,355	$ 176,525,779	$ 62,350,775,134	

for the $448 million increase in Tangible Assets, an overall decrease in Public Equity Investments by 21.3% and an increase to Real Estate and Private Equity of 23.3% and 18.3%, respectively. The increase of 1192% in the Innovation Fund was primarily a result of the addition of four new global equity managers in the portfolio.

While most asset classes had positive returns for the fiscal year, the turbulent public equity markets in 2007 and 2008 caused the fund as a whole to have a negative return for the fiscal year. This is reflected in Table 2 as a decrease in investment earnings for the year of approximately $12.1 billion.

NOTES TO FINANCIAL STATEMENTS

RETIREMENT FUNDS STATEMENT OF CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2008

See notes to financial statements

	Commingled Trust Fund	Plan-Specific Investments	Total
Additions			
Investment Income:			
Interest, Dividends, and Other Investment Income	$ 2,211,268,107	$ 9,701,779	$ 2,220,969,886
Realized Capital Gains	5,633,962,726		5,633,962,726
Realized Capital Losses	(1,260,817,894)		(1,260,817,894)
Unrealized Losses	(6,883,684,768)		(6,883,684,768)
Less:			
Investment Expenses	(270,938,933)	(188,387)	(271,127,320)
Securities Lending Broker Rebates Paid	(177,604,100)		(177,604,100)
WSIB Operating Costs		(8,279,355)	(8,279,355)
Total Investment Income (Loss)	(747,814,862)	1,234,037	(746,580,825)
Net Withdrawal by Retirement Plans		(979,648,288)	(979,648,288)
Investments in Commingled Funds	873,365,225	(873,365,225)	
Withdrawals from Commingled Funds	(1,888,021,346)	1,888,021,346	
Increase (Decrease) in Net Assets	(1,762,470,983)	36,241,870	(1,726,229,113)
Net Assets, Beginning of Year	63,936,720,338	140,283,909	64,077,004,247
Net Assets, End of Year	$ 62,174,249,355	$ 176,525,779	$ 62,350,775,134

NOTE 1. DESCRIPTION OF FUNDS AND SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF FUNDS

The Retirement Funds consist of retirement contributions from participants and related earnings on those contributions, in the Washington State Retirement System. The Retirement System is administered by the Department of Retirement Systems (DRS). The financial statements present only the activity of the Retirement Funds as managed by the WSIB or Board. The WSIB has exclusive control of the investment of all money invested in the Retirement Funds. The financial statements do not present the financial position or the results of operations of WSIB or DRS.

BASIS OF ACCOUNTING

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States for governments prescribed by the Governmental Accounting Standards Board (GASB) on the accrual basis of accounting.

VALUATION OF INVESTMENTS

Investments are reported at fair value. Fair values are based on published market prices, quotations from national security exchanges, and security pricing services. The fair value of investments that are organized as limited partnerships and have no readily ascertainable fair value (such as private equity, real estate, and tangible assets) has been determined by management based on the individual investment's capital account balance, reported at fair value, at the closest available reporting period, adjusted for subsequent contributions, distributions and management fees. The limited partnerships annual financial statements are audited by independent auditors. These investments are valued at $23 billion (36.8% of total net assets) as of June 30, 2008. Because of the inherent uncertainties in estimating fair values, it is at least reasonable possible that the estimates will change in the near-term. The Retirement Funds have no investments in any commercial or industrial organization whose fair value exceeds 5% of each plan's net assets. The assets of the Retirement Funds are adjusted to fair values monthly. Unrealized gains

SCHEDULE OF INVESTMENT EXPENSES

	Fees	Assets Under Management
EQUITY SECURITIES:		
U.S. Active Equity Manager	$ 2,838,845	$ 2,683,996,602
U.S. Passive Equity Manager	4,468,963	7,438,794,061
International Active Equity Managers	48,676,410	8,481,328,926
International Passive Equity Managers	1,295,571	5,216,260,245
ALTERNATIVE INVESTMENTS:		
Private Equity	144,416,262	13,837,209,305
Real Estate	40,682,116	8,688,560,597
Innovation	2,444,645	555,604,967
Tangibles	7,562,577	447,753,749
OTHER FEES:		
Consultants and Advisors	527,134	
Accounting	622,398	
Custodians	15,267,788	
Legal Fees	891,641	
Research Services	1,303,347	
Miscellaneous Fees	129,623	
Total Investment Expenses	$ 271,127,320	$ 47,349,508,452

SCHEDULE OF PARTICIPATION

RETIREMENT PLANS:	Commingled Trust Fund	Plan-Specific Investments	Total Plan Assets	Percent of Plan Assets
PERS 1	$ 10,632,742,255	$ 11,713,688	$ 10,644,455,943	17.1%
PERS 2/3 (DC and DB Plans)	18,441,179,530	44,431,649	18,485,611,179	29.6%
TEACHERS 1	8,876,930,158	59,575,964	8,936,506,122	14.3%
TEACHERS 2/3 (DC and DB Plans)	8,534,930,150	24,771,590	8,559,701,740	13.7%
VOLUNTEER FIREFIGHTERS	129,865,228	788	129,866,016	0.2%
WSP 1/2	929,483,125	712,356	930,195,481	1.5%
LEOFF 1	6,033,913,107	1,109,218	6,035,022,325	9.7%
LEOFF 2	5,282,188,297	17,850,630	5,300,038,927	8.5%
SCHOOL EMPLOYEES 2/3 (DC and DB Plans)	3,280,693,327	13,224,615	3,293,917,942	5.3%
PUBLIC SAFETY EMPLOYEES 2	32,324,178	2,505,633	34,829,811	0.1%
JUDICIAL		629,648	629,648	0.0%
Total Net Assets at June 30, 2008	**$ 62,174,249,355**	**$ 176,525,779**	**$ 62,350,775,134**	**100.0%**

and losses are included as investment earnings in the statement of changes in net assets.

REVENUE RECOGNITION

Interest and dividend income is recognized when earned. Capital gains and losses are recognized on a trade date basis. Purchases and sales of investments are also recorded on a trade date basis.

SECURITIES LENDING

The Retirement Funds record collateral received under securities lending agreements where the Retirement Funds have the ability to spend, pledge, or sell the collateral without borrower default. Liabilities resulting from these transactions are also reported. Additionally, costs associated with securities transactions and broker commissions paid, are reported as investment expenses in the accompanying financial statements. The statement of net assets does not include detailed holdings of securities lending collateral by investment classification.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from the estimated amounts.

NOTE 2. THE COMMINGLED TRUST FUND (CTF) AND PLAN SPECIFIC INVESTMENTS

The CTF is a diversified pool of investments which is used as an investment vehicle for 14 separate retirement plans, excluding the Judicial retirement plan which is not part of the CTF. These plans hold "units" in the CTF, which represent a percentage ownership in the pool of investments. Plans are allowed to purchase or sell units in the CTF, based on the fair value of the underlying assets, on the first business day of each month.

In addition to unit ownership in the CTF, each retirement plan holds its own short-term investments. These short-term investments are referred to as "plan-specific investments" in the accompanying financial statements and are used to manage the cash needs of each retirement plan.

The CTF consists of the PERS 1 and 2/3; TRS Plans 1 and 2/3; SERS Plans 2/3; LEOFF Plans 1 and 2; WSP Retirement Systems Plan 1 and 2; VFF, and PSERS Plan 2. The CTF includes only the defined benefit portion of PERS Plan 3, SERS Plan 3 and TRS Plan 3, which are hybrid defined benefit/defined contribution plans.

NOTE 3. BREAKDOWN OF PLAN ASSETS

The statement of net assets presents all DRS funds managed by WSIB. The following schedule presents the net assets of DRS broken down by ownerships by the various DRS pension plans. "DC" means "defined contribution" and "DB" means "defined benefit," two different types of retirement plans.

NOTE 4. FEES AND EXPENSES

Investment fees and expenses are paid from non-appropriated funds or are netted directly from the asset value of the invested funds. The fees paid are summarized below and are reported on the statement of changes in net assets. These fees are accounted for as a reduction of investment income to the Retirement Funds. Fees include investment management fees and commission, investment consultant fees, legal fees and other investment management related expenses.

The WSIB operating costs are charged against the CTF owner funds based upon actual costs incurred by the WSIB to manage the investments.

SCHEDULE 1

Investment Type	Total Fair Value	Maturity: Less than 1 year	Maturity: 1-5 years	Maturity: 6-10 years	Maturity: More than 10 years	Effective Duration	Credit Rating
Asset Backed Securities	$ 610,933	$	$ 610,933	$	$	0.99	AAA
Mortgages:							
Collateralized Mortgage Obligations	1,775,287,459	4,083,161	586,199,919	1,082,037,707	102,966,672	5.48	AAA
Pass Throughs	2,612,951,329	261,295	1,706,518,513	906,171,521		3.63	AAA
Commercial Mortgage Backed Securities	566,006,155	20,829,027	268,852,924	275,135,592	1,188,612	4.09	Multiple
Corporate Bonds - Domestic	6,722,942,216	342,197,759	2,089,490,441	3,054,904,943	1,236,349,073	5.92	Multiple
Corporate Bonds - Foreign	385,841,826		165,101,717	111,431,119	109,308,990	4.76	Multiple
Government Securities-Domestic:							
U.S. Government Treasuries	78,143,505		26,264,032	51,879,473		4.09	AAA
U.S. Treasury Inflation Protected Securities	1,489,766,756		1,019,000,461	470,766,295		2.98	AAA
Externally Managed Enhanced Equity Index Fund - Domestic:							
Asset Backed Securities	7,678,968				7,678,968	11.91	Multiple
Collateralized Mortgage Obligations	12,468,710				12,468,710	14.21	AAA
Pass Throughs	97,052,518				97,052,518	18.69	Multiple
Corporate Bonds - Domestic	39,801,765	4,371,450	22,676,087	10,219,692	2,534,536	3.92	Multiple
Variable Rate Notes	520,164,887	15,119,189	72,538,911	24,806,406	407,700,381	13.82	Multiple
Externally Managed Investments - Foreign							
Corporate Bond - Domestic	2,284,773				2,284,773	16.83	NR
Corporate Bond - Foreign	51,382		51,382			0.26	NR
Total Retirement Funds Investment Categorized	14,311,053,182	$ 386,861,881	$ 5,957,305,320	$ 5,987,352,748	$ 1,979,533,233		

Investments Not Required to be Categorized Under GASB Statement No. 3	
Commingled Equity Index Funds - Domestic	7,438,794,061
Enhanced Equity Index Funds - Domestic	1,089,979,707
Commingled Enhanced Equity Index Funds - Domestic	916,850,047
Corporate Stock - Foreign	8,478,992,771
Commingled Index Funds - Foreign	5,216,260,245
Money Market Funds	1,056,971,211
Cash Overlay	287,382,905
Currency	132,866,996
Private Equity	13,837,209,305
Real Estate	8,688,560,597
Innovation	555,604,967
Tangible Assets	447,753,749
Total CTF Investments Not Categorized	48,147,226,561
Total CTF Investments	$ 62,458,279,743

NOTE 5. UNFUNDED COMMITMENTS

The Retirement Funds have entered into a number of agreements that commit the Retirement Funds, upon request, to make additional investment purchases up to predetermined amounts. As of June 30, 2008, the Retirement Funds had the following unfunded investment commitments:

Unfunded Committments	
Private Equity	$ 8,413,397,511
Real Estate	$ 7,673,195,268
Tangible Assets	$137,138,979

NOTE 6. PUBLIC EMPLOYEES' RETIREMENT SYSTEM PLAN 3, TEACHERS' RETIREMENT SYSTEM PLAN 3, AND THE SCHOOL EMPLOYEES' RETIREMENT SYSTEM PLAN 3

The financial statements only include the portion of the PERS Plan 3, TRS Plan 3 and SERS Plan 3, which are invested in the CTF. It does not include PERS Plan 3, TRS Plan 3, or SERS Plan 3 self-directed investments, which are accounted for and reported on by the DRS.

NOTE 7. DEPOSIT AND INVESTMENT RISK DISCLOSURES

CUSTODIAL CREDIT RISK – DEPOSITS

Custodial credit risk for deposits is the risk that in the event of a bank failure the Retirement Funds' deposits may not be returned to it. The Retirement Funds do not have a deposit policy for custodial credit risk. As of June 30, 2008, there were no deposits with the custodial bank.

SCHEDULE 2

Investment Type	Total Fair Value	Moody's Equivalent Credit Rating Aaa	Aa1	Aa2	Aa3
Commercial Mortgage Backed Securities	$ 566,006,155	$ 544,497,921	$ 21,508,234	$	$
Corporate Bonds - Domestic	6,722,942,216	766,415,413	168,073,555	504,220,666	739,523,644
Corporate Bonds - Foreign	385,841,826	145,462,368	25,079,719		
Enhanced Equity Index - Domestic:					
Asset Backed Securities	7,678,968	4,634,446			
Pass Throughs	97,052,518	62,348,029			
Corporate Bonds - Domestic	39,801,765	3,623,655			2,041,987
Variable Rate Notes	520,164,887	251,717,211		2,640,806	11,903,008
Total	$ 8,339,488,335	$ 1,778,699,043	$ 214,661,508	$ 506,861,472	$ 753,468,639

CUSTODIAL CREDIT RISK – INVESTMENTS

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, the Retirement Funds will not be able to recover the value of investments that are in the possession of an outside party. The Retirement Funds do not have an investment policy specifically for custodial credit risk. The securities lending collateral balances are from securities required to be listed under GASB Statement 3 Category 3 – Uninsured and unregistered with securities held by the counterparty, or by its trust department or agent but not in the Funds' name. (This includes the amount of any repurchase agreement that exceeds the fair value of the underlying securities).

The WSIB has been authorized by statute as having the investment management responsibility for Retirement Funds. The WSIB is authorized to invest as provided by statute (Chapter 43.33A RCW) and WSIB policy. The WSIB is authorized and invests in the following: U.S. Treasury Bills; discount notes; repurchase agreements; reverse repurchase agreements; banker's acceptances; commercial paper; guaranteed investment contracts; U.S. Government and Agency (government sponsored corporations eligible for collateral purposes at the Federal Reserve) securities; non-U.S. dollar bonds; investment grade corporate bonds; non-investment grade corporate bonds; publicly traded mortgage-backed securities; privately placed mortgages; private placements of corporate debt; U.S. and foreign common stock; U.S. preferred stock; convertible securities; private equity including but not limited to investment corporations, partnerships, and limited liability companies for venture capital, leveraged buy-outs, real estate and other tangible assets, or other forms of private equity; asset backed securities; and derivative securities including futures, options, options on futures, forward contracts, and swap transactions. There have been no violations of these investment restrictions during fiscal year 2008.

INTEREST RATE RISK

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. Effective duration is the measure of a debt investment's exposure to fair value changes arising from changes in interest rates. Effective duration uses the present value of cash flows, weighted for those flows as a percentage of the investments' full price. Increases in prevailing interest rates generally translate into decreases in fair values of

A1	A2	A3	Baa1	Baa2	Baa3&Lower
$	$	$	$	$	$
558,004,204	645,402,453	578,173,031	591,618,915	1,089,116,639	1,082,393,696
41,285,075		28,166,453		24,308,035	121,540,176
					3,044,522
					34,704,489
	1,736,783	2,343,850		14,556,111	15,499,379
8,272,918	30,061,389	7,887,206	5,957,866	18,013,231	183,711,252
$ 607,562,197	$ 677,200,625	$ 616,570,540	$ 597,576,781	$ 1,145,994,016	$ 1,440,893,514

those investments. The Retirement Funds' fixed income investments are to be actively managed to exceed the return of the Lehman Universal Index, with volatility as measured by duration to be similar to or less than the index. As of June 30, 2008, the Retirement Funds' durations of the various fixed income classes were within the duration targets of the Lehman Universal Index.

Schedule 1 provides information about the interest rate risks associated with the Retirement Funds investments as of June 30, 2008. The schedule displays various asset classes held by maturity in years, effective durations, and credit ratings.

The Retirement Funds hold both U.S. agencies and corporate debt variable-rate securities, most of which reset periodically to the market interest rate. Because these securities frequently reprice to prevailing market rates, interest rate risk is substantially reduced at each periodic reset date. In Schedule 1, variable-rate securities are presented according to the length of time until the next reset date rather than the stated maturity.

CREDIT RISK

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Retirement Funds' rated debt investments as of June 30, 2008, were rated by Moody's and/or an equivalent national rating organization. Investment types with multiple ratings are presented in Schedule 2 using the Moody's rating scale.

CONCENTRATION OF CREDIT RISK

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The Retirement Funds' policy states no corporate fixed income issue shall exceed 3% of cost at the time of purchase or 6% of fair value thereafter of the fund, and no high yield issues shall exceed 1% of cost or 2% of fair value of the fund. There was no concentration of credit risk exceeding these policy guidelines as of June 30, 2008.

FOREIGN CURRENCY RISK

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Retirement Funds do not have a formal policy to limit foreign currency risk. The WSIB manages their exposure to fair value loss by requiring their international securities investment managers to maintain diversified portfolios by sector and by issuer to limit foreign currency and security risk. Risk of loss arises from changes in currency exchange rates. The Retirement Funds exposure to foreign currency risk is presented in Schedule 3 which provides information on deposits and investments held in various foreign currencies. The schedule is stated in U.S. dollars. The Retirement Funds also had $5,216,260,245 invested in an international commingled equity index fund. As such, these currency denominations are not presented in this schedule.

NOTE 8. SECURITIES LENDING

Washington State law and WSIB policy permit the Retirement Funds to participate in securities lending programs to augment investment income. The WSIB has entered into an agreement with JP Morgan to act as agent for the WSIB in securities lending transactions. As JP Morgan is the custodian bank for the WSIB, it is counterparty to securities lending transactions.

In accordance with GASB Statement 28, the Retirement Funds report securities lent (the underlying securities) as assets in the statement of net assets. Cash received as collateral on securities lending transactions and investments made with that cash are reported as assets. Securities received as collateral are reported as assets if the Retirement Funds have the ability to pledge or sell them without a borrower default. Liabilities resulting from these transactions are also reported in the statement of net assets. Securities lending transactions collateralized by securities that Retirement Funds do not have the ability to pledge or sell unless the borrower defaults are not reported as assets and liabilities.

Securities were loaned (consisting of fixed income and equities) and collateralized by the Retirement Funds' agent with cash and U.S. government securities (exclusive of mortgage backed securities and letters of credit), and irrevocable letters of credit. When the loaned securities

SCHEDULE 3

Foreign Currency Denomination	Liquidity	Fixed Income	Equity	Private Equity	Real Estate	Total	Percent of Total Retirement Funds Investments
	Investment Type In U.S. Dollar Equivalent						
Australia-Dollar	$ 13,913,093	$ 109,212,872	$ 433,233,116	$	$ 39,302,795	$ 595,661,876	1.0%
Brazil-Real	1,469,097	192,353,810	100,225,955			294,048,862	0.5%
Britain-Pound	6,216,606		1,555,625,406	27,368,774	58,046,491	1,647,257,277	2.6%
Canada-Dollar	19,685,853		582,541,751		2,009,009	604,236,613	1.0%
Chinese-Yuan					79,976,087	79,976,087	0.1%
Denmark-Krone	694,203		88,039,465			88,733,668	0.1%
E.M.U.-Euro	43,296,757	51,382	2,702,575,096	1,397,083,614	748,369,088	4,891,375,937	7.8%
Egypt-Pound			16,161,431			16,161,431	0.0%
Hong Kong-Dollar	11,590,621		189,925,268		39,840,121	241,356,010	0.4%
Hungary-Forint			29,772,795		7,961,000	37,733,795	0.1%
Indonesia-Rupiah			7,722,137		7,717,744	15,439,881	0.0%
Israel-Shekel	89,318		6,497,637			6,586,955	0.0%
Japan-Yen	9,360,774		1,499,236,192		518,385,167	2,026,982,133	3.2%
Lithuania-Litas	161,448					161,448	0.0%
Malaysia-Ringgit	25,911		8,614,747			8,640,658	0.0%
Mexico-Peso	31,297	31,743,860	10,755,546		3,319,845	45,850,548	0.1%
New Zealand-Dollar	183,292		18,464,317			18,647,609	0.0%
Norway-Krone	4,004,725		110,928,768			114,933,493	0.2%
Pakistan-Rupee	57,836		8,583,881			8,641,717	0.0%
Philippines-Peso	30,758					30,758	0.0%
Poland-Zloty	133,871		36,869,596		1,880,000	38,883,467	0.1%
Singapore-Dollar	464,355		133,422,727	298,890	(40,895)	134,145,077	0.2%
South Africa-Rand	24,766		36,672,869			36,697,635	0.1%
South Korea-Won	219,550		39,898,480		219,083,850	259,201,880	0.4%
Sweden-Krona	8,583,252		97,933,772	46,168,068		152,685,092	0.2%
Switzerland-Franc	3,099,679		523,675,751			526,775,430	0.8%
Taiwanese-Dollar					(139,024)	(139,024)	0.0%
Thailand-Baht	15,545		4,931,590		(136,841)	4,810,294	0.0%
Turkey-Lira	12,141	52,531,283	36,981,181			89,524,605	0.1%
	123,364,748	385,893,207	8,279,289,474	1,470,919,346	1,725,574,437	11,985,041,212	19.2%
Foreign Investments Denominated in U.S. Dollars			199,703,297		219,319,357	419,022,654	0.7%
U.S. Dollars - Held Domestically	9,502,248					9,502,248	0.0%
	$ 132,866,996	$ 385,893,207	$ 8,478,992,771	$ 1,470,919,346	$ 1,944,893,794	$ 12,413,566,114	19.9%

had collateral denominated in the same currency, the collateral requirement was 102% of the fair value, including accrued interest, of the securities loaned. All other securities were required to be collateralized at 105% of the fair value, including accrued interest, of the loaned securities. The collateral held and fair value of securities on loan at June 30, 2008, was $3,963,758,057 and $3,883,311,546, respectively. At year-end, the amounts the Retirement Fund owed the borrowers exceeded the amounts the borrowers owed the Retirement Funds, resulting in no credit risk exposure to borrowers.

During fiscal year 2008, securities lending transactions could be terminated on demand by either the Retirement Funds or the borrower. The weighted average maturity of overall loans was 21 days.

Cash collateral was invested by the Retirement Funds' agents in securities issued or guaranteed by the U.S. government, in the WSIB's short-term investment pool (average final maturity of 136 days) or term loans. Because the securities lending agreements were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. Non-cash collateral could not be pledged or sold absent borrower default. There are no restrictions on the amount of securities that can be lent.

Securities were lent with the agreement that they would be returned in the future for exchange of the collateral. JP Morgan indemnified the WSIB by agreeing to purchase replacement securities or return the cash collateral in the event a borrower failed to return the loaned securities or pay distributions thereon. JP Morgan's responsibilities included performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable federal regulations concerning securities lending.

During fiscal year 2008, there were no significant violations of legal or contractual provisions, no failures by any borrowers to return loaned securities or to pay distributions thereon. Further, the Retirement Funds incurred no losses during fiscal year 2008 resulting from a default by either the borrowers or the securities lending agents.

NOTE 9. DERIVATIVES

Retirement Funds are authorized to utilize various derivative financial instruments, including mortgage-backed securities, financial futures, forward contracts, interest rate swaps, credit default swaps, equity swaps, and options to manage its exposure to fluctuations in interest and currency rates while increasing portfolio returns. Derivative transactions involve, to varying degrees, market and credit risk. Retirement Funds mitigate market risks arising from derivative transactions by requiring collateral in cash and investments to be maintained equal to the securities positions outstanding, and thereby prohibiting the use of leverage or speculation. Credit risks arising from derivative transactions are mitigated by selecting and monitoring creditworthy counterparties and collateral issuers.

Consistent with the Retirement Funds' authority to invest in derivatives, international and domestic active equity managers may make limited investments in financial futures, forward contracts or other derivative securities to equitize excess cash holdings.

At June 30, 2008, the Retirement Funds held swap contracts, consisting of credit default swaps and an interest rate swap, which are not recorded at fair value in the accompanying statement of net assets. The unrealized loss for the swap contracts amounted to $1,853,812 at June 30, 2008. The credit default swap contracts are used to mitigate credit risk and the interest rate swap contract is used to mitigate interest rate risk.

Futures contracts are standardized, exchange-traded contracts to purchase or sell a specific financial instrument at a predetermined price. Gains and losses on futures contracts are settled daily based on a notional (underlying) principal value and do not involve an actual transfer of the specific instrument. Because of daily settlement, the futures contracts have no fair value and are not recorded in the accompanying statement of net assets. At June 30, 2008, the notional values of futures contracts consist of the following:

Derivatives	Buy Contracts	Sell Contracts
Bond Index Futures	$787,102,844	$250,703,821
Equity index futures	$1,078,904,780	
Interest Rate Futures	$430,054,907	

At June 30, 2008, the Retirement Funds fixed income portfolio held derivative securities consisting of collateralized mortgage obligations of $1,775,287,459. Domestic and foreign passive equity index fund managers may also utilize various derivative securities to manage exposure to risk and increase portfolio returns. Information on the extent of use and holdings of derivative securities by passive equity index fund managers is unavailable.

Repurchase agreements are collateralized at 102%. The collateral is priced daily and held by WSIB's agent in WSIB's name. State law permits Retirement Funds to enter into reverse repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The fair value of the securities underlying reverse repurchase agreements normally exceeds the cash received, providing the dealers margin against a decline in fair value of the securities. If the dealers default on their obligations to resell these securities to the Retirement Funds or provide securities or cash of equal value, the Retirement Funds would suffer an economic loss equal to the difference between the fair value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. There were no reverse repurchase agreements during the year and there were no liabilities outstanding as of June 30, 2008.

NOTE 10. SUMMARY OF INVESTMENT POLICIES

Under RCW 43.33A.030, trusteeship of the Retirement Funds is vested within the voting members of the WSIB. The Legislature has established a standard of care for investment of these funds in RCS 43.33A.140. Additionally, the WSIB and its staff must comply with other state laws, such as the Ethics in Public Service Act, RCW 42.52, as it makes its investment decisions and seeks to meet the following investment objectives.

In accordance with RCW 43.33.110, the portfolio is managed to achieve a maximum return at a prudent level of risk.

THE RETIREMENT FUND ASSET ALLOCATION

WSIB establishes asset allocation targets that must be considered at all times when making investment decisions. The asset mix may deviate from the target. Deviations greater than predetermined acceptable levels require rebalancing back to the target. When as asset class exceeds its range, the goal of rebalancing will be to meet the target allocation within consideration of the other remaining asset classes.

Retirement funds are invested in the CTF. The CTF's performance benchmark objective is to exceed the return of a policy benchmark consisting of public market indices weighted according to asset allocation targets. The asset allocation for the CTF is formally reviewed at least every 4 years. The allocation policy will be reviewed more frequently if the WSIB believes there has been a fundamental change in the structure of the capital markets or in the underlying cash flow or liability structure of the retirement systems.

PUBLIC MARKETS EQUITY

The Public Markets Equity program seeks to achieve the highest return possible, consistent with the desire to control asset volatility. Asset volatility is controlled by ensuring protection for long-term liabilities, as shorter term liabilities are more suitably protected by lower volatility instruments such as fixed income securities and to provide diversification to the WSIB's overall investment program.

The Public Markets Equity portion of the Retirement Funds is benchmarked to the Dow Jones Global Index and includes strategies in the U.S., developed international and emerging markets. Since the U.S. equity markets are generally efficient, the domestic equity portfolio is 75% passively managed with the rest in an active enhanced strategy. Over time, the U.S. equity portfolio should track the return of a broad U.S. market benchmark, the Dow Jones Wilshire 5000 Index. Non-U.S. markets and emerging markets are generally less efficient than the U.S. market; therefore, more active management will be included in the approach taken with these markets. The weightings of the elements of the developed markets and emerging markets of the non-U.S. equity program will be similar to the weightings of the MSCI All Country World ex-U.S. Index which serves as the benchmark for the non-U.S. segment of the Public Equity program.

FIXED INCOME

The portfolio is constrained by policy from investing more than 1% of the portfolio's par holdings in any single issuer with a quality rating below investment grade, and from having a duration (the sensitivity of the portfolio's fair value to changes in the level of interest rates) that is more than 20% different than the duration of the Lehman Universal Index. In addition, the major sector allocations are limited to the following ranges:

Range	
U.S. Treasuries and Government Agencies	10% – 45%
Credit Bonds	10% – 60%
Asset Backed Securities	0% – 10%
Commercial Mortgage-Backed Securities	0% – 10%
Mortgage-Backed Securities	5% – 45%
Below Investment Grade Credit Bonds	0% – 15%

PRIVATE EQUITY INVESTING

The Retirement Funds can invest in any appropriate private equity investment opportunity which has the potential for returns superior to traditional investment opportunities and which is not prohibited by the WSIB's policies or by law. As previously indicated, these investment types are divided into venture capital investments, corporate finance (including leveraged, management and employee buyouts), distressed, international and mezzanine investments. Private equity investments are made through limited partnership vehicles.

To meet the return and plan objectives, the private equity portfolio has diversified investments in companies in a variety of growth stages. The portfolio also includes a broad cross-section of opportunities in different industries and geographic regions.

REAL ESTATE PROGRAM

The WSIB's real estate program is an externally managed pool of selected partnership investments, intended to provide alternative portfolio characteristics when compared to traditional stock and bond investments. The majority of the WSIB's partnerships invest in institutional-quality real estate assets that are leased to third parties. The combination of income generated from bond-like lease payments, coupled with the hard asset qualities of commercial real estate, combine to generate returns that are expected to fall between the return expectations for fixed income and equities. The real estate portfolio is managed to deliver risk-adjusted returns that are consistent with the WSIB's long term return expectations for the asset class. The Retirement Fund's real estate partnerships typically invest in private real estate assets that are held for long-term income and appreciation. Many of the Retirement Fund's investment partnerships do not involve co-investment with other financial entities, thereby providing the WSIB with control provisions related to liquidation, acquisition, and ongoing operational decisions for annual capital expenditures.

Volatility including the real estate portfolio is minimized through a combination of factors. First, the majority of the Retirement Fund's partners own real estate assets in a private investment form which are not subject to public market volatility. Secondly, real estate capital is diversified among a host of partners with varying investment styles. Thirdly, partnership assets are invested in numerous economic regions, including foreign markets, and in various property types. Finally, Retirement Fund's partners invest at different points within the properties' capital structure and life cycle.

The WSIB's current benchmark for real estate calls for a target net return of 1-3% above the National Council of Real Estate Investment Fiduciaries (NCREIF) property index over a long-term investment horizon defined as at least five years.

INNOVATION PORTFOLIO

The innovation portfolio investment strategy is to provide WSIB with the ability to invest in assets that fall outside of traditional asset classes and to provide the WSIB with comfort and demonstrated success before committing large dollar amounts to the strategy. The overall benchmark for the innovation portfolio is the weighted average of the underlying benchmark for each asset in the portfolio.

TANGIBLE ASSETS

The tangible asset class is a new asset class added in 2008. The primary goal of the tangible asset portfolio is to generate a long-term, high quality, stable income stream. The secondary goal is to generate appreciation approximately commensurate with inflation. The structure of the investments are primarily targeted to be tangible asset operating companies providing the WSIB with governance provisions related to acquisition, dispositions, and ongoing operational decisions for annual capital expenditures. The tangible asset portfolio invests in sectors such as infrastructure, timber, agriculture, natural resource rights, commodities, or other sectors consistent with the goals of the asset class.

The WSIB's current return objective for tangible assets calls for a target benchmark of 4% above the U.S. Consumer Price Index over a long-term investment horizon defined as at least five years.

NOTE 11. SUBSEQUENT EVENTS

Subsequent to June 30, 2008, the Retirement Funds' investment in the following issuers became worthless:

Investments	Realized Loss
Lehman Brothers Holdings, Inc.	$81,841,749
Washington Mutual, Inc.	3,006,973
American International Group, INC	21,044031
	$ 105,892,753

The realized losses are not reflected in the accompanying financial statements since the losses arose subsequent to June 30, 2008.

The Retirement Funds also invest in a commingled index fund and a private equity fund which held securities issued by American International Group, Inc., Washington Mutual, Inc. and Lehman Brothers Holdings, Inc. Management estimates that the Retirement Funds' share of these funds' losses arising subsequent to June 30, 2008, from American International Group, Inc., Washington Mutual, Inc. and Lehman Brothers Holdings, Inc. securities amount to $23,481,949, $43,170,784, and $6,150,623, respectively.

Also subsequent to June 30, 2008, the Retirement Funds sustained other unrealized losses on investments due to turmoil within the capital markets and WSIB concluded that the decline in fair value is deemed to be temporary. Since the unrealized losses arose subsequent to June 30, 2008, they are not reflected in the accompanying financial statements.

PETERSON SULLIVAN LLP

CERTIFIED PUBLIC ACCOUNTANTS

601 UNION STREET, SUITE 2300

SEATTLE, WASHINGTON 98101

TEL 206.382.7777 • FAX 206.382.7777

http://www.pscpa.com

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF THE WASHINGTON STATE INVESTMENT BOARD

Olympia, Washington

We have audited the accompanying statement of net assets for the Labor and Industries' Funds of the State of Washington as managed by the Washington State Investment Board ("the Labor and Industries' Fund") as of June 30, 2008, and the related statement of changes in net assets for the year then ended. These financial statements are the responsibility of the Washington State 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. 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.

The financial statements referred to in the first paragraph present only the investment activity of the Labor and Industries' Funds as managed by the Washington State Investment Board. The financial statements do not purport to, and do not, present the financial activity of the Department of Labor and Industries of the State of Washington. Further, they do not purport to, and do not, present fairly the financial position and results of operations of the Washington State Investment Board or of the State of Washington.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the net assets of the Labor and Industries' Funds as of June 30, 2008, and the changes in net assets for the year then ended in conformity with accounting principles generally accepted in the United States.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Labor and Industries' Funds. Management's Discussion and Analysis preceding 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.

/S/ PETERSON SULLIVAN LLP

October 31, 2008

MANAGEMENT DISCUSSION & ANALYSIS

Management's Discussion and Analysis for the Labor & Industries' Funds of the State of Washington (L&I Funds), managed by the WSIB, is presented as an introduction to the financial statements and 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 to the prior year's activities and results. The WSIB manages funds for other State of Washington departments. This section of this report represents only the L&I Funds portion. The L&I Funds are the second largest investor in funds managed by the WSIB.

Following this section of the report are the financial statements and footnotes. The Statement of Net Assets provides information on the types of investments and the liabilities of the L&I Funds. This information is summarized in Table 1. Table 1 also compares the investment balances at June 30, 2008, with those at June 30, 2007. The Statement of Changes in Net Assets provides information on investment performance and other increases and decreases in the net assets of the L&I Funds for the year ended June 30, 2008. This information is summarized in Table 2. Table 2 also compares the financial activities of the L&I Funds for the year ended June 30, 2008, with those of the year ended June 30, 2007. The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements of the L&I Funds.

As shown in Table 1, the net assets of the L&I Funds increased by $961 thousand during the fiscal year ended June 30, 2008. The fair value of L&I assets is directly impacted by the returns of the various capital markets within which the WSIB invests. However, one of the benefits of the diversification gained by investing across various investment types as well as broadly within an asset class is the reduction in aggregate volatility of the total investment portfolio. The WSIB, upon receiving recommendations from Labor & Industries staff, WSIB staff, and other investment experts, makes the asset allocation decisions for the L&I assets. Staff rebalances the L&I Funds' assets between asset classes as markets move pursuant to WSIB policy.

In February 2008 a new asset allocation policy for the L&I funds was approved by the WSIB. Implementation of the new policy occurred in March 2008. The rebalancing required the sale of US equities and purchases of international equities and treasury inflation protection securities within the fixed income portfolio. While the sale of equities resulted in a realized a gain, the equity markets in general were negatively impacted by world wide economic events and for the year resulted in a large unrealized loss which contributed to the reduction of equity investments of 35.1% as reflected in Table 1. The addition of the treasury inflation protection securities and positive investment performance resulted in an increase of 8.8% to the fixed income portfolio.

As shown in Table 2, premiums less benefit payouts, or net amount withdrawn, increased by $328.6 million. This was due to a partial rate holiday in effect July 1 through December 31, 2007, when the premiums for the Medical Aid fund were reduced. During the rate holiday, L&I used more investment earnings to pay the Medical Aid Fund portion of the premium for employers and workers. Total net investment earnings decreased by $499.6 million, of which a significant portion is from unrealized investment losses.

Table 1 - Summarized Net Assets

	2008	2007	Dollar Change	Percent Change
Total Money Market Funds	$176,005,976	$188,793,364	$(12,787,388)	-6.8%
Total Fixed Income Investments	9,508,153,089	8,737,170,697	770,982,392	8.8%
Total Equity Investments	1,335,048,262	2,057,448,600	(722,400,338)	-35.1%
Total Investments	11,019,207,327	10,983,412,661	35,794,666	0.3%
Total Accruals, Net	77,765,526	112,599,165	(34,833,639)	-30.9%
Total Net Assets at Fair Value	$11,096,972,853	$11,096,011,826	$961,027	0.0%

Table 2 - Summarized Changes in Net Assets

	2008	2007	Dollar Change
Beginning Total Net Assets at Fair Value	$11,096,011,826	$10,266,849,710	$829,162,116
Net Amount Withdrawn	(465,411,391)	(136,772,294)	(328,639,097)
Investment Earnings	467,875,150	967,156,883	(499,281,733)
WSIB Operating Costs	(1,502,732)	(1,222,473)	(280,259)
Net Investment Earnings	466,372,418	965,934,410	(499,561,992)
Ending Total Net Assets at Fair	$11,096,972,853	$11,096,011,826	$961,027

L&I STATEMENT OF NET ASSETS

JUNE 30, 2008

See notes to financial statements

	Accident Fund	Medical Aid Fund	Pension Reserves Fund	Supplemental Pension Fund	Total	Percent of Total
ASSETS						
Investments:						
LIQUIDITY:						
Money Market Funds	$ 59,067,548	$ 33,738,629	$ 49,127,666	$ 34,072,133	$ 176,005,976	1.6%
FIXED INCOME INVESTMENTS:						
Collateralized Mortgage Obligations	787,000,937	556,379,806	408,161,036	250,560	1,751,792,339	
Pass Throughs	479,542	883,930	256,661		1,620,133	
Commercial Mortgage Backed Securities	252,666,565	195,822,285	171,473,163		619,962,013	
Corporate Bonds - Domestic	1,977,722,422	1,584,854,339	1,532,791,387	33,244,188	5,128,612,336	
U.S. Government Treasuries	275,397,281	51,136,502	81,599,194	14,297,559	422,430,536	
U.S. Treasury Inflation Protected Securities	472,051,754	820,167,344	291,516,634		1,583,735,732	
Total Fixed Income Investments	3,765,318,501	3,209,244,206	2,485,798,075	47,792,307	9,508,153,089	86.3%
EQUITY INVESTMENTS:						
Commingled Index Funds - Domestic	270,683,052	365,979,224	170,564,399		807,226,675	
Commingled Index Funds - Foreign	179,721,292	234,881,313	113,218,982		527,821,587	
Total Equity Investments	450,404,344	600,860,537	283,783,381		1,335,048,262	12.1%
Total Investments	4,274,790,393	3,843,843,372	2,818,709,122	81,864,440	11,019,207,327	100.0%
Interest Receivable	39,335,883	30,978,226	27,861,876	691,666	98,867,651	
Receivable for Investments Sold	7,312	8,086	2,858	1,023,930	1,042,186	
Collateral Held Under Securities Lending Agreements	836,319,826	865,908,844	432,862,270	16,544,290	2,151,635,230	
Total Assets	5,150,453,414	4,740,738,528	3,279,436,126	100,124,326	13,270,752,394	
LIABILITIES						
Obligations Under Securities Lending Agreements	836,319,826	865,908,844	432,862,270	16,544,290	2,151,635,230	
Accounts Payable	782,691	867,571	476,144	17,905	2,144,311	
Payable for Investments Purchased	10,000,000		10,000,000		20,000,000	
Total Liabilities	847,102,517	866,776,415	443,338,414	16,562,195	2,173,779,541	
Net Assets	$ 4,303,350,897	$ 3,873,962,113	$ 2,836,097,712	$ 83,562,131	$ 11,096,972,853	

L&I STATEMENT OF CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2008

See notes to financial statements

	Accident Fund	Medical Aid Fund	Pension Reserves Fund	Supplemental Pension Fund	Total
Additions					
Investment Income:					
Interest, Dividends and Other Investment Income	$ 248,562,127	$ 191,391,463	$ 158,309,138	$ 4,746,050	$ 603,008,778
Realized Capital Gains	129,587,107	155,762,919	83,207,133	553,067	369,110,226
Realized Capital Losses	(4,424,199)	(14,701,544)	(2,288,096)	(55,801)	(21,469,640)
Unrealized Gains and Losses	(85,264,934)	(260,374,962)	(77,694,194)	715,428	(422,618,662)
Less:					
Securities Lending Broker Rebates Paid	(28,622,012)	(16,836,225)	(13,357,192)	(421,957)	(59,237,386)
Investment Expenses	(340,418)	(349,291)	(220,647)	(7,810)	(918,166)
WSIB Operating Costs	(572,591)	(545,107)	(372,413)	(12,621)	(1,502,732)
Total Investment Income	258,925,080	54,347,253	147,583,729	5,516,356	466,372,418
Net Amount Contributed (Withdrawn)	(110,864,154)	(376,748,239)	47,503,381	(25,302,379)	(465,411,391)
Residual Equity Transfers	50,664,614		(50,664,614)		
Increase (Decrease) in Net Assets	198,725,540	(322,400,986)	144,422,496	(19,786,023)	961,027
Net Assets, Beginning of Year	4,104,625,357	4,196,363,099	2,691,675,216	103,348,154	11,096,011,826
Net Assets, End of Year	$ 4,303,350,897	$ 3,873,962,113	$ 2,836,097,712	$ 83,562,131	$ 11,096,972,853

NOTES TO FINANCIAL STATEMENTS

NOTE 1. DESCRIPTION OF FUNDS AND SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF FUNDS

The Labor & Industries' Funds (L&I Funds) consist mainly of insurance premiums collected from employers in the State of Washington. The financial statements present only the activity of the L&I Funds as managed by the WSIB. The WSIB has exclusive control of the investment of all money invested in the L&I Funds. The financial statements do not present the financial position and results of operations of the WSIB or the State of Washington Department of Labor & Industries.

BASIS OF ACCOUNTING

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States for governments prescribed by the Governmental Accounting Standards Board (GASB) on the accrual basis of accounting.

VALUATION OF INVESTMENTS

Investments are reported at fair value. Fair values are based on published market prices, quotations from national security exchanges, and security pricing services. The L&I Funds have no investments of any commercial or industrial organization whose fair value exceeds 5% of each plan's net assets. The assets of the L&I Funds are adjusted to fair values monthly. Unrealized gains and losses are included as investment earnings in the statement of changes in net assets.

REVENUE RECOGNITION

Interest and dividend income is recognized when earned. Capital gains and losses are recognized on a trade date basis. Purchases and sales of investments are also recorded on a trade date basis.

SECURITIES LENDING

The L&I Funds record collateral received under securities lending agreements where the L&I Funds have the ability to spend, pledge or sell the collateral without borrower default. Liabilities resulting from these transactions are also recorded. Additionally, costs associated with securities lending transactions, including broker commissions paid, are reported as investment expenses in the accompanying statements. The statement of net assets does not include detailed holdings of securities lending collateral by investment classification.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from the estimated amounts.

NOTE 2. FEES AND EXPENSES

Investment fees and expenses are paid from non-appropriated funds or are netted directly from the asset value of the invested funds. The fees paid by the L&I Funds are reported on the statement of changes in net assets. These fees are accounted for as a reduction of investment income to the L&I Funds. These fees include investment management fees and commissions, investment consultant fees, legal fees and other investment management related expenses. The WSIB operating costs are charged against the funds based upon actual costs incurred by the WSIB to manage the investments.

NOTE 3. DEPOSIT AND INVESTMENT RISK DISCLOSURES

CUSTODIAL CREDIT RISK – DEPOSITS

Custodial credit risk for deposits is the risk that in the event of a bank failure the L&I Funds deposits may not be returned to it. The L&I Funds do not have a deposit policy for custodial credit risk. As of June 30, 2008, there were no deposits with the custodial bank.

CUSTODIAL CREDIT RISK – INVESTMENTS

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, the L& I Funds will not be able to recover the value of investments that are in the possession of an outside party. The L&I Funds do not have an investment policy specifically for custodial credit risk. The securities lending collateral balances are from securities required to be listed under GASB Statement 3 Category 3 – Uninsured and unregistered with securities held by the counterparty, or by its trust department or agent but not in the Funds' name. (This includes the amount of any repurchase agreement that exceeds the fair value of the underlying securities).

The WSIB has been authorized by statute as having the investment management responsibility for the L&I Funds. The WSIB is authorized to invest as provided by statute (Chapter 43.33A RCW) and WSIB policy. The WSIB is authorized and invests in the following: U.S. Treasury Bills; discount notes; repurchase agreements; reverse repurchase agreements; banker's acceptances; commercial paper; guaranteed investment contracts; U.S. Government and Agency (government sponsored corporation eligible for collateral purposes at the Federal Reserve) securities; non- US dollar bonds; investment grade corporate bonds; non-investment grade corporate bonds; publicly traded mortgage-backed securities; privately placed mortgages; private

SCHEDULE 1

Investment Type	Total Fair Value	Maturity: Less than 1 year	1-5 years	6-10 years	More than 10 years	Effective Duration	Credit Rating
Mortgages:							
Collateralized Mortgage Obligations	$ 1,751,792,339	$ 175,179	$ 226,681,929	$ 330,563,214	$ 1,194,372,017	7.83	AAA
Pass Throughs	1,620,133	21,872	1,598,261			2.19	AAA
Commercial Mortgage Backed Securities	619,962,013	25,976,409	234,717,618	358,214,051	1,053,935	4.45	Multiple
Corporate Bonds - Domestic	5,128,612,336	138,985,394	1,447,294,401	1,469,347,435	2,072,985,106	7.46	Multiple
Government Securities-Domestic:							
US Government Treasuries	422,430,536	61,505,886	360,924,650			1.74	AAA
US Treasury Inflation Protected Securities	1,583,735,732		413,038,279	648,539,782	522,157,671	7.44	AAA
	9,508,153,089	$ 226,664,740	$ 2,684,255,138	$ 2,806,664,482	$ 3,790,568,729		
Investments Not Required to be Categorized Under GASB Statement No. 3:							
Commingled Index Funds-Domestic	807,226,675						
Commingled Index Funds-Foreign	527,821,587						
Money Market Funds	176,005,976						
Total Investments Not Categorized	1,511,054,238						
Total L & I Funds Investments	$ 11,019,207,327						

placements of corporate debt; U.S. and foreign common stock; U.S. preferred stock; convertible securities; private equity including but not limited to investment corporations, partnerships, and limited liability companies for venture capital, leverage buy-outs, real estate and other tangible assets, or other forms of private equity; asset backed securities; and derivative securities including futures, options, options on futures, forward contracts, and swap transactions. There have been no violations of these investment restrictions during fiscal year 2008.

INTEREST RATE RISK

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. Effective duration is the measure of a debt investment's exposure to fair value changes arising from changes in interest rates. Effective duration uses the present value of cash flows, weighted for those flows as a percentage of the investment's full price. Increases in prevailing interest rates generally translate into decreases in fair values of those investments. The L&I Funds' fixed income investments are to be actively managed to exceed the return of the Comparable Market Index (CMI), with volatility as measured by duration to be similar to or less than the index. As of June 30, 2008, the L&I Funds' durations of the various fixed income classes were within the duration targets of the CMI.

Schedule 1 provides information about the interest rate risks associated with the L&I Funds' investments as of June 30, 2008. The schedule displays various asset classes held by maturity in years, effective durations, and credit ratings.

The L&I Funds hold both U.S. agencies and corporate debt variable-rate securities, most of which reset periodically to the market interest rate. Because

SCHEDULE 2

Investment Type	Total Fair Value	Moody's Equivalent Credit Rating: Aaa	Aa1	Aa2	Aa3	A1	A2	A3
Commercial Mortgage Backed Securities	$ 619,962,013	$ 557,965,812	$ 61,996,201	$	$	$	$	$
Corporate Bonds - Domestic	5,128,612,336	564,147,357	51,286,123	256,430,617	666,719,604	615,433,480	666,719,604	615,433,480
Total	$ 5,748,574,349	$ 1,122,113,169	$ 113,282,324	$ 256,430,617	$ 666,719,604	$ 615,433,480	$ 666,719,604	$ 615,433,480

these securities frequently reprice to prevailing market rates, interest rate risk is substantially reduced at each periodic reset date. Schedule 1 presents the variable-rate securities according to the length of time until the next reset date rather than the stated maturity.

CREDIT RISK

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The L&I Funds' rated debt investments as of June 30, 2008, were rated by Moody's and/or an equivalent national rating organization. Investment types with multiple ratings are presented in Schedule 2 using the Moody's rating scale.

CONCENTRATION OF CREDIT RISK

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The L&I Funds' policy states no corporate fixed income issue's cost shall exceed 3% of the fund's fair value at the time of purchase, nor shall its fair value exceed 6% of the fund's fair value at any time. There was no concentration of credit risk as of June 30, 2008.

FOREIGN CURRENCY RISK

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The L&I Funds do not have a formal policy to limit foreign currency risk. The only security held by the L&I Funds with foreign currency

Baa1	Baa2	Baa3
$ 461,575,110	$ 820,577,975	$ 410,288,986
$ 461,575,110	$ 820,577,975	$ 410,288,986

risk at June 30, 2008 consists of $527,821,587 invested in an international commingled equity index fund. As such, no currency denomination risk is presented.

NOTE 4. SECURITIES LENDING

Washington State law and WSIB policy permit the L&I Funds to participate in securities lending programs to augment investment income. The WSIB has entered into an agreement with JP Morgan to act as agent for the WSIB in securities lending transactions. As JP Morgan is the custodian bank for the WSIB, it is counterparty to securities lending transactions.

In accordance with GASB Statement 28, the L&I Funds report securities lent (the underlying securities) as assets in the statement of net assets. Cash received as collateral on securities lending transactions and investments made with that cash are reported as assets. Securities received as collateral are reported as assets if the L&I Funds has the ability to pledge or sell them without a borrower default. Liabilities resulting from these transactions are also reported in the statement of net assets. Securities lending transactions collateralized by securities that the L&I Funds do not have the ability to pledge or sell unless the borrower defaults are not reported as assets and liabilities.

Fixed Income securities were loaned and collateralized by the L&I Funds' agent with cash and U.S. government securities (exclusive of mortgage backed securities and letters of credit), and irrevocable letters of credit. When the loaned securities had collateral denominated in the same currency, the collateral requirement was 102% of the fair value, including accrued interest, of the securities loaned. All other securities were required to be collateralized at 105% of the fair value, including accrued interest, of the loaned securities. The collateral held and fair value of securities on loan at June 30, 2008 was $2,151,635,230 and $2,107,966,684 respectively. At year-end, the amounts the L&I Funds owed the borrowers exceeded the amounts the borrowers owed the L&I Funds, resulting in no credit risk exposure to borrowers.

During fiscal year 2008, securities lending transactions could be terminated on demand by either the L&I Funds or the borrower. The weighted average maturity of overall loans was 21 days.

Cash collateral was invested by the L&I Funds' agents in securities issued or guaranteed by the U.S. government, in the WSIB's short-term investment pool (average final maturity of 136 days) or term loans. Because the securities lending agreements were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. Non-cash collateral could not be pledged or sold absent borrower default. There are no restrictions on the amount of securities that can be lent.

Securities were lent with the agreement that they would be returned in the future for exchange of the collateral. JP Morgan indemnified the WSIB by agreeing to purchase replacement securities or return the cash collateral in the event a borrower failed to return the loaned securities or pay distributions thereon. JP Morgan's responsibilities included performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable federal regulations concerning securities lending.

During fiscal year 2008, there were no significant violations of legal or contractual provisions, no failures by any borrowers to return loaned securities or to pay distributions thereon. Further, the L&I Funds incurred no losses during fiscal year 2008 resulting from a default by either the borrowers or the securities lending agents.

NOTE 5. DERIVATIVES

L&I Funds are authorized to utilize various derivative financial instruments, including mortgage-backed securities, financial futures, forward contracts, interest rate and equity swaps, and options to manage its exposure to fluctuations in interest and currency rates while increasing portfolio returns. Derivative transactions involve, to varying degrees, market and credit risk. L&I Funds mitigate market risks arising from derivative transactions by requiring collateral in cash and investments to be maintained equal to the securities positions outstanding, and thereby prohibiting the use of leverage or speculation. Credit risks arising from derivative transactions are mitigated by selecting and monitoring creditworthy counterparties and collateral issuers.

Consistent with the L&I Funds' authority to invest in derivatives, international active equity managers may make limited investments in financial futures, forward contracts or other derivative securities to manage exposure to currency rate risk and equitize excess cash holdings. No such derivative securities were held as of June 30, 2008. Domestic and foreign passive equity index fund managers may also utilize various derivative securities to manage exposure to risk and increase portfolio returns. Information on the extent of use and holdings of derivative securities by passive equity index fund managers is unavailable. At June 30, 2008, the only derivative securities held directly by L&I Funds were collateralized mortgage obligations of $1,751,792,339.

There were no repurchase agreements outstanding at June 30, 2008. Repurchase agreements are collateralized at 102%. The collateral is priced daily and held by WSIB's agent in WSIB's name.

State law permits L&I Funds to enter into reverse repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The fair value of the securities underlying reverse repurchase agreements normally exceeds the cash received, providing the dealers' margin against a decline in fair value of the securities. If the dealers default on their obligations to resell these securities to the L&I Funds or provide securities or cash of equal value, L&I Funds would suffer an economic loss equal to the difference between the fair value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. There were no reverse repurchase agreements during the year and there were no liabilities outstanding as of June 30, 2008.

NOTE 6. SUMMARY OF INVESTMENT POLICY

Under RCW 43.33A.030, trusteeship of the L&I Funds is vested in the voting members of the WSIB. The Legislature has established a standard of care for investment of these funds in RCW 43.33A.140. Additionally, the WSIB and its staff must comply with other state laws, such as the Ethics in Public Service Act, RCW 42.52, as it makes its investment decisions and seeks to meet the following investment objectives.

STRATEGIC OBJECTIVES

In accordance with RCW 43.33.110, these portfolios are to be managed to limit fluctuations in the industrial insurance premiums, and subject to this purpose, achieve a maximum return at a prudent level of risk. Based on this requirement, the order of the objectives shall be:

- Maintain the solvency of the funds.
- Maintain premium rate stability.
- Ensure sufficient assets are available to fund the expected liability payments.
- Subject to those above, achieve a maximum return at a prudent level of risk.

PERFORMANCE OBJECTIVES

The performance objectives are intended to provide the WSIB and L&I Funds with a way to measure the success of this investment policy, the overall asset allocation strategy, and the implementation of that strategy over time. First and foremost, the performance of the investment portfolios shall be judged relative to the Strategic Objectives. With the first three criteria met, the actual rates of return of the portfolios will be compared to the Comparable Market Index (CMI) for each fund. The CMI's are developed and calculated by the consultant with the goal to construct a hypothetical passive portfolio with the duration, asset allocation, and appropriate mix of fixed income sectors based on the individual targets for each L&I fund. The return for each fund's portfolio should not be significantly different from that of its CMI over the long term.

PORTFOLIO CONSTRAINTS

- All assets under the management of the WSIB are to be invested to maximize return at a prudent level of risk in accordance with RCW 43.33A.110 and RCW 43.33A.140, which state, in Part, that the WSIB is to "...establish investment policies and procedures designed to attempt to limit fluctuations in industrial insurance premiums, and subject to this purpose, to maximize return at a prudent level of risk."

- No corporate fixed income issue's cost shall exceed 3% of the fund's fair value at the time of purchase, nor shall its fair value exceed 6% of the funds' fair value at any time (RCW 43.33A.140).

ASSET ALLOCATION TARGET AND RANGES

Fixed Income	TIPS	Equity
Accident Fund		
80%±4	10%±2	10%±2
Pension Reserve Fund		
80%±4	10%±2	10%±2
Medical Aid Fund		
65%±5	20%±3	15%±3
Supplemental Pension Fund		
100%	NA	0%

Asset allocation will be reviewed every 3-4 years, or sooner, if there are significant changes in funding levels or the liability durations.

Market conditions, funding status, and liability assumptions are dynamic, not static; therefore, WSIB staff will meet quarterly with L&I staff to review the investment portfolio, the status of the funding levels, the liability durations and to evaluate the percentage of the supplemental pension fund that is to be considered non-cash.

Assets will be rebalanced across asset classes when fair value of the assets falls outside the policy ranges. The timing of any rebalancing will be based on market opportunities, cash flows, and the consideration of transaction costs; therefore, they need not occur immediately.

ASSET CLASS STRUCTURE

Asset class structure is established by the WSIB with guidelines for staff to move assets in order to achieve the fund's overall objectives.

EQUITY

Equity Allocation	Target	Range
U.S Equity	60%	55%-65%
International Equity	40%	35%-45%

The benchmark and structure for U.S. equities will be the broad U.S. stock market as defined by the Dow Jones-Wilshire 5000. The benchmark and structure for international equities will be the Morgan Stanley Capital International All Country World Ex US Investable Market Index (MSCI ACW Ex US IMI). Both portfolios will be 100% passively managed in commingled index funds. The commingled funds may use futures for hedging or establishing a long position.

TREASURY INFLATION PROTECTION SECURITIES

The treasury inflation protection securities (TIPS) will be managed to plus or minus 20 percent of the duration of the Lehman U.S. TIPS index.

FIXED INCOME

The fixed income portfolios' structure will vary widely among funds depending upon the required duration target.

Accident Fund (608): within plus or minus 20% of a duration target of 7.

Pension Reserve Fund (610): within plus or minus 20% of a duration target of 7.

Medical Aid Fund (609): within plus or minus 20% of a duration target of 6.

Supplemental Pension Fund (881): the non-cash portion of the portfolio will have a duration that is between 1.75 and 2.25.

The duration targets will be reviewed every 3 years, or sooner, if there are significant changes in the funding levels or the liability durations.

It is the goal of the fixed income portfolios to match the target durations. Although there may be differences from the targets due to market conditions, over any extended period of time those differences should not be material.

PERMISSIBLE FIXED INCOME INVESTMENTS

- U.S. Treasuries and Government Agencies.
- Credit Bonds.
- Mortgage-Backed Securities rated investment grade, as defined by Lehman Brothers Global Family of Fixed Income Indices.
- Asset-Backed Securities rated investment grade, as defined by Lehman Brothers Global Family of Fixed Income Indices.
- Commercial Mortgage-Backed Securities rated investment grade, as defined by Lehman Brothers Global Family of Fixed Income Indices.
- Investment Grade Non-U.S. Dollar Bonds.

SECTOR ALLOCATIONS

Sector Allocations are to be managed within the ranges presented below. These targets are long-term in nature. Deviations may occur in the short-term as a result of interim market conditions. However, if a range is exceeded, the portfolios must be rebalanced as soon as it is practical to the target allocations.

Target allocations for the Fixed Income Sectors:	
U.S. Treasuries and Government Agencies	5% - 25%
Credit Bonds	20% - 70%
Asset Backed Securities	0% - 10%
Commercial Mortgage Backed Securities	0% - 10%
Mortgage Backed Securities	0% - 25%

Total holdings of below investment grade credit bonds (as defined by Lehman Brothers Global Family of Fixed Income Indices) should not exceed 5% of total fixed income holdings.

NOTE 7. SUBSEQUENT EVENTS

Subsequent to June 30, 2008, the L&I Funds' investment in Lehman Brothers Holdings, Inc. became worthless resulting in a loss of $37,603,600. The realized loss is not reflected in the accompanying financial statements since the loss arose subsequent to June 30, 2008.

The L&I Funds also invest in a commingled index fund which held securities issued by American International Group, Inc., Washington Mutual, Inc. and Lehman Brothers Holdings, Inc. Management estimates that the L&I Funds' share of the commingled fund's losses arising subsequent to June 30, 2008, from American International Group, Inc., Washington Mutual, Inc. and Lehman Brothers Holdings, Inc. securities amount to $2,452,979, $194,203, and $644,945, respectively.

Also subsequent to June 30, 2008, the L&I Funds sustained other unrealized losses on investments due to turmoil within the capital markets and WSIB concluded that the decline in fair value is deemed to be temporary. Since the unrealized losses arose subsequent to June 30, 2008, they are not reflected in the accompanying financial statements.

PERMANENT FUNDS

PETERSON SULLIVAN LLP
CERTIFIED PUBLIC ACCOUNTANTS
601 UNION STREET, SUITE 2300
SEATTLE, WASHINGTON 98101
TEL 206.382.7777 • FAX 206.382.7777
http://www.pscpa.com

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF THE WASHINGTON STATE INVESTMENT BOARD

Olympia, Washington

We have audited the accompanying statement of net assets for the Permanent Funds (Millersylvania Park, American Indian Scholarship Endowment, Agricultural School, Normal School, Common School, Scientific School, and State University) of the State of Washington as managed by the Washington State Investment Board ("the Permanent Funds") as of June 30, 2008, and the related statement of changes in net assets for the year then ended. These financial statements are the responsibility of the Washington State 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. 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.

The financial statements referred to in the first paragraph present only the investment activity of the Permanent Funds as managed by the Washington State Investment Board. The financial statements do not purport to, and do not, present the financial activity of the Permanent Funds of the other state agencies. Further, they do not purport to, and do not, present fairly the financial position and results of operations of the Washington State Investment Board or of the State of Washington.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the net assets of the Permanent Funds as of June 30, 2008, and the changes in net assets for the year then ended in conformity with accounting principles generally accepted in the United States.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Permanent Funds. Management's Discussion and Analysis preceding 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.

/S/ PETERSON SULLIVAN LLP

October 31, 2008

MANAGEMENT DISCUSSION & ANALYSIS

Management's Discussion and Analysis for the Permanent Funds of the State of Washington, managed by the WSIB, is presented as an introduction to the financial statements and 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 to the prior year's activities and results. The WSIB manages funds for other State of Washington departments. This section of this report represents only the Permanent Funds portion.

Following this section of the report are the financial statements and footnotes. The Statement of Net Assets provides information on the types of investments and the liabilities of the Permanent Funds. This information is summarized in Table 1. Table 1 also compares the investment balances at June 30, 2008, with those at June 30, 2007. The Statement of Changes in Net Assets provides information on investment performance and other increases and decreases in the net assets of the Permanent Funds for the year ended June 30, 2008. This information is summarized in Table 2. Table 2 also compares the financial activities of the Permanent Funds for the year ended June 30, 2008, with those of the year ended June 30, 2007. The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements of the Permanent Funds.

As shown in Table 1, the net assets of the Permanent Funds increased by $41.1 million during the fiscal year ended June 30, 2008. The fair value of the Permanent Funds assets is directly impacted by the returns of the various capital markets which were positive for the year ended June 30, 2008. The WSIB makes the asset allocation decisions for the Permanent Funds. The WSIB staff rebalances the Permanent Funds' assets between asset classes as markets move, pursuant to WSIB policy.

As reflected in Table 1, money market funds decreased by 98.5%. The primary reason for the decrease was due to the restructure of the permanent fund money market and fixed income investments into the Commingled Monthly Bond Fund (CMBF). The total net assets increased by 5.6% which was primarily due from positive investment performance and the contributions from all beneficiaries including the new American Indian Scholarship Endowment Fund.

As shown in Table 2, contributions decreased slightly by a net $1.4 million. This was primarily due to all of the permanent funds decreasing contributions during the year, except for the American Indian Scholarship Endowment which began to be managed by the WSIB during 2008. Investment earnings increased by $15.0 million due to positive investment performance.

Table 1 - Summarized Net Assets

	2008	2007	Dollar Change	Percent Change
Total Money Market Funds	$1,272,511	$84,711,258	$(83,438,747)	-98.5%
Total Fixed Income Investments	769,225,075	644,122,777	125,102,298	19.4%
Total Equity Investments	10,375,899	11,839,496	(1,463,597)	-12.4%
Total Investments	780,873,485	740,673,531	40,199,954	5.4%
Total Accruals, Net	7,224	(909,684)	916,908	-100.8%
Total Net Assets at Fair Value	$780,880,709	$739,763,847	$41,116,862	5.6%

Table 2 - Summarized Changes in Net Assets

	2008	2007	Dollar Change
Beginning Total Net Assets at Fair Value	$739,763,847	$712,819,394	$26,944,453
Net Amount Contributed	15,138,516	16,568,746	(1,430,230)
Investment Earnings	60,156,802	45,129,178	15,027,624
WSIB Operating Costs	(101,879)	(82,568)	(19,311)
Net Investment Earnings	60,054,923	45,046,610	15,008,313
Distributions to Beneficiary Funds	(34,076,577)	(34,670,903)	594,326
Ending Total Net Assets at Fair Value	$780,880,709	$739,763,847	$41,116,862

PERMANENT FUNDS STATEMENT OF NET ASSETS

JUNE 30, 2008

See notes to financial statements

	Millersylvania Park	American Indian Scholarship Endowment	Agricultural School	Normal School	Common School	Scientific School	State University	Total	Percent of Total
ASSETS									
Investments:									
Money Market Funds	$ 5,151	$ 304,273	$ 468,658	$ 153,476	$ 5,349	$ 334,581	$ 1,023	$ 1,272,511	0.2%
Commingled Monthly Bond Fund		318,265	167,070,663	221,325,153	165,255,001	186,682,152	28,573,841	769,225,075	98.5%
Commingled Equity Index Fund - Domestic					10,375,899			10,375,899	1.3%
Total Investments	5,151	622,538	167,539,321	221,478,629	175,636,249	187,016,733	28,574,864	780,873,485	100.0%
Interest Receivable	11	1,618	577,011	764,021	570,494	644,546	98,614	2,656,315	
Collateral Held Under Securities Lending Agreements		63,069	33,107,553	43,858,893	32,747,753	36,993,863	5,662,334	152,433,465	
Total Assets	5,162	687,225	201,223,885	266,101,543	208,954,496	224,655,142	34,335,812	935,963,265	
LIABILITIES									
Obligations Under Securities Lending Agreements		63,069	33,107,553	43,858,893	32,747,753	36,993,863	5,662,334	152,433,465	
Accounts Payable			674	939	817	738	112	3,280	
Distributions Payable	11		575,680	760,662	567,634	643,654	98,170	2,645,811	
Total Liabilities	11	63,069	33,683,907	44,620,494	33,316,204	37,638,255	5,760,616	155,082,556	
Net Assets	$ 5,151	$ 624,156	$ 167,539,978	$ 221,481,049	$ 175,638,292	$ 187,016,887	$ 28,575,196	$ 780,880,709	

PERMANENT FUNDS STATEMENT OF CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2008

See notes to financial statements

	Millersylvania Park	American Indian Scholarship Endowment	Agricultural School	Normal School	Common School	Scientific School	State University	Total
Additions								
Investment Income:								
Interest, Dividends and Other Investment Income	$ 220	$ 22,691	$ 8,178,569	$ 10,784,093	$ 8,294,585	$ 9,139,135	$ 1,417,542	$ 37,836,835
Realized Capital Gains			5,190,938	6,723,298	5,119,651	5,727,636	889,755	23,651,278
Realized Capital Losses			(837,253)	(1,242,723)	(954,405)	(927,631)	(145,964)	(4,107,976)
Unrealized Gains and Losses		(4,634)	1,606,688	2,545,906	(50,144)	1,804,057	306,269	6,208,142
Less:								
Securities Lending Broker Rebates Paid			(775,789)	(918,944)	(697,745)	(867,213)	(140,187)	(3,399,878)
Investment Expenses		(5)	(6,562)	(8,819)	(7,799)	(7,283)	(1,131)	(31,599)
WSIB Operating Costs		(32)	(21,765)	(29,038)	(23,178)	(24,107)	(3,759)	(101,879)
Total Investment Income	220	18,020	13,334,826	17,853,773	11,680,965	14,844,594	2,322,525	60,054,923
Net Amount Contributed		606,136	4,331,766	2,751,038	2,093,710	5,160,107	195,759	15,138,516
Distributions to Beneficiary Funds	(220)		(7,378,407)	(9,832,080)	(7,347,142)	(8,245,126)	(1,273,602)	(34,076,577)
Net Increase in Net Assets		624,156	10,288,185	10,772,731	6,427,533	11,759,575	1,244,682	41,116,862
Net Assets, Beginning of Year	5,151		157,251,793	210,708,318	169,210,759	175,257,312	27,330,514	739,763,847
Net Assets, End of Year	$ 5,151	$ 624,156	$ 167,539,978	$ 221,481,049	$ 175,638,292	$ 187,016,887	$ 28,575,196	$ 780,880,709

NOTES TO FINANCIAL STATEMENTS

NOTE 1. DESCRIPTION OF FUNDS AND SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF FUNDS

The Permanent Funds of the State of Washington include: the Agricultural School Permanent Fund; the Normal School Permanent Fund; the Common School Permanent Fund; the Scientific School Permanent Fund and the State University Permanent Fund. These funds were derived from the State Enabling Act. Originally, land was granted to the State by the federal government at statehood to establish these permanent funds. The Permanent Funds consist of proceeds from sales of these lands and related natural resources. The proceeds from these sales are deposited by the Department of Natural Resources in each respective Permanent Fund account for investment by the WSIB. The Permanent Fund known as the Millersylvania Park Permanent Fund was established in 1931 from a gift of cash and securities for the establishment, maintenance, and upkeep of the Millersylvania State Park. The Permanent Fund known as the American Indian Scholarship Endowment Fund was created in 1990 to help American Indian students obtain a higher education and contains both private donations and matching funds appropriated by the state. The American Indian Scholarship Endowment Fund was originally invested by the State Treasurer's office then transferred to the management of the WSIB in 2008.

In 2008, the fixed income investments held by the Permanent Funds were commingled into one fund called the Commingled Monthly Bond Fund (CMBF). The Permanent Funds hold units of shares of the CMBF. The CMBF complies with the Permissible Investments and Portfolio Constraints of the WSIB Permanent Funds investment policy number 2.25.100.

The financial statements present only the activity of the Permanent Funds as managed by the WSIB. The WSIB has exclusive control of the investments of all money invested in the Permanent Funds. The financial statements do not present the financial position and results of operations of the WSIB.

BASIS OF ACCOUNTING

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States for governments prescribed by the Governmental Accounting Standards Board (GASB) on the accrual basis of accounting.

VALUATION OF INVESTMENTS

Investments are reported at fair value. Fair values are based on published market prices, quotations from national security exchanges, and security pricing services. The Permanent Funds have no investments of any commercial or industrial organization whose fair value exceeds 5% of net assets. The assets of the Permanent Funds are adjusted to fair value monthly. Unrealized gains and losses are included as investment earnings in the statement of changes in net assets.

REVENUE RECOGNITION

Interest and dividend income is recognized when earned. Capital gains and losses are recognized on a trade date basis. Purchases and sales of investments are also recorded on a trade date basis.

WITHDRAWAL POLICY

Capital losses are deferred and amortized against future income distributions to beneficiary funds and are not capitalized on the statement of net assets. Capital gains are reinvested. This process is necessary to meet legal requirements that do not allow capital losses to erode the corpus of the invested funds. Interest earnings are distributed to beneficiary funds on a monthly basis.

SECURITIES LENDING

The Permanent Funds report collateral received, on a pro rata ownership basis of the CMBF, under securities lending agreements where the funds have the ability to spend, pledge, or sell the collateral without borrower default. Liabilities resulting from these transactions are also reported. Additionally, costs associated with securities lending transactions, including broker commissions paid, are reported in the accompanying statements. The statement of net assets does not include detailed holdings of securities lending collateral by investment classification.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from the estimated amounts.

NOTE 2. FEES AND EXPENSES

Investment fees and expenses are paid from non-appropriated funds or are netted directly from the asset value of the invested funds. The fees paid by the Permanent Funds are reported on the statement of changes in net assets. These fees are accounted for as a reduction of investment income to the Permanent Funds. These fees include investment management fees and commissions, investment consultant fees, legal fees, and other investment management related expenses. The WSIB operating costs are charged against the funds based upon actual costs incurred by the WSIB to manage the investments.

NOTE 3. DEPOSIT AND INVESTMENT RISK DISCLOSURES

CUSTODIAL CREDIT RISK – DEPOSITS

Custodial credit risk for deposits is the risk that in the event of a bank failure the Permanent Funds deposits may not be returned to it. The Permanent Funds do not have a deposit policy for custodial credit risk. As of June 30, 2008, there were no deposits with the custodial bank.

CUSTODIAL CREDIT RISK – INVESTMENTS

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, the Permanent Funds will not be able to recover the value of investments that are in the possession of an outside party. The Permanent Funds do not have an investment policy specifically for custodial credit risk. The securities lending collateral balances are from securities required to be listed under GASB Statement 3 Category 3 – Uninsured and unregistered with securities held by the counterparty, or by its trust department or agent but not in the Funds' name. (This includes the amount of any repurchase agreement that exceeds the fair value of the underlying securities).

The WSIB has been authorized by statute as having the investment management responsibility for the Permanent Funds. The WSIB is authorized to invest as provided by statute (Chapter 43.33A RCW) and WSIB policy. The WSIB is authorized and invests in the following: U.S. Treasury Bills; discount notes; repurchase agreements; reverse repurchase agreements; banker's acceptances; commercial paper; guaranteed investment contracts; U.S. Government and Agency (government sponsored corporation eligible for collateral purposes at the Federal Reserve) securities; non-U.S. dollar bonds; investment grade corporate bonds; non-investment grade corporate bonds; publicly traded mortgage-backed securities; privately placed mortgages; private placements of corporate debt; U.S. and foreign common stock; U.S. preferred stock; convertible securities; private equity including but not limited to investment corporations, partnerships, and limited liability companies for venture capital, leverage buy-outs, real estate and other tangible assets, or other forms of private equity; asset backed securities; and derivative securities including futures, options, options on futures, forward contracts, and swap transactions. There have been no violations of these investment restrictions during fiscal year 2008.

INTEREST RATE RISK

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. Effective duration is the measure of a debt investment's exposure to fair value changes arising from changes in interest rates. Effective duration uses the present value of cash flows, weighted for those flows as a percentage of the investment's full price. Increases in prevailing interest rates generally translate into decreases in fair values of those investments. The Permanent Fund's fixed income investments are to be actively managed to exceed the return of the Lehman Aggregate Index, with volatility as measured by duration to be similar to or less than the index. As of June 30, 2008, the Permanent Funds, including the CMBF, durations of the various fixed income classes were within the duration targets of the Lehman Aggregate Index.

Schedule 1 provides information about the interest rate risks associated with the CMBF investments as of June 30, 2008. The schedule displays various asset classes held by maturity in years, effective durations, and credit ratings.

The CMBF holds both U.S. agencies and corporate debt variable-rate securities, most of which reset periodically to the market interest rate. Because these securities frequently reprice to prevailing market rates, interest rate risk is substantially reduced at each periodic reset date. In Schedule 1, variable-rate securities are presented according to the length of time until the next reset date rather than the stated maturity.

CREDIT RISK

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Permanent Funds' CMBF rated debt investments as of June 30, 2008, were rated by Moody's and/or an equivalent national rating organization. Investments types with multiple ratings are presented in Schedule 2 using the Moody's rating scale.

CONCENTRATION OF CREDIT RISK

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The Permanent Funds' policy states no corporate fixed income issue's cost shall exceed 3% of the fund's fair value at the time of purchase, nor shall its fair value exceed 6% of the fund's fair value at any time. There was no concentration of credit risk in the CMBF that exceeded these limits as of June 30, 2008.

FOREIGN CURRENCY RISK

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Permanent Funds have no formal policy to limit foreign currency risk. The

SCHEDULE 1

Investment Type	Total Fair Value	Maturity: Less than 1 year	Maturity: 1-5 years	Maturity: 6-10 years	Maturity: More than 10 years	Effective Duration	Credit Rating
Mortgages:							
Collateralized Mortgage Obligations	$ 196,784,004	$	$ 41,423,033	$ 127,732,497	$ 27,628,474	5.93	AAA
Pass Throughs	1,935,689	17,421	1,918,268			1.84	AAA
Commercial Mortgage Backed Securities	30,535,520		6,916,295	23,619,225		5.44	AAA
Corporate Bonds - Domestic	304,449,473	4,962,526	149,515,136	123,454,261	26,517,550	4.83	Multiple
Government Securities-Domestic:							
US Government Treasuries	80,450,748	23,459,438	5,752,228	51,239,082		4.54	AAA
Treasury Inflation Protected Securities	100,678,245		84,005,928	16,672,317		2.05	AAA
	714,833,679	$ 28,439,385	$ 289,530,888	$ 342,717,382	$ 54,146,024		

Investments Not Required to be Categorized Under GASB Statement No. 3:	
Commingled Equity Index Funds-Domestic	10,375,899
Other CMBF Assets	54,391,396
Money Market Funds	1,272,511
Total Investments Not Categorized	66,039,806
Total Permanent Funds Investments	$ 780,873,485

Permanent Funds had no investments with currency risk exposure.

NOTE 4. SECURITIES LENDING

Washington State law and WSIB policy permit the Permanent Funds to participate in securities lending programs to augment investment income. The WSIB has entered into an agreement with JP Morgan to act as agent for the WSIB in securities lending transactions. As JP Morgan is the custodian bank for the WSIB, it is counterparty to securities lending transactions.

In accordance with GASB Statement 28, the Permanent Funds report securities lent (the underlying securities) as assets in the statement of net assets on a pro rata ownership basis of the CMBF. Cash received as collateral on securities lending transactions and investments made with that cash are reported as assets. Securities received as collateral are reported as assets if the Permanent Funds have the ability to pledge or sell them without a borrower default. Liabilities resulting from these transactions are also reported in the statement of net assets. Securities lending transactions collateralized by securities that the Permanent Funds do not have the ability to pledge or sell unless the borrower defaults are not reported as assets and liabilities.

Fixed income securities were loaned and collateralized by the Permanent Funds' agent with cash and U.S. government securities (exclusive of mortgage backed securities and letters of credit), and irrevocable letters of credit. When the loaned securities had collateral denominated in the same currency the collateral requirement was 102% of the fair value, including accrued interest, of the securities loaned. All other securities were required to be collateralized at 105% of the fair value, including accrued interest, of the loaned securities. The collateral held and fair value of securities on loan at June 30, 2008 was $152,433,465 and $149,339,750 respectively. At year-end, the amounts the Permanent Funds owed the borrowers exceeded the amounts the borrowers owed the Permanent Funds, resulting in no credit risk exposure to borrowers.

SCHEDULE 2

Investment Type	Total Fair Value	Moody's Equivalent Credit Rating: Aaa	Aa1	Aa2	Aa3	A1
Corporate Bonds - Domestic	$ 304,449,473	$ 51,756,410	$ 9,133,484	$ 21,311,463	$ 57,845,400	$ 45,667,421

During fiscal year 2008, securities lending transactions could be terminated on demand by either the Permanent Funds or the borrower. The weighted average maturity of overall loans was 21 days.

Cash collateral was invested by the Permanent Funds' agents in securities issued or guaranteed by the U.S. government, in the WSIB's short-term investment pool (average final maturity of 136 days) or term loans. Because the securities lending agreements were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. Non-cash collateral could not be pledged or sold absent borrower default. There are no restrictions on the amount of securities that can be lent.

Securities were lent with the agreement that they would be returned in the future for exchange of the collateral. JP Morgan indemnified the WSIB by agreeing to purchase replacement securities or return the cash collateral in the event a borrower failed to return the loaned securities or pay distributions thereon. JP Morgan's responsibilities included performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable federal regulations concerning securities lending.

During fiscal year 2008, there were no significant violations of legal or contractual provisions, no failures by any borrowers to return loaned securities or to pay distributions thereon. Further, the Permanent Funds incurred no losses during fiscal year 2008 resulting from a default by either the borrowers or the securities lending agents.

NOTE 5. DERIVATIVES

Permanent Funds are authorized to utilize various derivative financial instruments, including mortgage-backed securities, financial futures, forward contracts, interest rate and equity swaps, and options to manage its exposure to fluctuations in interest and currency rates while increasing portfolio returns. Derivative transactions involve, to varying degrees, market and credit risk. Permanent Funds mitigate market risks arising from derivative transactions by requiring collateral in cash and investments to be maintained equal to the securities positions outstanding, and thereby prohibiting the use of leverage or speculation. Credit risks arising from derivative transactions are mitigated by selecting and monitoring creditworthy counterparties and collateral issuers.

A2	A3	Baa1	Baa2	Baa3
$ 30,444,947	$ 27,400,453	$ 24,355,958	$ 24,355,958	$ 12,177,979

Consistent with the Permanent Funds' authority to invest in derivatives, international active equity managers may make limited investments in financial futures, forward contracts or other derivative securities to manage exposure to currency rate risk and equitize excess cash holdings. No such derivative securities were held as of June 30, 2008. Domestic and foreign passive equity index fund managers may also utilize various derivative securities to manage exposure to risk and increase portfolio returns. Information on the extent of use and holdings of derivative securities by passive equity index fund managers is unavailable. At June 30, 2008, the only derivative securities held directly by the Permanent Funds CMBF were collateralized mortgage obligations of $196,784,004.

There were no repurchase agreements outstanding at June 30, 2008. Repurchase agreements are collateralized at 102%. The collateral is priced daily and held by WSIB's agent in WSIB's name.

State law permits the Permanent Funds to enter into reverse repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The fair value of the securities underlying reverse repurchase agreements normally exceeds the cash received, providing the dealers' margin against a decline in fair value of the securities. If the dealers default on their obligations to resell these securities to the state or provide securities or cash of equal value, the Permanent Funds would suffer an economic loss equal to the difference between the fair value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. There were no reverse repurchase agreements during the year and there were no liabilities outstanding as of June 30, 2008.

NOTE 6. SUMMARY OF INVESTMENT POLICY

Under RCW 43.33A.030, trusteeship of the Permanent Funds is vested in the voting members of the WSIB. The Legislature has established a standard of care for investment of this fund in RCW 43.33A.140. Additionally, the WSIB and its staff must comply with other state laws, such as the Ethics in Public Service Act, RCW 42.52, as it makes its investment decisions and seeks to meet the following investment objectives.

STRATEGIC OBJECTIVES

These funds investments are to be managed to achieve the highest return possible consistent with the desire to emphasize high current yield to maturity opportunities and to add value through active management. The objectives include:

- Safety of principal
- Current income
- Long-term stability of purchasing power
- Preservation of the public's trust

Taken together, these objectives imply portfolios for which growth keeps pace with inflation over time (preservation of capital), and that are able to provide a stable level of income sufficient to meet each fund's constituent needs.

PERFORMANCE OBJECTIVES

The Permanent Funds' investments are to emphasize stability and maximize income to support the operations of its irreducible principal. These Permanent Funds do have a small equity allocation which incorporates limited exposure to portfolio growth. Within the required accounting guidelines, the Funds' portfolio is to be managed, so that its individual performance meets or exceeds the return of its specific benchmark with a volatility of returns that, over time, is similar to or less than the benchmarks for a similar level of returns. For the Permanent Funds, which have both equity and fixed income holdings, the performance benchmark shall be a combination of an equity index representative of the equity held in Permanent Funds and the Lehman Aggregate Index, in percentage allocations that represent Permanent Funds' target allocations. The WSIB will measure both the book value income return and the marked-to-market total rate of return on the fund.

RISK TOLERANCE

Risk will be managed in a prudent manner. Since the stakeholder only receives the current income and net capital appreciation of the assets, Permanent Funds have a below average ability to tolerate volatility in current income.

PORTFOLIO CONSTRAINTS

- All assets under the management of the WSIB are to be invested to maximize return at a prudent level of risk in accordance with RCW 43.33A.110 and RCW 43.33A.140, which state, in part, that the WSIB is to "invest and manage the assets entrusted to it with reasonable care, skill, prudence and diligence under circumstances then prevailing which a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an activity of like character and purpose."
- No corporate fixed income issue's cost shall exceed 3% of the fund's fair value at the time of purchase, nor shall its fair value exceed 6% of the funds' fair value at any time (RCW 43.33A.140).

PERMISSIBLE INVESTMENTS

- Any WSIB managed fund that meets a fund's investment objectives and its permissible investment constraints.
- U.S. and non-U.S. public equity.
- Investment Grade Fixed Income – defined using the method employed by the Lehman Brothers Global Family of Fixed Income Indices. Although fixed income securities that are rated below investment grade may not be purchased, portfolio holdings that are downgraded to those levels or are no longer rated may continue to be held.

PERMISSIBLE FIXED INCOME MARKET SEGMENTS

- U.S. Treasuries and Government Agencies
- Credit Bonds
- Mortgage Backed Securities
- Asset Backed Securities
- Commercial Backed Mortgage Securities
- Convertible Securities
- Eurodollar Bonds
- Non-US Dollar Bonds
- Other fixed income segments and instruments may be added from time to time as they are developed or deemed appropriate

SECTOR ALLOCATIONS

Portfolio allocations are to be managed with the ranges presented below. These targets are long-term in nature. Deviations may occur in the short-term as a result of interim market conditions: however, if a range is exceeded, the portfolio must be rebalanced to the target allocations, as soon as it is practical.

Target allocations for the Fixed Income Sectors	
U.S. Treasuries and Government Agencies	10% – 50%
Credit Bonds	10% – 50%
Asset Backed Securities	0% – 10%
Commercial Mortgage Backed Securities	0% – 10%
Mortgage Backed Securities	5% – 40%

DURATION TARGET

The fixed income portfolio's duration is to be targeted within plus or minus 20% of the duration of the portfolio's performance benchmark, the Lehman Aggregate Index.

NOTE 7. SUBSEQUENT EVENTS

Subsequent to June 30, 2008, the Permanent Funds' investment in Lehman Brothers Holdings, Inc. became worthless resulting in a loss of $3,994,700. The realized loss is not reflected in the accompanying financial statements since the loss arose subsequent to June 30, 2008.

The Permanent Funds also invest in a commingled index fund which held securities issued by American International Group, Inc., Washington Mutual, Inc. and Lehman Brothers Holdings, Inc. Management estimates that the Permanent Funds' share of the commingled fund's losses arising subsequent to June 30, 2008, from American International Group, Inc., Washington Mutual, Inc. and Lehman Brothers Holdings, Inc. securities amount to $1,207,192, $95,574, and $317,399, respectively.

Also subsequent to June 30, 2008, the Permanent Funds sustained other unrealized losses on investments due to turmoil within the capital markets and WSIB concluded that the decline in fair value is deemed to be temporary. Since the unrealized losses arose subsequent to June 30, 2008, they are not reflected in the accompanying financial statements.

PETERSON SULLIVAN LLP

CERTIFIED PUBLIC ACCOUNTANTS
601 UNION STREET, SUITE 2300
SEATTLE, WASHINGTON 98101

TEL 206.382.7777 • FAX 206.382.7777
http://www.pscpa.com

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF THE WASHINGTON STATE INVESTMENT BOARD

Olympia, Washington

We have audited the accompanying statement of net assets for the Other Funds (Emergency Reserve, Reclamation Revolving, Game & Special Wildlife, Pension Stabilization, Health Insurance, and Radiation Perpetual) of the State of Washington as managed by the Washington State Investment Board ("the Other Funds") as of June 30, 2008, and the related statement of changes in net assets for the year then ended. These financial statements are the responsibility of the Washington State 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. 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.

The financial statements referred to in the first paragraph present only the investment activity of the Other Funds as managed by the Washington State Investment Board. The financial statements do not purport to, and do not, present the financial activity of the Trust Funds of other state agencies. Further, they do not purport to, and do not, present fairly the financial position and results of operations of the Washington State Investment Board or of the State of Washington.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the net assets of the Other Funds as of June 30, 2008, and the change in net assets for the year then ended in conformity with accounting principles generally accepted in the United States.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Other Funds. Management's Discussion and Analysis preceding 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.

/S/ PETERSON SULLIVAN LLP

October 31, 2008

MANAGEMENT DISCUSSION & ANALYSIS

Management's Discussion and Analysis for the Other Funds of the State of Washington, managed by the WSIB, is presented as an introduction to the financial statements and 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 to the prior year's activities and results. The WSIB manages funds for other State of Washington departments. This section of this report represents only the Other Funds portion.

Table 1 - Summarized Net Assets

	2008	2007	Dollar Change	Percent Change
Total Money Market Funds	$662,353,124	$754,811,514	$(92,458,390)	-12.2%
Total Fixed Income Investments	150,638	179,283	(28,645)	-16.0%
Total Investments	662,503,762	754,990,797	(92,487,035)	-12.3%
Total Accruals	1,299,005	2,021,812	(722,807)	-35.8%
Total Net Assets at Fair Value	$663,802,767	$757,012,609	$(93,209,842)	-12.3%

Following this section of the report are the financial statements and footnotes. The Statement of Net Assets provides information on the types of investments and the liabilities of the Other Funds. This information is summarized in Table 1. Table 1 also compares the investment balances at June 30, 2008, with those at June 30, 2007. The Statement of Changes in Net Assets provides information on investment performance and other increases and decreases in the net assets of the Other Funds for the year ended June 30, 2008. This information is summarized in Table 2. Table 2 also compares the financial activities of the Other Funds for the year ended June 30, 2008, with those of the year ended June 30, 2007. The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements of the Other Funds.

As shown in Table 1, the net assets of the Other Funds decreased by $93.2 million during the fiscal year ended June 30, 2008. The fair value of Other Funds assets is directly impacted by the returns of the various capital markets within which the WSIB is legislatively allowed to invest. Due to those restrictions, limited benefits of diversification can be gained. The WSIB makes the asset allocation decisions for these assets. WSIB staff rebalances the Other Funds' assets pursuant to WSIB policy.

As reflected in Table 1, money market funds decreased by 12.2%. The primary reason for the decrease was due to beneficiary withdrawals by the Game and Special Wildlife and the Pension Stabilization Funds. Fixed income investments decreased by 16%. This was due to maturing fixed income assets that were reinvested in money market funds.

As shown in Table 2, the net amount contributed decreased by $345.9 million, due to beneficiary withdrawals. Net investment earnings grew by $5.5 million which is attributable to the additional funds being added primarily by the Emergency Reserve and Health Insurance Funds. Operating expenses grew primarily due to an increase in the Emergency Reserve Fund assets.

Table 2 - Summarized Changes in Net Assets

	2008	2007	Dollar Change
Beginning Total Net Assets at Fair Value	$757,012,609	$509,754,642	$247,257,967
Net Amount Contributed (Withdrawn)	(124,018,449)	221,930,860	(345,949,309)
Investment Earnings	30,908,920	25,379,383	5,529,537
WSIB Operating Costs	(100,313)	(52,276)	(48,037)
Net Investment Earnings	30,808,607	25,327,107	5,481,500
Ending Total Net Assets at Fair Value	$663,802,767	$757,012,609	$(93,209,842)

NOTES TO FINANCIAL STATEMENTS

NOTE 1. DESCRIPTION OF FUNDS AND SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF FUNDS

The Other Funds of the State of Washington consist of: the Emergency Reserve, Reclamation Revolving, Game and Special Wildlife, Pension Stabilization, Health Insurance, and the Radiation Perpetual funds. These funds were created by Washington State legislation over the years to fund various mandates and can be liquidated as needed to fund those mandates. These funds are invested by the WSIB until they are completely liquidated or legislation closes the funds. The financial statements present only the activity of the Other Funds as managed by the WSIB. The WSIB has exclusive control of the investments of all money invested in the Other Funds. The financial statements do not present the financial position and results of operations of the WSIB.

BASIS OF ACCOUNTING

The accompanying financial statements have been prepared in conformity with accounting principles

OTHER FUNDS STATEMENT OF NET ASSETS

JUNE 30, 2008

See notes to financial statements

	Emergency Reserve	Reclamation Revolving	Game & Special Wildlife	Pension Stabilization	Health Insurance	Radiation Perpetual	Total Other Trust Funds	Percent of Total
ASSETS								
Investments:								
Money Market Funds	$ 302,654,355	$ 49,960	$ 7,748,493	$ 264,585,398	$ 86,988,799	$ 326,119	$ 662,353,124	100.0%
Municipal Bonds		150,638					150,638	0.0%
Total Investments	302,654,355	200,598	7,748,493	264,585,398	86,988,799	326,119	662,503,762	100.0%
Interest Receivable	555,641	3,915	14,225	564,924	159,702	599	1,299,006	
Total Assets	303,209,996	204,513	7,762,718	265,150,322	87,148,501	326,718	663,802,768	
LIABILITIES								
Accounts Payable		1					1	
Total Liabilities		1					1	
Net Assets	$ 303,209,996	$ 204,512	$ 7,762,718	$ 265,150,322	$ 87,148,501	$ 326,718	$ 663,802,767	

OTHER FUNDS STATEMENT OF CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2008

See notes to financial statements

	Emergency Reserve	Reclamation Revolving	Game & Special Wildlife	Pension Stabilization	Health Insurance	Radiation Perpetual	Total Other Trust Funds
Additions							
Investment Income:							
Interest, Dividends and Other Investment Income	$ 9,409,903	$ 9,532	$ 324,602	$ 17,827,508	$ 3,326,736	$ 12,471	$ 30,910,752
Unrealized Market Gains		10,354					10,354
Less:							
Investment Expenses	(3,574)	(5)	(143)	(7,031)	(1,428)	(5)	(12,186)
WSIB Operating Expenses	(31,651)	(29)	(1,100)	(56,181)	(11,310)	(42)	(100,313)
Total Investment Income	9,374,678	19,852	323,359	17,764,296	3,313,998	12,424	30,808,607
Net Amount Contributed	66,763,070	29	(2,498,900)	(188,294,000)	11,310	42	(124,018,449)
Net Increase (Decrease) in Net Assets	76,137,748	19,881	(2,175,541)	(170,529,704)	3,325,308	12,466	(93,209,842)
Net Assets, Beginning of Year	227,072,248	184,631	9,938,259	435,680,026	83,823,193	314,252	757,012,609
Net Assets, End of Year	$ 303,209,996	$ 204,512	$ 7,762,718	$ 265,150,322	$ 87,148,501	$ 326,718	$ 663,802,767

generally accepted in the United States for governments prescribed by the Governmental Accounting Standards Board (GASB) on the accrual basis of accounting.

VALUATION OF INVESTMENTS

Investments are reported at fair value. Fair values are based on published market prices, quotations from national security exchanges and security pricing services. The Other Funds have no investments of any commercial or industrial organization whose fair value exceeds 5% of each plan's net assets. The assets of the Other Funds are adjusted to fair values monthly. Unrealized gains and losses are included as investment earnings in the statement of changes in net assets.

REVENUE RECOGNITION

Interest and dividend income is recognized when earned. Capital gains and losses are recognized on a trade date basis. Purchases and sales of investments are also recorded on a trade date basis.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from the estimated amounts.

NOTE 2. FEES AND EXPENSES

Investment fees and expenses are paid from non-appropriated funds or are netted directly from the asset value of the invested funds. The fees paid are reported on the statement of changes in net assets. These fees are accounted for as a reduction of investment income to the Other Funds. Fees include investment management fees and commissions, investment consultant fees, legal fees and other investment management related expenses. The WSIB operating costs are charged against the funds based upon actual costs incurred by the WSIB to manage the investments.

NOTE 3. DEPOSIT AND INVESTMENT RISK DISCLOSURES

CUSTODIAL CREDIT RISK – DEPOSITS

Custodial credit risk for deposits is the risk that in the event of a bank failure the Other Funds' deposits may not be returned to it. The Other Funds do not have a deposit policy for custodial credit risk. As of June 30, 2008, there were no deposits with the custodial bank.

CUSTODIAL CREDIT RISK – INVESTMENTS

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, the Other Funds will not be able to recover the value of investments that are in the possession of an outside party. The Other Funds do not have an investment policy specifically for custodial credit risk. The securities lending collateral balances are from securities required to be listed under GASB Statement 3 Category 3 – Uninsured and unregistered with securities held by the counterparty, or by its trust department or agent but not in the Fund's name. (This includes the amount of any repurchase agreement that exceeds the fair value of the underlying securities). The Other Funds had no security lending activity for the fiscal year ending June 30, 2008.

The WSIB has been authorized by statute as having the investment management responsibility for the Other Funds. The WSIB is authorized to invest as provided by statute (Chapter 43.33A RCW) and WSIB policy. The WSIB is authorized and invests in the following: U.S. Treasury Bills; discount notes; repurchase agreements; reverse repurchase agreements; banker's acceptances; commercial paper; guaranteed investment contracts; U.S. Government and Agency (government sponsored corporation eligible for collateral purposes at the Federal Reserve) securities; non-U.S. dollar bonds; investment grade corporate bonds; non-investment grade corporate bonds; publicly traded mortgage-backed securities; privately placed mortgages; private placements of corporate debt; U.S. and foreign common stock; U.S. preferred stock; convertible securities; private equity including but not limited to investment corporations, partnerships, and limited liability companies for venture capital, leverage buy-outs, real estate and other tangible assets, or other forms of private equity; asset backed securities; and derivative securities including futures, options, options on futures, forward contracts, and swap transactions. There have been no violations of these investment restrictions during fiscal year 2008.

INTEREST RATE RISK

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. Effective duration is the measure of a debt investment's exposure to fair value changes arising from changes in interest rates. Effective duration uses the present value of cash flows, weighted for those flows as a percentage of the investment's full price. Increases in prevailing interest rates generally translate into decreases in fair values of those investments. The Other Funds' fixed income investments are to be actively managed to exceed the return of the Lehman Aggregate Index, with volatility as measured by duration to be similar to or less than the index. As of June 30, 2008 there were no bonds held in the funds which are included in the Lehman Aggregate Index.

Schedule 1 provides information about the interest rate risks associated with the Other Funds' investments as of June 30, 2008. The schedule displays various asset classes held by maturity in years, effective durations and credit ratings.

CREDIT RISK

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As of June 30, 2008, the investments in municipal bonds were rated AAA by S&P and Aaa by Moody's.

CONCENTRATION OF CREDIT RISK

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The Other Funds have a formal investment policy that limits the amount these funds may invest in any one issuer to no more than 3%. The Reclamation Revolving fund was created prior to this investment policy. The Reclamation Revolving funds municipal bond investments are approximately 36% in Chelan County, Entiat Irrigation District, 39% in Chelan County, Lower Stemilt Irrigation District, 16% in Okanogan County, Aeneas Lake Irrigation District, and 9% in Spokane County MOAB Irrigation District.

HIGHLY SENSITIVE INVESTMENTS

There are no investments that are highly subject to interest rate changes as of June 30, 2008.

FOREIGN CURRENCY RISK

The Other Funds do not have a policy regarding foreign currency risk, which is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. There was no foreign investment risk exposure in any of theses funds as of June 30, 2008.

NOTE 4. INVESTMENT POLICY

Under RCW 43.33A.030, trusteeship of the Other Funds is vested in the voting members of the WSIB. The Legislature has established a standard of care for investment of these funds in RCW 43.33A.140. Additionally, the WSIB and its staff must comply with other state laws, such as the Ethics in Public Service Act, RCW 42.52, as it makes its investment decisions and seeks to meet the following investment objectives.

STRATEGIC OBJECTIVES

These Funds' investments are to be managed to achieve the highest return possible consistent with the desire to emphasize current income. The objectives include:

- Safety of Principal
- Current Income
- Preservation of the Public's Trust

SCHEDULE 1

Investment Type	Total Fair Value	Maturity: Less than 1 year	1-5 years	6-10 years	More than 10 years	Effective Duration	Credit Rating
Municipal Bonds	$ 150,638	$ 47,034	$ 103,604	$	$	1.52	AAA
Money Market Funds	662,353,124						N/A
Total Investments	$ 662,503,762	$ 47,034	$ 103,604	$	$		

PERFORMANCE OBJECTIVES

These Funds' investments are to emphasize stability and maximize income to support the operations of each program.

RISK TOLERANCE

Risk will be managed in a prudent manner. The funds have a below average ability to tolerate volatility.

PERMISSIBLE INVESTMENTS

- Government agencies and U.S. Treasuries
- Short-term Investment Funds (STIF) that invest strictly in U.S. Government or Government Agency instruments, including Repurchase Agreements for U.S. Government and Agency instruments. The Pension Stabilization Fund is currently invested in the Blackrock TempCash short-term investment funds which hold various top rated money market instruments, including repurchase agreements.
- Cash collateral for security lending and collateral for repurchase agreements is restricted to U.S. Government and Government Agency securities.

PORTFOLIO CONSTRAINTS

- All assets under the management of the WSIB are to be invested to maximize return at a prudent level of risk in accordance with RCW 43.33A.110 and RCW 43.33A.140, which state, in part, that the WSIB is to "invest and manage the assets entrusted to it with reasonable care, skill, prudence and diligence under circumstances then prevailing which a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an activity of like character and purpose."

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INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF THE WASHINGTON STATE INVESTMENT BOARD

Olympia, Washington

We have audited the accompanying statement of net assets for the Guaranteed Education Tuition Fund of the State of Washington as managed by the Washington State Investment Board ("the Guaranteed Education Tuition Fund") as of June 30, 2008, and the related statement of changes in net assets for the year then ended. These financial statements are the responsibility of the Washington State 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. 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.

The financial statements referred to in the first paragraph present only the investment activity of the Guaranteed Education Tuition Fund as managed by the Washington State Investment Board. The financial statements do not purport to, and do not, present the financial activity of the Washington Guaranteed Education Tuition Program. Further, they do not purport to, and do not, present fairly the financial position and results of operations of the Washington State Investment Board or of the State of Washington.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the net assets of the Guaranteed Education Tuition Fund as of June 30, 2008, and the changes in net assets for the year then ended in conformity with accounting principles generally accepted in the United States.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Guaranteed Education Tuition Fund. Management's Discussion and Analysis preceding 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.

/S/ PETERSON SULLIVAN LLP

October 31, 2008

MANAGEMENT DISCUSSION & ANALYSIS

Management's Discussion and Analysis for the Guaranteed Education Tuition Fund (GET), managed by the WSIB, is presented as an introduction to the financial statements and 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 to the prior year's activities and results. The WSIB manages funds for other State of Washington departments. This section of this report represents only the GET Fund portion.

Following this section of the report are the financial statements and footnotes. The Statement of Net Assets provides information on the types of investments and the liabilities of GET. This information is summarized in Table 1. Table 1 also compares the investment balances at June 30, 2008, with those at June 30, 2007. The Statement of Changes in Net Assets provides information on investment performance and other increases and decreases in the net assets of GET for the year ended June 30, 2008. This information is summarized in Table 2. Table 2 also compares the financial activities of GET for the year ended June 30, 2008, with those of the year ended June 30, 2007. The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements of GET.

As shown in Table 1, the net assets of GET increased by $103.7 million during the fiscal year ended June 30, 2008. The fair value of the GET Fund assets is directly impacted by the returns of the various capital markets within which the WSIB invests. However, one of the benefits of diversification gained by investing across various investment types as well as broadly within an asset class is the reduction in aggregate volatility of the total investment portfolio. The WSIB, after discussions with the GET Committee, makes the asset allocation decisions for GET assets. WSIB staff rebalances the GET Funds' assets between asset classes as markets move pursuant to WSIB policy.

As reflected in Table 1, the increase in money markets of 235.8% was due to higher cash balances to fund anticipated tuition payments. Fixed income and public equity investment balances increased by 18.6% and 4.9%, respectively. This was primarily due to additional investments made in both asset classes.

As shown in Table 2, total net investment earnings decreased by $117.9 million from the prior year. This was primarily due to negative investment performance.

Table 1 - Summarized Net Assets

	2008	2007	Dollar Change	Percent Change
Total Money Market Funds	$11,577,187	$3,447,447	$8,129,740	235.8%
Total Fixed Income Investments	431,605,831	363,943,093	67,662,738	18.6%
Total Equity Investments	592,798,742	564,869,143	27,929,599	4.9%
Total Investments	1,035,981,760	932,259,683	103,722,077	11.1%
Total Accruals, Net	3,705,354	3,700,329	5,025	0.1%
Total Net Assets at Fair Value	$1,039,687,114	$935,960,012	$103,727,102	11.1%

Table 2 - Summarized Change in Net Assets

	2008	2007	Dollar Change
Beginning Total Net Assets at Fair Value	$935,960,012	$707,999,750	$227,960,262
Net Amount Contributed	112,910,511	119,270,956	(6,360,445)
Investment Earnings	(9,053,507)	108,775,844	(117,829,351)
WSIB Operating Costs	(129,902)	(86,538)	(43,364)
Net Investment Earnings	(9,183,409)	108,689,306	(117,872,715)
Ending Total Net Assets at Fair Value	$1,039,687,114	$935,960,012	$103,727,102

NOTES TO FINANCIAL STATEMENTS

NOTE 1. DESCRIPTION OF FUND AND SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF FUND

Guaranteed Education Tuition Fund (GET) consists of contributions from participants planning on attending advanced education programs in the State of Washington. This Fund is invested by the WSIB until participants begin to withdraw funds as needed to pay for educational expenses. The financial statements present only the activity of GET as managed by the WSIB. The WSIB has exclusive control of the investments of all money invested in GET. The financial statements do not present the financial position and results of operations of the WSIB or Washington Guaranteed Education Tuition Program.

BASIS OF ACCOUNTING

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States for governments prescribed by the Governmental Accounting Standards Board (GASB) on the accrual basis of accounting.

VALUATION OF INVESTMENTS

Investments are reported at fair value. Fair values are based on published market prices, quotations from national security exchanges, and security pricing services. GET has no investments of any commercial or industrial organization whose fair value exceeds 5% of net assets. The assets of GET are adjusted to fair values monthly. Unrealized gains and losses are included as investment earnings in the statement of changes in net assets.

REVENUE RECOGNITION

Interest and dividend income is recognized when earned. Capital gains and losses are recognized on a trade date basis. Purchases and sales of investments are also recorded on a trade date basis.

SECURITIES LENDING

GET records collateral received under securities lending agreements where GET has the ability to spend, pledge or sell the collateral without borrower default. Liabilities resulting from these transactions are also recorded. Additionally, costs associated with securities lending transactions, including broker commissions paid, are reported in the accompanying statements. The statement of net assets does not include detailed holdings of securities lending collateral by investment classification.

GET STATEMENT OF NET ASSETS

JUNE 30, 2008

See notes to financial statements

	Total	Percent of Total
ASSETS		
Investments:		
Money Market Funds	$ 11,577,187	1.1%
Treasury Inflation Protected Securities	431,605,831	41.7%
Commingled Equity Index Funds - Domestic	386,244,379	37.3%
Commingled Equity Index Funds - Foreign	206,554,363	19.9%
Total Investments	1,035,981,760	100.0%
Interest Receivable	4,019,518	
Collateral Held Under Securities Lending Agreements	334,677,294	
Total Assets	1,374,678,572	
LIABILITIES		
Obligations Under Securities Lending Agreements	334,677,294	
Accounts Payable	314,164	
Total Liabilities	334,991,458	
Net Assets	$ 1,039,687,114	

GET STATEMENT OF CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2008

See notes to financial statements

	Total
Additions	
Investment Income:	
Interest, Dividends and Other Investment Income	$ 35,626,391
Realized Capital Gains	98,743,280
Realized Capital Losses	(13,926,938)
Unrealized Losses	(118,092,121)
Less:	
Securities Lending Broker Rebates Paid	(11,363,150)
Investment Expenses	(40,969)
WSIB Operating Costs	(129,902)
Total Investment Loss	(9,183,409)
Net Amount Contributed	112,910,511
Net Increase in Net Assets	103,727,102
Net Assets, Beginning of Year	935,960,012
Net Assets, End of Year	$ 1,039,687,114

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from the estimated amounts.

NOTE 2. FEES AND EXPENSES

Investment fees and expenses are paid from non-appropriated funds or are netted directly from the asset value of the invested funds. The fees paid by GET are reported on the statement of changes in net assets. These fees are accounted for as a reduction of investment income to GET. These fees include investment management fees and commissions, investment consultant fees, legal fees and other investment management related expenses. The WSIB operating costs are charged against the funds based upon actual costs incurred by the WSIB to manage the investments.

NOTE 3. DEPOSIT AND INVESTMENT RISK DISCLOSURES

CUSTODIAL CREDIT RISK – DEPOSITS

Custodial credit risk for deposits is the risk that in the event of a bank failure GET deposits may not be returned to it. GET does not have a deposit policy for custodial credit risk. As of June 30, 2008, there were no deposits with the custodial bank.

CUSTODIAL CREDIT RISK – INVESTMENTS

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, the GET Funds will not be able to recover the value of investments that are in the possession of an outside party. The GET Funds do not have an investment policy specifically for custodial credit risk. The securities lending collateral balances are from securities required to be listed under GASB Statement 3 Category 3 – Uninsured and unregistered with securities held by the counterparty, or by its trust department or agent but not in the GET's name. (This includes the amount of any repurchase agreement that exceeds the fair value of the underlying securities).

The WSIB has been authorized by statute as having the investment management responsibility for GET. The WSIB is authorized to invest as provided by statute (Chapter 43.33A RCW) and WSIB policy. The WSIB is authorized and invests in the following: U.S. Treasury Bills; discount notes; repurchase agreements; reverse repurchase agreements; banker's acceptances; commercial paper; guaranteed investment contracts; U.S. Government and Agency (government sponsored corporation eligible for collateral purposes at the Federal Reserve) securities; non-U.S. dollar bonds; investment grade corporate bonds; non-investment grade corporate bonds; publicly traded mortgage-backed securities; privately placed mortgages; private placements of corporate debt; U.S. and foreign common stock; U.S. preferred stock; convertible securities; private equity including but not limited to investment corporations, partnerships, and limited liability companies for venture capital, leverage buy-outs, real estate and other tangible assets, or other forms of private equity; asset backed securities; and derivative securities including futures, options, options on futures, forward contracts, and swap transactions. There have been no violations of these investment restrictions during fiscal year 2008.

INTEREST RATE RISK

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. Effective duration is the measure of a debt investment's exposure to fair value changes arising from changes in interest rates. Effective duration uses the present value of cash flows, weighted for those flows as a percentage of the investment's full price. Increases in prevailing interest rates generally translate into decreases in fair values of those investments. GET's fixed income investments are to be actively managed to exceed the return of the Lehman Custom TIPS Index, with volatility as measured by duration to be similar to or less than the index. As of June 30, 2008, the GET Fund's durations of the various fixed income classes were within the duration targets of the Lehman Custom TIPS Index.

Schedule 1 provides information about the interest rate risks associated with GET investments as of June 30, 2008. The schedule displays various asset classes held by maturity in years, effective durations and credit ratings.

CREDIT RISK

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. GET debt investments in U.S. Treasury Inflation Protected Securities as of June 30, 2008 were rated Aaa by Moody's and AAA by S&P.

CONCENTRATION OF CREDIT RISK

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. GET policy states no corporate fixed income issue's cost shall exceed 3% of the fair value at the time of purchase, nor shall its fair value exceed 6% of the fair value at any time (RCW 43.33A.140). There was no concentration of credit risk that exceeded these limits as of June 30, 2008.

FOREIGN CURRENCY RISK

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. GET has no formal policy to limit foreign currency risk. The GET Fund had no investments with currency risk exposure. The only security held by the GET Fund with foreign currency risk at June 30, 2008 consists of $206,554,363 invested in an international commingled equity index fund. As such, no currency risk denomination is presented.

NOTE 4. SECURITIES LENDING

Washington State law and Board policy permit GET to participate in securities lending programs to augment investment income. The WSIB has entered into an agreement with JP Morgan to act as agent for the WSIB in securities lending transactions. As JP Morgan is the custodian bank for the WSIB, it is counterparty to securities lending transactions.

In accordance with GASB Statement 28, GET reports securities lent (the underlying securities) as assets in the statement of net assets. Cash received as collateral on securities lending transactions and investments made with that cash are reported as assets. Securities received as collateral are reported as assets if GET has the ability to pledge or sell them without a borrower default. Liabilities resulting from these transactions are also reported in the statement of net assets. Securities lending transactions collateralized by securities that GET does not have the ability to pledge or sell unless the borrower defaults are not reported as assets and liabilities.

Fixed income securities were loaned and collateralized by the GET's agent with cash and U.S. government securities (exclusive of mortgage backed securities and letters of credit), and irrevocable letters of credit. When the loaned securities had collateral denominated in the same currency, the collateral requirement was 102% of the fair value, including accrued interest, of the securities loaned. All other securities were required to be collateralized at 105% of the fair value, including accrued interest, of the loaned securities. The collateral held and fair value of securities on loan at June 30, 2008 was $334,677,294 and $327,884,846 respectively. At year-end, the amounts the GET Fund owed the borrowers exceeded the amounts the borrowers owed the GET Fund, resulting in no credit risk exposure to borrowers.

During fiscal year 2008, securities lending transactions could be terminated on demand by either GET or the borrower. The weighted average maturity of overall loans was 21 days.

Cash collateral was invested by GET's agent in securities issued or guaranteed by the U.S. government, in the WSIB's short-term investment pool (average final maturity of 136 days) or term loans. Because the securities lending agreements were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. Non-cash collateral could not be pledged or sold absent borrower default. There are no restrictions on the amount of securities that can be lent.

Securities were lent with the agreement that they would be returned in the future for exchange of the collateral. JP Morgan indemnified the WSIB by agreeing to purchase replacement securities or return the cash collateral in the event a borrower failed to return the loaned securities or pay distributions thereon. JP Morgan's responsibilities included performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable federal

SCHEDULE 1

Investment Type	Total Fair Value	Maturity: Less than 1 year	Maturity: 1-5 years	Maturity: 6-10 years	Maturity: More than 10 years	Effective Duration	Credit Rating
Treasury Inflation Protected Securities	$ 431,605,831	$	$ 131,639,778	$ 192,453,040	$ 107,513,013	6.56	AAA
Investments Not Required to be Categorized Under GASB Statement No. 3:							
Commingled Equity Index Funds-Domestic	386,244,379						
Commingled Equity Index Funds-Foreign	206,554,363						
Money Market Funds	11,577,187						
Total Investments Not Categorized	604,375,929						
Total Investments	$ 1,035,981,760						

regulations concerning securities lending.

During fiscal year 2008, there were no significant violations of legal or contractual provisions, no failures by any borrowers to return loaned securities or to pay distributions thereon. Further, GET incurred no losses during fiscal year 2008 resulting from a default by either the borrowers or the securities lending agents.

NOTE 5. SUMMARY OF INVESTMENT POLICY

Under RCW 43.33A.030, trusteeship of GET is vested in the voting members of the WSIB. The Legislature has established a standard of care for investment of these funds in RCW 43.33A.140. Additionally, the WSIB and its staff must comply with other state laws, such as the Ethics in Public Service Act, RCW 42.52, as it makes its investment decisions and seeks to meet the following investment objectives.

In accordance with RCW 43.33.110, the portfolio is managed to achieve a maximum return at a prudent level of risk. The key determinate is identifying the prudent level of risk for the program considering the program's need to meet or exceed the growth rate of tuition costs. Based on this requirement the order of the objectives shall be:

- Maintain the solvency of the Fund and the financial stability of the program as measured by the external actuary.
- Ensure sufficient assets are available to Fund the expected college tuition payments.
- Subject to one and two above, achieve a maximum return that will meet or exceed the rate of growth in college tuition cost over a ten-year period, at a prudent level risk.
- Invest in a manner that will not compromise public confidence in the program.

RISK CONSTRAINT STANDARDS

- All assets under management by the WSIB are to be invested to maximize return at a prudent level of risk in accordance with the requirements of RCW 43.33A.110 and RCW 43.33A.140.
- No corporate fixed income issue's cost shall exceed 3% of the Fund's fair value at the time of purchase, nor shall its fair value exceed 6% of the Fund's fair value at any time (RCW 43.33A.140).
- Diversify the assets at a prudent level to moderate fluctuations in the fair value of the program.

PERMISSIBLE INVESTMENTS

- International Equity
- U.S. Equity
- Inflation Indexed Bonds
- U.S. Treasuries and Government Obligations
- Credit Bonds
- WSIB Bond Market Fund
- Cash equivalent funds managed on behalf of the WSIB.

DEVELOPMENTAL DISABILITIES ENDOWMENT TRUST FUND

PETERSON SULLIVAN LLP
CERTIFIED PUBLIC ACCOUNTANTS
601 UNION STREET, SUITE 2300
SEATTLE, WASHINGTON 98101
TEL 206.382.7777 • FAX 206.382.7777
http://www.pscpa.com

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF THE WASHINGTON STATE INVESTMENT BOARD

Olympia, Washington

We have audited the accompanying statement of net assets for the Developmental Disabilities Endowment Trust Fund of the State of Washington as managed by the Washington State Investment Board ("the Developmental Disabilities Endowment Trust Fund") as of June 30, 2008, and the related statement of changes in net assets for the year then ended. These financial statements are the responsibility of the Washington State 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. 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.

The financial statements referred to in the first paragraph present only the investment activity of the Developmental Disabilities Endowment Trust Fund as managed by the Washington State Investment Board. The financial statements do not purport to, and do not, present the financial activity of the Trust Funds of other state agencies. Further, they do not purport to, and do not, present fairly the financial position and results of operations of the Washington State Investment Board or of the State of Washington.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the net assets of the Developmental Disabilities Endowment Trust Fund as of June 30, 2008, and the changes in net assets for the year then ended in conformity with accounting principles generally accepted in the United States.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Developmental Disabilities Endowment Trust Fund. Management's Discussion and Analysis preceding 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.

/S/ PETERSON SULLIVAN LLP

October 31, 2008

MANAGEMENT DISCUSSION & ANALYSIS

Management's Discussion and Analysis for the Developmental Disabilities Endowment Trust Fund (DDEF) of the State of Washington, managed by the WSIB, is presented as an introduction to the financial statements and 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 to the prior years activities and results. The WSIB manages funds for other State of Washington departments. This section of this report represents only the DDEF portion.

Following this section of the report are the financial statements and footnotes. The Statement of Net Assets provides information on the types of investments and the liabilities of DDEF. This information is summarized in Table 1. Table 1 also compares the investment balances at June 30, 2008, with those at June 30, 2007. The Statement of Changes in Net Assets provides information on investment performance and other increases and decreases in the net assets of DDEF for the year ended June 30, 2008. This information is summarized in Table 2. Table 2 also compares the financial activities of DDEF for the year ended June 30, 2008, with those of the year ended June 30, 2007. The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements of DDEF.

As shown in Table 1, the assets under management within DDEF increased by $2.0 million during the fiscal year ended June 30, 2008. Contributions to DDEF consist of a "state" portion and a "private portion." The increase in net assets was primarily due to the increased contributions from the DDEF "private" portion. The fair value of DDEF assets is directly impacted by the returns of the various capital markets within which the WSIB invests. However, one of the benefits of diversification gained by investing across various investment types as well as broadly within an asset class is the reduction in aggregate volatility of the total investment portfolio. The WSIB, with concurrence from the Developmental Disabilities Life Opportunities Trust Governing Board, makes the asset allocation decisions for DDEF assets. WSIB staff rebalances the DDEF's assets between asset classes as markets move, pursuant to WSIB policy.

In September 2007 the WSIB eliminated the cash allocation in the state DDEF Fund. This change to asset class allocation resulted in the decrease in money market funds and the increase in fixed income investments. As shown in Table 2, net investment earnings decreased by $1.48 million. The private DDEF assets have a higher risk profile and the earnings were impacted by the negative investment performance in the equity markets.

Table 1 - Summarized Net Assets

	2008	2007	Dollar Change	Percent Change
Total Money Market Funds	$105,325	$2,019,739	$(1,914,414)	-94.8%
Total Fixed Income Investments	6,744,117	4,310,415	2,433,702	56.5%
Total Equity Investments	10,982,700	9,533,079	1,449,621	15.2%
Total Investments	17,832,142	15,863,233	1,968,909	12.4%
Total Accruals, Net	45,555	50,931	(5,376)	-10.6%
Total Net Assets at Fair Value	$17,877,697	$15,914,164	$1,963,533	12.3%

Table 2 - Summarized Changes in Net Assets

	2008	2007	Dollar Change
Beginning Total Net Assets at Fair Value	$15,914,164	$12,999,620	$2,914,544
Net Amount Contributed	1,972,483	1,444,474	528,009
Investment Earnings	(7,910)	1,470,885	(1,478,795)
WSIB Operating Costs	(1,040)	(815)	(225)
Net Investment Earnings	(8,950)	1,470,070	(1,479,020)
Ending Total Net Assets at Fair Value	$17,877,697	$15,914,164	$1,963,533

NOTES TO FINANCIAL STATEMENTS

NOTE 1. DESCRIPTION OF FUNDS AND SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF FUNDS

The Developmental Disabilities Endowment Fund of the State of Washington consists of two funds. The first fund, DDEF State, was originally created from a grant by the State of Washington, and the second fund, DDEF Private, consists of contributions by private individual participants of the program. These funds are invested by the WSIB until participants withdraw these funds as needed. The financial statements present only the activity of DDEF as managed by the WSIB. The WSIB has exclusive control of the investments of all money invested in DDEF. The financial statements do not present the financial position and results of operations of the WSIB.

BASIS OF ACCOUNTING

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States for governments prescribed by the Governmental Accounting Standards Board (GASB) on the accrual basis of accounting.

VALUATION OF INVESTMENTS

Investments are reported at fair value. Fair values are based on published market prices, quotations from national security exchanges, and security pricing services. DDEF has no investments of any commercial or industrial organization whose fair value exceeds 5% of each plan's net assets. The assets of DDEF are adjusted to fair values monthly. Unrealized gains and losses are included as investment earnings in the statement of changes in net assets.

REVENUE RECOGNITION

Interest and dividend income is recognized when earned. Capital gains and losses are recognized on a trade date basis. Purchases and sales of investments are also recorded on a trade date basis.

SECURITIES LENDING

DDEF reports collateral received under securities lending agreements where DDEF has the ability to spend, pledge, or sell the collateral without borrower default. Liabilities resulting from these transactions are also recorded. Additionally, costs associated with securities lending transactions, including broker commissions paid, are reported as investment expenses in the accompanying statements. The statement of net assets does not include detailed holdings of securities lending collateral by investment classification.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from the estimated amounts

NOTE 2. FEES AND EXPENSES

Investment fees and expenses are paid from non-appropriated funds or are netted directly from the asset value of the invested funds. The fees paid by DDEF are reported on the statement of changes in net assets. These fees are accounted for as a reduction of investment income to DDEF. These fees include investment management fees and commissions, investment consultant fees, legal fees and other investment management related expenses. The WSIB operating costs are charged against the funds based upon actual costs incurred by the WSIB to manage the investments.

NOTE 3. DEPOSIT AND INVESTMENT RISK DISCLOSURES

CUSTODIAL CREDIT RISK – DEPOSITS

Custodial credit risk for deposits is the risk that in the event of a bank failure, DDEF deposits may not be returned to it. DDEF does not have a deposit policy for custodial credit risk. As of June 30, 2008, there were no deposits with the custodial bank.

CUSTODIAL CREDIT RISK – INVESTMENTS

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, the DDEF will not be able to recover the value of investments that are in the possession of an outside party. The DDEF does not have an investment policy specifically for custodial credit risk. The securities lending collateral balances are from securities required to be listed under GASB Statement 3 Category 3 – Uninsured and unregistered with securities held by the counterparty, or by its trust department or agent but not in DDEF's name. (This includes the amount of any repurchase agreement that exceeds the fair value of the underlying securities).

The WSIB has been authorized by statute as having the investment management responsibility for DDEF. The WSIB is authorized to invest as provided by statute (Chapter 43.33A RCW) and WSIB policy. The WSIB is authorized and invests in the following: U.S. Treasury Bills; discount notes; repurchase agreements; reverse repurchase agreements; banker's acceptances; commercial paper; guaranteed investment contracts; U.S. Government and Agency (government sponsored corporation eligible for collateral purposes at the

DDEF STATEMENT OF NET ASSETS

JUNE 30, 2008

See notes to financial statements

	Developmental Disabilities Endowment Trust Fund State	Developmental Disabilities Endowment Trust Fund Private	Total	Percent of Total
ASSETS				
Investments:				
LIQUIDITY:				
Money Market Funds	$ 31,442	$ 73,883	$ 105,325	0.6%
FIXED INCOME INVESTMENTS:				
Treasury Inflation Protected Securities	3,537,758		3,537,758	19.8%
Commingled Balanced Trust	3,206,359		3,206,359	18.0%
EQUITY INVESTMENTS:				
Commingled Equity Index Funds - Domestic	642,497		642,497	3.6%
Commingled Equity Index Funds - Foreign	579,299		579,299	3.3%
Mutual Fund - Domestic		9,760,904	9,760,904	54.7%
Total Investments	7,997,355	9,834,787	17,832,142	100.0%
Interest Receivable	48,031	34	48,065	
Collateral Held Under Securities Lending Agreements	733,892		733,892	
Total Assets	8,779,278	9,834,821	18,614,099	
LIABILITIES				
Obligations Under Securities Lending Agreements	733,892		733,892	
Accounts Payable	2,510		2,510	
Total Liabilities	736,402		736,402	
Net Assets	$ 8,042,876	$ 9,834,821	$ 17,877,697	

DDEF STATEMENT OF CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2008

See notes to financial statements

	Developmental Disabilities Endowment Trust Fund State	Developmental Disabilities Endowment Trust Fund Private	Total
Additions			
Investment Income:			
Interest, Dividends and Other Investment Income	$ 226,092	$ 302,953	$ 529,045
Realized Capital Gains	116,755		116,755
Realized Capital Losses	(55,857)		(55,857)
Unrealized Gains and Losses	241,402	(785,460)	(544,058)
Less:			
Securities Lending Broker Rebates Paid	(53,414)		(53,414)
Investment Expenses	(230)	(151)	(381)
WSIB Operating Costs	(1,040)		(1,040)
Total Investment Income (Loss)	473,708	(482,658)	(8,950)
Net Amount Contributed	1,040	1,971,443	1,972,483
Net Increase in Net Assets	474,748	1,488,785	1,963,533
Net Assets, Beginning of Year	7,568,128	8,346,036	15,914,164
Net Assets, End of Year	$ 8,042,876	$ 9,834,821	$ 17,877,697

Federal Reserve) securities; non-U.S. dollar bonds; investment grade corporate bonds; non-investment grade corporate bonds; publicly traded mortgage-backed securities; privately placed mortgages; private placements of corporate debt; U.S. and foreign common stock; U.S. preferred stock; convertible securities; private equity including but not limited to investment corporations, partnerships, and limited liability companies for venture capital, leverage buy-outs, real estate and other tangible assets, or other forms of private equity; asset backed securities; and derivative securities including futures, options, options on futures, forward contracts, and swap transactions. There have been no violations of these investment restrictions during fiscal year 2008.

INTEREST RATE RISK

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. Effective duration is the measure of a debt investment's exposure to fair value changes arising from changes in interest rates. Effective duration uses the present value of cash flows, weighted for those flows as a percentage of the investment's full price. Increases in prevailing interest rates generally translate into decreases in fair values of those investments. DDEF's fixed income investments are to be actively managed to exceed the return of the Lehman Universal Index, with volatility as measured by duration to be similar to or less than the index. As of June 30, 2008, the duration of the fixed income classes were within the duration targets of the Lehman Intermediate Credit Index.

Schedule 1 provides information about the interest rate risks associated with DDEF investments as of June 30, 2008. The schedule displays various asset classes held by maturity in years, effective durations, and credit ratings.

CREDIT RISK

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. All debt investments were rated Aaa by Moody's at June 30, 2008.

CONCENTRATION OF CREDIT RISK

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. DDEF policy states no corporate fixed income issue's cost shall exceed 3% of DDEF's fair value at the time of purchase, nor shall its fair value exceed 6% of DDEF's fair value at any time (RCW 43.33A.140). There was no concentration of credit risk that exceeded these limits as of June 30, 2008.

FOREIGN CURRENCY RISK

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. DDEF has no formal policy to limit foreign currency risk. The only security held by the DDEF with foreign currency risk at June 30, 2008, consists of $579,299 invested in an international commingled equity index fund. As such, no currency risk denomination is presented.

NOTE 4. SECURITIES LENDING

Washington State law and WSIB policy permit DDEF to participate in securities lending programs to augment investment income. The WSIB has entered into an agreement with JP Morgan to act as agent for the WSIB in securities lending transactions. As JP Morgan is the custodian bank for the WSIB, it is counterparty to securities lending transactions.

In accordance with GASB Statement 28, DDEF reports securities lent (the underlying securities) as assets in the statement of net assets. Cash received as collateral on securities lending transactions and investments made with that cash are reported as assets. Securities received as collateral are reported as assets if DDEF has the ability to pledge or sell them without a borrower default. Liabilities resulting from these transactions are also reported in the statement of net assets. Securities lending transactions collateralized by securities that DDEF does not have the ability to pledge or sell unless the borrower defaults are not reported as assets and liabilities.

Fixed income securities were loaned and collateralized by the DDEF's agent with cash and U.S. government securities (exclusive of mortgage backed securities and letters of credit), and irrevocable letters of credit. When the loaned securities had collateral denominated in the same currency, the collateral requirement was 102% of the fair value, including accrued interest, of the securities loaned. All other securities were required to be collateralized at 105% of the fair value, including accrued interest, of the loaned securities. The collateral held and fair value of securities on loan at June 30, 2008 was $733,892 and $718,997 respectively. At year-end, the amounts the DDEF owed the borrowers exceeded the amounts the borrowers owed the DDEF, resulting in no credit risk exposure to borrowers.

During fiscal year 2008, securities lending transactions could be terminated on demand by either DDEF or the borrower. The weighted average maturity of overall loans was 21 days.

Cash collateral was invested by DDEF's agent in securities issued or guaranteed by the U.S. government, in the WSIB's short-term investment pool (average final maturity of 136 days) or term loans. Because the securities lending agreements were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. Non-cash collateral could not be pledged or sold absent borrower default. There are no restrictions on the amount of securities that can be lent.

Securities were lent with the agreement that they would be returned in the future for exchange of the collateral. JP Morgan indemnified the WSIB by agreeing to purchase replacement securities or return the cash collateral in the event a borrower failed to return the loaned securities or pay distributions thereon. JP Morgan's responsibilities included performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable federal regulations concerning securities lending.

During fiscal year 2008, there were no significant violations of legal or contractual provisions, no failures by any borrowers to return loaned securities or to pay distributions thereon. Further, DDEF incurred no losses during fiscal year 2008 resulting from a default by either the borrowers or the securities lending agents.

NOTE 5. DERIVATIVES

DDEF is authorized to utilize various derivative financial instruments, including mortgage-backed securities, financial futures, forward contracts, interest rate and equity swaps, and options to manage its exposure to fluctuations in interest and currency rates while increasing portfolio returns. Derivative transactions involve, to varying degrees, market and credit risk. DDEF mitigates market risks arising from derivative transactions by requiring collateral in cash and investments to be maintained equal to the securities positions outstanding, and thereby prohibiting the use of leverage or speculation. Credit risks arising from derivative transactions are mitigated by selecting and monitoring creditworthy counterparties and collateral issuers.

Consistent with DDEF authority to invest in derivatives, international active equity managers may make limited investments in financial futures, forward contracts or other derivative securities to manage exposure to currency rate risk and equitize excess cash holdings. No such derivative securities were held as of June 30, 2008. Domestic and foreign passive equity index fund managers may also utilize various derivative securities to manage exposure to risk and increase portfolio returns. Information on the extent of use and holdings of derivative securities by passive equity index fund managers is unavailable. At June 30, 2008, DDEF held no derivatives.

There were no repurchase agreements outstanding at June 30, 2008. Repurchase agreements are collateralized at 102%. The collateral is priced daily and held by WSIB's agent in WSIB's name.

SCHEDULE 1

		Maturity					
Investment Type	Total Fair Value	Less than 1 year	1-5 years	6-10 years	More than 10 years	Effective Duration	Credit Rating
Government Securities-Domestic:							
Treasury Inflation Protected Securities	$ 3,537,758	$	$ 3,537,758	$	$	1.77	AAA
Investments Not Required to be Categorized							
Under GASB Statement No. 3							
Commingled Equity Index Funds - Domestic	642,497						
Commingled Equity Index Funds - Foreign	579,299						
Commingled Balanced Trust	3,206,359						
Money Market Funds	105,325						
Mutual Funds	9,760,904						
Total Investments Not Categorized	14,294,384						
Total Investments	$ 17,832,142						

NOTE 6. SUMMARY OF INVESTMENT POLICY

Under RCW 43.33A.030, trusteeship of DDEF is vested within the voting members of the WSIB. The Legislature has established a standard of care for investment of these funds in RCS 43.33A.140. Additionally, the WSIB and its staff must comply with other state laws, such as the Ethics in Public Service Act, RCW 42.52, as it makes its investment decisions and seeks to meet the following investment objectives.

In accordance with RCW 43.33.110, the portfolio is managed to achieve a maximum return at a prudent level of risk. The key determinate is identifying the prudent level of risk for a program relative to the needs of the Developmental Disabilities Endowment Governing Board and the participants. Based on this requirement, the order of the objectives shall be:

- Maximize return at a prudent level of risk based on identified investment time horizons.
- Ensure sufficient assets are available to fund the expected needs.
- Invest in a manner that will not comprise public confidence in the program.

RISK CONSTRAINT STANDARDS

- All assets under management by the WSIB are to be invested to maximize return at a prudent level of risk in accordance with the requirements of RCW 43.33A.110 and RCW 43.33A.140.
- Diversify the assets at a prudent level to moderate fluctuations in the fair value of the program.

PERMISSIBLE INVESTMENTS

Fixed Income

The fixed income portfolio will be limited to the Bond Market Fund (WSIB Policy 2.14.200). The Treasury Inflation Protection Securities portfolio will be invested in U.S. Inflation Indexed Bonds.

U.S. Equity

The U.S. equity portfolio will be invested in a passive commingled fund managed to track a U.S. broad market index. DDEF – Private will invest in the Vanguard Balanced Index – Institutional Share’s mutual fund.

International Equity

The international equity portfolio will be invested in a passive commingled fund managed to track an international broad market index.

Cash

The cash portfolio will be invested in Short-term Investment Funds and Money Market Funds.

WSIB ANNUAL BUDGET

JUNE 30, 2008

OBJECTS OF EXPENDITURE

APPROPRIATED	Budget	Expenditures	Budget Variance
Salaries	$ 6,013,035	$ 5,906,500	$ 106,535
Benefits	1,383,049	1,323,222	59,827
Personal Services	378,800	314,027	64,773
Goods & Services	2,463,668	2,501,446	(37,778)
Travel	436,300	454,073	(17,773)
Equipment	63,000	26,355	36,645
Subtotal Appropriated	$ 10,737,852	$ 10,525,622	$ 212,230 *

NON-APPROPRIATED	Budget	Expenditures	Budget Variance
U.S. Equity	$ 9,361,450	$ 6,661,514	$ 2,699,936
International Equity	57,061,480	52,701,712	4,359,768
Private Equity	183,143,600	144,404,107	38,739,493
Real Estate	40,168,990	38,124,820	2,044,170
Tangible Assets	12,200,000	7,562,577	4,637,423
Innovative Portfolio	12,200,000	2,174,333	10,025,667
General Consultants	2,457,940	856,055	1,601,885
Advisory Services Consultant	4,000,000		4,000,000
Legal Fees	1,239,550	989,028	250,522
Custodian Bank Fees	2,295,120	2,073,708	221,412
Securities Lending	9,206,460	18,944,928	(9,738,468)
Cash Management	1,612,850	2,302,058	(689,208)
Cash Overlay	500,000	342,326	157,674
Directed Brokerage Fees	264,000	58,543	205,457
Investment Acctg Data Systems	772,540	772,540	
Telecommunications	14,400	11,118	3,282
Professional Memberships	80,800	71,911	8,889
Research Services	1,396,200	1,481,155	(84,955)
Subtotal Non Appropriated	337,975,380	279,532,433	58,442,947
TOTAL	$ 348,713,232	$ 279,532,433	$ 58,655,178

* Appropriated balance will be carried over to FY 2009

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2100 EVERGREEN PARK DRIVE SW, P.O. BOX 40916, OLYMPIA, WA 98504