WASHINGTON STATE INVESTMENT BOARD

THIRTIETH ANNUAL REPORT

2011

INTRODUCTION

Letter of Transmittal
June 30, 2011

The financial crisis of 2008 and its aftermath have tested investor resolve in ways not seen for seven decades. For the Washington State Investment Board (WSIB), the most valuable decision was holding firm to our investment beliefs and strategies. We were rewarded in FY 2011 for that investment discipline, producing one of our best annual returns ever, 21.1 percent.

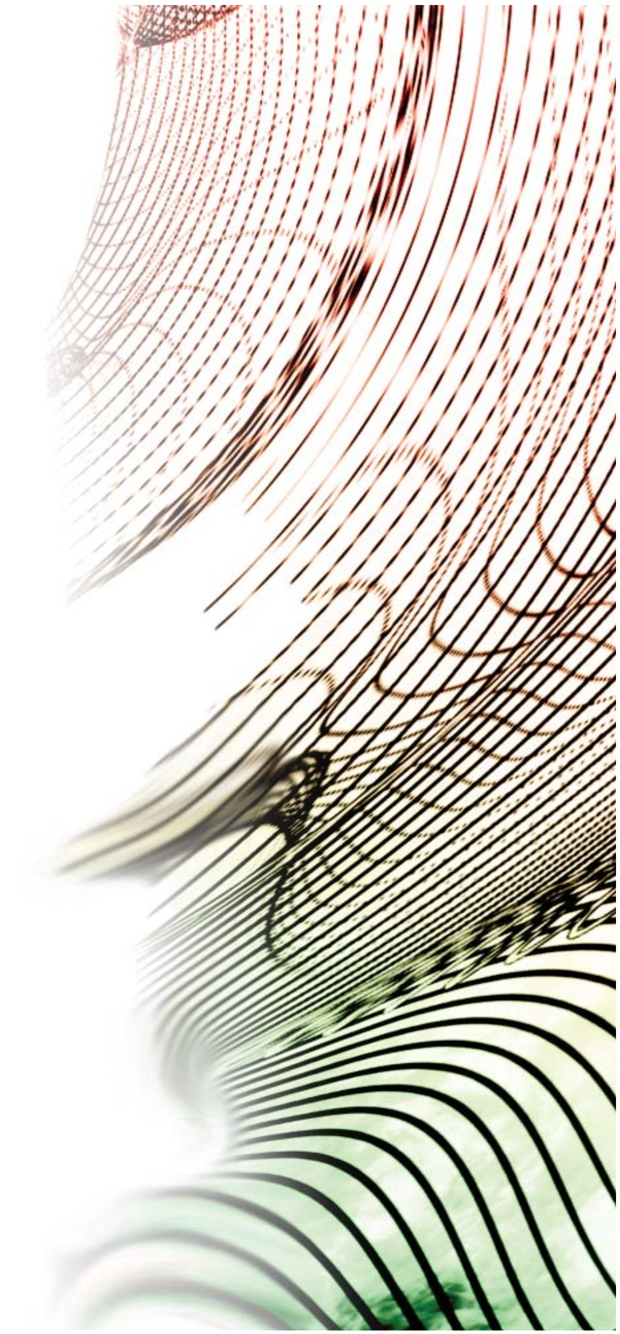
We were also rewarded in FY 2011 for the commitment we made five years earlier to look well beyond our own backyard for new investment risks and opportunities. At that time almost 72 percent of the WSIB's assets were invested in North America. Today, that number is about 54 percent. While the United States economy has been slow to recover, the developing world economies have been strong and have balanced our portfolio.

But with a global portfolio comes increased portfolio complexity. We have spent the last four years developing a risk modeling data warehouse, which gives us the capability of conducting risk analysis featuring almost any variable. Significant events in FY 2011 such as the Japanese earthquake and tsunami, the European debt crisis and the uprisings in the Middle East all impacted our portfolio. With our new tools, we were able to quickly measure our exposure to these and other events. More importantly, we now can more accurately analyze what has driven our success and test the ideas that the Board and management believe will drive it in the future.

We have accomplished this shift to a global perspective with almost no increase in staff or budget. The WSIB is fortunate to have an extremely talented staff operating at maximum capacity and a forward-thinking Board dedicated to maximizing returns at a prudent level of risk.

This report describes in detail all of our portfolios, performance, operations and finance. Once again the WSIB has distinguished itself by continuing to not only meet but exceed the high standards expected of it by the beneficiaries we serve.

Theresa Whitmarsh, Executive Director



Message from the Chair

I write this introduction to the Washington State Investment Board's 2011 Annual Report with mixed feelings of pride and déjà vu. The last time I had the opportunity to announce exceptional investment returns for Washington's pension and other public funds managed by the WSIB was June 30, 2007. We ended that fiscal year with a 21.3 percent rate of return for the Commingled Trust Fund (CTF), the largest fund managed by the WSIB for the state's defined benefit retirement systems.

Now, after enduring the world's most daunting financial crisis in recent history, I find myself once again reporting remarkable results for the CTF, which ended FY 2011 with a 21.1 percent rate of return. That is just two basis points shy of the high watermark of four years ago when this country was on the brink of nose diving into a pit of economic decline, loss, volatility, and uncertainty. No one could foresee this outcome and no one can accurately predict the future. What we do know is that even though we are back in positive territory, we're still not out of the woods. The European debt crisis is roiling the global market and it's clear that turbulent and volatile markets aren't going away anytime soon. We also know that based on the last four years and previous market swings, the WSIB's long-term investment horizon and highly diversified investment portfolios have positioned the WSIB to persevere through the lows and to seize new opportunities that maintain and improve performance.

As Chair of the WSIB, I want to thank my fellow board members for all of the effort, time, thoughtful expertise and good judgment they provide in their service to the WSIB and the state of Washington. I also want to thank WSIB staff for their integrity, professionalism and commitment to public service. We are all proud and honored to be part of this endeavor. That pride and dedication is embedded in the WSIB's DNA. Based on that, the one thing I can predict with certainty is that through good times and bad, we will do our best to deliver satisfactory long-term results for our beneficiaries and all we serve.

Pat McElligott, Chair

Board Members and Committees

The WSIB is an independent board of trustees whose fiduciary responsibility is to manage retirement and public fund investments with the highest standard of professional conduct. The Board's primary investment objective is to maximize returns at a prudent level of risk for the exclusive benefit of fund participants and beneficiaries. 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.

Administrative Committee

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

Audit Committee

The Audit Committee assists the Board in financial oversight of the WSIB including risk management, compliance monitoring, internal and external audits, corporate governance and proxy voting.

Private Markets Committee

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

Public Markets committee

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.

Treasurer
James L. McIntire
Vice Chair

Steve R. Hill

Judy Schurke

Pat McElligott
Chair

Natasha Pranger

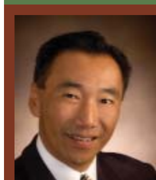
George Masten

Mike Ragan

Judi Owens

Representative
Sharon Tomiko
Santos

Senator
Lisa Brown



Robert S.
Nakahara, C.P.A.

Jeffrey T. Seely

David
Nierenberg

William A.
Longbrake

Richard
Muhlebach

Executive Management and Consultants

Theresa J. Whitmarsh - Executive Director

Appointed in 2009

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 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. The division deploys both internal and external investment management strategies.

Victor Moore - Chief Operating Officer/Chief Financial Officer

Appointed in 2010

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 2003

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

Steve Lerch - Research Director

Appointed in 2006

The Research Director is responsible for internal research and education on investment risk, new investment strategies, Board education sessions, and special studies. In addition, the Research Director serves as the business lead for the data warehouse project and team lead or member on strategic initiatives related to enterprise risk management, collaborations with other pension plans, and currency management.

Investment Accounting Data System

Financial Control Systems

Master Custodian Bank

JPMorgan Chase

Insurance Portfolio Consultant

Conning Asset Management

General & Specialty Consultants

Callan Associates
Cutter Associates, Inc.
Hewitt EnnisKnupp, Inc.
InvestTech Systems Consulting, Inc.
Jeffrey A. Parker & Associates, Inc.
Mercer Investment Consultants
Pension Consulting Alliance
Peterson Sullivan LLP
ORG Portfolio Management LLC
R.V. Kuhns & Associates Inc.

Legal Services

Allen Matkins Leck Gamble Mallory and Natsis
Barrack Rodos and Bacine
Barroway Topaz Kessler Meltzer and Check
Bernstein Litowitz Berger and Grossman
Cox, Castle, & Nicholson
Davis Wright Tremaine
Goodwin Procter
Kaplan, Fox, and Kilsheimer
K & L Gates
Keller Rohrback
Orrick Herrington and Sutcliffe
Paul Hastings
Proskauer Rose
Robbins Geller Rudman and Dowd
Song Mondress
Torys
Washington State Attorney General

Private Equity Consultant

Hamilton Lane Advisors, LLC

Real Estate and Tangibles Consultant

Courtland Partners, Ltd.

Commingled Trust Fund Partners and Fund Managers

Private Equity Partners

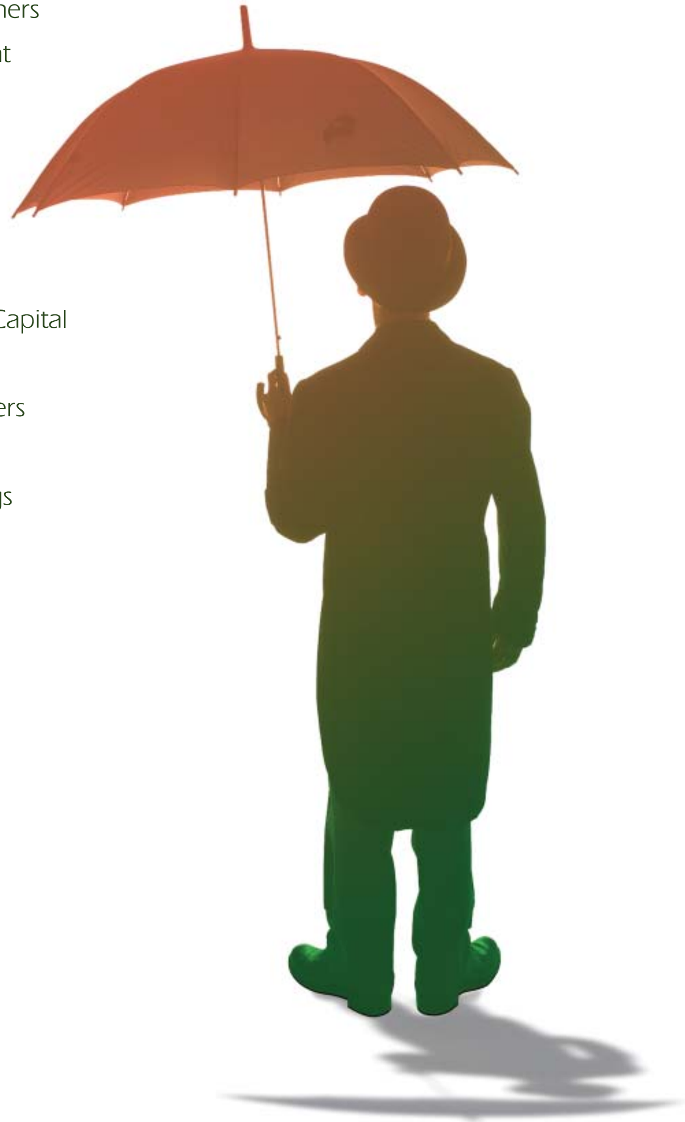
Accel Partners
Advent International
Affinity Equity Partners
Alta Communications
Ampersand Ventures
Apax Partners
Apex Investment Partners
Austin Ventures
Avenue Capital Group
Banc Funds
Battery Ventures
BC Partners
Blackstone Group
Boston Ventures
Bridgepoint Capital
Butler Capital Partners
Canaan Partners
Capital Resource Partners
CDH Investments
Charterhouse Capital Partners
Cinven Ltd.
Clayton Dubilier & Rice
Code, Hennessy & Simmons
Collison, Howe and Lennox
Cypress Group
Doughty Hanson & Co.
Edgewater Funds
El Dorado Ventures
Elevation Partners
Endeavour Capital
Essex Woodlands
Evercore Capital Partners
Evergreen Pacific Partners
First Reserve Corp.
Fisher Lynch Capital
Flagship Ventures
Fortress Investment Group
FountainVest Partners
Francisco Partners
Frazier & Co.
Geocapital Partners
GGV Capital
Gilbert Global Equity Partners
Great Hill Partners
Green Mountain Partners
Gryphon Investors
GTCR
H.I.G. Ventures
HarbourVest Partners
Healthcare Ventures
Hellman & Friedman
Heritage Partners
Indigo Capital Partners
Insight Venture Partners
Intersouth Partners
InterWest Partners
JLL Partners
JMI Equity
Kohlberg Kravis Roberts & Co.
KSL Capital Partners
Leonard Green & Partners
M/C Venture 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
Permira
Polaris Venture Partners
Prism Venture Partners
Providence Equity Partners
Richland Venture Partners
Silver Lake Partners
Spark Management Partners
Spectrum Equity Investors
Sprout Group
Swander Pace Capital
TA Associates
Tailwind Capital Partners
Technology Crossover Ventures
Three Arch Partners
TPG Partners
Trident Capital Partners
Triton Partners
U.S. Venture Partners
Union Square Ventures
Unitas Capital
VantagePoint Venture Partners
Värde Partners
Vestar Capital Partners
Vision Capital
Vivo Ventures
Warburg Pincus LLC
Welsh Carson Anderson & Stowe
Worldview Technology Partners

Real Estate Partners

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
Washington Holdings

Tangibles Partners

Alinda
Campbell Group
Highstar
Sheridan



Public Equity Fund Managers

Aberdeen Asset Management PLC
Arrowstreet Capital, L.P.
BlackRock Institutional Trust Company
Capital Guardian Trust Co.
DE Shaw Investment Management
Grantham, Mayo, Van Otterloo & Co. LLC
JPMorgan Asset Management, Inc.
Lazard Asset Management LLC
Longview
Mondrian Investment Partners Ltd.
State Street Global Advisors
Tradewinds
Wentworth, Hauser & Violich
William Blair & Co.

Overlay Manager

Russell Investments

Enterprise Risk Management

Framework

A cornerstone of successful investment strategy is effective risk management. Enterprise Risk Management (ERM) covers risk in the broadest possible terms, encompassing all forms of risk management activity agency-wide. The WSIB's enterprise-wide approach involves the Board, executive management, audit, operational, legal, and investment staff. Risks are seen as opportunities for success as well as failure. The risks the WSIB faces arise from both managing the assets and managing the organization. While the WSIB tries to anticipate every risk that it faces, unknown and unprecedented events will occur. The ERM program provides a framework to evaluate and manage uncertainty. Managing the key risk framework fosters a strong ERM program that enables proactive decision-making throughout the agency.

Managing the Assets

Risks arise from the deployment of the assets under our management in a fiercely competitive investment environment. Investments need to comply with standards that a prudent investor would use to manage the assets of others, within applicable laws and Board policies. The WSIB has identified two primary risks for managing assets: fiduciary and investment.

- Fiduciary Risk – The risk of acting for reasons other than the benefit of our constituents. As a fiduciary, the WSIB is required to manage investments for retirement and public trust funds with the highest standards of professional conduct for the exclusive benefit of fund beneficiaries. The 15 member Board operates within established investment policies and procedures designed exclusively to maximize return at a prudent level of risk.
- Investment Risk – These risks encompass all potential risks resulting from deployment of our assets into various investment strategies. These risks include market, liquidity, leverage/refinance, counterparty, currency, credit, and interest rate risk. They may stem from changes in political, economic, demographic, behavioral, and technological factors. The WSIB seeks to manage the overall level of investment risk and uncertainty by diversifying across asset classes, investment managers, sectors, strategies, and geographies. The WSIB measures and assesses investment risk using quantitative risk systems to inform qualitative discussions.

Managing the Organization

These risks stem from building and maintaining an investment organization. The WSIB must operate within a governmental framework while implementing investment management strategies that more closely resemble those of private investment entities. The WSIB has identified three organizational risks, strategic, governmental environment, and operational.

- Strategic Risk – This is the risk of not being prepared to make the necessary decisions for meeting the needs of our constituents. We strive to have effective Board governance, the appropriate organizational structure for our mission, capable leadership, and an established strategic planning process.
- Governmental Environment Risk – This is the risk of not anticipating and responding to changes in our governmental environment. The WSIB is a state agency operating under a government framework within a political environment that is not always aligned with our fiduciary duty or the practices and priorities of investment entities. The executive director and legislative liaison monitor proposed legislative changes that may affect our ability to accomplish our mission.
- Operational Risk – Operational risk refers to losses that may arise from shortcomings or failures in processes, people, or systems. We strive to improve our control structure, training, and supervision and development of staff. To foster organizational growth and change, management is committed to creating an environment where staff continues to learn and to develop leading practices.

Safeguarding Our Reputation

Reputation Risk – The WSIB must maintain its reputation in order to be a preferred partner in the marketplace, a trusted fiduciary by stakeholders and the Legislature, and a valued resource for the citizens of Washington. Failure in any of these five risk categories will damage the WSIB's reputation and credibility, making it difficult to achieve goals. The agency speaks with one voice. The Board has adopted rigorous codes of conduct and conflict of interest policies to ensure that its actions meet the most stringent standards. Ongoing education assists the Board members to make informed decisions.

Corporate Governance

The WSIB believes a strong, focused corporate governance program is an important part of managing and protecting pension fund assets. Through active support of corporate governance reforms and prudent voting of company proxies, the WSIB works to enhance shareowner value and support our long-term investment objectives.

Good corporate governance is a system of checks and balances that fosters transparency, responsibility, accountability and market integrity. A growing body of research provides empirical support for good governance practices. A number of studies demonstrate that companies with strong corporate governance tend to have lower risk of fraud and higher returns.

Advocates for good governance saw substantial progress in the past year, led largely by the passage of the landmark Dodd-Frank Wall Street Reform and Consumer Protection Act. Among other things, the law requires companies to ask for shareholder approval of their executive compensation plans. Long-time observers believe the mere threat of an unsuccessful vote convinced a number of corporate boards to keep their compensation plans within reasonable limits. Out of the 1,959 executive pay plans on the ballot as of June 30, the WSIB voted against 391 plans. The 2011 proxy voting season also saw social and environmental shareholder proposals receiving strong support votes.

The WSIB believes our goal to maximize investment returns requires vigilant oversight of the way companies in which we invest are managed. As a long-term investor, the WSIB doesn't have the option of selling its shares if it doesn't like the way a company is performing. Therefore, active participation is a necessity.

Between July 1, 2010 and June 30, 2011 the WSIB voted 3,242 proxy ballots. Proxy votes were cast on 28,083 individual proposals dealing primarily with election of directors, ratification of auditor, compensation plans, and shareowner proposals.

Of the total director votes during that time period, the WSIB withheld – or voted against – almost 2,500 incumbent directors, largely because of lack of board independence or unreasonably generous 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."

In line with that commitment, the WSIB:

- Voted against 33 percent of the compensation plans proposed.
- Voted against 384 compensation committee members for paying excessive compensation.

This year the Corporate Governance program was expanded to include active oversight of proxy voting for the WSIB's non-U.S. holdings. With more than 58 percent of the public equity portfolio invested in non-U.S. companies, the Board adopted new international proxy voting guidelines and directed staff to work more closely with the fund managers responsible for voting the WSIB's non-U.S. proxy ballots.

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

June 30, 2011

OBJECTS OF EXPENDITURE

APPROPRIATED		Budget		Expenditures		Budget Variance
Salaries	$	8,592,523	$	7,762,459	$	830,064
Benefits		1,901,056		1,764,262		136,794
Personal Service Contracts		1,124,768		445,887		678,881
Goods & Services		3,359,281		2,924,709		434,572
Travel		1,377,100		416,432		960,668
Equipment		38,865		673,087		(634,222)
Treasury Note		114,328		114,328		-
Subtotal Appropriated	$	16,507,921	$	14,101,167	$	2,406,757

NON-APPROPRIATED		Budget		Expenditures		Budget Variance
Global Equity (U.S. and International)	$	53,875,000	$	40,961,825	$	12,913,175
Private Equity		186,566,376		193,695,418		(7,129,042)
Real Estate		40,876,990		35,016,833		5,860,157
Tangible Assets		11,692,000		6,432,730		5,259,270
Innovation Portfolio **		12,200,000		1,735,259		10,464,741
General Consultants		2,927,940		1,020,085		1,907,855
Advisory Services Consultants		4,000,000				4,000,000
Legal Fees		1,239,550		301,057		938,493
Custodian Bank Fees		1,295,120		142,270		1,152,850
Securities Lending		16,931,491		7,554,678		9,376,813
Cash Management		2,612,850		3,157,796		(544,946)
Cash Overlay		600,000		448,594		151,406
Directed Brokerage		64,960		19,320		45,640
Investment Accounting Data System		1,299,500		1,287,000		12,500
Memberships		95,200		60,108		35,092
Research Services		2,556,703		2,117,807		438,896
Subtotal Non Appropriated		338,833,680		293,950,780		44,882,900
TOTAL	$	355,341,601	$	308,051,947	$	47,289,657

INVESTMENTS

Plans Under Management

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% of the variation between returns on different portfolios and are 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 WSIB invests in seven broad based asset classes: public equity, fixed income, private equity, real estate, tangible assets, treasury inflation notes, and cash. A strategic allocation is established for each fund managed by the board which includes the assets classes used by that fund, long-term policy targets for those asset classes, and the acceptable ranges within which those targets can vary. The WSIB formally reviews the strategic asset allocations at least every four years.

Highlights

- The Board reviewed and made changes to the allocation for the GET portfolio. The changes include a global weighting to public equities and a reweighting between U.S. treasury inflation protection securities and credit bonds.

Retirement Funds

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 $42.9 billion to $62.3 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.

Fixed Income

The fixed income program for the CTF is actively managed by WSIB staff against a performance benchmark of the Barclays Universal Index.

The main sectors in the portfolio are U.S. treasury securities, credit bonds, mortgage backed securities (MBS), collateralized mortgage obligations (CMO), asset backed securities (ABS), and commercial mortgage backed securities (CMBS).

During fiscal year 2011, $200 million in cash was moved out of the portfolio. In that same time period, the yield on the 10-year treasury went from 2.93% to 3.16%, hitting a high of 3.74% in February 2011 and a low of 2.93% in October 2010.

Highlights

- The portfolio outperformed the Barclays Universal Index for the year, returning 7.48% vs. 4.78% for the Universal Index.
- Treasuries, agencies, mortgages, and ABS were underweighted for the portfolio, while credits, CMO and CMBS were overweighted.
- Transactions totaled $3.1 billion in sales and $3.5 billion in purchases.

Tangible Assets

The tangible asset portfolio primarily targets investments in infrastructure, natural resource rights (such as oil and natural gas), and timber. Each of these sectors has different return attributes and thus provides diversification benefits to the overall CTF portfolio.

Similar to the real estate program, much of the WSIB's tangible asset program is focused on creating current income for the CTF. These externally-managed partnerships are expected to generate returns that fall between performance expectations for fixed income and equities through the combination of income generation and the potential upside from appreciation. In general, appreciation for this asset class is targeted to be approximately commensurate with inflation.

Tangible assets were established as a separate asset class in 2008. Over time, we expect to create a well-diversified, global tangible asset portfolio with a variety of partners spread among the target sectors noted above, each with their own investment style and geographic diversification.

Highlights

- This asset class is still relatively new, although investment performance over the past three years is largely encouraging.
- Returns for FY 2011 were 6.61%.

Real Estate

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 properties leased to third parties. The steady income from lease payments, combined with potential appreciation, generate returns that are expected to fall between performance for fixed income and equities over the long term.

Many of the WSIB's real estate 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, and as a result better reflect the actual attributes of real estate investing rather than the potential volatility of public markets. Capital is widely diversified among a variety of partners, each with their own investment style, and real estate 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 and at different times in the property life cycle. These varying kinds of diversification provide a degree of stability within a cyclical investment class.

The exceptional disruption of global credit markets starting in late 2008 had a dramatic impact on the value of real estate investments across the globe but particularly in the U.S. The strong appreciation in commercial property values in the years leading up to the crisis quickly reversed course and most property types saw declines of more than 30% in value from their peak over the ensuing two years. The WSIB fared better than many other investors during this turbulent period, and although some WSIB holdings were still impacted, most of the WSIB's real estate portfolio has already recovered considerably. The portfolio continues to produce attractive income yields— the primary goal of the program. The importance of having a long-term investment horizon is evident in the attractive returns for the real estate portfolio over a ten-year period.

Highlights

- For the one-year period ending June 30, 2011, the portfolio returned 14.39%. Investments in emerging markets were particularly strong performers during the year.
- The ten-year return for the WSIB's real estate portfolio was 9.57% versus 7.48% for the NCREIF index. This also exceeded the WSIB's return benchmark for real estate, which is 8.00% over a rolling ten-year period.
- The strongest drivers of the good long-term returns were the WSIB's investments in real estate operating companies (REOCs), non-traditional property types, and geographic diversification, particularly outside the U.S.

Public Equity

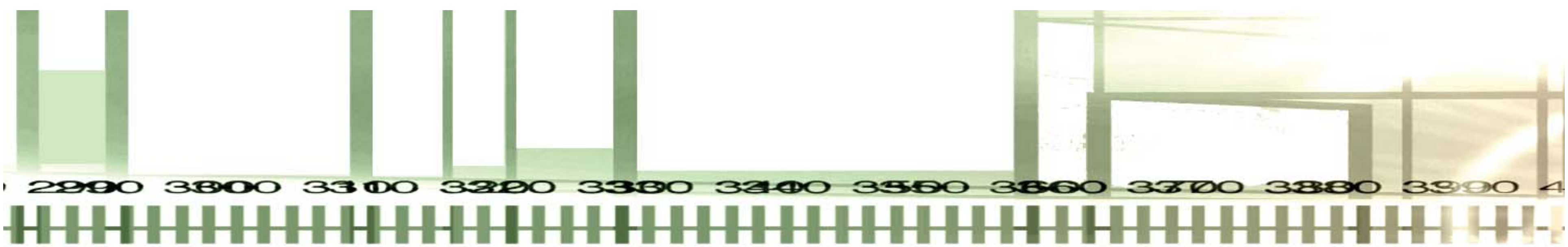
The public equity program uses a global benchmark, the Dow Jones Global Total Stock Market Index, reflecting the globalization of capital markets. At the beginning of the fiscal year, the public equity portfolio in the CTF was a combination of separate U.S. and international components. However, in a world in which American companies like Coca-Cola get most of its revenue from overseas and many so-called foreign companies serve mainly the U.S., distinctions between "U.S. stocks" and "international stocks" have become increasingly blurred. The WSIB believes that the future success of the program depends on investment managers finding the most attractive opportunities wherever they are in the world. Therefore, over the course of the past fiscal year, the WSIB restructured the public equity program within the CTF into four components: passive U.S. equity, passive international equity, active global equity, and active emerging markets equity.

Because U.S. equity markets are generally efficient and international equity markets are increasingly efficient, most of the WSIB's public equity investments are in low-cost, broad-based passive index funds. We employ both passive U.S. equity and passive international equity in order to maintain policy weights in both areas. All the global equity mandates, in which investment firms can pick the most attractive stocks wherever they are in the world (U.S. or international), and all the emerging markets equity mandates are actively managed.

Macro-economic and political volatility continued around the globe in FY 2011. During the year, markets witnessed increasing doubts about the strength and durability of the economic recovery, a political upheaval in Egypt and several other Arab nations that may bring democracy but may affect Middle East politics and energy supplies for an indefinite period of time, a debt crisis in Europe centered on Greece which may affect larger countries like Spain and Italy too, a tragedy in Japan that disrupted that nation and global supply chains, and a political debt crisis in the United States. Nonetheless, despite the turbulence which we see continuing, the WSIB's global equity markets program posted a positive return of 30.97%.

Highlights

- The U.S. equity program slightly lagged its benchmark with a return of 32.20% versus the benchmark's 32.43% return.
- The developed international equity program slightly lagged its benchmark with a return of 29.64% versus the benchmark at 30.26%.



- The emerging markets equity program outperformed the benchmark slightly with a return of 27.60% versus the benchmark at 27.53%.
- The public equity portfolio within the CTF is conservatively structured. The aim is to adopt strategies that protect capital when markets decline, but remain close to market returns when there is a strong market upswing. The program's performance this year was in line with those goals.

Private Equity

As of June 30, 2011, the private equity portfolio was valued at $15.6 billion, or approximately 25.1% of the CTF, compared with $13.6 billion and 25.7% at the previous fiscal year-end. The growth in the portfolio's value results from strong performance of underlying portfolio companies that benefited from both improved operating performance and rising market multiples.

Private equity fund-raising remained challenging, but improved somewhat during the second half of the fiscal year as increasing distributions and stronger returns stimulated capacity and appetite for new commitments. The pace of investing by private equity funds remained relatively steady compared with the prior year, as debt financing markets continued to be accessible. Strong high-yield debt markets allowed many portfolio companies to restructure their balance sheets and extend debt maturities, easing concerns about the near-term "wall of maturities" that had existed since the beginning of the global financial crisis. Perhaps the biggest change from the prior year was a sharp increase in liquidity events and distributions, as strong capital markets (both debt and equity) and increasing investment activity by strategic buyers created a variety of exit options for private equity fund managers.

Effective January 1, 2011, Hamilton Lane replaced Capital Dynamics as the Board's private equity consultant. The WSIB continues its focus on building a well-diversified portfolio of high quality private equity partnerships, using the Board-adopted model portfolio as a risk management tool.

Highlights

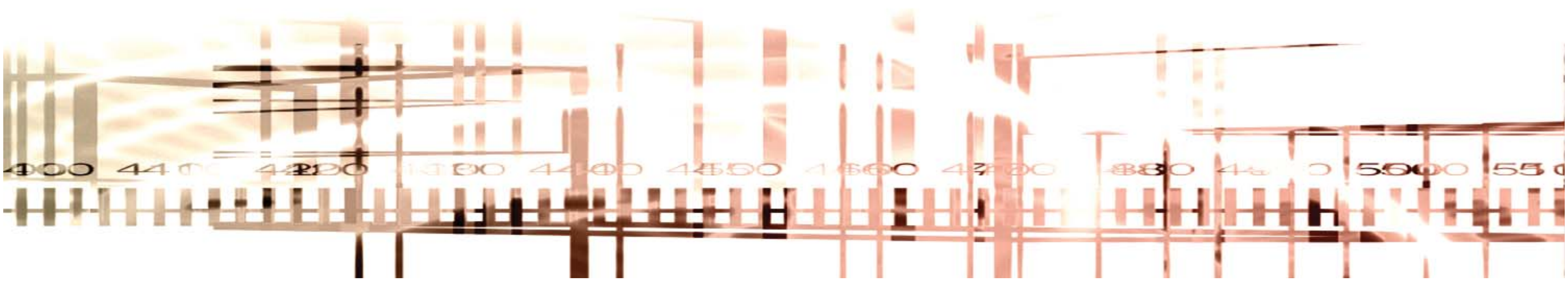
- $1.2 billion in net new commitments to funds were closed during FY 2011 compared to $0.9 billion in FY 2010.
- $2.2 billion of committed capital was drawn for investment during the year compared to $2.0 billion in the prior year.
- $3.4 billion in distributions were returned to the WSIB compared with $1.5 billion in FY 2010.

Innovation Portfolio

The primary investment strategy of the 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

- Two new investment strategies were added to the innovation portfolio: a distressed whole loan debt strategy and a resource equity strategy
- The global equity strategy started in FY 2008 graduated and was incorporated into to the public equities asset class.



Other Plans Under Management

Defined Contribution Retirement Plans

The WSIB oversees the investment options in Plan 3, the Deferred Compensation Program (DCP), and the Judicial Retirement Account (JRA). However, these programs are accounted for and reported on by the DRS. Therefore, performance information and the financial statements are provided by DRS.

PERS 3
$1.7 Billion

SERS 3
$1.3 Billion

TRS 3
$5.0 Billion

Deferred Compensation Program
$2.9 Billion

Judicial Retirement Account
$13.0 Million

Daily-Valued Funds for Self-Directed Investment Programs

Bond Market Fund
$852.8 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
$1.0 Billion

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
$12.6 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
$864.5 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
$94.2 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
$1.9 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
$28.6 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.

FINANCIALS

Overview Of Financial Statements

This discussion and analysis serves as an introduction to the basic financial statements and notes to the financial statements. The financial statements included are for the Retirement Funds, 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 and the related liabilities as of June 30, 2011, and the Statement of Changes in Net Assets, which reports the contributions to, withdrawals from and investment earnings for the fiscal year ending June 30, 2011.

The financial statements and notes were prepared by the investment accounting unit of the WSIB.

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 financial 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:
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PO Box 40916, Olympia, WA 98504-0916

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Independent Auditor's 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, 2011, 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 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, 2011, 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 $24.9 billion (40% 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 26, 2011

Management Discussion & Analysis

Management's Discussion and Analysis for the Retirement Funds of the state of Washington, managed by the Washington State Investment Board (WSIB), is presented as an introduction to the financial statements. It is meant to assist the reader in understanding the financial statements by providing an overall review of the financial activities during the year as well as to provide a comparison 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.

The financial statements and footnotes follow this section of the report. 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 asset, liability, and net asset balances at June 30, 2011, with those at June 30, 2010. 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, 2011. This information is summarized in Table 2. Table 2 also compares the financial activities of the Retirement Funds for the year ended June 30, 2011, with those of the year ended June 30, 2010. 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 of the Retirement Funds increased by $9.6 billion during the fiscal year ended June 30, 2011. Realized and unrealized gains within the portfolio increased net assets by $9.6 billion. All asset classes experienced positive investment returns for the fiscal year, with a total fund return of 21.1 percent. Distributions to the retirement system decreased net assets by $(1.4) billion. Other investment income reinvested in the portfolio increased net assets by $1.4 billion.

The following summarizes changes within each grouping listed in Table 1:

- Liquid assets increased by $.9 billion. Cash income net of expenses reinvested in money market funds from all asset classes totaled $2.8 billion during the current fiscal year. Distributions to the Department of Retirement System decreased liquid assets by $(1.4) billion. Transfers of cash to other asset classes for investment purposes totaled $(.5) billion.
- Fixed income increased slightly during the current fiscal year almost entirely due to unrealized gains within the portfolio. Income of $.3 billion was reinvested in fixed income securities. Transfers to other asset classes totaled $(.3) billion. Investment return for the current fiscal year for fixed income securities was 7.5 percent.
- Equities increased by $5.5 billion, almost entirely due to market appreciation. There were significant changes and restructuring within the equity portfolio during the current fiscal year. The retirement fund reduced balances held in commingled equity funds by $3.7 billion. $3.2 billion of this restructure was transferred to new active managers or passively managed separate accounts within the portfolio. An additional $.3 billion was used to fund an internally managed equity portfolio. Income received and reinvested in equities was $.4 billion. Unrealized gains increased invested balances by $5.3 billion due to equity market appreciation experienced during the fiscal year. The public equity portfolio return was 31.0 percent for the year ended June 30, 2011.
- Alternative investments increased by $3.3 billion. Distributions of income received from general partners was $1.8 billion. This income was used to fund an additional $.8 billion of capital, net of

TABLE 1 - SUMMARIZED NET ASSETS	2011	2010	DOLLAR CHANGE	PERCENT CHANGE
Liquid Assets	$1,949,469,436	$1,061,656,998	$887,812,438	83.6%
Fixed Income Securites	11,765,036,513	11,758,744,355	6,292,158	0.1%
Equities	23,872,510,551	18,368,529,098	5,503,981,453	30.0%
Alternative Investments	24,930,203,442	21,654,098,699	3,276,104,743	15.1%
Total Investments	**62,517,219,942**	**52,843,029,150**	**9,674,190,792**	**18.3%**
Collateral Held Under Securities Lending Agreements	2,718,937,457	3,667,614,598	(948,677,141)	(25.9%)
Open Foreign Exchange Contracts Receivable	1,304,357,996	1,660,341,559	(355,983,563)	(21.4%)
Other Receivables	446,656,492	308,314,933	138,341,559	44.9%
Total Assets	**66,987,171,887**	**58,479,300,240**	**8,507,871,647**	**14.5%**
Obligations Under Securities Lending Agreements	2,718,937,457	3,667,614,598	(948,677,141)	(25.9%)
Open Foreign Exchange Contracts Payable	1,305,228,322	1,662,130,312	(356,901,990)	(21.5%)
Other Payables	612,866,030	421,649,716	191,216,314	45.3%
Total Liabilities	**4,637,031,809**	**5,751,394,626**	**(1,114,362,817)**	**(19.4%)**
Net Assets	**$62,350,140,078**	**$52,727,905,614**	**$9,622,234,464**	**18.2%**

returns of capital, which increased this asset class. The remaining $1.0 billion of income received, after net capital calls, was transferred to other asset classes. Unrealized gains for the current fiscal year increased alternative investments by $2.5 billion . Positive returns in all capital markets impacted alternative investments as well. Investment returns in private equity, real estate, and tangible assets were 24.3 percent, 14.4 percent and 6.6 percent, respectively.

- Collateral held and obligations under securities lending agreements decreased by $(.9) billion. Market conditions warranted a reduction in the cash collateral portfolio and loan balances were reduced accordingly.
- Open foreign exchange contracts receivable and payable decreased by $(.4) billion. International managers had less open trades at June 30, 2011 compared to the prior year, resulting in less open exchange contracts to cover the settlement currency of those trades.
- Other receivables and other payables increased by $.1 billion each due to an increase in open and unsettled security trades. Trading volumes can vary substantially based on the timing of additional cash flows, market movements, and rebalancing of asset classes within a portfolio. Accordingly, there is generally minimal correlation to invested balances.

As shown in Table 2, net investment income for the year increased by $4.7 billion as follows:

- Investment income increased due mainly to increases to invested balances and increasing interest rates throughout the year.
- Realized and unrealized gains increased by $4.7 billion due to positive investment returns for the fiscal year in all asset classes. The annual return for the year ended June 30, 2011 was 21.1 percent for the Retirement Funds compared to the prior fiscal year return of 13.2 percent.
- Net investment expenses remained relatively stable compared to the prior year with a slight decrease. While the assets under management have increased, the investment structure within the equity portfolio has changed significantly from active to passive strategies. Fees associated with passive management of securities are significantly lower than actively managed funds.
- Distributions to the Retirement System increased by $.3 billion to cover benefit payments. A reduced workforce during the current fiscal year has increased the need for funds to cover benefit payments. In addition, pension benefit payouts have steadily increased, with the number of retirees growing and larger average retiree payments.

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.

TABLE 2 - SUMMARIZED CHANGES IN NET ASSETS	2011	2010	DOLLAR CHANGE
Net Assets - Beginning	**$52,727,905,614**	**$47,575,993,029**	**$5,151,912,585**
Net Investment Income			
Investment Income	1,574,922,015	1,537,073,503	37,848,512
Net Capital Gain	2,780,114,557	1,031,102,004	1,749,012,553
Unrealized Gain	6,846,016,594	3,891,618,219	2,954,398,375
Investment Expenses	(209,240,226)	(218,796,175)	(9,555,949)
Net Investment Income	**10,991,812,940**	**6,240,997,551**	**4,750,815,389**
Net Withdrawal by Retirement Plans	(1,369,578,476)	(1,089,084,966)	280,493,510
Net Assets - Ending	**$62,350,140,078**	**$52,727,905,614**	**$9,622,234,464**

Retirement Funds Statement of Net Assets - June 30, 2011

See notes to financial statements

	Commingled Trust Fund	Plan-Specific Investments	Total	Percent of Plan Assets
ASSETS				
Investments:				
LIQUIDITY				
Cash and Money Market Funds	$ 1,822,020,017	$ 94,360,483	$ 1,916,380,500	
Foreign Currency	33,088,936	-	33,088,936	
Total Liquidity	1,855,108,953	94,360,483	1,949,469,436	3.1%
FIXED INCOME SECURITIES (U.S. DOLLAR DENOMINATED)				
Asset Backed Securities	121,518,237	-	121,518,237	
Residential Mortgage Backed Securities	2,371,653,664	-	2,371,653,664	
Commercial Mortgage Backed Securities	328,065,535	-	328,065,535	
Corporate Bonds - Domestic	1,338,352,475	-	1,338,352,475	
Corporate Bonds - Foreign	3,560,256,279	-	3,560,256,279	
U.S. Government Treasury Securities	2,077,797,069	-	2,077,797,069	
Foreign Government and Agency Securities	1,010,462,587	-	1,010,462,587	
Supranational Securities	30,660,477	-	30,660,477	
Total Fixed Income Securities (U.S. Dollar Denominated)	10,838,766,323	-	10,838,766,323	17.3%
FIXED INCOME SECURITIES (NON U.S. DOLLAR DENOMINATED)				
Corporate Bonds Domestic	27,119,603	-	27,119,603	
Corporate Bonds Foreign	143,388,292	-	143,388,292	
Foreign Government and Agency Securities	438,717,756	-	438,717,756	
Supranational Securities	317,044,539	-	317,044,539	
Total Fixed Income Securities (Non U.S. Dollar Denominated)	926,270,190	-	926,270,190	1.5%
CORPORATE STOCK (U.S. DOLLAR DENOMINATED)				
Corporate Stock - Domestic	2,491,033,750	-	2,491,033,750	
Corporate Stock - Foreign	811,304,508	-	811,304,508	
Total Corporate Stock (U.S. Dollar Denominated)	3,302,338,258	-	3,302,338,258	5.3%
CORPORATE STOCK (NON U.S. DOLLAR DENOMINATED)				
Corporate Stock - Domestic	6,022,158	-	6,022,158	
Corporate Stock - Foreign	11,108,914,366	-	11,108,914,366	
Total Corporate Stock (Non U.S. Dollar Denominated)	11,114,936,524	-	11,114,936,524	17.8%
COMMINGLED EQUITY INDEX FUNDS				
Commingled Index Funds - Domestic	7,584,841,906	-	7,584,841,906	
Commingled Index Funds - Foreign	1,870,393,863	-	1,870,393,863	
Total Commingled Equity Index Funds	9,455,235,769	-	9,455,235,769	15.1%
ALTERNATIVE INVESTMENTS				
Private Equity	15,613,269,301	-	15,613,269,301	
Real Estate	8,598,192,998	-	8,598,192,998	
Tangible Assets (Infrastructure, Natural Resources)	718,741,143	-	718,741,143	
Total Alternative Investments	24,930,203,442	-	24,930,203,442	39.9%
Total Investments	62,422,859,459	94,360,483	62,517,219,942	100.0%
Investment Earnings Receivable	184,221,197	56,625	184,277,822	
Receivables for Investments Sold	262,378,670	-	262,378,670	
Open Foreign Exchange Contracts Receivable	1,304,357,996	-	1,304,357,996	
Collateral Held Under Securities Lending Agreements	2,718,937,457	-	2,718,937,457	
Total Assets	66,892,754,779	94,417,108	66,987,171,887	
LIABILITIES				
Obligations Under Securities Lending Agreements	2,718,937,457	-	2,718,937,457	
Investment Management Fees Payable	7,151,244	37,779	7,189,023	
Payable for Investments Purchased	605,677,007	-	605,677,007	
Open Foreign Exchange Contracts Payable	1,305,228,322	-	1,305,228,322	
Total Liabilities	4,636,994,030	37,779	4,637,031,809	
NET ASSETS	$ 62,255,760,749	$ 94,379,329	$ 62,350,140,078	

Retirement Funds Statement of Changes in Net Assets - Year Ended June 30, 2011
See notes to financial statements

	Commingled Trust Fund	Plan-Specific Investments	Total
Net Investment Income			
Investment Income:			
Interest, Dividends, and Other Investment Income	$ 1,557,238,458	$ 834,981	$ 1,558,073,439
Securities Lending Income	16,848,576	-	16,848,576
Realized Capital Gains	4,176,991,027	-	4,176,991,027
Realized Capital Losses	(1,396,876,470)	-	(1,396,876,470)
Unrealized Gains	6,846,016,594	-	6,846,016,594
Less:			
Investment Expenses	(196,653,290)	(415,527)	(197,068,817)
Securities Lending Broker Rebates Paid and Bank Fees	(1,092,521)	-	(1,092,521)
WSIB Operating Expenses	(11,422,238)	343,350	(11,078,888)
Net Investment Income	10,991,050,136	762,804	10,991,812,940
Net Withdrawal by Retirement Plans	-	(1,369,578,476)	(1,369,578,476)
Investments in Commingled Funds	749,791,653	(749,791,653)	-
Withdrawals from Commingled Funds	(2,117,548,209)	2,117,548,209	-
Increase (Decrease) in Net Assets	9,623,293,580	(1,059,116)	9,622,234,464
NET ASSETS, JUNE 30, 2010	52,632,467,169	95,438,445	52,727,905,614
NET ASSETS, JUNE 30, 2011	$ 62,255,760,749	$ 94,379,329	$ 62,350,140,078

Notes to Financial Statements

Note 1. Description of Funds and Significant Accounting Policies

Description of Funds

The Retirement Funds consist of retirement contributions from employer and employee 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. 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 the 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. Unrealized gains and losses are included as investment income in the Statement of Changes in Net Assets.

The net assets of the Retirement Funds are valued on a monthly basis using the following sources:

Publicly Traded Securities (Corporate stock, Commingled Funds, investment derivatives, and Fixed Income): Fair values are based on published market prices, quotations from national security exchanges, and security pricing services as of each month end closing of the New York Stock Exchange.

Limited Partnerships: 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 by the general partner, at the closest available reporting period, adjusted for subsequent contributions, distributions, management fees, and changes in values of foreign currency and published market prices for certain securities.

The limited partnerships' annual financial statements are audited by independent auditors. These investments are valued at $24.9 billion (40.0 percent of total net assets) as of June 30, 2011. Because of the inherent uncertainties in estimating fair values, it is at least reasonably possible that the estimates will change in the near-term.

Private Equity Limited Partnerships: The fair value of individual capital account balances is based on the valuations reported by private equity partnerships using the following methodologies to value the underlying portfolio companies:

- Valuations of publicly traded portfolio companies are based on active exchanges using quoted market prices as of the close of trading for each month-end.
- When a portfolio company investment does not have a readily available market price, but has a return that is determined by reference to an asset for which a market price is readily available, valuations are based on the closing market price of the reference asset on the valuation date, adjusted for factors that affect the fair value of the investment held.
- When the portfolio company investments are private holdings and are not traded on active security exchanges, valuation methodologies used consist primarily of income and market approaches. The income approach involves a discounted cash flow analysis based on portfolio companies' projections. The market approach involves valuing a company at a multiple of a specified financial measure (generally EBITDA) based on multiples at which comparable companies trade.

Real Estate Limited Partnerships: Real estate partnerships provide quarterly valuations based on the most recent capital account balance to WSIB management. Individual properties are valued by the partnerships at least annually, and are adjusted as frequently as quarterly if material market or operational changes have occurred. Properties are generally externally valued every one to five years, depending upon the partnership. Structured finance investments receive quarterly value adjustments by the partners, generally applying the assumption that all such positions will be held to maturity. Annual audits of most partnerships include a review of compliance with the partnership's valuation policies.

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, broker commissions paid, and lending agent management fees 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.

Investments and Withdrawals

Investments and withdrawals are recorded when received or paid.

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 Commingled Trust Fund (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 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 Plans 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 both the defined benefit and defined contribution portion of PERS Plan 3, SERS Plan 3 and TRS Plan 3, which are hybrid defined benefit/defined contribution plans. The participants also have the option to invest their defined contributions in other external options not managed by the WSIB.

Note 3. Breakdown of Plan Assets

The following schedule presents the net assets broken down by ownership by the various pension plans.

Schedule of Participation

RETIREMENT PLANS:	Commingled Trust Fund	Plan-Specific Investments	Total Plan Net Assets	Percent of Plan Assets
PERS 1	$ 8,178,122,390	$ 1,513,438	$ 8,179,635,828	13.1%
PERS 2/3 (DC and DB Plans)	21,005,431,998	29,286,024	21,034,718,022	33.7%
TEACHERS 1	6,901,040,706	3,911,309	6,904,952,015	11.1%
TEACHERS 2/3 (DC and DB Plans)	9,808,699,655	25,636,988	9,834,336,643	15.8%
VOLUNTEER FIREFIGHTERS	148,300,650	95	148,300,745	0.2%
LEOFF 1	5,182,681,927	2,105,023	5,184,786,950	8.3%
LEOFF 2	6,333,422,921	16,402,376	6,349,825,297	10.2%
SCHOOL EMPLOYEES 2/3 (DC and DB Plans)	3,666,535,568	7,147,811	3,673,683,379	5.9%
STATE PATROL 1	882,011,352	400,630	882,411,982	1.4%
STATE PATROL 2	11,213,126	500,221	11,713,347	0.1%
PUBLIC SAFETY EMPLOYEES 2	138,300,456	2,601,029	140,901,485	0.2%
JUDICIAL	-	4,874,385	4,874,385	Trace
Total Net Assets at June 30, 2011	**$ 62,255,760,749**	**$ 94,379,329**	**$ 62,350,140,078**	**100.0%**

Schedule of Investment Fees and Expenses

	Fees Paid	Netted Fees *	Total Fees	Assets Under Management
EQUITY SECURITIES:				
Active Equity Manager Emerging Markets	$ 2,596,614	$ -	$ 2,596,614	$ 739,876,113
Active Equtiy Manager Global	24,489,589	-	24,489,589	6,916,594,769
Passive Equity Manager Developed Markets	312,920	-	312,920	6,529,718,299
Active Management Innovation Portfolio	770,539	-	770,539	231,085,601
Commingled Funds Emerging Markets	-	10,929,457	10,929,457	1,870,379,567
Commingled Funds Developed Markets	-	557,465	557,465	7,584,856,202
ALTERNATIVE INVESTMENTS:				
Private Equity	120,418,685	-	120,418,685	15,613,269,301
Real Estate	34,419,582	-	34,419,582	8,598,192,998
Tangible Assets	6,390,943	-	6,390,943	718,741,143
CASH MANAGEMENT	3,995,260	-	3,995,260	1,949,469,436
OTHER FEES:				
Consultants and Accounting	1,233,296	-	1,233,296	NA
Legal Fees	301,057	-	301,057	NA
Research Services	1,996,193	-	1,996,193	NA
Miscellaneous Fees	144,139	-	144,139	NA
Total Investment Expenses	$ 197,068,817	$ 11,486,922	$ 208,555,739	$ 50,752,183,429

** Netted fees are included in unrealized gains (losses) in the accompanying financial statements*

"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 accounted for as a reduction of investment income or are netted directly from the asset value of Retirement Fund investments. These fees include investment management fees and commissions, investment consultant fees, legal fees, and other investment management related expenses and are summarized above. The WSIB operating expenses are charged to the funds based upon actual costs incurred to manage the investments. WSIB operating expenses are allocated to the funds under management based on relative market values, in accordance with state statutes.

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, 2011, the Retirement Funds had a total of $14.6 billion in unfunded commitments in the following asset classes:

Private Equity	$6,871,504,699
Real Estate	$6,896,592,378
Innovation Portfolio	$308,740,546
Tangible Assets	$505,276,993

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. The CTF does not include

PERS Plan 3, TRS Plan 3, or SERS Plan 3 self-directed investments, which are accounted for and reported on by 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, 2011 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 Retirement Funds will not be able to recover the value of investments that are in the possession of an outside party. The Retirement Funds mitigates custodial credit risk by having its investment securities held by its custodian. Also, investment securities are registered in the name of the Washington State Investment Board for the benefit of the Retirement Funds, excluding cash and cash equivalents and repurchase agreements held as securities lending collateral.

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 2011.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates over time 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 future 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, and decreases in interest rates result in increases in valuations. The Retirement Funds' fixed income investments are to be actively managed to meet or exceed the return of the Barclays Capital Universal Index, with a duration that is not higher or lower twenty percent than the duration of the index. As of June 30, 2011, the Retirement Funds' duration was within the duration target of this index.

Schedule 1 provides information about the interest rate risks associated with the CTF investments as of June 30, 2011. The schedule displays various asset classes held by maturity in years, effective durations, and credit ratings. Residential mortgage backed, commercial mortgage backed, and asset backed securities are reported using the average life within the portfolio. The average life is a calculated estimate of the average time (in years) until maturity for these securities taking into account possible prepayments of principal. All other securities on this schedule are reported using the stated maturity date.

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, 2011, 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 percent of cost at the time of purchase or 6 percent of fair value thereafter of the fund, and no high yield issues shall exceed 1 percent of cost or 2 percent of fair value of the fund. There was no concentration of credit risk exceeding these policy guidelines as of June 30, 2011.

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 Retirement Funds manage 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. 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. Private equity and real estate are presented according to the financial reporting currency of the individual funds and is not a presentation of currency exposure relating to the underlying holdings. The schedule is stated in U.S. dollars.

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 JPMorgan to act as agent for the WSIB in securities lending transactions. As JPMorgan is the custodian bank for the WSIB, it is counterparty to securities lending transactions.

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 had collateral denominated in the same currency, the collateral requirement was 102 percent of the fair value, including accrued interest, of the securities loaned. All other securities were required to be collateralized at 105 percent of the fair value, including accrued interest, of the loaned securities. The collateral held and fair value of securities on loan at June 30, 2011, was $2,999,112,358 and $2,922,669,913 respectively. As of June 30, 2011, the amounts the Retirement Fund owed the borrowers exceeded the amounts the borrowers owed the Retirement Funds, resulting in no credit risk exposure.

As of June 30, 2011, the Retirement Funds held the following securities as lending collateral (in thousands):

Cash and Cash Equivalents	$1,426,003
Bank and Promissory Notes	537,089
Commercial Paper	423,043
Securitized Debt Instruments	227,695
Repurchase Agreements	182,814
Miscellaneous	90,432
Guaranteed Insurance Contracts	62,897
Sovereign Debt	49,139
Total Collateral Held	**$2,999,112**

During fiscal year 2011, securities lending transactions could be terminated on demand by either the Retirement Funds or the borrower. The weighted average maturity of loans for 2011 was 1.5 days.

Cash collateral was invested by the Retirement Funds' agents in securities in the WSIB's separately managed short-term investment pool (average final maturity of 34 days). 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. Accordingly, non-cash collateral held under securities lending contracts with a value of $280,174,901 has not been included in the Statement of Net Assets. 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. JPMorgan 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. JPMorgan'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 2011, 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 2011 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. Derivative transactions involve, to varying degrees, market and credit risk. In connection with the international and domestic active equity strategy, at June 30, 2011, the Retirement Funds held investments in financial futures, forward currency contracts and other derivative securities that are recorded at fair value with changes in value recognized in investment income in the Statement of Changes in Net Assets in the period of change.

Derivatives are generally used to achieve the desired market exposure of a security, index or currency, adjust portfolio duration, or rebalance the total portfolio to the target asset allocation. Derivative contracts are instruments that derive their value from underlying assets, indices, reference interest rates, or a combination of these factors. A derivative instrument could be a contract negotiated on behalf of the Retirement Funds and a specific counterparty. This would typically be referred to as an over the counter (OTC) contract such as forward contracts and to be announced (TBA) securities. Alternatively, a derivative instrument, such as futures, could be listed and traded on an exchange and referred to as "exchange traded".

Inherent in the use of OTC derivatives, the Retirement Funds are exposed to counterparty credit risk on all open OTC positions. Counterparty credit risk is the risk that a derivative counterparty may fail to meet its payment obligation under the derivative contract. As of June 30, 2011, the Retirement Funds counterparty risk was not deemed to be significant, whether evaluating counterparty exposure outright or netting collateral against net asset positions on contracts with each counterparty.

Mortgage TBA's are used to achieve the desired market exposure of a security or asset class or adjust portfolio duration. A TBA is a contract for the purchase or sale of agency mortgage backed securities to be delivered at a future agreed-upon date. TBA's carry future settlement risk due to the possibility of not receiving the asset or associated gains specified in the contract and such loss upon failure by counterparties to deliver under the contracts would not be material at June 30, 2011. The fair value of TBA derivatives is included in Residential Mortgage Backed Securities in the Statement of Net Assets.

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. The exchange assumes the risk that the counterparty will not pay and generally requires margin payments to minimize such risk. Futures are generally used to achieve the desired market exposure of a security or index or rebalance the total portfolio.

Forward currency contracts are agreements to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. These forward commitments are not standardized and carry credit risk due to the possible nonperformance by one of the counterparties. The maximum potential loss is the aggregate face value in U.S. dollars at the time the contract was opened; however, the likelihood of such loss is remote. At June 30, 2011, the Retirement Funds had outstanding forward currency contracts to purchase foreign currencies with a fair value of $1,287,570,700 and outstanding contracts to sell foreign currencies with a fair value of $1,286,696,717 reported as a component of open foreign currency contracts payable and receivable in the accompanying Statement of Net Assets. The net unrealized loss of $873,983 is included in the accompanying Statement of Changes in Net Assets. The contracts have varying maturity dates ranging from July 1, 2011, to September 21, 2011.

At June 30, 2011, the Retirement Funds fixed income portfolio held derivative securities consisting of collateralized mortgage obligations with a fair value of $875,750,652. 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.

Derivatives which are exchange traded are not subject to credit risk. The maximum loss that would be recognized at June 30, 2011, if all counterparties fail to perform as contracted was diminimus.

At June 30, 2011, the counterparties' credit ratings for forwards currency contracts that are subject to credit risk had a credit rating of no less than A1 using the Moody's rating scale.

		Changes in Fair Value - Included in Investment Income	Fair Value at June 30, 2011 - Investment Derivative	
	Classification	**Amount**	**Amount**	**Notional**
FUTURES CONTRACTS:				
Bond Index Futures	Investment	$ 15,903,468	$ (1,230,589)	6,040
Equity Index Futures	Investment	8,343,272	-	-
		24,246,740	(1,230,589)	6,040
TO BE ANNOUNCED SECURITES:				
FNMA TBA	Investment	7,997,384	328,895,770	312,000,000
FORWARD CURRENCY CONTRACTS:				
Australian Dollar	Investment	40,327,885	374,701	(44,903,329)
Brazilian Real	Investment	112,066	-	-
Canadian Dollar	Investment	16,505,989	(8,171)	(201,771)
Czech Koruna	Investment	267,507	925	1,391,530
Danish Krone	Investment	1,117,949	(2,631)	(2,034,936)
Euro	Investment	51,926,025	(601,243)	28,742
Hong Kong Dollar	Investment	(91,429)	(1,143)	59,135,185
Hungarian Forint	Investment	(152,654)	-	-
Israeli Shekel	Investment	20,720	-	-
Japanese Yen	Investment	28,501,255	(77,124)	1,295,417,205
Mexican Peso	Investment	(23,503)	-	-
New Zealand Dollar	Investment	516,867	(4,814)	(148,378)
Norwegian Krone	Investment	760,726	(656,032)	(60,694,278)
Polish Zloty	Investment	(358,895)	-	-
Pound Sterling	Investment	13,853,312	353,150	(32,311,240)
Singapore Dollar	Investment	396,774	24,275	5,652,369
South African Rand	Investment	191,573	1,457	1,990,521
Swedish Krona	Investment	14,939,929	(285,335)	-
Swiss Franc	Investment	12,090,671	8,002	10,221,247
U.S. Dollar	Investment	(172,982,041)	-	70,031,481
		$ 7,920,726	**$ (873,983)**	**1,303,574,348**

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 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, the portfolio is managed to achieve a maximum return at a prudent level of risk.

The Retirement Fund Asset Allocation

The 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 an asset class exceeds its range, the goal of rebalancing will be to meet the target allocation within consideration of the other remaining asset classes.

Asset Class	Target	Policy Range	Asset Class Range
Fixed Income	20%	16 - 24%	+ or - 4%
Tangible Assets	5%	3 - 7%	+ or - 2%
Real Estate	13%	10 - 16%	+ or - 3%
Global Equity	37%	32 - 42%	+ or - 5%
Private Equity	25%	21 - 29%	+ or - 4%
Innovation Portfolio	0%	0 - 5%	+ 5%
Cash	0%	0 - 3%	+ 3%

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 equity program uses a global benchmark, the Dow Jones Global Total Stock Market Index, reflecting the globalization of capital markets. At the beginning of the fiscal year, the public equity portfolio in the CTF was a combination of separate U.S. and international components. The WSIB believes that the future success of the program depends on investment managers finding the most attractive opportunities wherever they are in the world. Therefore, over the course of the past fiscal year, the WSIB restructured the public equity program within the CTF into four components: passive U.S. equity, passive international equity, active global equity, and active emerging markets equity.

Because U.S. equity markets are generally efficient and international equity markets are increasingly efficient, most of the WSIB's public equity investments are in low-cost, broad-based passive index funds. The retirement fund employs both passive U.S. equity and passive international equity in order to maintain policy weights in both areas. All the global equity mandates, in which investment firms can pick the most attractive stocks wherever they are in the world (U.S. or international), and all the emerging markets equity mandates are actively managed.

Fixed Income

The portfolio is constrained by policy from investing more than 1 percent of the portfolio's par holdings in any single issuer with a quality rating below investment grade (as defined by Barclays Capital Global Family of Fixed Income Indices). Total holdings of below investment grade credit bonds shall not exceed 15 percent of total bond holdings. The duration of the portfolio (the sensitivity of the portfolio's fair value to changes in the level of interest rates) is to be targeted within 20 percent of the duration of the Barclays Capital 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%

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. These investment types are divided into venture capital investments, corporate finance, 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.

The portfolio is managed to meet or exceed the returns of the Russell 3000 (lagged by one quarter) plus 300 basis points.

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 over the long term. 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 transactions 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 seeks to earn an 8 percent annual investment return over a rolling 10-year period.

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.

Currently, there are three investment strategies in the innovation portfolio, two involving private partnerships and one investing in public equities. Their individual holdings have been presented according to asset class on the Statement of Net Assets.

Tangible Assets

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 those funds, separate accounts, or tangible asset operating companies providing the WSIB with the most robust governance provisions related to acquisition, dispositions, debt levels and ongoing operational decisions for annual capital expenditures. The tangible asset portfolio invests in a number of sectors, but the primary focus is infrastructure, timber, and natural resource rights (oil and natural gas).

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

Note 11. Subsequent Events

On August 5, 2011, the credit rating agency Standard & Poor's downgraded the United States' credit rating for the first time in history from AAA to AA+. The Retirement Funds held $2.1 billion in U.S. Government Securities at June 30, 2011 which was 3 percent of the net asset value of the fund. The WSIB uses a Moody's equivalent credit rating scale.

The downgrade of the U.S. Government Securities is not expected to have a material adverse impact on the Retirement Funds' financial position or results of operations.

Schedule 1: Schedule of Maturities and Credit Quality

		Maturity					
Investment Type	Total Fair Value	Less than 1 year	1-5 years	6-10 years	More than 10 years	Effective Duration	Credit Rating
Asset Backed Securities	$ 121,518,237	$ 101,241,800	$ 20,215,440	$ -	$ 60,997	0.03	Aaa
Residential Mortgage Backed Securities	2,371,653,664	355,900,649	1,931,387,902	84,365,113	-	2.45	Aaa
Commercial Mortgage Backed Securities	328,065,535	99,187,848	227,259,787	1,617,900	-	2.91	Sched 2
Corporate Bonds Domestic (USD)	1,338,352,475	-	267,658,408	909,611,666	161,082,401	5.89	Sched 2
Corporate Bonds Domestic (Non USD)	27,119,603	-	27,119,603	-	-	3.5	Sched 2
Corporate Bonds Foreign (USD)	3,560,256,279	2,029,150	714,910,716	2,316,870,258	526,446,155	6.66	Sched 2
Corporate Bonds Foreign (Non USD)	143,388,292	-	54,575,644	56,256,544	32,556,104	5.66	Sched 2
US Government Treasuries	2,077,797,069	808,069,919	955,025,655	314,701,495	-	2.78	Aaa
Foreign Government and Agencies (USD)	1,010,462,587	-	92,434,923	755,525,342	162,502,322	6.52	Sched 2
Foreign Government and Agencies (Non USD)	438,717,756	-	63,881,674	226,759,660	148,076,422	6.31	Sched 2
Supranational Securities (USD)	30,660,477	-	30,660,477	-	-	4.57	Aaa
Supranational Securities (Non USD)	317,044,539	-	155,009,847	162,034,692	-	4.12	Aaa
Total Retirement Funds Investment Categorized	11,765,036,513	$ 1,366,429,366	$ 4,540,140,076	$ 4,827,742,670	$ 1,030,724,401		
Investments Not Required to be Categorized							
Corporate Stock - U.S. Dollar Denominated	3,302,338,258						
Corporate Stock - Non U.S. Dollar Denominated	11,114,936,524						
Commingled Equity Index Funds	9,455,235,769						
Alternative Investments	24,930,203,442						
Liquidity	1,949,469,436						
Total Investments Not Categorized	50,752,183,429						
Total Investments	$ 62,517,219,942						

Schedule 2: Additional Credit Rating Disclosures

Investment Type	Total Fair Value	Moody's Equivalent Credit Rating										
		Aaa	Aa1	Aa2	Aa3	A1	A2	A3	Baa1	Baa2	Baa3	Ba1 or Lower
Commercial Mortgage Backed Securities	$ 328,065,535	$ 284,571,407	$ -	$ -	$ 43,494,128	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Corporate Bonds Domestic (USD)	1,338,352,475	-	-	50,015,000	52,049,321	124,438,126	115,051,806	127,612,717	308,349,136	263,412,678	87,630,241	209,793,450
Corporate Bonds Domestic (Non USD)	27,119,603	-	-	-	-	-	-	27,119,603	-	-	-	-
Corporate Bonds Foreign (USD)	3,560,256,279	-	-	44,418,149	54,624,530	93,015,747	11,100,600	338,000,858	495,520,739	680,613,667	1,054,216,359	788,745,630
Corporate Bonds Foreign (Non USD)	143,388,292	-	-	-	-	-	32,556,107	39,271,435	27,115,250	-	44,445,500	-
Foreign Government and Agencies (USD)	1,010,462,587	-	17,307,839	26,650,000	76,868,325	309,618,341	22,517,670	54,617,100	57,645,898	133,280,203	244,092,211	67,865,000
Foreign Government and Agencies (Non USD)	438,717,756	163,954,361	-	-	-	-	50,302,841	-	-	100,892,803	12,309,177	111,258,574
Total	$ 6,846,362,527	$ 448,525,768	$ 17,307,839	$ 121,083,149	$ 227,036,304	$ 527,072,214	$ 231,529,024	$ 586,621,713	$ 888,631,023	$ 1,178,199,351	$ 1,442,693,488	$ 1,177,662,654

Schedule 3: Foreign Currency Exposure by Country

Foreign Currency Denomination	Investment Type In U.S. Dollar Equivalent							
	Currency	Fixed Income	Common Stock	Commingled Index Funds	Private Equity	Real Estate	Total	Percent of Total Retirement Funds Investments
Australia-Dollar	$ 325,236	$ 375,498,498	$ 684,845,790	$ -	$ -	$ 24,387,951	$ 1,085,057,475	1.7%
Brazil-Real	356,466	244,617,047	91,868,384	-	-	-	336,841,897	0.6%
Canada-Dollar	3,059,737	-	864,750,399	-	-	-	867,810,136	1.4%
Denmark-Krone	466,364	-	103,820,196	-	-	-	104,286,560	0.2%
E.M.U.-Euro	8,709,204	-	2,923,558,262	-	2,229,058,016	143,085,354	5,304,410,836	8.5%
Hong Kong-Dollar	1,084,467	-	399,608,584	-	-	-	400,693,051	0.6%
India - Rupee	461,586	46,978,938	66,736,515	-	-	-	114,177,039	0.2%
Indonesia-Rupiah	117,040	100,005,671	55,093,435	-	-	-	155,216,146	0.2%
Japan-Yen	12,254,364	-	1,967,770,871	-	-	-	1,980,025,235	3.2%
Mexico-Peso	255,006	32,556,104	42,353,612	-	-	-	75,164,722	0.1%
Norway-Krone	1,223,178	-	102,606,111	-	-	-	103,829,289	0.2%
Singapore-Dollar	324,010	-	170,931,517	-	-	-	171,255,527	0.3%
South Africa-Rand	10,274	-	82,763,143	-	-	-	82,773,417	0.1%
South Korea-Won	123	-	129,124,979	-	-	-	129,125,102	0.2%
Sweden-Krona	1,119,154	-	263,775,126	-	1,857,207	-	266,751,487	0.4%
Switzerland-Franc	(91,175)	-	720,503,887	-	-	-	720,412,712	1.2%
Taiwanese-Dollar	1,047,084	-	84,639,692	-	-	-	85,686,776	0.1%
Turkey-Lira	725,690	60,511,422	53,782,484	-	-	-	115,019,596	0.2%
United Kingdom - Pound	(1,003,475)	-	2,113,310,149	-	8,996,568	-	2,121,303,242	3.4%
Other - Miscellaneous	2,644,603	66,102,510	193,093,388	-	-	-	261,840,501	0.4%
	33,088,936	926,270,190	11,114,936,524	-	2,239,911,791	167,473,305	14,481,680,746	23.2%
Foreign Investments Denominated in U.S. Dollars	-	4,570,718,866	811,304,508	1,870,393,863	3,257,375,603	2,594,366,293	13,104,159,133	21.0%
	$ 33,088,936	$ 5,496,989,056	$ 11,926,241,032	$ 1,870,393,863	$ 5,497,287,394	$ 2,761,839,598	$ 27,585,839,879	44.2%

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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 Labor & Industries' Funds of the State of Washington as managed by the Washington State Investment Board ("the Labor & Industries' Funds") as of June 30, 2011, 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 & 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 & Industries of the State of Washington. Further, they do not purport to, and do not, present the financial activity 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 & Industries' Funds as of June 30, 2011, 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 & 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 26, 2011

Management Discussion & Analysis

Management's Discussion and Analysis for the Labor & Industries' Funds of Washington state (L&I Funds), managed by the Washington State Investment Board (WSIB), is presented as an introduction to the financial statements. It is meant to assist the reader in understanding the financial statements by providing an overall review of the financial activities during the year as well as to provide a comparison to the prior year's activities and results. The WSIB manages funds for other Washington state departments. This section represents only the L&I Funds portion. The L&I Funds are the second largest pool of investments managed by the WSIB.

The financial statements and footnotes follow this section of the report. 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 asset, liability, and net asset balances at June 30, 2011, with those at June 30, 2010. 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, 2011. 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, 2011, with those of the year ended June 30, 2010. 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 $631.1 million during the fiscal year ended June 30, 2011. Cash basis interest and other net investment income reinvested in the fund totaled $491.8 million. Net realized and unrealized gains for the year increased net assets by $490.0 million. Distributions to L&I reduced net assets by $(350.7) million.

The following summarizes the changes within each grouping listed within Table 1:

- Money market funds decreased by $(78.8) million. Net investment income reinvested in this short-term investment vehicle totaled $ 524.7 million. Distributions to L&I decreased money market funds by $(350.7) million. The remaining decrease of $(252.8) million was the result of investing excess cash balances longer term and rebalancing to asset allocation policy targets.
- Fixed income securities increased by $381.8 million. Transfers into this asset class from other asset classes totaled $285.9 million. Realized and unrealized gains due to favorable market conditions increased this asset class by $95.9 million. Returns for the current fiscal year for TIPS were 8.41percent. Other fixed income securities returned 4.87 percent.
- Equity investments increased by $315.3 million. Transfers out of this asset class to rebalance to policy targets decreased the balances by $(78.7) million. Net realized and unrealized gains increased equities by $394.0 million due to positive investment returns in the equity markets. The equity portfolio returned 31.6 percent for the current fiscal year.
- Collateral held and obligations under securities lending agreements decreased by $(160.6) million. Market conditions warranted a reduction in the cash collateral portfolio and loan balances were reduced accordingly.
- Investment receivables increased by $6.7 million primarily from the increase in fixed income security balances and rising yields on fixed income investments.
- Investments payable decreased by $(6.1) million due to an decrease in pending trades payable, which is a function of open trades as of a specific point in time. This balance can fluctuate a great deal from period to period based on trading strategies, asset allocation, and market movements.

TABLE 1: SUMMARIZED NET ASSETS	2011	2010	DOLLAR CHANGE	PERCENT CHANGE
Money Market Funds	$142,101,181	$220,859,845	$(78,758,664)	-35.7%
Fixed Income Investments	10,731,372,589	10,349,546,363	381,826,226	3.7%
Equity Investments	1,639,241,643	1,323,968,985	315,272,658	23.8%
Total Investments	**12,512,715,413**	**11,894,375,193**	**618,340,220**	**5.2%**
Collateral Held Under Securities Lending Agreements	2,217,078,142	2,377,679,109	(160,600,967)	-6.8%
Investment Receivables - Other	109,028,392	102,328,608	6,699,784	6.5%
Total Assets	**14,838,821,947**	**14,374,382,910**	**464,439,037**	**3.2%**
Obligations Under Securities Lending Agreements	2,217,078,142	2,377,679,109	(160,600,967)	-6.8%
Investment Payables - Other	25,067,513	31,167,051	(6,099,538)	-19.6%
Total Liabilities	**2,242,145,655**	**2,408,846,160**	**(166,700,505)**	**-6.9%**
Net Assets	**$12,596,676,292**	**$11,965,536,750**	**$631,139,542**	**5.3%**

TABLE 2 - SUMMARIZED CHANGES IN NET ASSETS	2011	2010	DOLLAR CHANGE
Net Investment Income			
Interest, Dividends and Other Investment Income	$501,470,619	$495,143,895	$6,326,724
Net Capital Gains	68,767,391	19,164,992	49,602,399
Unrealized Gains	421,234,255	934,668,092	(513,433,837)
Less:			
Securities Lending Broker Rebates and Management Fees	(5,528,523)	(4,147,907)	1,380,616
Investment Expenses	(1,690,588)	(1,146,479)	544,109
WSIB Operating Expenses	(2,379,598)	(1,841,961)	537,637
Net Investment Income	**981,873,556**	**1,441,840,632**	**(459,967,076)**
Net Amount Withdrawn	(350,734,014)	(449,830,168)	(99,096,154)
Net Assets - Beginning	**11,965,536,750**	**10,973,526,286**	**992,010,464**
Net Assets - Ending	**$12,596,676,292**	**$11,965,536,750**	**$631,139,542**

As shown in Table 2, the net amount withdrawn by L&I decreased by $(99.1) million. Net premiums collected by L&I increased due to an increase in the hours reported by employers. In addition, benefit payments to insured individuals decreased during the current fiscal year requiring less cash to cover benefit payments. Net investment income decreased from the prior fiscal year by $(460.0) million due to decreased investment returns from the previous year. Both fixed income and equity securities experienced significant appreciation due to the market environment during the current fiscal year. While the investment returns for equity securities increased from the previous year, the returns for the fixed income portfolio decreased from 13.9 percent to 8.31 percent. Bond yields increased during the current fiscal year putting downward pressure on market values. Securities lending broker rebates increased by $1.4 million due to a widening of the spreads paid to brokers in the current lending environment for the securities L&I has available to lend.

The fair value of L&I assets is directly impacted by the returns of the various capital markets within which the WSIB invests. The returns are expected to have a significant effect on financial position and results of operations in the future. 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 L&I 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.

L&I Funds Statement of Net Assets - June 30, 2011

See notes to financial statements

	Accident Fund	Medical Aid Fund	Pension Reserves Fund	Supplemental Pension	Total	Percent of Total
ASSETS						
Investments:						
LIQUIDITY:						
Money Market Funds	$ 52,184,697	$ 8,446,000	$ 53,918,987	$ 27,551,497	$ 142,101,181	1.1%
FIXED INCOME INVESTMENTS:						
Residential Mortgage Backed Securities	723,872,615	495,004,048	447,380,630	29,613	1,666,286,906	
Commercial Mortgage Backed Securities	192,479,222	146,521,405	116,537,276	-	455,537,903	
Corporate Bonds - Domestic	1,122,467,474	886,047,332	1,001,538,468	2,072,407	3,012,125,681	
Corporate Bonds - Foreign (USD)	789,280,415	670,372,562	761,813,233	1,001,350	2,222,467,560	
Foreign Government and Agencies (USD)	222,013,732	194,685,261	243,373,193	-	660,072,186	
Supranational Securities (USD)	112,615,731	119,003,787	64,730,586	-	296,350,104	
U.S. Government Treasuries	260,918,305	196,877,361	245,935,705	-	703,731,371	
U.S. Treasury Inflation Protected Securities	485,954,821	902,615,624	326,230,433	-	1,714,800,878	
Total Fixed Income Investments	3,909,602,315	3,611,127,380	3,207,539,524	3,103,370	10,731,372,589	85.8%
EQUITY INVESTMENTS:						
Commingled Index Funds - Domestic	296,276,791	449,798,055	229,117,081	-	975,191,927	
Commingled Index Funds - Foreign	190,951,165	313,296,419	159,802,132	-	664,049,716	
Total Equity Investments	487,227,956	763,094,474	388,919,213	-	1,639,241,643	13.1%
Total Investments	4,449,014,968	4,382,667,854	3,650,377,724	30,654,867	12,512,715,413	100.0%
Investment Earnings Receivable	40,280,394	34,873,821	33,781,788	85,136	109,021,139	
Receivable for Investments Sold	3,003	2,907	1,343	-	7,253	
Collateral Held Under Securities Lending Agreements	693,298,816	1,009,275,869	514,503,457	-	2,217,078,142	
Total Assets	5,182,597,181	5,426,820,451	4,198,664,312	30,740,003	14,838,821,947	
LIABILITIES						
Obligations Under Securities Lending Agreements	693,298,816	1,009,275,869	514,503,457	-	2,217,078,142	
Accounts Payable	70,707	91,677	50,843	6,236	219,463	
Payable for Investments Purchased	-	9,971,500	14,876,550	-	24,848,050	
Total Liabilities	693,369,523	1,019,339,046	529,430,850	6,236	2,242,145,655	
NET ASSETS	$ 4,489,227,658	$ 4,407,481,405	$ 3,669,233,462	$ 30,733,767	$ 12,596,676,292	

L&I Funds Statement of Changes in Net Assets - Year ended June 30, 2011

See notes to financial statements

	Accident Fund	Medical Aid Fund	Pension Reserves Fund	Supplemental Pension	Total
Net Investment Income					
Investment Income:					
Interest, Dividends and Other Investment Income	$ 188,554,660	$ 154,299,284	$ 147,220,500	$ 303,019	$ 490,377,463
Securities Lending Income	3,680,155	4,791,550	2,621,451	-	11,093,156
Realized Capital Gains	45,470,215	11,969,182	16,932,090	-	74,371,487
Realized Capital Losses	(4,035,189)	(335,595)	(1,233,055)	(257)	(5,604,096)
Unrealized Gains and Losses	111,623,766	218,157,411	91,557,730	(104,652)	421,234,255
Less:					
Securities Lending Broker Rebates and Management Fees	(1,881,543)	(2,350,888)	(1,296,092)	-	(5,528,523)
Investment Expenses	(617,287)	(585,112)	(427,776)	(60,413)	(1,690,588)
WSIB Operating Expenses	(858,929)	(830,868)	(682,539)	(7,262)	(2,379,598)
Net Investment Income	341,935,848	385,114,964	254,692,309	130,435	981,873,556
Net Amount Contributed (Withdrawn)	(225,855,296)	(98,044,054)	(42,613,126)	15,778,462	(350,734,014)
Increase in Net Assets	116,080,552	287,070,910	212,079,183	15,908,897	631,139,542
Net Assets - June 30, 2010	4,373,147,106	4,120,410,495	3,457,154,279	14,824,870	11,965,536,750
Net Assets - June 30, 2011	$ 4,489,227,658	$ 4,407,481,405	$ 3,669,233,462	$ 30,733,767	$ 12,596,676,292

Notes to Financial Statements

Note 1. Description of Funds and Significant Accounting Policies

Description of Funds

The L&I Funds consist mainly of the investment 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 investments held by the L&I Funds. The financial statements do not present the financial position and results of operations of the WSIB or L&I.

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. Investments are adjusted to fair values monthly. Unrealized gains and losses are included as investment income in the Statement of Changes in Net Assets.

Revenue Recognition

Interest and dividend income are 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 and lending fees paid to the custodian bank, 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.

Contributions and Withdrawals

Contributions and withdrawals are recorded when received or paid.

Note 2. Fees and Expenses

Investment fees and expenses are accounted for as a reduction of investment income or are netted directly from the asset value of the L&I Fund's investments. These fees include investment management fees and commissions, investment consultant fees, legal fees, and other investment management related expenses. The WSIB operating expenses are charged to the funds based upon actual costs incurred to manage the investments. WSIB operating expenses are allocated to the funds under management based on relative market values, in accordance with state statutes.

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 Fund's 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, 2011, 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 mitigate custodial credit risk by having its investment securities held by its custodian. Also, investment securities are registered in the name of the Washington State Investment Board for the benefit of the L&I Funds, excluding cash and cash equivalents and repurchase agreements held as securities lending collateral.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates over time 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. As of June 30, 2011, the L&I Funds' portfolio durations were within the duration targets documented in Note 6.

Schedule 1 provides information about the interest rate risks associated with the L&I Funds' investments as of June 30, 2011. The schedule displays various asset classes held by maturity in years, effective durations, and credit ratings. Residential mortgage backed, commercial mortgage backed, and asset backed securities are reported using the average life within the portfolio. The average life is a calculated estimate of the average time (in years) until maturity for these securities taking into account possible prepayments of principal. All other securities on this schedule are reported using the stated maturity date.

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, 2011, 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 that corporate fixed income issue's cost shall not exceed 3 percent of the fund's fair value at the time of purchase, nor shall its fair value exceed 6 percent of the fund's fair value at any time. There was no concentration of credit risk as of June 30, 2011.

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 risk at June 30, 2011, consists of $664,049,716 invested in an international commingled equity index fund.

Note 4. Securities Lending

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 JPMorgan to act as agent for the WSIB in securities lending transactions. As JPMorgan is the custodian bank for the WSIB, it is counterparty to securities lending transactions.

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 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 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 percent of the fair value, including accrued interest, of the securities loaned. All other securities were required to be collateralized at 105 percent of the fair value, including accrued interest, of the loaned securities. The collateral held and fair value of securities on loan at June 30, 2011 was $2,445,538,583 and $2,384,653,255, respectively. As of June 30, 2011, 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.

As of June 30, 2011, the L&I Funds held the following securities as collateral (in thousands):

Cash and Cash Equivalents	$1,162,792
Bank and Promissory Notes	437,953
Commercial Paper	344,958
Mortgage Backed Securities	185,668
Repurchase Agreements	149,070
Guaranteed Insurance Contracts	51,288
Sovereign Debt	40,069
Miscellaneous	73,740
Total Collateral Held	$2,445,538

During fiscal year 2011, securities lending transactions could be terminated on demand by either the L&I Funds or the borrower. The weighted average maturity of loans for 2011 was 1.5 days. Cash collateral was invested by the L&I Funds' in the WSIB's short-term investment pool (average final maturity of 34 days). 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. Accordingly, non-cash collateral held under securities lending contracts with a value of $228,460,441 has not been included in the Statement of Net Assets. 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. JPMorgan 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. JPMorgan'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 2011, 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 2011 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, 2011. 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, 2011, the only derivative securities held directly by L&I Funds were collateralized mortgage obligations of $1,665,402,903.

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; and
- 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 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 percent of the fund's fair value at the time of purchase, nor shall its fair value exceed 6 percent of the funds' fair value at any time (RCW 43.33A.140).

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	NA

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 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 the 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 U.S. Total Stock Market Index. The benchmark and structure for international equities will be the Morgan Stanley Capital International All Country World Ex U.S. Investable Market Index (MSCI ACW Ex U.S. IMI). Both portfolios will be 100 percent 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 Barclays Capital 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 percent of a duration target of 7.
Pension Reserve Fund (610): within plus or minus 20 percent of a duration target of 7.
Medical Aid Fund (609): within plus or minus 20 percent of a duration target of 6.
Supplemental Pension Fund (881): a duration of less than 2.

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 Barclays Capital Global Family of Fixed Income Indices
- Asset Backed Securities rated investment grade, as defined by Barclays Capital Global Family of Fixed Income Indices
- Commercial Mortgage Backed Securities rated investment grade, as defined by Barclays Capital 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 market value of below investment grade credit bonds (as defined by Barclays Capital Global Family of Fixed Income Indices) shall not exceed five percent of the total market value of the funds. Although below investment grade mortgage backed, asset backed and commercial mortgage backed securities may not be purchased, portfolio holdings that are downgraded to those levels or are no longer rated may continue to be held.

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

Note 7. Subsequent Event

On August 5, 2011, the credit rating agency Standard & Poor's downgraded the United States' credit rating for the first time in history from AAA to AA+. The L&I Funds held $2.4 billion in U.S. Government Securities at June 30, 2011 which was 19% of the net asset value of the fund. The WSIB uses a Moody's equivalent credit rating scale.

The downgrade of the U.S. Government Securities is not expected to have a material adverse impact on the L&I Funds' financial position or results of operations.

SCHEDULE 1: SCHEDULE OF MATURITIES AND CREDIT RATINGS

Investment Type	Total Fair Value	Less than 1 year	1-5 years	6-10 years	More than 10 years	Effective Duration	Credit Rating
Residental Mortgage Backed Securities	$ 1,666,286,906	$ 8,000,461	$ 563,233,620	$ 741,506,836	$ 353,545,989	7.22	Aaa
Commercial Mortgage Backed Securities	455,537,903	55,218,240	399,583,344	736,319	-	3.44	Schedule 2
Corporate Bonds - Domestic	3,012,125,681	87,788,371	610,473,137	974,662,497	1,339,201,676	8.29	Schedule 2
Corporate Bonds - Foreign (USD)	2,222,467,560	32,001,600	618,750,109	758,731,722	812,984,129	7.52	Schedule 2
Foreign Government and Agencies(USD)	660,072,186	-	258,272,463	330,011,746	71,787,977	5.50	Schedule 2
Supranational Securities (USD)	296,350,104	41,778,040	151,289,992	103,282,072	-	3.17	Aaa
U.S. Government Treasuries	703,731,371	544,495,083	130,346,890	28,889,398	-	1.29	Aaa
U.S. Treasury Inflation Protected Securities	1,714,800,878	-	591,979,814	562,187,709	560,633,355	4.97	Aaa
	10,731,372,589	$ 769,281,795	$ 3,323,929,369	$ 3,500,008,299	$ 3,138,153,126		
Investments Not Required to be Categorized							
Commingled Index Funds-Domestic	975,191,927						
Commingled Index Funds-Foreign	664,049,716						
Money Market Funds	142,101,181						
Total Investments Not Categorized	1,781,342,824						
Total L&I Funds Investments	$ 12,512,715,413						

Schedule 2: ADDITIONAL CREDIT RATING DISCLOSURES

Investment Type	Total Fair Value	Moody's Equivalent Credit Rating										
		Aaa	Aa1	Aa2	Aa3	A1	A2	A3	Baa1	Baa2	Baa3	Ba1 or Lower
Commercial Mortgage Backed Securities	$ 455,537,903	$ 412,043,775	$ -	$ -	$ 43,494,128	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Corporate Bonds - Domestic	3,012,125,681	5,020,998	-	-	253,467,356	306,797,711	658,343,107	412,324,357	504,801,628	593,931,448	187,432,066	90,007,010
Corporate Bonds - Foreign (USD)	2,222,467,560	-	-	89,114,664	200,994,321	210,732,876	51,647,691	297,614,540	278,460,910	524,950,365	436,982,693	131,969,500
Foreign Government and Agencies (USD)	660,072,186	86,714,383	-	119,658,906	90,210,566	197,611,454	-	14,193,340	21,423,009	84,295,528	25,490,000	20,475,000
Total	$ 6,350,203,330	$ 503,779,156	$ -	$ 208,773,570	$ 588,166,371	$ 715,142,041	$ 709,990,798	$ 724,132,237	$ 804,685,547	$ 1,203,177,341	$ 649,904,759	$ 242,451,510

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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 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, 2011, 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 other state agencies. Further, they do not purport to, and do not, present the financial activity 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, 2011, 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 26, 2011

Management Discussion & Analysis

Management's Discussion and Analysis for the Permanent Funds of the state of Washington, managed by the Washington State Investment Board (WSIB), is presented as an introduction to the financial statements. It is meant to assist the reader in understanding the financial statements by providing an overall review of the financial activities during the year as well as to provide a comparison to the prior year's activities and results. The WSIB manages funds for other state of Washington departments. This section of the report represents only the Permanent Funds portion.

The financial statements and footnotes follow this section of the report. 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 asset, liability, and net asset balances at June 30, 2011, with those at June 30, 2010. 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, 2011. This information is summarized in Table 2. Table 2 also compares the financial activities of the Permanent Funds for the year ended June 30, 2011, with those of the year ended June 30, 2010. 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 $3.5 million during the fiscal year ended June 30, 2011. Contributions from the Department of Natural Resources (DNR) and Higher Education Coordinating Board increased net assets by $12.7 million, which were invested in fixed income securities. Unrealized gains (losses) in the fixed income portfolio totaled $(2.3) million and the equity portfolio amounted to $2.9 million for a total net asset value increase of $.6 million. Distributions to beneficiary funds reduced net assets by $(44.1) million. The remaining increase of $34.3 million represents reinvestment of other net investment income within the portfolio.

The following summarizes the changes within each grouping listed within Table 1:

- Money market funds decreased by $(.3) million. This cash balance represents less than 1 percent of total invested balances and is within policy targets. Cash is held to cover potential cash needs of DNR and to cover distributions to beneficiary funds and can fluctuate within policy targets.
- Fixed income investments increased by $.8 million. Unrealized losses for the year totaled $(2.3) million. This loss is attributable to an increase in fixed income yields during the fiscal year which put downward pressure on values. Contributions increased fixed income securities by $12.7 million. Distributions to beneficiary funds exceeded current year income and reduced fixed income investments by $(9.6) million to cover these net disbursements.
- Equity investments increased $2.9 million due exclusively to unrealized gains resulting from the positive investment returns during the fiscal year in this asset class.
- The increase in earnings receivable of $1.8 million and distributions payable of $1.7 million occurred due to changes in accounting and distribution policies. During the current fiscal year, the WSIB began distributing capital gains and losses pursuant to advice received from the Washington state, Office of Attorney General. In addition, it was determined a cash basis distribution methodology would be more appropriate for maintaining corpus.

WSIB staff rebalances the Permanent Funds' assets between asset classes as markets move pursuant to WSIB policy.

TABLE 1: SUMMARIZED NET ASSETS	2011	2010	DOLLAR CHANGE	PERCENT CHANGE
Money Market Funds	$1,514,519	$1,814,592	$(300,073)	(16.5%)
Fixed Income Investments	851,254,240	850,437,115	817,125	0.1%
Equity Investments	11,759,131	8,877,267	2,881,864	32.5%
Total Investments	**864,527,890**	**861,128,974**	**3,398,916**	**0.4%**
Earnings Receivable	4,423,126	2,613,321	1,809,805	69.3%
Total Assets	**868,951,016**	**863,742,295**	**5,208,721**	**0.6%**
Distributions Payable	4,408,370	2,704,082	1,704,288	63.0%
Net Assets	**$864,542,646**	**$861,038,213**	**$3,504,433**	**0.4%**

TABLE 2: SUMMARIZED CHANGES IN NET ASSETS	2011	2010	DOLLAR CHANGE	PERCENT CHANGE
Net Investment Income				
Interest, Dividends and Other Investment Income	$33,841,021	$31,390,640	$2,450,381	7.8%
Realized Capital Gains	622,003	-	622,003	100.0%
Unrealized Gains	559,190	44,254,927	(43,695,737)	(98.7%)
Less:				
Investment Fees	(168,946)	(126,818)	42,128	33.2%
Net Investment Income	**34,853,268**	**75,518,749**	**(40,665,481)**	**(53.7%)**
Net Amount Contributed	12,744,842	17,292,912	(4,548,070)	(26.3%)
Distributions to Beneficiaries	(44,093,677)	(32,809,621)	11,284,056	34.4%
Net Assets - Beginning	**861,038,213**	**801,036,173**	**60,002,040**	**7.5%**
Net Assets - Ending	**$864,542,646**	**$861,038,213**	**$3,504,433**	**3.0%**

As shown in Table 2, net investment income decreased by $(40.6) million, almost entirely due to the decrease in unrealized gains. Current year fixed income investments, which comprise 98% of the net asset value of the funds, returned 2.6% during fiscal year ended June 30, 2011. This is a decrease from the prior year return of 9.4%. The decrease in returns is attributable to an increase in fixed income yields which put downward pressure on values.

Contributions received from DNR decreased by $(4.5) million due to decreased prices and volume on timber sales during the current fiscal year.

Distributions to beneficiaries increased by $11.2 million due to an increase in current year distributable income and a one time distribution of prior year net capital gains. The average coupon rate during the current fiscal year increased resulting in $2.5 million increase in current year interest income and distributable income.

The fair value of the Permanent Fund assets is directly impacted by the returns of the various capital markets within which the WSIB invests and the returns are expected to have a significant effect on financial position and results of operations in the future. 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.

Permanent Funds Statement of Net Assets - June 30, 2011
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	$ 5,145	$ 296,488	$ 128,028	$ 188,001	$ 43,925	$ 851,782	$ 1,150	$ 1,514,519	0.1%
Commingled Monthly Bond Fund	-	359,576	189,172,581	242,113,255	179,046,562	209,587,893	30,974,373	851,254,240	98.5%
Commingled Equity Index Fund - Domestic	-	-	-	-	11,759,131	-	-	11,759,131	1.4%
Total Investments	5,145	656,064	189,300,609	242,301,256	190,849,618	210,439,675	30,975,523	864,527,890	100.0%
Investment Earnings Receivable	1	1,919	982,928	1,258,005	930,313	1,089,020	160,940	4,423,126	
Total Assets	5,146	657,983	190,283,537	243,559,261	191,779,931	211,528,695	31,136,463	868,951,016	
LIABILITIES									
Distributions and Other Payables	1	49	980,068	1,254,347	927,578	1,085,856	160,471	4,408,370	
NET ASSETS	$ 5,145	$ 657,934	$ 189,303,469	$ 242,304,914	$ 190,852,353	$ 210,442,839	$ 30,975,992	$ 864,542,646	

Permanent Funds Statement of Changes in Net Assets - Year Ended June 30, 2011
See notes to financial statements

	Millersylvania Park	American Indian Scholarship Endowment	Agricultural School	Normal School	Common School	Scientific School	State University	Total
Net Investment Income								
Investment Income:								
Interest, Dividends and Other Investment Income	$ 18	$ 14,547	$ 7,708,191	$ 9,593,969	$ 7,038,256	$ 8,258,316	$ 1,227,724	$ 33,841,021
Realized Capital Gains	-	307	172,756	228,117	1,203	189,863	29,757	622,003
Unrealized Gains (Losses)	-	(956)	(559,602)	(697,305)	2,514,711	(610,277)	(87,381)	559,190
Less:								
Investment Expenses	(9)	(491)	(79)	(75)	(1,092)	(141)	(9)	(1,896)
WSIB Operating Expenses	-	(124)	(36,760)	(47,107)	(36,528)	(40,506)	(6,025)	(167,050)
Net Investment Income	9	13,283	7,284,506	9,077,599	9,516,550	7,797,255	1,164,066	34,853,268
Other Changes in Net Assets								
Net Amount Contributed	-	4,766	3,134,360	2,775,657	582,528	5,940,506	307,025	12,744,842
Income Distributions to Beneficiaries	(17)	(6,799)	(10,402,203)	(13,368,302)	(7,142,912)	(11,463,018)	(1,710,426)	(44,093,677)
Increase (Decrease) in Net Assets	(8)	11,250	16,663	(1,515,046)	2,956,166	2,274,743	(239,335)	3,504,433
Net Assets - June 30, 2010	5,153	646,684	189,286,806	243,819,960	187,896,187	208,168,096	31,215,327	861,038,213
Net Assets - June 30, 2011	$ 5,145	$ 657,934	$ 189,303,469	$ 242,304,914	$ 190,852,353	$ 210,442,839	$ 30,975,992	$ 864,542,646

Note 1. Description of Funds and Significant Accounting Policies

Description of Funds

The Permanent Funds of the state of Washington include funds established by the State Enabling Act and funds created by private donation. Funds established by the State Enabling Act consist of 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. 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 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 fixed income investments held by the Permanent Funds are 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.

The financial statements present only the activity of the Permanent Funds as managed by the WSIB. The WSIB has exclusive control of the investments held by 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. Investments are adjusted to fair value monthly. Unrealized gains and losses are included as investment income 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.

Contributions and Withdrawal Policy

Cash basis investment income is distributed to the beneficiary funds on a monthly basis. Income distributed includes interest, capital gains, and capital losses received during the current month. Unrealized gains and losses are not distributed pursuant to state accounting policies and procedures. This is necessary to meet legal requirements regarding the preservation of capital.

Contributions are recorded when received.

Securities Lending

The Permanent Funds invest in the CMBF which holds the securities and participates in lending activities. Each Permanent Fund owns units in the CMBF and does not directly participate in securities lending activities. Accordingly, the lending activity is not presented within each individual fund in the accompanying financial statements.

The collateral received under securities lending agreements, where the funds have the ability to spend, pledge, or sell the collateral without borrower default, is included in the CMBF net assets. Liabilities resulting from these transactions are also included in the CMBF net assets. Additionally, costs associated with securities lending transactions, including broker rebates and investment management fees paid, are part of the CMBF and are not reported directly by the Permanent Funds. Securities lending income received by the CMBF during fiscal year 2011 was $754,616. Securities lending expenses during the fiscal year totaled $409,169.

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 accounted for as a reduction of investment income or are netted directly from the asset value of Permanent Funds and CMBF investments. These fees include investment management fees and commissions, investment consultant fees, legal fees, and other investment management related expenses. The WSIB operating expenses are charged to the funds based upon actual costs incurred to manage the investments. WSIB operating expenses are allocated to the funds under management based on relative market values, in accordance with state statutes.

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, 2011, 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 mitigates custodial credit risk by having its investment securities held by its custodian. Also, investment securities are registered in the name of the Washington State Investment Board for the benefit of the Permanent Funds, excluding cash and cash equivalents and repurchase agreements held as securities lending collateral.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates over time 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.

Schedule 1 provides information about the interest rate risks associated with the CMBF investments as of June 30, 2011. The schedule displays various asset classes held by maturity in years, effective durations, and credit ratings. Residential mortgage backed, commercial mortgage backed, and asset backed securities are reported using the average life within the portfolio. The average life is a calculated estimate of the average time (in years) until maturity for these securities taking into account possible prepayments of principal. All other securities on this schedule are reported using the stated maturity date.

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, 2011, 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 Permanent Funds' policy states that corporate fixed income issue's cost shall not exceed 3 percent of the fund's fair value at the time of purchase, nor shall its fair value exceed 6 percent 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, 2011.

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. Currently, the only foreign securities held by the CMBF are traded and denominated in U.S. dollars. The Permanent Funds had no investments with foreign 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 JPMorgan to act as agent for the WSIB in securities lending transactions. As JPMorgan is the custodian bank for the WSIB, it is counterparty to securities lending transactions.

The CMBF reports securities lent (the underlying securities) as assets. Securities lending activity is part of the CMBF and, accordingly, is not reported directly by the Permanent Funds in the accompanying financial statements. The Permanent Funds own units in the CMBF, similar to a mutual fund. The CMBF engages in all lending activity and reports the net lending income activity within the fund as increases in the share price of the CMBF. Cash received as collateral on securities lending transactions and investments made with the cash are reported as assets with an offsetting liability. Securities lending transactions collateralized by securities the CMBF 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 WSIB'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 percent of the fair value, including accrued interest, of the securities loaned. All other securities were required to be collateralized at 105 percent of the fair value, including accrued interest, of the loaned securities. The collateral held and fair value of securities on loan at June 30, 2011 and 2010, was $246,705,283 and $241,516,419, respectively. As of June 30, 2011, the amounts the CMBF owed the borrowers exceeded the amounts the borrowers owed the CMBF, resulting in no credit risk exposure.

During fiscal year 2011, securities lending transactions within the CMBF could be terminated on demand by either the WSIB or the borrower. The weighted average maturity of loans for 2011 was 1.5 days.

Cash collateral was invested by the WSIB's agents in the WSIB's short-term investment pool (average final maturity of 34 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. Accordingly, non-cash collateral held under securities lending contracts with a value of $23,047,029 have not been included in the CMBF. There are no restrictions on the amount of securities that can be lent.

As of June 30, 2011, the CMBF held the following securities as lending collateral (in thousands):

Cash and Securities Held as Collateral	
Cash and Cash Equivalents	$117,302
Bank and Promissory Notes	44,181
Commercial Paper	34,799
Mortgage Backed Securities	18,730
Repurchase Agreements	15,038
Miscellaneous	7,439
Guaranteed Insurance Contracts	5,174
Sovereign Debt	4,042
Total Collateral Held	$246,705

Securities were lent with the agreement that they would be returned in the future for exchange of the collateral. JPMorgan 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. JPMorgan'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 2011, 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 CMBF incurred no losses during fiscal year 2011 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.

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, 2011. 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, 2011, the only derivative securities held directly by the Permanent Funds CMBF were collateralized mortgage obligations of $175,001,642.

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, 42.52 RCW, as it makes its investment decisions and seeks to meet the following investment objectives.

Strategic Objectives

The Permanent Fund 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; and
- 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 are able to provide a stable level of income sufficient to meet each fund's constituent needs.

Performance Objectives

The Permanent Funds' investment objectives 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 the Dow Jones U.S. Total Stock Market Index and the Barclay's Capital Aggregate Index, weighted by the exposure the fund has to each asset class. 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 percent of the fund's fair value at the time of purchase, nor shall its fair value exceed 6 percent 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 Barclays Capital 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-U.S. 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.

Government Securities	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 percent of the duration of the portfolio's performance benchmark, the Barclays Capital Aggregate Index.

Note 7. Subsequent Event

On August 5, 2011, the credit rating agency Standard & Poor's downgraded the United States' credit rating for the first time in history from AAA to AA+. The Commingled Monthly Bond Fund held $273 million in U.S. Government Securities at June 30, 2011 which was 32% of the net asset value of the fund. The WSIB uses a Moody's equivalent credit rating scale.

The downgrade of the U.S. Government Securities is not expected to have a material adverse impact on the Permanent Funds' financial position or results of operations.

Schedule 1: Commingled Monthly Bond Fund (CMBF) Schedule of Net Asset Value

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
Residential Mortgage Backed	$ 180,461,256	$ 4,402,469	$ 141,064,151	$ 25,005,291	$ 9,989,345	3.64	Aaa
Commercial Mortgage Backed Securities	22,794,100	6,338,548	16,455,552	-	-	3.09	Aaa
Corporate Bonds - Domestic (USD)	203,071,515	17,350,160	78,993,069	70,640,987	36,087,299	5.61	Schedule 2
Corporate Bonds - Foreign (USD)	81,687,916	-	37,657,499	38,717,935	5,312,482	5.17	Schedule 2
U.S. Government Treasuries	273,094,951	58,794,570	123,656,620	90,643,761	-	3.91	Aaa
Foreign Government and Agencies (USD)	50,272,278	-	28,299,860	21,972,418	-	4.43	Schedule 2
Supranational Corporate Bonds (USD)	26,400,450	10,248,250	10,397,794	5,754,406	-	2.84	Aaa
	837,782,466	$ 97,133,997	$ 436,524,545	$ 252,734,798	$ 51,389,126		
Money Market Funds	11,276,347						
Investment Earnings Receivable	6,619,928						
Collateral Held Under Securities Lending Agreements	223,658,255						
Total Commingled Bond Fund Investments	1,079,336,996						
Due to Other Funds	(4,424,501)						
Obligations Under Securities Lending Agreements	(223,658,255)						
CMBF Net Asset Value - June 30, 2011	$ 851,254,240						

Schedule 2: Commingled Monthly Bond Fund (CMBF) Credit Rating (Moody's)

Rating	Corporate Bonds Domestic	Corporate Bonds Foreign (USD)	Foreign Government and Agencies (USD)
AAA	$ -	$ -	$ 16,019,560
Aa1	-	-	-
Aa2	-	10,199,050	7,337,501
Aa3	18,052,039	10,925,982	4,972,349
A1	24,873,998	11,293,121	10,619,277
A2	66,397,088	-	-
A3	31,587,104	11,166,893	-
Baa1	18,355,222	7,706,833	-
Baa2	27,881,241	21,464,960	11,323,591
Baa3	15,924,823	8,931,077	-
	$ 203,071,515	$ 81,687,916	$ 50,272,278

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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 Other Funds (Budget Stabilization, Reclamation Revolving, Game & Special Wildlife, 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, 2011, 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 the financial activity 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, 2011, 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 26, 2011

Management's Discussion and Analysis for the Other Funds of Washington state, managed by the Washington State Investment Board (WSIB), is presented as an introduction to the financial statements. It is meant to assist the reader in understanding the financial statements by providing an overall review of the financial activities during the year as well as to provide a comparison to the prior year's activities and results. The WSIB manages funds for other Washington state departments. This section of the report represents only the Other Funds portion.

The financial statements and footnotes follow this section of the report. The Statement of Net Assets provides information on the types of investments and liabilities of the Other Funds. This information is summarized in Table 1. Table 1 also compares the asset, liability, and net asset balances at June 30, 2011, with those at June 30, 2010. 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, 2011. This information is summarized in Table 2. Table 2 also compares the financial activities of the Other Funds for the year ended June 30, 2011, with those of the year ended June 30, 2010. 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 $(22.4) million during the fiscal year ended June 30, 2011. Distributions to beneficiary funds resulted in a decrease in net assets of $(22.5) million. Net investment income was received and reinvested into money market securities and amounted to $.1 million for the fiscal year ended June 30, 2011. The budget stabaliation account withdrew $21.4 million and the Game and Special Wildlife Fund withdrew $1.0 million.

The fair value of Other Funds assets is minimally impacted by the returns of the various capital markets within which the WSIB is legislatively allowed to invest. The majority of the Other Fund investments consist of money market instruments whose value is stable from year to year.

The following summarizes the changes within each major grouping listed on Table 1:

- Money market funds decreased by 19.2 percent. This decrease resulted from withdrawals by beneficiary funds.
- Fixed income securities decreased by 50.0 percent due to maturities of municipal bonds, the proceeds of which were reinvested in money market funds.
- Net receivables decreased by 82.8 percent due to decreases in investable balances and accruals of investment management fees as of year end in the Health Insurance Fund.

As shown in Table 2, net investment income decreased due to large reductions in invested balances through withdrawals by beneficiary funds. Substantial withdrawals were made by the Budget Stabilization Fund and the Pension Stabilization Fund in 2011 resulting in an increase over the prior year of $22.4 million.

TABLE 1 - SUMMARIZED NET ASSETS	2011	2010	DOLLAR CHANGE	PERCENT CHANGE
Money Market Funds	**$94,144,566**	**$116,510,543**	**$(22,365,977)**	**-19.2%**
Fixed Income Investments	23,058	46,115	(23,057)	-50.0%
Total Investments	**94,167,624**	**116,556,658**	**(22,389,034)**	**-19.2%**
Net Receivables	1,354	7,894	(6,540)	-82.8%
Net Assets	**$94,168,978**	**$116,564,552**	**$(22,395,574)**	**-19.2%**

TABLE 2 - SUMMARIZED CHANGES IN NET ASSETS	2011	2010	DOLLAR CHANGE
Net Investment Income	59,423	78,570	(19,147)
Net Amount Withdrawn	(22,454,997)	(20,572)	22,434,425
Net Assets - Beginning	**$116,564,552**	**$116,506,554**	**$57,998**
Net Assets - Ending	**$94,168,978**	**$116,564,552**	**$(22,395,574)**

Other Funds Statement of Net Assets - June 30, 2011
See notes to financial statements

	Budget Stabilization	Reclamation Revolving	Game & Special Wildlife	Health Insurance	Radiation Perpetual	Total	Percent of Total
ASSETS							
Investments:							
Money Market Funds	$ 76,045	$ -	$ 5,552,501	$ 88,185,416	$ 330,604	$ 94,144,566	100.0%
Municipal Bonds	-	23,058	-	-	-	23,058	Trace
Total Investments	76,045	23,058	5,552,501	88,185,416	330,604	94,167,624	100.0%
Interest Receivable	13	589	999	15,221	57	16,879	
Total Assets	76,058	23,647	5,553,500	88,200,637	330,661	94,184,503	
LIABILITIES							
Accrued Payables	12	12	951	14,496	54	15,525	
NET ASSETS	$ 76,046	$ 23,635	$ 5,552,549	$ 88,186,141	$ 330,607	$ 94,168,978	

Other Funds Statement of Changes in Net Assets - Year ended June 30, 2011
See notes to financial statements

	Budget Stabilization	Reclamation Revolving	Game & Special Wildlife	Health Insurance	Radiation Perpetual	Total
Net Investment Income						
Investment Income	$ 82,021	$ 1,911	$ 13,393	$ 193,402	$ 725	$ 291,452
Less:						
Investment Expenses	(47,534)	(133)	(10,243)	(148,947)	(558)	(207,415)
WSIB Operating Expenses	(6,444)	(20)	(1,191)	(16,896)	(63)	(24,614)
Net Investment Income	28,043	1,758	1,959	27,559	104	59,423
Net Amount Contributed (Withdrawn)	(21,384,058)	(89,089)	(998,809)	16,896	63	(22,454,997)
Increase (Decrease) in Net Assets	(21,356,015)	(87,331)	(996,850)	44,455	167	(22,395,574)
Net Assets - June 30, 2010	21,432,061	110,966	6,549,399	88,141,686	330,440	116,564,552
Net Assets - June 30, 2011	$ 76,046	$ 23,635	$ 5,552,549	$ 88,186,141	$ 330,607	$ 94,168,978

Note 1. Description of Funds and Significant Accounting Policies

Description of Funds

The Other Funds of Washington state consist of: the Budget Stabilization, Reclamation Revolving, Game and Special Wildlife, Health Insurance, and the Radiation Perpetual funds. These funds were created over the years by Washington state legislation 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 held by 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 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. Investments are adjusted to fair values monthly. Unrealized gains and losses are included as investment income 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.

Contributions and Withdrawals

Contributions and withdrawals are recorded when received or paid.

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 accounted for as a reduction of investment income or are netted directly from the asset value of Other Fund investments. These fees include investment management fees and commissions, investment consultant fees, legal fees, and other investment management related expenses. The WSIB operating expenses are charged to the funds based upon actual costs incurred to manage the investments. WSIB operating expenses are allocated to the funds under management based on relative market values, in accordance with state statutes.

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, 2011, 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. As of June 30, 2011, all of the Other Funds' securities were held in the Other Funds' name and/or are not exposed to custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates over time 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.

Schedule 1 provides information about the interest rate risks associated with the Other Funds' investments as of June 30, 2011. 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.

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 percent. At June 30, 2011, the Other Funds have no investment of any commercial or industrial organization whose fair value exceeds 3 percent of net assets, except for the Reclamation Revolving Fund. The Reclamation Revolving fund was created prior to this investment policy. The Reclamation Revolving Funds' municipal bond investments are 100 percent in Chelan County Entiat Irrigation District.

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; and
- Preservation of the Public's Trust.

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."

SCHEDULE 1: INVESTMENT MATURITIES AND CREDIT RATINGS

Investment Type	Total Fair Value	Less than 1 year	1-5 years	6-10 years	More than 10 years	Effective Duration	Credit Rating
Municipal Bonds	$ 23,058	$ 11,000	$ 12,058	$ -	$ -	0.96	AAA
Money Market Funds	94,144,566	N/A	N/A	N/A	N/A	N/A	N/A
Total Investments	$ 94,167,624	$ 11,000	$ 12,058	$ -	$ -		

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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, 2011, 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 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, 2011, 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 26, 2011

Management Discussion & Analysis

Management's Discussion and Analysis for the Guaranteed Education Tuition Fund (GET), managed by the Washington State Investment Board (WSIB), is presented as an introduction to the financial statements. It is meant to assist the reader in understanding the financial statements by providing an overall review of the financial activities during the year as well as to provide a comparison to the prior year's activities and results. The WSIB manages funds for other Washington state departments. This section of the report represents only the GET Fund portion.

The financial statements and footnotes follow this section of the report. 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 asset, liability, and net asset balances at June 30, 2011, with those at June 30, 2010. 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, 2011. This information is summarized in Table 2. Table 2 also compares the financial activities of GET for the year ended June 30, 2011, with those of the year ended June 30, 2010. 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 the GET Program increased by $526.6 million during the fiscal year ended June 30, 2011. Contributions to the GET Program during the year increased net assets by $242.7 million. Unrealized gains increased net assets in the fixed income portfolio by $28.6 million and the equity portfolio by $226.0 million. Net investment income received and reinvested in the fund increased net assets by $29.3 million during the fiscal year ended June 30, 2011.

The following summarizes the changes within each grouping listed within Table 1:

- Money market funds decreased by $(22.4) million. Reinvestment of net investment income increased this asset class by $19.1 million. $(41.5) million was transferred to other asset classes for reinvestment.
- Fixed income investments increased by $167.7 million. New funds invested in fixed income securities from contributions and transfers of cash were $139.1 million. Unrealized gains for the year increased fixed income securities by $28.6 million. The majority of fixed income is invested in Treasury Inflation Protected Securities (TIPS). The value of TIPS is directly impacted by changes in the Consumer Price Index (CPI). The CPI rose during the year which contributed to the increase in value in the TIPS holdings. TIPS returned 7.86 percent during the current fiscal year.
- Equity investments increased by $381.8 million. Contributions received from the GET Program and transfers of cash were reinvested in this asset class for a total of $145.2 million. These equity investments gained $226.0 million of value due to the positve returns in the equity markets. The equity portfolio in the GET program returned 31.2 percent during the current fiscal year. Income distributed and reinvested in this asset class totaled $10.6 million.
- Net receivables and payables decreased substantially due to securities lending activities. Market conditions warranted a reduction in the cash collateral portfolio and loan balances were reduced accordingly.

As shown in Table 2, net investment income increased by $158.6 million during the fiscal year ended June 30, 2011. The current year returns for the GET program was 20.5 percent compared to the prior year return of 12.7 percent. The increase in returns over the prior year contributed to the increase in realized and unrealized gains of $153.4 million. The remaining increase of $5.5 million was from interest earnings on fixed income investments. Increased yields during the current fiscal year and increased investable balances contributed to the increase. Contributions from GET participants increased by $59.5 million as participants continued to take advantage of lower tuition unit purchase prices in anticipation of rate increases.

TABLE 1: SUMMARIZED NET ASSETS	2011	2010	DOLLAR CHANGE	PERCENT CHANGE
Money Market Funds	$15,721,381	$38,126,225	$(22,404,844)	-58.8%
Fixed Income Investments	750,502,410	582,845,452	167,656,958	28.8%
Equity Investments	1,131,453,136	749,687,895	381,765,241	50.9%
Total Investments	**1,897,676,927**	**1,370,659,572**	**527,017,355**	**38.4%**
Collateral Held Under Securities Lending Agreements	362,718,782	489,786,760	(127,067,978)	-25.9%
Investment Earnings Receivable	3,986,946	4,434,189	(447,243)	-10.1%
Total Assets	**2,264,382,655**	**1,864,880,521**	**399,502,134**	**21.4%**
Investment Liabilities	362,783,965	489,870,143	(127,086,178)	-25.9%
Net Assets	**$1,901,598,690**	**$1,375,010,378**	**$526,588,312**	**38.3%**

WSIB staff rebalances the GET Funds' assets between asset classes as markets move pursuant to WSIB policy. The fair value of the GET Fund assets is directly impacted by the returns of the various capital markets within which the WSIB invests. The returns are expected to have a significant effect on financial position and results of operations in the future. 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.

TABLE 2: SUMMARIZED CHANGES IN NET ASSETS	2011	2010	DOLLAR CHANGE	PERCENT CHANGE
Net Investment Income				
Interest, Dividends and Other Investment Income	$23,041,779	$17,420,251	$5,621,528	32.3%
Net Capital Gains	7,816,517	3,068,210	4,748,307	154.8%
Unrealized Gains	254,536,254	105,817,250	148,719,004	140.5%
Less:				
Securities Lending Rebates and Fees	(952,309)	(714,001)	238,308	33.4%
Other Fees	(572,061)	(320,285)	251,776	78.6%
Net Investment Income	**283,870,180**	**125,271,425**	**158,598,755**	**126.6%**
Net Amount Contributed	242,718,132	183,223,672	59,494,460	32.5%
Net Assets - Beginning	**1,375,010,378**	**1,066,515,281**	**308,495,097**	**28.9%**
Net Assets - Ending	**$1,901,598,690**	**$1,375,010,378**	**$526,588,312**	**38.3%**

GET Fund Statement of Net Assets - June 30, 2011

See notes to financial statements

		Percent
ASSETS		
Investments:		
Money Market Funds	$ 15,721,381	0.8%
Treasury Inflation Protected Securities	549,940,989	29.0%
Commingled Intermediate Credit	200,561,421	10.6%
Commingled Equity Index Funds - Domestic	660,440,554	34.8%
Commingled Equity Index Funds - Foreign	471,012,582	24.8%
Total Investments	1,897,676,927	100.0%
Investment Earnings Receivable	3,986,946	
Collateral Held Under Securities Lending Agreements	362,718,782	
Total Assets	2,264,382,655	
LIABILITIES		
Obligations Under Securities Lending Agreements	362,718,782	
Accounts Payable	65,183	
Total Liabilities	362,783,965	
NET ASSETS	$ 1,901,598,690	

GET Fund Statement of Changes in Net Assets - Year ended June 30, 2011

See notes to financial statements

Net Investment Income	
Investment Income	
Interest, Dividends and Other Investment Income	$ 20,554,279
Securities Lending Income	2,487,500
Realized Capital Gains	7,877,152
Realized Capital Losses	(60,635)
Unrealized Gains	254,536,254
Less:	
Securities Lending Rebates and Fees	(952,309)
Investment Expenses	(267,373)
WSIB Operating Expenses	(304,688)
Net Investment Income	283,870,180
Net Amount Contributed	242,718,132
Increase in Net Assets	526,588,312
Net Assets - June 30, 2010	1,375,010,378
Net Assets - June 30, 2011	$ 1,901,598,690

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 Washington state. 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 held for the GET Program. The financial statements do not present the financial position and results of operations of the WSIB or the GET 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. Investments are adjusted to fair values monthly. Unrealized gains and losses are included as investment income 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 and lending fees paid to the custodian bank, are reported in the accompanying financial statements. The Statement of Net Assets does not include detailed holdings of securities lending collateral by investment classification.

Contributions

Contributions are recorded when received.

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 accounted for as a reduction of investment income or are netted directly from the asset value of GET's investments. These fees include investment management fees and commissions, investment consultant fees, legal fees, and other investment management related expenses. The WSIB operating expenses are charged to the funds based upon actual costs incurred to manage the investments. WSIB operating expenses are allocated to the funds under management based on relative market values, in accordance with state statutes.

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, 2011, 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 mitigates custodial credit risk by having its investment securities held by its custodian. Also, investment securities are registered in the name of the Washington State Investment Board for the benefit of the GET Funds, excluding cash and cash equivalents and repurchase agreements held as securities lending collateral.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates over time 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 long-term goals of the fixed income portfolio are to return 325 basis points above inflation, and to limit volatility for the total portfolio. The goals are primarily met through the purchase of inflation indexed bonds. Schedule 1 provides information about the interest rate risks associated with GET investments as of June 30, 2011. 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.

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 percent of the fair value at the time of purchase, nor shall its fair value exceed 6 percent of the fair value at any time. There was no concentration of credit risk that exceeded these limits as of June 30, 2011.

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 only security held by the GET Fund with foreign currency risk at June 30, 2011, consists of $471,012,582 invested in an international commingled equity index fund.

NOTE 4. SECURITIES LENDING

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

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 percent of the fair value, including accrued interest, of the securities loaned. All other securities were required to be collateralized at 105 percent of the fair value, including accrued interest, of the loaned securities. The collateral held and fair value of securities on loan at June 30, 2011, was $400,095,404 and $389,423,669, respectively. As of June 30, 2011, the amount the GET Fund owed the borrowers exceeded the amounts the borrowers owed the GET Fund, resulting in no credit risk exposure.

As of June 30, 2011, the GET held the following securities as collateral (in thousands)

Cash and Cash Equivalents	$190,235
Bank and Promissory Notes	71,650
Commercial Paper	56,436
Mortgage Backed Securities	30,376
Repurchase Agreements	24,388
Miscellaneous	12,064
Guaranteed Insurance Contracts	8,391
Sovereign Debt	6,555
Total Collateral Held	$400,095

During fiscal year 2011, securities lending transactions could be terminated on demand by either GET or the borrower. The weighted average maturity of loans for 2011 was 1.5 days.

Cash collateral was invested by GET's agent in securities issued or guaranteed by the U.S. government, in the WSIB's separately managed short-term investment pool (average final maturity of 34 days). 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. Accordingly, non-cash collateral held under securities lending contracts with a value of $37,376.622 has not been included in the Statement of Net Assets. 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. JPMorgan 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. JPMorgan'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 2011, 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 2011 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, 42.52 RCW, 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 the above requirements, 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; and
- 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 percent of the Fund's fair value at the time of purchase, nor shall its fair value exceed 6 percent 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

Asset Allocation

The asset allocation strategy for the GET program is as follows: (Global Equities and cash within a 5 percent tolerance, all others within a +/- 4 percent tolerance)

Cash	0.0%
Inflation Indexed Bonds – Fixed Income	20.0%
Fixed Income	20.0%
Global Equities	60.0%

Note 6. Subsequent Event

On August 5, 2011, the credit rating agency Standard & Poor's downgraded the United States' credit rating for the first time in history from AAA to AA+. The GET funds held $549.9 million in U.S. Government Securities at June 30, 2011 which was 29% of the net asset value of the fund. The WSIB uses a Moody's equivalent credit rating scale.

The downgrade of the U.S. Government Securities is not expected to have a material adverse impact on the GET Funds' financial position or results of operations.

SCHEDULE 1: SCHEDULE OF MATURITIES AND CREDIT RATINGS

		Maturity					
Investment Type	Total Fair Value	Less than 1 year	1-5 years	6-10 years	More than 10 years	Effective Duration	Credit Rating
Treasury Inflation Protected Securities	$ 549,940,989	$	$ 210,692,828	$ 174,271,727	$ 164,976,434	4.29	AAA
Investments Not Required to be Categorized							
Commingled Intermediate Credit	200,561,421						
Commingled Equity Index Funds-Domestic	660,440,554						
Commingled Equity Index Funds-Foreign	471,012,582						
Money Market Funds	15,721,381						
Total Investments Not Categorized	1,347,735,938						
Total Investments	$ 1,897,676,927						

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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 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, 2011, 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 the financial activity 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, 2011, 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 26, 2011

Management Discussion & Analysis

Management's Discussion and Analysis for the Developmental Disabilities Endowment Trust Fund (DDEF) of Washington state, managed by the Washington State Investment Board (WSIB), is presented as an introduction to the financial statements. It is meant to assist the reader in understanding the financial statements by providing an overall review of the financial activities during the year as well as to provide a comparison to the prior year's activities and results. The WSIB manages funds for other Washington state departments. This section of the report covers the DDEF funds only.

The financial statements and footnotes follow this section of the report. The Statement of Net Assets provides information on the types of investments, assets, and liabilities of the DDEF as of June 30, 2011. This information is summarized in Table 1. Table 1 also compares the asset, liability, and net asset balances at June 30, 2011, with those at June 30, 2010. The Statement of Changes in Net Assets provides information on investment performance and other increases and decreases in the net assets of the DDEF for the year ended June 30, 2011. This information is summarized in Table 2. Table 2 also compares the financial activities of DDEF for the year ended June 30, 2011, with those of the year ended June 30, 2010. 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 DDEF.

As shown in Table 1, net assets under management within DDEF increased by $5.9 million during the fiscal year ended June 30, 2011. The DDEF consists of a state trust fund and a private trust fund. The increase in net assets was primarily due to the contributions to the private trust fund of $2.0 million and realized and unrealized gains of $3.4 million. Net investment income received increased net assets for the funds and amounted to $0.5 million during the year ended June 30, 2011.

The following summarizes the changes within each grouping listed within Table 1:

- Money market funds increased by $0.06 million, which occurred due to the timing of contributions received and the subsequent reinvestment into longer term asset classes after year end.
- Fixed income investments increased by $0.5 million due to unrealized gains occurring within this asset class. A large portion of the fixed income portfolio is comprised of TIPS which returned 9.3 percent during the current fiscal year.
- Balanced mutual funds received $1.9 million of contributions to invest. Unrealized gains increased this asset class by $2.4 million. Additional income reinvested in the fund totaled $0.6 million for a total net increase of $4.9 million in this asset class. Balanced mutual funds had a return of 20.4 percent during the current fiscal year with significant positive equity returns contributing to the majority of the gain.
- Equity investments gained $0.4 million of market value due to the performance of the equity markets during the current fiscal year. The equity portfolio returned 30.4 percent during this time period.
- Cash collateral held under securities lending contracts and the related obligation decreased by $(2.6) million. Market conditions warranted a reduction in the cash collateral portfolio and loan balances were reduced accordingly.

TABLE 1: SUMMARIZED NET ASSETS	2011	2010	DOLLAR CHANGE	PERCENT CHANGE
Money Market Funds	$122,350	$62,566	$59,784	95.6%
Fixed Income Investments	7,934,048	7,438,611	495,437	6.7%
Balanced Funds	18,743,344	13,824,309	4,919,035	35.6%
Equity Investments	1,765,941	1,342,692	423,249	31.5%
Total Investments	**28,565,683**	**22,668,178**	**5,897,505**	**26.0%**
Collateral Held Under Securities Lending Agreements	118,990	2,749,253	(2,630,263)	-95.7%
Earnings Receivable	24,996	24,265	731	3.0%
Total Assets	**28,709,669**	**25,441,696**	**3,267,973**	**12.8%**
Investment Liabilities	119,055	2,749,337	(2,630,282)	-95.7%
Net Assets	**$28,590,614**	**$22,692,359**	**$5,898,255**	**26.0%**

As shown in Table 2, net investment income increased substantially from the prior year due almost entirely to increases in the market value of the underlying equity and fixed income securities (realized and unrealized). Interest rates on TIPS are directly correlated to changes in the Consumer Price Index (CPI). The CPI has increased during the current fiscal year and, accordingly, interest earnings on TIPS have as well. All other changes in investment income from the prior year are considered de minimis. The private trust fund net assets have a higher risk profile and the earnings were impacted by the positive investment performance in both the bond and equity markets.

The fair value of DDEF net assets is directly impacted by the returns of the various capital markets within which the WSIB invests and the returns are expected to have a significant effect on financial position and results of operations in the future. 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.

TABLE 2: SUMMARIZED CHANGES IN NET ASSETS	2011	2010	DOLLAR CHANGE
Net Investment Income			
Investment Income	$492,135	$999,172	$(507,037)
Unrealized Gains	3,438,726	1,305,054	2,133,672
Less:			
Investment Expenses	(3,874)	(2,668)	1,206
Net Investment Income	**3,926,987**	**2,301,558**	**1,625,429**
Net Amount Contributed	1,971,268	1,952,242	19,026
Net Assets - Beginning	**22,692,359**	**18,438,559**	**4,253,800**
Net Assets - Ending	**$28,590,614**	**$22,692,359**	**$5,898,255**

DDEF Statement of Net Assets - June 30, 2011

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	$ 63,986	$ 58,364	$ 122,350	0.4%
FIXED INCOME INVESTMENTS:				
Treasury Inflation Protected Securities	4,035,316	-	4,035,316	14.1%
Commingled Intermediate Credit	3,898,732	-	3,898,732	13.6%
BALANCED FUNDS:				
Balanced Mutual Funds - Domestic	-	18,743,344	18,743,344	65.7%
EQUITY INVESTMENTS:				
Commingled Equity Index Funds - Domestic	947,013	-	947,013	3.3%
Commingled Equity Index Funds - Foreign	818,928	-	818,928	2.9%
Total Investments	9,763,975	18,801,708	28,565,683	100.0%
Investment Earnings Receivable	24,993	3	24,996	
Collateral Held Under Securities Lending Agreements	118,990	-	118,990	
Total Assets	9,907,958	18,801,711	28,709,669	
LIABILITIES				
Obligations Under Securities Lending Agreements	118,990	-	118,990	
Accrued Payables	63	2	65	
NET ASSETS	**$ 9,788,905**	**$ 18,801,709**	**$ 28,590,614**	

DDEF Statement of Changes in Net Assets - Year Ended June 30, 2011

See notes to financial statement

	Developmental Disabilities Endowment Trust Fund State	Developmental Disabilities Endowment Trust Fund Private	Total
Net Investment Income			
Investment Income:			
Interest, Dividends and Other Investment Income	$ 78,950	$ 412,741	$ 491,691
Realized Capital Gains	825	-	825
Realized Capital Losses	(381)	-	(381)
Unrealized Gains	896,157	2,542,569	3,438,726
Less:			
Investment Expenses	(1,594)	(494)	(2,088)
WSIB Operating Expenses	(1,786)	-	(1,786)
Net Investment Income	972,171	2,954,816	3,926,987
Net Amount Contributed	1,786	1,969,482	1,971,268
Increase in Net Assets	973,957	4,924,298	5,898,255
Net Assets, June 30, 2010	8,814,948	13,877,411	22,692,359
Net Assets, June 30, 2011	$ 9,788,905	$ 18,801,709	$ 28,590,614

Note 1. Description of Funds and Significant Accounting Policies

Description of Funds

The Developmental Disabilities Endowment Fund (DDEF) of Washington state consists of two funds. The State Trust Fund was originally created from a grant by Washington state. The Private Trust Fund 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 the DDEF as managed by the WSIB. The WSIB has exclusive control of the investments of all money held by the DDEF. The financial statements do not present the financial position and results of operations of the WSIB or the activity of the DDEF 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. Investments are adjusted to fair values monthly. Unrealized gains and losses are included as investment income 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 and lending fees paid to the custodian bank, 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.

Contributions

Contributions are recorded when received.

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 accounted for as a reduction of investment income or are netted directly from the asset value of DDEF's investments. These fees include investment management fees and commissions, investment consultant fees, legal fees, and other investment management related expenses. The WSIB operating expenses are charged to the funds based upon actual costs incurred to manage the investments. WSIB operating expenses are allocated to the funds under management based on relative market values, in accordance with state statutes.

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, 2011, 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 Funds will not be able to recover the value of investments that are in the possession of an outside party. The DDEF Funds mitigates custodial credit risk by having its investment securities held by its custodian. Also, investment securities are registered in the name of the Washington State Investment Board for the benefit of the DDEF Funds, excluding cash and cash equivalents and repurchase agreements held as securities lending collateral.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates over time 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.

Schedule 1 provides information about the interest rate risks associated with DDEF investments as of June 30, 2011. 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. The DDEF's rated debt investments as of June 30, 2011, were rated by Moody's or equivalent rating methodology.

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 that corporate fixed income issue's cost shall not exceed 3 percent of DDEF's fair value at the time of purchase, nor shall its fair value exceed 6 percent of DDEF's fair value at any time. There was no concentration of credit risk that exceeded these limits as of June 30, 2011.

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, 2011, consists of $818,928 invested in an international commingled equity index fund.

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 JPMorgan to act as agent for the WSIB in securities lending transactions. As JPMorgan is the custodian bank for the WSIB, it is counterparty to securities lending transactions.

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 percent of the fair value, including accrued interest, of the securities loaned. All other securities were required to be collateralized at 105 percent of the fair value, including accrued interest, of the loaned securities. The collateral held and fair value of securities on loan at June 30, 2011, was $131,252 and $126,795, respectively. As of June 30, 2011, the amounts the DDEF owed the borrowers exceeded the amounts the borrowers owed the DDEF, resulting in no credit risk exposure.

As of June 30, 2011, the DDEF held the following securities as collateral:

Cash and Cash Equivalents	$62,407
Bank and Promissory Notes	23,505
Commercial Paper	18,514
Securitized Debt Instruments	9,965
Repurchase Agreements	8,001
Miscellaneous	3,957
Guaranteed Insurance Contracts	2,753
Sovereign Debt	2,150
Total Collateral Held	$131,252

During fiscal year 2011, securities lending transactions could be terminated on demand by either DDEF or the borrower. The weighted average maturity of loans was 1.5 days.

Cash collateral was invested by DDEF's agent in the WSIB's separately managed short-term investment pool (average final maturity of 34 days). 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. Accordingly, non-cash collateral held under securities lending contracts with a value of $12,261 has not been included in the Statement of Net Assets. 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. JPMorgan 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. JPMorgan'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 2011, 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 2011 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 DDEF is vested within 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, 42.52 RCW, 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 Life Opportunities Trust 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; and
- 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; and
- 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.
Balanced Mutual Funds: 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.

Asset Allocation

The asset allocation policy has been developed with the performance objectives of:

- Short-term: Earn a rate of return that exceeds inflation, with a bias toward preservation of corpus; and
- Long-term: Earn a rate of return that exceeds inflation plus a set spending rate.

Assets are rebalanced across asset classes when market values fall outside respective policy ranges as follows:

State Funds	Target	Range
Cash	0%	0-5%
Fixed Income	41%	38-44%
U.S. Equity	9%	6-12%
International Equity	8%	5-11%
TIPS	42%	39-45%

Private Funds	Target
Cash	$10,000
Fixed Income	40%
Equity	60%

Note 6. Subsequent Event

On August 5, 2011, the credit rating agency Standard & Poor's downgraded the United States' credit rating for the first time in history from AAA to AA+. The DDEF directly held $4 million in U.S. Government Securities at June 30, 2011 which was 14% of the net asset value. In addition, the DDEF invests in a commingled investment fund, which also had exposure to U.S. Government Securities at year end. U.S. Treasuries comprised 17% of the Balanced Mutual Fund – Domestic at June 30, 2011. It is estimated the DDEF's total exposure to downgraded U.S. Government Securities at year end was 25 percent of the net asset value of the fund. The WSIB uses a Moody's equivalent credit rating scale.

The downgrade of the U.S. Government Securities is not expected to have a material adverse impact on the DDEF Funds' financial position or results of operations.

SCHEDULE 1: SCHEDULE OF MATURITIES AND CREDIT RATINGS

		Maturity					
Investment Type	Total Fair Value	Less than 1 year	1-5 years	6-10 years	More than 10 years	Effective Duration	Credit Rating
Treasury Inflation Protected Securities	$ 4,035,316	$ 129,473	$ -	$ 3,905,843	$ -	4.57	Aaa
Investments Not Required to be Categorized							
Commingled Equity Index Funds - Domestic	947,013						
Commingled Equity Index Funds - Foreign	818,928						
Commingled Intermediate Credit	3,898,732						
Commingled Balanced Trust	18,743,344						
Money Market Funds	122,350						
Total Investments Not Categorized	24,530,367						
Total Investments	$ 28,565,683						


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