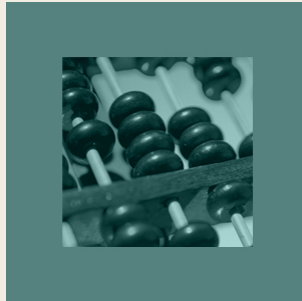




Washington State Investment Board



Twenty-Fourth Annual Investment Report
June 30, 2005

INTRODUCTION

Message from the Chair	3
Letter of Transmittal	4
Fiduciary Responsibilities and Investment Policies	4
Operating and Investment Expenses	4
Accounting System and Internal Control	5
Board Members	6
Board Established Committees	8
Staff	8
Outside Help and Advice	9

INVESTMENTS

Defined Benefit Retirement Funds	13
Retirement Plans	13
Retirement Fund Performance	13
Investment Growth and Returns	14
Strategic Asset Allocation	15
U.S. Equity Program	16
International Equity Program	17
Fixed Income Program	18
Private Equity Program	19
Real Estate Program	20
Investing in Washington	21
Defined Contribution Retirement Plans (PERS, SERS, and TRS)	22
Deferred Compensation Program and Judicial Retirement Account	23
Daily-Valued Funds for Self-Directed Investment Programs	24
Labor and Industries' Funds (Industrial Insurance Funds)	25
Permanent Funds	26
Other Trust Funds	27

FINANCIALS

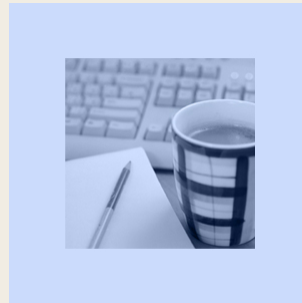
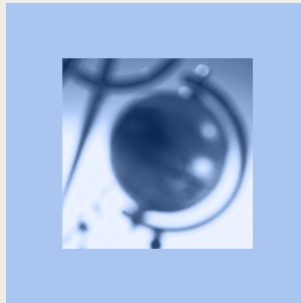
Management Discussion and Analysis	31
Investment Responsibility	31
Assets Under Management	32
Year in Review - Commingled Trust Fund	32
Year in Review - Labor & Industries' Fund	33
Overview of the Financial Statements	34
Basic Financial Statements	34
Notes to the Financial Statements	35
Contacting WSIB's Financial Management	35
Retirement Funds Financial Statements	36
Labor & Industries' Funds Financial Statements	48
Permanent Funds Financial Statements	57
Other Trust Funds Financial Statements	59
Guaranteed Education Tuition Fund Financial Statements	60
Developmental Disabilities Endowment Fund Financial Statements	61
Annual Budget Financial Statement	62

GLOSSARY

Definitions	65
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Introduction



Message from the Chair

June 30, 2005

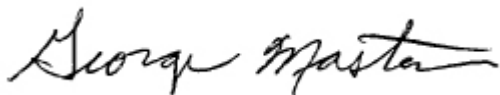
It is my privilege to present the 2005 Annual Report for the Washington State Investment Board (WSIB). This report provides investment performance and related financial information for the participants and beneficiaries of the retirement and other public trust funds managed by the WSIB.

The WSIB ended fiscal year (FY) June 30, 2005, with \$62.9 billion in total assets under management. Nearly \$4.1 billion in value was added to the Commingled Trust Fund (CTF) for defined benefit pension funds which earned a 13.3% rate of return and totaled \$47.5 billion.

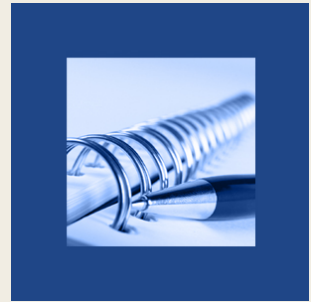
The Deferred Compensation Program (DCP), Judicial Retirement Account (JRA), and the 3 self directed retirement plans for teachers (TRS 3), school employees (SRS 3), and public employees (PERS 3) all ended FY 2005 with higher returns as compared to last year. For the fifth consecutive year, Industrial Insurance, Permanent, and Other funds managed by the WSIB all posted positive returns.

The WSIB stepped up its involvement in corporate governance in FY 2005 with a new policy and guidelines to actively vote proxy issues for all U.S. equity holdings in the CTF. We received legislative approval for additional investment management and research staff to help limit risk and pursue innovative investment options to improve performance overall. We also restructured the international equity portfolio in the CTF, substantially increased Board member education sessions, and initiated a comprehensive risk management program.

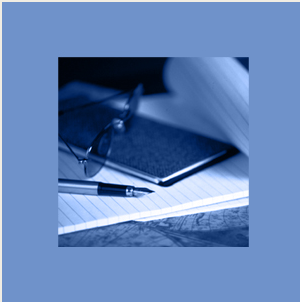
Reflecting back on FY 2005 and years past, we have good reason to be proud of our many accomplishments. Our track record for success is the result of careful due diligence and conscientious management by my fellow Board members, WSIB staff, investment partners, and outside advisors. Looking to the future, we will continue to vigorously adhere to the highest standards of fiduciary duty to meet or exceed the financial objectives of those we serve.



George Masten, Chair



Letter of Transmittal



November 15, 2005

The Honorable Christine Gregoire, Governor
State of Washington
Olympia, Washington 98504

The Washington State Investment Board's (WSIB) 2005 Annual Report provides investment performance and operational cost information for the participants and beneficiaries of the retirement and public trust funds managed by the WSIB. Created in 1981, the WSIB performs "all duties prescribed by law with respect to the investment of public trust and retirement funds" (RCW 43.33A.010). Led by an independent Board, the WSIB is also governed by general statutes and rules established for all state agencies, officials, and employees in the performance of their public duties.

To the best of our knowledge, the data provided in each section of this report is a fair and accurate representation in all material respects of the WSIB's performance and financial operations. The **Introductory Section** includes a message from the Chair; this letter of transmittal, and information about the Board, outside help, and staff. The **Investment Section** contains performance information on total assets under management, asset class program and portfolio descriptions, and information regarding in-state investments. The **Financial Section** includes the Management Discussion and Analysis (MD & A), and basic financial statements and schedules. The **Glossary Section** provides useful definitions of terms used throughout this report.

Fiduciary Responsibilities and Investment Policies

The term "fiduciary" characterizes a variety of relationships in which one party acts for the benefit of another. Board members are fiduciaries responsible for managing retirement and public trust fund investments with the highest standard of professional conduct for the exclusive benefit of fund beneficiaries. The Board invests and manages the assets entrusted to it with reasonable care and diligence and must consider investments not in isolation, but in the context of the investment of the particular fund as a whole and as part of an overall investment strategy, which incorporates risk and return objectives reasonably suited for the funds invested. Finally, the Board must operate under investment policies and procedures designed exclusively to maximize return at a prudent level of risk.

Operating & Investment Expenses

The WSIB receives no general state tax revenues. Pursuant to RCW 43.33A.160, funding for the WSIB comes from investment earnings and is proportional to the value of the assets of each fund we manage. Appropriated expenses cover normal agency operations, including staff, facilities, equipment, utilities, and supplies and are subject to a biennial appropriation from the Legislature. For FY 2005, the appropriated operating expenditures were \$6,731,728, or 0.011% of the total assets managed (\$62.9 billion). The WSIB also manages non-appropriated expenses for money managers, custodial bank, consultants, legal fees, and research. Total non-appropriated expenditures were \$186,921,547, or 0.308% of the total assets managed.

Operating Expenses

Fiscal Year	Expenses (000s)	% of total assets
2000	\$4,626	0.008
2001	\$5,569	0.010
2002	\$6,062	0.012
2003	\$7,448	0.014
2004	\$6,704	0.012
2005	\$6,731	0.011

Investment Expenses

Fiscal Year	Expenses (000s)	% of total assets
2000	\$138,573	0.235
2001	\$170,228	0.308
2002	\$205,548	0.403
2003	\$195,161	0.374
2004	\$187,703	0.328
2005	\$186,921	0.308

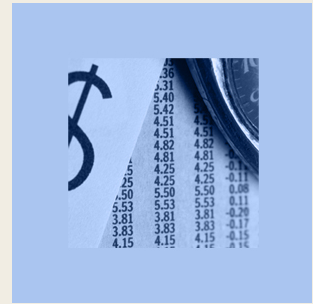
Accounting System and Internal Control

This report was prepared to conform with accounting and reporting principles established by the Governmental Accounting Standards Board (GASB). Specific accounting treatments are detailed in the Notes to the Financial Statements found in the report's Financial Section. Internal controls are established and maintained to protect fund assets from loss, theft, or misuse, and to ensure that adequate accounting data are compiled to prepare financial statements that conform with generally accepted accounting principles. Internal controls provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and that the valuation of costs and benefits requires estimates and judgments by management. In addition, the Office of Financial Management and the Legislature maintain budgetary controls.

We sincerely appreciate the contributions of all who participated in the preparation of this document.



Joseph A. Dear
Executive Director



Board Members



Michael J. Murphy, State Treasurer

- ❖ Re-elected to third term as Washington State Treasurer, November 2004
- ❖ Chair, State Finance Committee
- ❖ Past President, Western State Treasurers Association
- ❖ Chair, WSIB Audit Committee and member of Private Markets Committee



Sandra J. Matheson, Director, Department of Retirement Systems

- ❖ Former CEO, Hanford Environmental Health Foundation
- ❖ Former Chair, TRIDEC, Tri-Cities Regional Economic Development Council
- ❖ Member, State Supreme Court's Gender and Justice Commission
- ❖ Member, WSIB Private Markets and Audit committees



Gary K. Weeks, Director, Department of Labor and Industries

- ❖ Former Director, Oregon Department of Human Services
- ❖ Former President, American Public Human Services Association
- ❖ Vice Chair, National Association of Occupational Safety & Health Programs
- ❖ Member, WSIB Public Markets Committee



Patrick McElligott, Vice-Chair

- ❖ Vice President, Washington State Council of Fire Fighters
- ❖ President, Tacoma Professional Fire Fighters Local #31
- ❖ Former fire fighter, King County District #39
- ❖ Member, WSIB Private Markets and Administrative committees



Deborah Brookman

- ❖ Worker's Compensation Adjudicator, Department of Labor & Industries (L&I)
- ❖ Former shop steward for the Washington Federation of State Employees
- ❖ Statewide Labor Chair for L&I
- ❖ Chair, WSIB Private Markets Committee and member of Audit and Administrative committees



George Masten, Chair

- ❖ Former Executive Director, Washington Federation of State Employees
- ❖ President, Retired Public Employees Council of Washington
- ❖ Member, State Salary Setting Board
- ❖ Chair, WSIB Administrative Committee and member of Public Markets and Audit committees



David Scott

- ❖ Vice President, Washington Education Association (WEA)
- ❖ Chair, WEA Budget and Finance Committee.
- ❖ Former President, Edmonds Education Association
- ❖ Member, WSIB Public Markets and Audit committees



Glenn Gorton

- ❖ Former Chair, National Association of Classified School Employees
- ❖ Past President, Public School Employees of Washington
- ❖ Served on Board of Directors for Public School Employees of Washington
- ❖ Chair, WSIB Public Markets Committee and member of Administrative Committee

Helen Sommers, State Representative

- ❖ Chair, House Appropriations Committee
- ❖ Member, State Pension Funding Council
- ❖ Former Chair, Joint Committee on Pension Policy
- ❖ Member, WSIB Public Markets Committee

Lisa Brown, State Senator

- ❖ Majority Leader, Washington State Senate
- ❖ Member, Senate Labor, Commerce, Research and Development Committee
- ❖ Former Chair, Senate Ways and Means Committee
- ❖ Member, WSIB Private Markets Committee

Non-voting members

Jeffrey D. Hanna

- ❖ Former Managing Director, Bond Market Research Dept., Salomon Brothers, Inc.
- ❖ Former head, all research in Asia including Japanese and Asian equities, Salomon Brothers, Inc
- ❖ Member, WSIB Private Markets and Public Markets committees

Robert S. Nakahara, CPA

- ❖ Chief Financial Officer/Corporate Secretary, MedManage Systems, Inc.
- ❖ Member, American Institute of Certified Public Accountants/Washington State Society of CPA's
- ❖ Former Managing Director, Alliance Health Technologies, LLC
- ❖ Member, WSIB Public Markets and Audit committees

Charles A. Kaminski, CFA

- ❖ Registered Investment Advisor on public market investment management
- ❖ Former Chief Investment Officer, GE Financial Assurance
- ❖ Former Director and Portfolio Manager for Baring Asset Management
- ❖ Member, WSIB Public Markets and Audit committees

John W. Magnuson, CPM, CRE

- ❖ Honored as Instructor Emeritus by the Institute of Real Estate Management
- ❖ Founding Trustee, Washington Center for Real Estate Research
- ❖ Member, WSIB Private Markets and Public Markets committees

Jeffrey Seely

- ❖ Chair, President, and Chief Executive Officer, ShareBuilder Corporation
- ❖ Former Senior Investment Banker, Robertson Stephens & Co.
- ❖ Former Senior Banker, Dean Witter Reynolds and Smith Barney
- ❖ Member, WSIB Private Markets Committee



Board Established Committees



Individual Board members are appointed by the Chair to serve on any of the Board's 4 different committees in order to more efficiently analyze investment and governance issues. Committee recommendations are brought to the Board for consideration and a vote. The Committees and their responsibilities are:

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

The **Audit Committee** oversees audit activities and operations, and nominates candidates for the non-voting positions on the Board. The Committee also develops and monitors the Conflict of Interest Policy for the Board, reviews performance-reporting requirements, and deals with corporate governance policies and issues.

The **Private Markets Committee** develops policy and structure for private market investments (real estate, venture capital (corporate restructuring and other private equity)), and reviews real estate and private equity investments for recommendations to the Board.

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.

Staff



Joseph A. Dear - Executive Director - Appointed November, 2002

- ❖ Former Government relations officer, Frank Russell Company
- ❖ Former Chief of staff for Governor Gary Locke
- ❖ Former Assistant secretary of labor, Occupational Safety and Health Administration
- ❖ Former Director, Washington State Department of Labor and Industries
- ❖ Former Member and chair, Washington State Investment Board

Gary Bruebaker, CFA, CPA - Chief Investment Officer

- ❖ 27 years executive management and public finance experience
- ❖ Former deputy state treasurer of Oregon
- ❖ Former president, Government Finance Officers Association of the U.S. & Canada

Theresa J. Whitmarsh - Deputy Director for Operations

- ❖ 20 years insurance, finance, and technology management experience
- ❖ Former assistant and deputy director, Washington State Department of Labor and Industries
- ❖ Former vice president of leading data management company serving large, self-funded employers
- ❖ Former communications director for an insurance trade association

Senior Investment Officers

Asset Allocation

Diana Will, CFA

Fixed Income

William P. Kennett, CFA

Private Equity

Thomas Ruggels

Public Equity

Nancy Calkins, CIMA

Real Estate

Steven M. Draper

Operations Managers & Administrators

Business and Office Services

Erwin Vidallon

Information Systems

Jim Lee

Investment Accounting

Steven C. Verschoor

Portfolio Administration

Alicia Markoff

Outside Help and Advice

Investment Accounting Data System

Financial Control Systems

Master Custodian Bank

State Street Bank

Insurance Portfolio Consultant

Conning Asset Mgmt.

Legal Services

Washington Attorney General

Foster, Pepper & Shefelman

Goodwin Procter

Orrick, Herrington & Sutcliffe

Paul, Hastings, Janofsky & Walker

Preston, Gates & Ellis

Song & Mondress

Testa Hurwitz & Thibault

Private Equity Partnerships

APAX Partners

Astorg Partners

Austin Ventures

BC Partners

BlackRock Asset Investors, LLC

Boston Ventures

Bridgepoint Capital

Butler Capital Partners

Capital Resource Partners, LLC

Charterhouse Development Capital Ltd.

Cinven Limited

Clayton, Dubilier & Rice Associates

Code, Hennessy & Simmons, LLC

Contrarian Capital Mgmt., LLC

Cornerstone Equity Investors, LLC

Cypress Group

Doughty Hanson & Co. Managers Ltd.

Elevation Partners

Endeavour Capital

Essex Woodlands Health Ventures

General Investment Consultants

Callan Associates

Pension Consulting Alliance

R.V. Kuhns & Associates Inc.

Private Equity Consultant

Pacific Corporate Group

Real Estate Consultant

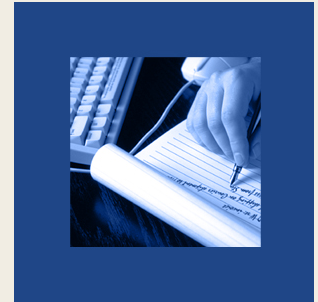
Courtland Partners

Specialty Investment Consultants

Aon

Cortex Applied Research

Independent Fiduciary Services





Private Equity Partnerships

Evercore Partners
First Reserve Corporation
Fortress Investment Group, LLC
Francisco Partners
Frazier & Co.
Gilbert Global Equity Partners
Green Mountain Partners
Gryphon Investors
GTCR Golder Rauner, LLC
HarbourVest Partners
Hellman & Friedman
Heritage Partners
Indigo Capital Partners
InterWest Partners

Spectrum Equity Investors
Sprout Capital
TA Associates
Telecom Partners
Texas Pacific Group
The Banc Funds Co., LLC
Thomas Weisel Capital Partners
TSG Capital Group, LLC
U.S. Venture Partners
Varde Partners, Inc.
Vestar Capital Partners
Warburg, Pincus & Co.
Welsh, Carson, Anderson & Stowe

Real Estate Fund Managers

Campbell Group
Cherokee
Colonnade
Corporate Properties of America
Evergreen
Hancock Timber
Hearthstone
Hometown
Hudson Advisors

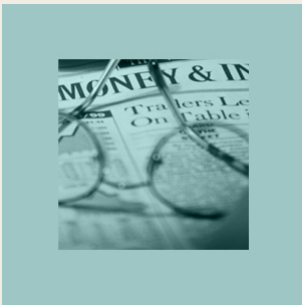
ING Realty Partners
JER Partners
Lowе Enterprises
Morgan Stanley
Pacific Realty
Principal
Rockspring
TA Associates
WA Holdings

Public Equity Fund Managers

Arrowstreet Capital, L.P
Barclays Global Investors
Capital Guardian Trust Co.
Capital International, Inc.
F&C Emerging Markets Ltd.
Fidelity Management Trust Co.
Goldman Sachs Asset Mgmt.

Grantham, Mayo, Van Otterloo
Julius Baer Investment Mgmt.
LSV Asset Management
Mondrian Investment Partners Ltd.
State Street Global Advisors
William Blair & Co.

Investments



Defined Benefit Retirement Funds

Retirement Plans

The WSIB manages investments for 14 separate pension plans as shown in the chart to the right. The Department of Retirement Systems, whose director also serves as an ex-officio voting member on the Investment Board, administers the plans for public employees (PERS), teachers (TRS), classified school employees (SERS), law enforcement officers and firefighters (LEOFF), and other employees of participating local subdivisions including judges (JRA) and the state patrol (WSP). DRS is not the administrative arm for the volunteer firefighters pension fund (VFF), but the investment assets for those funds are managed by the WSIB.

The retirement system membership grew to 436,505 members as of June 30, 2005, including 32,870 inactive members.

In FY 2005 retirement trust fund contributions, fees, and investment returns totaled \$6,768 million (including Plan 3 Self-Directed Defined Contribution). This includes positive revenues of \$521 million in member contributions and restorations, \$183 million in employer contributions, and \$28 million in general fund contributions.

Retirement Fund Performance

The defined benefit retirement funds are invested through the Retirement Commingled Trust Fund (CTF). The CTF pools retirement fund assets to more efficiently manage and reduce administrative costs and investment fees. Over the past 10 years, the fund has grown from \$26.8 billion to \$47.5 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).

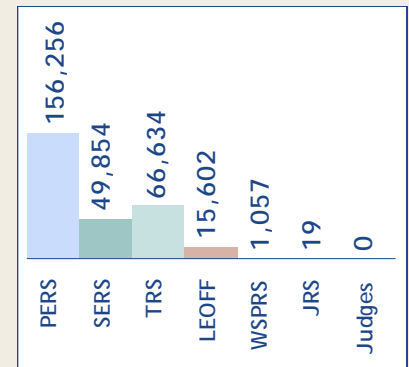
The WSIB measures fund performance by comparing expected investment returns for performance of the individual asset classes to appropriate benchmarks. Although returns vary quarterly and annually, long-term expectations and realizations should exceed the actuarially assumed rate of return over time.

When comparing fund performance from one year to the next, it is important to remember that asset classes differ in their behavior and volatility. Most public market investments can be priced instantaneously and fair market value can be determined with certainty. However, real estate and private equity investments are very illiquid and not easily priced. It may take years before expected returns are realized.

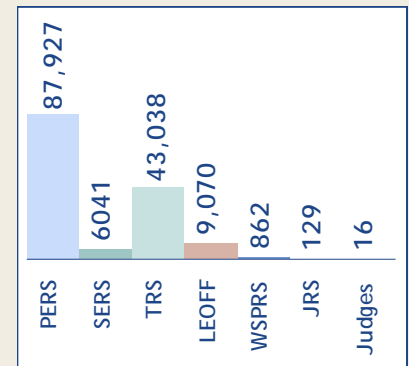
June 30, 2005

	Market Value
PERS 1	\$9,574,274,509
PERS 2/3	\$12,578,879,333
SERS 2/3	\$2,234,625,666
TRS 1	\$8,098,735,133
TRS 2/3	\$5,710,937,441
LEOFF 1	\$5,033,099,430
LEOFF 2	\$3,405,442,492
WSP 1/2	\$723,403,956
VFF	\$110,197,404
JRA	\$2,006,395
Total	\$47,471,601,759

Active members by System: 289,422



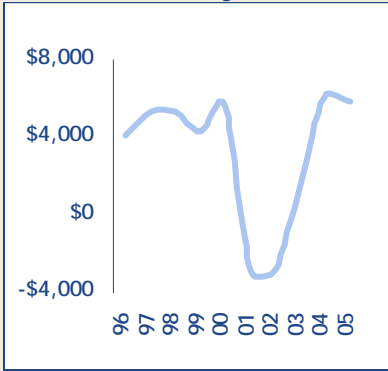
Retired Members by System: 147,083



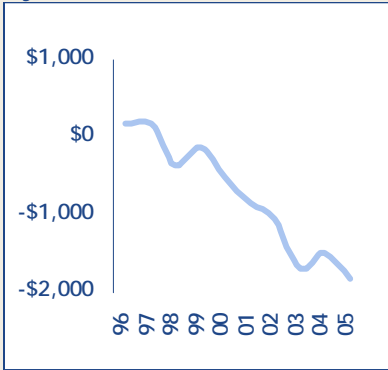
Factors Affecting Trust Fund Balances

June 30, 2005

Investment Earnings



Net of Contributions and Benefit Payments



Note: Investment earnings include Plan 3 Self-Directed investments. Source of data: WSIB and DRS.

CTF Net Investment Performance - Lagged

June 30, 2005

	Annualized		
	1 Year	3 Years	5 Years
Total Fund	13.3%	10.7%	3.6%
MAP Benchmark	9.4%	10.0%	1.6%
U.S. Equity	8.3%	10.0%	-1.1%
Dow Jones Wilshire 5000	8.2%	10.0%	-1.3%
International Equity	17.9%	13.5%	1.2%
MSCI ACWI ex. U.S. Index	17.0%	14.1%	0.8%
Fixed Income	7.0%	7.3%	8.1%
Lehman Universal	7.4%	6.6%	7.6%
Cash	2.1%	1.5%	1.7%
90 Day T-Bills	2.2%	1.6%	2.6%
Private Equity	27.0%	11.5%	2.6%
S & P 500 + 500 bp	11.7%	7.8%	1.8%
Real Estate	22.2%	15.0%	13.5%
NCREIF + 100 bp	16.6%	11.7%	11.2%

Investment Growth and Returns

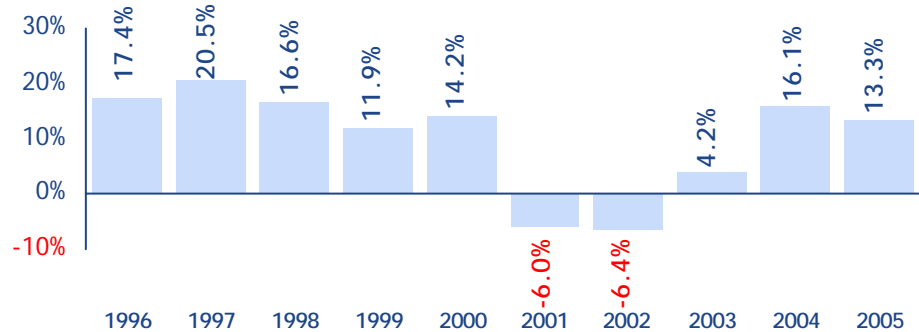
CTF Historical Market Values (billions)

Fiscal years ended June 1996 to 2005



CTF Historical Rates of Return

Fiscal years ended June 1996 to 2005



Strategic Asset Allocation

Asset allocation is often considered to be the most important driver of investment performance. In basic terms, it's the process of selecting a mix of asset classes, such as stocks and bonds, and strategically determining their proportions within an investment portfolio.

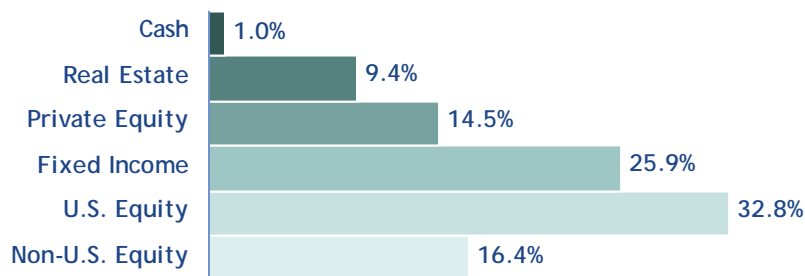
Individual asset classes have distinct characteristics and historic market patterns show that when some fall in value, others rise. Asset allocation decisions account for nearly 92% of the variation between returns on different investment portfolios. Investment portfolio assets are strategically diversified to help offset declines in any one class, smooth out marketplace ups and downs, and reduce overall investment risk.

To meet the financial objectives of each fund, the WSIB constantly monitors and adjusts asset allocations for the various investment portfolios we manage. For example, the CTF is invested in 5 basic asset types including public equity, fixed income, private equity, real estate, and cash. The Board establishes long-term policy targets for each asset class and the ranges for the CTF are formally reviewed every 4 years and, if necessary, revised based, in part, on historical average investment returns. The last asset allocation study for the CTF was completed in 2001 and a new study is underway and will be completed and presented to the Board before the end of 2005.

During FY 2005 the WSIB adjusted the CTF asset mix toward the policy targets, which resulted in the CTF taking profit at a key time in the international equity markets. Both real estate and private equity opened contractual commitments to top tier investment partners to move the asset classes toward their long-term targets over the next several years.

CTF Asset Allocation

June 30, 2005



Asset Class	Long-Term Policy Target	Policy Range
U.S. Equity	31%	26-36%
International Equity	15%	12-18%
Fixed Income	25%	21-29%
Private Equity	17%	13-21%
Real Estate	12%	10-14%
Cash	0%	0-2%



The long-term asset allocation target for U.S. equity is 31% of the total CTF with a range from 26% to 36%.

As of June 30, 2005, the U.S. equity program totaled \$15.6 billion and represented 32.8% of the CTF.

The investment objective for the CTF U.S. equity program is to closely track the Dow Jones Wilshire 5000 Index, which is achieved by holding units of the Barclays Global Investors (BGI) U.S. Equity Market Fund rather than owning individual company stocks.

U.S. Equity Program

U.S. markets are generally efficient and, therefore, the WSIB invests the U.S. equity program in a low-cost, risk controlled manner utilizing a passive index strategy.

Year in Review

The U.S. equity market generated lower returns in FY 2005 compared to the previous year. Higher interest rates and fuel costs dampened investor enthusiasm and lowered returns in the first quarter of 2005. The market rebounded slightly in the second quarter despite a weak job market and higher prices at the pump due to a strong housing market and increased consumer spending.

Highlights

- ❖ The portfolio value increased from \$14.6 billion to \$15.6 billion.
- ❖ The portfolio earned 8.3% for FY 2005 and outperformed the Dow Jones Wilshire 5000 Index, the Russell 3000 Index, and the S & P 500 Index, which returned 8.2%, 8.1%, and 6.3%, respectively.

Fund Summary Statistics

Description	Statistic
Beta versus S & P 500	1.0
Fund Yield	1.9%
Number of Issues in Fund	4,008

Fund Makeup by Exchange

Exchange	# of Companies	% of Fund Market Value
NYSE	1,538	80.0%
NASDAQ	2,082	19.6%
AMER/OTC	388	0.4%

Sector Diversification

Basic Materials	2.7%	Financial	21.1%
Communications	11.2%	Industrial	10.4%
Consumer, Cyclical	10.0%	Technology	10.9%
Consumer, Non-Cyclical	21.4%	Utilities	3.5%
Diversified	0.0%	Other	0.0%
Energy	8.7%		

International Equity Program

Inefficiencies in international equity markets as compared to U.S. equity markets provide greater opportunities to add value with active management. Accordingly, the developed markets international equity program uses a combination of passive and active mandates and the emerging markets equity program is 100% actively managed.

Fiscal year 2005 was the first full year of performance following the restructuring of the international equity program in the summer of 2004 to achieve better returns going forward. The WSIB is pleased to report that all segments of the portfolio's performance for FY 2005 either equaled or exceeded their index benchmarks.

Our active international developed markets equity managers are allowed to identify and invest in promising emerging markets' opportunities with the goal of generating higher returns for the international equity portfolio. To provide the necessary flexibility to meet this goal, the Board approved a range of 5.0% to 10.0% of the total international equity allocation for dedicated emerging markets equity, with a fixed goal set each year. For FY 2005 the emerging markets target was 6.0% of the total international equity portfolio.

Year in Review

International equity markets were not as strong in 2005 due to fears of waning economic momentum, a higher U.S. dollar, and interest rate sensitivity. The financial sector was the main contributor to performance followed by the materials sector. The United Kingdom and Canada were the primary country contributors in 2005.

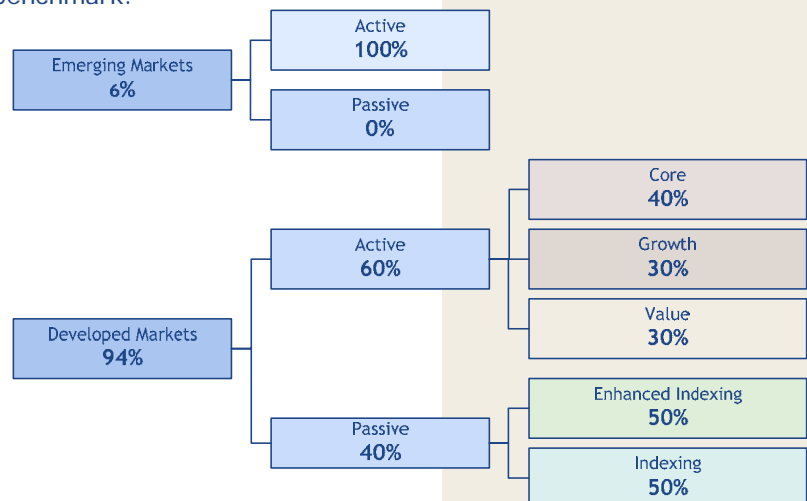
Highlights

- ❖ International equity was one of the CTF's best performing asset classes for FY 2005 outperforming both fixed income and U.S. equity.
- ❖ The overall international equity portfolio was rebalanced early in 2005 due to continued strong returns and to implement the emerging markets allocation.
- ❖ The portfolio value increased from \$7.3 billion to \$7.8 billion primarily because of better returns.
- ❖ The total international equity portfolio returned 17.9%, outperforming the MSCI ACWI ex U.S. return of 17.0% for FY 2005. Of that, the developed markets portfolio returned 16.8%, outperforming its MSCI EAFE + Canada benchmark return of 14.6%, and the emerging markets portfolio returned 34.4%, equal to the return of its custom benchmark.

The long-term asset allocation target for international equity is 15% of the total CTF with a range of 12% to 18%.

As of June 30, 2005, the international program totaled \$7.8 billion and represented 16.4% of the CTF.

The investment objective of the CTF international equity program is to outperform the Morgan Stanley Capital International, Inc. All-Country World ex United States Index (MSCI ACWI ex U.S.).



The long-term asset allocation target for fixed income is 25% of the total CTF with a range from 21% to 29%.

As of June 30, 2005, the fixed income portfolio totaled \$12.3 billion and represented 25.9% of the CTF.

The investment objective of the CTF fixed income portfolio is to meet or exceed the return of the Lehman Universal Index through active internal management.

Fixed Income Program

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

Year in Review

In anticipation of interest rates moving higher during FY 2005 the portfolio's duration (a measure of the sensitivity of market value to changes in the level of interest rates) was kept under the Universal Index level. This helps the portfolio in times of rising interest rates and negative returns but not in times of stable or falling rates and positive returns. During the year, however, the yield on the 10 year treasury decreased from 4.6% to 3.9%.

Highlights

- ❖ The portfolio value increased from \$10.9 billion to \$12.3 billion. The major contributors were higher return and a \$636 million transfer to fixed income from the equity portfolios.
- ❖ The portfolio underperformed the Lehman Universal Index by 0.4% and returned 7.0% compared to the index's 7.4%.
- ❖ Treasuries, agencies, mortgages, and ABS were underweighted, while credits and CMBS were overweighted. The portfolio has holdings of cash and Treasury Inflation Protection Securities (TIPS) while the index does not.
- ❖ The portfolio's quality increased slightly from Aa2 to Aa1, as holdings of credit bonds decreased from a 43% allocation to 36% and holdings of lower quality credit bonds were reduced.
- ❖ Transactions included \$1.6 billion in sales and \$3.3 billion in purchases.
- ❖ Net purchases were made to TIPS and treasuries to increase those allocations. Purchases were also made to CMOs and pass-through mortgages to increase allocations and put pay downs of principal back to work.
- ❖ Treasury holdings, with their long duration, were the best returning sector at 11.14%, followed by credits at 8.4%, CMBS at 6.8%, mortgages at 6.2%, and TIPS at 5.1%. Cash holdings returned 2.2%.
- ❖ The treasury component of the index returned 7.1%, MBS returned 6.1%, and credit bonds returned 9.36%.
- ❖ The more risky index sectors, high yield and emerging markets, returned 10.9% and 20.3%, respectively. Portfolio high yield and emerging markets returned 11.3% and 21.1%, respectively.

Quality Distribution *

	WSIB Portfolio	Lehman Universal
TSY	26.0%	21.8%
AGY	27.4%	38.9%
Aaa	13.8%	7.9%
Aa	7.0%	5.1%
A	9.1%	9.1%
Baa	13.1%	8.6%
Other	3.6%	8.6%

* Moody's equivalent as defined by Lehman's new definitions.

Private Equity Program

Private equity investments range from leveraged buyouts of mature companies to the investment of initial capital in start-up enterprises. These are illiquid, very long-term investments of up to 12 years or more and are attractive to institutional investors because, over long time horizons, they offer higher expected returns than traditional public equity investments.

The WSIB private equity portfolio is well-diversified by stage of investment, company size, and geographic location. The valuations contained in this report are provided by the general partners and reviewed by the WSIB's consultants and staff.

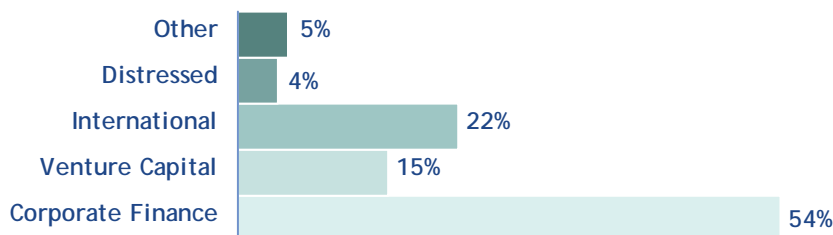
Year in Review

There were no major changes in the private equity investment strategy or allocation targets during FY 2005 although activity levels increased substantially compared to FY 2004. During FY 2005 the program focus was to upgrade the quality of the portfolio by continuing to back existing general partners who are performing well and very selectively adding new partners to fill specific investment needs. After several years of research and due diligence, the program made its first commitment in FY 2005 to a fund targeting private equity investments in Asia. Also in FY 2005, Capital Dynamics was selected to serve as the Board's private equity consultant beginning January 1, 2006.

For the industry as a whole, fundraising activity for both venture capital and buyout funds increased over the prior year. The investment pace also experienced an increase. U.S. merger and acquisition activity experienced a slight increase in deal volume and a substantial increase in deal value. Distributions, particularly from buyout funds, experienced a major increase over the prior fiscal year due to increased merger and acquisition activity and accommodative debt markets that allowed many investments to be recapitalized. These industry trends were reflected in the WSIB private equity portfolio activity levels during the year.

Highlights

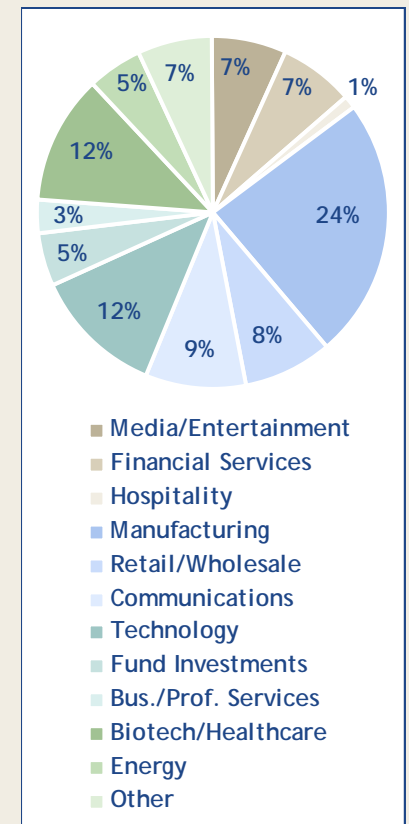
- ❖ The portfolio value increased from \$6.1 billion to \$6.9 billion.
- ❖ \$1.84 billion in commitments were closed for FY 2005 compared to \$788.2 million in the prior year.
- ❖ \$1.92 billion of committed capital was drawn for investment during the current fiscal year, compared to \$1.37 billion in the prior year.
- ❖ \$2.55 billion in investment distributions were returned to the WSIB during FY 2005, compared to \$589.5 million in the prior year.
- ❖ \$5.0 billion of committed capital remained unfunded at fiscal year end, unchanged compared to the prior year-end.



The long-term asset allocation target for private equity is 17% of the total CTF with a range from 13% to 21%.

As of June 30, 2005, the private equity portfolio totaled \$6.9 billion and represented 14.5% of the CTF*.

The investment objective of the private equity portfolio is to achieve annualized returns of 5% above the total return of the Standard & Poor's 500 Index.



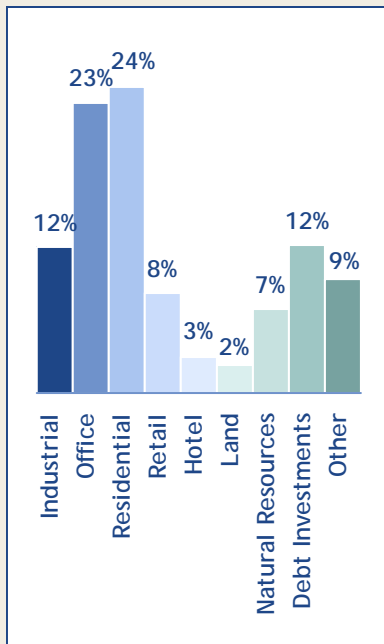
* Private equity uses March 31, 2005, market values, adjusted for cash flows in the second quarter of 2005.

The long-term asset allocation target for real estate is 12% of the total CTF with a range from 10% to 14%.

As of June 30, 2005, the real estate portfolio totaled \$4.5 billion and represented 9.4% of the CTF*.

The investment objective of the WSIB real estate portfolio is to achieve, over the long term, returns of 100 to 300 basis points (1-3%) above the National Council of Real Estate Investment Fiduciaries (NCREIF) Index.

Property Type Distribution



Real Estate Program

Our real estate partnership investments deliver risk-adjusted returns that are consistent with the WSIB's long-term return expectations for the asset class. The majority of these externally managed partnerships invest in high-quality properties leased to third parties. The steady income from lease payments, combined with the potential upside from appreciation, generate returns that are expected to fall between performance expectations for fixed income and equities. Many of our real estate partnerships do not involve co-investment with other financial investors, thereby providing the WSIB with superior governance provisions related to acquisition, liquidation, and an annual business plan process.

The majority of our partners own real estate assets as private market investments, so they are not subject to the potential volatility of the public markets. Capital is diversified among a variety of partners, each with their own investment style, and partnership assets are geographically diversified, including outside the U.S. Investments are made in a variety of property types to provide further diversification. Finally, our partners invest at different points in the real estate capital structure, as well as at different times in the property life cycle.

Year in Review

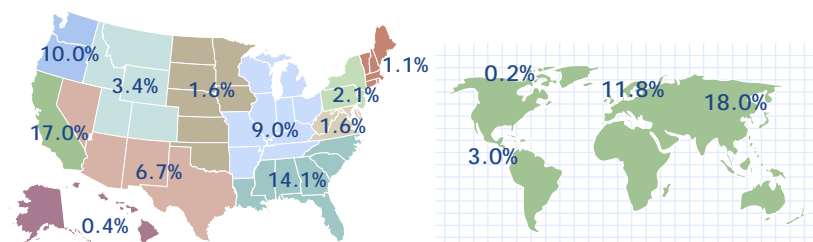
Real estate markets, particularly in the U.S., were subject to record-setting capital inflows during the year. Potentially attractive returns relative to other asset classes, combined with low financing rates, resulted in a sharp increase in investment activity. The consequence of this market environment was a sharp increase in the value of commercial property. The WSIB's real estate partners have benefited from this situation, both through their long-term ownership of high-quality investments and through the selective selling of some properties.

The WSIB's real estate investment strategy and direction remained unchanged during the year. The constant focus is on creating a high-quality, long-term, stable income stream for the CTF from its real estate investments.

Highlights

- ❖ The portfolio value increased from \$4.1 billion to \$4.5 billion.
- ❖ For the one-year period ended March 31, 2005, the portfolio outperformed the NCREIF Index, 22.7% to 15.6%.
- ❖ The two strongest drivers of these high returns were the WSIB's investments in real estate operating companies (REOCs) and its investments outside the U.S.
- ❖ A continuing trend was that more relatively attractive investment opportunities were found outside the U.S. than within by our partners during the year. The non-U.S. portion of the portfolio grew during the year, expanding from 28.3% to 33.0%.
- ❖ Domestically, the WSIB continues to overweight growth markets in its real estate portfolio, such as in the South and West.

Regional Distribution



* Real estate uses March 31, 2005, market values, adjusted for cash flows in the second quarter of 2005.

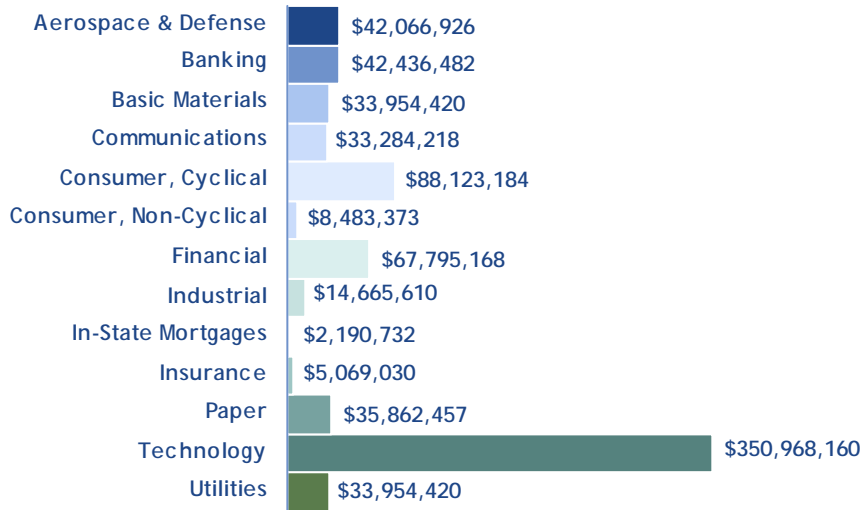


Investing in Washington

The WSIB seeks the best investment opportunities no matter where they might be located. The state of Washington is home to many successful companies and in-state investments can be found in all of the WSIB's portfolios.

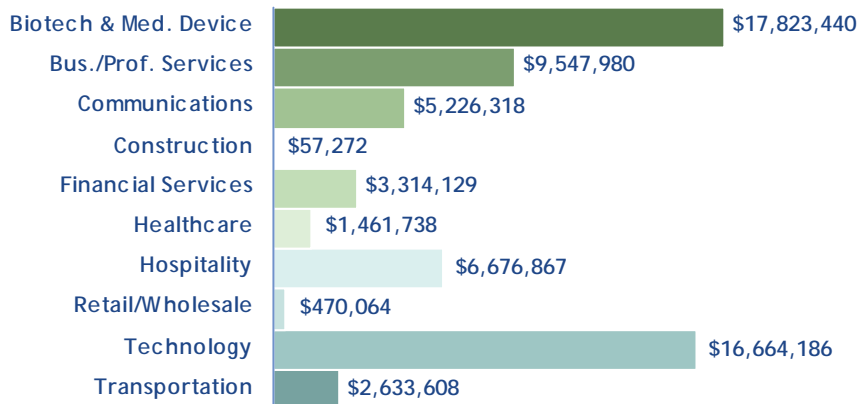
Public Equity and Fixed Income

As of June 30, 2005, the market value of the WSIB public equity and fixed income investments in Washington companies was \$750.4 million. The following industries are represented in these portfolios:



Private Equity

As of March 31, 2005, the WSIB had \$63.9 million invested in Washington's economy through its private equity partnerships and these investments are well diversified across numerous industry sectors:



Real Estate

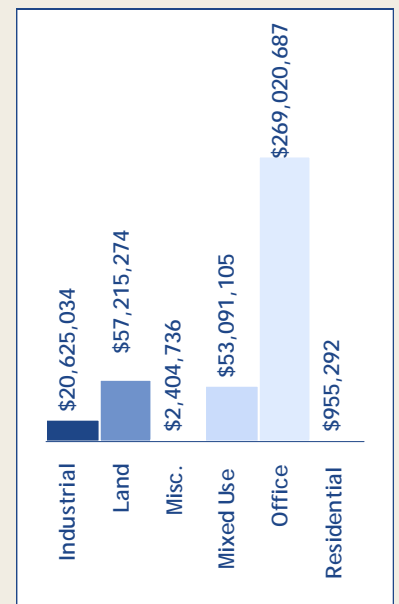
Several of the WSIB's real estate partners have property investments located in Washington. As of March 31, 2005, the WSIB's investment in Washington properties was estimated at approximately \$448.6 million. Several property types are represented in the portfolio (see chart at left).

Washington Investments in the WSIB Portfolio

Investment Class	Value (millions)
Public Equity	\$602.0
Fixed Income	\$148.4
Private Equity	\$63.9
Real Estate*	\$448.6
Total	\$1,262.9

* The real estate amount represents the total capital that the WSIB has invested in Washington properties.

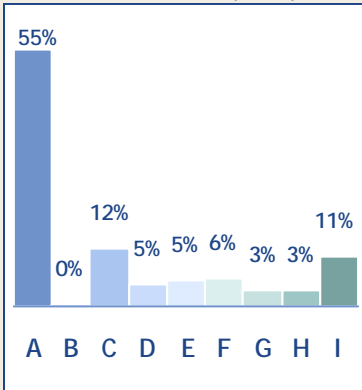
Real Estate by Property Type



Defined Contribution Retirement Plans

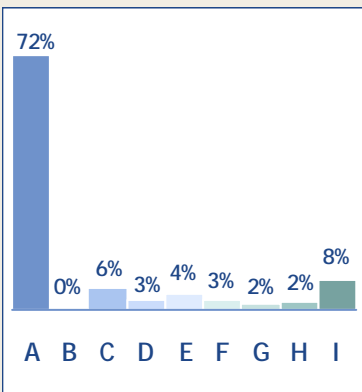
PERS 3

Total Assets: \$936,870,459



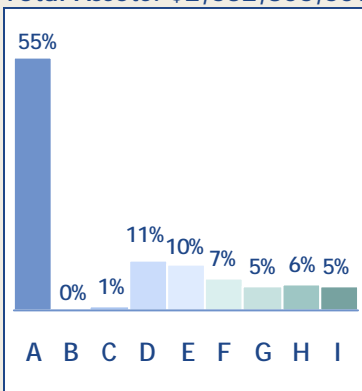
SERS 3

Total Assets: \$721,031,095



TRS 3

Total Assets: \$2,632,806,609



PERS, SERS, and TRS Program (Plan 3)

June 30, 2005

As trustee of the Plan 3 retirement systems for Public Employees Retirement System (PERS 3), School Employees Retirement System (SERS 3), and Teachers Retirement System (TRS 3), the WSIB is responsible for the investment of plan assets and the provision of self-directed investment options to plan members. The administrative, accounting, and record-keeping work for these plans is provided by the DRS.

	PERS 3	SERS 3	TRS 3	
A	WSIB Tap Option	\$509,962,523	\$517,118,926	\$1,446,279,125
B	Social Balanced	4,132,863	1,131,736	4,109,168
C	Short Horizon	13,932,515	5,875,207	5,865,402
C	Mid Horizon	52,584,734	21,669,834	16,351,544
C	Long Horizon	46,965,235	18,085,963	18,489,874
D	U.S. Stock	43,297,768	18,874,346	287,579,213
E	U.S. Large Stock	49,737,344	31,374,385	256,391,105
F	U.S. Small Stock	55,462,455	21,453,828	183,872,404
G	International Index	30,177,763	10,929,361	131,163,410
H	Bond Market	31,139,313	15,258,816	149,344,419
I	Money Market	99,477,945	59,258,694	133,360,945

Returns	1 Year	Returns	1 Year
WSIB Tap Option	13.1%	U.S. Large Stock	6.4%
<i>Custom Benchmark</i>	<i>9.4%</i>	<i>S & P 500 Index</i>	<i>6.3%</i>
Social Balanced	4.6%	U.S. Small Stock	9.5%
<i>Custom Benchmark</i>	<i>6.7%</i>	<i>Russell 2000</i>	<i>9.5%</i>
Short Horizon	6.1%	International Index	13.8%
<i>Custom Benchmark</i>	<i>6.3%</i>	<i>MSCI EAFE</i>	<i>13.7%</i>
Mid Horizon	8.0%	Bond Market	5.4%
<i>Custom Benchmark</i>	<i>8.2%</i>	<i>Lehman Intermediate Credit</i>	<i>5.8%</i>
Long Horizon	9.1%	Money Market	2.2%
<i>Custom Benchmark</i>	<i>9.1%</i>	<i>One Month LIBOR</i>	<i>2.4%</i>
U.S. Stock	8.1%		
<i>Russell 3000</i>	<i>8.1%</i>		

Deferred Compensation Program and Judicial Retirement Account

Deferred Compensation Program (DCP)

June 30, 2005

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

Judicial Retirement Account (JRA)

June 30, 2005

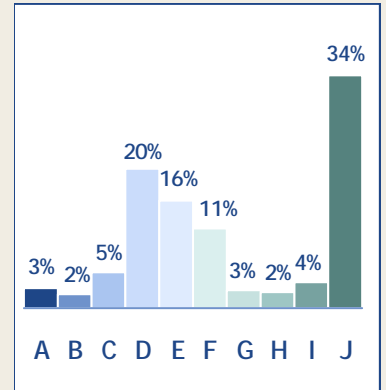
The JRA is a defined contribution supplemental retirement fund for state judges. Investments are self-directed by participants in the Judges' Supplemental Retirement Program utilizing the DCP investment options offered by the WSIB. The Office of the Administrator for the Courts administers the fund,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

	DCP	JRA
A Short-Horizon	\$11,040,372	\$66,147
A Mid-Horizon	23,584,234	207,020
A Long-Horizon	20,861,660	74,491
B Social Balanced	40,765,727	387,865
C U.S. Stock Market Index	101,968,205	1,243,691
D Equity-Income	385,151,659	2,270,924
E Independence	298,141,371	2,615,888
F Growth Company	218,617,719	1,524,693
G Overseas	51,946,042	444,073
H U.S. Small Cap Stock	46,331,285	218,760
I Bond Market	74,600,850	505,639
J Savings Pool	648,098,564	4,955,052

Returns	1 Year	Returns	1 Year
Short-Horizon	6.0%	Independence	5.9%
<i>Custom Benchmark</i>	<i>6.3%</i>	<i>Russell 3000 Valuex</i>	<i>8.1%</i>
Mid-Horizon	8.0%	Growth Company	5.9%
<i>Custom Benchmark</i>	<i>8.2%</i>	<i>Russell 3000 Growth</i>	<i>1.9%</i>
Long-Horizon	9.1%	Overseas	N/A
<i>Custom Benchmark</i>	<i>9.1%</i>	<i>MSCI EAFE</i>	<i>13.7%</i>
Social Balanced	4.6%	U.S. Small Cap Stock	9.5%
<i>Custom Benchmark</i>	<i>6.7%</i>	<i>Russell 2000</i>	<i>9.5%</i>
U.S. Stock Market Index	8.3%	Bond Market	5.4%
<i>Dow Jones Wilshire 5000</i>	<i>8.2%</i>	<i>Lehman Intermediate Credit</i>	<i>5.8%</i>
Equity-Income	6.2%	Savings Pool	4.7%
<i>Russell 3000 Value</i>	<i>14.1%</i>		

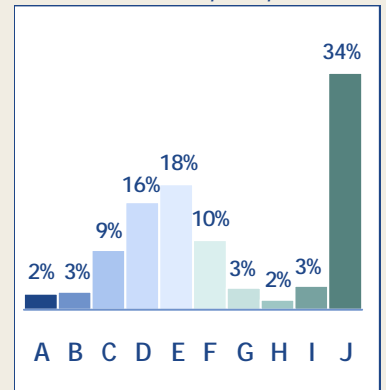
DCP

Total Assets: \$1,921,107,688



JRA

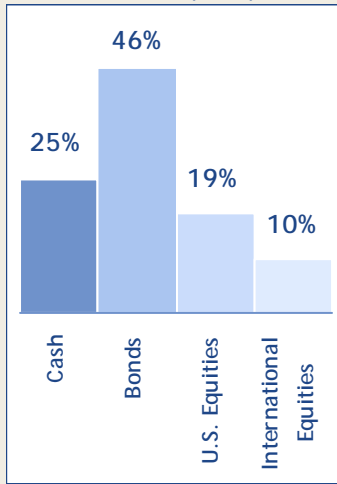
Total Assets: \$14,514,241



Daily-Valued Funds for Self-Directed Investment Programs

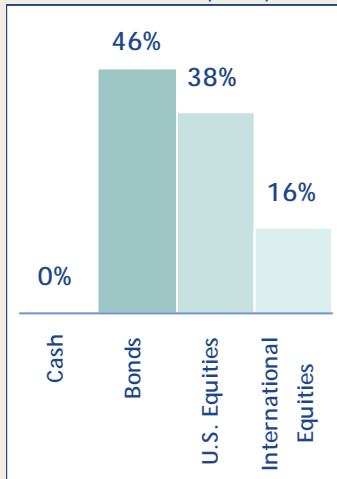
Short-Horizon

Total Assets: \$36,779,643



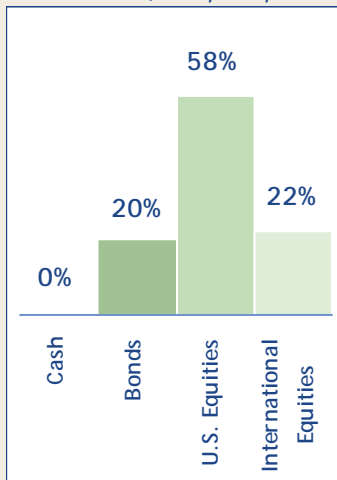
Mid-Horizon

Total Assets: \$114,397,366



Long-Horizon

Total Assets: \$104,477,223



Washington State Horizon Funds \$255,654,232

These internally managed, daily-valued balanced funds give participants in the self-directed defined contribution retirement plans (TRS/SERS/PERS Plan 3's, DCP, and JRA) the ability to choose between different diversified asset allocation models that fit their personal risk and return objectives. Each Horizon Fund is regularly rebalanced by the WSIB to preserve the proper asset mix.

Performance (June 30, 2005)	1 Year
Short-Horizon Fund	6.01%
<i>Custom Benchmark</i>	6.3%
Mid-Horizon Fund	8.0%
<i>Custom Benchmark</i>	8.2%
Long-Horizon Fund	9.1%
<i>Custom Benchmark</i>	9.1%

Washington State Bond Market Fund \$270,849,037

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 WSIB staff and is intended for participants who want an intermediate-term investment designed to match or moderately exceed the returns of the Lehman Intermediate Credit Index.

Performance (June 30, 2005)	1 Year
Washington State Bond Market Fund	5.4%
<i>Lehman Intermediate Credit Index</i>	5.8%

Savings Pool \$653,053,614

This option is intended as a conservative short-term investment vehicle when the primary objectives are protecting current income and preserving principal while earning a rate of return in excess of the current yield of U.S. Treasury securities of similar maturities. The Savings Pool is a diversified portfolio of guaranteed investment contracts (GICs) and short-term cash funds.

Performance (June 30, 2005)	1 Year
Savings Pool	4.7%



Labor and Industries' Funds (Industrial Insurance Funds)

The WSIB manages Industrial Insurance funds on behalf of the Department of Labor and Industries (L & I). The Industrial Insurance portfolio consists of 4 separate funds that totaled \$10.3 billion as of June 30, 2005.

Accident Fund \$4,013,467,449

This fund receives premiums from employers for industrial insurance and income from investments. It is primarily used to pay disability benefits for injured workers, such as time-loss compensation, permanent partial disability, certain travel and retraining expenses, burial awards, and administrative costs.

Medical Aid Fund \$3,702,145,620

This fund receives premiums paid by both the employer and employee, as well as income from investments. Payments are made for conservative medical care, hospital services, artificial appliances, physical and vocational rehabilitation, travel expenses, any other service required by the injured worker, and administrative costs.

Pension Reserve Fund \$2,502,341,914

This fund is maintained by transfers of money from the Accident Fund at the time that a new pensioner is setup. This pays permanently disabled workers and survivors of deceased workers.

Supplemental Pension Fund \$95,798,243

This fund receives premiums paid by both the employer and employee, as well as income from investments. These assets are used to supplement time loss and pensions based on older, lower schedules and to compensate for cost-of-living increases.

Asset Allocation

June 30, 2005

The majority of L & I's assets are in fixed income holdings. Income from these holdings is an important part of L & I payouts to claimants as it supplements premiums. Due to their credit risk, credit bonds allow the funds to hold assets with higher yields than government bonds; most of these holdings are in A and Baa rated companies. Equity is also held to provide for diversification beyond fixed income and for long-term return. Equity also acts as an inflation hedge for the Medical Aid Fund, which has the largest equity holdings of the 4 funds. At the end of the fiscal year, equities were 17.7% of L & I assets.

Total Market Value
\$10,313,753,227
 June 30, 2005



Performance (June 30, 2005)	1 Year
Accident Fund	13.6%
Medical Aid Fund	7.6%
Pension Reserve Fund	14.1%
Supplemental Pension Fund	2.7%

Permanent Funds

Total Market Value
\$735,553,432
June 30, 2005



Distribution returns include coupon interest, expenses and fees, realized gains and losses, and additional income. Total return also includes unrealized market gains and losses on the investments held based on values captured at a point in time (June 30, 2005).

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. The assets of the 6 permanent funds totaled approximately \$736 million as of June 30, 2005.

5 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 state 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.

Agricultural College Fund \$154,593,628

Scientific Fund \$169,399,901

Investment earnings from these two funds are credited to the building account for Washington State University (WSU).

Normal School Fund \$213,626,607

Earnings are used to support Washington's regional universities including Central Washington University (CWU), Eastern Washington University (EWU), Western Washington University (WWU), and The Evergreen State College (TESC).

State University Fund \$25,725,579

Earnings are either reinvested or used exclusively for the benefit of the University of Washington (UW).

Common School Fund \$172,202,565

This fund helps Washington's K-12 Public Schools. Fund earnings are used to finance construction of common school facilities and excess earnings, beyond what is needed for those construction projects, can be directed by the legislature for current common school needs.

Millersylvania Park Fund \$5,151

The fund was established in 1931 from a gift of cash and securities and investment earnings are used to support the upkeep of Millersylvania State Park near Olympia.

Performance (June 30, 2005)	1 Year	
	Total Return	Dist. Return
Agricultural Fund	6.1%	4.5%
Normal School	6.2%	4.5%
Scientific Permanent	6.1%	4.6%
State University	6.2%	4.5%
Common School	6.4%	4.4%
Millersylvania Park Fund	2.1%	2.0%



Other Trust Funds

Guaranteed Education Tuition Fund \$548,216,588

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 (DDEF) Fund \$10,138,366

The Developmental Disabilities Endowment Trust Fund (DDEF) was established to support 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.

Game and Special Wildlife Fund \$9,070,577

This fund holds monies received as compensation for wildlife losses. The WSIB is authorized to invest surpluses in the Game and Special Wildlife Fund. The program is under the authority of the State Fish and Wildlife Commission. The fund is invested in short-term holdings.

State Employees' Insurance Reserve \$76,504,820

This fund holds and invests reserves needed for the payment of claims in insurance programs under the Health Care Authority. The account is funded from the reserves of the public employees' and retirees' insurance account. The fund is invested in short-term holdings.

Radiation Perpetual Fund \$286,815

This fund provides monies for the maintenance, monitoring, and other care of radioactive materials at sites no longer in operation. Funding is from a charge imposed on each pound of uranium or thorium compound milled out of raw ore. The program is under the authority of the Department of Health. The fund is invested in short-term holdings.

Reclamation Revolving Fund \$361,730

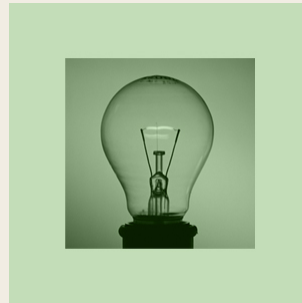
This fund provides a source of funding for the reclamation and development of land suitable and economically available for development as agricultural land. The program is under the authority of the Department of Ecology. The fund is invested in short-term holdings and municipal water district bonds.

Performance (June 30, 2005)	1 Year
GET - College Tuition Program	10.1%
DDEF State Fund	5.5%
Game and Special Wildlife Fund	2.0%
State Employees' Insurance Reserve	2.0%
Radiation Perpetual Fund	2.0%
Reclamation Revolving Fund	5.1%

Total Market Value
\$644,578,898
June 30, 2005



Financials



Management Discussion and Analysis

Investment Responsibility

As of June 30, 2005, the WSIB had investment responsibility for the following funds:

Defined Benefit

Public Employees' Retirement System (PERS) Plan 1
Public Employees' Retirement System (PERS) Plan 2/3
School Employees' Retirement System (SERS) Plan 2/3
Teachers' Retirement System (TRS) Plan 1
Teachers' Retirement System (TRS) Plan 2/3
Law Enforcement Officers' and Firefighters' (LEOFF) Plan 1
Law Enforcement Officers' and Firefighters' (LEOFF) Plan 2
Judicial Retirement Account (JRA)
Washington State Patrol Retirement System (WSP) Plan 1
Washington State Patrol Retirement System (WSP) Plan 2
Volunteer Firefighters' Relief and Pension Fund (VFF)

Defined Contributions

Public Employees' Retirement System (PERS) Plan 3 (Self-Directed)
School Employees' Retirement System (SERS) Plan 3 (Self-Directed)
Teachers' Retirement System (TRS) Plan 3 (Self-Directed)
Judicial Retirement Account (JRA)

Deferred Compensation Funds

Deferred Compensation Program (DCP)

Industrial Insurance (Labor and Industries) Funds

Accident Fund
Medical Aid Fund
Pension Reserve Fund
Supplemental Pension Fund

Permanent Funds

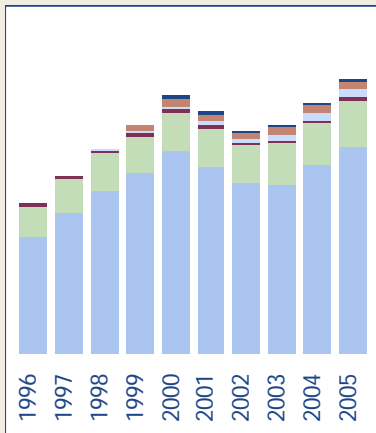
Agricultural College Permanent Fund
Common School Permanent Fund
Normal School Permanent Fund
Scientific Permanent Fund
State University Permanent Fund
Millersylvania Park Trust Fund

Other Trusts

Guaranteed Education Tuition Program (GET)
Developmental Disabilities Endowment Trust Fund (DDEF)
Game and Special Wildlife Fund
State Employees' Insurance Reserve Fund
Radiation Perpetual Fund
Reclamation Revolving Fund



Assets Under Management
June 30, 2005



- Other Trusts
- Deferred Compensation
- Defined Contribution
- Self-Directed
- Permanent Funds
- Labor and Industries
- Retirement Funds

Year in Review - Commingled Trust Fund

As shown in table 1, the assets under management within the Commingled Trust Fund increased by \$4.1 billion during the fiscal year ended June 30, 2005. The market value of CTF assets is directly impacted by the activity of the various capital markets within which the Board 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 Washington State Investment Board, upon receiving recommendations from staff and other investment experts, makes the asset allocation decisions for the CTF. Rebalancing between asset classes as markets move is conducted by staff pursuant to Board policy.

Table 1 - Statement of Net Assets

Total	2005	2004	Dollar Change	% Change
Liquidity Investments	\$1,311,718,576	\$1,068,487,087	\$243,231,489	22.8%
Fixed Income Investments	11,485,218,894	10,364,603,656	1,120,615,238	10.8%
Public Equity Investments	23,220,945,885	21,642,745,481	1,578,200,404	7.4%
Real Estate Investments	4,423,171,252	4,095,248,286	327,922,966	8.0%
Private Equity Investments	6,898,946,891	6,067,449,584	831,497,307	13.7%
Investments	\$47,340,001,498	\$43,238,534,094	\$4,101,467,404	9.5%
Accruals	131,600,261	132,829,867	(1,229,606)	-0.9%
Net Assets at Market Value	\$47,471,601,759	\$43,371,363,961	\$4,100,237,798	9.5%

As reflected in table 1, liquidity assets increased from \$1.068 billion to \$1.311 billion, for an increase of \$243 million, or a 22.8% increase. The primary reason for the increase was the move to a shorter duration in our Fixed Income investment portfolio. Fixed Income investments increased from \$10.365 billion to \$11.485 billion, for an increase of \$1.120 billion or a 10.8% increase. The reasons for the increase are investment earnings, including market valuation increases and cash infusion from other asset classes totaling \$635 million. Public Equity investments increased from \$21.642 billion to \$23.220 billion, for an increase of \$1.578 billion, or a 7.4% increase. This was due to increases in market values of equity investments despite liquidating \$1 billion of investments aimed at removing some of the profits from this asset class and moving it closer to its asset target of 46%. Real Estate investments increased from \$4.095 billion to \$4.423 billion, for an increase of \$328 million or an 8.0% increase. This was due to making new investments of \$522 million and increases in market values of \$947 million, less distributions from our partners of \$1.141 billion. Private Equity investments increased from \$6.067 billion to \$6.898 billion, for an increase of \$831 million or a 13.7% increase. This was due to draws from general partners making new investments of \$1.924 billion and increases in market values of \$1.461 billion, less distributions from our partners of \$2.554 billion.

As shown in table 2, benefit withdrawals less retirement contributions, or net withdrawals by retirement plans, increased from \$1.489 billion to \$1.537 billion, for an increase of \$48 million or a 3.2% increase. This was primarily



due to a net increase in benefit payments at the plan level as additional public employees retired during the year. Total net investment income and increases in market values decreased from \$6.046 billion to \$5.643 billion, for a decrease of \$403 million or a 6.7% decrease. This was due to the plan level investment return falling from 16.2% in 2004 to 13.3% in 2005. See table 1 for information on changes at the asset level.

Table 2 - Statement of Changes in Net Assets

	2005	2004	Dollar Change	% Change
Beginning Total Net Assets at Market Value	\$43,371,363,961	\$38,819,676,263	\$4,551,687,698	11.7%
Net Withdrawal by Retirement Plans	(1,537,567,538)	(1,489,554,374)	(48,013,164)	3.2%
Investment Earnings	5,642,747,079	6,046,064,897	(403,317,818)	-6.7%
WSIB Operating Costs	(4,941,743)	(4,819,827)	(121,916)	2.5%
Net Investment Earnings	\$5,637,805,336	\$6,041,245,070	\$(403,439,734)	-6.7%
Ending Total Net Assets at Market Value	\$47,471,601,759	\$43,371,366,961	\$4,100,234,798	9.5%

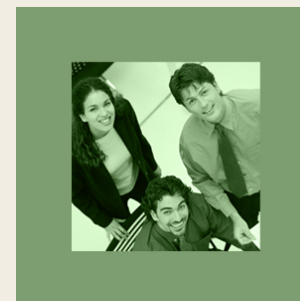
The discussion and analysis of the Washington State Investment Board (WSIB) financial performance provides an overview of the WSIB's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the Letter of Transmittal beginning on page 4 and WSIB's financial statements.

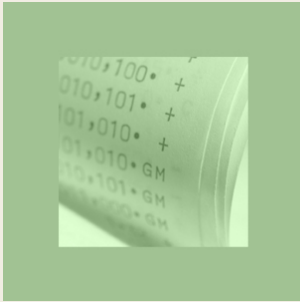
Year in Review - Labor & Industries' Fund

As shown in table 1, the assets under management within the Labor & Industries Funds' (L&I) increased by \$1.012 billion during the fiscal year ended June 30, 2005. The market value of L&I assets is directly impacted by the activity of the various capital markets within which the Board invests. However, one of the benefits of the diversification gained by investing across various investment types as well as broadly within an asset class is the reduction in aggregate volatility of the total investment portfolio. The WSIB, upon receiving recommendations from Labor & Industries staff, WSIB staff and other investment experts, makes the asset allocation decision. Rebalancing between asset classes as markets move is conducted by staff pursuant to Board policy.

Table 1 - Statement of Net Assets

Total	2005	2004	Dollar Change	% Change
Money Market Funds	\$151,922,449	\$270,550,034	\$(118,627,585)	-43.8%
Fixed Income Investments	8,226,019,317	7,245,875,416	980,143,901	13.5%
Equity Investments	1,807,367,834	1,656,179,775	151,188,059	9.1%
Investments	\$10,185,309,600	\$9,172,605,225	\$1,012,704,375	11.0%
Accruals	128,443,628	121,912,970	6,530,658	5%
Net Assets at Market Value	\$10,313,753,227	\$9,294,518,195	\$1,019,235,033	11.0%





As reflected in table 1, Money Market Funds decreased from \$270 million to \$152 million, for a decrease of \$118 million, or a 43.8% decrease. The primary reason for the decrease was the move to extend the investment duration in the Medical Aid Fund investment portfolio. Fixed Income investments increased from \$7.246 billion to \$8.226 billion, for an increase of \$980 million or a 13.5% increase. This was primarily due to the increase in investment earnings, including market valuation increases and moneys transferred from the Money Market Funds to Fixed Income for investment. Public Equity investments increased from \$1.656 billion to \$1.807 billion, for an increase of \$151 million, or a 9.1% increase. This was due to increases in market values of equity investments.

As shown in table 2, premiums less benefit payouts, or net amount withdrawn, decreased from -\$217 million to -\$44 million, for a decrease of \$173 million or a 79.5% decrease. This was primarily due to increases in hours worked and premium rate increases. Total net investment income and increases in market values increased from \$170 million to \$1.063 billion, for an increase of \$893 million or a 526.4% increase. This was due to the total L&I Funds' investment return increasing from 1.7% in 2004 to 11.4% in 2005. See table 1 for information on changes at the asset level.

Table 2 - Statement of Changes in Net Assets

	2005	2004	Dollar Change	% Change
Beginning Total Net Assets at Market Value	\$9,294,518,195	\$9,342,209,010	\$(47,690,815)	-0.5%
Net Amount Contributed (Withdrawn)	(44,527,193)	(217,507,535)	172,980,342	-79.5%
Investment Earnings	1,064,884,235	171,103,001	893,781,234	522.4%
WSIB Operating Costs	(1,122,010)	(1,286,281)	164,271	-12.8%
Net Investment Earnings	\$1,063,762,225	\$169,816,720	\$893,945,505	526.4%
Ending Total Net Assets at Market Value	\$10,313,753,227	\$9,294,518,195	\$1,019,235,032	11.0%

Overview of the Financial Statements

This discussion and analysis serves as an introduction to the WSIB basic financial statements, which consist of the basic financial statements and notes to the financial statements. The statements included are for the retirement systems' CTF, Labor and Industries' Funds, Permanent Trust Funds, and Other Trust Funds. The financial statements are reported separately due to the unique goals and objectives for each set of funds.

Basic Financial Statements

The basic financial statements presented include the Statement of Net Assets, which reports the assets by general asset category; the Statement of Changes in Net Assets, which reports the contributions or withdrawals from investment earnings for the fiscal year ending June 30, 2005. The retirement funds also include the Statement of Participation, which reports the net assets by individual owner funds, and the Schedule of Investment Expenses, which reports all expenses related to the management of the funds.



Retirement Funds

Statement of Net Assets 36
 Statement of Changes in Net Assets 37
 Statement of Participation 37
 Statement of Investment Expenses 38
 Notes to Financial Statements 38

Labor and Industries' Funds

Statement of Net Assets 48
 Statement of Changes in Net Assets 49
 Notes to Financial Statement 49

Permanent Funds

Statement of Net Assets 57
 Statement of Changes in Net Assets 58

Other Trust Funds

Statement of Net Assets 59
 Statement of Changes in Net Assets 59

Guaranteed Education Trust Fund

Statement of Net Assets 60
 Statement of Changes in Net Assets 60

Developmental Disabilities Endowment Trust Fund

Statement of Net Assets 61
 Statement of Changes in Net Assets 61

Annual Budget

Financial Statement 62

Notes to the Financial Statements

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

Contacting WSIB's Financial Management

This financial report is designed to provide a general overview of WSIB's investment activities. If you have any questions about this report or need additional information, contact us at:

Washington State Investment Board
 2100 Evergreen Park Drive SW
 P.O. Box 40916
 Olympia, WA 98504-0916

Phone: 360-956-4600
 Website: <http://www.sib.wa.gov/>



Retirement Funds - Financial Statements

Statement of Net Assets (Unaudited) - June 30, 2005

	Commingled Trust Fund	Plan-Specific Investments	Total	% Of Plan Assets
Liquidity				
Money Market Funds	\$1,248,750,687	\$35,564,434	\$1,284,315,121	2.7%
Foreign Currency	27,403,455	-	27,403,455	0.1%
Total Liquidity	\$1,276,154,142	\$35,564,434	\$1,311,718,576	2.8%
Fixed Income Investments				
Asset Backed Securities	29,967,240	-	29,967,240	
Collateralized Mortgage Obligations	973,943,851	-	973,943,851	
Pass Throughs	2,538,056,501	-	2,538,056,501	
Non-Standard Mortgages	5,339,610	-	5,339,610	
Commercial Mortgage Backed Securities	405,503,311	-	405,503,311	
Corporate Bonds - Domestic	4,035,133,535	-	4,035,133,535	
U.S. Government Treasuries	786,154,073	-	786,154,073	
Treasury Inflation Protected Securities	2,376,455,978	-	2,376,455,978	
Variable Rate Notes	334,664,796	-	334,664,796	
Total Fixed Income Investments	\$11,485,218,894	\$-	\$11,485,218,894	24.3%
Equity Investments				
Corporate Stock - Foreign	4,978,814,639	-	4,978,814,639	
Commingled Index Funds - Domestic	15,570,892,012	-	15,570,892,012	
Commingled Index Funds - Foreign	2,671,239,236	-	2,671,239,236	
Private Equity	6,898,946,891	-	6,898,946,891	
Real Estate	4,423,171,252	-	4,423,171,252	
Total Equity Investments	\$34,543,064,029	\$-	\$34,543,064,029	73.0%
Total Investments	\$47,304,437,065	\$35,564,434	\$47,340,001,498	100.0%
Securities Lending Investments				
Collateral Held Under Securities Lending Agreements	4,367,253,696		4,367,253,696	
Obligations Under Securities Lending Agreements	(4,367,253,696)		(4,367,253,696)	
Accruals				
Investment Earnings Receivable	136,050,705	366,072	136,416,777	
Due From Other Agencies	31,869	-	31,869	
Investment Management Fees Payable	(18,613,753)	-	(18,613,753)	
Receivable for Investments Sold	50,979,727	-	50,979,727	
Payable for Investments Purchased	(37,214,359)	-	(37,214,359)	
Total Accruals	\$131,234,189	\$366,072	\$131,600,261	
Total Net Assets at Market Value - June 30, 2005	\$47,435,671,254	\$35,930,506	\$47,471,601,759	

See Notes to Financial Statements

Statement of Changes in Net Assets (Unaudited) - June 30, 2005

	Commingled Trust Fund	Plan-Specific Investments	Total
Total Net Assets at Market Value - June 30, 2004	\$43,326,888,687	\$44,475,272	\$43,371,363,961
Fiscal Year 2005 Activity			
Net Withdrawal by Retirement Plans	-	(1,537,567,538)	(1,537,567,538)
Investments in Commingled Funds	272,150,143	(272,150,143)	-
Withdrawals from Commingled Funds	(1,802,557,265)	1,802,557,265	-
Investment Earnings (Note 1)			
Income	1,264,284,401	3,674,337	1,267,958,738
Capital Gains	2,014,702,564	-	2,014,702,564
Capital Losses	(288,714,710)	-	(288,714,710)
Market Gains and Losses (Unrealized)	2,833,276,219	-	2,833,276,219
Investment Expenses (Note 3)	(102,009,442)	(116,945)	(102,126,387)
Securities Lending Broker Rebates Paid	(82,349,342)	-	(82,349,342)
WSIB Operating Costs	-	(4,941,743)	(4,941,743)
Net Investment Earnings	\$5,639,189,689	\$(1,384,351)	\$5,637,805,339
Total Net Assets at Market Value - June 30, 2005	\$47,435,671,254	\$35,930,506	\$47,471,601,759
Net Asset Value Recap - June 30, 2005			
Investments (at Market Value)	\$47,304,437,065	\$35,564,434	\$47,340,001,498
Investment Earnings Receivable	136,050,705	366,072	136,416,776
Due From Other Agencies	31,869	-	31,869
Investment Management Fees Payable	(18,613,753)	-	(18,613,753)
Receivable for Investments Sold	50,979,727	-	50,979,727
Payable for Investments Purchased	(37,214,359)	-	(37,214,359)
Total Net Assets at Market Value - June 30, 2005	\$47,435,671,254	\$35,930,506	\$47,471,601,759

See Notes to Financial Statements

Statement of Participation (Unaudited) - June 30, 2005

Retirement Plans	Commingled Trust Fund (Note2)	Plan-Specific Investments (Note2)	Total Plan Assets	% Of Plan Assets
PERS 1	\$9,573,690,173	\$584,338	\$9,574,274,509	20.2%
PERS 2/3 (DC and DB Plans)	12,574,391,752	4,487,581	12,578,879,333	26.5%
TEACHERS 1	8,094,609,226	4,125,907	8,098,735,133	17.1%
TEACHERS 2/3 (DC and DB Plans)	5,698,754,727	12,182,714	5,710,937,441	12.0%
VOLUNTEER FIREFIGHTERS	110,196,756	647	110,197,404	0.2%
WSP 1/2	723,282,747	121,209	723,403,956	1.5%
LEOFF 1	5,032,700,930	398,500	5,033,099,430	10.6%
LEOFF 2	3,397,515,385	7,927,107	3,405,442,492	7.2%
SCHOOL EMPLOYEES 2/3 (DC and DB Plans)	2,230,529,558	4,096,108	2,234,625,666	4.7%
JUDICIAL	-	2,006,395	2,006,395	0.0%
Total Net Assets at Market Value - June 30, 2005	\$47,435,671,254	\$35,930,506	\$47,471,601,759	100.0%

See Notes to Financial Statements

Statement of Investment Expenses - June 30, 2005

	Fees
Public Equity Securities	
U.S. Passive Equity Managers	\$570,922
International Active Equity Managers	19,720,558
International Passive Equity Managers	934,952
Alternative Investments	
Private Equity	115,819,065
Real Estate	26,323,867
Other Fees	
Securities Lending Fees	8,195,493
Consultants and Advisors	2,038,623
Custodians	2,146,127
Legal Fees	391,925
Miscellaneous	59,252
Total Investment Expenses	\$176,200,784

Note to Financial Statements

Note 1: Significant Accounting Policies

The accompanying financial statements of the WSIB have been prepared in conformity with accounting principles generally accepted in the United States of America. The amounts in the notes are rounded to the nearest dollar unless otherwise noted. The Office of Financial Management (OFM) is the primary authority for the state's accounting and reporting requirements. OFM has adopted the pronouncements of the Governmental Accounting Standards Board (GASB) which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles nationally. For Pension Trust fund accounting and reporting, the state applies applicable pronouncements of the Financial Accounting Standards Board issued on or before November 30, 1989, unless those pronouncements conflict with or contradict the pronouncements of the GASB. The more significant of the WSIB accounting policies are as follows.

Long-term investments are reported at fair value. Fair values are based on published market prices, quotations from national security exchanges and security pricing services, or by the respective fund managers for securities that are not actively traded. Privately held mortgages are valued at cost, which approximates fair value. Certain pension trust fund investments, including real estate and private equity, are valued based on appraisals. The pension funds have no investments of any commercial or industrial organization whose market value exceeds 5% of each plan's net assets. Additional disclosures describing investments is provided in the additional notes to the financial statements.

Interest and dividend income is accrued 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.

Monthly, the assets of the retirement Commingled Trust Fund (CTF) are adjusted to fair market values. Unrealized gains (losses) are included as investment earnings on the Statement of Changes in Net Assets.

The WSIB reports collateral received under securities lending agreements where the state has the ability to spend, pledge or sell the collateral without borrower default. Liabilities resulting from these transactions are also reported. Additionally, costs associated with securities transactions and broker commissions paid, are reported in the accompanying financial statements. The Statement of Net Assets does not include detailed holdings of securities lending collateral by investment classification.

Note 2: The Commingled Trust Fund

The CTF is a diversified pool of investments which is used as an investment vehicle for separate retirement plans, excluding the JRA which isn't 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 market value of the underlying assets, on the first business day of each month.

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

The CTF consists of the Public Employees' Retirement System (PERS) Plans 1 and 2/3; the Teachers' Retirement System (TRS) Plans 1 and 2/3; the School Employees' Retirement System (SERS) Plans 2/3; the Law Enforcement Officers' and Fire Fighters' (LEOFF) Plans 1 and 2; the Washington State Patrol (WSP) Retirement Systems Plan 1 and 2; and the Volunteer Fire Firefighters' Retirement Plan (VFF). The CTF includes only the defined benefit portion of PERS Plan 3, SERS Plan 3 and TRS Plan 3, which are hybrid defined benefit/defined contribution plans.

Note 3: Fees and Expenses

Investment related fees and expenses are paid from non-appropriated funds or are netted directly from the asset value of the invested funds. The Statement of Investment Expenses is a listing of non-appropriated fees and expenses paid during the fiscal year.

The fees paid by the WSIB are reported in the Schedule of Fees and Commissions Paid. These fees are accounted for as a reduction of investment income to the trust funds. These fees include investment management fees and commissions, investment consultant fees, and legal fees.

Note 4: Unfunded Commitments

The WSIB has entered into a number of agreements that commit the state, upon request, to make additional investment purchases up to predetermined amounts. As of June 30, 2005, the WSIB had the following unfunded investment commitments:

Private Equity:	\$5,047,912,409
Real Estate:	\$827,929,439

Note 5: Public Employees' Retirement System Plan 3, Teachers' Retirement System Plan 3, and the School Employees' Retirement System Plan 3

The financial information presented in this section includes the WSIB Total Allocation Portfolio (TAP) for PERS Plan 3, TRS Plan 3 and SERS Plan 3, which are invested in the CTF. It does not include PERS Plan 3, TRS Plan 3, or SERS Plan 3 self-directed investments, which are accounted for and reported on by the Department of Retirement Systems (DRS).

Note 6: Reporting Changes

The WSIB has implemented the following new accounting standard issued by the Governmental Accounting Standards Board (GASB) for the fiscal year ended June 30, 2005:

Statement No. 40, Deposit and Investment Risk Disclosures

Statement No. 40 amends Statement No. 3, Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements and under GASB 28, Accounting and Financial Reporting for Securities Lending Transactions.

Statement No. 40 revises the existing requirements regarding disclosure of custodial credit risk, as required by Statement No. 3 and establishes new requirements for disclosure regarding credit risk, concentration of credit risk, interest rate risk and foreign currency risk.

Note 7: Deposit and Investment Risk Disclosures

Custodial Credit Risks - Deposits

Custodial credit risk is the risk that in the event of a bank failure the funds deposits may not be returned to it. The Board does not have a deposit policy for custodial credit risk. As of June 30, 2005, there were no deposits with the custodial bank.

Custodial Credit Risks - Investments

The Securities Lending Collateral Balances included are from securities required to be listed under GASB 3 Category 3 - Uninsured and unregistered with securities held by the counterparty, or by its trust department or agent but not in the government's name (this includes the amount of any repurchase agreement that exceeds the market value of the underlying securities).

The Washington State Investment Board (WSIB) has been authorized by statute as having the investment management responsibility for pension 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-dollar bonds; investment grade corporate bonds; non-investment grade corporate bonds; Washington State Housing Finance Commission (HFC) taxable municipal bonds up to a total of \$25 million with a maximum of \$10 million per year; 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, 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 FY 2005.

The following schedule provides information about the interest rate risks associated with the Pension Trust Funds investments as of June 30, 2005. The schedule displays various asset classes held by maturity in years, effective durations and credit ratings. The investment types are presented consistent with their separately issued financial statements by investment type.

Investment Type	Total Fair Value	Maturity				Effective Dur.	Credit Rating
		Less than 1 year	1-5 years	6-10 years	More than 10 years		
Asset Backed Securities	\$29,967,240	\$27,435,158	\$2,532,082	\$-	\$-	0.6	Aaa
Mortgages							
Collateralized Mortgage Obligations	973,943,851	95,544,280	418,113,767	363,767,680	96,518,124	3.3	Aaa
Pass Throughs	2,538,056,501	-	2,262,930,721	275,125,800	-	2.6	Aaa
Non-Standard Mortgages	5,339,610	-	1,418,396	3,921,214	-	4.3	Aaa
Commercial Mortgage Backed Securities	405,503,311	-	177,366,777	228,136,534	-	4.1	Multiple
Corporate Bonds - Domestic	4,035,133,535	435,390,863	1,481,297,073	1,434,489,903	683,955,696	5.4	Multiple
Government Securities - Domestic							
US Government Treasuries	786,154,073	-	224,682,571	135,375,933	426,095,569	9.6	Aaa
Treasury Inflation Protected Securities	2,376,455,978	-	1,618,842,240	757,613,738	-	2.9	Aaa
Variable Rate Notes	334,664,796	70,363,496	264,301,300	-	-	0.2	Multiple
Corporate Stock - Foreign	4,978,814,639	-	-	-	-	N/A	N/A
Investments Not Required to be Categorized Under GASB Statement No. 3							
Commingled Index Funds - Domestic	15,570,892,012	-	-	-	-	N/A	N/A
Commingled Index Funds - Foreign	2,671,239,236	-	-	-	-	N/A	N/A
Money Market Funds	1,284,315,119	-	-	-	-	N/A	N/A
Private Equity	6,898,946,891	-	-	-	-	N/A	N/A
Real Estate	4,423,171,252	-	-	-	-	N/A	N/A
Currencies	27,403,455	-	-	-	-	N/A	N/A
Total CTF Investments Not Categorized	\$30,875,967,965						
Total CTF Investments	\$47,340,001,498	\$628,733,797	\$6,451,484,928	\$3,198,430,802	\$1,206,569,389		

Investment Type	Total Fair Value	Maturity				Effective Dur.	Credit Rating
		Less than 1 year	1-5 years	6-10 years	More than 10 years		
Securities Lending Collateral Balances (Note 7)	4,367,253,699						
CTF On Loan Securities	(4,259,309,002)						
CTF Investments - Per GASB 40 Classifications	47,447,946,195						
Securities On Loan Domestic	3,425,128,663	-	-	-	-		
Securities On Loan Foreign	834,180,339	-	-	-	-		
Total CTF Investments Per GASB 40 Classifications	\$51,707,255,197						
Defined Contribution Plans Assets							
Short-Horizon	36,779,643	-	-	-	-		
Mid-Horizon	114,397,366	-	-	-	-		
Long-Horizon	104,477,223	-	-	-	-		
Mutual Funds							
Domestic Equity Passive	1,097,804,789	-	-	-	-		
Non-US Passive Developed	172,270,534	-	-	-	-		
Domestic Equity Active	958,849,613	-	-	-	-		
Non-US Active Developed	52,390,115	-	-	-	-		
Washington State Bond Fund	270,849,037	-	-	-	-		
Savings Pool	653,053,614	-	-	-	-		
Money Market Mutual Funds	292,097,582	-	-	-	-		
Total Defined Contribution Plan Investments	\$3,752,969,516	-	-	-	-		
Total Pension Trust Plan Investments	\$55,460,224,713						

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

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. Effective duration is the measure of a debt investment's exposure to fair value changes arising from changes in interest rates. Effective duration uses the present value of cash flows, weighted for those flows as a percentage of the investments full price. Increases in prevailing interest rates generally translate into decreases in fair values of those investments. The WSIB's fixed income investments are to be actively managed to exceed the return of the Lehman Universal Index, with volatility as measured by duration to be similar to or less than the index. As of June 30, 2005, the funds' durations of the various fixed income classes were within the duration targets of the Lehman Universal Index.

Highly Sensitive Investments

Credit Risks - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Pension Trust funds rated debt investments as of June 30, 2005, were rated by Moody's and/or an equivalent national rating organization. Investments types with multiple ratings are presented in Schedule 2 using the Moody's rating scale.

		Investment Type			Total
		Corporate Bonds-Domestic	Variable Rate Notes	Commercial Mortgage Backed Securities	
Mood's Equivalent Credit Rating	Aaa	\$405,506,870	\$-	\$382,673,737.00	\$788,180,607
	Aa1	21,399,706	-	22,829,574.00	44,229,280
	Aa2	201,809,969	70,126,779	-	271,936,748
	Aa3	417,338,685	114,818,743	-	532,157,428
	A1	494,330,849	26,987,699	-	521,318,548
	A2	258,929,145	50,137,514	-	309,066,659
	A3	249,214,207	29,916,164	-	279,130,371
	Baa1	598,978,611	-	-	598,978,611
	Baa2	518,902,418	19,399,587	-	538,302,005
	Baa3	450,901,801	-	-	450,901,801
	Ba1	133,345,514	23,278,310	-	156,623,824
	Ba2	47,539,442	-	-	47,539,442
	Ba3	132,051,702	-	-	132,051,702
	B1	21,375,034	-	-	21,375,034
	B2	51,853,135	-	-	51,853,135
	B3	10,238,976	-	-	10,238,976
D	21,417,471	-	-	21,417,471	
Total Fair Value		\$4,035,133,535	\$334,664,796	\$405,503,311	\$4,775,301,642

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 WSIB policy states no corporate fixed income issue shall exceed 3% of cost at the time of purchase or 6% of market value thereafter of the fund, and no high yield issues shall exceed 1% of cost or 2% of market value of the fund. There was no concentration of credit risk exceeding these policy guidelines as of June 30, 2005.

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 WSIB does not have a formal policy to limit foreign currency risk. The WSIB manages their exposure to fair value loss by requiring their international securities investment managers to maintain diversified portfolios by sector and by issuer to limit foreign currency and security risk. Risk of loss arises from changes in currency exchange rates. The Retirement Systems exposure to foreign currency risk is presented in Schedule 3 which provides information on deposits and investments held in various foreign currencies, which are stated in U.S. dollars. The Pension Trust Funds also had \$2,671,239,236 invested in an international commingled equity index fund. As such, these currency denominations are not presented in this schedule.

Foreign Currency Denominations	Investment Type				Total	% of Total CTF Investments
	Short Term	Equity	Private Equity	Real Estate		
Australia-Dollar	\$887,179	\$228,856,284	\$-	\$-	\$229,743,463	0.5%
Austria-Schilling	-	60,894,461	-	-	60,894,461	0.1%
Belgium-Franc	-	69,055,537	-	-	69,055,537	0.1%
Brazil-Real	12,099	42,962,420	-	-	42,974,518	0.1%
Britain-Pound	6,457,308	875,645,245	103,507,798	55,538,785	1,041,149,136	2.2%
Bulgaria-Lev	7,876	-	-	-	7,876	0.0%
Canada-Dollar	765,090	181,548,554	14,461,529	9,158,135	205,933,308	0.4%
Chinese Yuan	-	-	-	1,830,863	1,830,863	0.0%
Czech Koruna	-	-	-	258,391	258,391	0.0%
Denmark-Krone	817,694	32,142,649	-	-	32,960,344	0.1%
E.M.U.-Euro	11,501,561	64,401,115	547,595,990	209,502,229	833,000,894	1.8%
Egypt-Pound	41	3,905,431	-	-	3,905,472	0.0%



Foreign Currency Denominations	Investment Type				Total	% of Total CTF Investments
	Short Term	Equity	Private Equity	Real Estate		
Finland-Markka	-	61,416,997	-	-	61,416,997	0.1%
France-Franc	-	474,096,529	985,871	-	475,082,400	1.0%
Germany-Mark	-	337,058,752	-	-	337,058,752	0.7%
Greece-Drachma	-	23,545,141	-	-	23,545,141	0.0%
Hong Kong-Dollar	719,715	101,768,747	-	13,639,129	116,127,591	0.2%
Hungary-Forint	-	13,223,290	-	2,583,907	15,807,197	0.0%
Indonesia-Rupiah	34,843	6,931,697	-	-	6,966,541	0.0%
Ireland-Punt	-	5,968,484	-	-	5,968,484	0.0%
Italy-Lira	-	169,215,306	-	-	169,215,306	0.4%
Japan-Yen	3,829,972	889,994,599	-	222,198,790	1,116,023,361	2.4%
Korean Won	-	-	-	7,451,571	7,451,571	0.0%
Lithuania-Litas	-	194,483	-	-	194,483	0.0%
Malaysia-Ringgit	103	2,214,834	-	-	2,214,937	0.0%
Mexico-Peso	(22,276)	21,299,972	-	89,982,399	111,260,095	0.2%
Netherland-Guilder	-	253,949,763	-	-	253,949,763	0.5%
New Zealand-Dollar	15,812	18,711,008	-	-	18,726,820	0.0%
Norway-Krone	211,040	127,348,972	-	-	127,560,013	0.3%
Pakistan-Rupee	1,180	13,928,211	-	-	13,929,391	0.0%
Philippines-Peso	20,904	1,344,191	-	-	1,365,096	0.0%
Poland-Zloty	-	27,802,800	-	1,033,563	28,836,363	0.1%
Portugal-Escudo	-	4,620,377	-	-	4,620,377	0.0%
Singapore-Dollar	559,639	35,912,639	-	-	36,472,279	0.1%
South Africa-Rand	-	20,052,040	-	-	20,052,040	0.0%
South Korea-Won	1,041	31,939,754	-	-	31,940,796	0.1%
Spain-Peseta	-	229,716,140	-	-	229,716,140	0.5%
Sweden-Krona	414,490	154,253,725	92,140,165	-	246,808,380	0.5%
Switzerland-Franc	1,165,665	225,163,656	-	-	226,329,321	0.5%
Taiwan Dollar	-	-	-	2,497,639	2,497,639	0.0%
Thai Baht	-	-	-	281,142	281,142	0.0%
Turkey-Lira	2,476	26,277,274	-	-	26,279,751	0.1%
Totals	\$27,403,455	\$4,837,361,077	\$758,691,353	\$615,956,543	\$6,239,412,428	13.2%

Securities Lending

State law and Board policy permit the WSIB to participate in securities lending programs to augment investment income. The Board has entered into an agreement with State Street Bank and Trust (SSB) to act as agent for the WSIB in securities lending transactions. As SSB is the custodian bank for the WSIB, it is counterparty to securities lending transactions.

In accordance with GASB Statement 28, the WSIB 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 assets if the WSIB has the ability to pledge or sell them without a borrower default. Liabilities resulting from these transactions are reported in the statement of net assets. Securities lending transactions collateralized by securities that the WSIB does not have the ability to pledge or sell unless the borrower defaults are not reported as assets and liabilities.

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 were denominated in United States dollars, were securities whose primary trading market was

located in the United States or were sovereign debt issued by foreign governments, the collateral requirement was 102% of the market value of the securities loaned. When the loaned securities were not denominated in United States dollars or were securities whose primary trading market was not located in the United States, the collateral requirement was 105% of the market value of the loaned securities. The collateral held and market value of securities on loan at June 30, 2005, was \$4,367,253,697 and \$4,259,309,002, respectively.

During FY 2005 securities lending transactions could be terminated on demand by either the WSIB or the borrower. The average term of overall loans was 26 days.

Cash collateral was invested by the WSIB's agents in securities issued or guaranteed by the U.S. government, the WSIB's short-term investment pool (average weighted maturity of 266 days) or term loans. Because the securities lending agreements were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. Non-cash collateral could not be pledged or sold absent borrower default. There are no restrictions on the amount of securities that can be lent.

Securities were lent with the agreement that they would be returned in the future for exchange of the collateral. SSB 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. SSB'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 FY 2005 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 WSIB incurred no losses during FY 2005 resulting from a default by either the borrowers or the securities lending agents.

Derivatives

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

Consistent with the WSIB 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, 2005 or 2004. 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, 2005, the only derivative securities held directly by WSIB were collateralized mortgage obligations (CMOs) of \$973.9 million.

There were no repurchase agreements outstanding at June 30, 2005. Repurchase agreements are collateralized at 102%. The collateral is priced daily and held by WSIB's agent in WSIB's name.

State law permits WSIB to enter into reverse repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The market value of the securities underlying reverse repurchase agreements normally exceeds the cash received, providing the dealers margin against a decline in market value of the securities. If the dealers default on their obligations to resell these securities to the state or provide securities or cash of equal value, WSIB would suffer an economic loss equal to the difference between the market value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. There were no reverse repurchase agreements during the year and there were no liabilities outstanding as of June 30, 2005.

Defined Contribution Plans

Washington State Horizon Funds - These internally managed, daily-valued funds give participants of the self-directed defined contribution retirement plans (PERS/TRS/SERS Plan's, Deferred Compensation Plan, and Judicial Retirement Account) the ability to choose between different diversified asset allocation models that consist of various combinations of U.S. and International equities, bonds and cash to fit their personal risk and return objectives. Each Horizon Fund is regularly rebalanced by the WSIB to preserve the proper asset mix.

Mutual Funds - These are externally managed, mutual funds that also give participants of the self-directed defined contribution retirement plans the ability of choose between diversified stock mutual funds that fit their personal risk and return objectives.

The Domestic Equity Passive investments includes; a U.S. Stock Market Index Fund designed to parallel the returns of the Dow-Jones Wilshire 5000 Index; a U.S. Stock Index fund designed to parallel the returns of the Russell 3000 Index; a U.S. Large Stock Index fund designed to parallel the S&P 500 index; a U.S. Small Stock Index designed to parallel the returns of the Russell 2000 index.

The Domestic Equity Active investments includes; a Social Investment Fund expected to exceed the returns of a WSIB internally designed Custom Benchmark of a composite consisting of the S&P 500 Index (55%) and the Lehman Brothers Aggregate Index (45%); an Equity Income Fund expected to exceed the returns of the Russell 3000 Value Index; an Independence Fund expected to exceed the returns of the Russell 3000 Index; a Growth Company Fund expected to exceed the returns of the Russell 3000 Growth Index.

Non-U.S. Passive Developed investments includes; an International Stock Index Fund designed to parallel the returns of the MCSI EAFE Index. The Non-U.S. Active Developed investments include the International Alpha Tilts Fund which is expected to exceed the returns of the MCSI EAFE Index.

Washington State Bond Fund - This fund is internally managed by the WSIB staff and is intended for participants who want an investment designed to match or modestly exceed the returns of the Lehman Brothers Intermediate Credit Index.

Savings Pool Funds - This fund is internally managed by the WSIB staff and is a conservative short-term investment vehicle where current income and preservation of capital is the primary objective. The Savings Pool is a diversified portfolio of Guaranteed Investment Contracts (GICs) and short-term cash funds. The fund is expected to earn a rate of return in excess of the current yield of U.S. Treasury securities of similar maturities

Money Market Fund - This fund is an externally managed fund as a conservative short-term investment vehicle where current income and preservation of capital is the primary objective. The funds returns are expected to match or exceed the One Month LIBOR.

The following schedule details the defined contributions plans investment allocations as of June 30, 2005.

Investment Types	Deferred Compensation Plan	Judicial Retirement Account	Plan III's			Total Investment Types
			TRS	SERS	PERS	
Horizon Funds						
Short-Horizon	\$11,040,372	\$66,147	\$5,865,402	\$5,875,207	\$13,932,515	\$36,779,643
Mid-Horizon	23,584,234	207,020	16,351,544	21,669,834	52,584,734	114,397,366
Long-Horizon	20,861,660	74,491	18,489,874	18,085,963	46,965,235	104,477,223
Total Horizon Funds	\$55,486,266	\$347,658	\$40,706,820	\$45,631,004	\$113,482,484	\$255,654,232
Mutual Funds						
Domestic Equity Passive	148,299,490	1,462,451	727,842,722	71,702,559	148,497,567	1,097,804,789
Domestic Equity Active	942,676,476	6,799,370	4,109,168	1,131,736	4,132,863	958,849,613
Non-U.S. Passive Developed	-	-	131,163,410	10,929,361	30,177,763	172,270,534
Non-U.S. Active Developed	51,946,042	444,073	-	-	-	52,390,115
Total Mutual Funds	\$1,142,922,008	\$8,705,894	\$863,115,300	\$83,763,656	\$182,808,193	\$2,281,315,051

Investment Types	Deferred Compensation Plan	Judicial Retirement Account	Plan III's			Total Investment Types
			TRS	SERS	PERS	
Washington State Bond Fund	74,600,850	505,639	149,344,419	15,258,816	31,139,313	270,849,037
Savings Pool Fund	648,098,564	4,955,050	-	-	-	653,053,614
Money Market Fund	-	-	133,360,944	59,258,693	99,477,945	292,097,582
Total Defined Contribution Plans	\$1,921,107,688	\$14,514,241	\$1,186,527,483	\$203,912,169	\$426,907,935	\$3,752,969,516

Summary of Investment Policies

The Washington State Investment Board (WSIB) has been authorized by statute as having the investment management responsibility for the pension funds. The WSIB manages retirement fund assets to maximize return at a prudent level of risk (RCW 43.33A.110).

Retirement Fund Asset Allocation

WSIB establishes asset allocation targets that must be considered at all times when making investment decisions. The asset mix may deviate from the target. Deviations greater than predetermined acceptable levels require rebalancing back to the target. When 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.

Retirement funds are invested in the Commingled Trust Funds (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 every 3-4 years. WSIB reviews the asset allocation in relation to the established ranges periodically.

Public Markets Equity

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

The public markets equity portion of the retirement fund includes strategies in the U.S., developed international and emerging markets. Since the U.S. equity markets are generally efficient, the domestic equity portfolio is entirely (100%) passively managed. Over time, the domestic equity portfolio should closely track the return of a broad U.S. market benchmark, the Dow Jones Wilshire 5000 Index. Non-U.S. markets are generally less efficient than the U.S. market; therefore, more active management will be included in the approach taken with international markets. The weightings of the elements of the developed markets and emerging markets of the non-U.S. equity program will be similar to the weightings of the MSCI All Country World ex. U.S. Index which serves as the benchmark for the WSIB's entire non-U.S. program.

Fixed Income

The WSIB's fixed income investments are to be actively managed to exceed the return of the Lehman Universal Index, with volatility similar to or less than the index. The portfolio constraints are that no corporate fixed income issue shall exceed 3% of cost at the time of purchase or 6% of market value thereafter of the fund, and no high yield issues shall exceed 1% of cost or 2% of market value of the fund.

Permissible fixed income market segments include: U.S. Treasuries and government agencies, Treasury Inflation Protection Securities, investment-grade credit bonds, high yield bonds, publicly traded mortgage backed securities, commercial mortgage-backed securities, privately-placed mortgages, private placements of corporate debt, asset-backed securities, convertible securities, non-dollar bonds, real estate mortgages and Washington State Housing Finance Commission (HFC) taxable municipal bonds up to a total of \$25 million with a maximum of \$10 million per year. Other fixed income segments and instruments may be added from time to time as they are developed or deemed appropriate.

Private Equity Investing

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

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

Real Estate Program

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

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

The WSIB's current return objective for real estate calls for a target benchmark of 1-3% above the NCREIF index.

Note 8: Cash Reconciliation

Financial statements and the text on the asset classes account for cash differently. The financial statements take cash from all asset classes and consolidate it into one category.

Labor and Industries' Funds - Financial Statements

Statement of Net Assets (Unaudited) - June 30, 2005

	Accident Fund	Medical Aid Fund	Accident Reserve Fund	Supplemental Pension Fund	Total	% of Total
Liquidity						
Money Market Funds	\$49,273,800	\$43,112,640	\$46,802,531	\$12,733,478	\$151,922,449	8.4%
Fixed Income Investments						
Asset Backed Securities	-	7,682,285	4,032,500	-	11,714,785	
Collateralized Mortgage Obligations (CMO's)	548,461,714	339,053,116	291,214,686	459,845	1,179,189,361	
Pass Throughs	13,986,637	2,345,227	573,220	-	16,905,084	
Non Standard Mortgages	13,859,950	19,906,227	2,045,649	-	35,811,827	
Commercial Mortgage Backed Securities (CMBS)	212,039,441	183,812,992	125,428,373	-	521,280,806	
Corporate Bond - Domestic	1,782,799,183	1,788,609,423	1,401,881,531	38,807,479	5,012,097,616	
US Government Treasuries	688,699,251	118,902,499	205,833,668	41,886,150	1,055,321,568	
US Government Agencies	125,678,446	851,650	108,793,174	-	235,323,270	
Variable Rate Notes	106,704,174	20,679,144	29,992,032	999,650	158,375,000	
Total Fixed Income Investments	\$3,492,228,797	\$2,481,842,563	\$2,169,794,834	\$82,153,124	\$8,226,019,317	80.8%
Equity Investments						
Commingled Index Funds - Domestic	343,255,595	967,369,906	210,987,425	-	1,521,612,926	
Commingled Index Funds - Foreign	66,137,944	181,459,518	38,157,446	-	285,754,908	
Total Equity Investments	\$409,393,539	\$1,148,829,424	\$249,144,871	\$ -	\$1,807,367,834	17.7%
Total Investments	\$3,950,896,136	\$3,673,784,626	\$2,465,742,236	\$94,886,602	\$10,185,309,600	100.0%
Securities Lending Investments						
Collateral Held Under Securities Lending Agreements	831,816,736	205,255,674	289,157,632	44,873,546	1,371,103,588	
Obligations Under Securities Lending Agreements	(831,816,736)	(205,255,674)	(289,157,632)	(44,873,546)	(1,371,103,588)	
Accruals						
Investment Earnings Receivable	44,560,355	28,823,592	27,325,625	984,066	101,693,638	
Accounts Payable	(2,065,888)	(472,894)	(759,937)	(72,425)	(3,371,144)	
Receivables for Investments Sold	20,076,848	10,295	10,033,991	-	30,121,134	
Payables for Investments Purchased	-	-	-	-	-	
Total Accruals	\$62,571,313	\$28,360,993	\$36,599,679	\$911,641	\$128,443,628	
Total Net Assets at Market Value - June 30, 2005	\$4,013,467,449	\$3,702,145,620	\$2,502,341,914	\$95,798,243	\$10,313,753,227	

See Notes to Financial Statements.

Statement of Changes in Net Assets (Unaudited) - June 30, 2005

	Accident Fund	Medical Aid Fund	Accident Reserve Fund	Supplemental Pension Fund	Total
Total Net Assets at Market Value - June 30, 2004	\$3,562,740,049	\$3,433,977,474	\$2,226,858,762	\$70,941,911	\$9,294,518,195
Fiscal Year 2005 Activity					
Net Amount Contributed (Withdrawn)	(94,136,143)	4,204,060	22,976,361	22,428,529	(44,527,193)
Investment Earnings					
Interest, Dividends and Other Investment Income	216,501,116	155,715,388	128,649,499	3,232,285	504,098,289
Capital Gains	45,697,959	66,736,734	50,251,491	75,571	162,761,755
Capital Losses	(5,796,582)	(3,516,973)	(2,835,246)	(76,653)	(12,225,454)
Market Gains & Losses (Unrealized)	248,279,365	49,908,208	139,399,028	(451,321)	437,135,280
Investment Expenses	(15,953,750)	(4,469,221)	(6,119,114)	(343,550)	(26,885,635)
WSIB Operating Costs	(433,482)	(410,050)	(269,949)	(8,529)	(1,122,010)
Net Investment Earnings	\$488,294,626	\$263,964,087	\$309,075,709	\$2,427,803	\$1,063,762,225
Other Changes in Fund Balance					
Residual Equity Transfers	56,568,917	-	(56,568,917)	-	-
Total Net Assets at Market Value - June 30, 2005	\$4,013,467,449	\$3,702,145,620	\$2,502,341,914	\$95,798,243	\$10,313,753,227
Net Asset Value Recap - June 30, 2005					
Investments (at Market Value)	3,950,896,136	3,673,784,626	2,465,742,236	94,886,602	10,185,309,600
Investment Earnings Receivable	44,560,355	28,823,592	27,325,625	984,066	101,693,638
Accounts Payable	(2,065,888)	(472,894)	(759,937)	(72,425)	(3,371,144)
Receivables for Investments Sold	20,076,848	10,295	10,033,991	-	30,121,134
Payables for Investments Purchased	-	-	-	-	-
Total Net Assets at Market Value - June 30, 2005	\$4,013,467,449	\$3,702,145,620	\$2,502,341,914	\$95,798,243	\$10,313,753,227

See Notes to Financial Statements

Notes to Financial Statements

Note 1: Significant Accounting Policies

The accompanying financial statements of the WSIB have been prepared in conformity with accounting principles generally accepted in the United States of America. The amounts in the notes are rounded to the nearest dollar unless otherwise noted. The Office of Financial Management (OFM) is the primary authority for the state's accounting and reporting requirements. OFM has adopted the pronouncements of the Governmental Accounting Standards Board (GASB) which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles nationally. Industrial Insurance (Labor and Industries') funds are enterprise funds for financial reporting purposes. Enterprise funds use the full accrual basis of accounting where revenues are recorded in the period earned and expenditures in the period incurred.

Long-term investments are reported at fair value. Fair values are based on published market prices, quotations from national security exchanges and security pricing services, or by the respective fund managers for securities that are not actively traded. Privately held mortgages are valued at cost, which approximates fair value.

Interest and dividend income is accrued 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.

Unrealized gains and losses are included as investment earnings on the Statement of Changes in Net Assets.

The Washington State Investment Board (WSIB) reports collateral received under securities lending agreements where the state has the ability to spend, pledge or sell the collateral without borrower default. Liabilities resulting from these transactions are also reported. Additionally, costs associated with securities lending transactions, including broker commissions paid, are reported as investment management expenses in the accompanying statements. The Statement of Net Assets does not include detailed holdings of securities lending collateral by investment classification.

Note 2: Reporting Changes

The WSIB has implemented the following new accounting standard issued by the Governmental Accounting Standards Board (GASB) for the fiscal year ended June 30, 2005:

Statement No. 40, *Deposit and Investment Risk Disclosures*.

Statement No. 40 amends Statement No 3, Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements and under GASB 28, Accounting and Financial Reporting for Securities Lending Transactions.

Statement No. 40 revises the existing requirements regarding disclosure of custodial credit risk, as required by Statement No. 3 and establishes new requirements for disclosure regarding credit risk, concentration of credit risk, interest rate risk and foreign currency risk.

Note 3: Deposit and Investment Risk Disclosures

Custodial Credit Risks - Deposits

Custodial credit risk is the risk that in the event of a bank failure the Boards' deposits may not be returned to it. The Board does not have a deposit policy for custodial credit risk. As of June 30, 2005, there were no deposits with the custodial bank.

Custodial Credit Risks - Investments

Please see the Summary of Investment Policies at the end of the notes to the financial statements for details of the WSIB's authorization and responsibilities for the investment of these funds.

The Securities Lending Collateral Balances included are from securities required to be listed under GASB 3 Category 3 - Uninsured and unregistered with securities held by the counterparty, or by its trust department or agent but not in the government's name. (This includes the amount of any repurchase agreement that exceeds the market value of the underlying securities.)

The Labor & Industries' Funds investments as of June 30, 2005, are presented in Schedule 1.

Investment Type	Total Fair Value	Maturity				Effective Duration	Credit Rating
		Less than 1 year	1-5 years	6-10 years	More than 10 years		
Asset Backed Securities	\$11,714,785	\$4,359,474	\$7,355,311	\$-	\$-	1.0	Aaa
Mortgages							
Collateralized Mortgage Obligations	1,179,189,361	24,408,754	280,883,395	688,764,416	185,132,797	5.0	Aaa
Pass Throughs	16,905,084	-	643,697	277,489	15,983,898	9.6	Aaa
Non-Standard Mortgages	35,811,827	-	33,466,170	687,675	1,657,983	2.3	Aaa
Commercial Mortgage Backed Securities	521,280,806	-	276,539,924	244,740,882	-	8.1	Aaa
Corporate Bonds - Domestic	5,012,097,616	100,242,267	1,185,862,301	1,177,843,195	2,548,149,853	8.7	Multiple



Investment Type	Total Fair Value	Maturity				Effective Duration	Credit Rating
		Less than 1 year	1-5 years	6-10 years	More than 10 years		
Government Securities-Domestic							
US Government Treasuries	1,055,321,568	6,964,741	75,666,944	31,976,242	940,713,641	11.4	Aaa
US Government Agencies	235,323,270	846,866	-	-	234,476,404	11.1	Aaa
Variable Rate Notes	158,375,000	33,100,386	125,274,614	-	-	0.2	Multiple
Investments Not Required to be Categorized Under GASB Statement No. 3							
Commingled Index Funds-Domestic	1,521,612,926						N/A
Commingled Index Funds-Foreign	285,754,908						N/A
Money Market Funds	151,922,449						N/A
Total Investments Not Categorized	\$1,959,290,283						
Total L&I Funds Investments	\$10,185,309,600	\$169,922,488	\$1,985,692,356	\$2,144,289,899	\$3,926,114,576		
Securities Lending Collateral Balances (Note 3)	1,371,103,588						
Securities on Loan	(1,166,043,748)						
Net Securities Lending Activity	205,059,840						
Investments per GASB 40 Classifications	\$10,390,369,440						
Securities on Loan Domestic	1,666,043,748						
Total Investments per GASB 40 Classifications	\$12,056,413,188						

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

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. Effective duration is the measure of a debt investment's exposure to fair value changes arising from changes in interest rates. Effective duration uses the present value of cash flows, weighted for those flows as a percentage of the investments full price. Increases in prevailing interest rates generally translate into decreases in fair values of those investments. The WSIB's fixed income investments are to be actively managed to exceed the return of the Lehman Aggregate Index, with volatility as measured by duration to be similar to or less than the index. As of June 30, 2005, the funds' durations of the various fixed income classes were within the duration targets of the Lehman Aggregate Index.

Highly Sensitive Investments:

Credit Risks - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Labor & Industries' Funds rated debt investments as of June 30, 2005, were rated by Moody's

and/or an equivalent national rating organization. Investments types with multiple ratings are presented in Schedule 2 using the Moody's rating scale.

		Investment Type			
		Corporate Bonds-Domestic	Variable Rate Notes	Total	
Moody's Equivalent Credit Rating	Aaa	\$371,128,955	\$-	\$371,128,955	
	Aa1	57,525,425	-	57,525,425	
	Aa2	109,835,730	22,965,579	132,801,309	
	Aa3	472,972,097	-	472,972,097	
	A1	635,389,200	103,515,395	738,904,595	
	A2	666,338,138	-	666,338,138	
	A3	446,534,090	22,959,845	469,493,935	
	Baa1	775,278,164	-	775,278,164	
	Baa2	886,172,633	8,934,181	895,106,814	
	Baa3	431,975,950	-	431,975,950	
	Ba1	88,401,685	-	88,401,685	
	Ba2	3,071,126	-	3,071,126	
	Ba3	46,218,141	-	46,218,141	
	B1	21,256,282	-	21,256,282	
	Total Fair Value		\$5,012,097,616	\$158,375,000	\$5,170,472,616

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 WSIB policy states no corporate fixed income issue's cost shall exceed 3% of the fund's market value at the time of purchase, nor shall its market value exceed 6% of the fund's market value at any time (RCW 43.33A.140). There was no concentration of credit risk as of June 30, 2005.

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 WSIB does not have a formal policy to limit foreign currency risk. The Labor & Industries' Funds had \$285,754,908 invested in an international commingled equity index fund. As such, no currency denomination is presented.

Securities Lending

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

In accordance with GASB Statement 28, the WSIB 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 assets if the WSIB has the ability to pledge or sell them without a borrower default. Liabilities resulting from these transactions are reported in the statement of net assets. Securities lending transactions collateralized by securities that the WSIB does not have the ability to pledge or sell unless the borrower defaults are not reported as assets and liabilities.

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 were denominated in United States dollars, were securities whose primary trading market was located in the United States or were sovereign debt issued by foreign governments, the collateral requirement was 102% of the market value of the securities loaned. When the loaned securities were not denominated in United States dollars or were securities whose primary trading market was not located in the United States, the collateral requirement was 105% of the market value of the loaned securities. The collateral held and market value of securities on loan at June 30, 2005, was \$1,371,103,588 and \$1,166,043,748, respectively.



During FY 2005 securities lending transactions could be terminated on demand by either the WSIB or the borrower. The average term of overall loans was 26 days.

Cash collateral was invested by the WSIB's agents in securities issued or guaranteed by the U.S. government, the WSIB's short-term investment pool (average weighted maturity of 266 days) or term loans. Because the securities lending agreements were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. Non-cash collateral could not be pledged or sold absent borrower default. There are no restrictions on the amount of securities that can be lent.

Securities were lent with the agreement that they would be returned in the future for exchange of the collateral. SSB 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. SSB'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 FY 2005 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 WSIB incurred no losses during FY 2005 resulting from a default by either the borrowers or the securities lending agents.

Derivatives

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

Consistent with the WSIB 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, 2005 or 2004. 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, 2005, the only derivative securities held directly by WSIB were collateralized mortgage obligations (CMOs) of \$1.179 billion.

There were no repurchase agreements outstanding at June 30, 2005. Repurchase agreements are collateralized at 102%. The collateral is priced daily and held by WSIB's agent in WSIB's name.

State law permits WSIB to enter into reverse repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The market value of the securities underlying reverse repurchase agreements normally exceeds the cash received, providing the dealers margin against a decline in market value of the securities. If the dealers default on their obligations to resell these securities to the state or provide securities or cash of equal value, WSIB would suffer an economic loss equal to the difference between the market value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. There were no reverse repurchase agreements during the year and there were no liabilities outstanding as of June 30, 2005.

Summary of Investment Policy

Under RCW 43.33A.030, trusteeship of this fund is vested in the voting 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:

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

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

Performance Objectives

The performance objectives are intended to provide the WSIB and L&I 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 3 criteria met, the actual rates of return of the portfolios will be compared to the Comparable Market Index (CMI) for each fund. The CMI's are developed and calculated by the consultant with the goal to construct a hypothetical passive portfolio with the duration, asset allocation, and appropriate mix of fixed income sectors based on the individual targets for each L&I fund. The return for each fund's portfolio should not be significantly different from that of its' CMI over the long term.

These fund's investments are to emphasize stability and maximize income to support its operations. 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 funds which have both equity and fixed income holdings the performance benchmark shall be a combination of an equity index representative of the equity held in the fund and the Lehman Aggregate Index for the fixed income portion, in percentage allocations that represent the funds target allocations. The WSIB will measure both the book value income return and the marked-to-market total rate of return on the fund.

Portfolio Constraint

1. 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."
2. No corporate fixed income issue's cost shall exceed 3% of the fund's market value at the time of purchase, nor shall its market value exceed 6% of the funds' market value at any time (RCW 43.33A.140).

Asset Allocation

	Fixed Income Target	Equity Target	Equity Range
Accident Fund	90%	10%	8%-12%
Pension Reserve Fund	90%	10%	8%-12%
Medical Aid Fund	70%	30%	24%-36%
Supplemental Pension Fund	100%	0%	

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

Market conditions, funding status and liability assumptions are dynamic, not static; therefore, WSIB staff will meet regularly 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.

Asset will be rebalanced across asset classes when market 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 transactions costs; therefore, they need not occur immediately.

Asset Class Structure

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

Equity

The benchmark and structure for U.S. equities will be broad U.S. stock market as defined by the Dow Jones and Wilshire 5000. The benchmark and structure for international equities will be the Morgan Stanley Capital Indexes Europe, Australia, Far East (MSCI EAFE) index. Both portfolios will be 100% passively managed in commingled index funds. The commingled funds may use futures for hedging or establishing a long position.

Equity Allocation	Target	Range
U.S. Equity	85%	80%-90%
International Equity	15%	10%-20%

Fixed Income

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

Accident Fund (608)	Within plus or minus 20% of a duration target of 9.
Pension Reserve Fund (610)	With plus or minus 20% of a duration target of 9.
Medical Aid Fund (609)	Within plus or minus 20% of a duration target of 6.
Supplemental Pension Fund (881)	The non-cash portion of the portfolio will have a duration that is between 1.75 and 2.25.

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

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

Permissible Fixed Income Investments

1. U.S. Treasuries and Government Agencies.
2. Credit Bonds.
3. Mortgage-Backed Securities rated BBB- or higher by Standard & Poor's and Baa3 or higher by Moody's Investor's Service (Moody's).
4. Asset-Backed Securities rated BBB- or higher by Standard & Poor's and Baa3 or higher by Moody's.
5. Commercial Mortgage-Backed Securities rated BBB- or higher by Standard & Poor's and Baa3 or higher by Moody's.
6. 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 Bonds	100%

Total holdings of below investment grade credit bonds (rated BB+ or below by Standard & Poor's or rated Ba1 or below by Moody's) should not exceed 5% of total fixed income holdings.

Permanent Funds - Financial Statements

Statement of Net Assets (Unaudited) - June 30, 2005

	Agricultural	Millersylvania Park Trust	Normal School	Common School	Scientific	State University	Total	% of Total
Liquidity								
Money Market Funds	\$9,815,903	\$5,151	\$9,491,601	\$5,281,181	\$10,223,936	\$1,510,306	\$36,328,078	5.0%
Fixed Income Investments								
Asset Backed Securities	-	-	-	1,377,564	470,822	-	1,848,386	0.3%
Collateralized Mortgage Obligations (CMO's)	43,635,862	-	64,938,905	46,768,337	49,540,118	7,634,427	212,517,648	29.0%
Pass Throughs	954,258	-	1,680,519	1,668,256	917,163	202,371	5,422,568	0.7%
Commercial Mortgage Backed Securities	4,261,737	-	4,350,365	3,883,495	4,747,276	537,287	17,780,160	2.4%
Corporate Bonds Domestic	64,052,451	-	90,666,979	70,622,890	70,064,224	10,760,758	306,167,302	41.8%
US Government Treasuries	15,923,909	-	19,518,132	16,096,752	15,892,536	2,339,205	69,770,535	9.5%
Treasury Inflation Protected Securities (TIPS)	15,132,449	-	21,889,365	16,724,471	16,697,875	2,609,043	73,053,203	10.0%
Total Fixed Income Investments	\$143,960,666	\$-	\$203,044,266	\$157,141,766	\$158,330,015	\$24,083,091	\$686,559,803	93.8%
Equity Investments								
Commingled Index Funds - Domestic	-	-	-	8,941,364	-	-	8,941,364	1.2%
Total Investments	\$153,776,569	\$5,151	\$212,535,866	\$171,364,310	\$168,553,951	\$25,593,397	\$731,829,244	100.0%
Securities Lending Investments								
Collateral Held Under Securities Lending Agreements	35,464,232	-	45,692,942	34,648,082	34,817,879	5,153,049	155,776,184	
Obligations Under Securities Lending Agreements	(35,464,232)	-	(45,692,942)	(34,648,082)	(34,817,879)	(5,153,049)	(155,776,184)	
Accruals								
Investment Earnings Receivable	1,459,729	13	1,985,168	1,530,061	1,560,352	238,106	6,773,429	
Accounts Payable	(558,958)	-	(117,737)	(92,247)	(93,490)	(13,282)	(875,714)	
Receivables for Investments Sold	415	-	681	604	387	24	2,111	
Payables for Investments Purchased	-	-	-	-	-	-	-	
Due to Other Funds	(84,127)	(13)	(777,370)	(600,163)	(621,300)	(92,666)	(2,175,640)	
Total Accruals	\$817,059	\$-	\$1,090,741	\$838,255	\$845,950	\$132,182	\$3,724,186	
Total Net Assets at Market Value - June 30, 2005	\$154,593,628	\$5,151	\$213,626,607	\$172,202,565	\$169,399,901	\$25,725,579	\$735,553,432	

See Notes to Financial Statements

Statement of Changes in Net Assets (Unaudited) - June 30, 2005

	Agricultural	Millersylvania Park Trust	Normal School	Common School	Scientific	State University	Total
Total Net Assets at Market Value - June 30, 2004	\$147,536,238	\$5,151	\$207,408,893	\$167,852,325	\$161,639,760	\$24,587,085	\$709,029,452
Fiscal Year 2005 Activity							
Net Amount Contributed (Withdrawn)	4,598,808	0	2,619,014	915,210	5,202,490	716,969	14,052,491
Investment Earnings							
Interest, Dividends and Other Investment Income	7,310,288	108	10,242,088	8,115,542	8,073,853	1,198,244	34,940,124
Capital Gains	547,866	-	1,133,937	2,397,750	728,528	154,505	4,962,586
Capital Losses	(189,447)	-	(216,781)	(166,893)	(212,789)	(38,068)	(823,978)
Market Gains & Losses	2,101,872	-	2,684,241	1,037,674	2,044,558	305,431	8,173,776
Investment Expenses	(728,284)	-	(980,832)	(780,799)	(779,949)	(107,337)	(3,377,201)
WSIB Operating Costs	(17,807)	-	(25,014)	(20,211)	(19,492)	(2,968)	(85,492)
Net Investment Earnings	\$9,024,489	\$108	\$12,837,640	\$10,583,063	\$9,834,710	\$1,509,807	\$43,789,815
Other Changes in Fund Balance							
Distributions to Beneficiary Funds	(6,565,906)	(108)	(9,238,938)	(7,148,033)	(7,277,060)	(1,088,281)	(31,318,326)
Total Net Assets at Market Value - June 30, 2005	\$154,593,628	\$5,151	\$213,626,607	\$172,202,565	\$169,399,901	\$25,725,579	\$735,553,432
Net Asset Value Recap - June 30, 2005							
Investments (at Market Value)	153,776,569	5,151	212,535,866	171,364,310	168,553,951	25,593,397	731,829,244
Investments Earnings Receivable	1,459,729	13	1,985,169	1,530,061	1,560,353	238,106	6,773,431
Accounts Payable	(558,958)	-	(117,737)	(92,247)	(93,490)	(13,282)	(875,713)
Receivable for Investments Sold	415	-	681	604	387	24	2,111
Payables for Investments Purchased	-	-	-	-	-	-	-
Due to Other Funds	(84,127)	(13)	(777,370)	(600,163)	(621,300)	(92,666)	(2,175,640)
Total Net Assets at Market Value - June 30, 2005	\$154,593,628	\$5,151	\$213,626,607	\$172,202,565	\$169,399,901	\$25,725,579	\$735,553,432

See Notes to Financial Statements



Other Trust Funds - Financial Statements

Statement of Net Assets (Unaudited) - June 30, 2005

	Reclamation Revolving	Game & Special Wildlife	Health Insurance	Radiation Perpetual	Total	% Of Total
Liquidity						
Money Market Funds	\$91,017	\$9,048,018	\$76,322,494	\$286,132	\$85,747,661	99.7%
Fixed Income Investments						
Municipal Bonds	263,508	-	-	-	263,508	0.3%
Total Investments	\$354,526	\$9,048,018	\$76,322,494	\$286,132	\$86,011,169	100.0%
Accruals						
Investment Earnings Receivable	7,206	22,559	182,327	684	212,775	
Accounts Payable	(1)	-	-	-	(1)	
Receivable for Investments Sold	-	-	-	-	-	
Payable for Investments Purchased	-	-	-	-	-	
Total Accruals	\$7,205	\$22,559	\$182,327	\$684	\$212,774	
Total Net Assets at Market Value - June 30, 2005	\$361,730	\$9,070,577	\$76,504,820	\$286,815	\$86,223,943	

See Notes to Financial Statements

Statement of Changes in Net Assets (Unaudited) - June 30, 2005

	Reclamation Revolving	Game & Special Wildlife	Health Insurance	Radiation Perpetual	Total Other Trust
Total Net Assets at Market Value - June 30, 2004	\$344,173	\$9,872,079	\$47,986,515	\$281,122	\$58,483,889
Fiscal Year 2005 Activity					
Net Amount Contributed (Withdrawn)	46	(998,804)	27,181,469	31	26,182,742
Investment Earnings					
Interest, Dividends and Other Investment Income	16,287	198,551	1,342,887	5,696	1,563,421
Capital Gains	-	-	-	-	-
Capital Losses	-	-	-	-	-
Market Gains & Losses (Unrealized)	1,275	-	-	-	1,275
Investment Expenses	(5)	(54)	(326)	(2)	(387)
WSIB Operating Expenses	(46)	(1,196)	(5,726)	(31)	(6,999)
Net Investment Earnings	\$17,511	\$197,301	\$1,336,835	\$5,663	\$1,557,311
Total Net Assets at Market Value - June 30, 2005	\$361,730	\$9,070,577	\$76,504,820	\$286,815	\$86,223,943
Net Asset Value Recap - June 30, 2005					
Investments (at Market Value)	354,526	9,048,018	76,322,494	286,132	86,011,169
Investment Earnings Receivable	7,206	22,559	182,327	684	212,775
Accounts Payable	(1)	-	-	-	(1)
Receivable for Investments Sold	-	-	-	-	-
Payable for Investments Purchased	-	-	-	-	-
Total Net Assets at Market Value - June 30, 2005	\$361,730	\$9,070,577	\$76,504,820	\$286,815	\$86,223,943

See Notes to Financial Statements.

Guaranteed Education Tuition Fund - Financial Statements

Statement of Net Assets (Unaudited) - June 30, 2005

	Guaranteed Education Tuition	% Of Total
Liquidity		
Money Market Funds	\$6,073,904	1.1%
Fixed Income Investments		
Treasury Inflation Protected Securities (TIPS)	210,456,924	38.5%
Equity Investments		
Commingled Index Funds - Domestic	220,002,894	40.3%
Commingled Index Funds - Foreign	109,421,467	20.0%
Total Investments	\$545,955,189	100.0%
Securities Lending Investments		
Collateral Held Under Securities Lending Agreements	213,875,856	
Obligations Under Securities Lending Agreements	(213,875,856)	
Accruals		
Investment Earnings Receivable	2,801,540	
Accounts Payable	(540,141)	
Receivable for Investments Sold	-	
Payable for Investments Purchased	-	
Total Accruals	\$2,261,400	
Total Net Assets at Market Value - June 30, 2005	\$548,216,588	

See Notes to Financial Statements

Statement of Changes in Net Assets (Unaudited) - June 30, 2005

	Guaranteed Education Tuition
Total Net Assets at Market Value - June 30, 2004	\$405,265,896
Fiscal Year 2005 Activity	
Net Amount Contributed (Withdrawn)	99,166,147
Investment Earnings	
Interest, Dividends and Other Investment Income	14,833,261
Capital Gains	52,113,747
Capital Losses	(30,131)
Market Gains & Losses (Unrealized)	(19,657,710)
Investment Expenses	(3,427,034)
WSIB Operating Costs	(47,587)
Net Investment Earnings	\$43,784,546
Total Net Assets at Market Value - June 30, 2005	\$548,216,588
Net Asset Value Recap - June 30, 2005	
Investments (at Market Value)	545,955,188
Investment Earnings Receivable	2,801,540
Accounts Payable	(540,141)
Receivable for Investments Sold	-
Payables for Investments Purchased	-
Total Net Assets at Market Value - June 30, 2005	\$548,216,588

See Notes to Financial Statements.

Developmental Disabilities Endowment Fund - Financial Statements

Statement of Net Assets (Unaudited) - June 30, 2005

	State	Private	Total	% of Total
Liquidity				
Money Market Funds	\$1,662,268	\$158,963	\$1,821,231	18.1%
Fixed Income Investments				
Treasury Inflation Protected Securities (TIPS)	2,725,418	-	2,725,418	27.1%
Commingled Balanced Trust	1,531,415	-	1,531,415	15.2%
Equity Investments				
Commingled Index Funds - Domestic	904,400	-	904,400	9.0%
Mutual Funds	-	3,092,114	3,092,114	30.7%
Total Investments	\$6,823,501	\$3,251,077	\$10,074,578	100.0%
Securities Lending Investments				
Collateral Held Under Securities Lending Agreements	2,822,875		2,822,875	
Obligations Under Securities Lending Agreements	(2,822,875)		(2,822,875)	
Accruals				
Investment Earnings Receivable	50,748	19,902	70,650	
Accounts Payable	(6,862)	-	(6,862)	
Receivable for Investments Sold	-	-	-	
Payable for Investments Purchased	-	-	-	
Total Accruals	\$43,886	\$19,902	\$63,788	
Total Net Assets at Market Value - June 30, 2005	\$6,867,387	\$3,270,979	\$10,138,366	

See Notes to Financial Statements

Statement of Changes in Net Assets (Unaudited) - June 30, 2005

	State	Private	Total
Total Net Assets at Market Value - June 30, 2004	\$6,530,435	\$803,882	\$7,334,317
Fiscal Year 2005 Activity			
Net Amount Contributed (Withdrawn)	(19,395)	2,338,294	2,318,899
Investment Earnings			
Interest, Dividends and Other Investment Income	194,741	53,563	248,304
Capital Gains	268,414	-	268,414
Capital Losses	-	-	-
Market Gains & Losses (Unrealized)	(48,694)	75,536	26,842
Investment Expenses	(57,509)	(8)	(57,517)
WSIB Operating Expenses	(605)	(288)	(893)
Net Investment Earnings	\$356,348	\$128,803	\$485,151
Total Net Assets at Market Value - June 30, 2005	\$6,867,387	\$3,270,979	\$10,138,366
Net Asset Value Recap - June 30, 2005			
Investments (at Market Value)	6,823,501	3,251,077	10,074,578
Investment Earnings Receivable	50,748	19,902	70,650
Accounts Payable	(6,862)	-	(6,862)
Receivable for Investments Sold	-	-	-
Payables for Investments Purchased	-	-	-
Total Net Assets at Market Value - June 30, 2005	\$6,867,387	\$3,270,979	\$10,138,366

See Notes to Financial Statements.

Annual Budget - Financial Statement

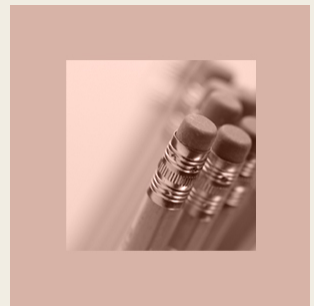
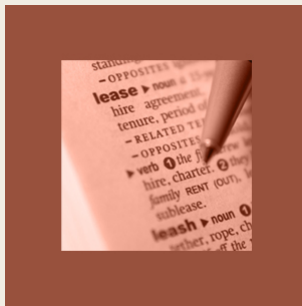
Annual Budget - June 30, 2005

Objects of Expenditure	Budget to Date	Expenditures to Date	Budget Variance
Appropriated			
Salaries	\$3,975,338	\$3,862,229	\$113,109
Benefits	775,037	724,747	50,290
Personal Services	707,570	733,387	(25,817)
Goods and Services	1,049,084	1,158,465	(109,381)
Travel	176,947	230,958	(54,011)
Fixed Assets	38,324	21,942	16,382
Interagency Reimbursements			-
Total Appropriated	\$6,722,300	\$6,731,728	\$(9,428)
Non-Appropriated			
Retirement Funds			
U.S. Equity - Passive		\$570,922	
International Equity - Active		14,124,432	
International Emerging Markets - Passive		0	
International Emerging Markets - Active		5,596,126	
International Equity - Passive		934,952	
Private Equity		115,819,065	
Real Estate		26,323,867	
General Pension Consultants		2,038,623	
Legal Fee - Private Equity		246,183	
Legal Fee - Real Estate		145,742	
Custodian Bank Fees		2,146,127	
Securities Lending and Other Fees		8,195,493	
POMS Project and Misc. Expenses		59,252	
Total Retirement		\$176,200,784	
Self-Directed Defined Contribution Funds			
Self-Direct Managers - PERS, SERS, & TRS 3 Intl.		\$69,462	
Self-Direct Managers - PERS, SERS, & TRS 3 U.S.		127,852	
U.S. Fixed Income		302,835	
Securities Lending and Other Fees		216,753	
Total Self-Directed Defined Contribution Funds *		\$716,902	
Labor and Industries' Funds			
Consultants		\$218,750	
U.S. Equity		54,440	
International Equity		126,170	
Custodian Bank Fees		65,773	
Securities Lending		894,768	
Provident Liquidity Fees		359,323	
POMS Project and Misc. Expenses		49,736	
Total Labor and Industries' Funds		\$1,768,960	
Deferred Compensation Funds			
Fixed Income - Active		\$7,846	
U.S. Equity - Active		6,862,402	
International Equity - Active		343,779	
U.S. Equity - Passive		17,919	
Securities Lending		299,143	
Provident Liquidity Fees		109,711	
Total Deferred Compensation Funds *		\$7,640,800	
Permanent and Other Funds			
U.S. Equity		\$6,886	
International - Passive		55,306	
Custodian Bank Fees		8,489	
Securities Lending		281,401	
Provident Liquidity Fees		237,315	
POMS Project and Misc. Expenses		4,704	
Total Permanent and Other Funds		\$594,101	
Total Non-Appropriated		\$186,921,547	
Total Expenses		\$193,653,275	

* Expenses are paid by participants.



Glossary



Glossary

Active Commitments

An investment that has not reached the end of its legal term.

Active Management

An investment management approach with the objective of attaining excess risk-adjusted return versus the benchmark as a result of structuring a portfolio differently than the benchmark.

Actuary

A person who statistically calculates actuarial valuations to monitor the balance between the cost of future retirement benefits and the projected value of retirement fund assets. Recommends participant contribution rates based on the results of the valuations.

Actuarial Valuation

Annual valuations are completed to ensure that benefits provided are fully funded and to determine employer contribution rates. Actuaries use each employer's schedule of benefits, membership data, and a set of actuarial assumptions, such as life expectancy and inflation rates, to estimate the cost of benefits. Costs are allocated to the fiscal years within the employee's career.

Asset

Anything owned that has value and is measurable in terms of money.

Asset Backed Securities (ABS)

A security backed by notes or receivables against assets other than real estate. For example, assets such as loans, leases, credit cards, and royalties.

Asset Classes

Categories of investments that share certain characteristics and exhibit similar patterns of return.

Benchmark

The performance objective or standard represented by a model portfolio used to define the return against which another portfolio is to be evaluated.

Beneficiary

A person eligible to receive funds/payments from a retirement account to which they belong.

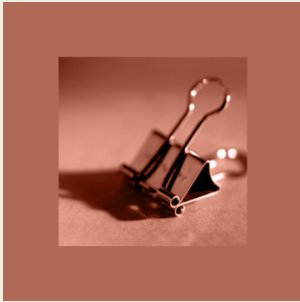
Capital Commitment

A limited Pprtner's obligation to provide a certain amount of capital to a private equity fund for investments.

Commercial Mortgage-Backed Security (CMBS)

Similar to a mortgage-backed security, but secured by loans with commercial property instead of residential property.





Commingled Trust Fund (CTF)

An investment fund in which the manager pools the assets of several accounts to permit more efficient management and to reduce administrative costs.

Core Strategy

An investment process that is neither growth oriented nor value oriented and buys securities that have characteristics of both growth and value.

Defined Benefit Plan

A pension plan that promises to pay a specified amount to each person who retires, generally based upon a formula combination of years of service, age at retirement, and salary history. This differs from a defined contribution plan in which benefits are determined not by a formula, but solely by the amount of contributions to an account plus net investment earnings.

Defined Contribution Plan

A pension plan in which the retirement benefit is based solely on the amount contributed to an individual account plus net investment earnings. The employee bears the investment risk, as there is no guaranteed rate of return and the value of the member's account will increase or decrease based on fluctuations in the market.

Direct Investment

Directly investing in an operating company, rather than investing through a partnership or fund vehicle.

Distressed Entities

The investment of equity or debt capital into an entity with various degrees of management assistance to help fix the underlying problems of the company.

Diversification

A strategy of reducing exposure to risk by combining a variety of investments amongst different asset classes that are unlikely to move in the same direction.

Draw-down

When investors commit themselves to back a private equity or real estate fund, all the funding may not be needed at once. Therefore, remaining capital is drawn as needed.

Emerging Markets

Investment markets in countries that are not fully developed and where there is a higher risk of default.

Ex-Officio Member

A member by virtue of office or position.

Fiduciary

An individual, corporation, or association holding assets for another party, often with the legal authority and duty to make decisions regarding financial matters on behalf of the other party.



Fiduciary Trust or Responsibility

The power entrusted to a person or entity (fiduciary) to manage money or property for another person. Fiduciary responsibility requires that actions taken on behalf of the principal will be beneficial to the principal's interests.

Fiscal Year

The WSIB operates on a fiscal year calendar, which is July 1 to June 30 each year.

Fixed Income

Securities representing debt obligations and usually having fixed payments and maturities. Different types of fixed income securities include government and corporate bonds, mortgage-backed securities, asset-backed securities, convertible issues, and may also include money-market instruments.

General Partner

The managing partner in a private equity management company who has unlimited personal liability for the debts and obligations of the limited partnership and the right to participate in its management. The general partner is the intermediary between investors with capital and businesses seeking capital to grow.

Growth Strategy

A style of equity investing that focuses on the growth potential of the company.

Guaranteed Education Tuition Program (GET)

An investment program that allows participants to pre-purchase tuition fee credits at present rates for future use by themselves or other family members.

Guaranteed Investment Contract (GIC)

In this report, unless the context otherwise requires, "guaranteed investment contract" means any unallocated group contract, investment contract, funding agreement, guaranteed interest contract, or other similar instrument by whatever name in which an insurance company agrees to guarantee a fixed or variable rate of interest or a future payment that is based on an index or any other similar criteria, that is payable at a predetermined date on monies that are deposited with the insurance company and that is not dependent on the continuance of human life.

Illiquid

That which cannot easily be converted into cash, such as private equity, real estate, collectibles, thinly traded securities, and any investments that require a long time to mature.

Index

A group of securities that represents the universe of available investments in a specific class or subclass of assets.





Internal Rate of Return (IRR)

The dollar-weighted internal rate of return, net of management fees and carried interest, generated by WSIB investment in the fund. This return considers the daily timing of all cash flows and the WSIB's cumulative fair stated value, as of the end of the reported period.

Institutional Investor

An organization whose primary purpose is to invest its assets or those held in trust by it for others. Includes pension funds, investment companies, universities, and banks.

J-curve effect

In the early years, private equity funds usually show low or negative returns. Over time, companies progress and values increase resulting in unrealized gains above original cost. In the final years, higher valuations are confirmed by the partial or complete sale of companies, resulting in cash flows to the partners. The effect of this timing on the fund's interim returns is known as the J-Curve Effect. In practice, a private equity portfolio involves a series of J-Curves because funds are invested in at different times. However, not all funds will be profitable given the inherent risks of investing in private equity, including macroeconomic factors and the performance of underlying companies.

Limited Partner

An investor in a limited partnership (such as a private equity fund).

Limited Partnership

Legal structure used by most venture and private equity funds that usually consists of a general partner (the management firm which has unlimited liability) and limited partners (the investors, who have limited liability and are not involved with day-to-day operations). The general partner receives a management fee and a percentage of the profits. The limited partners receive income, capital gains, and tax benefits. Using policies spelled out in a partnership agreement including terms, fees, and structure, the general partner manages the partnership.

Liquidity

Measures or describes the ease and time in which assets can be turned into cash without an impact on price.

Management Fee

This represents management fees charged (typically on committed capital).

Mezzanine

Financing that combines debt and equity used in takeovers. It uses preferred shares and convertible securities to make a target firm larger.

Net Internal Rate of Return

The dollar-weighted internal rate of return, net of management fees and carried interest, generated by WSIB investment in the fund. This return considers the daily timing of all cash flows and the WSIB's cumulative fair stated value, as of the end of the reported period.



Non-voting WSIB Board Members

Members, typically experts in the investment and economics fields, who are appointed by the voting Board members and act in an advisory capacity.

Passive Management

An investment strategy that seeks to match the return and risk characteristics of a market segment or index by mirroring its composition.

Portfolio

The mix and composition of an investor's holdings amongst different classes of assets, such as bonds, mortgages, and common stocks.

Private Equity

The infusion of equity capital into a private company (one that is not available on the public markets).

Public equity

Shares that trade on public exchanges or "over-the-counter."

Risk

The degree of uncertainty and/or the amount of possible loss on an investment.

Savings Pool

The savings pool is a diversified portfolio in the DCP made up of GICs, bank investment contracts (BICs), and short-term cash funds. The primary objective is to preserve principal while earning a rate of return in excess of the current yield of U.S. Treasury securities of similar maturities. It is managed in a manner to facilitate liquidity needs and maintain stability of return.

Self-directed Investment

An investment program in which individual members or participants choose the investment vehicles for their assets, usually from amongst a set of investment options provided by the trustee.

State Street Bank (SSB)

This is the master custodian for the WSIB investment funds and the administrator of our supplemental savings programs.

Stakeholders

Those people or entities who have an interest in the performance of the WSIB, i.e., organizations, state employees, the Legislature, and taxpayers.

Strategic Planning

Long-term planning (at least 5-10 years out) that includes consideration of the external environment and future trends.

Total Allocation Portfolio (TAP)

A diversified investment portfolio in the DCP designed for the long-term investor. Assets are invested across 5 broad asset classes divided between public market securities such as stocks, fixed income, and cash, and private market investments such as real estate and private equity.





Treasury Inflation Protected Securities (TIPS)

A security that is identical to a treasury bond, except that principal and coupon payments are adjusted to eliminate the effects of inflation.

Trust Fund

A fund whose assets are managed by trustee or a board of trustees for the benefit of another party or parties. Applicable state and federal law and the instrument establishing the trust govern the fund.

Trustee

An individual or organization that holds or manages and invests assets for the benefit of another.

TUCS Public Fund Median

Trust Universe Comparison Services Median return of other public funds.

Value Strategy

A style of equity investing that focuses on buying undervalued or distressed stocks that the investment manager expects will be more fairly valued at a future date.

Venture Capital

Equity financing of early, expansion, and later stage emerging small businesses. Companies grow from start-up to medium-size businesses and are then either sold to the public through an Initial Public Offering or are sold to a strategic or financial buyer.

Volatility

In financial matters, volatility of returns is the measurement used to define risk. It describes the spread of annual returns from lowest to highest over a particular period. The greater the volatility, the higher the risk.

Voting WSIB Board Members

There are 10 voting members on the Board. They include 5 members who represent various stakeholders in the pension systems, 3 Ex-Officio members, and 2 Legislators, 1 from the House and 1 from the Senate.



