



Washington State Auditor Brian Sonntag

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

November 30, 2010

The Honorable Christine Gregoire
Governor, State of Washington

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate discretely presented component units and remaining fund information of the State of Washington, as of and for the year ended June 30, 2010, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Department of Retirement Systems, Washington's Lottery, Local Government Investment Pool, University of Washington, Western Washington University, and the funds managed by the State Investment Board. Those financial statements represent part or all of the total assets, net assets, and revenues or additions of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component units and remaining fund information as follows:

<u>Opinion Unit</u>	<u>Percent of Total Assets</u>	<u>Percent of Net Assets</u>	<u>Percent of Total Revenues/ Additions</u>
Governmental Activities	11.8%	21.2%	12.8%
Business-Type Activities	78.3%	100%	17.4%
Higher Education Special Revenue Fund	39.2%	30.7%	48.9%
Higher Education Endowment Fund	91.2%	96.7%	90.4%
Higher Education Student Services Fund	73.3%	82.5%	80.2%
Workers' Compensation Fund	99.0%	100%	44.8%
Aggregate Discretely Presented Component Units and Remaining Fund Information	90.2%	95.5%	83.7%

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the above mentioned entities and funds are based solely on the reports of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate discretely presented component units and remaining fund information of the State of Washington, as of June 30, 2010, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As explained in Note 1.D.1, the financial statements include pension trust fund investments valued at \$21.7 billion which comprise 25.4% of total assets and 30.5% of net assets of the aggregate discretely presented component units and remaining fund information. The fair values of these investments have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or, in the case of investments in partnerships, the general partners.

As described in Note 2, during the year ended June 30, 2010, the State implemented Governmental Accounting Standards Board Statement No. 51 - Accounting and Financial Reporting for Intangible Assets and Statement No. 53 - Accounting and Financial Reporting for Derivative Instruments.

The management's discussion and analysis and the required supplementary information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the State of Washington's basic financial statements. The information listed in the table of contents as combining and individual fund financial statements and schedules is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The information identified in the table of contents as the introductory and statistical sections is not a required part of the basic financial statements but is supplementary information presented for purposes of additional analysis. Such information has not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on it.

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with a large initial "B" and "S".

BRIAN SONNTAG, CGFM
STATE AUDITOR

MD&A
Management's Discussion and Analysis

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MD&A

Management's Discussion & Analysis

As managers of the state of Washington, we offer this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2010. We present this information in conjunction with the information included in our letter of transmittal, which can be found preceding this narrative, and with the state's financial statements, which follow. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- Total assets of the state of Washington exceeded its liabilities by \$16.2 billion (reported as net assets). Of this amount, \$(11.1) billion was reported as "unrestricted (deficit) net assets." A negative balance indicates that no funds were available for discretionary purposes.
- The state of Washington's governmental funds reported a combined ending fund balance of \$10.5 billion, an increase of 10 percent compared with the prior year.
- The General Fund reported an unreserved fund balance (deficit) of \$(561) million, at the end of Fiscal Year 2010, or 2.4 percent of total General Fund expenditures.
- The state's capital assets increased by \$1.8 billion while total bond debt increased by \$2.7 billion during the current fiscal year. Of the total bond debt issued, \$1.1 billion was unspent at year end largely related to a June 2010 bond issuance.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the state of Washington's basic financial statements, which include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The focus is on both the state as a whole (government-wide) and the major individual funds. The dual perspectives allow the reader to address relevant questions, broaden a basis for comparison (year-to-year or government-to-government), and enhance the state's accountability.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of the state of Washington's finances, in a manner similar to a private sector business.

Statement of Net Assets. The *Statement of Net Assets* presents information on all of the state of Washington's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the state of Washington is improving or deteriorating.

Statement of Activities. The *Statement of Activities* presents information showing how the state's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). The Statement of Activities is focused on both the gross and net cost of various activities (including governmental, business-type, and component unit). This is intended to summarize and simplify the reader's analysis of the revenues and costs of various state activities and the degree to which activities are subsidized by general revenues.

Both of these government-wide financial statements distinguish functions of the state of Washington that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

The governmental activities of the state of Washington include education, human services, transportation, natural resources, adult corrections, and general government.

The business-type activities of the state of Washington include the workers' compensation and unemployment compensation programs, as well as Washington's lottery, liquor control, and various higher education student services such as housing and dining.

The government-wide financial statements can be found on pages 37-39 of this report.

FUND FINANCIAL STATEMENTS

A fund is a group of related accounts used to maintain control over resources that are segregated for specific activities or objectives. The state of Washington, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the state can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for four major funds and an aggregate total for all nonmajor funds. The state's major governmental funds are the General Fund, Higher Education Special Revenue Fund, the Motor Vehicle Fund, and the Higher Education Endowment Fund. Individual fund data for the state's nonmajor governmental funds are provided in the form of combining statements elsewhere in this report. The governmental fund financial statements can be found on pages 42-45 of this report.

Proprietary Funds. The state of Washington maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Internal service funds represent an accounting device used to accumulate and allocate costs internally among the state of Washington's various

functions. The state of Washington uses internal service funds to account for general services such as motor pool, central stores, data processing services, risk management, employee health insurance, and printing services. Because internal service funds predominately benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, but in greater detail. The proprietary fund financial statements provide separate information for the Workers' Compensation Fund, Unemployment Compensation Fund, and the Higher Education Student Services Fund, which are considered to be major funds, as well as an aggregated total for all nonmajor enterprise funds.

The internal service funds are combined for presentation purposes. Individual fund data for the state's nonmajor proprietary funds are provided in the form of combining statements elsewhere in this report. The proprietary fund financial statements can be found on pages 46-51 of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the state of Washington's own programs. Washington's fiduciary funds include state administered pension plans. The accounting used for fiduciary funds is much like that used for proprietary funds. Individual fund data for the state's fiduciary funds are provided in the form of combining statements elsewhere in this report.

The fiduciary fund financial statements can be found on pages 52-53 of this report.

Component Units. Component units that are legally separate from the state and primarily serve or benefit those outside the state are discretely presented. They are either financially accountable to the state, or have relationships with the state such that exclusion would cause the state's financial statements to be misleading or incomplete. The state discretely reports one major component unit, the Washington State Public Stadium Authority, and four nonmajor component units.

Refer to Note 1 on pages 59-60 for more detailed information. Individual fund data for the state's nonmajor component units are provided in the form of combining statements elsewhere in this report. The component unit financial statements can be found on pages 54-55 of this report.

NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 57-152 of this report.

budgetary comparisons, pension plans and other post-employment benefits, funding progress, and infrastructure assets reported using the modified approach.

Required supplementary information can be found on pages 153-179 of this report.

OTHER REQUIRED INFORMATION

In addition to this discussion and analysis, this report also presents required supplementary information on

The combining statements referred to earlier are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 181-231 of this report.

STATE OF WASHINGTON						
Statement of Net Assets						
<i>(in millions of dollars)</i>						
	Governmental		Business-Type		Total	
	Activities		Activities			
	2010	2009	2010	2009	2010	2009
ASSETS						
Current and other assets	\$ 16,915	\$ 15,611	\$ 22,080	\$ 21,027	\$ 38,995	\$ 36,638
Capital assets	31,247	29,558	2,254	2,099	33,501	31,657
Total assets	48,162	45,169	24,334	23,126	72,496	68,295
LIABILITIES						
Current and other liabilities	3,730	3,593	3,421	2,653	7,151	6,246
Long-term liabilities outstanding	21,234	17,721	27,934	25,689	49,168	43,410
Total liabilities	24,964	21,314	31,355	28,342	56,319	49,656
NET ASSETS						
Invested in capital assets, net of related debt	18,201	17,551	913	721	19,114	18,272
Restricted	5,214	4,887	2,930	3,800	8,144	8,687
Unrestricted (deficit)	(217)	1,417	(10,864)	(9,737)	(11,081)	(8,320)
Total net assets	\$ 23,198	\$ 23,855	\$ (7,021)	\$ (5,216)	\$ 16,177	\$ 18,639

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. For the state of Washington, total assets exceed liabilities by \$16.2 billion at June 30, 2010 as compared to \$18.6 billion as reported at June 30, 2009.

The largest portion of the state’s net assets (118.2 percent for Fiscal Year 2010 as compared to 98.0 percent for Fiscal Year 2009) reflects its investment in capital assets (e.g., land, buildings, equipment and intangible assets), less any related debt used to acquire those assets that is still outstanding. The state of Washington uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Although the state of Washington’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A portion of the state of Washington’s net assets (50.3 percent for Fiscal Year 2010 as compared to 46.6 percent for Fiscal Year 2009) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$(11.1) billion represents unrestricted (deficit) net assets. The state’s overall negative balance is caused by deficits in both governmental and business-type activities.

In governmental activities, the deficit is largely related to decreased tax revenues in Fiscal Year 2010. The decline in tax revenues reflects the continued weak economy and the lack of consumer confidence.

State of Washington

In business-type activities, the majority of the deficit is caused by the workers' compensation program that provides time-loss, medical, disability and pension payments to qualifying individuals who sustain work-related injuries or develop occupational diseases as a result of their required work activities.

The main benefit plans of the workers' compensation program are funded on rates that will keep the plans solvent in accordance with recognized actuarial principles.

The supplemental pension cost-of-living adjustments (COLAs) granted for time-loss and disability payments, however, are funded on a pay-as-you-go basis. By statute, the state is only allowed to collect enough revenue to fund the current COLA payments.

As previously mentioned, the state's activities are divided between governmental and business-type. The majority of support for governmental activities comes from taxes and intergovernmental grants, while business-type activities are supported primarily through user charges.

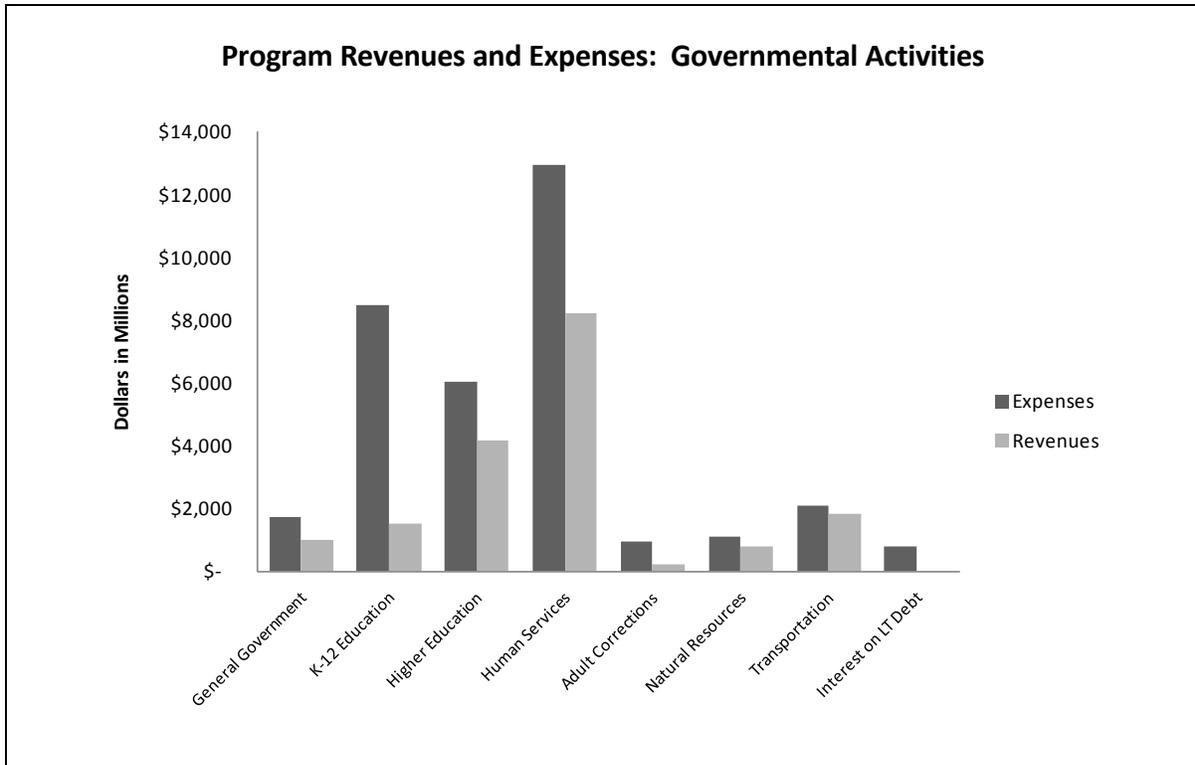
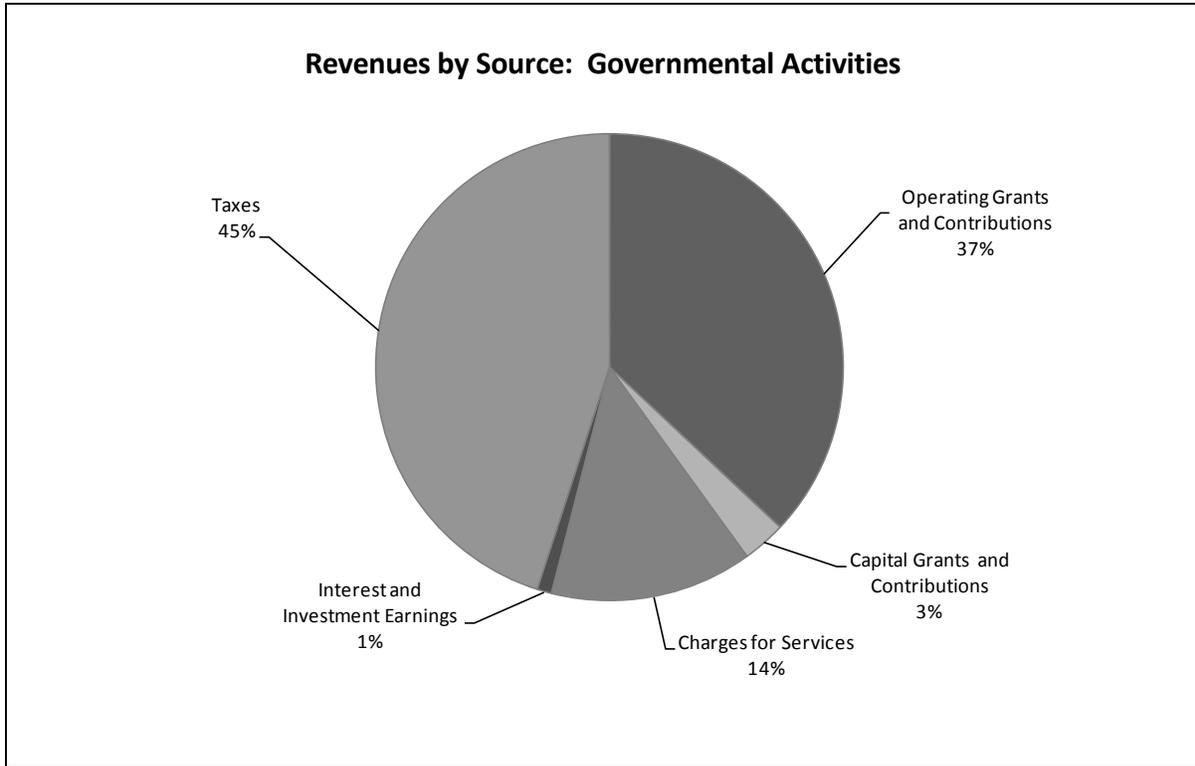
STATE OF WASHINGTON						
Changes in Net Assets						
<i>(in millions of dollars)</i>						
	Governmental		Business-Type		Total	
	Activities		Activities		Total	
	2010	2009	2010	2009	2010	2009
REVENUES						
Program revenues:						
Charges for services	\$ 4,584	\$ 4,398	\$ 5,987	\$ 5,640	\$ 10,571	\$ 10,038
Operating grants and contributions	12,193	10,565	2,468	572	14,661	11,137
Capital grants and contributions	939	706	-	-	939	706
General revenues:						
Taxes	14,982	16,001	160	113	15,142	16,114
Interest and investment earnings (loss)	449	(212)	1,743	291	2,192	79
Total Revenues	33,147	31,458	10,358	6,616	43,505	38,074
EXPENSES						
General government	(1,738)	(1,815)	-	-	(1,738)	(1,815)
Education - K-12	(8,468)	(8,549)	-	-	(8,468)	(8,549)
Education - Higher education	(6,051)	(6,044)	-	-	(6,051)	(6,044)
Human services	(12,946)	(12,436)	-	-	(12,946)	(12,436)
Adult corrections	(938)	(1,044)	-	-	(938)	(1,044)
Natural resources and recreation	(1,084)	(1,062)	-	-	(1,084)	(1,062)
Transportation	(2,073)	(1,883)	-	-	(2,073)	(1,883)
Interest on long-term debt	(810)	(728)	-	-	(810)	(728)
Workers' compensation	-	-	(4,268)	(2,544)	(4,268)	(2,544)
Unemployment compensation	-	-	(4,729)	(2,360)	(4,729)	(2,360)
Higher education student services	-	-	(1,628)	(1,502)	(1,628)	(1,502)
Liquor control	-	-	(552)	(540)	(552)	(540)
Washington's lottery	-	-	(389)	(401)	(389)	(401)
Other business-type activities	-	-	(345)	(391)	(345)	(391)
Total Expenses	(34,108)	(33,561)	(11,911)	(7,738)	(46,019)	(41,299)
Excess (deficiency) of revenues over expenses before contributions						
to endowments and transfers	(961)	(2,103)	(1,553)	(1,122)	(2,514)	(3,225)
Contributions to endowments	52	57	-	-	52	57
Transfers	252	(190)	(252)	190	-	-
Increase (decrease) in net assets	(657)	(2,236)	(1,805)	(932)	(2,462)	(3,168)
Net assets - July 1	23,855	26,091	(5,216)	(4,284)	18,639	21,807
Net assets - June 30	\$ 23,198	\$ 23,855	\$ (7,021)	\$ (5,216)	\$ 16,177	\$ 18,639

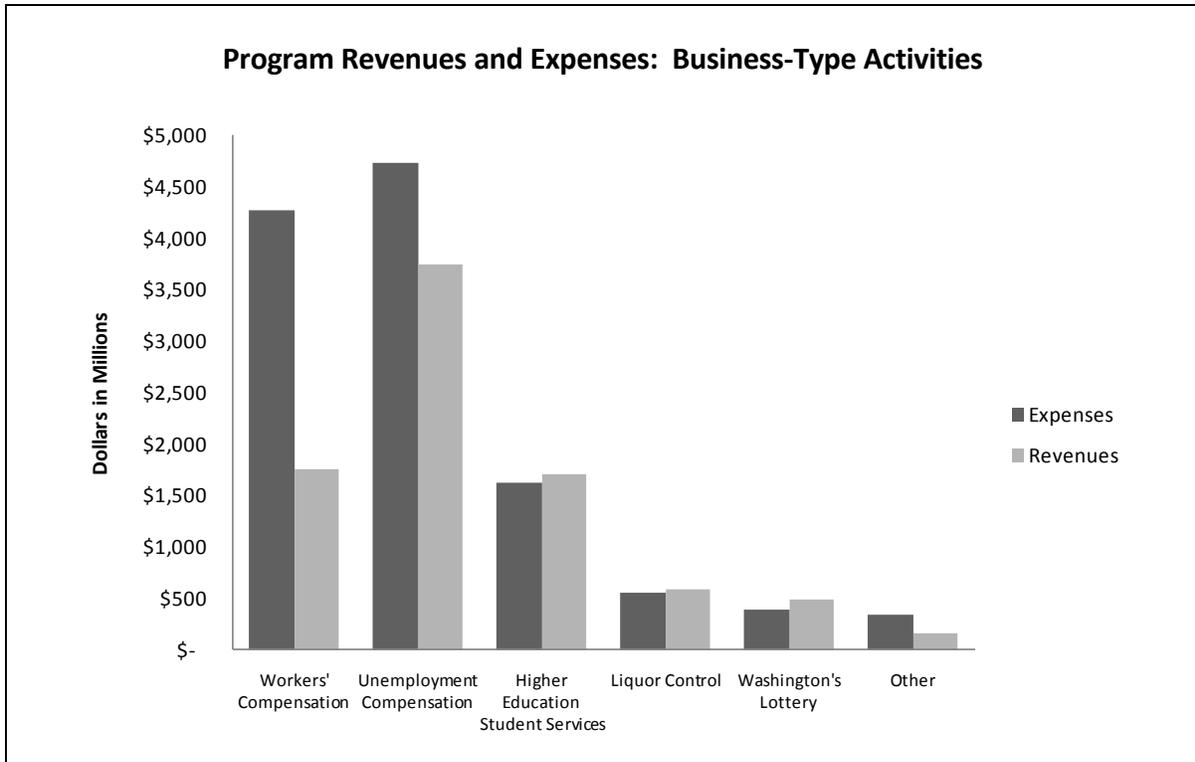
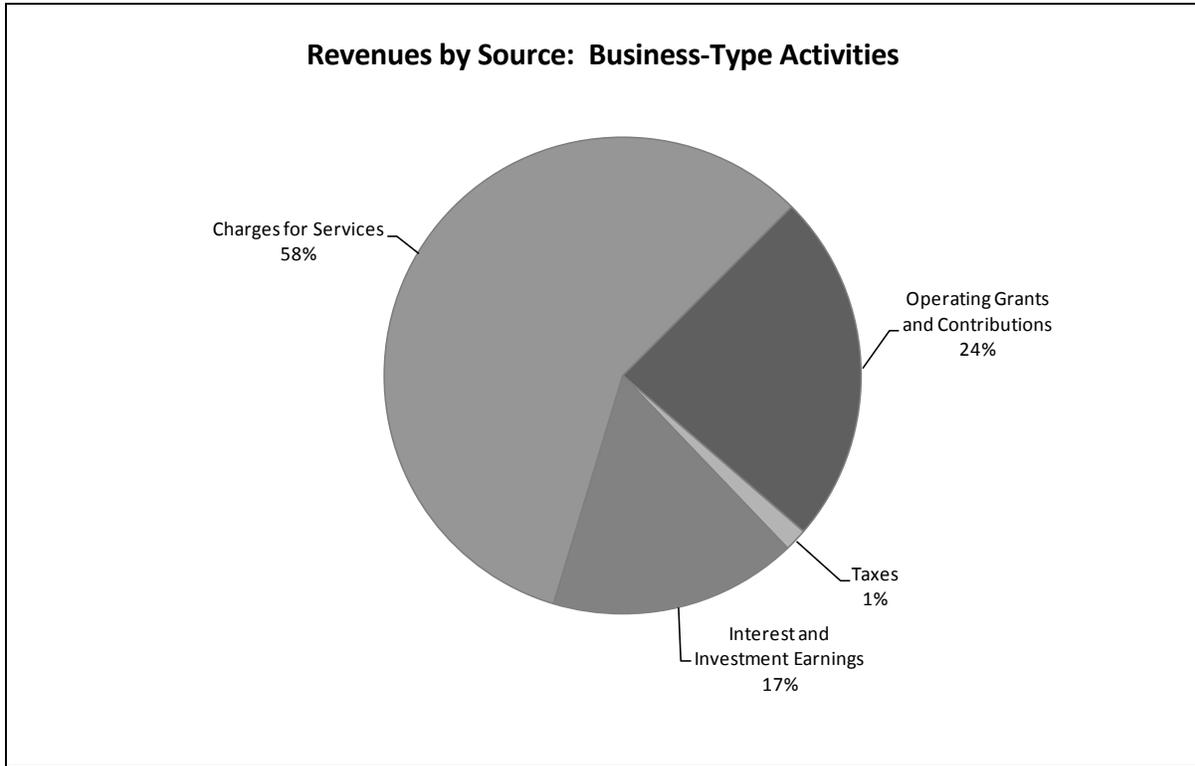
Governmental Activities. Governmental activities resulted in a decrease in the state of Washington's net assets of \$657 million. A number of factors contributed to the decrease:

- Tax revenues decreased \$1.0 billion in Fiscal Year 2010 as compared to Fiscal Year 2009 reflecting the negative impact of the slowing economy and slumping housing markets. While certain tax sources showed moderate increases, sales and use taxes reported a decrease of \$435 million. Sales and use taxes are the main tax revenue for governmental activities. Taxable sales have declined due to reductions in consumer spending power as a result of job losses as well as weak consumer confidence. Real estate excise taxes also declined by \$20 million reflecting the continued decline in real estate throughout Fiscal Year 2010 in spite of record low mortgage rates, declining home prices and the federal government's home-buyers tax credit program.
- Operating and capital grants and contributions increased \$1.9 billion in Fiscal Year 2010 as compared to Fiscal Year 2009. American Recovery and Reinvestment Act grants made up \$1.3 billion of the increase funding expenses in the areas of education, transportation, public health and the environment.
- Expenses grew slightly in spite of the drop in revenues. The expenses for human services and education comprised 80.5 percent of the total expenses for governmental activities which is consistent with the 80.5 percent in Fiscal Year 2009. Human services accounted for the majority of the growth in expenses increasing by \$510 million or 4.1 percent in Fiscal Year 2010 over Fiscal Year 2009 reflecting the increased number of citizens seeking assistance from state programs and services due to the economic recession.

Business-Type Activities. Business-type activities decreased the state of Washington's net assets by \$1.8 billion which included losses in both the workers' compensation and unemployment compensation activities. Key factors contributing to the operating results of business-type activities are:

- The decrease in net assets in the workers' compensation activity in Fiscal Year 2010 was \$598 million more than the decrease in Fiscal Year 2009. A number of factors contributed to the increased loss including a decrease in premium revenue of \$97 million which resulted from a 5.2 percent decline in the number of reported hours worked reflecting the current recessionary stress on the job market. Claims costs increased by \$1.8 billion or 82.1 percent in Fiscal Year 2010 compared with Fiscal Year 2009. The increase in claims costs is attributable to increases in forecasted future wage inflation, an increase in the number of pensions granted for permanent disability, and increases in the duration of time-loss claims affecting both current and prior year claims. Nonoperating investment income increased by \$1.2 billion due to improvements in the financial markets.
- The unemployment compensation activity reported a Fiscal Year 2010 operating loss of \$985 million, compared to a \$789 million operating loss in Fiscal Year 2009. Washington's unemployment insurance program is an experience-based system. Since Washington had relatively low unemployment until Fiscal Year 2009, unemployment premium revenue had been declining. Fiscal Year 2010 premium revenues reflected the first increase since Fiscal Year 2005. This increase combined with an increase in federal aid of \$1.9 billion, which included American Recovery and Reinvestment Act funding, fell short of covering the increase in unemployment insurance benefits which rose by \$2.4 billion over Fiscal Year 2009. The increase in benefit costs was the result of increases in the number of claims and the duration of claims. The annualized unemployment rate for the state was 9.2 percent in Fiscal Year 2010, up from 7.3 percent in Fiscal Year 2009, a 26 percent increase.
- The higher education student services activity reported relatively proportional increases in both expenses and charges for services when compared to the prior year. Additionally, both liquor control and Washington's lottery activities reported operating revenues and expenses consistent with the prior year.





Financial Analysis of the Government's Funds

As noted earlier, the state of Washington uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. As previously discussed, the focus of the state of Washington's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the state of Washington's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the state of Washington. Due to statutory changes, several related accounts were added to the General Fund during Fiscal Year 2010 to improve budget transparency.

At the end of Fiscal Year 2010, total fund balance for the General Fund equaled \$379 million, a decrease of \$783 million from Fiscal Year 2009. Unreserved fund balance included \$864 million designated for working capital purposes. This amount relates to certain accrued revenues and is not considered by management to be available to spend.

The remaining unreserved fund balance deficit of \$(561) million indicates that the state has overspent funds available for discretionary purposes. The deficit fund balance reflects the Fiscal Year 2010 decrease of \$783 million which followed the \$757 million decrease in Fiscal Year 2009. The back to back decreases are due to the recessionary economic conditions.

The increase in General Fund revenues and expenditures is largely attributable to the consolidation of the related accounts. Consistent with Fiscal Year 2009, revenues did not keep pace with the demand for services.

STATE OF WASHINGTON			
General Fund			
<i>(in millions of dollars)</i>			
	Fiscal Year		Difference Increase (Decrease)
	2010	2009	
REVENUES			
Taxes	\$13,169	\$12,791	\$ 378
Federal grants	9,648	8,311	1,337
Investment revenue (loss)	(9)	64	(73)
Other	567	421	146
Total	23,375	21,587	1,788
EXPENDITURES			
Human services	13,209	11,912	1,297
Education	9,243	9,044	199
Other	1,331	1,223	108
Total	23,783	22,179	1,604
Net transfers in (out)	(379)	(192)	(187)
Other financing sources	4	27	(23)
Net increase (decrease) in fund balance	\$ (783)	\$ (757)	\$ (26)

Expenditures continue to be concentrated in services and programs most vital to citizens – primarily human services and public education. In Fiscal Year 2010, the General Fund received \$1.7 billion in American Recovery and Reinvestment Act funding predominately for human services and public education programs up from \$927 million in Fiscal Year 2009.

In addition to the General Fund, the state reports the Higher Education Special Revenue, the Motor Vehicle

Special Revenue and the Higher Education Endowment Funds as major governmental funds.

The fund balance of the Higher Education Special Revenue Fund increased by \$114 million in Fiscal Year 2010. Increases in tuition and federal grant revenues offset the increased costs of higher education activities.

The fund balance of the Motor Vehicle Special Revenue Fund increased by \$1.2 billion. The majority of this

increase is due to June bond sale proceeds intended for expenditure on construction projects during the summer months. The state issued \$1.7 billion in federal Build America Bond bonds in Fiscal Year 2010 accelerating a portion of the planned Fiscal Year 2011 borrowings to take advantage of exceptionally low interest rates.

The fund balance for the Higher Education Endowment Fund increased by \$251 million. While support from donors was consistent with the prior year, investment earnings of \$270 million in Fiscal Year 2010 compared with investment losses of \$474 million in Fiscal Year 2009 reflected improvement in the financial markets. The increase in investment earnings supported the increased use of funds to support donor specified activities.

The fund balance for nonmajor governmental funds increased by \$186 million. The largest factor contributing to the increase is bond sale proceeds on hand at year end to cover construction projects in progress.

Proprietary Funds. The state of Washington's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

- The Workers' Compensation Fund reported a loss of \$1.0 billion in Fiscal Year 2010. Operating revenues decreased by \$101 million and operating expenses increased by \$1.7 billion as compared to Fiscal Year 2009. As noted previously, operating revenues were down due to a reduction in reported worker hours reflecting the sluggish job market and claims were up due to increases in forecasted future wage inflation, an increase in the number of pensions granted for permanent disability, and increases in the duration of time-loss claims affecting both current and prior year claims. The negative changes were partially offset by an increase in investment income of \$1.2 billion.
- Washington's average unemployment rate increased markedly in Fiscal Year 2010, as the continued slow national economy and weak housing markets took their toll on the labor markets. Despite an increase in federal aid of \$1.9 billion, which included American Recovery and Reinvestment Act funding, the Unemployment Compensation Fund incurred a loss of \$870 million.
- Activity for the various nonmajor proprietary funds resulted in a net increase to net assets of \$18 million. The overall increase was reduced by the \$20 million loss reported by the state's guaranteed college tuition (GET) program which is included in the Other Activities Fund. This GET loss was smaller than the \$340 million loss reported in Fiscal Year 2009. The losses are primarily due to lower than projected investment earnings combined with higher than projected tuition increases. The GET program is continuing to proceed cautiously.

General Fund Budgetary Highlights

Differences between the original budget of the General Fund and the final amended budget reflect adjustments related to changes in the state's economy during the year ended June 30, 2010. While there were no significant increases or decreases, changes to estimates are summarized as follows:

- Estimated resources increased by \$950 million over the course of the first fiscal year. A decrease of \$911 million was reported for taxes in recognition of the continued sluggish economy. The decrease in estimated tax revenue was offset by increases to federal grants-in-aid of \$1.3 billion.
- Appropriated expenditure authority increased by \$1.2 billion over the course of the Fiscal Year ended June 30, 2010. Increases were recorded in human services, natural resources and recreation, education and capital outlays of \$1.2 billion, \$90 million, \$57 million, and \$29 million, respectively. The largest decrease was in transfers to other funds of \$171 million.

The state did not overspend its legal spending authority for the Fiscal Year 2010, the first year of the 2009-2011 Biennium. Actual General Fund revenues and expenditures were 48 and 49 percent of final budgeted revenues and appropriations, respectively, for the 2009-2011 Biennium.

Capital Assets, Infrastructure, Bond Debt Administration, and Economic Factors

Capital Assets. The state of Washington's investment in capital assets for its governmental and business-type activities as of June 30, 2010 amounted to \$33.5 billion (net of accumulated depreciation). This investment in capital assets includes land, infrastructure, museum and historical collections, buildings and other improvements, furnishings, equipment, and intangibles, as well as construction in progress.

Washington's Fiscal Year 2010 investment in capital assets, net of current year depreciation, was \$1.8 billion, including increases to the state's transportation infrastructure of \$1.4 billion and buildings of \$558 million. The state's construction in progress includes both new construction and major improvements to state and common school capital facilities, transportation projects and assistance to local governments for public works capital projects.

Remaining commitments on these construction projects total \$5.3 billion.

Additional information on the state of Washington's capital assets can be found in Note 6 beginning on page 96 of this report.

Infrastructure. The state of Washington first reported infrastructure under the requirements of the

Governmental Accounting Standards Board (GASB) Statement No. 34 in Fiscal Year 2002. Transportation infrastructure reported includes the state highway system, emergency airports, and two short rail lines. While the rail lines are reported net of depreciation, the state highway system and emergency airports are reported using the modified approach. Under the modified approach, rather than recording depreciation, asset condition is reported.

STATE OF WASHINGTON						
Capital Assets - Net of Depreciation						
<i>(in millions of dollars)</i>						
	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land	\$ 1,179	\$ 1,130	\$ 143	\$ 142	\$ 1,322	\$ 1,272
Transportation infrastructure and other assets not depreciated	19,758	18,328	-	-	19,758	18,328
Buildings	6,926	6,473	1,671	1,566	8,597	8,039
Furnishings, equipment and intangible assets	1,362	1,377	142	150	1,504	1,527
Other improvements and infrastructure	1,157	1,065	87	88	1,244	1,153
Construction in progress	865	1,185	211	153	1,076	1,338
Total	\$ 31,247	\$ 29,558	\$ 2,254	\$ 2,099	\$ 33,501	\$ 31,657

The condition of these assets, along with the rating scales for pavement, bridges, rest areas, and airports, and additional detail comparing planned-to-actual preservation and maintenance spending are available in the required supplementary information beginning on page 171.

The state highway system capital investment in Fiscal Year 2010 was a net of \$1.4 billion to add additional lane miles, replace and build new bridges and highway structures, improve highway safety, increase mobility and preservation activities that extend the life of the system. Of this investment, \$150.5 million was funded by the federal American Recovery and Reinvestment Act. The Washington State Department of Transportation (WSDOT) accomplished a net addition of 106 lane miles and 23 bridges and other highway structures in Fiscal Year 2010. Amounts spent during Fiscal Year 2010 to maintain and preserve these infrastructure assets were not significantly different from estimated spending plans according to the biennial budget.

The state highway system and emergency airports continue to meet established condition levels. No significant changes in condition levels were noted for pavements or bridges. Detailed information about targeted and actual condition levels for roads, bridges, rest areas, and airports can be found in the required supplementary information section of this report.

The safety of bridge structures is ensured through meticulous inspections and rating of the primary components of bridges by the WSDOT Bridge Preservation Office or local agency staff. The condition of all bridge decks, superstructures and substructures are rated based on these inspections.

The WSDOT's planned highway infrastructure projects for the next four years, Fiscal Years 2011 through 2014, would commit approximately \$3.7 billion for 448 projects. These projects are either already in progress or are expected to commence within the next four years.

Bond Debt. At the end of Fiscal Year 2010, the state of Washington had general obligation bond debt outstanding of \$16.6 billion, an increase of 18 percent over Fiscal Year 2009. This debt is secured by a pledge of the full faith and credit of the state. Additionally, the state had authorized \$9.5 billion general obligation debt that remains unissued.

During Fiscal Year 2010, the state issued general obligation debt, totaling \$3.9 billion, for various capital and transportation projects. The state took advantage of historically low interest rates and the federal Build America Bonds program to lock in long-term borrowing costs at unprecedented lows. Two Build America Bonds sales during Fiscal Year 2010 provided \$1.6 billion to finance transportation projects at the lowest net effective true

interest cost in state history. Washington also capitalized on strong demand for Washington debt to refund outstanding bonds for a savings of \$70.4 million in debt service costs.

General obligation debt is subject to the constitutional limitation as prescribed by the State Constitution. The aggregate debt contracted by the state as of June 30, 2010, does not exceed that amount for which payments of principal and interest in any fiscal year would require the state to expend more than 9 percent of the arithmetic mean of its general state revenues for the three immediately preceding fiscal years. The arithmetic mean

of its general state revenues for Fiscal Years 2007, 2008, and 2009 is \$12.5 billion. The debt service limitation, 9 percent of this mean, is \$1.1 billion. The state's maximum annual debt service as of June 30, 2010 subject to the constitutional debt limitation is \$971.3 million, or \$155.4 million less than the debt service limitation.

For further information on the debt limit, refer to the Certification of the Debt Limitation of the State of Washington, available from the Office of the State Treasurer or at: http://www.tre.wa.gov/documents/debt_cdl2010.pdf.

STATE OF WASHINGTON						
Bond Debt						
<i>(in millions of dollars)</i>						
	Governmental		Business-Type		Total	
	Activities		Activities			
	2010	2009	2010	2009	2010	2009
General obligation (GO) bonds	\$ 16,540	\$ 14,049	\$ 60	\$ 69	\$ 16,600	\$ 14,118
Accreted interest on zero interest rate GO bonds	367	328	42	38	409	366
Revenue bonds	743	616	1,084	1,074	1,827	1,690
Total	\$ 17,650	\$ 14,993	\$ 1,186	\$ 1,181	\$ 18,836	\$ 16,174

By statutory provision, the State Finance Committee (SFC) is authorized to supervise and control the issuance of all state bonds, notes, or other evidences of indebtedness.

The SFC is composed of the Governor, Lieutenant Governor, and State Treasurer, the latter serving as chairman.

As of June 30, 2010, the state of Washington's general obligation debt was rated Aa1 by Moody's Investor Service, AA+ by Standard & Poor's Rating Group (S & P), and AA+ by Fitch Ratings.

The state had revenue debt outstanding at June 30, 2010, of \$1.8 billion, an increase of \$137 million over Fiscal Year 2009. This increase is primarily related to revenue bonds issued by state colleges and universities. This debt is not supported or intended to be supported by the full faith and credit of the state. Revenue bond debt is generally secured by specific sources of revenue. The exception is the University of Washington who issues general revenue bonds that are payable from general revenues of the university.

Additional information on the state's bond debt obligations is presented in Note 7 beginning on page 100 of this report.

Additional information on the state's legal debt limit is presented in the statistical section on page 266 of this report.

Conditions with Expected Future Impact

Economic Factors. The forecast for Washington for Fiscal Year 2011 is for a slow to moderate recovery from the recession. That said, in the coming year, legislative leaders and management will be facing a number of challenges.

- Employment is projected to begin rebounding in Fiscal Year 2011, although construction employment is not expected to show signs of recovery until the second half of Fiscal Year 2011.
- The economic recovery is expected to be slow by historical standards.
- Following September 2011 forecast projections of reduced state revenues, Governor Gregoire called for across the board cuts in the General Fund of 6.3 percent effective October 1, 2011.

Rainy Day Account. In November 2007, Washington State voters ratified Engrossed Substitute Senate Joint Resolution 8206, amending the state's Constitution and establishing the Budget Stabilization Account (BSA). The Constitution details a limited number of circumstances under which funds can be appropriated from the BSA, one of which is a favorable vote of at least three-fifths of the members of each house of the Legislature.

On June 30, 2010, \$119 million was transferred to the BSA from the General Fund in accordance with the provisions of the Constitution. Also during Fiscal Year 2010, Engrossed Substitute House Bill 6444 authorized the transfer of \$45 million from the BSA to the General Fund.

The BSA has a fund balance of \$95 million as of June 30, 2010.

November 2, 2010 General Election. There were measures on the state's November 2, 2010 general election ballot that addressed state laws related to state operations, state imposed taxes and fees, and the calculation of the

state debt limitation. These measures, if passed, could fiscally impact the state. Election results are not final or official until certified. By law, December 2, 2010 is the last day for the Office of the Secretary of State to certify General Election returns. Information is posted as available on the Secretary of State's website at <http://www.sos.wa.gov>.

Requests for Information

This financial report is designed to provide a general overview of the state of Washington's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of Financial Management, Accounting Division, P.O. Box 43113, Olympia, WA 98504-3113.

Basic Financial Statements
Governmental-wide Financial Statements

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Statement of Net Assets

June 30, 2010

(expressed in thousands)

	Primary Government			Component Units
	Governmental	Business-Type	Total	
	Activities	Activities		
ASSETS				
Cash and pooled investments	\$ 3,341,544	\$ 6,509,507	\$ 9,851,051	\$ 65,266
Taxes receivable (net of allowance)	2,837,375	9,790	2,847,165	-
Other receivables (net of allowance)	1,299,050	1,297,022	2,596,072	2,154
Internal balances (net)	192,382	(192,382)	-	-
Due from other governments	4,007,386	200,093	4,207,479	-
Inventories	90,610	98,132	188,742	-
Investments, noncurrent	3,863,824	13,749,971	17,613,795	18,469
Other assets	96,330	311,325	407,655	76,116
Restricted assets:				
Cash and cash equivalents	1,105,586	76,398	1,181,984	-
Investments	8,678	-	8,678	-
Receivables	72,127	20,315	92,442	-
Capital assets (Note 6):				
Non-depreciable assets	21,801,797	353,768	22,155,565	34,677
Depreciable assets, net of depreciation	9,445,126	1,900,472	11,345,598	338,377
Total capital assets, net of depreciation	31,246,923	2,254,240	33,501,163	373,054
Total Assets	\$ 48,161,815	\$ 24,334,411	\$ 72,496,226	\$ 535,059
LIABILITIES				
Accounts payable	\$ 1,676,691	\$ 95,144	\$ 1,771,835	\$ 37,450
Contracts and retainage payable	177,774	22,038	199,812	2,566
Accrued liabilities	610,115	263,251	873,366	3,930
Obligations under security lending agreements	203,150	2,867,466	3,070,616	-
Due to other governments	781,463	130,902	912,365	-
Unearned revenue	279,835	42,334	322,169	5,429
Long-term liabilities (Note 7):				
Due within one year	1,435,286	2,537,739	3,973,025	-
Due in more than one year	19,799,142	25,397,061	45,196,203	25,587
Total Liabilities	24,963,456	31,355,935	56,319,391	74,962
NET ASSETS				
Invested in capital assets, net of related debt	18,200,533	913,094	19,113,627	343,524
Restricted for:				
Unemployment compensation	-	2,929,842	2,929,842	-
Other purposes	2,298,123	-	2,298,123	20,990
Expendable permanent fund principal	1,413,326	-	1,413,326	-
Nonexpendable permanent endowments	1,503,472	-	1,503,472	-
Unrestricted (deficit)	(217,095)	(10,864,460)	(11,081,555)	95,583
Total Net Assets (Deficit)	\$ 23,198,359	\$ (7,021,524)	\$ 16,176,835	\$ 460,097

The notes to the financial statements are an integral part of this statement.

Statement of Activities
For the Fiscal Year Ended June 30, 2010
(expressed in thousands)

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT				
Governmental Activities:				
General government	\$ 1,738,451	\$ 534,461	\$ 433,204	\$ 1,124
Education - elementary and secondary (K-12)	8,467,649	11,725	1,510,920	-
Education - higher education	6,051,421	2,210,357	1,945,904	16,009
Human services	12,946,115	345,415	7,885,895	6,922
Adult corrections	937,473	17,815	184,738	-
Natural resources and recreation	1,083,430	564,345	168,456	55,253
Transportation	2,073,086	899,445	64,002	859,519
Interest on long-term debt	810,156	-	-	-
Total Governmental Activities	<u>34,107,781</u>	<u>4,583,563</u>	<u>12,193,119</u>	<u>938,827</u>
Business-Type Activities:				
Workers' compensation	4,267,927	1,755,015	7,805	-
Unemployment compensation	4,728,805	1,287,803	2,455,706	-
Higher education student services	1,627,819	1,698,098	4,474	-
Liquor control	552,363	592,638	10	-
Washington's lottery	388,715	491,076	-	-
Other	345,704	162,393	8	15
Total Business-Type Activities	<u>11,911,333</u>	<u>5,987,023</u>	<u>2,468,003</u>	<u>15</u>
Total Primary Government	<u>\$ 46,019,114</u>	<u>\$ 10,570,586</u>	<u>\$ 14,661,122</u>	<u>\$ 938,842</u>
COMPONENT UNITS	<u>\$ 68,184</u>	<u>\$ 16,446</u>	<u>\$ 43,771</u>	<u>\$ 903</u>
Total Component Units	<u>\$ 68,184</u>	<u>\$ 16,446</u>	<u>\$ 43,771</u>	<u>\$ 903</u>

General Revenues:

- Taxes, net of related credits:
 - Sales and use
 - Business and occupation
 - Property
 - Motor vehicle and fuel
 - Excise
 - Cigarette and tobacco
 - Public utilities
 - Insurance premium
 - Other
- Interest and investment earnings

Total general revenues

Excess (deficiency) of revenues over expenses before contributions to endowments and transfers

Contributions to endowments

Transfers

Change in Net Assets

Net assets - Beginning

Net assets - Ending

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-Type Activities	Total	
\$ (769,662)	\$ -	\$ (769,662)	
(6,945,004)	-	(6,945,004)	
(1,879,151)	-	(1,879,151)	
(4,707,883)	-	(4,707,883)	
(734,920)	-	(734,920)	
(295,376)	-	(295,376)	
(250,120)	-	(250,120)	
(810,156)	-	(810,156)	
<u>(16,392,272)</u>	<u>-</u>	<u>(16,392,272)</u>	
-	(2,505,107)	(2,505,107)	
-	(985,296)	(985,296)	
-	74,753	74,753	
-	40,285	40,285	
-	102,361	102,361	
-	(183,288)	(183,288)	
-	(3,456,292)	(3,456,292)	
<u>(16,392,272)</u>	<u>(3,456,292)</u>	<u>(19,848,564)</u>	
			<u>\$ (7,064)</u>
			<u>(7,064)</u>
6,870,776	-	6,870,776	-
2,596,668	-	2,596,668	-
1,822,278	-	1,822,278	-
1,218,877	-	1,218,877	-
466,557	50,766	517,323	-
426,265	-	426,265	-
411,584	-	411,584	-
405,922	-	405,922	-
763,337	109,462	872,799	-
449,090	1,742,003	2,191,093	2,708
<u>15,431,354</u>	<u>1,902,231</u>	<u>17,333,585</u>	<u>2,708</u>
(960,918)	(1,554,061)	(2,514,979)	(4,356)
52,230	-	52,230	-
251,914	(251,914)	-	-
(656,774)	(1,805,975)	(2,462,749)	(4,356)
23,855,133	(5,215,549)	18,639,584	464,453
<u>\$ 23,198,359</u>	<u>\$ (7,021,524)</u>	<u>\$ 16,176,835</u>	<u>\$ 460,097</u>

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Basic Financial Statements
Fund Financial Statements

Balance Sheet
GOVERNMENTAL FUNDS
 June 30, 2010
(expressed in thousands)

	Special Revenue			Higher Education Endowment	Nonmajor Governmental Funds	Total
	General	Higher Education	Motor Vehicle			
ASSETS						
Cash and pooled investments	\$ -	\$ 144,803	\$ 695,659	\$ 316,393	\$ 1,631,669	\$ 2,788,524
Investments	44,080	1,066,639	31,739	2,592,731	272,336	4,007,525
Taxes receivable (net of allowance)	2,703,247	21,169	110,536	-	2,423	2,837,375
Other receivables (net of allowance)	288,191	338,675	63,560	23,083	653,570	1,367,079
Due from other funds	76,085	155,172	11,432	28	1,012,920	1,255,637
Due from other governments	1,435,081	139,661	74,134	1	2,268,626	3,917,503
Inventories and prepaids	14,507	14,985	40,682	-	4,830	75,004
Restricted assets:						
Cash and pooled investments	-	-	960,036	-	145,550	1,105,586
Investments	-	-	-	-	8,678	8,678
Receivables	885	65,628	-	-	4	66,517
Total Assets	\$ 4,562,076	\$ 1,946,732	\$ 1,987,778	\$ 2,932,236	\$ 6,000,606	\$ 17,429,428
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 1,186,220	\$ 69,216	\$ 155,251	\$ 2,501	\$ 203,276	\$ 1,616,464
Contracts and retainages payable	38,688	3,477	54,668	1,994	42,140	140,967
Accrued liabilities	206,723	243,891	87,974	29,634	78,216	646,438
Obligations under security lending agreements	-	-	-	158,231	44,919	203,150
Due to other funds	877,992	92,968	15,860	2,151	165,585	1,154,556
Due to other governments	490,557	604	68,137	-	118,851	678,149
Deferred revenue	1,361,542	216,874	24,974	8,999	808,872	2,421,261
Claims and judgments payable	21,605	-	-	-	5,626	27,231
Total Liabilities	4,183,327	627,030	406,864	203,510	1,467,485	6,888,216
Fund Balances:						
Reserved for:						
Encumbrances	-	226,759	3,946	-	782,222	1,012,927
Inventories	13,871	12,629	40,682	-	612	67,794
Debt service	-	-	-	-	93,149	93,149
Permanent funds	-	-	-	2,728,726	188,072	2,916,798
Other specific purposes	62,293	210,978	853	-	2,009,812	2,283,936
Unreserved, designated for, reported in:						
Working capital	863,652	-	-	-	-	863,652
Higher education	-	107,624	-	-	-	107,624
Special revenue funds	-	-	-	-	157	157
Debt service funds	-	-	-	-	170,200	170,200
Unreserved, undesignated	(561,067)	761,712	1,535,433	-	-	1,736,078
Unreserved, undesignated reported in:						
Special revenue funds	-	-	-	-	1,219,705	1,219,705
Capital project funds	-	-	-	-	69,192	69,192
Total Fund Balances	378,749	1,319,702	1,580,914	2,728,726	4,533,121	10,541,212
Total Liabilities and Fund Balances	\$ 4,562,076	\$ 1,946,732	\$ 1,987,778	\$ 2,932,236	\$ 6,000,606	\$ 17,429,428

The notes to the financial statements are an integral part of this statement.

**Reconciliation of the Balance Sheet
to the Statement of Net Assets
GOVERNMENTAL FUNDS**

June 30, 2010
(expressed in thousands)

Total Fund Balances for Governmental Funds \$ 10,541,212

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Non-depreciable assets	\$ 21,785,333	
Depreciable assets	15,390,036	
Less: Accumulated depreciation	<u>(6,372,746)</u>	
Total capital assets		30,802,623

Some of the state's revenues will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds. 2,142,153

Certain pension trust funds have been funded in excess of the annual required contributions, creating a year-end asset. This asset is not a financial resource and therefore is not reported in the funds. 12,500

Unmatured interest on general obligation bonds is not recognized in the funds until due. (337,791)

Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets. (257,912)

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Bonds and other financing contracts payable	\$ (17,553,730)	
Accreted interest on bonds	(366,515)	
Compensated absences	(512,553)	
Other postemployment benefits obligations	(697,213)	
Unfunded pension obligations	(191,389)	
Pollution remediation obligations	(174,353)	
Claims and judgments	(33,661)	
Other obligations	<u>(175,012)</u>	
Total long-term liabilities		<u>(19,704,426)</u>

Net Assets of Governmental Activities \$ 23,198,359

The notes to the financial statements are an integral part of this statement.

Statement of Revenues, Expenditures, and Changes in Fund Balances
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2010
(expressed in thousands)

	Special Revenue		Higher Education Endowment	Nonmajor Governmental Funds	Total
	General	Higher Education			
REVENUES					
Retail sales and use taxes	\$ 6,801,220	\$ -	\$ -	\$ 69,556	\$ 6,870,776
Business and occupation taxes	2,592,710	-	-	3,958	2,596,668
Property taxes	1,822,278	-	-	-	1,822,278
Excise taxes	417,845	-	-	53,642	471,487
Motor vehicle and fuel taxes	-	-	1,203,870	15,007	1,218,877
Other taxes	1,535,293	158,736	26	276,634	1,970,689
Licenses, permits, and fees	85,637	617	375,492	525,164	986,910
Timber sales	4,855	-	27	20,321	147,651
Other contracts and grants	177,250	686,292	1,710	12,119	877,371
Federal grants-in-aid	9,647,711	1,389,004	546,918	804,202	12,387,835
Charges for services	55,660	1,787,298	242,283	1,107	2,403,320
Investment income (loss)	(9,485)	82,152	18,843	269,839	449,090
Miscellaneous revenue	182,827	207,821	27,803	1,852	918,785
Unclaimed property	60,853	-	-	-	60,853
Contributions and donations	-	-	-	52,230	52,230
Total Revenues	23,374,654	4,311,920	2,416,972	345,349	2,785,925
EXPENDITURES					
Current:					
General government	821,978	-	14,240	102	637,501
Human services	13,209,253	362	-	-	526,309
Natural resources and recreation	359,862	-	1,032	2	527,773
Transportation	43,930	1,991	1,246,463	-	583,563
Education	9,242,798	4,210,304	-	482	535,469
Intergovernmental	30,316	-	237,201	-	114,566
Capital outlays	53,796	187,844	1,468,215	129	550,111
Debt service:					
Principal	20,268	21,545	469	-	629,035
Interest	570	6,537	302	-	732,102
Total Expenditures	23,782,771	4,428,583	2,967,922	715	4,836,429
Excess of Revenues Over (Under) Expenditures	(408,117)	(116,663)	(550,950)	344,634	(2,050,504)
OTHER FINANCING SOURCES (USES)					
Bonds issued	-	41,466	2,060,820	-	1,193,290
Refunding bonds issued	-	-	-	-	723,115
Payments to escrow agents for refunded bond debt	-	-	-	-	(792,468)
Bond issue premiums	-	690	32,569	-	156,463
Bond issue discounts	-	-	-	-	(69)
Other debt issued	4,186	107,991	-	-	203
Refunding other debt issued	-	11,960	1,710	-	2,150
Payments to escrow agents for refunded other debt	-	(12,517)	(1,800)	-	(2,262)
Transfers in	1,187,128	217,859	24,228	6,734	2,262,876
Transfers out	(1,566,398)	(136,535)	(341,733)	(100,848)	(1,306,378)
Total Other Financing Sources (Uses)	(375,084)	230,914	1,775,794	(94,114)	2,236,920
Net Change in Fund Balances	(783,201)	114,251	1,224,844	250,520	186,416
Fund Balances - Beginning, as restated	1,161,950	1,205,451	356,070	2,478,206	4,346,705
Fund Balances - Ending	\$ 378,749	\$ 1,319,702	\$ 1,580,914	\$ 2,728,726	\$ 4,533,121

The notes to the financial statements are an integral part of this statement.

**Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances to the Statement of Activities**

GOVERNMENTAL FUNDS

For the Fiscal Year Ended June 30, 2010
(expressed in thousands)

Net Change in Fund Balances - Total Governmental Funds \$ 992,830

Amounts reported for governmental activities in the Statement of Activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlays	\$ 2,206,643	
Less: Depreciation expense	<u>(508,267)</u>	1,698,376

Some revenues in the Statement of Activities do not provide current financial resources, and therefore, are deferred in governmental funds. Also, revenues related to prior periods that became available during the current period are reported in governmental funds but are eliminated in the Statement of Activities. This amount is the net adjustment.

62,746

Pension trust funding in excess of annual required contributions uses current financial resources, but does not qualify as an expense.

(2,300)

Internal service funds are used by management to charge the costs of certain activities to individual funds. The change in net assets of the internal service funds is reported with governmental activities.

(70,715)

Bond proceeds and other financing contracts provide current financial resources to governmental funds, while the repayment of the related debt principal consumes those financial resources. These transactions, however, have no effect on net assets. In the current period, these amounts consist of:

Bonds and other financing contracts issued	\$ (4,800,227)	
Principal payments on bonds and other financing contracts	2,109,660	
Accreted interest on bonds	<u>(38,898)</u>	(2,729,465)

Some expenses/revenue reductions reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not recognized in governmental funds. Also payments of certain obligations related to prior periods are recognized in governmental funds but are eliminated in the Statement of Activities.

In the current period, the net adjustments consist of:

Compensated absences	\$ 6,414	
Other postemployment benefits obligations	(253,559)	
Unfunded pension obligations	(37,259)	
Pollution remediation obligations	(139,348)	
Claims and judgments	(56)	
Accrued interest	(31,838)	
Unclaimed property	(93,158)	
Other obligations	<u>(59,442)</u>	(608,246)

Change in Net Assets of Governmental Activities \$ (656,774)

The notes to the financial statements are an integral part of this statement.

Statement of Fund Net Assets
PROPRIETARY FUNDS
 June 30, 2010
(expressed in thousands)

	Business-Type Activities Enterprise Funds				Total	Governmental Activities
	Workers' Compensation	Unemployment Compensation	Higher Education Student Services	Nonmajor Enterprise Funds		Internal Service Funds
ASSETS						
Current Assets:						
Cash and pooled investments	\$ 47,007	\$ 2,321,418	\$ 871,501	\$ 347,259	\$ 3,587,185	\$ 335,349
Investments	2,377,679	-	4,353	540,290	2,922,322	2,702
Taxes receivable (net of allowance)	-	-	-	9,790	9,790	-
Other receivables (net of allowance)	588,631	521,125	159,153	28,113	1,297,022	6,973
Due from other funds	528	6,339	26,438	8,816	42,121	171,376
Due from other governments	1,207	104,828	53,325	3,767	163,127	8,396
Inventories	120	-	42,102	55,910	98,132	17,962
Prepaid expenses	-	-	19,397	1,343	20,740	5,102
Restricted assets:						
Cash and pooled investments	-	-	76,398	-	76,398	-
Receivables	-	-	-	20,315	20,315	5,610
Total Current Assets	3,015,172	2,953,710	1,252,667	1,015,603	8,237,152	553,470
Noncurrent Assets:						
Investments, noncurrent	11,894,481	-	223,455	1,632,035	13,749,971	71,268
Other noncurrent assets	-	-	67,806	222,778	290,584	29
Capital assets:						
Land and other non-depreciable assets	3,240	-	60,439	79,072	142,751	3,836
Buildings	62,705	-	1,920,425	420,691	2,403,821	168,506
Other improvements	1,661	-	74,401	21,751	97,813	18,796
Furnishings, equipment and intangible assets	69,688	-	394,769	70,169	534,626	766,227
Infrastructure	-	-	30,110	-	30,110	1,818
Accumulated depreciation	(81,377)	-	(914,115)	(170,406)	(1,165,898)	(527,511)
Construction in progress	7,443	-	153,540	50,034	211,017	12,628
Total Noncurrent Assets	11,957,841	-	2,010,830	2,326,124	16,294,795	515,597
Total Assets	14,973,013	2,953,710	3,263,497	3,341,727	24,531,947	1,069,067
LIABILITIES						
Current Liabilities:						
Accounts payable	2,882	-	61,591	30,671	95,144	60,226
Contracts and retainages payable	7,306	-	11,937	93,094	112,337	36,779
Accrued liabilities	161,014	2,613	156,726	128,644	448,997	32,524
Obligations under security lending agreements	2,377,679	-	-	489,787	2,867,466	-
Bonds and notes payable	4,030	-	47,017	74,062	125,109	23,775
Due to other funds	5,334	1,120	175,640	28,490	210,584	102,469
Due to other governments	-	20,135	6	97,716	117,857	41
Unearned revenue	7,996	-	34,286	52	42,334	726
Claims and judgments payable	2,132,081	-	-	4,501	2,136,582	237,626
Total Current Liabilities	4,698,322	23,868	487,203	947,017	6,156,410	494,166
Noncurrent Liabilities:						
Claims and judgments payable	21,893,751	-	-	7,989	21,901,740	635,530
Bonds and notes payable	18,080	-	1,092,441	251,481	1,362,002	171,843
Other long-term liabilities	29,914	-	90,983	2,012,422	2,133,319	25,440
Total Noncurrent Liabilities	21,941,745	-	1,183,424	2,271,892	25,397,061	832,813
Total Liabilities	26,640,067	23,868	1,670,627	3,218,909	31,553,471	1,326,979
NET ASSETS						
Invested in capital assets, net of related debt	41,251	-	656,509	215,334	913,094	254,293
Restricted for:						
Unemployment compensation	-	2,929,842	-	-	2,929,842	-
Unrestricted	(11,708,305)	-	936,361	(92,516)	(10,864,460)	(512,205)
Total Net Assets (Deficit)	\$ (11,667,054)	\$ 2,929,842	\$ 1,592,870	\$ 122,818	\$ (7,021,524)	\$ (257,912)

The notes to the financial statements are an integral part of this statement.

Statement of Revenues, Expenses, and Changes in Fund Net Assets
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2010
(expressed in thousands)

	Business-Type Activities Enterprise Funds				Governmental Activities	
	Workers' Compensation	Unemployment Compensation	Higher Education Student Services	Nonmajor Enterprise Funds	Total	Internal Service Funds
OPERATING REVENUES						
Sales	\$ -	\$ -	\$ 145,636	\$ 637,350	\$ 782,986	\$ 101,884
Less: Cost of goods sold	-	-	91,390	424,824	516,214	87,524
Gross profit	-	-	54,246	212,526	266,772	14,360
Charges for services	25	-	1,339,785	80,082	1,419,892	606,664
Premiums and assessments	1,727,722	1,241,121	-	-	2,968,843	1,300,093
Federal aid for unemployment insurance benefits	-	2,455,706	-	-	2,455,706	-
Lottery ticket proceeds	-	-	-	491,021	491,021	-
Miscellaneous revenue	27,195	46,682	209,960	7,090	290,927	111,189
Total Operating Revenues	1,754,942	3,743,509	1,603,991	790,719	7,893,161	2,032,306
OPERATING EXPENSES						
Salaries and wages	137,086	-	577,094	99,495	813,675	296,368
Employee benefits	48,557	-	154,896	41,630	245,083	83,609
Personal services	4,521	-	15,196	22,052	41,769	19,541
Goods and services	67,817	-	594,709	125,952	788,478	294,955
Travel	3,339	-	18,086	2,463	23,888	3,531
Premiums and claims	3,971,059	4,728,804	-	-	8,699,863	1,333,761
Lottery prize payments	-	-	-	291,828	291,828	-
Depreciation and amortization	7,991	-	101,021	16,325	125,337	69,208
Guaranteed education tuition expense	-	-	-	181,664	181,664	-
Miscellaneous expenses	26,287	-	16,113	578	42,978	2,223
Total Operating Expenses	4,266,657	4,728,804	1,477,115	781,987	11,254,563	2,103,196
Operating Income (Loss)	(2,511,715)	(985,295)	126,876	8,732	(3,361,402)	(70,890)
NONOPERATING REVENUES (EXPENSES)						
Earnings (loss) on investments	1,454,440	115,416	24,802	147,345	1,742,003	5,195
Interest expense	(1,271)	-	(59,313)	(34,917)	(95,501)	(8,207)
Distributions to other governments	-	-	-	(45,053)	(45,053)	-
Tax revenue	-	-	-	160,228	160,228	-
Other revenues (expenses)	7,878	-	7,191	30,581	45,650	(626)
Total Nonoperating Revenues (Expenses)	1,461,047	115,416	(27,320)	258,184	1,807,327	(3,638)
Income (Loss) Before Contributions and Transfers	(1,050,668)	(869,879)	99,556	266,916	(1,554,075)	(74,528)
Capital contributions	-	-	-	15	15	1,809
Transfers in	840	-	19,869	27,136	47,845	25,310
Transfers out	-	-	(23,570)	(276,190)	(299,760)	(23,306)
Net Contributions and Transfers	840	-	(3,701)	(249,039)	(251,900)	3,813
Change in Net Assets	(1,049,828)	(869,879)	95,855	17,877	(1,805,975)	(70,715)
Net Assets (Deficit) - Beginning, as restated	(10,617,226)	3,799,721	1,497,015	104,941	(5,215,549)	(187,197)
Net Assets (Deficit) - Ending	\$ (11,667,054)	\$ 2,929,842	\$ 1,592,870	\$ 122,818	\$ (7,021,524)	\$ (257,912)

The notes to the financial statements are an integral part of this statement.

Statement of Cash Flows
PROPRIETARY FUNDS
 For the Fiscal Year Ended June 30, 2010
(expressed in thousands)

	Business-Type Activities			
	Enterprise Funds			
	Workers' Compensation	Unemployment Compensation	Higher Education Student Services	Nonmajor Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 1,952,915	\$ 1,074,166	\$ 1,477,391	\$ 1,436,342
Payments to suppliers	(2,282,720)	(4,721,068)	(602,589)	(970,861)
Payments to employees	(178,887)	-	(708,190)	(135,136)
Other receipts (payments)	27,196	2,453,363	209,960	7,090
Net Cash Provided (Used) by Operating Activities	(481,496)	(1,193,539)	376,572	337,435
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers in	840	-	19,869	27,136
Transfers out	-	-	(23,570)	(276,190)
Operating grants and donations received	7,604	-	4,755	18
Taxes and license fees collected	113	-	-	186,208
Distributions to other governments	-	-	-	(45,053)
Other noncapital financing sources (uses)	-	-	-	4,384
Net Cash Provided (Used) by Noncapital Financing Activities	8,557	-	1,054	(103,497)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Interest paid	(1,346)	-	(60,307)	(13,602)
Capital contributions	-	-	-	15
Principal payments on long-term capital financing	(3,820)	-	(54,364)	(24,185)
Proceeds from long-term capital financing	-	-	143,779	-
Proceeds from sale of capital assets	39	-	14,094	989
Acquisitions of capital assets	(8,086)	-	(351,400)	(25,057)
Net Cash Provided (Used) by Capital and Related Financing Activities	(13,213)	-	(308,198)	(61,840)
CASH FLOWS FROM INVESTING ACTIVITIES				
Receipt of interest	523,356	115,416	18,350	18,929
Proceeds from sale of investment securities	5,021,292	-	30,688	433,527
Purchases of investment securities	(5,082,205)	-	(27,254)	(584,049)
Net Cash Provided (Used) by Investing Activities	462,443	115,416	21,784	(131,593)
Net Increase (Decrease) in Cash and Pooled Investments	(23,709)	(1,078,123)	91,212	40,505
Cash and Pooled Investments, July 1, as restated	70,716	3,399,541	856,687	306,754
Cash and Pooled Investments, June 30	\$ 47,007	\$ 2,321,418	\$ 947,899	\$ 347,259
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating Income (Loss)	\$ (2,511,715)	\$ (985,295)	\$ 126,876	\$ 8,732
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operations:				
Depreciation	7,991	-	101,021	16,325
Change in Assets: Decrease (Increase)				
Receivables (net of allowance)	251,649	(215,981)	(5,103)	(16,047)
Inventories	22	-	(1,838)	(6,124)
Prepaid expenses	38	-	13,616	(979)
Change in Liabilities: Increase (Decrease)				
Payables	1,770,519	7,737	142,000	335,528
Net Cash or Cash Equivalents Provided by (Used in) Operating Activities	\$ (481,496)	\$ (1,193,539)	\$ 376,572	\$ 337,435

The notes to the financial statements are an integral part of this statement.

Continued

Governmental Activities	
Total	Internal Service Funds
\$ 5,940,814	\$ 2,036,236
(8,577,238)	(1,692,577)
(1,022,213)	(379,904)
<u>2,697,609</u>	<u>111,188</u>
<u>(961,028)</u>	<u>74,943</u>
47,845	25,310
(299,760)	(23,306)
12,377	520
186,321	-
(45,053)	-
4,384	(1)
<u>(93,886)</u>	<u>2,523</u>
(75,255)	(8,299)
15	-
(82,369)	(46,987)
143,779	33,148
15,122	6,967
<u>(384,543)</u>	<u>(66,109)</u>
<u>(383,251)</u>	<u>(81,280)</u>
676,051	5,737
5,485,507	35,573
<u>(5,693,508)</u>	<u>(39,501)</u>
<u>468,050</u>	<u>1,809</u>
(970,115)	(2,005)
4,633,698	337,354
<u>\$ 3,663,583</u>	<u>\$ 335,349</u>
\$ (3,361,402)	\$ (70,890)
125,337	69,208
14,518	28,226
(7,940)	211
12,675	478
<u>2,255,784</u>	<u>47,710</u>
<u>\$ (961,028)</u>	<u>\$ 74,943</u>

Statement of Cash Flows
PROPRIETARY FUNDS
 For the Fiscal Year Ended June 30, 2010
(expressed in thousands)

	Business-Type Activities			
	Enterprise Funds			
	Workers'	Unemployment	Higher	Nonmajor
			Education	
Compensation	Compensation	Student	Funds	
Services				
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES				
Contributions of capital assets	\$ -	\$ -	\$ -	\$ -
Acquisition of capital assets through capital leases	-	-	71	-
Refunding Certificates of Participation issued	-	-	6,725	-
Refunding Certificates of Participation redeemed	-	-	7,005	-
Amortization of annuity prize liability	-	-	-	17,352
Increase (decrease) in fair value of investments	928,502	-	39	127,586
Refunding bonds issued	-	-	53,470	-
Refunding bonds redeemed	-	-	56,295	-
Amortization of debt premium (issue costs/discount)	-	-	(383)	(110)
Accretion of interest on zero coupon bonds	-	-	-	(3,709)
Increase in ownership of joint venture	-	-	6,963	-

The notes to the financial statements are an integral part of this statement.

Concluded

Governmental Activities	
Internal Service Funds	
Total	
\$ -	\$ 1,809
71	15
6,725	15,075
7,005	15,490
17,352	-
1,056,127	(528)
53,470	-
56,295	-
(493)	-
(3,709)	-
<u>6,963</u>	<u>-</u>

Statement of Fiduciary Net Assets
FIDUCIARY FUNDS
 June 30, 2010
(expressed in thousands)

	Private- Purpose Trust	Local Government Investment Pool	Pension and Other Employee Benefit Plans	Agency Funds
ASSETS				
Current Assets:				
Cash and pooled investments	\$ 8,155	\$ 3,535,387	\$ 317,199	\$ 262,259
Investments	-	3,852,658	-	-
Receivables, pension and other employee benefit plans:				
Employers	-	-	111,752	-
Members (net of allowance)	-	-	2,560	-
Interest and dividends	-	-	168,917	-
Investment trades pending	-	-	3,599,468	-
Due from other pension and other employee benefit funds	-	-	1,626	-
Other receivables, all other funds	-	1,542	-	10,613
Due from other funds	-	-	79	215
Due from other governments	-	-	-	18,135
Total Current Assets	8,155	7,389,587	4,201,601	291,222
Noncurrent Assets:				
Investments, noncurrent, pension and other employee benefit plans:				
Public equity	-	-	22,686,332	-
Fixed income	-	-	11,758,745	-
Private equity	-	-	13,560,126	-
Real estate	-	-	7,483,584	-
Security lending	-	-	3,667,614	-
Liquidity	-	-	1,645,221	-
Tangible asset	-	-	610,388	-
Investments, noncurrent, all other funds	18,128	939,909	-	17,858
Other noncurrent assets	-	-	-	32,175
Capital assets:				
Furnishings, equipment and intangible assets	32	-	-	-
Accumulated depreciation	(15)	-	-	-
Total Noncurrent Assets	18,145	939,909	61,412,010	50,033
Total Assets	26,300	8,329,496	65,613,611	\$ 341,255
LIABILITIES				
Accounts payable	286	-	-	\$ 9,048
Contracts and retainages payable	-	-	-	37,133
Accrued liabilities	111	57	4,177,204	53,616
Obligations under security lending agreements	-	-	3,667,614	-
Due to other funds	-	-	1,763	56
Due to other pension and other employee benefit funds	-	-	1,626	-
Due to other governments	-	-	-	209,228
Unearned revenue	-	-	1,087	-
Other long-term liabilities	-	-	-	32,174
Total Liabilities	397	57	7,849,294	\$ 341,255
NET ASSETS				
Net assets held in trust for:				
Pension benefits	-	-	55,315,440	
Deferred compensation participants	-	-	2,448,877	
Local government pool participants	-	8,329,439	-	
Individuals, organizations & other governments	25,903	-	-	
Total Net Assets	\$ 25,903	\$ 8,329,439	\$ 57,764,317	

The notes to the financial statements are an integral part of this statement.

Statement of Changes in Fiduciary Net Assets

FIDUCIARY FUNDS

For the Fiscal Year Ended June 30, 2010
(expressed in thousands)

	Private- Purpose Trust	Local Government Investment Pool	Pension and Other Employee Benefit Plans
ADDITIONS			
Contributions:			
Employers	\$ -	\$ -	\$ 920,043
Members	-	-	941,664
State	-	-	68,631
Participants	-	17,193,607	185,120
Total Contributions	-	17,193,607	2,115,458
Investment Income:			
Net appreciation (depreciation) in fair value	-	-	5,306,164
Interest and dividends	-	32,586	1,586,364
Less: Investment expenses	-	-	(226,686)
Net Investment Income (Loss)	-	32,586	6,665,842
Other Additions:			
Unclaimed property	48,422	-	-
Transfers from other pension plans	-	-	19,905
Other contracts, grants and miscellaneous	1	-	1,148
Total Other Additions	48,423	-	21,053
Total Additions	48,423	17,226,193	8,802,353
DEDUCTIONS			
Pension benefits	-	-	2,754,169
Pension refunds	-	-	202,207
Transfers to other pension plans	-	-	19,905
Administrative expenses	3,482	657	2,666
Distributions to participants	-	16,922,279	108,578
Payments to or on behalf of individuals, organizations and other governments in accordance with state unclaimed property laws	40,739	-	-
Total Deductions	44,221	16,922,936	3,087,525
Net Increase (Decrease)	4,202	303,257	5,714,828
Net Assets - Beginning	21,701	8,026,182	52,049,489
Net Assets - Ending	\$ 25,903	\$ 8,329,439	\$ 57,764,317

The notes to the financial statements are an integral part of this statement.

Statement of Fund Net Assets
COMPONENT UNITS
 June 30, 2010
 (expressed in thousands)

	Public Stadium	Nonmajor Component Units	Total
ASSETS			
Current Assets:			
Cash and pooled investments	\$ 6,738	\$ 14,925	\$ 21,663
Investments	3,784	39,819	43,603
Other receivables (net of allowance)	442	1,712	2,154
Prepaid expenses	24	175	199
Total Current Assets	10,988	56,631	67,619
Noncurrent Assets:			
Investments, noncurrent	18,469	-	18,469
Other noncurrent assets	-	75,917	75,917
Capital assets:			
Land	34,677	-	34,677
Buildings	460,025	-	460,025
Furnishings, equipment and intangible assets	23,129	1,655	24,784
Accumulated depreciation	(145,112)	(1,320)	(146,432)
Total Noncurrent Assets	391,188	76,252	467,440
Total Assets	402,176	132,883	535,059
LIABILITIES			
Current Liabilities:			
Accounts payable	18	37,432	37,450
Contracts and retainages payable	2,566	-	2,566
Accrued liabilities	3,860	70	3,930
Unearned revenue	86	5,343	5,429
Total Current Liabilities	6,530	42,845	49,375
Noncurrent Liabilities:			
Other long-term liabilities	25,587	-	25,587
Total Noncurrent Liabilities	25,587	-	25,587
Total Liabilities	32,117	42,845	74,962
NET ASSETS			
Invested in capital assets, net of related debt	343,189	335	343,524
Restricted for deferred sales tax	20,490	-	20,490
Restricted for other purposes	-	500	500
Unrestricted	6,380	89,203	95,583
Total Net Assets (Deficit)	\$ 370,059	\$ 90,038	\$ 460,097

The notes to the financial statements are an integral part of this statement.

Statement of Revenues, Expenses, and Changes in Fund Net Assets

COMPONENT UNITS

For the Fiscal Year Ended June 30, 2010
(expressed in thousands)

	Public Stadium	Nonmajor Component Units	Total
OPERATING REVENUES			
Charges for services	\$ 1,031	\$ 15,415	\$ 16,446
Total Operating Revenues	1,031	15,415	16,446
OPERATING EXPENSES			
Salaries and wages	404	4,573	4,977
Employee benefits	74	1,247	1,321
Personal services	183	1,576	1,759
Goods and services	827	2,132	2,959
Travel	2	33	35
Depreciation and amortization	15,558	161	15,719
Miscellaneous expenses	-	173	173
Total Operating Expenses	17,048	9,895	26,943
Operating Income (Loss)	(16,017)	5,520	(10,497)
NONOPERATING REVENUES (EXPENSES)			
Earnings (loss) on investments	1,130	1,578	2,708
Operating grants and contributions	-	41,810	41,810
Distributions of operating grants	-	(41,256)	(41,256)
Naming rights	1,961	-	1,961
Other	15	-	15
Total Nonoperating Revenues (Expenses)	3,106	2,132	5,238
Income (Loss)	(12,911)	7,652	(5,259)
Capital grants and contributions	903	-	903
Total Contributions and Transfers	903	-	903
Change in Net Assets	(12,008)	7,652	(4,356)
Net Assets - Beginning	382,067	82,386	464,453
Net Assets - Ending	\$ 370,059	\$ 90,038	\$ 460,097

The notes to the financial statements are an integral part of this statement.

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Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2010

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Note 1

Summary of Significant Accounting Policies

The accompanying financial statements of the state of Washington have been prepared in conformity with generally accepted accounting principles (GAAP). 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 government-wide and enterprise fund reporting, the state follows only those private-sector standards issued on or before November 30, 1989, unless those pronouncements conflict with or contradict the pronouncements of the GASB. Following is a summary of the significant accounting policies:

A. REPORTING ENTITY

In defining the state of Washington for financial reporting purposes, management considers: all funds, organizations, institutions, agencies, departments, and offices that are legally part of the state (the primary government); organizations for which the state is financially accountable; and other organizations for which the nature and significance of their relationship with the state are such that exclusion would cause the state's financial statements to be misleading or incomplete.

Financial accountability exists when the primary government appoints a voting majority of an organization's governing body and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. The primary government may be financially accountable if an organization is fiscally dependent on the primary government regardless of whether the organization has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board. An organization is fiscally dependent if it is unable to determine its budget without another government having the substantive authority to approve or modify that budget, to levy taxes or set rates or charges without substantive approval by another government, or to issue bonded debt without substantive approval by another government.

Based on these criteria, the following are included in the financial statements of the primary government:

State Agencies. Except as otherwise described herein, all state elected offices, departments, agencies, commissions, boards, committees, authorities, and councils (agencies) and all funds and subsidiary accounts of the state are included in the primary government. Executives of these agencies are either elected, directly appointed by the Governor, appointed by a board which is appointed by the Governor, or appointed by a board which is in part appointed by the Governor.

Additionally, a small number of board positions are established by statute or independently elected. The state Legislature creates these agencies, assigns their programs, approves operational funding, and requires financial accountability. The Legislature also authorizes all bond issuances for capital construction projects for the benefit of state agencies. The legal liability for these bonds and the ownership of agency assets resides with the state.

Colleges and Universities. The governing boards of the five state universities, the state college, and the 34 state community and technical colleges are appointed by the Governor. Each college's governing board appoints a president to function as chief administrator. The state Legislature approves budgets and budget amendments for the colleges' appropriated funds, which include the state's General Fund as well as certain capital projects funds. The state Treasurer issues general obligation debt for major campus construction projects. However, the colleges are authorized to issue revenue bonds. The University of Washington issues general revenue bonds that are payable from general revenues, including student tuition and fees, grant indirect cost recovery, sales and services revenue, and investment income. The remainder of the college revenue bonds pledge the income derived from acquired or constructed assets such as housing, dining, and parking facilities. These revenue bonds are payable solely from, and secured by, fees and revenues derived from the operation of constructed facilities; the legal liability for the bonds and the ownership of the college assets reside with the state. Colleges do not have separate corporate powers and sue and are sued as part of the state with legal representation provided through the state Attorney General's Office. Since the colleges are legally part of the state, their financial operations, including their blended component units, are reported in the primary government financial statements using the fund structure prescribed by GASB.

Retirement Systems. The state of Washington, through the Department of Retirement Systems, administers eight retirement systems for public employees of the state and political subdivisions: the Public Employees' Retirement System, the Teachers' Retirement System, the School Employees' Retirement System, the Law Enforcement Officers' and Fire Fighters' Retirement System, the Washington State Patrol Retirement System, the Public Safety Employees' Retirement System, the Judicial Retirement System, and the Judges' Retirement Fund. The

director of the Department of Retirement Systems is appointed by the Governor.

There are two additional retirement systems administered outside of the Department of Retirement Systems. The Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund is administered through the Board for Volunteer Fire Fighters, which is appointed by the Governor. The Judicial Retirement Account is administered through the Administrative Office of the Courts under the direction of the Board for Judicial Administration.

The state Legislature establishes laws pertaining to the creation and administration of all public retirement systems. The participants of the public retirement systems, together with the state, provide funding for all costs of the systems based upon actuarial valuations. The state establishes benefit levels and approves the actuarial assumptions used in determining contribution levels.

All ten of the aforementioned retirement systems are included in the primary government's financial statements.

Blended Component Units. Blended component units, although legally separate entities, are part of the state's operations in substance. Accordingly, they are reported as part of the state and blended into the appropriate funds. The following entities are blended in the state's financial statements:

Tobacco Settlement Authority (TSA). The TSA was created by the Washington State Legislature in March 2002 as a public instrumentality separate and distinct from the state. It is governed by a five-member board appointed by the Governor. It was created solely for the purpose of issuing bonds to securitize a portion of the state's future tobacco settlement revenue. Proceeds of the debt instrument were transferred to the state to help fund health care, long-term care, and other programs of the state. Refer to Note 7 for additional information.

Financial reports for the TSA may be obtained from the authority at the following address:

Tobacco Settlement Authority
1000 Second Avenue, Suite 2700
Seattle, WA 98104-1046

Other Blended Component Units. Tumwater Office Properties, the University of Washington (UW) Alumni Association, UW Physicians, UW Physicians Network, Community Development Properties C-D, Educational Research Properties, Radford Court Properties, Twenty-Fifth Avenue Properties, TSB Properties, Washington Biomedical Research Properties I and II, and Washington Biomedical Research Facilities 3 are blended component units in the state's financial statements. All the

aforementioned blended component units provide services entirely or almost entirely to the state. Financial information for these blended component units may be obtained from their respective administrative offices.

Discrete Component Units. Discretely presented component units are reported in a separate column in the government-wide financial statements. Discretely presented component units are legally separate from the state and primarily serve or benefit those outside of the state. They are financially accountable to the state, or have relationships with the state such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. These entities are reported as discrete component units because state officials either serve on or appoint the members of the governing bodies of the authorities. The state also has the ability to influence the operations of the authorities through legislation. The following entities are discretely presented in the financial statements of the state in the component unit's column:

The Washington State Housing Finance Commission, the Washington Higher Education Facilities Authority, the Washington Health Care Facilities Authority, and the Washington Economic Development Finance Authority (financing authorities) were created by the state Legislature in a way that specifically prevents them from causing the state to be liable or responsible for their acts and obligations, including, but not limited to, any obligation to pay principal and interest on financing authority bonds. The financing authorities cannot obligate the state, either legally or morally, and the state has not assumed any obligation of, or with respect to, the financing authorities.

Financial reports of these financing authorities may be obtained from each authority at the following addresses:

Washington Health Care Facilities Authority
410 - 11th Avenue SE, Suite 201
PO Box 40935
Olympia, WA 98504-0935

Washington State Housing Finance Commission
Washington Higher Education Facilities Authority
Washington Economic Development Finance Authority
1000 Second Avenue, Suite 2700
Seattle, WA 98104-1046

The Washington State Public Stadium Authority (PSA) was created by the state Legislature to acquire, construct, own, and operate a football/soccer stadium, exhibition center, and parking garage. Construction was completed in 2002. PSA capital assets, net of accumulated depreciation, total \$373 million. The state issued general obligation bonds for a portion of the cost of the stadium construction. The total public share of the stadium and exhibition center cost did not exceed \$300 million from all state and local government funding sources, as defined in statute.

Project costs in excess of \$300 million were the responsibility of the project's private partner, First & Goal, Inc. The bonds are being repaid through new state lottery games, a state sales tax credit, extension of the local hotel/motel tax, and parking and admissions taxes at the new facility. Financial reports of the PSA may be obtained at the following address:

Washington State Public Stadium Authority
Qwest Field & Event Center
800 Occidental Avenue South, #700
Seattle, WA 98134

The state's component units each have a year-end of June 30 with the exception of the Washington Economic Development Finance Authority which has a December 31 year-end.

Joint Venture. In 1998, the University of Washington Medical Center (Medical Center) entered into an agreement with Seattle Children's Hospital and Fred Hutchinson Cancer Research Center to establish the Seattle Cancer Care Alliance (SCCA). Each member of the SCCA has a one-third interest. The mission of the SCCA is to eliminate cancer as a cause of human suffering and death and to become recognized as the premier cancer research and treatment center in the Pacific Northwest. The SCCA integrates the cancer research, teaching, and clinical cancer programs of all three institutions to provide state-of-the-art cancer care. Under the agreement, the Medical Center provides the patient care to all adult inpatients of the SCCA.

Inpatient Services – The SCCA operates a 20-bed unit located within the Medical Center in which its adult inpatients receive care. The fiscal intermediary has determined that the 20-bed unit qualifies as a hospital within a hospital for Medicare reimbursement purposes. The SCCA provides medical oversight and management of the inpatient unit. Under agreements, the Medical Center provides inpatient care services to the SCCA including necessary personnel, equipment, and ancillary services.

Outpatient Services – The SCCA operates an ambulatory cancer care service facility in Seattle. The Medical Center provides various services to the SCCA's outpatient facility including certain pharmacy, laboratory, and pathology services as well as billing, purchasing, and other administrative services.

The state accounts for the Medical Center's interest in SCCA under the equity method of accounting. Income of \$7.4 million was recorded in Fiscal Year 2010, bringing the total equity investment to \$63 million which is recognized in the state's financial statements in the Higher Education Student Services Fund.

Separate financial statements for SCCA may be obtained from:

Seattle Cancer Care Alliance
825 Eastlake Avenue East
PO Box 19023
Seattle, WA 98109-1023

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-wide Financial Statements

The state presents two basic government-wide financial statements: the Statement of Net Assets and the Statement of Activities. These government-wide financial statements report information on all non-fiduciary activities of the primary government and its component units. The financial information for the primary government is distinguished between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

Statement of Net Assets. The Statement of Net Assets presents the state's non-fiduciary assets and liabilities. As a general rule, balances between governmental and business-type activities are eliminated.

Assets and liabilities are presented in a net assets format in order of liquidity. Net assets are classified into three categories:

- Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of bonds, notes and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- Restricted net assets result when constraints are placed on net asset use either by external parties or by law through constitutional provision or enabling legislation.
- Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories.

Statement of Activities. The Statement of Activities reports the extent to which each major state program is supported by general state revenues or is self-financed through fees and intergovernmental aid. For governmental activities, a major program is defined as a function. For business-type activities, a major program is an identifiable activity.

Program revenues offset the direct expenses of major programs. Direct expenses are those that are clearly identifiable within a specific function or activity. Program revenues are identified using the following criteria:

- Charges to customers for goods and services of the program. A customer is one who directly benefits from the goods or services or is otherwise directly affected by the program, such as a state citizen or taxpayer, or other governments or nongovernmental entities.
- Amounts received from outside entities that are restricted to one or more specific programs. These amounts can be operating or capital in nature.
- Earnings on investments that are restricted to a specific program are also considered program revenues.

General revenues consist of taxes and other items not meeting the definition of program revenues.

Generally the effect of internal activities is eliminated. Exceptions to this rule include charges between the workers' compensation insurance programs and various other state programs and functions. Elimination of these charges would distort the direct costs and revenues reported for the various activities involved.

Fund Financial Statements

The state uses 663 accounts that are combined into 54 rollup funds. The state presents separate financial statements for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major individual proprietary funds are reported in separate columns in the fund financial statements, with nonmajor funds being combined into a single column regardless of fund type. Internal service and fiduciary funds are reported by fund type. Major funds include:

Major Governmental Funds:

- **General Fund** is the state's primary operating fund. This fund accounts for all financial resources and transactions not accounted for in other funds.
- **Higher Education Special Revenue Fund** primarily accounts for grants and contracts received for research and other educational purposes. This fund also accounts for charges for services by state institutions of higher education.
- **Motor Vehicle Special Revenue Fund** accounts for highway activities of the Washington State Patrol, operations of the state ferry system, maintenance of non-interstate highways and bridges, completion and preservation of the interstate system, and other transportation improvements. Motor Vehicle Fund

revenues are generated from vehicle fuel taxes, vehicle licenses, tolling, and federal transportation agencies.

- **Higher Education Endowment Permanent Fund** accounts for gifts and bequests that the donors have specified must remain intact. Each gift is governed by various restrictions on the investment and use of the funds.

Major Enterprise Funds:

- **Workers' Compensation Fund** accounts for the workers' compensation program that provides medical, time-loss, and disability benefit payments to qualifying individuals sustaining work-related injuries.
- **Unemployment Compensation Fund** accounts for the unemployment compensation program. It accounts for the deposit of funds, requisitioned from the Federal Unemployment Trust Fund, to provide services to eligible participants within the state and to pay unemployment benefits.
- **Higher Education Student Services Fund** is used by colleges and universities principally for bookstore, cafeteria, parking, student housing, food service, and hospital business enterprise activities.

The state includes the following governmental and proprietary fund types within nonmajor funds:

Nonmajor Governmental Funds:

- **Special Revenue Funds** account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments, or for major capital projects) that are legally restricted to expenditures for specific purposes. These include a variety of state programs including public safety and health assistance programs; natural resource and wildlife protection and management programs; driver licensing and non-highway transportation improvements; K-12 school construction; and construction and loan programs for local public works projects.
- **Debt Service Funds** account for the accumulation of resources for, and the payment of, principal and interest on the state's bonds issued in support of governmental activities.
- **Capital Projects Funds** account for the acquisition, construction, or improvement of major capital facilities including higher education facilities.
- **Common School Permanent Fund** accounts for the principal derived from the sale of timber. Interest earned is used for the benefit of common schools.

Nonmajor Proprietary Funds:

- **Enterprise Funds** account for the state’s business type operations for which a fee is charged to external users for goods or services including: the state lottery; state liquor stores; the guaranteed college tuition program; and the convention and trade center.
- **Internal Service Funds** account for the provision of legal, motor pool, data processing, risk management, health insurance, and other services by one department or agency to other departments or agencies of the state on a cost-reimbursement basis.

The state reports the following fiduciary funds:

- **Pension (and other employee benefit) Trust Funds** are used to report resources that are required to be held in trust by the state for the members and beneficiaries of defined benefit and defined contribution pension plans, and other employee benefit plans.
- **Investment Trust Fund** accounts for the external portion of the Local Government Investment Pool (LGIP), which is reported by the state as the sponsoring government.
- **Private-Purpose Trust Fund** is used to report trust arrangements, other than pension and investment trusts, under which principal and income benefit individuals, private organizations, or other governments such as the administration of unclaimed property.
- **Agency Funds** account for resources held by the state in a custodial capacity for other governments, private organizations, or individuals.

Operating and Nonoperating Revenues and Expenses. The state’s proprietary funds make a distinction between operating and nonoperating revenues and expenses. Operating revenues and expenses generally result from providing goods and services directly related to the principal operations of the funds. For example, operating revenues for the state’s workers’ compensation and health insurance funds consist of premiums and assessments collected. Operating expenses consist of claims paid to covered individuals, claims adjustment expenses, costs of commercial insurance coverage and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating, including interest expense and investment gains and losses.

Application of Restricted/Unrestricted Resources. When both restricted and unrestricted resources are available for use, it is the state’s policy to use restricted resources first and then use unrestricted resources as they are needed.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

For government-wide reporting purposes, the state uses the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

For fund statement reporting purposes, the state uses the current financial resources measurement focus and modified accrual basis of accounting for governmental funds. With the current financial resources measurement focus, generally only current assets and current liabilities are included on the governmental funds balance sheet. Operating statements for these funds present inflows (i.e., revenues and other financing sources) and outflows (i.e., expenditures and other financing uses) of expendable financial resources.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). “Measurable” means the amount of the transaction can be reasonably estimated. “Available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Primary revenues that are determined to be susceptible to accrual include sales taxes, business and occupation taxes, motor fuel taxes, federal grants-in-aid, and charges for services.

Revenues from property taxes are determined to be available if collectible within 60 days. Taxes imposed on exchange transactions are accrued when the underlying exchange transaction occurs if collectible within one year. Revenue for timber cutting contracts is accrued when the timber is harvested. Revenues from licenses, permits, and fees are recognized when received in cash. Revenues related to expenditure-driven grant agreements are recognized when the qualifying expenditures are made, provided that the availability criteria is met. Expenditure-driven grant revenue is considered available if it can be collected by the state at the same time cash is disbursed to cover the associated grant expenditure. Pledges are accrued when the eligibility requirements are met and resources are available. All other accrued revenue sources are determined to be available if collectible within 12 months.

Property taxes are levied in December for the following calendar year. The first half-year collections are due by April 30, and the second half-year collections are due by October 31. Since the state is on a fiscal year ending June 30, the first half-year collections are recognized as revenue,

if collectible within 60 days of the fiscal year end. The second half-year collections are recognized as receivables offset by deferred revenue. The lien date on property taxes is January 1 of the tax levy year.

Under modified accrual accounting, expenditures are generally recognized when the related liability is incurred.

However, unmatured interest on general long-term debt is recognized when due, and certain compensated absences, other postemployment benefits, and claims and judgments are recognized when the obligations are expected to be liquidated with available expendable financial resources.

The state reports deferred revenues on its governmental fund balance sheet under certain conditions. Deferred revenues arise when a potential revenue does not meet both the “measurable” and the “available” criteria for revenue recognition in the current period. Deferred revenues also arise when resources are received by the state before it has a legal claim to them, such as when grant monies are received prior to incurring qualifying expenditures/expenses.

All proprietary and trust funds are accounted for using the economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operations of these funds are included on their respective statements of net assets. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. Net assets in proprietary funds are segregated into three components: invested in capital assets, net of related debt; restricted; and unrestricted.

Net assets for trust funds are held in trust for external individuals and organizations.

All proprietary and trust funds are reported using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

1. Cash and Investments

Investments of surplus or pooled cash balances are reported on the accompanying Statements of Net Assets, Balance Sheets and Statements of Cash Flows as “Cash and Pooled Investments.” The Office of the State Treasurer invests state treasury cash surpluses where funds can be disbursed at any time without prior notice or penalty. For reporting purposes, pooled investments are stated at fair value or amortized cost, which approximates

fair value. For purposes of reporting cash flows, the state considers cash and pooled investments to be cash equivalents. Pooled investments include short-term, highly-liquid investments that are both readily convertible to cash and are so near their maturity dates that they present insignificant risk of changes in value because of changes in interest rates.

The method of accounting for noncurrent investments varies depending upon the fund classification. Investments in the state’s Local Government Investment Pool (LGIP), an external investment pool operated in a manner consistent with the Securities and Exchange Commission’s (SEC) Rule 2a-7 of the Investment Company Act of 1940, are reported at amortized cost. The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, phone number (360) 902-9000 or TTY (360) 902-8963.

Certain pension trust fund investments, including real estate and private equity, are reported at fair values based on appraisals or estimates in the absence of readily ascertainable fair values. At June 30, 2010, these investments are valued at \$21.7 billion. Because of the inherent uncertainties in the estimation of fair value, it is possible that the estimates will change.

All other noncurrent 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. Additional disclosure describing investments is provided in Note 3.

2. Receivables and Payables

Receivables in the state’s governmental fund type accounts consist primarily of taxes and federal revenues. Receivables in all other funds have arisen in the ordinary course of business. Receivables are recorded when either the asset or revenue recognition criteria (refer to Note 1.C) have been met. All receivables are reported net of an allowance for accounts estimated to be uncollectible.

For government-wide reporting purposes, amounts recorded as interfund/interagency receivables and payables are eliminated in the governmental and business-type activities columns on the Statement of Net Assets, except for the net residual balances due between the governmental and business-type activities, which are reported as internal balances. Amounts recorded in governmental and business-type activities as due to or from fiduciary funds have been reported as due to or from other governments.

Noncurrent receivables are recorded in the Workers' Compensation Fund representing estimated recoveries from third parties for a certain portion of claims expenses that are recorded as noncurrent claims payable. The accrued recoveries are computed using a variety of actuarial and statistical techniques and are discounted at assumed interest rates to arrive at the recorded value.

Disclosures related to the Workers' Compensation Fund activities and claims payable are provided in Notes 1.E.1 and 7.E.

3. Inventories and Prepaids

Consumable inventories, consisting of expendable materials and supplies held for consumption, are valued and reported in the state's financial statements if the fiscal year-end balance on hand within an agency is estimated to be \$25,000 or more. Consumable inventories are generally valued at cost using the first-in, first-out method. Donated consumable inventories are recorded at fair market value.

All merchandise inventories are considered reportable for financial statement purposes. Merchandise inventories are generally valued at cost using the first-in, first-out method.

Inventories of governmental funds are valued at cost and recorded using the consumption method. Proprietary funds expense inventories when used or sold.

For governmental fund financial reporting, inventory balances are also recorded as a reservation of fund balance indicating that they do not constitute "available spendable resources" except for \$4.9 million in federally donated consumable inventories, which are offset by deferred revenues because they do not constitute an "available" resource until consumed.

Prepaid items are those certain types of supplies and/or services (not inventory) that are acquired or purchased during an accounting period but not used or consumed during that accounting period.

In governmental fund type accounts, prepaid items are generally accounted for using the purchases method. Under the purchases method, prepaid items are treated as expenditures when purchased and residual balances, if any, at year end are not accounted for as assets.

In proprietary and trust fund type accounts, prepaid items are accounted for using the consumption method. The portion of supplies or services consumed or used during a period is recorded as an expense. The balance that remains is reported as an asset until consumed or used.

4. Restricted Assets

Unspent proceeds of state bond issues and other debt financing programs are classified as restricted assets

because their use is limited by applicable bond and other debt covenants. These are reflected on the balance sheets and statements of net assets.

5. Capital Assets

Except as noted below, it is the state's policy to capitalize:

- All land;
- All additions and improvements to the state highway system;
- Infrastructure, other than the state highway system, with a cost of \$100,000 or more;
- Buildings, building improvements, and leasehold improvements with a cost of \$100,000 or more;
- Intangible assets, either purchased or internally developed, with a cost of \$1,000,000 or more that are identifiable by meeting one of the following conditions:
 - The asset is capable of being separate or divided and sold, transferred, licensed, rented, exchanged; or
 - The asset arises from contractual or other legal rights, regardless of whether those rights are transferable or separable;
- All other capital assets with a unit cost of \$5,000 or greater, or collections with a total cost of \$5,000 or greater, unless otherwise noted; and
- All capital assets acquired with Certificates of Participation, a debt financing program administered by the Office of the State Treasurer.

Assets acquired by capital leases are capitalized if the asset's fair market value meets the state's capitalization threshold described above.

Purchased capital assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Capital asset costs include the purchase price plus those costs necessary to place the asset in its intended location and condition for use (ancillary costs). Normal maintenance and repair costs that do not materially add to the value or extend the life of the state's capital assets are not capitalized.

Donated capital assets are valued at their estimated fair market value on the date of donation, plus all appropriate ancillary costs. When the fair market value is not practically determinable due to lack of sufficient records, estimated cost is used. Where necessary, estimates of original cost and fair market value are derived by factoring price levels from the current period to the time of acquisition.

The value of assets constructed by agencies for their own use includes all direct construction costs and indirect costs that are related to the construction. In enterprise and trust funds, net interest costs (if material) incurred during the period of construction are capitalized.

State agencies have the option to capitalize art collections, library reserve collections, and museum and historical collections that are considered inexhaustible, in that their value does not diminish over time, if all of the following conditions are met:

- The collection is held for public exhibition, education, or research in furtherance of public service, rather than financial gain.
- The collection is protected, kept unencumbered, cared for, and preserved.
- The collection is subject to policy requirements that the proceeds from sales of collection items be used to acquire other items for the collection.

Depreciation/amortization is calculated using the straight-line method over the estimated useful lives of the assets. Generally, estimated useful lives are as follows:

Buildings & building components	5-50 years
Furnishings, equipment & collections	3-50 years
Other improvements	3-50 years
Intangibles	3-50 years
Infrastructure	20-50 years

The cost and related accumulated depreciation/amortization of disposed capital assets are removed from the accounting records.

The state capitalizes the state highway system as a network but does not depreciate it since the system is being preserved approximately at or above a condition level established by the state. That condition level is documented and disclosed. Additionally, the highway system is managed using an asset management system that includes:

- Maintenance of an up-to-date inventory of system assets,
- Performance of condition assessments of the assets at least every three years with summarization of the results using a measurement scale, and
- Annual estimation of the amount to maintain and preserve the assets at the condition level established and disclosed.

All state highway system expenditures that preserve the useful life of the system are expensed in the period incurred. Additions and improvements that increase the

capacity or efficiency of the system are capitalized. This approach of reporting condition instead of depreciating the highway system is called the modified approach.

For government-wide financial reporting purposes, capital assets of the state are reported as assets in the applicable governmental or business-type activities column on the Statement of Net Assets. Depreciation/amortization expense related to capital assets is reported in the Statement of Activities.

Capital assets and the related depreciation/amortization expense are also reported in the proprietary fund financial statements.

In governmental funds, capital assets are not capitalized in the accounts that acquire or construct them. Instead, capital acquisitions and construction are reflected as expenditures in the year assets are acquired or construction costs are incurred. No depreciation/amortization is reported.

6. Compensated Absences

State employees accrue vested vacation leave at a variable rate based on years of service. In general, accrued vacation leave cannot exceed 240 hours at the employee's anniversary date.

Employees accrue sick leave at the rate of one day per month without limitation on the amount that can be accumulated. Sick leave is not vested; i.e., the state does not pay employees for unused sick leave upon termination except upon employee death or retirement. At death or retirement, the state is liable for 25 percent of the employee's accumulated sick leave. In addition, the state has a sick leave buyout option in which, each January, employees who accumulate sick leave in excess of 480 hours may redeem sick leave earned but not taken during the previous year at the rate of one day's pay in exchange for each four days of sick leave.

It is the state's policy to liquidate unpaid compensated absences outstanding at June 30 with future resources rather than advance funding it with currently available expendable financial resources.

For government-wide reporting purposes, the state reports compensated absences obligations as liabilities in the applicable governmental or business-type activities columns on the Statement of Net Assets.

For fund statement reporting purposes, governmental funds recognize an expenditure for annual and sick leave when it is payable, i.e., upon employee's use, resignation, or retirement. Proprietary and trust funds recognize the expense and accrue a liability for annual leave and estimated sick leave buyout, including related payroll taxes and benefits as applicable, as the leave is earned.

7. Long-Term Liabilities

In the government-wide and proprietary fund financial statements, long-term obligations of the state are reported as liabilities on the Statement of Net Assets. Bonds payable are reported net of applicable original issuance premium or discount. When material, bond premiums, discounts, and issue costs are deferred and amortized over the life of the bonds.

For governmental fund financial reporting, the face (par) amount of debt issued is reported as other financing sources. Premiums and discounts on original debt issuance are also reported as other financing sources and uses, respectively. Issue costs are reported as debt service expenditures.

8. Fund Equity

In the fund financial statements, governmental funds report the difference between fund assets and fund liabilities as “fund balance.” Reserved fund balance represents that portion of fund balance that is (1) not available for appropriation or expenditure, and/or (2) legally segregated for a specific future use. Unreserved, designated fund balance indicates tentative plans for future use of financial resources. Unreserved, undesignated fund balance represents the amount available for appropriation.

In proprietary funds, fund equity is called net assets. Net assets are comprised of three components: invested in capital assets, net of related debt; restricted; and unrestricted.

E. OTHER INFORMATION

1. Insurance Activities

Workers’ Compensation. Title 51 RCW establishes the state of Washington’s workers’ compensation program. The statute requires all applicable employers to secure coverage for job-related injuries and diseases through the Workers’ Compensation Fund or through self-insurance.

Direct private insurance is not authorized, although self-insurers are permitted to reinsure up to 80 percent of their obligations through private insurers.

The Workers’ Compensation Fund, an enterprise fund, is used to account for the workers’ compensation program which provides time-loss, medical, vocational, disability, and pension benefits to qualifying individuals sustaining work-related injuries or illnesses. The main benefit plans of the workers’ compensation program are funded based on rates that will keep these plans solvent in accordance with recognized actuarial principles. The supplemental pension plan supports cost-of-living adjustments (COLA) granted

for time-loss and disability payments; however, these are funded on a pay-as-you-go basis. By statute, the state is only allowed to collect enough revenue to fund the current COLA payments.

Premiums are based on individual employers’ reported payroll hours and insurance rates based on each employer’s risk classification(s) and past experience, except the Supplemental Pension Fund premiums are based on a flat rate per hours worked independent of risk class or past experience. In addition to its regular premium plan which is required for all employers, the Workers’ Compensation Fund offers a voluntary retrospective premium rating plan under which premiums are subject to three annual adjustments based on group and individual employers’ loss experience. Initial adjustments to the standard premiums are paid to or collected from the groups and individual employers approximately ten months after the end of each plan year.

The Department of Labor and Industries, as administrator of the workers’ compensation program, establishes claims liabilities based on estimates of the ultimate cost of claims (including future claims adjustment expenses) that have already occurred. The length of time for which such costs must be estimated varies depending on the benefit involved. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liabilities, claims adjudication, and judgments, the process used in computing claims liabilities does not necessarily result in an exact amount.

Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent paid losses, claim frequency, and other economic, legal, and social factors. A provision for inflation in the calculation of estimated future claim costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Changes to claims liabilities from prior periods are charged or credited to expense in the periods in which they are made.

Risk Management. The state of Washington operates a self-insurance liability program pursuant to RCW 4.92.130. The state manages its tort claims as an insurance business activity rather than a general governmental activity. The state’s policy is generally not to purchase commercial insurance for the risk of losses to which it is exposed. Instead, the state’s management believes it is more economical to manage its risks internally and set aside assets for claims settlement in the Risk Management Fund, an internal service fund. A limited amount of commercial insurance is purchased for liabilities arising from the operations of the Washington State ferries, employee bonds, and to limit the exposure to catastrophic losses. Settled claims resulting from these risks have not exceeded

commercial insurance coverage in any of the past eight fiscal years. Otherwise, the self-insurance liability program services all claims against the state for injuries and property damage to third parties. The majority of state funds and agencies participate in the self-insurance liability program in proportion to their anticipated exposure to liability losses.

Health Insurance. The state of Washington administers and provides medical, dental, basic life, and basic long-term disability insurance coverage for eligible state employees. In addition, the state offers coverage to K-12 school districts, educational service districts, tribal governments, political subdivisions, and employee organizations representing state civil service workers. The state establishes eligibility requirements and approves plan benefits of all participating health care organizations. Because the state and its employees are the predominant participants in the employee health insurance program, it is accounted for in the Employee Insurance Fund, an internal service fund.

The state's share of the cost of coverage for state employees is based on a per capita amount determined annually by the Legislature and allocated to state agencies.

The Health Care Authority, as administrator of the health care benefits program, collects this monthly "premium" from agencies for each active employee enrolled in the program. State employees self-pay for coverage beyond the state's contribution. Cost of coverage for non-state employees is paid by their respective employers. Most coverage is available on a self-paid basis to former employees and employees who are temporarily not in pay status.

Most coverage is also available on a self-paid basis to eligible retirees. In accordance with the provisions of GASB Statement No. 43, an agency fund, the Retiree Health Insurance Fund, is used to account for the retiree health insurance program. For additional information, refer to Note 12.

The state secures commercial insurance for certain coverage offered, but self-insures the risk of loss for the Uniform Medical Plan and the Aetna Public Health Plan.

The Uniform Medical and Aetna Public Health Plans enrolled 63.1 percent of the eligible subscribers in Fiscal Year 2010. Claims are paid from premiums collected, and claims adjudication is contracted through a third-party administrator.

Considerations in calculating liabilities include frequency of claims, administrative costs, industry inflation trends, advances in medical technology, and other social and economic factors. Liabilities include an amount for claims incurred but not reported.

2. Postemployment Benefits

COBRA. In compliance with federal law, the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA), the state offers health and dental benefits on a temporary basis to qualified beneficiaries whose benefit coverage would otherwise end because of a qualifying event such as loss of employment. COBRA coverage is available on a self-paid basis and is the same medical and dental coverage available to state employees.

Medical Expense Plan. As disclosed in Note 1.D, at the time of separation from state service due to retirement or death, the state offers a 25 percent buyout of an employee's accumulated sick leave. Individual state agencies may offer eligible employees a medical expense plan (MEP) that meets the requirements of the Internal Revenue Code. Agencies offering an MEP deposit the retiring employee's sick leave buyout in the MEP for reimbursement of medical expenses.

Retirement Benefits. Refer to Note 11 Retirement Plans and Note 12 Other Postemployment Benefits.

3. Interfund/Interagency Activities

The state engages in two major categories of interfund/interagency activity: reciprocal and nonreciprocal. Reciprocal interfund/interagency activity is the internal counterpart to exchange and exchange-like transactions and includes both interfund loans and services provided and used. Nonreciprocal activity is nonexchange in nature and includes both transfers and reimbursements.

4. Donor-restricted Endowments

The state of Washington reports endowments in higher education endowment permanent accounts. These accounts are established outside of the state treasury for use by the higher education institutions. There is no state law that governs endowment spending; rather, the policies of individual university and college boards govern the spending of net appreciation on investments.

Prior to Fiscal Year 2009, the institutions generally used a 5 percent spending rate policy for authorizing and spending investment income. However, in light of the 2008-2009 financial crisis and subsequent drop in endowment values, the institutions adopted interim spending policies that decreased distributions to campus programs during Fiscal Years 2009 and 2010. Thereafter, distributions will remain at reduced levels until market conditions warrant a return to normal spending.

The net appreciation available for authorization for expenditure by governing boards totaled \$151 million. This amount is reported as Restricted for Permanent Funds – Expendable on the government-wide Statement of Net Assets.

Note 2 Accounting and Reporting Changes

Reporting Changes. Effective for Fiscal Year 2010 reporting, the state implemented the following new standards issued by the Governmental Accounting Standards Board (GASB):

Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. Statement No. 51 requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. This statement also requires that an intangible asset be recognized in the Statement of Net Assets only if it is considered identifiable.

Retroactive reporting of the provisions of the statement is generally required with the exception of intangible assets considered to have indefinite useful lives and those

considered to be internally generated. The state did not have any intangibles assets at June 30, 2010 that were subject to retroactive reporting.

Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. Statement No. 53 requires the state to report derivative instruments at fair value as assets or liabilities in the financial statements and to disclose a summary of derivative instrument activity as well as the objectives, significant terms, and risks associated with derivative instruments.

Fund Reclassification. During Fiscal Year 2010, it was determined that an activity being reported in the Central Administrative and Regulatory Fund, a Nonmajor Governmental Fund, would be more appropriately reported in the Health Insurance Internal Service Fund. To correct this situation, beginning fund balances were restated to effect the proper fund classification of the activity.

Fund equity at July 1, 2009, has been restated as follows (expressed in thousands):

	Fund equity at June 30, 2009, as previously reported	Fund Reclassification	Prior Period Adjustment	Fund equity as restated, July 1, 2009
Governmental Funds:				
General	\$ 1,161,950	\$ -	\$ -	\$ 1,161,950
Higher Education Special Revenue	1,205,451	-	-	1,205,451
Motor Vehicle Special Revenue *	356,070	-	-	356,070
Higher Education Endowment	2,478,206	-	-	2,478,206
Nonmajor Governmental *	4,347,186	(481)	-	4,346,705
Proprietary Funds:				
Enterprise Funds:				
Workers' Compensation	(10,617,226)	-	-	(10,617,226)
Unemployment Compensation	3,799,721	-	-	3,799,721
Higher Education Student Services	1,497,015	-	-	1,497,015
Nonmajor Enterprise	104,941	-	-	104,941
Internal Service Funds	(187,678)	481	-	(187,197)
Fiduciary Funds:				
Private Purpose Trust	21,701	-	-	21,701
Local Government Investment Pool	8,026,182	-	-	8,026,182
Pension and Other Employee Benefit Plans	52,049,489	-	-	52,049,489
Component Units:				
Public Stadium	382,067	-	-	382,067
Nonmajor Component Units	82,386	-	-	82,386

* The Motor Vehicle Special Revenue was reported as a nonmajor governmental fund in Fiscal Year 2009, but became a major fund for reporting purposes in Fiscal Year 2010.

Note 3

Deposits and Investments

A. DEPOSITS

Custodial Credit Risk. Custodial credit risk is the risk associated with the failure of a depository financial institution. In the event of a depository financial institution's failure, it is the risk that the state would not be able to recover its deposits or collateralized securities that are in the possession of the outside parties.

The state minimizes custodial credit risk by restrictions set forth in state law. Statutes restrict the State Treasurer to deposit funds in financial institutions that are physically located in Washington unless otherwise expressly permitted by statute and authorized by the Washington Public Deposit Protection Commission (PDPC). The PDPC, established under chapter 39.58 of the Revised Code of Washington (RCW), makes and enforces regulations and administers a collateral pool program to ensure public funds are protected if a financial institution becomes insolvent. Securities pledged are held by a trustee agent for the benefit of the collateral pool.

At June 30, 2010, \$829.8 million of the state's deposits with financial institutions were either insured or collateralized, with the remaining \$23.9 million uninsured/uncollateralized. The Federal Deposit Insurance Corporation (FDIC) covers the state's insured deposits and the PDPC provides collateral protection.

B. INVESTMENTS – PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS (PENSION TRUST FUNDS)

1. Summary of Investment Policies

Under RCW 43.33A.030, trusteeship of the pension trust funds is vested within the voting members of the Washington State Investment Board (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, chapter 42.52 RCW, as it makes its investment decisions and seeks to meet its investment objectives.

The WSIB manages the self-directed investments of the Public Employees' Retirement System (PERS) Plan 3, Teachers' Retirement System (TRS) Plan 3, School Employees' Retirement System (SERS) Plan 3 or Deferred Compensation. Administration of these plans and program rests with the Department of Retirement Systems

(DRS). Members of the plans and program select and manage their asset allocation among the various investment options offered.

The WSIB is authorized to invest as provided by statute (chapter 43.33A RCW) and WSIB policy. The WSIB is authorized to invest in the following: U.S. Treasury bills; discount notes; repurchase agreements; reverse repurchase agreements; banker's acceptances; commercial paper; guaranteed investment contracts; U.S. Government and Agency (government sponsored corporations eligible for collateral purposes at the Federal Reserve) securities; non-U.S. dollar bonds; investment grade corporate bonds; non-investment grade corporate bonds; publicly traded mortgage-backed securities; privately placed mortgages; private placements of corporate debt; U.S. and foreign common stock; U.S. preferred stock; convertible securities; private equity including but not limited to investment corporations, partnerships, and limited liability companies for venture capital, leveraged buy-outs, real estate and other tangible assets, or other forms of private equity; asset backed securities; and derivative securities including futures, options, options on futures, forward contracts, and swap transactions. There were no violations of these investment restrictions during Fiscal Year 2010.

The WSIB manages pension fund assets to maximize return at a prudent level of risk (RCW 43.33A.110). The WSIB establishes asset allocation targets that must be considered at all times when making investment decisions. The asset mix may deviate from the target. Deviations greater than predetermined acceptable levels require rebalancing back to the target. When an asset class exceeds its range, the goal of rebalancing is to meet the target allocation within consideration of the other remaining asset classes.

Eligible Investments. Pension trust funds are invested in the Commingled Trust Fund (CTF). The CTF is comprised of public market equities, fixed income securities, private equity investments, real estate and tangible assets. The CTF's performance benchmark objective is to exceed the return of a policy benchmark consisting of public market indices weighted according to asset allocation targets. The asset allocation for the CTF is formally reviewed at least every four years. The allocation policy will be reviewed more frequently if the WSIB believes there has been a fundamental change in the structure of the capital markets or in the underlying cash flow or liability structure of the pension trust funds.

In October 2007, the public equity program adopted a global benchmark, the Dow Jones Global Total Stock Markets Index, reflecting the globalization of capital markets. The CTF also reduced its asset allocation to public equity from 46 percent to 37 percent to facilitate increased allocations to alternative investments (private equity, real estate, and tangible assets).

Even though the fund moved to a global benchmark, the program was not substantially restructured and, thus, the public equity portfolio remains a combination of separate U.S. and international components. Because U.S. equity markets are generally efficient, all of the WSIB's investments in this segment are in a low-cost, broad-based passive index fund. In keeping with the belief that international equity markets are less efficient while acknowledging that international efficiency is increasing, the WSIB's developed markets international equity program has increased its use of passive strategies to 35 percent, but kept the majority of the program in active mandates. The entire emerging markets equity program is actively managed.

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

In addition, the major sector allocations are limited to the following ranges: U.S. treasuries and government agencies – 10 percent to 45 percent, credit bonds – 10 percent to 60 percent, asset backed securities – 0 percent to 10 percent, commercial mortgage-backed securities – 0 percent to 10 percent, and mortgage-backed securities – 5 percent to 45 percent.

Pension trust funds can be invested in any appropriate private equity investment opportunity that has the potential for returns superior to traditional investment opportunities and which is not prohibited by the WSIB's policies or by law. These investment types include venture capital investments, corporate finance, distressed, international and mezzanine investments. Private equity investments are made through limited partnership vehicles.

The portfolio is managed to meet or exceed the returns of the Russell 3000 (lagged by one quarter) plus 300 basis points. To meet the return and plan objectives, the private equity portfolio has diversified investments in companies in a variety of growth stages. The portfolio also includes a broad cross-section of opportunities in different industries and geographic regions.

The primary goal of the tangible asset portfolio is to generate a long-term, high quality, stable income stream. The secondary goal is to generate appreciation approximately commensurate with inflation. The structure of the investments are primarily targeted to be tangible asset operating companies providing the WSIB with governance provisions related to acquisition, dispositions,

and ongoing operational decisions for annual capital expenditures. The tangible asset portfolio invests in a number of sectors, but the primary focus is infrastructure, timber, and natural resource rights (oil and natural gas).

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

The WSIB's real estate program is an externally managed pool of selected partnership investments, intended to provide alternative portfolio characteristics when compared to traditional stock and bond investments. The majority of the WSIB's partnerships invest in institutional-quality real estate assets that are leased to third parties. The combination of income generated from bond-like lease payments, coupled with the hard asset qualities of commercial real estate, combine to generate returns that are expected to fall between the return expectations for fixed income and equities over the long term. The real estate portfolio is managed to deliver risk-adjusted returns that are consistent with the WSIB's long-term return expectations for the asset class.

The 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 transactions and ongoing operational decisions for annual capital expenditures.

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

The WSIB's current benchmark seeks to earn an 8 percent annual investment return over a rolling 10-year period.

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

Currently, all innovation portfolio investment managers are investing in publicly traded common stock.

2. Unfunded Commitments

The WSIB has entered into a number of agreements that commit the pension trust funds, upon request, to make additional investment purchases up to predetermined amounts. As of June 30, 2010, the retirement funds had unfunded commitments of \$7.6 billion, \$7.4 billion and \$482 million in private equity, real estate and tangible assets, respectively.

3. Securities Lending

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

The pension trust funds report securities lent (the underlying securities) as assets in the Statement of Net Assets. Cash received as collateral on securities lending transactions and investments made with that cash are reported as assets.

Securities received as collateral are reported as assets if the pension trust funds have the ability to pledge or sell them without a borrower default. Liabilities resulting from these transactions are also reported in the Statement of Net Assets. Securities lending transactions collateralized by securities that the pension trust funds do not have the ability to pledge or sell unless the borrower defaults are not reported as assets and liabilities.

Securities were loaned (consisting of fixed income and equities) and collateralized by the pension trust funds' agent with cash and U.S. government securities (exclusive of mortgage backed securities and letters of credit), and irrevocable letters of credit. When the loaned securities had collateral denominated in the same currency, the collateral requirement was 102 percent of the fair value, including accrued interest, of the securities loaned. All other securities were required to be collateralized at 105 percent of the fair value, including accrued interest, of the loaned securities.

The collateral held and fair value of securities on loan at June 30, 2010, were \$4.0 billion and \$3.9 billion respectively. At year-end, the amounts the pension trust funds owed the borrowers exceeded the amounts the borrowers owed pension trust funds, resulting in no credit risk exposure.

During Fiscal Year 2010, securities lending transactions could be terminated on demand by either the WSIB or the borrower. The weighted average maturity of loans for 2010 was 2.2 days.

Cash collateral was invested by the WSIB's agents in securities in the WSIB's separately managed short-term investment pool (average final maturity of 30 days). Because the securities lending agreements were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral.

Non-cash collateral could not be pledged or sold absent borrower default. Accordingly, non-cash collateral held under securities lending contracts with a value of \$304 million has not been included in the Statement of Net Assets. There are no restrictions on the amount of securities that can be lent.

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

During Fiscal Year 2010, there were no significant violations of legal or contractual provisions, or failures by any borrowers to return loaned securities or to pay distributions thereon. Further, the pension trust funds incurred no losses during Fiscal Year 2010 resulting from a default by either the borrowers or the securities lending agents.

4. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. Effective duration is the measure of a debt investment's exposure to fair value changes arising from changes in interest rates. Effective duration uses the present value of future cash flows, weighted for those flows as a percentage of the investment's full price.

Increases in prevailing interest rates generally translate into decreases in fair values of those investments, and decreases in interest rates result in increases in valuations.

The WSIB does not have a formal policy specifically for interest rate risk. The pension trust funds' fixed income investments are actively managed to exceed the return of the Barclays Capital Universal Index, with a duration that is not 20 percent higher or lower than the duration of the index.

As of June 30, 2010, the pension trust funds' duration was within the duration target of this index.

State of Washington

The following schedule provides information about the interest rate risks associated with the pension trust funds' investments as of June 30, 2010. The schedule displays various asset classes held by maturity in years and credit ratings. Residential mortgage backed, commercial mortgage backed, and asset backed securities are reported using the average life within the portfolio. The average life

is a calculated estimate of the average time (in years) until maturity for these securities taking into account possible prepayments of principal. All other securities on this schedule are reported using the stated maturity date. Foreign corporate bonds and corporate equities are reported in U.S. dollar (USD) and non U.S. dollar (Non USD) denominations.

Pension Trust Funds

June 30, 2010

(expressed in thousands)

Investment Type	Fair Value	Maturity				Credit Rating
		Less than 1		More than 10		
		Year	1-5 Years	6-10 Years	Years	
Asset backed securities	\$ 188,397	\$ 19,141	\$ 155,122	\$ 7,499	\$ 6,635	Multiple
Residential mortgage backed securities	2,875,074	360,808	2,502,015	12,251	-	Multiple
Commercial mortgage backed securities	478,293	60,363	416,905	1,025	-	Multiple
Corporate bonds - domestic	1,624,171	15,092	450,788	982,961	175,330	Multiple
Corporate bonds - foreign (USD)	4,405,322	103,819	979,626	2,639,195	682,682	Multiple
Corporate bonds - foreign (Non USD)	666,549	-	242,745	307,068	116,736	Multiple
U.S. government treasuries	673,678	-	673,678	-	-	Aaa
Treasury inflation protected securities	847,259	-	847,259	-	-	Aaa
	<u>11,758,743</u>	<u>\$ 559,223</u>	<u>\$ 6,268,138</u>	<u>\$ 3,949,999</u>	<u>\$ 981,383</u>	
Corporate stock (USD)	659,330					
Corporate stock (Non USD)	7,504,394					
Commingled equity index funds	10,204,806					
Alternative investments	21,654,099					
Liquidity	1,061,657					
Securities lending collateral	3,667,615					
Total	<u>\$ 56,510,644</u>					

Investments with multiple credit ratings are presented using the Moody's rating scale as follows:

Pension Trust Funds

Investments with Multiple Credit Ratings

June 30, 2010

(expressed in thousands)

Moody's Equivalent Credit Rating	Investment Type						Total
	Asset-Backed Securities	Residential	Commercial	Corporate Bonds		Corporate Bonds - Foreign (Non USD)	
		Mortgage Backed Securities	Mortgage Backed Securities	- Domestic	-Foreign (USD)		
Aaa	\$ 146,601	\$ 2,816,711	\$ 385,755	\$ 102,049	\$ 27,344	\$ 511,086	\$ 3,989,546
Aa1	-	3,997	-	-	-	-	3,997
Aa2	531	8,077	52,032	-	186,560	-	247,200
Aa3	6,978	3,535	40,506	143,150	252,738	-	446,907
A1	-	2,864	-	112,531	492,134	-	607,529
A2	-	-	-	226,212	163,997	788	390,997
A3	-	-	-	71,017	364,398	29,214	464,629
Baa1	3,116	4,582	-	389,580	419,845	-	817,123
Baa2	-	2,733	-	367,526	851,575	26,834	1,248,668
Baa3 and lower	31,171	32,575	-	212,106	1,646,731	98,627	2,021,210
Total	<u>\$ 188,397</u>	<u>\$ 2,875,074</u>	<u>\$ 478,293</u>	<u>\$ 1,624,171</u>	<u>\$ 4,405,322</u>	<u>\$ 666,549</u>	<u>\$ 10,237,806</u>

5. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Rated debt investments of the pension trust funds as of June 30, 2010, were rated by Moody's and/or an equivalent national rating organization.

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 percent of cost at the time of purchase or 6 percent of fair value thereafter of the fund, and no high yield issues shall exceed 1 percent of cost or 2 percent of fair value of the fund. There was no concentration of credit risk exceeding these policy guidelines as of June 30, 2010.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of a failure of the counterparty to a transaction, the pension trust funds would not be able to recover the value of investments that are in the possession of an outside party. The WSIB does not have a policy

specifically for custodial credit risk. The WSIB mitigates custodial risk by having its investment securities held by its custodian. Also, investment securities are registered in the name of the WSIB for the benefit of the pension trust funds, excluding cash and cash equivalents and repurchase agreements held as securities lending collateral.

6. 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.

The following schedule presents the exposure of pension fund investments to foreign currency risk. The schedule provides information on deposits and investments held in various foreign currencies, which are stated in U.S. dollars.

Pension Trust Funds
Foreign Currency Risk
June 30, 2010
(expressed in thousands)

Foreign Currency Denomination	Investment Type					Total
	Currency	Fixed Income	Equity	Private Equity	Real Estate	
Australia-Dollar	\$ 4,378	\$ 373,361	\$ 365,690	\$ -	\$ 18,282	\$ 761,711
Brazil-Real	399	134,079	100,424	-	-	234,902
Canada-Dollar	1,858	-	453,623	-	-	455,481
Denmark-Krone	348	-	81,982	-	-	82,330
E.M.U.-Euro	41,010	-	2,006,480	1,575,005	120,529	3,743,024
Hong Kong-Dollar	1,165	-	332,591	-	-	333,756
India-Rupee	1,148	-	81,184	-	-	82,332
Indonesia-Rupiah	4	26,068	36,854	-	-	62,926
Japan-Yen	11,054	-	1,302,333	-	-	1,313,387
Mexico-Peso	338	29,214	36,480	-	-	66,032
Norway-Krone	1,169	43,247	72,110	-	-	116,526
Poland-Zloty	504	-	18,298	-	-	18,802
Singapore-Dollar	413	-	111,556	-	-	111,969
South Africa-Rand	113	-	97,343	-	-	97,456
South Korea-Won	392	-	116,472	-	-	116,864
Sweden-Krona	849	-	184,503	694	-	186,046
Switzerland-Franc	3,182	-	505,957	-	-	509,139
Taiwan-Dollar	11,533	-	106,170	-	-	117,703
Turkey-Lira	265	49,028	94,903	-	-	144,196
United Kingdom-Pound	3,556	788	1,274,108	9,486	-	1,287,938
Other-Miscellaneous	1,422	10,764	125,333	-	-	137,519
Total	\$ 85,100	\$ 666,549	\$ 7,504,394	\$ 1,585,185	\$ 138,811	\$ 9,980,039

7. Derivatives

Pension trust funds are authorized to utilize various derivative financial instruments, including mortgage-backed securities, financial futures, forward contracts, interest rate swaps, credit default swaps, equity swaps, and options. Derivative transactions involve, to varying degrees, market and credit risk. In connection with the international and domestic active equity strategy, at June 30, 2010, the pension trust funds held investments in financial futures, forward currency contracts and other derivative securities that are recorded at fair value with changes in value recognized in investment income in the Statement of Changes in Net Assets in the period of change.

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

Inherent in the use of OTC derivatives, the pension trust funds are exposed to counterparty credit risk on all open OTC positions. Counterparty credit risk is the risk that a derivative counterparty may fail to meet its payment obligation under the derivative contract. As of June 30, 2010, the pension trust funds counterparty risk was not deemed to be significant, whether evaluating counterparty exposure outright or netting collateral against net asset positions on contracts with each counterparty.

Mortgage TBA's are used to achieve the desired market exposure of a security or asset class or adjust portfolio duration. A TBA is a contract for the purchase or sale of agency mortgage-backed securities to be delivered at a future agreed-upon date. TBA's carry future settlement risk due to the possibility of not receiving the asset or associated gains specified in the contract and such loss upon failure by counterparties to deliver under the contracts is not material at June 30, 2010.

Futures contracts are standardized, exchange-traded contracts to purchase or sell a specific financial instrument at a predetermined price. Gains and losses on futures contracts are settled daily based on a notional (underlying) principal value and do not involve an actual transfer of the specific instrument. The exchange assumes the risk that the counterparty will not pay and generally requires margin payments to minimize such risk. Futures are generally used to achieve the desired market exposure of a security or index or rebalance the total portfolio.

Forward currency contracts are agreements to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. These forward commitments are not standardized and carry credit risk due to the possible nonperformance by one of the counterparties. The maximum potential loss is the aggregate face value in U.S. dollars at the time the contract was opened; however, the likelihood of such loss is remote. At June 30, 2010, the pension trust funds had outstanding forward currency contracts to purchase foreign currencies with a fair value of \$1.6 billion and outstanding contracts to sell foreign currencies with a fair value of \$1.6 billion. The net unrealized loss of \$1.8 million is included in the Statement of Changes in Net Assets. The contracts have varying maturity dates ranging from July 1, 2010, to November 10, 2010.

At June 30, 2010, the pension trust funds' fixed income portfolio held derivative securities consisting of collateralized mortgage obligations with a fair value of \$1.1 billion. Domestic and foreign passive equity index fund managers may also utilize various derivative securities to manage exposure to risk and increase portfolio returns. Information on the extent of use and holdings of derivative securities by passive equity index fund managers is unavailable.

Derivatives which are exchange traded are not subject to credit risk. The maximum loss that would be recognized at June 30, 2010, if all counterparties fail to perform as contracted is \$1.8 million of unrealized gain on TBA securities. This maximum exposure is reduced by \$1.8 million of unrealized losses on forward currency contracts, resulting in de minimus exposure to credit risk.

At June 30, 2010, the counterparties' credit ratings for forward currency contracts that are subject to credit risk had a credit rating of no less than A2 using the Moody's rating scale.

The following schedule presents the significant terms for derivatives held as investments by the WSIB.

Pension Trust Funds			
Derivative Investments			
June 30, 2010			
(expressed in thousands)			
	Changes in Fair Value - Included in Investment Income (Loss)	Fair Value - Investment Derivative	Notional
	Amount	Amount	
Futures Contracts:			
Bond index futures	\$ 4,952	\$ 4,952	4
Equity index futures	19,262	(1,990)	3
Total	\$ 24,214	\$ 2,962	7
To Be Announced (TBA) Securities:			
Total	\$ 1,810	\$ 257,135	242,000
Forward Currency Contracts:			
Australia-Dollar	\$ 2,177	\$ 1,791	61,633
Canada-Dollar	5,355	(1,027)	133,531
Czech Republic-Koruna	361	(29)	(179,503)
Denmark-Krone	(56)	(44)	(35,714)
E.M.U.-Euro	(2,612)	(2,304)	(70,243)
Hong Kong-Dollar	(53)	(54)	(294,796)
Hungary-Forint	675	409	(920,416)
Israel-Shekel	-	-	1,281
Japan-Yen	(478)	2,813	6,747,048
Mexico-Peso	-	-	(2,323)
New Zealand-Dollar	117	(1)	(2)
Norway-Krone	21	20	(87,285)
Poland-Zloty	2,242	479	(17,930)
Singapore-Dollar	4	1	(2,189)
South Africa-Rand	(94)	(89)	(16,362)
Sweden-Krona	(3,090)	(2,606)	(442,845)
Switzerland-Franc	34	(150)	(3,234)
United Kingdom-Pound	(555)	(1,003)	19,899
United States-Dollar	-	-	(60,699)
Total	\$ 4,048	\$ (1,794)	4,829,851

8. Reverse Repurchase Agreements

State law permits the 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 fair value of the securities underlying reverse repurchase agreements normally exceeds the cash received, providing the dealers margin against a decline in fair value of the securities. If the dealers default on their obligations to

resell these securities to the state or provide securities or cash of equal value, the WSIB would suffer an economic loss equal to the difference between the fair value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. There were no reverse repurchase agreements during the year and there were no liabilities outstanding as of June 30, 2010.

**C. INVESTMENTS – WORKERS’
COMPENSATION FUND**

1. Summary of Investment Policies

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

In accordance with state laws, the workers’ compensation fund investments are 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 is:

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

Eligible Investments. Eligible investments are securities and deposits that are in accordance with the WSIB’s investment policy and RCW 43.33A.110. Eligible investments include:

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

Investment Restrictions. To meet stated objectives, investments of workers’ compensation funds are subject to the following constraints:

- All assets under the management of the WSIB are to be invested to maximize return at a prudent level of risk in accordance with RCW 43.33A.110 and RCW 43.33A.140.
- Asset allocations are to be reviewed every three to four years or sooner if there are significant changes in funding levels or the liability durations.
- Assets are to be rebalanced across asset classes when the fair value of the assets falls outside the policy ranges. The timing of any rebalancing will be based on market opportunities, cash flows, and the consideration of transaction costs; therefore, they need not occur immediately.
- No corporate fixed income issue cost shall exceed 3 percent of the fund’s fair value at the time of purchase, nor shall its fair value exceed 6 percent of the fund’s fair value at any time.
- The benchmark and structure for U.S. equities will be the broad U.S. stock market as defined by the Dow Jones U.S. Total Stock Market Index. The benchmark and structure for international equities will be the Morgan Stanley Capital International All Country World Ex U.S. Investable Market Index (MSCI ACW Ex U.S. IMI). Both portfolios will be 100 percent passively managed in commingled index funds. The commingled funds may use futures for hedging or establishing a long-term position.
- Sector allocation for U.S. equities should be within a range of 55 percent to 65 percent. Allocation for international equities should be within a range of 35 percent to 45 percent.
- The fixed income portfolios’ structure varies depending upon the required duration target. The duration targets are reviewed every three years, or sooner, if there are significant changes in the funding levels or the liability durations.
- Sector allocation of fixed income investments must be managed within the following prescribed ranges: U.S. Treasuries and government agencies – 5 percent to 25 percent, credit bonds – 20 percent to 70 percent, asset backed securities – 0 percent to 10 percent, commercial mortgage backed securities – 0 percent to 10 percent and mortgage backed securities – 0 percent to 25 percent. 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.

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

2. Securities Lending

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

The workers' compensation fund reports securities lent (the underlying securities) as assets in the Statement of Net Assets. Cash received as collateral on securities lending transactions and investments made with that cash are reported as assets. Securities received as collateral are reported as assets if the workers' compensation fund has the ability to pledge or sell them without a borrower default. Liabilities resulting from these transactions are also reported in the Statement of Net Assets. Securities lending transactions collateralized by securities that the workers' compensation fund does not have the ability to pledge or sell unless the borrower defaults are not reported as assets and liabilities.

Fixed income securities were loaned and collateralized by the WSIB's agent with cash and U.S. government securities (exclusive of mortgage backed securities and letters of credit), and irrevocable letters of credit. When the loaned securities had collateral denominated in the same currency, the collateral requirement was 102 percent of the fair value, including accrued interest, of the securities loaned. All other securities were required to be collateralized at 105 percent of the fair value, including accrued interest, of the loaned securities. The collateral held and fair value of securities on loan at June 30, 2010 was \$2.6 billion and \$2.5 billion, respectively. As of June 30, 2010, the amounts the workers' compensation fund owed the borrowers exceeded the amounts the borrowers owed the workers' compensation fund resulting in no credit risk exposure to borrowers.

During Fiscal Year 2010, securities lending transactions could be terminated on demand by either the workers' compensation fund or the borrower. The weighted average maturity of loans was 2.2 days.

Cash collateral was invested by the workers' compensation fund in the WSIB's short-term investment pool (average

final maturity of 30 days). Because the securities lending agreements were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. Non-cash collateral could not be pledged or sold absent borrower default. Accordingly, non-cash collateral held under securities lending contracts with a value of \$197 million have not been included in the Statement of Net Assets. There are no restrictions on the amount of securities that can be lent.

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

During Fiscal Year 2010, 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 workers' compensation fund incurred no losses during Fiscal Year 2010 resulting from a default by either the borrowers or the securities lending agents.

3. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. Effective duration is the measure of a debt investment's exposure to fair value changes arising from changes in interest rates. Effective duration uses the present value of cash flows, weighted for those flows as a percentage of the investment's full price. Increases in prevailing interest rates generally translate into decreases in fair values of those investments. The WSIB does not have a formal policy specifically for interest rate risk.

The workers' compensation fixed income investments are actively managed to exceed the return of the Comparable Market Index, with volatility as measured by duration to be similar to or less than the index. As of June 30, 2010, the durations of the various fixed income classes were within the duration targets of the Comparable Market Index.

The workers' compensation fund investments include both U.S. agencies and corporate debt variable-rate securities, most of which reset periodically to the market interest rate. Because these securities frequently re-price to prevailing market rates, interest rate risk is substantially reduced at each periodic reset date.

State of Washington

The following schedule provides information about the interest rate risks associated with the workers' compensation fund investments as of June 30, 2010. The schedule displays various asset classes held by maturity in years, effective durations, and credit ratings. Residential mortgage backed, commercial mortgage backed, and asset

backed securities are reported using the average life within the portfolio. The average life is a calculated estimate of the average time (in years) until maturity for these securities taking into account possible prepayments of principal. All other securities on the schedule are reported using the stated maturity date.

Workers' Compensation Fund

June 30, 2010

(expressed in thousands)

Investment Type	Fair Value	Maturity				Credit Rating
		Less than 1 Year	1-5 Years	6-10 Years	More than 10 Years	
Residential mortgage backed securities	\$ 1,747,601	\$ 23,935	\$ 889,862	\$ 732,074	\$ 101,730	Aaa
Commercial mortgage backed securities	554,452	56,490	351,054	146,125	783	Multiple
Corporate bonds-domestic	3,081,812	125,039	680,589	1,016,490	1,259,694	Multiple
Corporate bonds-foreign (USD)	2,753,892	118,326	824,662	1,029,889	781,015	Multiple
Government securities-domestic:						
U.S. government treasuries	605,292	-	605,292	-	-	Aaa
U.S. treasury inflation protected securities	1,606,498	89,365	246,323	704,527	566,283	Aaa
	<u>10,349,547</u>	<u>\$ 413,155</u>	<u>\$ 3,597,782</u>	<u>\$ 3,629,105</u>	<u>\$ 2,709,505</u>	
Commingled index funds-domestic	775,728					
Commingled index funds-foreign	548,241					
Money market funds	220,860					
Securities lending collateral	<u>2,377,679</u>					
Total	<u><u>\$ 14,272,055</u></u>					

Investments with multiple credit ratings are presented using the Moody's rating scale as follows:

Workers' Compensation Fund

Investments with Multiple Credit Ratings

June 30, 2010

(expressed in thousands)

Moody's Equivalent Credit Rating	Investment Type			Total
	Commercial Mortgage Backed Securities	Corporate Bonds - Domestic	Corporate Bonds - Foreign (USD)	
Aaa	\$ 485,785	\$ 116,121	\$ 375,071	\$ 976,977
Aa2	28,161	-	245,091	273,252
Aa3	40,506	364,886	316,124	721,516
A1	-	307,416	329,248	636,664
A2	-	786,111	84,836	870,947
A3	-	290,627	240,360	530,987
Baa1	-	510,699	288,580	799,279
Baa2	-	513,004	522,373	1,035,377
Baa3 and lower	-	169,785	300,244	470,029
Other	-	23,163	51,965	75,128
Total	<u>\$ 554,452</u>	<u>\$ 3,081,812</u>	<u>\$ 2,753,892</u>	<u>\$ 6,390,156</u>

4. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The rated debt investments of the workers' compensation fund as of June 30, 2010, were rated by Moody's and/or an equivalent national rating organization.

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 workers' compensation fund policy states no corporate fixed income issue's cost shall exceed 3 percent of the fund's fair value at the time of purchase, nor shall its fair value exceed 6 percent of the fund's fair value at any time. There was no concentration of credit risk as of June 30, 2010.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of a failure of the counterparty to a transaction, the workers' compensation fund would not be able to recover the value of investments that are in the possession of an outside party. The workers' compensation fund does not have a policy specifically for custodial credit risk. The WSIB mitigates custodial credit risk by having its investment securities held by its custodian. Also, investment securities are registered in the name of the WSIB for the benefit of the workers' compensation fund, excluding cash and cash equivalents and repurchase agreements held as securities lending collateral.

5. 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 workers' compensation fund does not have a formal policy to limit foreign currency risk. The workers' compensation funds had \$548 million invested in an international commingled equity index fund. As such, no currency denomination risk is presented.

6. Derivatives

The workers' compensation fund 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. The workers' compensation fund 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 workers' compensation fund's 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, 2010.

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, 2010, the only derivative securities held directly by the workers' compensation fund were collateralized mortgage obligations (CMOs) of \$1.7 billion.

7. Reverse Repurchase Agreements

State law permits the 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 fair value of the securities underlying reverse repurchase agreements normally exceeds the cash received, providing the dealers margin against a decline in fair value of the securities. If the dealers default on their obligations to resell these securities to the state or provide securities or cash of equal value, the WSIB would suffer an economic loss equal to the difference between the fair value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. There were no reverse repurchase agreements during Fiscal Year 2010 and there were no liabilities outstanding as of June 30, 2010.

D. INVESTMENTS – LOCAL GOVERNMENT INVESTMENT POOL (LGIP)

1. Summary of Investment Policies

The LGIP is managed and operated by the Office of the State Treasurer (OST). The State Finance Committee is the administrator of the statute that created the pool and adopts appropriate rules. The OST is responsible for establishing the investment policy for the pool and reviews it annually. Any proposed changes are reviewed by the LGIP Advisory Committee. The terms of the policy are designed to ensure the safety and liquidity of the funds deposited in the LGIP.

The LGIP is comparable to a Rule 2a-7 money market fund recognized by the Securities and Exchange Commission (17CFR.270.2a-7). Rule 2a-7 funds are limited to high quality obligations with limited maximum and average maturities, the effect of which is to minimize

both market and credit risk. As such, investments are reported at amortized cost (which approximates fair value).

Investment Objectives. The objectives of the LGIP investment policy, in priority order, are safety, liquidity, and return on investment. To provide for the safety and liquidity of funds deposited in the LGIP, the state treasurer and designated investment officers shall:

- Adhere to all restrictions on the investment of funds established by law and by the policy.
- Limit the purchase of investments in securities so that the weighted average maturity of the portfolio, as defined in Section VI of the policy, does not exceed 90 days.
- Limit the purchase of investments to securities that have a maximum final maturity of 397 days, with the exceptions listed in section VI of the policy.
- Limit the purchase of investments in securities other than those issued by the U.S. government or its agencies.
- Prepare regular reports of portfolio activity.

The primary objective of safety will be measured in cash, as opposed to accounting terms, where different, and in terms of the portfolio, as a whole, as opposed to the terms of any individual transaction. This means, for example, that a single transaction that generated an accounting loss but actually increased the amount of cash received in the portfolio would be considered to have increased capital, and not decreased it. Within the restrictions necessary to ensure the safety and liquidity of funds, the investment portfolio of the LGIP will be structured to attain a market rate of return throughout an economic cycle.

Eligible Investments. Eligible investments are only those securities and deposits authorized by statute (Chapters 39.58, 39.59, 43.84.080 and 43.250 RCW). Eligible investments include:

- Obligations of the U.S. government.
- Obligations of U.S. government agencies, or of corporations wholly owned by the U.S. government.
- Obligations of government sponsored corporations that are, or may become eligible as collateral for advances to member banks as determined by the board of governors of the Federal Reserve.
- Banker's acceptances purchased on the secondary market rated with the highest short-term credit rating of any two Nationally Recognized Statistical Rating

Organizations (NRSROs), at the time of purchase. If the banker's acceptance is rated by more than two NRSROs, it must have the highest rating from all of the organizations.

- Commercial paper provided that the OST adheres with policies and procedures of the WSIB regarding commercial paper (RCW 43.84.080(7)).
- Certificates of deposit with financial institutions qualified by the Washington Public Deposit Protection Commission.
- Obligations of the state of Washington or its political sub-divisions.

Investment Restrictions. To provide for the safety and liquidity of LGIP Funds, the investment portfolio will be subject to the following restrictions:

- All money market securities are required to be rated A-1 by Standard and Poor's Corporation and P-1 by Moody's Investors Services, Inc.
- Investments are restricted to fixed rate securities that mature in 397 days or less, and floating and variable rate securities that mature in 762 days or less.
- The weighted average maturity of the portfolio may not exceed 90 days.
- Cash generated through securities lending or reverse repurchase agreement transactions will not increase the dollar amount of specified investment types beyond stated limits.

2. Securities Lending

The LGIP investment policy requires that any securities on loan be made available by the lending agent for next day liquidity at the option of the LGIP. During Fiscal Year 2010, the LGIP had no credit risk exposure to borrowers because the amounts owed to the borrowers exceeded the amounts the borrowers owed the LGIP. Furthermore, the contract requires the lending agent to indemnify the LGIP if the borrowers fail to return the securities (and if collateral is inadequate to replace the securities lent) or if the borrower fails to pay the LGIP for income distribution by the securities' issuers while the securities are on loan.

The LGIP cannot pledge or sell collateral securities received unless the borrower defaults. The LGIP investment policy limits the amount of reverse repurchase agreements and securities lending to 30 percent of the total portfolio. There were neither violations of legal or contractual provisions nor any losses resulting from a default of a borrower or lending agent during the year.

State statutes permit the LGIP to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The LGIP, which has contracted with a lending agent to lend securities in the LGIP, earns a fee for this activity. The lending agent lends securities and receives collateral, which can be in the form of cash or other securities. The collateral, which must be valued at 102 percent of the fair value of the loaned securities, is priced daily and, if necessary, action is taken to maintain the collateralization level at 102 percent.

The cash is invested by the lending agent in repurchase agreements or money market instruments, in accordance with investment guidelines approved by the LGIP. The securities held as collateral and the securities underlying the cash collateral are held by the LGIP's custodian. There were no securities on loan as of June 30, 2010.

3. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt instruments will adversely affect the fair value of an investment.

The portfolio is managed in a manner consistent with the Securities and Exchange Commission's Rule 2a-7 of the Investment Company Act of 1940, i.e., money market funds. Much of the Rule 2a-7 investment guidelines are directed towards limiting interest rate risk, in order to maintain a stable net asset value.

The LGIP policy places a 90-day maximum on the weighted average maturity. Further, the maximum maturity of any security will not exceed 397 days, except securities utilized in repurchase agreements and U.S.

Agency floating or variable rate notes may have a maximum maturity of 762 days, provided that they have reset dates within one year and which on any reset date can reasonably be expected to have a market value that approximates its amortized cost.

As of June 30, 2010, the LGIP had a weighted average maturity of 49 days.

The following schedule presents the LGIP investments by type and provides information about the interest rate risks associated with the LGIP investments as of June 30, 2010.

Local Government Investment Pool (LGIP)			
June 30, 2010			
(expressed in thousands)			
Investment Type	Fair Value	Maturity	
		Less than 1 Year	1-5 Years
U.S. government obligations	\$ 449,640	\$ 449,640	\$ -
U.S. agency obligations	5,082,699	4,142,790	939,909
Repurchase agreements	2,600,000	2,600,000	-
Certificates of deposit	38,000	38,000	-
Interest bearing bank accounts	826,328	826,328	-
Total	\$ 8,996,667	\$ 8,056,758	\$ 939,909

4. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The LGIP investment policy limits the types of securities available for investment to obligations of the U.S. government or its agencies, obligations of government-sponsored corporations, banker's acceptances, commercial paper, deposits with qualified public depositories, or obligations of the state of Washington or its political subdivisions.

Banker's acceptances and commercial paper must be rated with the highest short-term credit rating of any two Nationally Recognized Statistical Rating Organizations (NRSROs) at the time of purchase. The LGIP currently does not have any banker's acceptances, commercial paper, or municipal bonds in its portfolio.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of a failure of the counter party, the LGIP will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The LGIP investment policy requires that securities purchased by the office be held by the master custodian, acting as an independent third party, in its safekeeping or trust department. Securities utilized in repurchase agreements are subject to additional restrictions. These restrictions are designed to limit the LGIP's exposure to risk and insure the safety of the investment. All securities utilized in repurchase agreements were rated AAA. The market value of securities utilized in repurchase agreements must be at least 102 percent of the value of the repurchase agreement.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The LGIP mitigates concentration of credit risk by limiting the percentage of the portfolio invested with any one issuer.

With the exception of U.S. Treasury and U.S. Agency securities, the OST mitigates concentration of credit risk by limiting the purchase of securities of any one issuer to no more than 5 percent of the portfolio. As of June 30, 2010, U.S. Treasury securities comprised 5.0 percent of the total portfolio. U.S. Agency securities comprised 56.5 percent of the total portfolio, including Federal Home Loan Mortgage Corporation (11.7 percent), Federal Home Loan Bank (8.3 percent), Federal National Mortgage Association (20.2 percent), and Federal Farm Credit Bank (16.3 percent).

5. Foreign Currency Risk. None.

6. Derivatives

A derivative is a futures, forward, swap, or option contract, or other financial instrument with similar characteristics. The LGIP did not own, buy, or sell derivatives during the fiscal year.

7. Reverse Repurchase Agreements

State law also permits the LGIP to enter into reverse repurchase agreements, which are, by contract, sales of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest.

The fair value of the securities pledged as collateral by the LGIP underlying the reverse repurchase agreements normally exceeds the cash received, providing the dealers a margin against a decline in the fair value of the securities.

If the dealers default on their obligations to resell these securities to the LGIP or to provide equal value in securities or cash, the LGIP would suffer an economic loss equal to the difference between the fair value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. During the fiscal year there was no credit risk for the LGIP due to the fair value plus accrued interest of the underlying securities being less than the fair value plus accrued interest of the reinvested cash. On June 30, 2010, there were no obligations under reverse repurchase agreements.

The market value, plus accrued income, of mortgage-backed securities utilized in repurchase agreements with more than seven days remaining until maturity will be 105 percent of the value of the repurchase agreement. The market value, plus accrued income, of securities utilized in

all other repurchase agreements will be 102 percent of the value of the repurchase agreement.

The securities utilized in repurchase agreements are priced daily and held by the LGIP's custodian in the state's name. Collateralized Mortgage Obligations (CMO) utilized in repurchase agreements must pass the Federal Financial Institutions Examination Council (FFIEC) test, or not exceed a volatility rating of V-5 by Fitch Investor Services, or a similar rating of a nationally recognized rating agency. As of June 30, 2010, repurchase agreements totaled \$2.6 billion.

E. INVESTMENTS – HIGHER EDUCATION SPECIAL REVENUE AND ENDOWMENT FUNDS

1. Summary of Investment Policies

The investments of the University of Washington represent 74 percent of the total investments in Higher Education Special Revenue and Endowment Funds.

The Board of Regents of the University of Washington is responsible for the management of the University's investments. The Board establishes investment policy, which is carried out by the Chief Investment Officer.

The University of Washington Investment Committee (UWINCO) comprised of Board members and investment professionals advises on matters relating to the management of the University's investment portfolios.

The majority of the University's investments are insured, registered, and held by the University's custodial bank as an agent for the University. Investments not held by the custodian include lent securities, mutual funds, venture capital, private equity, distressed, marketable alternatives, mortgages, real estate, and miscellaneous investments.

The University combines most short-term cash balances in the Invested Funds Pool. At June 30, 2010, the Invested Funds Pool totaled \$1.1 billion. The fund also owns units in the Consolidated Endowment Fund valued at \$354.9 million on June 30, 2010.

By University policy, departments with qualifying funds in the Invested Funds Pool receive distributions based on their average balances and on the type of balance. Campus depositors received 2 percent in Fiscal Year 2010. Endowment operating and gift accounts received 3 percent in Fiscal Year 2010. The difference between the actual earnings of the Invested Funds Pool and the calculated distributions is used to support activities benefiting all University departments.

The majority of the endowed funds are invested in a pooled fund called the Consolidated Endowment Fund (CEF). Individual endowments purchase units in the pool on the basis of a per unit valuation of the CEF at fair value on the last business day of the calendar quarter. Income is distributed based on the number of units held.

During Fiscal Year 2009, in light of the 2008-2009 financial crises and the decline in the CEF market value, the Board of Regents implemented an interim spending policy. Under the interim policy, year-over-year CEF distributions decreased from the Fiscal Year 2008 level by 25 percent in Fiscal Years 2009 and 2010.

At their October 21, 2010 meeting, the Board of Regents adopted a new spending policy for the CEF replacing the interim spending policy. Under the new policy, quarterly distributions to programs will equal 4 percent of a five-year rolling average. The new policy is effective with the December 2010 quarterly distributions with the five year averaging period implemented incrementally. The administrative fee of 1 percent supporting campus-wide fundraising and stewardship activities and offsetting the internal cost of managing endowment assets continues but will now be based on a five year average value consistent with the basis for program distributions.

The University records its permanent endowments at the lower of original gift value or current market value in the Restricted Nonexpendable Net Assets category. Of the total \$1.1 billion permanent endowment funds (at fair value) as of June 30, 2010, the aggregate amount of the deficiencies where the fair value of the assets is less than the original gifts is \$53.3 million at June 30, 2010.

Funds in irrevocable trusts managed by trustees other than the University are not reported in the financial statements. The fair value of these funds was \$45.6 million at June 30, 2010. Income received from these trusts which is included in investment income, was \$2.2 million for the year ended June 30, 2010.

Net appreciation (depreciation) in the fair value of investments includes both realized and unrealized gains and losses on investments. The University realized net gains of \$138 million in 2010 from the sale of investments. The calculation of realized gains and losses is independent of the net appreciation of the fair value of investments. Realized gains and losses on investments that have been held in more than one fiscal year and are sold in the current year, include the net appreciation of these investments reported in the prior year(s).

The net (depreciation) appreciation in the fair value of investments during the year ended June 30, 2010 was \$223.8 million.

The following schedule presents the fair value of the University of Washington's investments by type at June 30, 2010:

University of Washington	
June 30, 2010	
(expressed in thousands)	
Investment Type	Fair Value
Cash equivalents	\$ 337,842
Domestic fixed income	1,105,961
Foreign fixed income	18,909
Domestic equity	421,489
Foreign equity	479,014
Non-marketable alternatives	407,847
Absolute return	376,730
Real estate	9,737
Miscellaneous	4,471
Total	\$ 3,162,000

2. Funding Commitments

The University enters into contracts with investment managers to fund alternate investments. As of June 30, 2010, the University had outstanding commitments to fund alternative investments in the amount of \$215.3 million.

3. Securities Lending

The University's investment policies permit it to lend its securities to broker dealers and other entities. Due to market conditions, the University terminated this program in September 2008, and as of June 30, 2010 the University has no securities on loan.

4. Interest Rate Risk

The University manages interest rate risk through its investment policies and the investment guidelines established with each manager. Each fixed income manager is assigned a maximum boundary for duration as compared to the manager's relevant benchmark index. The goal is to allow ample freedom for the manager to perform, while controlling the interest rate risk in the portfolio. Modified duration, which estimates the sensitivity of a bond's price to interest rate changes, is based on a calculation entitled Macaulay duration.

Macaulay is an accepted calculation developed for a portfolio of bonds assembled to fund a fixed liability. Macaulay duration is calculated as follows: sum of discounted time-weighted cash flows divided by the bond price. Modified duration is calculated using the following formula: Macaulay duration divided by (one plus yield-to-maturity divided by the number of coupon payments per year).

The Interest Rate Risk Schedule presents the modified duration of the University's investments for which duration is measured. Duration figures at June 30, 2010, exclude \$60.4 million of fixed-income securities held

outside the CEF and the Invested Funds Pool. These amounts, which in total makeup 1.9 percent of the University's investments, are not included in the duration figures below.

University of Washington

Interest Rate Risk

Duration as of June 30, 2010

(expressed in thousands, modified duration in years)

	Consolidated Endowment Fund		Invested Funds Pool	
	Asset Value	Duration	Asset Value	Duration
Domestic Fixed Income				
Asset backed securities	\$ 28,716	2.11	\$ 33,336	1.87
Cash equivalents	54,932	1.59	252,486	0.02
Corporate bonds	84,748	2.84	37,797	1.55
Government and agencies	143,467	1.99	692,698	3.26
Mortgage related	16,052	2.53	45,230	2.91
Subtotal Domestic Fixed Income	<u>327,915</u>	<u>2.18</u>	<u>1,061,547</u>	<u>2.37</u>
International Fixed Income				
Cash equivalents	3	-	-	-
International fixed	5,620	3.89	7,215	2.21
Subtotal International Fixed Income	<u>5,623</u>	<u>3.89</u>	<u>7,215</u>	<u>2.21</u>
Total	<u>\$ 333,538</u>	<u>2.14</u>	<u>\$ 1,068,762</u>	<u>2.36</u>

5. Credit Risk

Credit risk is the risk that the issuer or other counterparty to a financial instrument will not fulfill its obligations, or negative perceptions of the issuer's ability to make these payments will cause prices to decline.

The University investment policies limit fixed income exposure to investment grade assets. The investment policy for the University's invested funds cash pool requires each manager to maintain an average quality rating of "AA" as issued by a nationally recognized rating organization. The invested funds liquidity pool requires each manager to maintain an average quality rating of "A" and to hold 50 percent of their portfolios in government and government agency issues.

The investment policy for the CEF reflects its long-term nature by specifying average quality rating levels by

individual manager, but still restricting investments to investment grade credits.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of a failure of the counterparty to a transaction, the University will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The University does not have a formal policy regarding custodial credit risk. However, all University assets are held in the name of the University of Washington and are not subject to custodial credit risk.

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 University mitigates concentration of credit risk by maintaining a portfolio of investment grade assets and by the due diligence of each manager.

The following schedule provides information on investments subject to credit risk.

University of Washington		
Investments Credit Rating		
As of June 30, 2010		
(expressed in thousands)		
Credit Rating	Consolidated	Invested Funds
	Endowment Fund	Asset Value
	Asset Value	Asset Value
AAA	\$ 81,363	\$ 179,212
AA	38,473	20,504
A	30,979	5,062
BBB	8,384	2,930
BB	188	1,514
B	449	1,564
CCC	485	7,936
CC	203	1,612
Not rated	13,254	9,419
Total	\$ 173,778	\$ 229,753

6. Foreign Currency Risk

The University's investment policies permit investments in international equity and other asset classes that can include foreign currency exposure. The University also enters into foreign currency forward contracts, futures contracts, and options to manage the foreign currency exposure.

At June 30, 2010, the University had net outstanding forward commitments to sell foreign currency with a total fair value of \$4.7 million, which equals 0.15 percent of the total portfolio.

The following schedule details the market value of foreign denominated securities by currency type in the CEF.

University of Washington			
Consolidated Endowment Fund			
Foreign Currency Risk			
June 30, 2010			
(expressed in thousands)			
Foreign Currency	Foreign Fixed	Foreign	Alternatives
	Income	Equity	and Other
			Investments
Australia-Dollar	\$ -	\$ 7,159	\$ 4,436
Brazil-Real	-	43,553	306
Britain-Pound	4,134	34,199	16,970
Canada-Dollar	1,224	9,023	15,353
China-Renminbi	-	43,613	7,511
E.M.U.-Euro	1,681	52,258	59,432
India-Rupee	-	30,865	22,170
Hong Kong-Dollar	-	31,300	4,804
Japan-Yen	-	40,845	13,273
Russia-Ruble	-	27,717	2,070
Singapore-Dollar	-	10,641	1,946
South Korea-Won	-	18,897	867
Switzerland-Franc	1,600	18,971	3,431
Taiwan-Dollar	3	19,845	2,648
Other (less than 2% total exposure)	-	77,545	20,999
Total	\$ 8,642	\$ 466,431	\$ 176,216

7. Derivatives

The University's investments include certain derivative instruments and structured notes that derive their value from a security, asset, or index. Under the University's investment policies and guidelines derivatives may be used to manage the aggregate portfolio risk/return profile. This includes the use of swaps, options, futures and other derivative products to adjust exposures, to equitize cash, or to rebalance across asset classes.

The University's participation in investment derivative activity in total return swaps during Fiscal Year 2010 is

summarized in the following schedule. The values are based on quoted market prices.

Credit exposure represents exposure to counterparties relating to financial instruments where gains exceed collateral held by the University or losses are less than the collateral posted by the University. There was no credit exposure as of June 30, 2010.

The University did not invest in derivatives for hedging purposes during Fiscal Year 2010. Details on foreign currency derivatives are disclosed under Foreign Currency Risk.

University of Washington
Derivative Investments
June 30, 2010
 (expressed in thousands)

Derivative Instrument	Change in Fair Value		Fair Value			Counterparty Credit Rating
	Classification	Amount	Classification	Amount	Notional	
Equity swap	Investment revenue (loss)	\$ (5,110)	Investment	\$ (5,110)	\$ 92,940	A-1

8. Reverse Repurchase Agreements – None.

F. INVESTMENTS - OFFICE OF THE STATE TREASURER CASH MANAGEMENT ACCOUNT

1. Summary of Investment Policies

The Office of the State Treasurer (OST) operates the state's Cash Management Account for investing Treasury/Trust Funds in excess of daily requirements.

The overall objective of the OST investment policy is to construct, from eligible investments noted below, an investment portfolio that is optimal or efficient. An optimal or efficient portfolio is one that provides the greatest expected return for a given expected level of risk, or the lowest expected risk for a given expected return.

The emphasis on "expected" is to recognize that investment decisions are made under conditions of risk and uncertainty. Neither the actual risk nor return of any investment decision is known with certainty at the time the decision is made.

Eligible Investments. Eligible investments are only those securities and deposits authorized by statute (Chapters 39.58, 39.59, 43.84.080 and 43.250 RCW). Eligible investments include:

- Obligations of the U.S. government.

- Obligations of U.S. government agencies, or of corporations wholly owned by the U.S. government.
- Obligations of government sponsored corporations that are or may become eligible as collateral for advances to member banks as determined by the board of governors of the Federal Reserve.
- Banker's acceptances purchased on the secondary market rated with the highest short-term credit rating of any two Nationally Recognized Statistical Rating Organizations (NRSROs), at the time of purchase. If the banker's acceptance is rated by more than two NRSROs, it must have the highest rating from all of the organizations.
- Commercial paper, provided that the OST adheres with policies and procedures of the State Investment Board regarding commercial paper (RCW 43.84.080(7)).
- Deposits with financial institutions qualified by the Washington Public Deposit Protection Commission.
- Local Government Investment Pool, for proceeds of bonds or other debt obligations, when the investments are made in order to comply with the Internal Revenue Code of 1986, as amended.
- Obligations of the state of Washington or its political sub-divisions.

Investment Restrictions. To provide for the safety and liquidity of Treasury/Trust Funds, the Cash Management Account investment portfolio is subject to the following restrictions:

- The final maturity of any security will not exceed ten years.
- Purchase of collateralized mortgage obligations (CMO) requires prior approval from the treasurer or assistant treasurer; CMO securities must pass the Federal Institutions Examination Council (FFIEC) test, or not exceed a volatility rating of V-5 by Fitch Investor Services, or a similar rating of a nationally recognized rating agency.
- The allocation to investments subject to high sensitivity or reduced marketability will not exceed 15 percent of the daily balance of the portfolio.

Additionally, investments in non-government securities, excluding collateral of repurchase agreements, must fall within prescribed limits.

2. Securities Lending

State statutes permit the OST to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The OST, which has contracted with a lending agent to lend securities, earns a fee for this activity.

The OST lending agent lends U.S. government and U.S. agency securities and receives collateral, which can be in the form of cash or other securities. The collateral, which must be valued at 102 percent of the fair value of the loaned securities, is priced daily and, if necessary, action is taken to maintain the collateralization level at 102 percent.

The cash is invested by the lending agent in repurchase agreements or money market instruments, in accordance with investment guidelines approved by the OST.

The securities held as collateral and the securities underlying the cash collateral are held by the custodian.

The contract with the lending agent requires them to indemnify the OST if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or if the borrower fails to pay the OST for income distribution by the securities' issuers while the securities are on loan. The OST cannot pledge or sell collateral securities received unless the borrower defaults. At June 30, 2010, there were no securities on loan.

The OST investment policy requires that any securities on loan be made available by the lending agent for next day liquidity at the option of the OST. During Fiscal Year 2010, the OST had no credit risk exposure to borrowers because the amounts owed to the borrowers exceeded the amounts the borrowers owed the OST.

There were no violations of legal or contractual provisions or any losses resulting from a default of a borrower or lending agent during the fiscal year.

3. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the value of the investment. The Treasury/Trust investments are separated into portfolios with objectives based primarily on liquidity needs.

The OST's investment policy limits the weighted average maturity of its investments based on cash flow expectations. Policy also directs due diligence to be exercised with timely reporting of material deviation from expectations and actions taken to control adverse developments as may be possible.

The following schedule presents the fair value of the OST's investments by type at June 30, 2010.

Office of the State Treasurer (OST)			
Cash Management Account			
June 30, 2010			
(expressed in thousands)			
Investment Type	Fair Value	Maturity	
		Less than 1 Year	1-5 Years
U.S. agency obligations	\$ 1,047,761	\$ 141,034	\$ 906,727
U.S. government obligations	248,657	-	248,657
Repurchase agreements	2,400,000	2,400,000	-
Certificates of deposit	187,177	187,177	-
Interest bearing bank accounts	231,296	231,296	-
Total	\$ 4,114,891	\$ 2,959,507	\$ 1,155,384

4. Credit Risk

The OST limits credit risk by adhering to the OST investment policy which restricts the types of investments the OST can participate in, such as: U.S. government and agency securities, banker's acceptances, commercial paper, and deposits with qualified public depositories.

Custodial Credit Risk. The custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The OST investment policy requires that securities purchased by the office to be held by the master custodian, acting as an independent third party, in its safekeeping or trust department. Securities utilized in repurchase agreements are subject to additional restrictions. These restrictions are designed to limit the OST's exposure to risk and insure the safety of the investment.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. For non-governmental securities, the OST limits its exposure to concentration of credit risk by restricting the amount of investments to no more than 5 percent of the portfolio to any single issuer. During Fiscal Year 2010, the non-governmental securities of a single issuer held by the Cash Management Account did not exceed 5 percent of the total portfolio.

5. Foreign Currency Risk - None.

6. Derivatives - None.

7. Reverse Repurchase Agreements

State law also permits the OST to enter into reverse repurchase agreements, which are, by contract, sales of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The fair value of the securities pledged as collateral by the OST underlying the reverse repurchase agreements normally exceeds the cash received, providing the dealers a margin against a decline in the fair value of the securities. If the dealers default on their obligations to resell these securities to the OST or to provide equal value in securities or cash, the OST would suffer an economic loss equal to the differences between the fair value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. The OST investment policy limits the amount of reverse repurchase agreements to 30 percent of the total portfolio.

The market value, plus accrued income, of mortgage-backed securities utilized in repurchase agreements with more than seven days remaining until maturity will be 105 percent of the value of the repurchase agreement.

The market value, plus accrued income, of securities utilized in all other repurchase agreements will be 102 percent of the value of the repurchase agreement. The securities utilized in repurchase agreements are priced daily and held by the Treasury/Trust custodian in the state's name. Collateralized Mortgage Obligations (CMOs) utilized in repurchase agreements must pass the Federal Financial Institutions Examination Council (FFIEC) test, or not exceed a volatility rating of V-5 by Fitch Investor Services, or a similar rating of a nationally recognized rating agency. There were no reverse repurchase agreements as of June 30, 2010.

Note 4 Receivables and Deferred/Unearned Revenues

A. GOVERNMENTAL FUNDS

Taxes Receivable

Taxes receivable at June 30, 2010, consisted of the following (expressed in thousands):

Taxes Receivable	General	Higher Education	Motor Vehicle	Higher Education	Nonmajor	Total
		Special Revenue	Special Revenue	Endowment	Governmental Funds	
Property	\$ 965,191	\$ -	\$ -	\$ -	\$ 221	\$ 965,412
Sales	1,293,167	3,534	-	-	2,090	1,298,791
Business and occupation	490,627	-	-	-	-	490,627
Estate	4,574	17,635	-	-	-	22,209
Fuel	-	-	111,238	-	2	111,240
Other	2,925	-	-	-	132	3,057
Subtotals	2,756,484	21,169	111,238	-	2,445	2,891,336
Less: Allowance for uncollectible receivables	53,237	-	702	-	22	53,961
Total Taxes Receivable	\$ 2,703,247	\$ 21,169	\$ 110,536	\$ -	\$ 2,423	\$ 2,837,375

Other Receivables

Other receivables at June 30, 2010, consisted of the following (expressed in thousands):

Other Receivables	General	Higher Education	Motor Vehicle	Higher Education	Nonmajor	Total
		Special Revenue	Special Revenue	Endowment	Governmental Funds	
Public assistance (1)	\$ 1,132,069	\$ -	\$ -	\$ -	\$ -	\$ 1,132,069
Accounts receivable	63,603	175,815	25,119	860	43,053	308,450
Interest	-	6,744	-	4,160	3,956	14,860
Loans (2)	2,887	132,964	-	-	374,497	510,348
Long-term contracts (3)	1,449	-	-	8,639	53,633	63,721
Miscellaneous	30,045	44,368	46,858	9,437	192,631	323,339
Subtotals	1,230,053	359,891	71,977	23,096	667,770	2,352,787
Less: Allowance for uncollectible receivables	941,862	21,216	8,417	13	14,200	985,708
Total Other Receivables	\$ 288,191	\$ 338,675	\$ 63,560	\$ 23,083	\$ 653,570	\$ 1,367,079

Notes:

- (1) Public assistance receivables mainly represent amounts owed the state as a part of the Support Enforcement Program at the Department of Social and Health Services for the amounts due from persons required to pay support for individuals currently on state assistance, and have a low realization expectation. Accordingly, the receivable is offset by a large allowance for uncollectible receivables.
- (2) Significant long-term portions of loans receivable include \$108 million in the Higher Education Special Revenue Fund for student loans and \$364 million in Nonmajor Governmental Funds for low income housing, public works, and economic development/revitalization loans.
- (3) Long-term contracts in Nonmajor Governmental Funds are for timber sales contracts.

Deferred Revenue

Deferred revenues at June 30, 2010, consisted of the following (expressed in thousands):

Deferred Revenue	General	Higher Education	Motor Vehicle	Higher Education	Nonmajor	Total
		Special Revenue	Special Revenue	Endowment	Governmental Funds	
Property taxes	\$ 946,756	\$ -	\$ -	\$ -	\$ 78	\$ 946,834
Other taxes	334,959	14,638	-	-	106	349,703
Timber sales	1,448	-	-	8,640	53,633	63,721
Charges for services	17,457	196,087	13,629	359	35,593	263,125
Donable goods	636	-	-	-	4,218	4,854
Grants and donations	27,927	759	137	-	16,963	45,786
Loan program	1,694	-	-	-	677,336	679,030
Miscellaneous	30,665	5,390	11,208	-	20,945	68,208
Total Deferred Revenue	\$ 1,361,542	\$ 216,874	\$ 24,974	\$ 8,999	\$ 808,872	\$ 2,421,261

B. PROPRIETARY FUNDS

Taxes Receivable

Taxes receivable at June 30, 2010, consisted of \$9.8 million in liquor taxes reported in Nonmajor Enterprise Funds.

Other Receivables

Other receivables at June 30, 2010, consisted of the following (expressed in thousands):

Other Receivables	Business-Type Activities				Total	Governmental
	Enterprise Funds					Internal
	Workers' Compensation	Unemployment Compensation	Higher Education Student Services	Nonmajor Enterprise Funds		Service Funds
Accounts receivable	\$ 110,950	\$ -	\$ 228,926	\$ 22,420	\$ 362,296	\$ 4,167
Interest	102,318	-	530	4,434	107,282	14
Loans	-	-	5	-	5	-
Miscellaneous	484,946	651,415	17,273	1,423	1,155,057	3,021
Subtotals	698,214	651,415	246,734	28,277	1,624,640	7,202
Less: Allowance for uncollectible receivables	109,583	130,290	87,581	164	327,618	229
Total Other Receivables	\$ 588,631	\$ 521,125	\$ 159,153	\$ 28,113	\$ 1,297,022	\$ 6,973

Unearned Revenue

Unearned revenue at June 30, 2010, consisted of the following (expressed in thousands):

Unearned Revenue	Business-Type Activities				Total	Governmental
	Enterprise Funds					Internal
	Workers' Compensation	Unemployment Compensation	Higher Education Student Services	Nonmajor Enterprise Funds		Service Funds
Charges for services	\$ 3	\$ -	\$ 33,563	\$ 9	\$ 33,575	\$ 726
Other taxes	87	-	-	43	130	-
Miscellaneous	7,906	-	723	-	8,629	-
Total Unearned Revenue	\$ 7,996	\$ -	\$ 34,286	\$ 52	\$ 42,334	\$ 726

C. FIDUCIARY FUNDS

Other Receivables

Other receivables at June 30, 2010, consisted of the following (expressed in thousands):

Other Receivables	Local Government	
	Investment Pool	Agency Funds
Interest	\$ 1,542	\$ 10,423
Other	-	2,109
Subtotals	1,542	12,532
Less: Allowance for uncollectible receivables	-	1,919
Total Other Receivables	\$ 1,542	\$ 10,613

Unearned Revenue

Unearned revenue at June 30, 2010, consisted of \$1.1 million for service credit restorations reported in Pension and Other Employee Benefit Funds.

Note 5 Interfund Balances and Transfers

A. INTERFUND BALANCES

Interfund balances as reported in the financial statements at June 30, 2010, consisted of the following (expressed in thousands):

Due To	Due From				
	General	Higher Education Special Revenue	Motor Vehicle Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds
General	\$ -	\$ 25,495	\$ 2,462	\$ -	\$ 31,402
Higher Educ. Special Revenue	45,313	-	608	12	15,335
Motor Vehicle Special Revenue	947	5	-	-	8,742
Higher Education Endowment	-	-	-	-	-
Nonmajor Governmental Funds	792,139	1,192	2,790	2,139	91,085
Workers' Compensation	72	41	-	-	1
Unemployment Compensation	2,421	1,861	359	-	572
Higher Educ. Student Services	10,407	8,718	52	-	6,704
Nonmajor Enterprise Funds	5,383	86	706	-	533
Internal Service Funds	21,301	55,570	8,883	-	11,211
Fiduciary Funds	9	-	-	-	-
Totals	\$ 877,992	\$ 92,968	\$ 15,860	\$ 2,151	\$ 165,585

Interfund balances are expected to be paid within one year from the date of the financial statements. These balances resulted from the time lag between the dates that (1) interfund goods and services were provided and when the payments occurred, and (2) interfund transfers were accrued and when the liquidations occurred.

In addition to the interfund balances noted in the schedule above, there are interfund balances of \$1.6 million within the state's Pension Trust Funds.

State of Washington

Workers' Compensation	Unemployment Compensation	Higher Education Student Services	Nonmajor Enterprise Funds	Internal Service Funds	Fiduciary Funds	Totals
\$ 196	\$ -	\$ 1	\$ 14,967	\$ 1,562	\$ -	\$ 76,085
318	-	65,054	2	28,530	-	155,172
2	-	-	3	1,733	-	11,432
-	-	-	-	-	28	28
106	1,120	110,352	10,791	1,185	21	1,012,920
-	-	-	-	400	14	528
607	-	64	182	273	-	6,339
226	-	-	-	3	328	26,438
31	-	116	1,090	868	3	8,816
3,828	-	53	1,202	67,903	1,425	171,376
20	-	-	253	12	-	294
\$ 5,334	\$ 1,120	\$ 175,640	\$ 28,490	\$ 102,469	\$ 1,819	\$ 1,469,428

B. INTERFUND TRANSFERS

Interfund transfers as reported in the financial statements for the year ended June 30, 2010, consisted of the following (expressed in thousands):

Transferred From	Transferred To				
	General	Higher Education Special Revenue	Motor Vehicle Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds
General	\$ -	\$ 203,231	\$ -	\$ 499	\$ 1,344,063
Higher Educ. Special Revenue	55,936	-	-	3,511	60,717
Motor Vehicle Special Revenue	-	-	-	-	341,733
Higher Education Endowment	-	103	-	-	100,718
Nonmajor Governmental Funds	1,000,061	-	24,228	2,177	278,568
Workers' Compensation	-	-	-	-	-
Higher Educ. Student Services	-	1,423	-	-	18,731
Nonmajor Enterprise Funds	125,499	13,100	-	-	118,346
Internal Service Funds	5,632	2	-	547	-
Totals	\$ 1,187,128	\$ 217,859	\$ 24,228	\$ 6,734	\$ 2,262,876

* Transfers of \$3 million of capital assets were made from Proprietary Funds to Governmental Funds.

Except as noted below, transfers are used to 1) move revenues from the fund that statute requires to collect them to the fund that statute requires to expend them, 2) move receipts designated for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, 3) move unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, 4) move profits from the Liquor Fund and the Lottery Fund as required by law, and 5) transfer amounts to and from the General Fund as required by law.

Pursuant to Engrossed Substitute Senate Bill 5073, effective July 1, 2009, six accounts, previously reported within Nonmajor Governmental funds were consolidated into the General Fund. Because of the close relationship between these accounts and the General Fund, they were consolidated to improve budget transparency. The consolidation resulted in an \$89 million transfer into the General Fund.

On June 30, 2010, \$119 million was transferred to the Budget Stabilization Account (BSA) in accordance with the provisions of the Constitution. The BSA is reported within Nonmajor Governmental Funds. The Constitution details a limited number of circumstances under which funds can be appropriated from the BSA, one of which is a favorable vote of at least three-fifths of the members of each house of the Legislature. During Fiscal Year 2010, Engrossed Substitute House Bill 6444 authorized the transfer of \$45 million from the BSA to the General Fund.

Engrossed Substitute House Bill 6444 also required transfer of \$829 million from other funds to the General Fund to address revenue shortfalls.

In addition to the transfers noted in the schedule above, there were transfers of \$20 million within the state's Pension Trust Funds.

State of Washington

Workers' Compensation	Higher Education Student Services	Nonmajor Enterprise Funds	Internal Service Funds	Capital Asset Transfers *	Totals
\$ -	\$ -	\$ 7,750	\$ 10,855	\$ -	\$ 1,566,398
-	11,561	-	4,810	-	136,535
-	-	-	-	-	341,733
-	27	-	-	-	100,848
-	1,329	15	-	-	1,306,378
-	-	-	-	-	-
-	-	-	459	2,957	23,570
-	-	19,224	-	21	276,190
840	6,952	147	9,186	-	23,306
<u>\$ 840</u>	<u>\$ 19,869</u>	<u>\$ 27,136</u>	<u>\$ 25,310</u>	<u>\$ 2,978</u>	<u>\$ 3,774,958</u>

Note 6

Capital Assets

Capital assets at June 30, 2010, are reported by the state of Washington within Governmental Activities and Business-Type Activities, as applicable.

A. GOVERNMENTAL CAPITAL ASSETS

The following is a summary of governmental capital asset activity for the year ended June 30, 2010 (expressed in thousands):

Capital Assets	Balances July 1, 2009	Additions	Deletions	Balances June 30, 2010
Capital assets, not being depreciated:				
Land	\$ 1,130,220	\$ 125,548	\$ (77,004)	\$ 1,178,764
Transportation infrastructure	18,214,619	1,430,009	(18)	19,644,610
Intangible assets- indefinite lives	-	2,552	-	2,552
Art collections, library reserves, and museum and historical collections	113,899	2,107	(5,523)	110,483
Construction in progress	1,184,622	537,752	(856,986)	865,388
Total capital assets, not being depreciated	20,643,360			21,801,797
Capital assets, being depreciated:				
Buildings	9,704,545	709,337	(12,559)	10,401,323
Accumulated depreciation	(3,231,393)	(251,880)	7,825	(3,475,448)
Net buildings	6,473,152			6,925,875
Other improvements	1,141,720	97,236	(4,027)	1,234,929
Accumulated depreciation	(472,828)	(43,370)	2,011	(514,187)
Net other improvements	668,892			720,742
Furnishings, equipment and intangible assets	3,790,589	242,377	(130,301)	3,902,665
Accumulated depreciation	(2,413,843)	(251,292)	124,730	(2,540,405)
Net furnishings, equipment and intangible assets	1,376,746			1,362,260
Infrastructure	735,070	71,395	-	806,465
Accumulated depreciation	(339,283)	(30,933)	-	(370,216)
Net infrastructure	395,787			436,249
Total capital assets, being depreciated, net	8,914,577			9,445,126
Governmental Activities Capital Assets, Net	\$ 29,557,937			\$ 31,246,923

B. BUSINESS-TYPE CAPITAL ASSETS

The following is a summary of business-type capital asset activity for the year ended June 30, 2010 (expressed in thousands):

Capital Assets	Balances July 1, 2009	Additions	Deletions	Balances June 30, 2010
Capital assets, not being depreciated:				
Land	\$ 142,347	\$ 369	\$ -	\$ 142,716
Art collections	35	-	-	35
Construction in progress	153,466	184,484	(126,933)	211,017
Total capital assets, not being depreciated	<u>295,848</u>			<u>353,768</u>
Capital assets, being depreciated:				
Buildings	2,226,911	185,160	(8,250)	2,403,821
Accumulated depreciation	(660,759)	(73,539)	1,863	(732,435)
Net buildings	<u>1,566,152</u>			<u>1,671,386</u>
Other improvements	91,290	6,523	-	97,813
Accumulated depreciation	(23,747)	(3,419)	-	(27,166)
Net other improvements	<u>67,543</u>			<u>70,647</u>
Furnishings, equipment and intangible assets	507,256	40,393	(13,023)	534,626
Accumulated depreciation	(357,499)	(47,115)	12,150	(392,464)
Net furnishings, equipment and intangible assets	<u>149,757</u>			<u>142,162</u>
Infrastructure	34,995	1,234	(6,119)	30,110
Accumulated depreciation	(15,364)	(1,264)	2,795	(13,833)
Net infrastructure	<u>19,631</u>			<u>16,277</u>
Total capital assets, being depreciated, net	<u>1,803,083</u>			<u>1,900,472</u>
Business-Type Activities Capital Assets, Net	<u>\$ 2,098,931</u>			<u>\$ 2,254,240</u>

C. DEPRECIATION

Depreciation expense for the year ended June 30, 2010, was charged by the primary government as follows (expressed in thousands):

	Amount
Governmental Activities:	
General government	\$ 61,189
Education - elementary and secondary (K-12)	3,335
Education - higher education	319,554
Human services	22,875
Adult corrections	39,616
Natural resources and recreation	39,734
Transportation	91,172
Total Depreciation Expense - Governmental Activities*	\$ 577,475
Business-Type Activities:	
Workers' compensation	\$ 7,991
Unemployment compensation	-
Higher education student services	101,021
Other	16,325
Total Depreciation Expense - Business-Type Activities	\$ 125,337

*Includes \$69 million internal service fund depreciation that was allocated to functions as a part of the net internal service fund activity.

D. CONSTRUCTION IN PROGRESS

Major construction commitments of the state at June 30, 2010, are as follows (expressed in thousands):

Agency / Project Commitments	Construction In Progress June 30, 2010	Remaining Project Commitments
Department of General Administration:		
O'Brien building improvement, Transportation building improvements and other projects	\$ 33,510	\$ 44,179
Department of Labor and Industries:		
Early Claims Solution software and Detecting Unregistered Employers software	7,443	13,405
Department of Social and Health Services:		
State hospital and juvenile rehab construction and renovations, and other projects	48,755	4,641
Department of Veterans Affairs:		
Veterans Cemetery and other facility rehabilitation projects	8,519	1,438
Department of Corrections:		
Correctional centers construction, improvements, and other projects	68,846	380,464
Department of Transportation:		
State highway office and maintenance facilities, and ferry vessels and terminals	216,480	189,213
Transportation infrastructure	-	3,654,122
Parks and Recreation Commission:		
Cama Beach dining hall and Rasar Group camp development	3,722	1,946
Department of Fish and Wildlife:		
Skookumchuck Hatchery renovation, Deschutes Watershed center, and other projects	12,340	13,151
Employment Security Department:		
Next Generation Taxis System project	14,848	43,610
State Convention and Trade Center:		
MOHAI property	50,034	7,966
Higher Education Facilities:		
University of Washington	280,521	263,779
Washington State University	29,585	277,147
Eastern Washington University	7,417	2,694
Central Washington University	11,773	58,410
The Evergreen State College	17,051	4,880
Western Washington University	42,880	43,886
Community and Technical Colleges	218,504	333,859
Other agencies miscellaneous projects	<u>4,177</u>	<u>7,497</u>
Total Construction in Progress	<u>\$ 1,076,405</u>	<u>\$ 5,346,287</u>

Note 7

Long-Term Liabilities

A. BONDS PAYABLE

Bonds payable at June 30, 2010, are reported by the state of Washington within governmental activities and business-type activities, as applicable.

The State Constitution and enabling statutes authorize the incurrence of state general obligation debt, to which the state's full faith, credit, and taxing power are pledged, either by the State Legislature or by a body designated by statute (presently the State Finance Committee).

Legislative authorization arises from:

- An affirmative vote of 60 percent of the members of each house of the Legislature, without voter approval, in which case the amount of such debt is generally subject to the constitutional debt limitation described below;
- When authorized by law for a distinct work or object and approved by a majority of the voters voting thereon at a general election, or a special election called for that purpose, in which case the amount of the debt so approved is not subject to the constitutional debt limitations described below;
- By the State Finance Committee without limitation as to amount, and without approval of the Legislature or approval of the voters.

The State Finance Committee debt authorization does not require voter approval; however, it is limited to providing for: (1) meeting temporary deficiencies of the state treasury if such debt is discharged within 12 months of the date of incurrence and is incurred only to provide for appropriations already made by the Legislature; or (2) refunding of outstanding obligations of the state.

Legal Debt Limitation

The State Constitution limits the amount of state debt that may be incurred by restricting the amount of general state revenues which may be allocated to pay principal and interest on debt subject to these limitations. More specifically, the constitutional debt limitation prohibits the issuance of new debt if it would cause the maximum annual debt service on all thereafter outstanding debt to exceed 9 percent of the arithmetic mean of general state revenues for the preceding three fiscal years. This limitation restricts the incurrence of new debt and not the amount of debt service that may be paid by the state in future years.

The State Constitution and current statutes require the State Treasurer to certify the debt service limitation for each fiscal year. In accordance with these provisions, the debt service limitation for Fiscal Year 2010 is \$1.1 billion.

This computation excludes specific bond issues and types, which are not secured by general state revenues. Of the \$16.6 billion general obligation bond debt outstanding at June 30, 2010, \$10.2 billion is subject to the limitation.

Based on the debt limitation calculation, the debt service requirements as of June 30, 2010, did not exceed the authorized debt service limitation.

For further information on the debt limit refer to the Certification of the Debt Limitation of the State of Washington available from the Office of the State Treasurer at: http://www.tre.wa.gov/documents/debt_cdl2010.pdf, or to the Statistical Section of this report.

Authorized But Unissued

The state had a total of \$9.5 billion in general obligation bonds authorized but unissued as of June 30, 2010, for the purpose of capital construction and transportation projects throughout the state.

Interest Rates

Interest rates on fixed rate general obligation bonds ranged from 1.15 to 7.25 percent. Variable rate demand obligations (VRDO) of \$131.4 million as of June 30, 2010, are remarketed on a weekly basis. Interest rates on revenue bonds range from 2.50 to 7.40 percent.

Debt Service Requirements to Maturity

General Obligations Bonds

General obligation bonds have been authorized and issued primarily to provide funds for:

- Acquisition and construction of state and common school capital facilities;
- Transportation construction and improvement projects;
- Assistance to local governments for public works capital projects; and
- Refunding of general obligation bonds outstanding.

Outstanding general obligations bonds are presented in the Washington State Treasurer's Annual Report for 2010. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington, 98504-0200, phone number (360) 902-9000 or TTY (360) 902-8963, or by visiting their website at: <http://www.tre.wa.gov/aboutUs/publications/annualReports.shtml>.

State of Washington

Total debt service requirements to maturity for general obligation bonds as of June 30, 2010, are as follows (expressed in thousands):

General Obligation Bonds	Governmental Activities		Business-Type Activities		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
By Fiscal Year:						
2011	\$ 622,283	\$ 786,377	\$ 8,196	\$ 4,140	\$ 630,479	\$ 790,517
2012	619,785	780,244	7,484	3,767	627,269	784,011
2013	648,907	748,645	7,081	3,480	655,988	752,125
2014	683,842	719,232	3,805	553	687,647	719,785
2015	715,165	696,972	4,030	341	719,195	697,313
2016-2020	3,895,221	3,087,521	29,297	56,404	3,924,518	3,143,925
2021-2025	3,664,484	2,126,573	-	-	3,664,484	2,126,573
2026-2030	3,287,523	1,307,698	-	-	3,287,523	1,307,698
2031-2035	1,907,150	341,308	-	-	1,907,150	341,308
2036-2045	495,698	76,581	-	-	495,698	76,581
Total Debt Service Requirements	\$ 16,540,058	\$ 10,671,151	\$ 59,893	\$ 68,685	\$ 16,599,951	\$ 10,739,836

Revenue Bonds

Revenue bonds are authorized under current state statutes, which provide for the issuance of bonds that are not supported, or not intended to be supported, by the full faith and credit of the state.

The University of Washington issues general revenue bonds that are payable from general revenues, including student tuition and fees, grant indirect cost recovery,

sales and services revenue, and investment income. General revenue bonds outstanding as of June 30, 2010, include \$141.7 million in governmental activities and \$631.6 million in business-type activities.

The remainder of the state's revenue bonds pledge income derived from acquired or constructed assets for retirement of the debt and payment of the related interest.

Total debt service requirements for revenue bonds to maturity as of June 30, 2010, are as follows (expressed in thousands):

Revenue Bonds	Governmental Activities		Business-Type Activities		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
By Fiscal Year:						
2011	\$ 24,132	\$ 40,519	\$ 40,106	\$ 49,672	\$ 64,238	\$ 90,191
2012	22,145	39,417	30,221	48,517	52,366	87,934
2013	8,210	38,321	31,960	47,183	40,170	85,504
2014	20,961	37,949	33,023	45,689	53,984	83,638
2015	17,330	36,757	35,535	44,585	52,865	81,342
2016-2020	131,688	164,030	188,102	196,490	319,790	360,520
2021-2025	154,204	124,779	189,131	152,451	343,335	277,230
2026-2030	190,138	77,508	161,029	107,885	351,167	185,393
2031-2035	87,274	23,545	125,397	65,869	212,671	89,414
2036-2040	86,916	8,410	249,441	24,664	336,357	33,074
Total Debt Service Requirements	\$ 742,998	\$ 591,235	\$ 1,083,945	\$ 783,005	\$ 1,826,943	\$ 1,374,240

Governmental activities include revenue bonds outstanding at June 30, 2010, of \$422.9 million issued by the Tobacco Settlement Authority (TSA), which is a blended component unit of the state. In November 2002, the TSA issued \$517 million in bonds and transferred \$450 million to the state to be used for increased health care, long-term care, and other programs.

These bonds do not constitute either a legal or moral obligation of the state, nor does the state pledge its full faith, credit, or taxing power for payment of these bonds.

The bonds are obligations of the TSA and are secured solely by the TSA's right to receive 29.2 percent of the state's tobacco settlement revenues, restricted investments of the TSA, undistributed TSA bond proceeds, and the earnings thereon held under the indenture authorizing the bonds. Total principal and interest remaining on the bonds is \$800.6 million, payable through 2032. For the current year, pledged revenue and debt service were \$44.1 million and \$46.6 million, respectively.

Governmental activities include revenue bonds outstanding at June 30, 2010, of \$111.7 million issued by Washington State University. The bonds were issued to fund various capital construction projects.

These bonds do not constitute either a legal or moral obligation of the state, nor does the state pledge its full faith, credit, or taxing power for payment of these bonds. Total principal and interest remaining on the bonds is \$176.5 million, payable through 2034. For the current year, pledged revenue and debt service were \$24.6 million and \$1.5 million, respectively.

Governmental activities also include revenue bonds outstanding at June 30, 2010, of \$54.9 million issued by the Tumwater Office Properties (TOP), which is a blended component unit of the state. The bonds, issued in 2004, are payable solely from the trust estate pledged under the indenture, including rental payments. The bonds were used to construct an office building in Tumwater, Washington which the state occupied beginning in Fiscal Year 2006.

The bonds are not a general obligation of the state, nor does the state pledge its full faith, credit, or taxing power for payment of these bonds. Total principal and interest remaining on the bonds is \$90.4 million, payable through 2028. For the current year, pledged revenue and debt service were \$3.6 million and \$3.6 million, respectively.

Additionally, governmental activities include revenue bonds outstanding at June 30, 2010, of \$11.8 million issued by the City of Aberdeen. The bonds were used to extend utilities to the state Department of Corrections Stafford Creek Corrections Center (SCCC). The Department of Corrections entered into an agreement with the City of Aberdeen to pay a system development fee sufficient to pay the debt service on the bonds. The bonds were issued in 1998 and 2002, and refunded by the City in 2010, and are payable solely from current operating appropriations.

The bonds are not a general obligation of the state, nor does the state pledge its full faith, credit, or taxing power for payment of these bonds. Total principal and interest remaining on these bonds is \$14.5 million, payable through 2022. For the current year, pledged revenue and debt service were \$1.6 million and \$1.6 million, respectively.

The state's colleges and universities issue bonds for the purpose of housing, dining, parking, and student facilities construction. These bonds are reported within business-type activities and are secured by a pledge of specific revenues. These bonds are not a general obligation of the state, nor does the state pledge its full faith, credit, or taxing power for payment of these bonds.

Total pledged specific revenues for the state's colleges and universities to repay the principal and interest of revenue bonds as of June 30, 2010, are as follows (expressed in thousands):

Source of Revenue Pledged	Housing and Dining	Student Facilities	Parking Revenues	Bookstore
	Revenues (Net of Operating Expenses)	Fees and Earnings on Invested Fees	(Net of Operating Expenses)	Revenues
Current revenue pledged	\$ 47,289	\$ 47,153	\$ 10,889	\$ 543
Current year debt service	17,367	24,887	1,318	228
Total future revenues pledged *	366,253	647,742	37,631	5,481
Description of debt	Housing and dining bonds, issued in 1998- 2010	Student facilities bonds, issued in 1996-2009 and refunding revenue bonds, issued in 2002-2006	Parking system and refunding revenue bonds, issued in 2004- 2005	Student union and recreation center bonds issued in 2004
Purpose of debt	Construction and renovation of student housing and dining projects	Construction, renovation and improvements to student activity facilities and sports stadium	Construction of parking garage and improvements	Construct new bookstore as part of new student union and recreation center building
Term of commitment	2013-2038	2019-2038	2024-2030	2034
Percentage of debt service to pledged revenues (current year)	36.7%	52.8%	12.1%	42.1%

* Total future principal and interest payments.

B. CERTIFICATES OF PARTICIPATION

Certificates of participation at June 30, 2010, are reported by the state of Washington within governmental activities and business-type activities, as applicable.

Current state law authorizes the state to enter into long-term financing contracts for the acquisition of real or personal property and for the issuance of certificates of participation in the contracts. These certificates of

participation do not fall under the general obligation debt limitations and are generally payable only from annual appropriations by the Legislature.

Other specific provisions could also affect the state's obligation under certain agreements. The certificates of participation are recorded for financial reporting purposes if the possibility of the state not meeting the terms of the agreements is considered remote.

Total debt service requirements for certificates of participation to maturity as of June 30, 2010, are as follows (expressed in thousands):

Certificates of Participation	Governmental Activities		Business-Type Activities		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
By Fiscal Year:						
2011	\$ 54,711	\$ 25,990	\$ 74,503	\$ 16,940	\$ 129,214	\$ 42,930
2012	46,097	15,794	30,046	10,294	76,143	26,088
2013	43,688	14,006	28,476	9,129	72,164	23,135
2014	44,179	12,327	28,796	8,035	72,975	20,362
2015	40,838	10,493	26,618	6,840	67,456	17,333
2016-2020	125,033	32,643	42,666	21,276	167,699	53,919
2021-2025	61,333	15,643	39,977	10,196	101,310	25,839
2026-2030	33,457	3,927	21,808	2,560	55,265	6,487
Total Debt Service Requirements	\$ 449,336	\$ 130,823	\$ 292,890	\$ 85,270	\$ 742,226	\$ 216,093

C. DEBT REFUNDINGS

When advantageous and permitted by statute and bond covenants, the State Finance Committee authorizes the refunding of outstanding bonds and certificates of participation. Colleges and universities may also refund revenue bonds.

When the state refunds outstanding bonds, the net proceeds of each refunding issue are used to purchase U.S. government securities that are placed in irrevocable trusts with escrow agents to provide for all future debt service payments on the refunded bonds.

As a result, the refunded bonds are considered defeased and the liability is removed from the government-wide statement of net assets.

the next 14 years and a net present value savings of \$34.1 million.

On October 14, 2009, the state issued \$215.5 million of various purpose general obligation refunding bonds with an average interest rate of 5.24 percent to refund \$222 million of various purpose general obligation bonds with an average interest rate of 5 percent. The refunding resulted in a \$19.2 million gross debt service savings over the next 16 years and a net present value savings of \$15.3 million.

On October 14, 2009, the state issued \$121.2 million of motor vehicle fuel tax refunding bonds with an average interest rate of 5.24 percent to refund \$124.5 million of motor vehicle fuel tax bonds with an average interest rate of 5 percent. The refunding resulted in a \$10.4 million gross debt service savings over the next 16 years and a net present value savings of \$8.3 million.

Current Year Defeasances

Bonds

Governmental Activities.

On July 8, 2009, the state issued \$386.4 million of various purpose general obligation refunding bonds with an average interest rate of 4.89 percent to refund \$419.9 million of various purpose general obligation bonds with an average interest rate of 4.99 percent. The refunding resulted in a \$40.9 million gross debt service savings over

Business-Type Activities.

On October 28, 2009, Washington State University issued \$38.4 million of student recreation center refunding revenue bonds with an average interest rate of 4.42 percent to refund \$40.5 million of student recreation center revenue bonds with an average interest rate of 5 percent. The refunding resulted in a \$5.8 million gross debt service savings over the next 22 years and an economic gain of \$3.9 million.

On June 29, 2010, Washington State University issued \$15 million of housing and dining refunding revenue bonds with an average interest rate of 3.83 percent to refund \$15.8 million of housing and dining revenue bonds with an average interest rate of 4.95 percent. The refunding resulted in a \$2.1 million gross debt service savings over the next 14 years and an economic gain of \$1.7 million.

Certificates of Participation (COPs)

On October 8, 2009, the state issued \$33.1 million in refunding certificates of participation with an average interest rate of 3.97 percent to refund \$34.1 million of certificates of participation with an average interest rate of 5.18 percent. The refunding resulted in a \$3.6 million gross debt service savings over the next 12 years and a net present value savings of \$3.6 million.

On June 15, 2010, the state issued \$4.5 million in refunding certificates of participation with an average interest rate of 3.09 percent to refund \$4.5 million of certificates of participation with an average interest rate of 5.27 percent. The refunding resulted in a \$0.8 million gross debt service savings over the next 11 years and a net present value savings of \$0.6 million.

Prior Year Defeasances

In prior years, the state defeased certain general obligation bonds, revenue bonds, and certificates of participation by placing the proceeds of new bonds and certificates in an irrevocable trust to provide for all future debt service payments on the prior bonds and certificates.

Accordingly, the trust account assets and the liability for the defeased bonds and certificates are not included in the state’s financial statements.

Land, buildings and equipment under capital leases as of June 30, 2010, include the following (expressed in thousands):

	Governmental Activities	Business-Type Activities
Land (non-depreciable)	\$ 52	\$ -
Buildings	14,435	6,271
Equipment	17,198	17,499
Less: Accumulated depreciation	(22,183)	(20,161)
Totals	\$ 9,502	\$ 3,609

General Obligation Bond Debt

On June 30, 2010, \$615.9 million of general obligation bonded debt outstanding is considered defeased.

Revenue Bond Debt

On June 30, 2010, \$68.8 million of revenue bonded debt outstanding is considered defeased.

Certificates of Participation Debt

On June 30, 2010, \$138.5 million of certificates of participation debt outstanding is considered defeased.

D. LEASES

Leases at June 30, 2010, are reported by the state of Washington within governmental activities and business-type activities, as applicable.

The state leases land, office facilities, office and computer equipment, and other assets under a variety of agreements. Although lease terms vary, most leases are subject to appropriation from the State Legislature to continue the obligation. If the possibility of receiving no funding from the Legislature is remote, leases are considered noncancelable for financial reporting purposes. Leases that represent acquisitions are classified as capital leases, and the related assets and liabilities are recorded in the financial records at the inception of the lease.

Other leases are classified as operating leases with the lease payments recorded as expenditures or expenses during the life of the lease. Certain operating leases are renewable for specified periods. In most cases, management expects that the leases will be renewed or replaced by other leases.

State of Washington

The following schedule presents future minimum payments for capital and operating leases as of June 30, 2010 (expressed in thousands):

Capital and Operating Leases	Capital Leases		Operating Leases	
	Governmental Activities	Business-Type Activities	Governmental Activities	Business-Type Activities
By Fiscal Year:				
2011	\$ 4,705	\$ 2,559	\$ 98,477	\$ 29,830
2012	3,075	1,002	83,187	28,758
2013	2,143	404	71,739	29,113
2014	744	400	62,454	28,704
2015-2019	338	392	51,539	27,737
2020-2024	1,667	1,925	133,770	50,928
2025-2029	1,275	818	70,388	-
2030-2034	1,143	-	57,918	-
2035-2039	1,143	-	57,720	-
2040-2044	1,257	-	57,288	-
Total Future Minimum Payments	17,490	7,500	744,480	195,070
Less: Executory Costs and Interest Costs	(3,204)	(1,409)	-	-
Net Present Value of Future Minimum Lease Payments	\$ 14,286	\$ 6,091	\$ 744,480	\$ 195,070

The total operating lease rental expense for Fiscal Year 2010 for governmental activities was \$178.1 million, of which \$365 thousand was for contingent rentals. The total operating lease rental expense for Fiscal Year 2010 for business-type activities was \$45.1 million.

E. CLAIMS AND JUDGMENTS

Claims and judgments are materially related to three activities: workers' compensation, risk management, and health insurance. Workers' compensation is a business-type activity, and risk management and health insurance are governmental activities. A description of the risks to which the state is exposed by these activities, and the ways in which the state handles the risks, is presented in Note 1.E.

Workers' Compensation

At June 30, 2010, \$40.0 billion of unpaid claims and claim adjustment expenses are presented at their net present and settlement value of \$24.0 billion. These claims are discounted at assumed interest rates of 2.5

percent (time loss and medical) to 6.5 percent (pensions) to arrive at a settlement value.

The claims and claim adjustment liabilities of \$24.0 billion as of June 30, 2010, include \$12.8 billion for supplemental pension cost of living adjustments (COLAs) that by statute are not to be fully funded.

These COLA payments are funded on a pay-as-you-go basis, and the workers' compensation actuaries have indicated that future premium payments will be sufficient to pay these claims as they come due.

The remaining claims liabilities of \$11.2 billion are fully funded by long-term investments, net of obligations under securities lending agreements.

Changes in the balances of workers' compensation claims liabilities during Fiscal Years 2009 and 2010 were as follows (expressed in thousands):

Workers' Compensation Fund	Balances Beginning of Fiscal Year	Incurred Claims and Changes in Estimates	Claim Payments	Balances End of Fiscal Year
2009	\$ 21,887,148	2,334,749	(2,057,829)	\$ 22,164,068
2010	\$ 22,164,068	3,943,217	(2,081,453)	\$ 24,025,832

Risk Management

Risk management reports tort liabilities when it becomes probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an actuarially determined amount for tort claims that have been incurred but not reported. It also includes an actuarial estimate of loss adjustment expenses for tort defense.

Because actual liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, it should be recognized that future loss emergence will likely deviate, perhaps materially, from the actuarial estimates. Liabilities are re-evaluated annually to take into consideration recently settled claims, the frequency of claims, and other economic or social factors.

The state is a defendant in a significant number of lawsuits pertaining to general and automobile liability matters.

As of June 30, 2010, outstanding and actuarially determined claims against the state and its agencies including actuarially projected defense costs were \$727.1 million for which the state has recorded a liability. The state is restricted by law from accumulating funds in the Self Insurance Liability Program in excess of 50 percent of total outstanding and actuarially determined liabilities.

At June 30, 2010, the Risk Management Fund held \$115.8 million in cash and pooled investments designated for payment of these claims under the state's Self Insurance Liability Program.

Changes in the balances of risk management claims liabilities during Fiscal Years 2009 and 2010 were as follows (expressed in thousands):

Risk Management Fund	Balances Beginning of Fiscal Year	Incurred Claims and Changes in Estimates	Claim Payments	Tort Defense Payments	Balances End of Fiscal Year
2009	\$ 649,761	142,517	(52,963)	(19,118)	\$ 720,197
2010	\$ 720,197	82,387	(47,425)	(28,023)	\$ 727,136

Health Insurance

The Health Insurance Fund establishes a liability when it becomes probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an actuarially determined amount for claims that have been incurred but not reported. Because actual claims liabilities depend on various complex factors, the process used in computing claims liabilities does not always result in an exact amount.

Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

At June 30, 2010, health insurance claims liabilities totaling \$88.4 million are fully funded with cash and investments, net of obligations under securities lending agreements.

Changes in the balances of health insurance claim liabilities during Fiscal Years 2009 and 2010 were as follows (expressed in thousands):

Health Insurance Fund	Balances Beginning of Fiscal Year	Incurred Claims and Changes in Estimates	Claim Payments	Balances End of Fiscal Year
2009	\$ 69,934	779,143	(765,636)	\$ 83,441
2010	\$ 83,441	879,324	(874,370)	\$ 88,395

F. POLLUTION REMEDIATION

The state reports pollution remediation obligations in accordance with GASB Statement No. 49. The liability reported involves estimates of financial responsibility and amounts recoverable as well as remediation costs.

The liability could change over time as new information becomes available and as a result of changes in remediation costs, technology and regulations governing remediation efforts. Additionally, the responsibilities and liabilities discussed in this disclosure are intended to refer to obligations solely in the accounting context. This disclosure does not constitute an admission of any legal responsibility or liability. Further, it does not establish or affect the rights or obligations of any person under the law, nor does this disclosure impose upon the state any new mandatory duties or obligations.

The state and its agencies are participating as potentially responsible parties in numerous pollution remediation projects under the provisions of the federal Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA, generally referred to as Superfund) and the state Model Toxics Control Act.

There are 19 projects in progress for which the state has recorded a liability of \$28.8 million which includes an estimated recovery amount of \$283 thousand that is not yet realized or realizable.

The state has also voluntarily agreed to conduct certain remediation activities to the extent of funding paid to the state by third parties for such purposes. In Fiscal Year 2010, the state received funding of \$148 million from third parties for these remediation activities. At June 30, 2010, the state has recorded a liability of \$145.5 million for remaining project commitments.

Overall, the state has recorded a pollution remediation liability of \$174.3 million, measured at its estimated amount, using the expected cash flow technique. The overall estimate is based on professional judgment, experience, and historical cost data. For some projects, the state can reasonably estimate the range of expected outlays early in the process because the site situation is common or similar to other sites with which the state has experience. In other cases, the estimates are limited to an amount specified in a settlement agreement, consent decree, or contract for remediation services.

The pollution remediation activity at some sites for which the state would otherwise have a reportable obligation is at a point where certain costs are not reasonably estimable. For example, a site assessment, remedial investigation, or feasibility study is in progress and the cleanup methodology has not yet been determined; and, consequently, associated future costs cannot be estimated.

The state's reported liability does not include remediation costs for future activities where costs are not yet reasonably estimable.

G. LONG-TERM LIABILITY ACTIVITY

Long-term liability activity at June 30, 2010, is reported by the state of Washington within governmental activities and business-type activities, as applicable. Long-term liability activity for governmental activities for the Fiscal Year 2010 is as follows (expressed in thousands):

Governmental Activities:	Beginning Balance July 1, 2009	Additions	Reductions	Ending Balance June 30, 2010	Amounts Due Within One Year
Long-Term Debt:					
GO Bonds Payable:					
General obligation (GO) bonds	\$ 13,310,430	\$ 3,865,560	\$ 1,339,770	\$ 15,836,220	\$ 584,640
GO - zero coupon bonds (principal)	738,719	-	34,881	703,838	37,643
Subtotal - GO bonds payable	14,049,149	3,865,560	1,374,651	16,540,058	622,283
Accreted interest - GO - zero coupon bonds	327,617	38,898	-	366,515	-
Revenue bonds payable	616,071	164,221	37,294	742,998	24,132
Less: Deferred amounts for issuance discounts	(8,729)	-	(779)	(7,950)	-
Total Bonds Payable	14,984,108	4,068,679	1,411,166	17,641,621	646,415
Other Liabilities:					
Certificates of participation	395,092	146,395	92,151	449,336	54,711
Claims and judgments	924,541	54,025	44,518	934,048	272,189
Installment contracts	2,775	-	105	2,670	-
Leases	9,631	9,923	5,268	14,286	4,276
Compensated absences	552,974	333,410	338,632	547,752	59,944
Unfunded pension obligations	154,130	41,976	4,717	191,389	-
Other postemployment benefits obligations	443,655	253,558	-	697,213	-
Pollution remediation obligations	35,005	144,255	4,907	174,353	-
Unclaimed property refunds	2	93,197	-	93,199	41
Other	218,982	1,180,324	910,745	488,561	397,710
Total Other Liabilities	2,736,787	2,257,063	1,401,043	3,592,807	788,871
Total Long-Term Debt	\$ 17,720,895	\$ 6,325,742	\$ 2,812,209	\$ 21,234,428	\$ 1,435,286

For governmental activities, payments on the certificates of participation are being repaid directly from various governmental funds. The compensated absences liability will be liquidated approximately 50 percent by the General Fund, 27 percent by the Higher Education Special Revenue Fund, 10 percent by the Motor Vehicle Fund, and the balance by various other governmental funds. The claims and judgments liability will be liquidated approximately 78 percent by the Risk Management Fund (an internal service fund), 9 percent

by the Health Insurance Fund (an internal service fund), and the balance by various other governmental funds. The pollution remediation liability will be liquidated approximately 85 percent by the Central Administrative and Regulatory Fund, a nonmajor governmental fund, and the balance by various other governmental funds. Leases, installment contract obligations, and other liabilities will be repaid from various other governmental funds.

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Long-term liability activity for business-type activities for the Fiscal Year 2010 (expressed in thousands) is as follows:

Business-Type Activities	Beginning Balance		Ending Balance		Amounts Due Within
	July 1, 2009	Additions	Reductions	June 30, 2010	One Year
Long-Term Debt:					
GO Bonds Payable:					
General obligation (GO) bonds	\$ 40,520	\$ -	\$ 8,010	\$ 32,510	\$ 7,355
GO - zero coupon bonds (principal)	28,284	-	901	27,383	841
Subtotal - GO bonds payable	68,804	-	8,911	59,893	8,196
Accreted interest - GO - zero coupon bonds	38,051	3,709	-	41,760	-
Revenue bonds payable	1,073,807	89,714	79,576	1,083,945	40,106
Plus: Unamortized amounts issuance premiums	11,296	2,786	1,140	12,942	-
Less: Deferred amounts for issuance discounts	(1,601)	-	(1,118)	(483)	-
Less: Deferred gain/loss on bond refunding	(7,747)	(2,693)	(1,532)	(8,908)	-
Total Bonds Payable	1,182,610	93,516	86,977	1,189,149	48,302
Other Liabilities:					
Certificates of participation	310,040	58,067	75,217	292,890	74,503
Less: Deferred amounts for issuance discounts	(1,167)	-	(148)	(1,019)	-
Claims and judgments	22,175,347	2,044,518	181,543	24,038,322	2,136,582
Lottery prize annuities payable	309,964	73,354	107,407	275,911	50,127
Tuition benefits payable	1,492,100	447,832	86,528	1,853,404	90,300
Leases	9,670	71	3,650	6,091	2,304
Compensated absences	55,684	27,339	23,823	59,200	26,040
Other postemployment benefits obligation	49,896	30,763	-	80,659	-
Other	105,049	575,435	540,291	140,193	109,581
Total Other Liabilities	24,506,583	3,257,379	1,018,311	26,745,651	2,489,437
Total Long-Term Debt	\$ 25,689,193	\$ 3,350,895	\$ 1,105,288	\$ 27,934,800	\$ 2,537,739

Note 8

No Commitment Debt

The Washington State Housing Finance Commission, Washington Higher Education Facilities Authority, Washington Health Care Facilities Authority, and Washington Economic Development Finance Authority (financing authorities) were created by the state Legislature. For financial reporting purposes, they are discretely presented as component units. These financing authorities issue bonds for the purpose of making loans

to qualified borrowers for capital acquisitions, construction, and related improvements.

These bonds do not constitute either a legal or moral obligation of the state or these financing authorities, nor does the state or these financing authorities pledge their faith and credit for the payment of such bonds.

Debt service on the bonds is payable solely from payments made by the borrowers pursuant to loan agreements. Due to their no commitment nature, the bonds issued by these financing authorities are excluded from the state's financial statements.

The schedule below presents the June 30, 2010, balances for the "No Commitment" debt of the state's financing authorities (expressed in thousands):

Financing Authorities	Principal Balance
Washington State Housing Finance Commission	\$ 3,910,818
Washington Higher Education Facilities Authority	689,283
Washington Health Care Facilities Authority	4,800,000
Washington Economic Development Finance Authority	715,678
Total No Commitment Debt	\$ 10,115,779

Note 9

Fund Balances Reserved for Other Specific Purposes

The nature and purposes of fund balances reserved for other specific purposes as of June 30, 2010, are listed below (expressed in thousands):

Fund Balances	General	Higher Education Special Revenue	Motor Vehicle Special Revenue	Higer Education Endowment	Nonmajor Governmental Funds	Totals
Reserved for Other Specific Purposes:						
Long-term receivables	\$ 61,011	\$ 2,921	\$ 284	\$ -	\$ 1,759,682	\$ 1,823,898
Long-term investments	-	105,135	-	-	946	106,081
Long-term student loans	-	99,880	-	-	-	99,880
Budget stabilization (Rainy Day)	-	-	-	-	95,050	95,050
Petty cash	599	3,042	569	-	228	4,438
Pollution remediation	-	-	-	-	153,391	153,391
Investments with trustees	683	-	-	-	515	1,198
Total Reserved for Other Specific Purposes	\$ 62,293	\$ 210,978	\$ 853	\$ -	\$ 2,009,812	\$ 2,283,936

Note 10 Deficit Net Assets

Guaranteed Education Tuition

The Guaranteed Education Tuition (GET) program within the Other Activities Fund, an enterprise fund, had deficit net assets of \$254.6 million at June 30, 2010.

The Higher Education Coordinating Board administers the GET program which is Washington's Internal Revenue Service Code 529 prepaid college tuition plan.

It was established to help make higher education more affordable and accessible to all citizens of the state by offering a savings incentive to protect purchasers and beneficiaries from rising tuition costs.

The Committee on Advance Tuition Payment establishes the policies of the program and sets the price of a tuition unit. Since GET began in 1998, families have opened more than 119,000 accounts.

In recent years, the GET program has experienced losses primarily due to reduced investment earnings and higher than projected tuition increases.

The following schedule details the changes in net assets for the GET program during the fiscal year ended June 30, 2010 (expressed in thousands):

Guaranteed Education Tuition Program	Net Assets (Deficit)
Balance, July 1, 2009	\$ (234,322)
Fiscal Year 2010 activity	(20,297)
Balance, June 30, 2010	\$ (254,619)

Risk Management Fund

The Risk Management Fund, an internal service fund, had deficit net assets of \$616.1 million at June 30, 2010. The Risk Management Fund is used to administer the Self-Insurance Liability Program. This program investigates, processes, and adjudicates all tort and sundry claims filed against Washington state agencies. The Self Insurance Liability Program, initiated in 1990, is intended to provide funds for the payment of all tort claims and defense expenses.

The Risk Management Fund is supported by premium assessments to state agencies. The state is restricted by law from accumulating funds in the Self Insurance Liability Program in excess of 50 percent of total outstanding and actuarially determined claims. As a consequence, when outstanding and incurred but not reported claims are actuarially determined and accrued, the result is deficit net assets.

The following schedule details the changes in net assets for the Risk Management Fund during the fiscal year ended June 30, 2010 (expressed in thousands):

Risk Management Fund	Net Assets (Deficit)
Balance, July 1, 2009	\$ (617,748)
Fiscal Year 2010 activity	1,633
Balance, June 30, 2010	\$ (616,115)

Health Insurance Fund

The Health Insurance Fund, an internal service fund, had deficit net assets of \$41 million at June 30, 2010. The Health Insurance Fund is used to account for premiums and costs associated with employees' insurance benefits.

The state of Washington, through the Public Employees Benefits Board (PEBB) program, provides medical,

dental, life, and long-term disability coverage to eligible state employees as a benefit of employment. Coverage is provided through private health insurance plans and self-insured products.

The deficit net assets at June 30, 2010 resulted from higher than expected costs to provide health care benefits.

The following schedule details the changes in net assets for the Health Insurance Fund during the fiscal year ended June 30, 2010 (expressed in thousands):

Health Insurance Fund	Net Assets (Deficit)
Balance, July 1, 2009, as restated	\$ 28,830
Fiscal Year 2010 activity	<u>(69,851)</u>
Balance, June 30, 2010	\$ (41,021)

Note 11 Retirement Plans

A. GENERAL

The state of Washington, through the Department of Retirement Systems, the Board for Volunteer Fire Fighters, and the Administrative Office of the Courts, administers 13 defined benefit retirement plans, three combination defined benefit/defined contribution retirement plans, and one defined contribution retirement plan covering eligible employees of the state and local governments.

Basis of Accounting

Pension plans administered by the state are accounted for using the accrual basis of accounting. Under the accrual basis of accounting, employee and employer contributions are recognized in the period in which employee services are performed; investment gains and losses are recognized as incurred; and benefits and refunds are recognized when due and payable in accordance with the terms of the applicable plan.

Investments

Pension plan investments are presented 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 or independent advisors. The pension funds have no investments of any commercial or industrial organization whose market value exceeds 5 percent of each plan's net assets. Additional disclosure describing investments is provided in Note 3.

Department of Retirement Systems. As established in chapter 41.50 of the Revised Code of Washington (RCW), the Department of Retirement Systems (DRS) administers eight retirement systems comprising 12 defined benefit pension plans and three combination defined benefit/defined contribution plans as follows:

- Public Employees' Retirement System (PERS)
 - Plan 1 - defined benefit
 - Plan 2 - defined benefit
 - Plan 3 - defined benefit/defined contribution
- Teachers' Retirement System (TRS)
 - Plan 1 - defined benefit
 - Plan 2 - defined benefit
 - Plan 3 - defined benefit/defined contribution

- School Employees' Retirement System (SERS)
 - Plan 2 - defined benefit
 - Plan 3 - defined benefit/defined contribution
- Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)
 - Plan 1 - defined benefit
 - Plan 2 - defined benefit
- Washington State Patrol Retirement System (WSPRS)
 - Plan 1 - defined benefit
 - Plan 2 - defined benefit
- Public Safety Employees' Retirement System (PSERS)
 - Plan 2 - defined benefit
- Judicial Retirement System (JRS)
 - Defined benefit plan
- Judges' Retirement Fund (Judges)
 - Defined benefit plan

Although some assets of the plans are commingled for investment purposes, each plan's assets may be used only for the payment of benefits to the members of that plan in accordance with the terms of the plan.

Administration of the PERS, TRS, SERS, LEOFF, WSPRS, and PSERS systems and plans was funded by an employer rate of 0.16 percent of employee salaries. Administration of the JRS and Judges plans is funded by means of legislative appropriations.

The Department of Retirement Systems prepares a stand-alone financial report. Copies of the report that include financial statements and required supplementary information may be obtained by writing to Washington State Department of Retirement Systems, PO Box 48380, Olympia, Washington 98504-8380 or by visiting their website at: <http://www.drs.wa.gov>.

Board for Volunteer Fire Fighters. As established in chapter 41.24 RCW, the Washington Board for Volunteer Fire Fighters' administers the Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund (VFFRPF), a defined benefit plan. Administration of VFFRPF is funded through legislative appropriation.

Administrative Office of the Courts. As established in chapter 2.14 RCW, the Administrative Office of the Courts administers the Judicial Retirement Account (JRA), a defined contribution plan. Administration of JRA is funded through member fees.

Higher Education. In addition to the retirement plans administered by the state of Washington, eligible higher education state employees may participate in privately administered Higher Education Retirement defined contribution plans.

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Plan descriptions, funding policies, a table of employer contributions required and paid for defined benefit plans, schedules of funded status and funding progress, defined benefit pension plans valuations, annual pension cost, and three year trend information follow in Note 11.B through G, respectively. Information related to changes in actuarial assumptions and methods, and changes in

benefit provisions are provided in Note 11.H and I. For information related to defined contribution plans, refer to Note 11.J. Details on plan net assets and changes in plan net assets of pension plans and other employee benefit funds administered by the state are presented in Note 11.K.

Membership of each state administered plan consisted of the following at June 30, 2009, the date of the latest actuarial valuation for all plans:

Number of Participating Members					
Plans Administered by the State	Retirees and Beneficiaries Receiving Benefits	Terminated Members Entitled To But Not Yet Receiving Benefits	Active Plan Members Vested	Active Plan Members Nonvested	Total Members
PERS 1	54,147	2,125	9,630	724	66,626
PERS 2	19,790	22,824	85,965	35,835	164,414
PERS 3	920	3,125	9,744	17,337	31,126
TRS 1	36,032	843	5,129	75	42,079
TRS 2	2,104	2,472	6,153	3,021	13,750
TRS 3	1,791	5,345	29,585	23,425	60,146
SERS 2	2,870	4,644	14,899	5,298	27,711
SERS 3	1,759	4,549	16,590	15,687	38,585
LEOFF 1	8,087	2	356	-	8,445
LEOFF 2	1,367	672	13,007	3,944	18,990
WSPRS 1	834	122	829	1	1,786
WSPRS 2	-	4	101	163	268
PSERS 2	2	-	-	4,340	4,342
JRS	124	-	9	-	133
Judges	13	-	-	-	13
JRA	1	185	11	-	197
VFFRPF	3,612	6,059	4,174	6,584	20,429
Total	133,453	52,971	196,182	116,434	499,040

Following is a summary of the number of government employers participating in state administered retirement plans as of June 30, 2010:

Number of Participating Employers				
Plan	State Agencies	School Districts	Counties/ Municipalities	Other Political Subdivisions
PERS 1	146	229	166	193
PERS 2	178	-	270	485
PERS 3	163	-	209	287
TRS 1	54	271	-	-
TRS 2	23	283	-	-
TRS 3	31	302	-	-
SERS 2	-	298	-	-
SERS 3	1	300	-	-
LEOFF 1	-	-	54	15
LEOFF 2	8	-	215	149
WSPRS 1	1	-	-	-
WSPRS 2	1	-	-	-
PSERS 2	10	-	63	-
JRS	2	-	-	-
Judges	-	-	-	-
JRA	3	-	-	-
VFFRPF	-	-	-	671

Employers can participate in multiple systems and/or plans.

B. PLAN DESCRIPTIONS

Public Employees' Retirement System (PERS)

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior Courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not in national higher education retirement programs; judges of district and municipal courts; and employees of local governments.

The Higher Education Retirement Plans are not administered by DRS. Approximately 52 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in chapters 41.34 and 41.40 RCW and may be amended only by the state Legislature.

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan.

PERS participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977, and by either, February 28, 2002, for state and higher education employees, or August 31, 2002, for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3.

PERS participants joining the system on or after March 1, 2002, for state and higher education employees, or September 1, 2002, for local government employees, have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill with less than five years to live.

PERS is comprised of and reported as three separate plans: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members.

Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund.

All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan.

PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and 2 defined benefit plans accrue interest at a rate specified by DRS.

During Fiscal Year 2010, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in PERS Plan 1 and 2 can elect to withdraw total employee contributions and interest thereon upon separation from PERS-covered employment.

PERS Plan 3 defined contribution benefits are financed from employee contributions and investment earnings. Employees in PERS Plan 3 can elect to withdraw total employee contributions adjusted by earnings and losses from the investment of those contributions upon separation from PERS-covered employment.

PERS Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. Benefits are also actuarially reduced when a Plan 1 member chooses a survivor option.

The annual benefit is 2 percent of the average final compensation (AFC) per year of service (AFC is based on the greatest compensation during any 24 eligible consecutive compensation months), capped at 60 percent.

A cost-of-living allowance (COLA) is granted at age 66 based upon years of service times the COLA amount (based on the Consumer Price Index), capped at 3 percent annually. Plan 1 retirees, after being retired one year, will receive the annual COLA adjustment in July if they turn 66 years of age any time in the calendar year in which the COLA is given. Plan 1 members may also elect to receive an additional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity payable to the age of 60. The allowance

amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less.

The benefit is reduced by any worker's compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60. A member with five years of membership service is eligible for non-duty disability retirement. Prior to the age of 55, the allowance amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55.

The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. A COLA is granted at age 66 based upon years of service times the COLA amount (indexed to the Seattle Consumer Price Index), capped at 3 percent annually. Plan 1 members may also elect to receive an additional COLA amount (indexed to the Seattle Consumer Price Index), capped at 3 percent annually. To offset the costs of this annual adjustment, the benefit is reduced.

PERS Plan 1 members can receive credit for military service while actively serving in the military, if such credit makes them eligible to retire. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service, with an allowance of 2 percent of the AFC per year of service. (AFC is based on the greatest compensation during any eligible consecutive 60-month period.)

Plan 2 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit; and a COLA is granted (based on the Consumer Price Index), capped at 3 percent annually.

Refunds provided to survivors of PERS Plan 2 members that leave eligible employment after earning ten years of service credit and are subsequently killed in uniformed service to the United States while participating in Operation Enduring Freedom or Persian Gulf, Operation Iraqi Freedom is increased from 100 to 200 percent of the accumulated contributions in the member's account.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component.

The defined benefit portion provides a benefit calculated at 1 percent of the AFC per year of service. (AFC is based on the greatest compensation during any eligible consecutive 60-month period.)

Effective June 7, 2006, PERS Plan 3 members may be vested either after ten years of service or after five years of service, as long as 12 consecutive months of service were accrued after attainment of age 44. Plan 3 members are immediately vested in the defined contribution portion of their plan. Vested Plan 3 members are eligible to retire with full benefits at age 65. Plan 3 retirements prior to the age of 65 receive reduced benefits.

If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit; and Plan 3 provides the same COLA as Plan 2. Refer to section J of this note for a description of the defined contribution component of PERS Plan 3.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is 2 percent of the AFC for each year of service. For Plan 3 the allowance amount is 1 percent of the AFC for each year of service.

Benefits are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a COLA is granted (indexed to the Seattle Consumer Price Index) capped at 3 percent annually. PERS members may purchase up to 24 consecutive months of service credit for each period of temporary duty disability.

Beneficiaries of a PERS Plan 2 or 3 member with 10 years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Director of the Department of Labor and Industries.

PERS Plan 2 and Plan 3 members can purchase service credit for military service that interrupts employment.

Additionally, PERS Plan 2 and Plan 3 members who become totally incapacitated for continued employment while serving in the uniformed services may apply for interruptive military service credit. Should any such member die during this active duty, the member's surviving spouse or eligible children may purchase credit on behalf of the deceased member.

PERS Plan 2 and Plan 3 members can purchase up to 24 months of service credit lost because of an on-the-job injury. PERS Plan 2 and Plan 3 members who apply for early retirement may, at the time of retirement, purchase up to five years of additional service credit. The cost of the additional service credit is the actuarial equivalent value of the resulting increase in the member's benefit.

A \$150,000 death benefit is provided to the estate (or duly designated nominee) of a PERS member who dies in the line of service as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally or by a duty related illness, and proximately out of their covered employment, if found eligible by the Director of the Department of Labor and Industries.

PERS members may also purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement, and cannot be used to qualify for any retirement eligibility or benefit reductions based upon years of service. This credit is to be used exclusively to provide the member with a monthly annuity that is paid in addition to the member's retirement allowance.

Portability of retirement benefits allows for PERS members' compensation that is reportable in all dual members' systems, except in WSPRS, to be included in the calculation of all dual members' benefits, and removing the "maximum benefit rule" for dual members who have less than 15 years of service in one capped plan and service in one uncapped plan.

Effective after the January 2008 distribution, gain sharing for PERS Plan 1 and Plan 3 members was discontinued.

Additional COLAs were provided to PERS Plan 1 retirees in July 2009 and new alternative early retirement provisions were created for PERS Plan 2 and Plan 3 members.

Beginning January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to participate in the Judicial Benefit Multiplier (JBM) Program enacted in 2006.

Justices or judges in PERS Plans 1 and 2 were able to make a one-time irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of AFC.

Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of AFC.

Members who chose to participate would:

- Accrue service credit at the higher multiplier beginning with the date of their election.
- Be subject to the benefit cap of 75 percent of AFC.
- Stop contributing to the Judicial Retirement Account (JRA).
- Pay higher contributions.
- Be given the option to increase the multiplier on past judicial service.

Members who did not choose to participate would:

- Continue to accrue service credit at the regular multiplier (i.e. 1 percent, 2 percent, or 3 percent).
- Continue to participate in JRA, if applicable.
- Never be a participant in the JBM program.
- Continue to pay contributions at the regular PERS rate.

Newly elected justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM program.

Members required to join the JBM program would:

- Return to prior PERS Plan if membership had previously been established.
- Be mandated into Plan 2 and not have a Plan 3 transfer choice, if a new PERS member.
- Accrue the higher multiplier for all judicial service.
- Not contribute to JRA.
- Not have the option to increase the multiplier for past judicial service.

Judges and justices who are members of PERS may purchase prior judicial service credit at a higher multiplier at retirement.

During the period of January 1, 2009 through June 30, 2009, active and inactive PERS members who were not then serving as justices or judges, but who have served as such in the past, may request an increase in their benefit multiplier for past periods of judicial service and pay a cost that is the actuarial equivalent of the increase.

Material changes in PERS benefit provisions for the fiscal year ended June 30, 2010, are listed in the table at the end of this section.

Teachers' Retirement System (TRS)

TRS was legislatively established in 1938. Eligibility for membership requires service as a certificated public school employee in an instructional, administrative or supervisory capacity. TRS is comprised principally of non-state employees. TRS retirement benefit provisions are established in chapters 41.32 and 41.34 RCW and may be amended only by the state Legislature.

TRS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan.

TRS participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977, and by June 30, 1996, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3.

TRS participants joining the system on or after July 1, 1996, and those who exercised their transfer option, are members of TRS Plan 3.

TRS members hired on or after July 1, 2007 have 90 days to make an irrevocable choice to enroll in either Plan 2 or Plan 3. An employee is reported in Plan 2 until a choice is made.

Employees who fail to choose within 90 days default to TRS Plan 3. Notwithstanding, TRS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

TRS is comprised of and reported as three separate plans: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members.

Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan.

TRS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the TRS Plan 1 and 2 defined benefit plans accrue interest at a rate specified by DRS.

During Fiscal Year 2010, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in TRS Plan 1 and 2 can elect to withdraw total employee contributions and interest thereon upon separation from TRS-covered employment. TRS Plan 3 defined contribution benefits are financed from employee contributions and investment earnings.

Employees in TRS Plan 3 can elect to withdraw total employee contributions adjusted by earnings and losses from the investment of those contributions upon separation from TRS-covered employment.

TRS Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The annual pension is 2 percent of the average final compensation (AFC) per year of service (AFC is based on the greatest compensation during the highest of any consecutive two compensation contract years), capped at 60 percent.

A COLA is granted at age 66 based upon years of service times the COLA amount, increased by 3 percent annually. Plan 1 retirees will receive the annual COLA adjustment in July if they turn 66 years of age any time in the calendar year in which the COLA is given. Plan 1 members may also elect to receive an additional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

TRS Plan 1 provides death and temporary disability benefits. TRS Plan 1 members receive the following additional lump sum death benefits: retired members-\$400 (if retired with ten years of full-time membership), \$400 (if inactive with ten years of membership), active members \$600 (if employed full-time at time of death).

Members on temporary disability receive a monthly payment of \$180 payable for up to two years, for the same occurrence. After five years of service, members on a disability retirement receive an allowance based on their salary and service to date of disability. Members enrolled in TRS prior to April 25, 1973, may elect a benefit based on the formula in effect at that time.

TRS Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service, with an allowance of 2 percent of the AFC per year of service. (AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Plan 2 retirements prior to the age of 65 receive reduced benefits.

If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and a COLA is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

TRS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the AFC per year of service. (AFC is based on the greatest compensation during any eligible consecutive 60-month period.)

Effective June 7, 2006, TRS Plan 3 members may be vested either after ten years of service or after five years of service, as long as 12 consecutive months of service were accrued after attainment of age 44. Plan 3 retirements prior to the age of 65 receive reduced benefits.

If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and Plan 3 provides the same COLA as Plan 2. Refer to section J of this note for a description of the defined contribution component of TRS Plan 3.

TRS Plan 2 and Plan 3 members who work for at least five months of a six-month period, from September through August, and earn 630 hours or more within that six-month period receive six months of service credit.

Plan 2 and Plan 3 members need have only two years of service credit in order to be eligible to purchase up to seven years of service credit for public education experience earned in another state or with the federal government.

TRS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is 2 percent of the AFC for each year of service. For Plan 3, the allowance amount is 1 percent of the AFC for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option.

Beneficiaries of a TRS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Director of the Department of Labor and Industries.

TRS members can purchase service credit for military service that interrupts employment. Additionally, TRS members who become totally incapacitated for continued employment while serving in the uniformed services may apply for interruptive military service credit. Should any such member die during this active duty, the member's surviving spouse or eligible children may purchase credit on behalf of the deceased member.

TRS members may purchase up to 24 consecutive months of service credit for each period of temporary duty disability.

TRS members may purchase up to five years of additional service credit once eligible for retirement.

This credit can only be purchased at the time of retirement, and cannot be used to qualify for any retirement eligibility or benefit reductions based upon years of service. This credit is to be used exclusively to provide the member with a monthly annuity that is paid in addition to the member's retirement allowance.

Active TRS Plan 2 and Plan 3 members may also make a one-time purchase of up to seven years of service credit for education experience earned in a state or federal public school outside the state of Washington. Completion of at least five years of service under TRS is required.

A \$150,000 death benefit is provided to the estate (or duly designated nominee) of a TRS member who dies in the line of service as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of their covered employment or duty related illness, if found eligible by the Director of the Department of Labor and Industries.

Portability of retirement benefits allows for TRS members' compensation that is reportable in all dual members' systems, except in WSPRS, to be included in the calculation of all dual members' benefits, and removing the "maximum benefit rule" for dual members who have less than 15 years of service in one capped plan and service in one uncapped plan.

Effective after the January 2008 distribution, gain sharing for TRS Plan 1 and Plan 3 members was discontinued. Additional COLAs were provided to TRS Plan 1 retirees in July 2009 and new alternative early retirement provisions were created for TRS Plan 2 and Plan 3 members.

Beginning January 1, 2007 through December 31, 2007, judicial members of TRS were given the choice to participate in the Judicial Benefit Multiplier (JBM) Program enacted in 2006.

Justices or judges in TRS Plan 1 were able to make a one-time irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of AFC.

Members who chose to participate would:

- Accrue service credit at the higher multiplier beginning with the date of their election.
- Be subject to the benefit cap of 75 percent of AFC.
- Stop contributing to the Judicial Retirement Account (JRA).
- Pay higher contributions.
- Be given the option to increase the multiplier on past judicial service.

Members who did not choose to participate would:

- Continue to accrue service credit at the regular multiplier (i.e. 2 percent).
- Continue to participate in JRA, if applicable.
- Never be a participant in the JBM program.
- Continue to pay contributions at the regular TRS rate.

Newly elected justices and judges who chose to become TRS members on or after January 1, 2007, or who had not previously opted into TRS membership, were required to participate in the JBM program. Members required to join the JBM program would:

- Return to prior TRS Plan if membership had previously been established.
- Accrue the higher multiplier for all judicial service.
- Not contribute to JRA.
- Not have the option to increase the multiplier for past judicial service.

Material changes in TRS benefit provisions for the fiscal year ended June 30, 2010, are listed in the table at the end of this section.

School Employees' Retirement System (SERS)

The Legislature established SERS in 2000. Membership in the system includes all classified employees of school districts or educational service districts. SERS is comprised principally of non-state employees. SERS retirement benefit provisions are established in chapters 41.34 and 41.35 RCW and may be amended only by the state Legislature.

SERS is a cost-sharing multiple-employer retirement system comprised of two separate plans for membership

purposes: Plan 2 is a defined benefit plan and Plan 3 is a combination defined benefit/defined contribution plan.

As of September 1, 2000, the membership of classified school employees in PERS Plan 2 was transferred to SERS Plan 2. Those who joined on or after October 1, 1977, and by August 31, 2000, are SERS Plan 2 members unless they exercised an option to transfer their membership to Plan 3.

SERS participants joining the system on or after September 1, 2000, and those who exercised their transfer option, are members of SERS Plan 3.

SERS members hired on or after July 1, 2007 have 90 days to make an irrevocable choice to enroll in either Plan 2 or Plan 3. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to SERS Plan 3. Notwithstanding, SERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

SERS is comprised of and reported as two separate plans: Plan 2/3 and Plan 3. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members.

Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan.

SERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the SERS Plan 2 defined benefit plan accrue interest at a rate specified by DRS. During Fiscal Year 2010, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly.

Employees in SERS Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from SERS-covered employment. SERS Plan 3 defined contribution benefits are financed from employee contributions and investment earnings.

Employees in SERS Plan 3 can elect to withdraw total employee contributions adjusted by earnings and losses from the investment of those contributions upon separation from SERS-covered employment.

SERS Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service, with an allowance of 2 percent of the average final compensation (AFC) per year of service. (AFC is based on the greatest compensation during any eligible consecutive 60-month period.)

Plan 2 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit; and a COLA is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

SERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the AFC per year of service. (AFC is based on the greatest compensation during any eligible consecutive 60-month period.)

Effective June 7, 2006, SERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after 5 years of service if 12 months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by September 1, 2000. Plan 3 members are immediately vested in the defined contribution portion of their plan. Vested Plan 3 members are eligible to retire with full benefits at the age of 65. SERS Plan 3 members who retire prior to the age of 65 receive reduced benefits.

If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit; and Plan 3 provides the same COLA as Plan 2. Refer to section J of this note for a description of the defined contribution component of SERS Plan 3.

Effective after the January 2008 distribution, gain sharing for SERS Plan 3 members was discontinued and new alternative early retirement provisions were created for SERS Plan 2 and Plan 3 members.

SERS members can purchase service credit for military service that interrupts employment. Additionally, SERS members who become totally incapacitated for continued employment while serving in the uniformed services may apply for interruptive military service credit.

Should any such member die during this active duty, the member's surviving spouse or eligible children may purchase service credit on behalf of the deceased member. SERS members may purchase up to 24 consecutive months of service credit for each period of temporary duty disability.

SERS provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is 2 percent of the AFC for each year of service. For Plan 3 the allowance amount is 1 percent of the AFC for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option.

Beneficiaries of a SERS member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Director of the Department of Labor and Industries.

SERS members who apply for early retirement may, at the time of retirement, purchase up to five years of additional service credit. The cost of the additional service credit is the actuarial equivalent value of the resulting increase in the member's benefit.

SERS members may also purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement, and cannot be used to qualify for any retirement eligibility or benefit reductions based upon years of service. This credit is to be used exclusively to provide the member with a monthly annuity that is paid in addition to the member's retirement allowance.

SERS members who work for at least five months of a six-month period, from September through August, and earn 630 hours or more within that six-month period receive six months of service credit.

A \$150,000 death benefit is provided to the estate (or duly designated nominee) of a SERS member who dies in the line of service as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of their covered employment, or duty related illness if found eligible by the Director of the Department of Labor and Industries.

Portability of retirement benefits allows for SERS members' compensation that is reportable in all dual members' systems, except in WSPRS, to be included in the calculation of all dual members' benefits, and

removing the “maximum benefit rule” for dual members who have less than 15 years of service in one capped plan and service in one uncapped plan.

Material changes in SERS benefit provisions for the fiscal year ended June 30, 2010, are listed in the table at the end of this section.

Law Enforcement Officers’ and Fire Fighters’ Retirement System (LEOFF)

LEOFF was established in 1970 by the Legislature. Membership includes all full-time, fully compensated, local law enforcement officers and firefighters, and as of July 24, 2005, those emergency medical technicians who were given the option and chose LEOFF Plan 2 membership.

LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers who were first included prospectively effective July 27, 2003, being a major exception. LEOFF retirement benefit provisions are established in chapter 41.26 RCW and may be amended only by the state Legislature.

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977, are Plan 2 members.

Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established by Initiative 790 to provide governance of LEOFF Plan 2. The Board’s duties include adopting contribution rates and recommending policy changes to the Legislature for the LEOFF Plan 2 retirement plan.

LEOFF defined benefit retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations. Employee contributions to the LEOFF Plan 1 and 2 defined benefit plans accrue interest at a rate specified by DRS.

During Fiscal Year 2010, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in LEOFF Plan 1 and 2 can elect to withdraw total employee contributions and interest earnings thereon upon separation from LEOFF-covered employment.

LEOFF Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50.

The benefit per year of service calculated as a percent of final average salary (FAS) is as follows:

Term of Service	Percent of FAS
20+	2.0%
10-19	1.5%
5-9	1.0%

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months’ salary within the last ten years of service. A COLA is granted (indexed to the Seattle Consumer Price Index).

LEOFF Plan 1 provides death and disability benefits. Death benefits for Plan 1 members on active duty consist of the following: (1) If eligible spouse, 50 percent of the FAS, plus 5 percent of FAS for each surviving child, with a limitation on the combined allowances of 60 percent of the FAS; or (2) If no eligible spouse, 30 percent of FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of FAS.

The LEOFF Plan 1 disability allowance is 50 percent of the FAS plus 5 percent for each child up to a maximum of 60 percent. Upon recovery from disability before the age of 50, a member is restored to service with full credit for service while disabled. Upon recovery after the age of 50, the benefit continues as the greater of the member’s disability allowance or service retirement allowance.

LEOFF Plan 1 members may purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement, and cannot be used to qualify for any retirement eligibility or benefit reductions based upon years of service. This credit is to be used exclusively to provide the member with a monthly annuity that is paid in addition to the member’s retirement allowance.

LEOFF Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members may retire at age 50 with 20 years of service, or at the age of 53 with five years of service, with an allowance of 2 percent of the FAS per year of service (FAS is based on the highest consecutive 60 months). Plan 2 members who retire prior to the age of 53 receive reduced benefits.

Benefits are actuarially reduced for each year that the benefit commences prior to age 53 and to reflect the choice of a survivor option. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53. There is no cap on years of service credit; and a COLA is granted (based on the Consumer Price Index), capped at 3 percent annually.

LEOFF Plan 2 members may purchase up to five years of additional service credit at retirement. LEOFF Plan 2 members can also purchase service credit for military service that interrupts employment.

Additionally, LEOFF Plan 2 members who become totally incapacitated for continued employment while serving in the uniformed services may apply for interruptive military service credit. Should any such member die during this active duty, the member's surviving spouse or eligible children may purchase credit on behalf of the deceased member.

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is 2 percent of the FAS for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 53, unless the disability is duty-related, and to reflect the choice of a survivor option.

If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53. Plan 2 members may purchase up to 24 consecutive months of service credit for each period of temporary duty disability.

For Emergency Medical Technicians who joined LEOFF Plan 2 as a result of 2003 and 2005 legislation, the five year waiting period is waived when they retire due to disability or die.

Members of LEOFF Plan 2 who leave service because of a line of duty disability are allowed to withdraw 150 percent of accumulated member contributions. This withdrawal benefit is not subject to federal income tax.

Alternatively, members of LEOFF Plan 2 who leave service because of a line of duty disability may be eligible to receive a retirement allowance of at least 10 percent of the FAS and 2 percent per year of service beyond five years. The first 10 percent of FAS is not subject to federal income tax.

LEOFF Plan 2 members who are severely disabled in the line of duty and incapable of substantial gainful employment in any capacity in the future, can receive a catastrophic disability benefit from LEOFF Plan 2 equal to 70 percent of their FAS subject to offsets for workers' compensation and Social Security disability benefits received.

LEOFF Plan 2 retirees may return to work in an eligible position covered by another retirement system, choose membership in that system and suspend their pension benefits, or not choose membership and continue receiving pension benefits without interruption.

Beneficiaries of a LEOFF Plan 2 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death.

This provision applied to any member killed in the course of employment, or after June 10, 2004, if found eligible by the Director of the Department of Labor and Industries.

Beginning in 2011, when state General Fund revenues increase by at least 5 percent over the prior biennium's revenues, the State Treasurer will transfer, subject to legislative appropriation, specific amounts into a Local Public Safety Enhancement Account. Half of this transfer will be proportionately distributed to all jurisdictions with LEOFF Plan 2 members. The other half will be transferred to a LEOFF Retirement System Benefits Improvement Account to fund benefit enhancements for LEOFF Plan 2 members.

Eligible survivors of LEOFF Plan 2 members who are killed in the line of duty are reimbursed for the cost of on-going health care insurance coverage.

A \$150,000 death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 2 member who dies as a result of injuries sustained in the course of employment or dies from occupational disease or duty-related illness such as an infectious disease or cancer resulting from a job-related exposure, or duty related illness if found eligible by the Director of the Department of Labor and Industries.

Portability of retirement benefits allows for LEOFF Plan 2 members' compensation that is reportable in all dual members' systems, except in WSPRS, to be included in the calculation of all dual members' benefits, and removing the "maximum benefit rule" for dual members who have less than 15 years of service in one capped plan and service in one uncapped plan.

Active LEOFF members can choose whether or not to obtain and pay for Medicare coverage through a "divided referendum" process.

Material changes in LEOFF benefit provisions for the fiscal year ended June 30, 2010, are listed in the table at the end of this section.

Washington State Patrol Retirement System (WSPRS)

WSPRS was established by the Legislature in 1947. Any commissioned employee of the Washington State Patrol is eligible to participate. WSPRS benefits are established in chapter 43.43 RCW and may be amended only by the state Legislature.

WSPRS is a single-employer defined benefit retirement system. WSPRS participants who joined the system by December 31, 2002, are Plan 1 members. Those who joined on or after January 1, 2003, are Plan 2 members.

For financial reporting and investment purposes, however, both plans are accounted for in the same pension fund.

WSPRS retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to WSPRS accrue interest at a rate specified by DRS.

During Fiscal Year 2010, the DRS-established rate on employee contributions was 5.364 percent annually, compounded monthly. Employees in WSPRS can elect to withdraw total employee contributions and interest earnings thereon upon separation from WSPRS-covered employment.

WSPRS member contribution rates will be no more than 7 percent of pay plus half the cost of any future benefit improvements. Employers will pay the contribution rate required to cover all system costs that are not covered by the member contribution rate. Also a minimum total contribution rate is established for WSPRS, beginning July 1, 2010.

There is no vesting requirement for active WSPRS members. Inactive WSPRS members are vested after the completion of five years of eligible service. Members are eligible for retirement at the age of 55 with five years of service, or after 25 years of service.

The annual pension is 2 percent of the average final salary (AFS), capped at 75 percent, per year of service. A cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually. The WSPRS mandatory retirement age is 65, but does not apply to the member serving as chief of the Washington State Patrol.

WSPRS members may purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement, and cannot be used to qualify for any retirement eligibility or benefit reductions based upon years of service. This credit is to be used exclusively to provide the member with a monthly annuity that is paid in addition to the member's retirement allowance.

WSPRS benefit provisions include death benefits; however, the system provides no disability benefits. Disability benefits may be available from the Washington State Patrol. If disability benefits are received, the member may be eligible to acquire service credit for the period of disability.

A \$150,000 death benefit is provided to the estate (or duly designated nominee) of a WSPRS member who dies as a result of injuries sustained in the course of employment or dies from occupational disease or duty-related illness such as an infectious disease or cancer resulting from a job-related exposure, or duty related illness if found eligible by the Director of the Department of Labor and Industries.

The spouse and dependent children of a WSPRS member who is killed in the course of employment will be reimbursed for any payments of medical premiums to the Washington State Health Care Authority.

For WSPRS Plan 1 members, AFS is based on the average of the two highest-paid service credit years and excludes voluntary overtime.

Death benefits for Plan 1 members on active duty consist of the following: (1) If eligible spouse, 50 percent of the AFS, plus 5 percent of the AFS for each surviving child, with a limitation on the combined allowances of 60 percent of the AFS; or (2) If no eligible spouse, 30 percent of AFS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of AFS.

For WSPRS Plan 2 members, AFS is based on the average of the five consecutive highest-paid service credit years and excludes both voluntary overtime and cash-outs of annual and holiday leave. At retirement, Plan 2 members also have the option of selecting an actuarially reduced benefit in order to provide for post-retirement survivor benefits.

Death benefits for active-duty Plan 2 members consist of the following: (1) If the member is single or has less than ten years of service, the return of the member's accumulated contributions; or (2) If the member is married, has an eligible child, or has completed ten years of service, a reduced benefit allowance reflecting a joint and 100 percent survivor option or 150 percent of the member's accumulated contributions, at the survivor's option. WSPRS Plan 2 members can purchase service credit for military service that interrupts employment.

Additionally, WSPRS Plan 2 members who become totally incapacitated for continued employment while serving in the uniformed services may apply for interruptive military service credit. Should any such member die during this active duty, the member's surviving spouse or eligible children may purchase credit on behalf of the deceased member.

Beneficiaries of a WSPRS Plan 2 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not of normal retirement age at death.

This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Director of the Department of Labor and Industries.

Material changes in WSPRS benefit provisions for the fiscal year ended June 30, 2010, are listed in the table at the end of this section.

Public Safety Employees' Retirement System (PSERS)

PSERS was created by the 2004 Legislature and became effective July 1, 2006. PSERS pension benefit provisions have been established by chapter 41.37 RCW and may be only amended by the state Legislature. PSERS is a cost-sharing multiple-employer retirement system comprised of a single defined benefit plan, PSERS Plan 2.

PSERS membership includes:

- Full-time employees of a covered employer on or before July 1, 2006, who met at least one of the PSERS eligibility criteria, and elected membership during the election period of July 1, 2006 to September 30, 2006; and,
- Full-time employees hired on or after July 1, 2006 by a covered employer, that meet at least one of the PSERS eligibility criteria.

A “covered employer” is one that participates in PSERS. Covered employers include:

- State of Washington agencies: Department of Corrections, Parks and Recreation Commission, Gambling Commission, Washington State Patrol, Liquor Control Board, and Department of Natural Resources;
- Washington state counties; and,
- Washington cities except for Seattle, Tacoma and Spokane.

To be eligible for PSERS, an employee must work on a full-time basis and:

- Have completed a certified criminal justice training course with authority to arrest, conduct criminal investigations, enforce the criminal laws of Washington, and carry a firearm as part of the job; or
- Have primary responsibility to ensure the custody and security of incarcerated or probationary individuals; or

- Function as a limited authority Washington peace officer, as defined in RCW 10.93.020; or
- Have primary responsibility to supervise eligible members who meet the above criteria.

PSERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PSERS defined benefit plans accrue interest at a rate specified by DRS.

During Fiscal Year 2010, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in PSERS can elect to withdraw total employee contributions and interest thereon upon separation from PSERS-covered employment.

PSERS benefits are vested after an employee completes five years of eligible service. PSERS members may retire at the age 65 with five years of service, or at the age of 60 with at least ten years of PSERS service credit, with an allowance of 2 percent of the average final compensation (AFC) per year of service.

The AFC is the monthly average of the member’s 60 consecutive highest-paid service credit months, excluding any severance pay such as lump-sum payments for deferred sick leave, vacation or annual leave. Plan 2 retirees prior to the age of 60 receive reduced benefits. If retirement is at age 53 or older with at least 20 years of service, a 3 percent per year reduction for each year between the age at retirement and age 60 applies. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

PSERS members can purchase service credit for military service that interrupts employment. Additionally, PSERS members who become totally incapacitated for continued employment while serving in the uniformed services may apply for interruptive military service credit. Should any such member die during this active duty, the member’s surviving spouse or eligible children may purchase credit on behalf of the deceased member.

PSERS members may also purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement, and cannot be used to qualify for any retirement eligibility or benefit reductions based upon years of service. This credit is to be used exclusively to provide the member with a monthly annuity that is paid in addition to the member’s retirement allowance.

PSERS provides disability benefits. There is no minimum amount of service credit required for eligibility. Eligibility is based on the member being totally incapacitated for

continued employment with a PSERS employer and leaving that employment as a result of the disability. The disability allowance is 2 percent of the average final compensation (AFC) for each year of service.

AFC is based on the member's 60 consecutive highest creditable months of service. Service credit is the total years and months of service credit at the time the member separates from employment. Benefits are actuarially reduced for each year that the member's age is less than 60 (with ten or more service credit years in PSERS), or less than 65 (with fewer than ten service credit years).

PSERS members may purchase up to 24 consecutive months of service credit (up from 12 months) for each period of temporary duty disability.

Beneficiaries of a PSERS member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, if found eligible by the Director of the Department of Labor and Industries.

A \$150,000 death benefit is provided to the estate (or duly designated nominee) of a PSERS member who dies as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of their covered employment, or duty related illness if found eligible by the Director of the Department of Labor and Industries.

Portability of retirement benefits allows for PSERS members' compensation that is reportable in all dual members' systems, except in WSPRS, to be included in the calculation of all dual members' benefits, and removing the "maximum benefit rule" for dual members who have less than 15 years of service in one capped plan and service in one uncapped plan.

Material changes to PSERS benefit provisions for the fiscal year ended June 30, 2010, are listed in the table at the end of this section.

Judicial Retirement System (JRS)

JRS was established by the Legislature in 1971. Membership includes judges elected or appointed to the Supreme Court, Court of Appeals, and Superior Courts on or after August 9, 1971. The system was closed to new entrants on July 1, 1988, with new judges joining PERS Plan 2. JRS retirement benefit provisions are established in chapter 2.10 RCW and may be amended only by the state Legislature.

JRS is an agent multiple-employer retirement system comprised of a single defined benefit plan. JRS retirement benefits are financed on a pay-as-you-go basis from a combination of investment earnings, employer contributions, employee contributions, and a special funding situation in which the state pays the remaining contributions.

During Fiscal Year 2010, the DRS established rate on employee contributions was 5.5 percent, compounded quarterly. JRS employees who are vested in the plan may not elect to withdraw their contributions upon termination.

However, any JRS member that left the system before July 1, 1988, or his/her spouse, who was ineligible to receive a benefit at that time, may apply and receive a refund of such contributions from DRS, if said contributions have not been already refunded via a sundry claims appropriation from the state Legislature.

JRS members are eligible for retirement at the age of 60 with 15 years of service, or at the age of 60 after 12 years of service (if the member left office involuntarily) with at least 15 years after beginning judicial service.

The benefit per year of service calculated as a percent of average final compensation (AFC) is the table below. This benefit is capped at 75 percent of AFC, exclusive of cost of living increases.

Term of Service	Percent of AFC
15+	3.5%
10-14	3.0%

Death and disability benefits are also provided. Eligibility for death benefits while on active duty requires ten or more years of service. A monthly spousal benefit is provided which is equal to 50 percent of the benefit a member would have received if retired.

If the member is retired, the surviving spouse receives the greater of 50 percent of the member's retirement benefit or 25 percent of the AFC. For members with ten or more years of service, a disability benefit of 50 percent of AFC is provided.

Material changes in JRS benefit provisions for the fiscal year ended June 30, 2010, are listed in the table at the end of this section.

Judges' Retirement Fund (Judges)

The Judges' Retirement Fund was created by the Legislature on March 22, 1937 to provide retirement benefits to judges of the Supreme Court, Court of Appeals, or Superior Courts of the state of Washington.

Subsequent legislation required that all judges, first appointed or elected to office on or after August 1, 1971, enter the Judicial Retirement System. Judges' retirement benefit provisions are established in chapter 2.12 RCW and may be amended only by the state Legislature.

The Judges' Retirement Fund is an agent multiple-employer retirement system comprised of a single defined benefit plan. There are currently no active members in this plan.

Retirement benefits were financed on a pay-as-you-go basis from a combination of past employee contributions, past employer contributions, and a special funding situation in which the state paid the remaining contributions. Retirees did not earn interest on their contributions, nor could they elect to withdraw their contributions upon termination.

Judges' members are eligible for retirement at the age of 70 with ten years of service, or at any age with 18 years of service. Members are eligible to receive a partial retirement allowance after 12 years of credited service as a judge. With the exception of a partial retirement allowance, the member receives a benefit equal to one-half of the monthly salary being received as a judge at the time of retirement, or at the end of the term immediately prior to retirement if retirement occurs after the expiration of the member's term in office. A partial retirement allowance is based on the proportion of the member's 12 or more years of service in relation to 18 years of service.

Material changes in benefit provisions for Judges for the fiscal year ended June 30, 2010, are listed in the table at the end of this section.

The Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund (VFFRPF)

The Volunteer Fire Fighters' Relief Act was created by the Legislature in 1935 and the pension portion of the act was added in 1945. Membership in the system requires volunteer firefighter service with a fire department of an electing municipality of Washington State, emergency work as an emergency medical technician with an emergency medical service district, or work as a commissioned reserve law enforcement officer.

Retirement benefits are established in chapter 41.24 RCW and may be amended only by the state Legislature.

VFFRPF is a cost-sharing multiple-employer retirement system that provides death and active duty disability benefits to all members, and optional defined benefit pension plan payments. VFFRPF retirement benefits are financed from a combination of investment earnings, member contributions, municipality contributions, and a special funding situation where the state pays the remaining contributions. Since retirement benefits cover volunteer service, benefits are paid based on years of service not salary. Members are vested after ten years of service. VFFRPF members accrue no interest on contributions and may elect to withdraw their contributions upon termination.

After 25 years of active membership, members having reached the age of 65 and who have paid their annual retirement fee for 25 years are entitled to receive a monthly benefit of \$50 plus \$10 per year of service. The maximum monthly benefit is \$300. Reduced pensions are available for members under the age of 65 or with less than 25 years of service.

Death and active duty disability benefits are provided at no cost to the member. Death benefits in the line of duty consist of a lump sum of \$152,000. Funeral and burial expenses are also paid in a lump sum of \$2,000 for members on active duty. Members receiving disability benefits at the time of death shall be paid \$500.

Members on active duty shall receive disability payments of \$2,550 per month for up to six months; thereafter, payments are reduced. Disabled members receive \$1,275 per month, their spouse \$255, and dependent children \$110.

Effective July 22, 2007, vocational rehabilitation may be paid for disabled members who are unable to return to their previous employment. Members that qualify are subject to a \$4,000 maximum limit and are required to follow certain conditions established by the board and authorized by chapter 41.24 RCW.

Effective July 1, 2001, the disability income benefits and the maximum survivor benefits under the Relief Plan are increased for increases in the Consumer Price Index.

Material changes in VFFRPF benefit provisions for the fiscal year ended June 30, 2010, are listed in the table at the end of this section.

Material Legislative Changes to Pension Plans

For the Fiscal Year Ended June 30, 2010

System/Plan Affected	Effective Date	Description of the changes
LEOFF 1, PERS, PSERS, SERS, TRS, and WSPRS	7/1/09	The actuarial method of funding the unfunded liability of PERS 1 and TRS 1 is restructured. Changes are also made to the demographic assumptions for, and pension contribution rates of, the state retirement systems/plans (with the exception of LEOFF 2). Additionally, the implementation of minimum contribution rates for WSPRS and the Plans 2 and 3 (except for LEOFF 2) is delayed until the 2011-13 biennium (Chapter 561, Laws of 2009).
LEOFF 2	7/26/09	Eligible service and disability retirements are now classified as Occupational Disability retirements for the purpose of allowing affected retirees to take advantage of favorable tax treatment on their pension benefit based on the first 10 percent of the members salary (Chapter 95, Laws of 2009).
PERS 1	7/26/09	The survivor of any PERS 1 member who qualifies for retirement but has not applied, or who has 10 years of service credit, now has the option of either a monthly survivor benefit or the lump sum of contributions plus interest, upon the member's death (Chapter 111, Laws of 2009).
LEOFF 2	7/26/09	Department of Fish and Wildlife Enforcement Officers can transfer service credit earned as an enforcement officer in PERS 2 or 3 to LEOFF 2. Member, employer and state contributions will increase to the extent necessary to fund the difference in the value of the service credit transferred between the plans and the member contributions transferred into LEOFF 2 (Chapter 157, Laws of 2009).
LEOFF 2, PERS 2/3, SERS 2/3, TRS 2/3, and WSPRS	7/26/09	Up to five years of no-cost service credit is available for members who can provide proof to DRS that their public employment was interrupted by military service that occurred during a period of war (as defined in statute), and that they initiated the process for re-employment with the same employer no later than 90 days from the date of their honorable discharge. Members who previously purchased military service credit are eligible to receive a refund of their contributions (Chapter 205, Laws of 2009).
PERS 2 and SERS 2	7/26/09	The automatic transfer of prior PERS 2 service to SERS 2 service when the member becomes employed in an eligible SERS position on or after August 1, 2009 is ended. Current and inactive SERS 2 members who had prior PERS service credit transferred to SERS 2 can request beginning September 1, 2009 through November 30, 2009, that their service credit be moved back to PERS 2 (Chapter 209, Laws of 2009).
LEOFF, PERS, PSERS, SERS, TRS and WSPRS	7/26/09	The eligibility for an unreduced benefit to survivors of members who leave an employer and die while honorably serving in the National Guard or military reserves during a period of war (as defined in statute) is extended (Chapter 226, Laws of 2009).
All Systems and Plans	7/26/09 – 1/1/14	Domestic partners registered with the state will be treated the same as married spouses, to the extent that treatment is not in conflict with federal laws (Chapter 521, Laws of 2009).
WSPRS 2	7/26/09	State-registered domestic partners of WSPRS members are granted the ability to receive the survivor and death benefits available to spouses (Chapter 522, Laws of 2009).
LEOFF 2	7/26/09	Domestic partners of LEOFF 2 members are granted the same rights and options as spouses (Chapter 523, Laws of 2009).
LEOFF 2	3/17/10	The Director of Fire Protection, who was previously a member of LEOFF 2, now has the choice to continue membership in LEOFF 2 while employed in this role. This position is otherwise covered by PERS (Chapter 80, Laws of 2010).
PERS System	6/10/10	Eligible employees of the Higher Education Coordinating Board now have the ability to participate in the Higher Education Retirement Plan instead of the Public Employees' Retirement System (Chapter 21, Laws of 2010).

Material Legislative Changes to Pension Plans (concluded)

For the Fiscal Year Ended June 30, 2010

System/Plan Affected	Effective Date	Description of the changes
LEOFF 2	6/10/10	Shared leave can now be treated as reportable compensation for LEOFF 2 members. Earnings can be used in the calculation of a member's benefit, and service credit will be earned according to the hours reported (Chapter 50, Laws of 2010).
PERS 2/3, SERS 2/3	6/10/10	Half-time service credit is now granted to qualifying members who worked for an educational employer in school years prior to January 1, 1987 (Chapter 103, Laws of 2010).
LEOFF 2 and WSPRS	6/10/10	The payment of medical insurance premiums for qualifying LEOFF 2 and WSPRS members who are catastrophically disabled in the line of duty, and their spouses and dependent children will now be made by the LEOFF 2 pension fund for LEOFF 2 members and by the Washington State Patrol for WSPRS members (Chapter 259, Laws of 2010).
LEOFF 1 and PERS 1	6/10/10	PERS 1 members who retired on or after January 1, 1998, can use any service transferred from LEOFF 1 to qualify for military service credit at no cost (Chapter 260, Laws of 2010).
LEOFF and WSPRS	6/10/10	Additional benefits are provided to survivors of police officers, fire fighters and State Patrol officers killed in the line of duty (Chapter 261, Laws of 2010).
PERS 3, SERS 3, and TRS 3	6/30/10 – 6/30/11	The Employee Retirement Benefits Board is abolished and its former duties are transferred to the DRS Director. Said duties include providing recommendations to the WSIB on self-directed investment options for defined contribution plans, determining the payment options for plan 3 members, ratifying administrative charges assessed to members who participate in self-directed investment options and providing recommendations on investment options for the Deferred Compensation Plan (Chapter 7, Laws of 2010).

C. FUNDING POLICIES

With the exception of LEOFF Plan 2, the Legislature provided for minimum contribution rates for all retirement plans (Chapter 561, Laws of 2009). The LEOFF 2 Board provided for minimum contribution rates for the LEOFF Plan 2. These minimum rates will go into effect beginning with the 2011-13 biennium.

The table at the end of this section provides the required contribution rates for all plans (expressed as a percentage of current year covered payroll) at the close of Fiscal Year 2010.

Public Employees' Retirement System (PERS)

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials.

The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3.

All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion.

The Director of DRS sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age.

As a result of the implementation of the Judicial Benefit Multiplier (JBM) Program in January 2007, a second tier of employer and employee rates were developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program.

The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

Teachers' Retirement System (TRS)

Each biennium the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates.

Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state elected officials.

The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature.

Under TRS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion.

The Director of DRS sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age.

The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.32 and 41.45 RCW.

As a result of the implementation of the Judicial Benefit Multiplier (JBM) Program in January 2007, a second tier of employee rates were developed to fund, along with investment earnings, the increased retirement benefits of those judges that participate in the program.

The required employer contribution rate for a TRS employer of Supreme Court Justices, Court of Appeals Judges and Superior Court Judges equals the TRS contribution rate. The required member contribution rate of TRS 1 Supreme Court Justices, Court of Appeals Judges and Superior Court Judges is the TRS 1 rate of 6 percent plus 3.76 percent of pay. These higher rates, along with investment earnings, are intended to fund the increased retirement benefits of those judges that choose to participate in the JBM program.

School Employees' Retirement System (SERS)

Each biennium the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 employer contribution rates. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under SERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion.

The Director of DRS sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15

percent; two of the options are graduated rates dependent on the employee's age.

The methods used to determine the contribution requirements are established under state statute in chapters 41.35 and 41.45 RCW.

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)

Beginning July 1, 2000, Plan 1 employers and employees are not required to contribute as long as the plan remains fully funded. Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plan. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF 2 Board. All employers are required to contribute at the level required by state statute.

The Legislature, by means of a special funding arrangement, appropriated money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 1 and Plan 2 in accordance with the requirements of the Pension Funding Council and the LEOFF 2 Board.

However, this special funding situation is not mandated by the State Constitution and this funding requirement could be returned to the employers by a change of statute. For Fiscal Year 2010, the state contributed \$51.4 million to LEOFF Plan 2.

Washington State Patrol Retirement System (WSPRS)

Each biennium, the state Pension Funding Council adopts the employee and the state contribution rates. The employee and the state contribution rates are developed by the Office of the State Actuary to fully fund the plan.

State statute also requires employees to contribute at a rate of at least 2 percent. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 43.43 and 41.45 RCW.

Public Safety Employees' Retirement System (PSERS)

Each biennium the state Pension Funding Council adopts Plan 2 employers and employee contribution rates. The employer and employee contribution rates for Plan 2 are developed by the Office of the State Actuary to fully fund Plan 2. All employers are required to contribute at the level established by the Legislature. The methods used to determine the contribution requirements are established under state statute in chapters 41.37 and 41.45 RCW.

Judicial Retirement System (JRS)

Contributions made are based on rates set in chapter 2.10 RCW. By statute, employees are required to contribute 7.5 percent with an equal amount contributed by the state. In addition, the state guarantees the solvency of the JRS on a pay-as-you-go basis. Each biennium, the Legislature, through biennial appropriations from the state General Fund, contributes amounts sufficient to meet benefit payment requirements. For Fiscal Year 2010, the state contributed \$ 11.6 million.

Judges' Retirement Fund (Judges)

Contributions made are based on rates set in chapter 2.12 RCW. By statute, employees are required to contribute 6.5 percent with an equal amount contributed by the state. In addition, the state guarantees the solvency of the Judges' Retirement Fund on a pay-as-you-go basis. As of June 30, 2008, there are no active members remaining in the Judges Retirement Fund and member contributions are no longer collected. Each biennium, the Legislature,

through biennial appropriations from the state General Fund, contributes amounts sufficient to meet benefit payment requirements. For Fiscal Year 2010, however, no appropriations or contributions were made.

The Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund (VFFRPF)

The retirement provisions of VFFRPF is funded through member contributions of \$30 per year, employer contributions of \$30 per year, and 40 percent of the Fire Insurance Premium Tax, as per chapter 41.24 RCW.

VFFRPF members earn no interest on contributions and may elect to withdraw their contributions upon termination.

Administrative expenses are funded through fire insurance premium taxes and are maintained in a separate fund. Amounts not needed for administrative expenses are transferred to VFFRPF.

State of Washington

Required contribution rates (expressed as a percentage of current year covered payroll) for all retirement plans at the close of Fiscal Year 2010 were as follows:

Actual Contribution Rates	Employer			Employee		
	Plan 1	Plan 2	Plan 3	Plan 1	Plan 2	Plan 3
<u>PERS</u>						
Members Not Participating in JBM						
State agencies*	5.31%	5.31%	5.31%**	6.00%	3.90%	***
Local governmental units*	5.31%	5.31%	5.31%	6.00%	3.90%	***
State gov't elected officials*	7.89%	5.31%	5.31%**	7.50%	3.90%	***
Members Participating in JBM						
State agencies*	7.81%	7.81%	7.81%**	9.76%	7.25%	7.50%****
Local governmental units*	5.31%	5.31%	5.31%**	12.26%	9.75%	7.50%****
<u>TRS</u>						
Members Not Participating in JBM						
State agencies*	6.14%	6.14%	6.14%**	6.00%	3.36%	***
Local governmental units*	6.14%	6.14%	6.14%**	6.00%	3.36%	***
State gov't elected officials*	6.14%	6.14%	6.14%**	7.50%	3.36%	***
Members Participating in JBM						
State agencies*	6.14%	n/a	n/a	9.76%	n/a	n/a
<u>SERS</u>						
State agencies*	n/a	5.44%	5.44%**	n/a	3.14%	***
Local governmental units*	n/a	5.44%	5.44%**	n/a	3.14%	***
<u>LEOFF</u>						
Ports and universities*	n/a	8.62%	n/a	n/a	8.46%	n/a
Local governmental units*	0.16%	5.24%	n/a	n/a	8.46%	n/a
State of Washington	n/a	3.38%	n/a	n/a	n/a	n/a
<u>WSPRS</u>						
State agencies*	6.56%	6.56%	n/a	5.08%	5.08%	n/a
<u>PSERS</u>						
State agencies*	n/a	7.85%	n/a	n/a	6.55%	n/a
Local governmental units*	n/a	7.85%	n/a	n/a	6.55%	n/a

* Includes and administrative expense rate of 0.16%.

** Plan 3 defined benefit portion only.

*** Variable from 5% to 15% based on rate selected by the member.

**** Minimum Rate.

D. EMPLOYER CONTRIBUTIONS REQUIRED AND PAID

The following table presents the state of Washington's required contributions in millions of dollars to cost-sharing plans in accordance with the funding policy. All contributions required by the funding method were paid.

	2010	2009	2008
PERS Plan 1	\$78.2	\$169.0	\$115.5
PERS Plan 2/3	160.4	217.6	159.6
TRS Plan 1	5.6	8.0	4.3
TRS Plan 2/3	0.8	0.8	0.5
SERS Plan 2/3	0.0	0.0	0.0
PSERS Plan 2	7.8	7.7	5.9
LEOFF Plan 1	0.0	0.0	0.0
LEOFF Plan 2	52.2	52.0	45.9
VFFRPF	5.7	5.2	5.0

There are no long-term contracts for contributions for any of the retirement plans administered by the state.

E. FUNDED STATUS AND FUNDING PROGRESS

The funded status of each plan as of June 30, 2009, the most recent actuarial valuation date, is as follows (dollars in millions):

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
PERS Plan 1	\$ 9,775.6	\$ 13,984.5	\$ 4,208.9	70%	\$ 580.0	726%
PERS Plan 2/3*	18,260.4	18,397.9	137.5	99%	8,132.2	2%
TRS Plan 1	8,146.2	10,820.0	2,673.8	75%	388.8	688%
TRS Plan 2/3*	6,160.0	6,048.4	(111.6)	102%	3,957.3	0%
SERS Plan 2/3*	2,503.2	2,493.2	(10.0)	100%	1,466.5	0%
LEOFF Plan 1	5,612.1	4,491.7	(1,120.4)	125%	33.3	0%
LEOFF Plan 2*	5,564.2	4,629.0	(935.2)	120%	1,442.5	0%
WSPRS 1/2*	900.4	789.3	(111.1)	114%	83.0	0%
PSERS 2*	69.2	63.8	(5.4)	108%	223.4	0%
JRS	1.8	89.3	87.5	2%	0.9	9,722%
Judges	3.3	3.4	0.1	97%	N/A	N/A
VFFRPF	165.7	163.0	(2.7)	102%	N/A	N/A

N/A indicates data not applicable

* These plans use the aggregate actuarial cost method which does not identify or separately amortize unfunded actuarial liabilities. For this reason, the information shown above has been prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress of these plans.

Source: Washington State Office of the State Actuary

The Schedules of Funding Progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs (Actuarial Accrued Liability) for benefits. Additional information for the state's defined benefit plans as of the latest valuation date is presented on the following pages.

Defined Benefit Pension Plans Administered by the State

For the Fiscal Year Ended June 30, 2010

The information was determined as part of the actuarial valuations at the dates indicated below. Additional information as of the latest valuation follows.

	PERS Plan 1	PERS Plan 2/3	TRS Plan 1	TRS Plan 2/3
Valuation date	6/30/2009	6/30/2009	6/30/2009	6/30/2009
Actuarial cost method	Entry Age Normal ¹	Aggregate ³	Entry Age Normal ¹	Aggregate ³
Amortization method				
Funding	Level % ⁵	N/A	Level % ⁵	N/A
GASB	Level \$	N/A	Level \$	N/A
Remaining amortization period (closed)	10-year rolling	N/A	10-year rolling	N/A
Asset valuation method	8-year graded smoothed fair value ⁹			
Actuarial assumptions				
Investment rate of return ¹⁰	8.00%	8.00%	8.00%	8.00%
Projected salary increases				
Salary inflation at 4.5%, plus the merit increases described below ⁶ :				
Initial salary merit (grades down to 0%)	6.1%	6.1%	5.8%	5.8%
Merit period (years of service)	17 yrs	17 yrs	26 yrs	26 yrs
Includes inflation at	N/A	3.50%	N/A	3.50%
Cost of living adjustments	Uniform COLA ⁷	CPI increase, maximum 3%	Uniform COLA ⁷	CPI increase, maximum 3%

N/A indicates data not applicable.

¹ Based on a variation of the Entry Age Normal (EAN) cost method

² Based on a variation of the Frozen Initial Liability (FIL) cost method.

³ The aggregate cost method does not identify or separately amortize unfunded actuarial liabilities.

⁴ Pay-As-You-Go basis for funding.

⁵ Level percent of payroll, including system growth.

⁶ LEOFF Plan 2 assumes 4.5% of salary inflation

⁷ The Uniform COLA - Generally, all retirees over age 66 receive an increase in their monthly benefit at least once a year.

The Uniform COLA amount is calculated as the last unrounded Uniform COLA amount increased by 3%, rounded to the nearest penny.

These are some historical monthly COLA amounts per year of service:

Date	Uniform COLA
7/1/2003	\$1.18
7/1/2004	\$1.21
7/1/2005	\$1.25
7/1/2006	\$1.29
7/1/2007	\$1.33
7/1/2008	\$1.73
7/1/2009	\$1.83
7/1/2010	\$1.88

State of Washington

SERS Plan 2/3	LEOFF Plan 1	LEOFF Plan 2	PSERS Plan 2	VFFRPF ⁸
6/30/2009	6/30/2009	6/30/2009	6/30/2009	6/30/2009
Aggregate ³	Frozen Initial Liability ²	Aggregate ³	Aggregate ³	Entry Age ⁴
N/A	Level % ⁵	N/A	N/A	Level \$
N/A	Level \$	N/A	N/A	Level \$
N/A	7/01/2008 - 6/30/2024	N/A	N/A	15-year rolling
8-year graded smoothed fair value ⁹	8-year smoothed fair value ⁹			
8.00%	8.00%	8.00%	8.00%	7.00%
6.9%	11.0%	11.0%	6.1%	N/A
20 yrs	21 yrs	21 yrs	17 yrs	N/A
3.50%	3.50%	3.50%	3.50%	N/A
CPI increase, maximum 3%	CPI increase	CPI increase maximum 3%	CPI increase, maximum 3%	None

⁸ VFFRPF uses the Entry Age Funding Method for pensions, and the Pay-As-You-Go Method for the relief costs.

⁹ Asset Valuation Method (8 year smoothed fair value): The actuarial value of assets is calculated under an adjusted market value method by starting with the market value of assets. For subsequent years the actuarial value of assets is determined by adjusting the market value of assets to reflect the difference between the actual investment return and the expected investment return during each of the last 8 years or, if fewer, the completed years since adoption, at the following rates per year (annual recognition). The actuarial value of assets is subject to a 30% market value corridor, so it will lie between 70% and 130% of the market value of assets.

Annual Gain/Loss			Annual Gain/Loss		
Rate of Return	Smoothing Period	Annual Recognition	Rate of Return	Smoothing Period	Annual Recognition
15% and up	8 years	12.50%	6-7%	2 years	50.00%
14-15%	7 years	14.29%	5-6%	3 years	33.33%
13-14%	6 years	16.67%	4-5%	4 years	25.00%
12-13%	5 years	20.00%	3-4%	5 years	20.00%
11-12%	4 years	25.00%	2-3%	6 years	16.67%
10-11%	3 years	33.33%	1-2%	7 years	14.29%
9-10%	2 years	50.00%	1% and lower	8 years	12.50%
7-9%	1 year	100.00%			

¹⁰With the exception of the VFFRPF, the legislature prescribes the assumed rate of investment return for all plans. The VFFRPF Annual Gain/Loss is set at a 7% assumed rate of return.

F. ANNUAL PENSION COST AND OTHER RELATED INFORMATION

Current year annual pension cost, net pension obligation (NPO) and related information for the current year for the state's single employer and agent multiple-employer defined benefit plans are as follows (dollars in millions):

	WSPRS***	JRS	Judges
Annual Pension Cost and Net Pension Obligation:			
Annual required contribution	\$ 6.6	\$ 20.4	\$ -
Interest on NPO	(1.1)	5.9	(0.1)
Adjustment to annual required contribution	<u>1.6</u>	<u>(17.2)</u>	<u>0.3</u>
Annual pension cost	7.1	9.1	0.2
Less: Contributions made	<u>5.3</u>	<u>11.6</u>	<u>-</u>
Increase (decrease) in NPO	1.8	(2.5)	0.2
NPO at beginning of year	<u>(13.2)</u>	<u>74.3</u>	<u>(1.3)</u>
NPO at end of year	<u>\$ (11.4)</u>	<u>\$ 71.8</u>	<u>\$ (1.1)</u>
Actuarial assumptions:			
Valuation date	6/30/09	6/30/09	6/30/09
Actuarial cost method	Aggregate*	Entry age	Entry age
Amortization method	n/a	Level \$	Level \$
Remaining amortization period (closed)	n/a	5-year rolling	5-year rolling
Asset valuation method	8 year graded smoothed fair value	Market	Market
Investment rate of return****	8%	8%	8%
Projected salary increases	4.0%**	4.0%	N/A
Includes inflation at	3.5%	3.5%	3.5%
Cost-of-living adjustments	CPI increase, maximum 3%	CPI increase, maximum 3%	none

* The aggregate cost method does not identify or separately amortize unfunded actuarial accrued liabilities.

** WSPRS also assumes a variable salary merit increase for a merit period of 25 years.

*** Revised NPO at beginning of year for WSPRS (reported at end of prior year at \$(13.5).

****The Legislature prescribes the assumed rate of investment return.

G. THREE YEAR HISTORICAL TREND INFORMATION

The following table presents three-year trend information in millions for the plans listed:

	2010	2009	2008
WSPRS			
Annual pension cost	\$ 7.1	\$ 5.0	\$ 7.5
% of APC contributed	74.2	127.4	89.2
NPO	\$(11.4)	\$(13.4)	\$(12.7)
JRS			
Annual pension cost	\$ 9.1	\$ 9.8	\$ 12.2
% of APC contributed	127.5	105.1	79.5
NPO	\$ 71.8	\$ 74.3	\$ 74.8
Judges			
Annual pension cost	\$ 0.2	\$ 0.2	\$ 0.5
% of APC contributed	0.0	0.0	0.0
NPO	\$ (1.1)	\$ (1.3)	\$ (1.5)

There are no long-term contracts for contributions for any of the retirement plans administered by the state.

H. CHANGES IN ACTUARIAL ASSUMPTIONS AND METHODS

The assumed ratio of survivors selecting annuities was increased to reflect changes accordance with Chapters 521, 522 and 523, Laws of 2009 related to domestic partnership benefits.

New benefits for survivors of PERS Plan 1 inactive deaths were implemented in accordance with Chapter 111, Laws of 2009.

The TRS Plan 1 supplemental death benefits were included in the valuation model. In prior valuations the liability was estimated outside the valuation process.

The TRS general salary increase assumption was changed to include the bonuses received by members who attain national board certification.

The assumed ratio of survivors of WSPRS Plan 2 duty-related deaths selecting annuities was changed to 60 percent, regardless of the member's age at death.

The cost reimbursement of medical premiums for LEOFF Plan 2 and WSPRS survivors of duty-related deaths was removed from the pension plan. This cost will be valued separately and future benefits paid from a 401 (h) account.

The LEOFF Plan 2 early retirement factors and joint and survivor factors were updated based on the results of the 2001-2006 demographic experience study adopted by the LEOFF Plan 2 Retirement Board.

A disability assumption experience study was performed for LEOFF Plan 2 based on recent experience data. Both the disability rates and the percent of disabilities assumed to be catastrophic changed.

The LEOFF Plan 2 inactive death benefit was refined in the model to include the survivor's option to select 150 percent of the member's savings in lieu of a monthly benefit.

I. CHANGES IN BENEFIT PROVISIONS

Legislation as adopted allowing employees of the Higher Education Coordinating Board to participate in the Higher Education Retirement Plan when certain conditions are met (Chapter 21, Laws of 2010).

Half time service credit is granted for members of PERS and SERS Plans 2 and 3 for educational employment prior to January 1, 1987 (Chapter 103, Laws of 2010).

The lump-sum death benefit for members of LEOFF Plan 2 and WSPRS Plan 2 is increased to \$214,000 and is automatically adjusted each year by an amount equal to CPI with a 3 percent per year maximum, this applies to all members of LEOFF Plan 2 and WSPRS Plan 2 killed in the course of employment since January 1, 2003 (Chapter 261, Laws of 2010).

The optional lump sum payment payable upon remarriage is increased for LEOFF Plan 2 and PSERS Plan 2 survivors of a member killed in the course of employment from 24 times the monthly allowance that the member was receiving at the time or remarriage to an amount equal to 36 times the monthly allowance (Chapter 261, Laws of 2010).

The disability allowance of a LEOFF Plan 2 member that is totally disabled in the line of duty includes reimbursement for any payments made for employer provided medical insurance after the relevant effective date. This includes medical insurance offered under the federal Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) and Medicare Parts A and B. For members of WSPRS, the compensation of an officer totally disabled during the line of duty includes reimbursement for any payments of premiums for employer-provided medical insurance. An officer is considered totally disabled for purposes of the reimbursement benefit is he or she is unable to perform any substantial gainful activity due to a condition expected to last at least 12 months. (Chapter 259, Laws of 2010).

LEOFF Plan 1 members who transferred service credit to PERS Plan 1 between July 1, 1997 and July 1, 1998,

are permitted to include the years of transferred service in meeting the 25 years of member service requirement to qualify for up to five years of prior, or non-interruptive, military service (Chapter 260, Laws of 2010).

Employer authorized shared leave received by LEOFF Plan 2 members from a non-state employer, must receive the same treatment in respect to service credit and FAS that a member would normally receive if using accrued annual leave or sick leave. This applies to directly and indirectly transferred leave, such as through a shared leave pool, and includes leave transferred prior to the effective date of the act providing that retirement contributions were made on the shared leave (Chapter 50, Laws of 2010).

The actuarial salary growth assumption used in the PERS, SERS, TRS, PSERS, WSPRS and LEOFF Plan 1 is reduced to 4 percent per year, and contribution rates to cover PERS Plan 1 and TRS Plan 1 UAAL were established to amortize the UAAL over a rolling 10 year period subject to minimum rates (Chapter 561, Laws of 2009).

J. DEFINED CONTRIBUTION PLANS

Public Employees' Retirement System Plan 3 (PERS 3)

The Public Employees' Retirement System (PERS) Plan 3 is a combination defined benefit/defined contribution plan administered by the state through the Department of Retirement Systems (DRS).

Eligible employees include: elected officials; state employees; employees of the Supreme, Appeals, and Superior Courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not in national higher education retirement programs; judges of district and municipal courts; and employees of local governments.

PERS participants who joined on or after October 1, 1977, and by either, February 28, 2002, for state and higher education employees, or August 31, 2002, for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3.

PERS participants who joined the system on or after March 1, 2002, for state and higher education employees, or September 1, 2002, for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3.

The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a

choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. Refer to section B of this note for PERS plan descriptions.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance the defined contribution component. As established by chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 to 15 percent of salaries based on member choice. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are solely dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions as authorized by the Employee Retirement Benefits Board. Any expenses incurred in conjunction with self-directed investments are to be paid by members. Absent a member's self-direction, PERS Plan 3 investments are made in the same portfolio as that of the PERS 2/3 defined benefit plan.

For Fiscal Year 2010, employee contributions required and made were \$92.7 million, and plan refunds paid out were \$41.7 million.

Teachers' Retirement System Plan 3 (TRS 3)

The Teachers' Retirement System (TRS) Plan 3 is a combination defined benefit/defined contribution plan administered by the state through the Department of Retirement Systems (DRS).

Eligibility for membership requires service as a certificated public school employee working in an instructional, administrative or supervisory capacity. TRS participants who joined on or after October 1, 1977, and by June 30, 1996, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. TRS participants joining the system on or after July 1, 1996, and those who exercised their transfer option, are members of TRS Plan 3. Refer to section B of this note for TRS plan descriptions.

TRS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance the defined contribution component. As established by chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 to 15 percent of salaries based on member choice. There are currently no requirements for employer contributions to the defined contribution component of TRS Plan 3.

TRS Plan 3 defined contribution retirement benefits are solely dependent upon the results of investment

activities. Members may elect to self-direct the investment of their contributions as authorized by the Employee Retirement Benefits Board. Any expenses incurred in conjunction with self-directed investments are to be paid by members. Absent a member's self-direction, TRS Plan 3 investments are made in the same portfolio as that of the TRS 2/3 defined benefit plan.

For Fiscal Year 2010, employee contributions required and made were \$254.2 million and plan refunds paid out were \$71.7 million.

School Employees' Retirement System Plan 3 (SERS 3)

The School Employees' Retirement System (SERS) Plan 3 is a combination defined benefit/defined contribution plan administered by the state through the Department of Retirement Systems (DRS).

Eligible employees include classified employees of school districts and educational service districts who joined PERS Plan 2 on or after October 1, 1977, and by August 31, 2000, and were transferred to SERS Plan 2 on September 1, 2000.

Members transferred from PERS Plan 2 to SERS Plan 2 may exercise an option to transfer their membership to SERS Plan 3. SERS participants joining the system on or after September 1, 2000, and before July 1, 2007, are also members of SERS Plan 3. SERS members hired on or after July 1, 2007 have 90 days to choose between SERS Plan 2 and SERS Plan 3. Individuals who fail to make a choice will default to SERS Plan 3. Refer to section B of this note for SERS plan descriptions.

SERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance the defined contribution component. As established by chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 to 15 percent of salaries based on member choice. There are currently no requirements for employer contributions to the defined contribution component of SERS Plan 3.

SERS Plan 3 defined contribution retirement benefits are solely dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions as authorized by the Employee Retirement Benefits Board. Any expenses incurred in conjunction with self-directed investments are to be paid by members. Absent a member's self-direction, SERS Plan 3 investments are made in the same portfolio as that of the SERS 2/3 defined benefit plan.

For Fiscal Year 2010, employee contributions required and made were \$60.3 million and plan refunds paid out were \$33.9 million.

Judicial Retirement Account (JRA)

The Judicial Retirement Account Plan was established by the Legislature in 1988 to provide supplemental retirement benefits. It is a defined contribution plan administered by the state Administrative Office of the Courts, under the direction of the Board for Judicial Administration.

Membership includes judges elected or appointed to the Supreme Court, Court of Appeals, and Superior Courts, and who are members of PERS for their services as a judge. Vesting is full and immediate. There are three participating employers in JRA.

Member contributions equal 2.5 percent of covered salary and the state, as employer, matches this amount. Contributions are collected by the Administrative Office of the Courts. The employer and employee obligations to contribute are established per chapter 2.14 RCW. Plan provisions and contribution requirements are established in state statute and may be amended only by the State Legislature.

Beginning January 1, 2007 through December 31, 2007 any judicial members of the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS) eligible to participate in JRA were able to make a one-time irrevocable election to discontinue future contributions to JRA, in lieu of prospective contributions to the Judicial Benefit Multiplier Program (JBM).

Beginning January 1, 2007 any newly elected or appointed Supreme Court justice, Court of Appeals judge or Superior Court judge is no longer able to participate in JRA and is enrolled in the JBM (enacted in 2006). As of June 30, 2008, 189 JRA member judges have elected to enroll in JBM.

Current-year covered payroll for JRA employees was \$2.5 million for the Fiscal Year ended June 30, 2010. For Fiscal Year 2010, the contribution requirement for JRA was \$86 thousand. Actual employer and employee contributions were \$43 and \$43 thousand respectively. Plan benefits paid out for Fiscal Year 2010 totaled \$0.4 million.

A JRA member who separates from judicial service for any reason is entitled to receive a lump-sum distribution of the accumulated contributions. The administrator of JRA may adopt rules establishing other payment options. If a member dies, the amount of accumulated contributions standing to the member's credit at the time of the member's death shall be paid

to the member's estate, or such person or persons, trust or organization as the member has nominated by written designation.

The Administrator of JRA has entered an agreement with DRS for accounting and reporting services, and the Washington State Investment Board (SIB) for investment services. DRS is responsible for all record keeping, accounting, and reporting of member accounts. As of April 2006, DRS also became responsible for collection of JRA contributions.

The SIB has the full power to establish investment policy, develop participant investment options, and manage the investment funds from the JRA plan, consistent with the provisions of RCW 2.14.080 and RCW 43.84.150.

Higher Education Retirement Plans

The Higher Education Retirement Plans are privately administered defined contribution plans with a supplemental plan component. As authorized by RCW 28B.10, the plans cover higher education faculty and other positions as designated by each institution. The state and regional universities, the state college, and the state community and technical colleges each participate in a plan.

Contributions to the plans are invested in annuity contracts or mutual fund accounts offered by one or more fund sponsors. Benefits from fund sponsors are available upon separation or retirement at the member's option. Employees have, at all times, a 100 percent vested interest in their accumulations.

RCW 28B.10.400 et. seq. assigns the authority to establish and amend benefit provisions to: the board of regents of the state universities, the boards of trustees of the regional universities and the state college, and the state board for community colleges.

Employee contribution rates, based on age, range from 5 to 10 percent of salary. The employers match the employee contributions. The employer and employee obligations to contribute are established per chapter 28B.10 RCW.

Effective July 29, 2009, domestic partners registered with the state will be treated the same as married spouses, to the extent that treatment is not in conflict with federal laws (Chapter 521, Laws of 2009).

For Fiscal Year 2010, covered payroll was \$1.9 billion. Employer and employee contributions were \$157.5 and \$157.5 million respectively, for a total of \$315 million. These contribution amounts represent approximately

8.4 percent each of covered payroll for employers and employees.

The plans have a supplemental payment component which guarantees a minimum retirement benefit based upon a one-time calculation at each employee's retirement date. Institutions make direct payments to qualifying retirees when the retirement benefits provided by the fund sponsors do not meet the benefit goals. The supplemental component is financed on a pay-as-you-go basis.

An actuarial valuation of the supplemental component of the Higher Education Retirement plans was done at the end of Fiscal Year 2009. The previous valuation was performed in 2007.

The Unfunded Actuarial Accrued Liability (UAAL) calculated as of June 30, 2009 and 2007 was \$336.5 million and \$127.8 million, respectively, and is amortized over a 14.5-year period.

The Annual Required Contribution (ARC) of \$43.5 million consists of amortization of the UAL (\$25.6 million) and normal cost (or current cost) (\$16.8 million).

The UAL and ARC were established using the entry age normal cost method. The actuarial assumptions included an investment rate of return of 6 to 8 percent and projected salary increases ranging from 2 to 4 percent. Approximately \$1.8 billion and \$1.4 billion of payroll were covered under these plans during 2009 and 2007, respectively.

The following table reflects the activity in the Net Pension Obligation (NPO) for the years ended June 30 (expressed in millions):

	2010	2009	2008
Annual required contribution	\$43.5	\$43.1	\$16.6
Payments to beneficiaries	(3.7)	(1.9)	(1.9)
Increase (decrease) in NPO	39.8	41.2	14.6
NPO at beginning of year	79.8	38.6	24.0
NPO at end of year	<u>\$119.6</u>	<u>\$79.8</u>	<u>\$38.6</u>

K. PLAN NET ASSETS AND CHANGES IN PLAN NET ASSETS

The Combining Statement of Plan Net Assets that follows presents the principal components of receivables, investments, and liabilities. The Combining Statement of Changes in Plan Net Assets presents the additions and deductions to plan net assets.

Combining Statement of Plan Net Assets Pension and Other Employee Benefit Funds

June 30, 2010

(expressed in thousands)

continued

	PERS Plan 1	PERS Plan 2/3 Defined Benefit	PERS Plan 3 Defined Contribution	TRS Plan 1	TRS Plan 2/3 Defined Benefit	TRS Plan 3 Defined Contribution
ASSETS						
Cash and pooled investments	\$ 40,303	\$ 90,339	\$ 142	\$ 34,431	\$ 44,989	\$ 4,534
Receivables:						
Employer accounts receivable	3,603	34,456	4,260	2,952	16,782	21,842
Member accounts receivable (net of allowance)	789	161	-	434	4	-
Due from other funds	5	10	-	2	8	-
Due from other pension and other employee benefit funds	521	-	219	583	-	17
Interest and dividends	24,471	52,331	2,514	20,542	17,702	7,729
Investment trades pending	521,337	1,141,999	26,782	437,631	459,668	82,342
Total Receivables	550,726	1,228,957	33,775	462,144	494,164	111,930
Investments, Noncurrent:						
Public equity	2,660,448	5,691,087	273,348	2,233,284	1,925,537	2,418,949
Fixed income	1,703,105	3,643,190	174,985	1,429,653	1,232,646	537,992
Private equity	1,964,012	4,201,309	201,792	1,648,668	1,421,482	620,409
Real estate	1,083,902	2,318,625	111,365	909,870	784,490	342,392
Security lending	531,207	1,136,330	54,579	445,916	384,469	167,802
Liquidity	141,248	326,283	602,657	120,975	111,289	58,893
Tangible assets	88,407	189,116	9,083	74,212	63,986	27,927
Total Investments, Noncurrent	8,172,329	17,505,940	1,427,809	6,862,578	5,923,899	4,174,364
Total Assets	8,763,358	18,825,236	1,461,726	7,359,153	6,463,052	4,290,828
LIABILITIES						
Obligations under security lending agreements	531,207	1,136,330	54,579	445,916	384,469	167,802
Accrued liabilities	608,027	1,320,167	32,770	510,919	530,861	97,702
Due to other funds	102	726	-	90	414	-
Due to other pension and other employee benefit funds	-	597	5	-	583	16
Unearned revenues	148	399	-	438	1	-
Total Liabilities	1,139,484	2,458,219	87,354	957,363	916,328	265,520
NET ASSETS						
Net assets held in trust for:						
Pension Benefits (Schedule of Funding Progress by Plan begins on Page 161)	7,623,874	16,367,017	1,374,372	6,401,790	5,546,724	4,025,308
Deferred compensation participants	-	-	-	-	-	-
Total Net Assets	\$ 7,623,874	\$ 16,367,017	\$ 1,374,372	\$ 6,401,790	\$ 5,546,724	\$ 4,025,308

Combining Statement of Plan Net Assets Pension and Other Employee Benefit Funds

June 30, 2010

(expressed in thousands)

continued

	SERS Plan 2/3 Defined Benefit	SERS Plan 3 Defined Contribution	LEOFF Plan 1	LEOFF Plan 2	WSPRS Plan 1/2	PSERS Plan 2
ASSETS						
Cash and pooled investments	\$ 17,684	\$ 1,076	\$ 24,268	\$ 27,485	\$ 4,679	\$ 777
Receivables:						
Employer accounts receivable	6,438	5,192	3	14,276	415	1,528
Member accounts receivable (net of allowance)	2	-	44	61	-	-
Due from other funds	6	-	2	3	1	1
Due from other pension and other employee benefit funds	277	9	-	-	-	-
Interest and dividends	7,138	2,453	14,709	16,203	2,447	283
Investment trades pending	178,313	26,131	313,412	345,290	52,127	6,028
Total Receivables	192,174	33,785	328,170	375,833	54,990	7,840
Investments, Noncurrent:						
Public equity	776,602	548,110	1,599,381	1,762,056	266,007	30,763
Fixed income	497,147	170,731	1,023,855	1,127,993	170,287	19,693
Private equity	573,308	196,886	1,180,704	1,300,796	196,374	22,710
Real estate	316,398	108,658	651,609	717,885	108,375	12,533
Security lending	155,063	53,252	319,346	351,827	53,113	6,142
Liquidity	44,552	18,004	86,319	109,868	14,894	4,319
Tangible assets	25,807	8,863	53,147	58,553	8,839	1,022
Total Investments, Noncurrent	2,388,877	1,104,504	4,914,361	5,428,978	817,889	97,182
Total Assets	2,598,735	1,139,365	5,266,799	5,832,296	877,558	105,799
LIABILITIES						
Obligations under security lending agreements	155,063	53,252	319,346	351,827	53,113	6,142
Accrued liabilities	206,037	32,550	362,282	398,793	60,378	6,961
Due to other funds	173	5	34	164	15	18
Due to other pension and other employee benefit funds	115	277	-	-	-	33
Unearned revenues	2	-	-	99	-	-
Total Liabilities	361,390	86,084	681,662	750,883	113,506	13,154
NET ASSETS						
Net assets held in trust for:						
Pension Benefits (Schedule of Funding Progress by Plan begins on Page 161)	2,237,345	1,053,281	4,585,137	5,081,413	764,052	92,645
Deferred compensation participants	-	-	-	-	-	-
Total Net Assets	\$ 2,237,345	\$ 1,053,281	\$ 4,585,137	\$ 5,081,413	\$ 764,052	\$ 92,645

**Combining Statement of Plan Net Assets
Pension and Other Employee Benefit Funds**

June 30, 2010

(expressed in thousands)

concluded

	JRS	JRA	Judges	VFFRPF	Deferred Compensation	Total
ASSETS						
Cash and pooled investments	\$ 294	\$ 8	\$ 2,811	\$ 21,970	\$ 1,409	\$ 317,199
Receivables:						
Employer accounts receivable	5	-	-	-	-	111,752
Member accounts receivable (net of allowance)	-	-	-	-	1,065	2,560
Due from other funds	1	-	6	17	17	79
Due from other pension and other employee benefit funds	-	-	-	-	-	1,626
Interest and dividends	-	-	-	395	-	168,917
Investment trades pending	-	-	-	8,408	-	3,599,468
Total Receivables	6	-	6	8,820	1,082	3,884,402
Investments, Noncurrent:						
Public equity	-	11,433	-	42,909	2,446,418	22,686,332
Fixed income	-	-	-	27,468	-	11,758,745
Private equity	-	-	-	31,676	-	13,560,126
Real estate	-	-	-	17,482	-	7,483,584
Security lending	-	-	-	8,568	-	3,667,614
Liquidity	3,568	-	11	2,336	5	1,645,221
Tangible assets	-	-	-	1,426	-	610,388
Total Investments, Noncurrent	3,568	11,433	11	131,865	2,446,423	61,412,010
Total Assets	3,868	11,441	2,828	162,655	2,448,914	65,613,611
LIABILITIES						
Obligations under security lending agreements	-	-	-	8,568	-	3,667,614
Accrued liabilities	30	-	3	9,703	21	4,177,204
Due to other funds	-	-	3	3	16	1,763
Due to other pension and other employee benefit funds	-	-	-	-	-	1,626
Unearned revenues	-	-	-	-	-	1,087
Total Liabilities	30	-	6	18,274	37	7,849,294
NET ASSETS						
Net assets held in trust for:						
Pension Benefits (Schedule of Funding Progress by Plan begins on Page 161)	3,838	11,441	2,822	144,381	-	55,315,440
Deferred compensation participants	-	-	-	-	2,448,877	2,448,877
Total Net Assets	\$ 3,838	\$ 11,441	\$ 2,822	\$ 144,381	\$ 2,448,877	\$ 57,764,317

Combining Statement of Changes in Plan Net Assets Pension and Other Employee Benefit Funds

For the Fiscal Year Ended June 30, 2010

(expressed in thousands)

continued

	PERS Plan 1	PERS Plan 2/3 Defined Benefit	PERS Plan 3 Defined Contribution	TRS Plan 1	TRS Plan 2/3 Defined Benefit	TRS Plan 3 Defined Contribution
ADDITIONS						
Contributions:						
Employers	\$ 154,023	\$ 327,460	\$ -	\$ 112,731	\$ 164,959	\$ -
Members	40,995	271,550	92,665	24,631	21,694	254,197
State	-	-	-	-	-	-
Participants	-	-	-	-	-	-
Total Contributions	195,018	599,010	92,665	137,362	186,653	254,197
Investment Income:						
Net appreciation (depreciation) in fair value	779,778	1,468,001	115,690	646,234	494,914	366,324
Interest and dividends	232,804	467,351	23,316	194,268	157,322	70,415
Less: investment expenses	(32,244)	(67,251)	(3,980)	(27,017)	(22,867)	(11,927)
Net investment income (loss)	980,338	1,868,101	135,026	813,485	629,369	424,812
Transfers from other pension plans	1	11,611	4,926	5	724	598
Other additions	-	-	-	-	-	-
Total Additions	1,175,357	2,478,722	232,617	950,852	816,746	679,607
DEDUCTIONS						
Pension benefits	1,111,386	251,765	79	859,250	55,654	257
Pension refunds	4,946	31,425	41,724	1,505	2,868	71,665
Transfers to other pension plans	1	5,085	4,926	1	198	1,084
Administrative expenses	372	698	-	175	207	-
Distributions to participants	-	-	-	-	-	-
Total Deductions	1,116,705	288,973	46,729	860,931	58,927	73,006
Net Increase (Decrease)	58,652	2,189,749	185,888	89,921	757,819	606,601
Net Assets - Beginning	7,565,222	14,177,268	1,188,484	6,311,869	4,788,905	3,418,707
Net Assets - Ending	\$ 7,623,874	\$ 16,367,017	\$ 1,374,372	\$ 6,401,790	\$ 5,546,724	\$ 4,025,308

Combining Statement of Changes in Plan Net Assets Pension and Other Employee Benefit Funds

For the Fiscal Year Ended June 30, 2010

(expressed in thousands)

continued

	SERS Plan 2/3 Defined Benefit	SERS Plan 3 Defined Contribution	LEOFF Plan 1	LEOFF Plan 2	WSPRS Plan 1/2	PSERS Plan 2
ADDITIONS						
Contributions:						
Employers	\$ 62,090	\$ -	\$ 49	\$ 76,998	\$ 5,271	\$ 15,237
Members	20,227	60,328	1,676	133,122	5,198	15,214
State	-	-	-	51,376	-	-
Participants	-	-	-	-	-	-
Total Contributions	82,317	60,328	1,725	261,496	10,469	30,451
Investment Income:						
Net appreciation (depreciation) in fair value	200,935	89,503	449,181	445,838	72,119	5,525
Interest and dividends	63,796	22,472	136,935	143,480	22,388	2,178
Less: investment expenses	(9,216)	(3,496)	(19,285)	(20,815)	(3,172)	(345)
Net investment income (loss)	255,515	108,479	566,831	568,503	91,335	7,358
Transfers from other pension plans	431	445	112	1,010	10	32
Other additions	-	-	-	-	-	-
Total Additions	338,263	169,252	568,668	831,009	101,814	37,841
DEDUCTIONS						
Pension benefits	34,449	91	338,231	46,158	36,116	18
Pension refunds	2,125	33,916	14	10,947	126	928
Transfers to other pension plans	8,082	416	-	112	-	-
Administrative expenses	74	-	34	1,078	12	7
Distributions to participants	-	-	-	-	-	-
Total Deductions	44,730	34,423	338,279	58,295	36,254	953
Net Increase (Decrease)	293,533	134,829	230,389	772,714	65,560	36,888
Net Assets - Beginning	1,943,812	918,452	4,354,748	4,308,699	698,492	55,757
Net Assets - Ending	\$ 2,237,345	\$ 1,053,281	\$ 4,585,137	\$ 5,081,413	\$ 764,052	\$ 92,645

**Combining Statement of Changes in Plan Net Assets
Pension and Other Employee Benefit Funds**

For the Fiscal Year Ended June 30, 2010

(expressed in thousands)

concluded

	JRS	JRA	Judges	VFFRPF	Deferred Compensation	Total
ADDITIONS						
Contributions:						
Employers	\$ 79	\$ 43	\$ -	\$ 1,103	\$ -	\$ 920,043
Members	79	43	-	45	-	941,664
State	11,570	-	-	5,685	-	68,631
Participants	-	-	-	-	185,120	185,120
Total Contributions	11,728	86	-	6,833	185,120	2,115,458
Investment Income:						
Net appreciation (depreciation) in fair value	(2)	773	(14)	9,179	162,186	5,306,164
Interest and dividends	17	233	62	3,919	45,408	1,586,364
Less: investment expenses	(4)	(22)	-	(502)	(4,543)	(226,686)
Net investment income (loss)	11	984	48	12,596	203,051	6,665,842
Transfers from other pension plans	-	-	-	-	-	19,905
Other additions	-	3	-	-	1,145	1,148
Total Additions	11,739	1,073	48	19,429	389,316	8,802,353
DEDUCTIONS						
Pension benefits	9,722	389	500	10,104	-	2,754,169
Pension refunds	-	-	-	18	-	202,207
Transfers to other pension plans	-	-	-	-	-	19,905
Administrative expenses	1	-	-	8	-	2,666
Distributions to participants	-	-	-	-	108,578	108,578
Total Deductions	9,723	389	500	10,130	108,578	3,087,525
Net Increase (Decrease)	2,016	684	(452)	9,299	280,738	5,714,828
Net Assets - Beginning	1,822	10,757	3,274	135,082	2,168,139	52,049,489
Net Assets - Ending	\$ 3,838	\$ 11,441	\$ 2,822	\$ 144,381	\$ 2,448,877	\$ 57,764,317

Note 12

Other Postemployment Benefits

Plan Description and Funding Policy

In addition to pension benefits as described in Note 11, the state, through the Health Care Authority (HCA), administers an agent multiple-employer other postemployment benefit plan (OPEB). Per RCW 41.05.065, the Public Employees Benefits Board (PEBB) created within the Health Care Authority, is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage, including establishment of eligibility criteria for both active and retired employees. PEBB programs include medical, dental, life and long-term disability.

Employers participating in the PEBB plan include the state (which includes general government agencies and higher education institutions), 57 of the state’s K-12 schools and educational service districts (ESDs) and 206 political subdivisions and tribal governments. Additionally, the PEBB plan is available to the retirees of the remaining 244 K-12 schools and ESDs. As of June 2010, membership in the PEBB plan consisted of the following:

	Active Employees	Retirees ¹	Total
State	111,374	26,181	137,555
K-12 schools and ESDs ²	2,198	27,378	29,576
Political subdivisions	11,554	1,116	12,670
Total	125,126	54,675	179,801

¹Retirees include retired employees, surviving spouses, and terminated members entitled to a benefit.

²In Fiscal Year 2010, there were 99,239 full-time equivalent active employees in the 244 K-12 schools and ESDs that elected to limit participation in PEBB only to their retirees.

For Fiscal Year 2010, the estimated monthly cost for PEBB benefits for active employees (average across all plans and tiers) is as follows:

Required Premium ³	
Medical	\$758
Dental	76
Life	5
Long-term disability	2
Total	\$841
Employer contribution	\$755
Employee contribution	86
Total	\$841

³Per 2010 Index Rate Model 3.3.

The relationship between the PEBB OPEB plan and its member employers and their employees and retirees is not formalized in a contract or plan document. Rather, the benefits are provided in accordance with a substantive plan. A substantive plan is one in which the plan terms are understood by the employers and plan members. This understanding is based on communications between the HCA, employers and plan members and the historical pattern of practice with regard to the sharing of benefit costs.

The PEBB retiree OPEB plan is available to employees who elect to continue coverage and pay the administratively established premiums at the time they retire under the provisions of the retirement system to which they belong. Retirees’ access to PEBB plans depends on the retirement eligibility of their respective retirement system. PEBB members are covered in the following retirement systems: PERS, PSERS, TRS, SERS, WSPRS, and Higher Education.

Per RCW 41.05.022, retirees who are not yet eligible for Medicare benefits may continue participation in the state’s Non-Medicare community-rated health insurance risk pool on a self-pay basis. Retirees in the Non-Medicare risk pool receive an implicit subsidy. The implicit subsidy exists because retired members pay a premium based on a claims experience for active employees and other Non-Medicare retirees. The subsidy is valued using the difference between the age-based claims costs and the premium. In Calendar Year 2009 the average weighted implicit subsidy was valued at \$272 per member per month, and in Calendar Year 2010 the average weighted implicit subsidy is projected to be \$273 per member per month.

Retirees who are enrolled in both Parts A and B of Medicare may participate in the state’s Medicare community-rated health insurance risk pool. Medicare retirees receive an explicit subsidy in the form of reduced premiums. Annually, the Health Care Authority administrator recommends an amount for the next calendar year’s explicit subsidy for inclusion in the Governor’s budget. In Calendar Year 2009, the explicit subsidy was \$183 per member per month, and in Calendar Year 2010 the explicit subsidy is \$183 per member per month.

Retirees participating in the PEBB life insurance program received an explicit subsidy of \$5 per member per month in Calendar Year 2009. The explicit subsidy is also \$5 per member per month in Calendar Year 2010.

Administrative costs as well as implicit and explicit subsidies are funded by required contributions from participating employers. The subsidies provide monetary assistance for medical and life insurance benefits.

Contributions are set each biennium as part of the budget process. In Fiscal Year 2010, the cost of the subsidies was approximately 6.7 percent of the cost of benefits for active employees. The benefits are funded on a pay-as-you-go basis.

Each participating employer in the plan is required to disclose additional information with regard to funding policy, the employer's annual OPEB costs and contributions made, the funded status and funding progress of the employers individual plan and actuarial methods and assumptions used.

The PEBB OPEB plan is accounted for as an agency fund on an accrual basis. The plan has no investments or other assets. The PEBB OPEB plan does not issue a publicly available financial report.

For information on the results of an actuarial valuation of the employer provided subsidies associated with the PEBB plan, refer to: http://osa.leg.wa.gov/Actuarial_services/OPEB/OPEB.htm.

Annual OPEB Cost and Net OPEB Obligation

The state's (general government agencies and higher education institutions) annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the state as the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45.

The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following tables show the components of the state's annual OPEB cost for Fiscal Year 2010, the amount actually contributed to the plan, and changes in the state's Net OPEB Obligation (NOO) (expressed in thousands):

Annual required contribution	\$349,326
Interest on Net OPEB Obligation	22,210
Amortization of Net OPEB Obligation	(17,116)
Annual OPEB cost (expense)	354,420
Contributions made	(70,099)
Increase in Net OPEB Obligation	284,321
Net OPEB Obligation - beginning of year	493,551
Net OPEB Obligation - end of year*	\$777,872
*estimated	

The state's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for Fiscal Years 2008, 2009 and 2010 were as follows (expressed in thousands):

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/10	\$354,420	19.78%	\$777,872
6/30/09	334,374	25.92%	493,551
6/30/08	313,970	21.69%	245,855

Funded Status and Funding Progress

The funded status of the plan as of January 1, 2009, the latest date for which information is available, was as follows (expressed in thousands):

Actuarial accrued liability (AAL)	\$3,786,869
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	\$3,786,869
Funded ratio (actuarial value of plan assets/AAL)	0.00%
Covered payroll (active plan members)	\$5,678,422
UAAL as a percentage of covered payroll	66.69%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the terms of the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Significant methods and assumptions were as follows:

Actuarial valuation date	January 1, 2009
Actuarial cost method	Projected Unit Credit (PUC)
Amortization method	Closed, level percentage of projected payroll amortization method
Remaining amortization period	30 years
Asset valuation method	n/a - no assets
Actuarial assumptions:	
Investment rate of return	4.5%
Projected salary increases	4.5%
Health care inflation rate	7.0% initial rate, 5% ultimate rate in 2067
Inflation rate	3.5%

Note 13

Commitments and Contingencies

A. CONSTRUCTION AND OTHER COMMITMENTS

Outstanding commitments related to state infrastructure and facility construction, improvement, and/or renovation totaled \$5.3 billion at June 30, 2010.

B. SUMMARY OF SIGNIFICANT LITIGATION

Pending Litigation

The state and its agencies are parties to numerous routine legal proceedings that normally occur in governmental operations. At any given point, there may be numerous lawsuits involving the implementation of specific state programs that could significantly impact expenditures and potentially have future budgetary impact.

The state is the defendant in a number of cases alleging inadequate funding of state programs or services. Claims include: funding inadequacies and inequities in both basic and special education; inadequate funding for care of the disabled and elderly; inadequate funding for the provision of mental health services to children. Collective claims in these programmatic and service cases exceed \$350 million. Adverse rulings in these cases could result in significant future costs.

The Department of Revenue routinely has claims for refunds in various stages of administrative and legal review. Claims for refunds are approximately \$234 million. In addition, the state is defending cases

challenging the constitutionality of certain taxes that fund discrete state programs.

The Washington State Department of Transportation (WSDOT) is a defendant in a number of lawsuits related to environmental clean-up and habitat restoration/enhancement associated with highway construction projects and storm water discharge from state highways. In addition, the Department of Natural Resources is defending contribution claims for clean-up costs connected to runoff from historic mining activity. While estimates are not available for all lawsuits, claims for damages will likely exceed \$19 million. If the efforts of the plaintiffs are successful, the financial impact could be significant and would need to be addressed in future budgets.

The state is the defendant in numerous lawsuits by employees accusing the state of various infractions of law or contract. These suits claim back pay and damages in excess of \$62 million. Additionally, the state is being sued as a result of the legislative repeal of the gain sharing provision associated with select state pension plans. No reliable estimate of damage is currently available.

The state is contesting these lawsuits and the outcomes are uncertain at this time.

Tobacco Settlement

In November 1998, Washington joined 45 other states in a Master Settlement Agreement (MSA) with the nation's largest tobacco manufacturers to provide restitution for monies spent under health care programs for the treatment of smoking-related illnesses.

Washington's share of the settlement was approximately \$116.8 million in Fiscal Year 2010 and is subject to various offsets, reductions, and adjustments.

Beginning in 2008, Washington received the first of ten "strategic contribution payments" under the MSA. This payment is subject to the same offsets, reductions, and adjustments as are applicable to the base payment. The 2010 strategic contribution payment was approximately \$40.7 million.

In 2006, 2007, 2008, and 2009, determinations were made under a process established by the MSA that disadvantages experienced by manufacturers as a result of participating in the MSA were a significant factor contributing to market share losses by those manufacturers.

These determinations related to sales data for the years 2003, 2004, 2005, and 2006. Washington faces a potential "nonparticipating manufacturer (NPM) adjustment" of between \$0 and \$130 million for the year 2003, \$0 and \$137 million for the year 2004, \$0 and \$131 million for the year 2005, and \$0 and \$119 million for the year 2006.

Washington and 37 other states each filed court actions seeking a declaration that they had diligently enforced their escrow statutes. In the Consent Decree, the King County Superior Court retained jurisdiction to enforce and interpret the MSA as to Washington.

The participating manufacturers oppose having the diligent enforcement issue decided by numerous state courts. They believe the issue is governed by an arbitration clause in the MSA that they claim requires a panel of arbitrators to decide, in a single national proceeding, whether individual states diligently enforced their own statutes.

The King County Superior Court heard Washington's motion and, in late September 2006, entered an order compelling arbitration and dismissing the state's action. Washington's appeal was dismissed and the trial court's order compelling arbitration is now final. With the exception of Montana, all states will participate in a single national arbitration of the NPM Adjustment dispute.

The dispute will be presented to a three-member panel of retired Article III judges. The panel is in place and some preliminary hearings have been held. Hearings on individual state cases will begin in 2011, but no specific dates for any state hearings have been set.

The arbitration will comprise some presentations made by the states collectively, but each state will also have to respond to claims by the participating manufacturers

that the state was not diligent in enforcing its Qualifying Statute and present its individual case for diligence in enforcing its Qualifying Statute. The panel will not issue its decision as to any individual state until the entire arbitration with all states has been completed.

C. FEDERAL ASSISTANCE

The state has received federal financial assistance for specific purposes that are generally subject to review or audit by the grantor agencies.

Entitlement to this assistance is generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of assistance for allowable purposes. Any disallowance resulting from a review or audit may become a liability of the state.

The state does estimate and recognize a claims and judgments liability for disallowances when determined by the grantor agency or for probable disallowances based on experience pertaining to these grants; however, these recognized liabilities and any unrecognized disallowances are considered immaterial to the state's overall financial condition.

D. ARBITRAGE REBATE

Rebatable arbitrage is defined by the Internal Revenue Service Code Section 148 as earnings on investments purchased from the gross proceeds of a bond issue that are in excess of the amount that would have been earned if the investments were invested at a yield equal to the yield on the bond issue.

The rebatable arbitrage must be paid to the federal government. State agencies and universities responsible for investments from bond proceeds carefully monitor their investments to restrict earnings to a yield less than the bond issue, and therefore limit any state arbitrage liability. The state estimates that rebatable arbitrage liability, if any, will be immaterial to its overall financial condition.

E. OTHER COMMITMENTS AND CONTINGENCIES

School Bond Guarantee Program

Washington voters passed a constitutional amendment in November 1999, creating the Washington State School Bond Guarantee Program.

The program's purpose is to provide savings to state taxpayers by pledging the full faith and credit of the state of Washington to the full and timely payment of voter-approved school district general obligation bonds

in the event a school district is unable to make a payment.

The issuing school district remains responsible for the repayment of the bonds, including any payment the state makes under the guarantee.

The State Treasurer introduced the School Bond Guarantee Program in March 2000. At the end of Fiscal Year 2010, the state had guaranteed 211 school districts' voter-approved general obligation debt with 193 districts having a total outstanding principal of \$7.97 billion. The state estimates that school bond guarantee liability, if any, will be immaterial to its overall financial condition.

Local Option Capital Asset Lending Program

On September 1, 1998, the state lease-purchase program was extended to local governments seeking low cost financing of essential equipment. The Local Option Capital Assets Lending (LOCAL) program allows local governments to pool their financing requests together with Washington State agencies in Certificates of Participation (COPs). Refer to Note 7.B for the state's COP disclosure.

These COPs do not constitute a debt or pledge of the faith and credit of the state; rather, local governments pledge their full faith and credit in a general obligation pledge.

In the event that any local government fails to make any payment, the state is obligated to withhold an amount sufficient to make such payment from the local government's share, if any, of state revenues or other amounts authorized or required by law to be

distributed by the state to such local government, if otherwise legally permissible.

Upon failure of any local government to make a payment, the state is further obligated, to the extent of legally available appropriated funds to make such payment on behalf of such local government. The local government remains obligated to make all COP payments and reimburse the state for any conditional payments.

As of June 30, 2010, outstanding certificates of participation notes totaled \$83 million for 181 local governments participating in LOCAL. The state estimates that LOCAL program liability, if any, will be immaterial to its overall financial condition.

Office Building Lease

The 2009 Legislature authorized the state to lease-develop an office building in Olympia, Washington. On June 29, 2009, the state entered into a ground lease and a lease agreement with FYI Properties (FYI), a Washington nonprofit corporation. The agreements call for FYI to design and construct an office building and to finance it with tax-exempt obligations that meet the requirements of Revenue Ruling 63-20 and Revenue Procedure 82-26 issued by the Internal Revenue Service. The state is required to make monthly payments that equal the required debt service on the bonds upon substantial completion of the project estimated to be July 2011. Additional amounts may also be due per the terms of the lease agreement. The lease agreements provide the state with options to purchase the building during the term of the lease and transfer ownership of the building to the state at the end of the lease. The office building will be occupied starting in Fiscal Year 2012.

Note 14 Subsequent Events

A. BOND ISSUES

In July 2010, the state issued:

- \$347.3 million in various purpose general obligation bonds to fund various state capital projects, including state, institutions of higher education, and public school facilities; multimodal transportation projects; state and local water supply projects; and conservation and outdoor recreation projects.

- \$365.6 million to refund various purpose general obligation bonds.
- \$118.2 million in taxable bonds to fund certain taxable projects including: low-income housing projects, and local government and economic development infrastructure projects.

In September 2010, the state refunded:

- \$401.4 million in general obligation bonds, which were used for various purposes.
- \$394 million in motor vehicle fuel tax general obligation bonds.

In October 2010, the University of Washington issued \$165 million in general revenue and refunding bonds. This included \$20.3 million in tax-exempt revenue and refunding bonds (Series 2010A), and \$144.7 million in taxable Build America revenue bonds (Series 2010B). Part of the proceeds from Series 2010A were used to partially refund 2002 housing and dining revenue and refunding bonds. The remaining proceeds from Series 2010A, and all of the proceeds from Series 2010B were used to pay off \$35 million in commercial paper and fund a variety of projects including renovation and expansion of education facilities.

In November 2010, Washington Biomedical Research Facilities 3 (a blended component unit of the University of Washington), expects to issue approximately \$165 million in revenue bonds. The bond proceeds will fund the construction of a research facility that the University will occupy through a long-term lease arrangement.

In November 2010, Central Washington University issued \$34.5 million in revenue bonds for the construction of a residence hall, which included \$32 million in taxable Build America revenue bonds.

In December 2010, Washington State University expects to issue \$38.8 million in revenue bonds for housing and dining projects.

B. CERTIFICATES OF PARTICIPATION

In August 2010, the state issued \$9.3 million to refund Certificates of Participation.

In November 2010, the state issued \$50 million in Certificates of Participation to fund various state and local government real estate and equipment purchases.

C. CONVENTION AND TRADE CENTER

The 2010 State Legislature enacted Substitute Senate Bill 6889 which authorized King County to create a public facilities district to acquire, own and operate a convention and trade center. The bill provides for the transfer of the state Convention and Trade Center, an enterprise fund of the state, to the public facilities

district created in July 2010 by King County Ordinance 16883.

Section 8 of the Substitute Senate Bill 6889 sets forth a number of conditions that must be met prior to the transfer occurring including the redemption, prepayment or legal defeasance of all outstanding debt of the state related to the state Convention and Trade Center. The public facilities district plans to issue debt during November 2010 and use the proceeds to satisfy outstanding state bonds, certificates of participation and financing contracts related to the state convention and trade center. The bill provides that all conditions of the transfer must occur prior to June 30, 2011.

D. RESOLVED LITIGATION

Jim A. Tobin v. Department of Labor & Industries was settled by the Supreme Court on August 12, 2010 in favor of the plaintiff. This case is primarily about distribution of money recovered from third parties. Chapter 51.24 RCW allows workers injured by non-employer third parties to file personal injury claims against those responsible parties. "Any recovery" in such an action is subject to distribution under a complex statutory formula. The current distribution formula includes third party damages for pain and suffering. The plaintiff of this case argued that pain and suffering damages must be excluded from distribution. Upon notification of the Supreme Court decision in favor of Jim A. Tobin, an increase in the amount of \$165.8 million was recorded in claims payable liabilities in the Workers' Compensation Fund.

E. GENERAL ELECTION

There were measures on the state's November 2, 2010 general election ballot that addressed state laws related to state operations, state imposed taxes and fees, and the calculation of the state debt limitation. These measures, if passed, could impact the state fiscally. Election results are not final or official until certified. By law December 2, 2010 is the last day for the Office of the Secretary of State to certify General Election returns. Information is posted as available on the Secretary of State's website at: <http://www.sos.wa.gov>.

RSI
Required Supplementary Information

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BUDGETARY INFORMATION
Budgetary Comparison Schedule

General Fund				
For the Fiscal Year Ended June 30, 2010				
<i>(expressed in thousands)</i>				
	General Fund			
	Original Budget 2009-11 Biennium	Final Budget 2009-11 Biennium	Actual 2009-11 Biennium	Variance with Final Budget
Budgetary Fund Balance, July 1	\$ 189,310	\$ 189,310	\$ 189,310	\$ -
Resources				
Taxes	29,493,412	28,582,490	13,139,029	(15,443,461)
Licenses, permits, and fees	187,150	179,419	85,637	(93,782)
Other contracts and grants	359,489	421,747	177,250	(244,497)
Timber sales	5,698	6,990	4,855	(2,135)
Federal grants-in-aid	15,487,030	16,821,716	8,306,614	(8,515,102)
Charges for services	132,086	130,431	55,660	(74,771)
Investment income (loss)	10,407	(9,993)	327	10,320
Miscellaneous revenue	213,124	544,311	177,173	(367,138)
Unclaimed property	95,773	91,955	60,171	(31,784)
Transfers from other funds	1,743,577	1,908,951	1,255,073	(653,878)
Total Resources	47,917,056	48,867,327	23,451,099	(25,416,228)
Charges To Appropriations				
General government	3,529,346	3,506,382	1,706,150	1,800,232
Human services	23,393,416	24,569,701	11,955,459	12,614,242
Natural resources and recreation	592,619	682,981	333,844	349,137
Transportation	100,183	98,775	46,424	52,351
Education	18,860,255	18,917,212	9,455,796	9,461,416
Capital outlays	305,525	334,336	86,891	247,445
Transfers to other funds	709,891	538,449	456,702	81,747
Total Charges To Appropriations	47,491,235	48,647,836	24,041,266	24,606,570
Excess Available For Appropriation				
Over (Under) Charges To Appropriations	425,821	219,491	(590,167)	(809,658)
Reconciling Items				
Changes in reserves (net)	-	-	32,527	32,527
Entity adjustments (net)	-	-	(3,427)	(3,427)
Total Reconciling Items	-	-	29,100	29,100
Budgetary Fund Balance, June 30	\$ 425,821	\$ 219,491	\$ (561,067)	\$ (780,558)

BUDGETARY INFORMATION

Budgetary Comparison Schedule – Budget to GAAP Reconciliation

General Fund	
For the Fiscal Year Ended June 30, 2010 <i>(expressed in thousands)</i>	
	<u>General Fund</u>
Sources/Inflows of Resources	
Actual amounts (budgetary basis) "Total Resources" from the Budgetary Comparison Schedule	\$ 23,451,099
Differences - budget to GAAP:	
The following items are inflows of budgetary resources but are not revenue for financial reporting purposes:	
Transfers from other funds	(1,255,073)
Budgetary fund balance at the beginning of the biennium	(189,310)
The following items are not inflows of budgetary resources but are revenue for financial reporting purposes:	
Noncash commodities and electronic food stamp benefits	1,327,020
Unanticipated receipts	14,677
Noncash revenues	(4,610)
Revenues collected for other governments	<u>30,851</u>
Total Revenues (GAAP Basis) as Reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	<u><u>\$ 23,374,654</u></u>
Uses/Outflows of Resources	
Actual amounts (budgetary basis) "Total Charges to Appropriations" from the Budgetary Comparison Schedule	\$ 24,041,266
Differences - budget to GAAP:	
Budgeted expenditure transfers are recorded as expenditures in the budget statement but are recorded as other financing sources (uses) for financial reporting purposes.	
	(1,177,642)
The following items are outflows of budgetary resources but are not expenditures for financial reporting purposes:	
Transfers to other funds	(456,702)
The following items are not outflows of budgetary resources but are recorded as current expenditures for financial reporting purposes:	
Noncash commodities and electronic food stamp benefits	1,327,020
Expenditures related to unanticipated receipts	14,677
Certificates of participation and capital lease acquisitions	3,301
Distributions to other governments	<u>30,851</u>
Total Expenditures (GAAP Basis) as Reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	<u><u>\$ 23,782,771</u></u>

BUDGETARY INFORMATION
Budgetary Comparison Schedule

Motor Vehicle Fund				
For the Fiscal Year Ended June 30, 2010				
<i>(expressed in thousands)</i>				
	Motor Vehicle			
	Original Budget 2009-11 Biennium	Final Budget 2009-11 Biennium	Actual 2009-11 Biennium	Variance with Final Budget
Budgetary Fund Balance, July 1	\$ 314,526	\$ 314,526	\$ 314,526	\$ -
Resources				
Taxes	2,025,279	1,887,778	966,695	(921,083)
Licenses, permits, and fees	778,724	752,123	374,857	(377,266)
Other contracts and grants	5,269	4,675	1,710	(2,965)
Timber sales	-	-	27	27
Federal grants-in-aid	1,061,784	1,256,255	541,398	(714,857)
Charges for services	546,092	556,678	242,283	(314,395)
Investment income (loss)	15,172	6,964	15,571	8,607
Miscellaneous revenue	52,097	56,810	26,110	(30,700)
Transfers from other funds	599,934	327,446	100,031	(227,415)
Total Resources	5,398,877	5,163,255	2,583,208	(2,580,047)
Charges To Appropriations				
General government	20,780	22,077	14,240	7,837
Natural resources and recreation	2,493	2,483	1,053	1,430
Transportation	1,661,389	1,678,156	782,294	895,862
Capital outlays	4,534,611	4,871,043	1,927,355	2,943,688
Transfers to other funds	1,393,562	1,112,515	417,537	694,978
Debt service	-	-	18	(18)
Total Charges To Appropriations	7,612,835	7,686,274	3,142,497	4,543,777
Excess Available For Appropriation Over (Under) Charges To Appropriations	(2,213,958)	(2,523,019)	(559,289)	1,963,730
Reconciling Items				
Bond sale proceeds	2,230,650	2,550,883	2,060,820	(490,063)
Bond issue premiums	-	-	32,569	32,569
Refunding other debt issued	-	-	1,710	1,710
Payments to escrow agents for refunded other debt	-	-	(1,800)	(1,800)
Changes in reserves (net)	-	-	10	10
Entity adjustments (net)	-	-	5,359	5,359
Total Reconciling Items	2,230,650	2,550,883	2,098,668	(452,215)
Budgetary Fund Balance, June 30	\$ 16,692	\$ 27,864	\$ 1,539,379	\$ 1,511,515

BUDGETARY INFORMATION

Budgetary Comparison Schedule – Budget to GAAP Reconciliation

Motor Vehicle Fund	
For the Fiscal Year Ended June 30, 2010 <i>(expressed in thousands)</i>	
	Motor Vehicle Fund
Sources/Inflows of Resources	
Actual amounts (budgetary basis) "Total Resources" from the Budgetary Comparison Schedule	\$ 2,583,208
Differences - budget to GAAP:	
The following items are inflows of budgetary resources but are not revenue for financial reporting purposes:	
Transfers from other funds	(100,031)
Budgetary fund balance at the beginning of the biennium	(314,526)
The following items are not inflows of budgetary resources but are revenue for financial reporting purposes:	
Revenues collected for other governments	237,201
Unanticipated receipts	5,761
Noncash revenues	4,706
Other	653
Total Revenues (GAAP Basis) as Reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	\$ 2,416,972
Uses/Outflows of Resources	
Actual amounts (budgetary basis) "Total Charges to Appropriations" from the Budgetary Comparison Schedule	\$ 3,142,497
Differences - budget to GAAP:	
The following items are outflows of budgetary resources but are not expenditures for financial reporting purposes:	
Transfers to other funds	(417,537)
The following items are not outflows of budgetary resources but are recorded as current expenditures for financial reporting purposes:	
Distributions to other governments	237,201
Expenditures related to unanticipated receipts	5,761
Total Expenditures (GAAP Basis) as Reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	\$ 2,967,922

BUDGETARY INFORMATION

Notes to Required Supplementary Information

GENERAL BUDGETARY POLICIES AND PROCEDURES

The Governor is required to submit a budget to the state Legislature no later than December 20 of the year preceding odd-numbered year sessions of the Legislature.

The budget is a proposal for expenditures in the ensuing biennial period based upon anticipated revenues from the sources and rates existing by law at the time of submission of the budget. The Governor may additionally submit, as an appendix to the budget, a proposal for expenditures in the ensuing biennium from revenue sources derived from proposed changes in existing statutes.

The appropriated budget and any necessary supplemental budgets are legally required to be adopted through the passage of appropriation bills by the Legislature and approved by the Governor. Operating appropriations are generally made at the fund/account and agency level; however, in a few cases, appropriations are made at the fund/account and agency/program level. Operating appropriations cover either the entire biennium or a single fiscal year within the biennium. Capital appropriations are biennial and are generally made at the fund/account, agency, and project level.

The legal level of budgetary control is at the fund/account, agency, and appropriation level, with administrative controls established at lower levels of detail in certain instances. The accompanying budgetary schedules are not presented at the legal level of budgetary control. This is due to the large number of appropriations within individual agencies that would make such a presentation in the accompanying financial schedules extremely cumbersome. Section 2400.121 of the GASB Codification of Governmental Accounting and Financial Reporting Standards provides for the preparation of a separate report in these extreme cases.

For the state of Washington, a separate report has been prepared for the 2009-11 Biennium to illustrate legal budgetary compliance. Appropriated budget versus actual expenditures, and estimated versus actual revenues and other financing sources (uses) for appropriated funds at agency and appropriation level are presented in the Budget-to-Actual Detail Report for governmental funds. A copy of this report is available at the Office of Financial Management, 1110 Capitol Way SE, PO Box 43113, Olympia, Washington 98504-3113.

Legislative appropriations are strict legal limits on expenditures/expenses, and over-expenditures are prohibited. All appropriated and certain nonappropriated funds are further controlled by the executive branch through the allotment process. This process allocates the expenditure/expense plan into monthly allotments by program, source of funds, and object of expenditure. According to statute RCW 43.88.110(2), except under limited circumstances, the original allotments are approved by the Governor and may be revised on a quarterly basis and must be accompanied by an explanation of the reasons for significant changes. Because allotments are not the strict legal limit on expenditures/expenses, the budgetary schedules presented as required supplementary information (RSI) are shown on an appropriation versus actual comparison rather than an allotment versus actual comparison.

Proprietary funds typically earn revenues and incur expenses (i.e., depreciation or budgeted asset purchases) not covered by the allotment process. Budget estimates are generally made outside the allotment process according to prepared business plans. These proprietary fund business plan estimates are adjusted only at the beginning of each fiscal year.

Additional fiscal control is exercised through various means. OFM is authorized to make expenditure/expense allotments based on availability of unanticipated receipts, mainly federal government grant increases made during a fiscal year. State law does not preclude the over-expenditure of allotments, although RCW 43.88.110(3) requires that the Legislature be provided an explanation of major variances.

Operating encumbrances lapse at the end of the applicable appropriation. Capital outlay encumbrances lapse at the end of the biennium unless reappropriated by the Legislature in the ensuing biennium. Encumbrances outstanding against continuing appropriations at fiscal year-end are reported as reservations of fund balance.

Budgetary Reporting vs. GAAP Reporting

Governmental funds are budgeted materially in conformance with GAAP. However, the presentation in the accompanying budgetary schedules is different in certain respects from the corresponding Statements of Revenues, Expenditures, and Changes in Fund Balance (governmental operating statement). In the accompanying budgetary schedules, budget and actual expenditures are reported only for appropriated activities. Expenditures are classified based on whether the appropriation is from the operating or capital budget. Expenditures funded by operating budget appropriations are reported as current expenditures classified by the function of the agency receiving the appropriation. Expenditures funded by capital budget appropriations are reported as capital outlays.

However, in the governmental operating statements, all governmental funds are included and expenditures are classified according to what was actually purchased. Capital outlays are fixed asset acquisitions such as land, buildings, and equipment. Debt service expenditures are principal and interest payments. Current expenditures are all other governmental fund expenditures classified based on the function of the agency making the expenditures.

Additionally, certain governmental activities are excluded from the budgetary schedules because they are not appropriated. These activities include activities designated as nonappropriated by the Legislature, such as the Higher Education Special Revenue Fund, Higher Education Endowment Fund, Tobacco Settlement Securitization Bond Debt Service Fund, federal surplus food commodities, electronic food stamp benefits, capital

leases, note proceeds, and resources collected and distributed to other governments.

Further, certain expenditures are appropriated as operating transfers. These transfers are reported as operating transfers on the budgetary schedules and as expenditures on the governmental operating statements. The factors contributing to the differences between the Budgetary Comparison Schedule and the Statement of Revenues, Expenditures, and Changes in Fund Balance are noted in the previous Budget to GAAP reconciliation.

Budgetary Fund Balance includes the following as reported on the Governmental Funds Balance Sheet: Unreserved, undesignated fund balance; and Reserved for encumbrances.

PENSION PLAN INFORMATION
Schedules of Funding Progress

continued

Schedule of Funding Progress Public Employees' Retirement System - Plan 1 Valuation Years 2009 through 2004 (dollars in millions)						
	2009	2008	2007	2006	2005	2004
Actuarial valuation date	6/30/2009	6/30/2008	6/30/2007	9/30/2006	9/30/2005	9/30/2004
Actuarial value of plan assets	\$ 9,776	\$ 9,853	\$ 9,715	\$ 9,591	\$ 9,707	\$ 9,928
Actuarial accrued liability	13,984	13,901	13,740	13,129	13,704	12,855
Unfunded actuarial liability	4,208	4,048	4,025	3,538	3,997	2,927
Percentage funded	70%	71%	71%	73%	71%	77%
Covered payroll	580	638	676	725	786	863
Unfunded actuarial liability as a percentage of covered payroll	726%	634%	595%	488%	509%	339%

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

Schedule of Funding Progress Public Employees' Retirement System - Plan 2/3 Valuation Years 2009 through 2004 (dollars in millions)						
	2009	2008	2007	2006	2005	2004
Actuarial valuation date	6/30/2009	6/30/2008	6/30/2007	N/A	N/A	N/A
Actuarial value of plan assets	\$ 18,260	\$ 16,693	\$ 14,888	N/A	N/A	N/A
Actuarial accrued liability	18,398	16,508	14,661	N/A	N/A	N/A
Unfunded actuarial liability	138	(185)	(227)	N/A	N/A	N/A
Percentage funded	99%	101%	102%	N/A	N/A	N/A
Covered payroll	8,132	7,869	7,157	N/A	N/A	N/A
Unfunded actuarial liability as a percentage of covered payroll	2%	0%	0%	N/A	N/A	N/A

PERS Plan 2/3 uses the aggregate actuarial cost method. Effective for reporting year 2007, this Schedule of Funding Progress is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress information of this plan as required by GASB Statement No. 50.

N/A indicates data not available.

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

PENSION PLAN INFORMATION
Schedules of Funding Progress

continued

Schedule of Funding Progress Teachers' Retirement System - Plan 1 Valuation Years 2009 through 2004 (dollars in millions)						
	2009	2008	2007	2006	2005	2004
Actuarial valuation date	6/30/2009	6/30/2008	6/30/2007	9/30/2006	9/30/2005	9/30/2004
Actuarial value of plan assets	\$ 8,146	\$ 8,262	\$ 8,302	\$ 8,275	\$ 8,450	\$ 8,728
Actuarial accrued liability	10,820	10,754	10,826	10,359	10,894	10,401
Unfunded actuarial liability	2,674	2,492	2,524	2,084	2,444	1,673
Percentage funded	75%	77%	77%	80%	78%	84%
Covered payroll	389	432	426	478	546	616
Unfunded actuarial liability as a percentage of covered payroll	687%	577%	592%	436%	448%	272%

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

Schedule of Funding Progress Teachers' Retirement System - Plan 2/3 Valuation Years 2009 through 2004 (dollars in millions)						
	2009	2008	2007	2006	2005	2004
Actuarial valuation date	6/30/2009	6/30/2008	6/30/2007	N/A	N/A	N/A
Actuarial value of plan assets	\$ 6,160	\$ 5,681	\$ 5,277	N/A	N/A	N/A
Actuarial accrued liability	6,048	5,264	4,682	N/A	N/A	N/A
Unfunded (assets in excess of) actuarial liability	(112)	(417)	(595)	N/A	N/A	N/A
Percentage funded	102%	108%	113%	N/A	N/A	N/A
Covered payroll	3,957	3,621	3,318	N/A	N/A	N/A
Unfunded actuarial liability as a percentage of covered payroll	0%	0%	0%	N/A	N/A	N/A

TRS Plan 2/3 uses the aggregate actuarial cost method. Effective for reporting year 2007, this Schedule of Funding Progress is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress information of this plan as required by GASB Statement No. 50.

N/A indicates data not available.

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

PENSION PLAN INFORMATION
Schedules of Funding Progress

continued

Schedule of Funding Progress School Employees' Retirement System - Plan 2/3 Valuation Years 2009 through 2004 (dollars in millions)						
	2009	2008	2007	2006	2005	2004
Actuarial valuation date	6/30/2009	6/30/2008	6/30/2007	N/A	N/A	N/A
Actuarial value of plan assets	\$ 2,503	\$ 2,303	\$ 2,133	N/A	N/A	N/A
Actuarial accrued liability	2,493	2,207	1,998	N/A	N/A	N/A
Unfunded (assets in excess of) actuarial liability	(10)	(96)	(135)	N/A	N/A	N/A
Percentage funded	100%	104%	107%	N/A	N/A	N/A
Covered payroll	1,467	1,379	1,283	N/A	N/A	N/A
Unfunded actuarial liability as a percentage of covered payroll	0%	0%	0%	N/A	N/A	N/A

SERS Plan 2/3 uses the aggregate actuarial cost method. Effective for reporting year 2007, this Schedule of Funding Progress is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress information of this plan as required by GASB Statement No. 50.

N/A indicates data not available.

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

Schedule of Funding Progress Law Enforcement Officers' and Fire Fighters' Retirement System - Plan 1 Valuation Years 2009 through 2004 (dollars in millions)						
	2009	2008	2007	2006	2005	2004
Actuarial valuation date	6/30/2009	6/30/2008	6/30/2007	9/30/2006	9/30/2005	9/30/2004
Actuarial value of plan assets	\$ 5,612	\$ 5,592	\$ 5,298	\$ 5,018	\$ 4,800	\$ 4,666
Actuarial accrued liability	4,492	4,368	4,340	4,309	4,243	4,266
Unfunded (assets in excess of) actuarial liability	(1,120)	(1,224)	(958)	(709)	(557)	(400)
Percentage funded	125%	128%	122%	116%	113%	109%
Covered payroll	33	37	43	48	56	64
Unfunded actuarial liability as a percentage of covered payroll	0%	0%	0%	N/A	N/A	N/A

N/A indicates data not available.

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

PENSION PLAN INFORMATION
Schedules of Funding Progress

continued

Schedule of Funding Progress Law Enforcement Officers' and Fire Fighters' Retirement System - Plan 2 Valuation Years 2009 through 2004 (dollars in millions)						
	2009	2008	2007	2006	2005	2004
Actuarial valuation date	6/30/2009	6/30/2008	6/30/2007	N/A	N/A	N/A
Actuarial value of plan assets	\$ 5,564	\$ 5,053	\$ 4,360	N/A	N/A	N/A
Actuarial accrued liability	4,641	3,998	3,626	N/A	N/A	N/A
Unfunded (assets in excess of)						
actuarial liability	(923)	(1,055)	(734)	N/A	N/A	N/A
Percentage funded	120%	126%	120%	N/A	N/A	N/A
Covered payroll	1,442	1,345	1,234	N/A	N/A	N/A
Unfunded actuarial liability as a						
percentage of covered payroll	0%	0%	0%	N/A	N/A	N/A

LEOFF Plan 2 uses the aggregate actuarial cost method. Effective for reporting year 2007, this Schedule of Funding Progress is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress information of this plan as required by GASB Statement No. 50.

N/A indicates data not available.

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

Schedule of Funding Progress Washington State Patrol Retirement System - Plan 1/2 Valuation Years 2009 through 2004 (dollars in millions)						
	2009	2008	2007	2006	2005	2004
Actuarial valuation date	6/30/2009	6/30/2008	6/30/2007	N/A	N/A	N/A
Actuarial value of plan assets	\$ 900	\$ 870	\$ 800	N/A	N/A	N/A
Actuarial accrued liability	790	745	702	N/A	N/A	N/A
Unfunded (assets in excess of)						
actuarial liability	(110)	(125)	(98)	N/A	N/A	N/A
Percentage funded	114%	117%	114%	N/A	N/A	N/A
Covered payroll	83	79	72	N/A	N/A	N/A
Unfunded actuarial liability as a						
percentage of covered payroll	0%	0%	0%	N/A	N/A	N/A

WSPRS Plan 1/2 uses the aggregate actuarial cost method. Effective for reporting year 2007, this Schedule of Funding Progress is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress information of this plan as required by GASB Statement No. 50.

N/A indicates data not available.

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

PENSION PLAN INFORMATION
Schedules of Funding Progress

continued

Schedule of Funding Progress Public Safety Employees' Retirement System - Plan 2 Valuation Years 2009 through 2004 (dollars in millions)						
	2009	2008	2007	2006	2005	2004
Actuarial valuation date	6/30/2009	6/30/2008	6/30/2007	N/A	N/A	N/A
Actuarial value of plan assets	\$ 69	\$ 39	\$ 14	N/A	N/A	N/A
Actuarial accrued liability	64	37	19	N/A	N/A	N/A
Unfunded (assets in excess of)						
actuarial liability	(5)	(2)	6	N/A	N/A	N/A
Percentage funded	108%	106%	74%	N/A	N/A	N/A
Covered payroll	223	200	134	N/A	N/A	N/A
Unfunded actuarial liability as a percentage of covered payroll	0%	0%	0%	N/A	N/A	N/A

PSERS Plan 2 uses the aggregate actuarial cost method. Effective for reporting year 2007, this Schedule of Funding Progress is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress information of this plan as required by GASB Statement No. 50.

N/A indicates data not available.

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

Schedule of Funding Progress Judicial Retirement System Valuation Years 2009 through 2004 (dollars in millions)						
	2009	2008	2007	2006	2005	2004
Actuarial valuation date	6/30/2009	6/30/2008	6/30/2007	9/30/2006	9/30/2005	9/30/2004
Actuarial value of plan assets	\$ 2	\$ 1	\$ 1	\$ 0.3	\$ 2	\$ 4
Actuarial accrued liability	89	92	85	88	89	89
Unfunded actuarial liability	87	91	84	88	87	85
Percentage funded	2%	1%	1%	0%	2%	4%
Covered payroll	0.9	1.3	1.3	1.4	1.7	2.4
Unfunded actuarial liability as a percentage of covered payroll	9667%	7000%	6462%	6286%	5118%	3542%

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

PENSION PLAN INFORMATION
Schedules of Funding Progress

concluded

Schedule of Funding Progress Judges' Retirement Fund Valuation Years 2009 through 2004 (dollars in millions)						
	2009	2008	2007	2006	2005	2004
Actuarial valuation date	6/30/2009	6/30/2008	6/30/2007	9/30/2006	9/30/2005	9/30/2004
Actuarial value of plan assets	\$ 3.3	\$ 3.6	\$ 4.0	\$ 4.1	\$ 4.2	\$ 4.4
Actuarial accrued liability	3.4	3.5	3.9	4.0	4.5	4.7
Unfunded (assets in excess of)						
actuarial liability	0.1	(0.1)	(0.1)	(0.1)	0.3	0.3
Percentage funded	97%	103%	103%	103%	93%	94%
Covered payroll	-	-	-	-	-	-
Unfunded actuarial liability as a percentage of covered payroll	N/A	N/A	N/A	N/A	N/A	N/A
N/A indicates data not available.						
Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.						

Schedule of Funding Progress Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund Valuation Years 2009 through 2004 (dollars in millions)						
	2009	2008	2007	2006	2005	2004
Actuarial valuation date	6/30/2009	6/30/2008	6/30/2007	12/31/2006	12/31/2005	12/31/2004
Actuarial value of plan assets	\$ 166	\$ 161	\$ 151	\$ 140	\$ 127	\$ 120
Actuarial accrued liability	163	153	141	142	140	115
Unfunded (assets in excess of)						
actuarial liability	(3)	(8)	(10)	2	13	(5)
Percentage funded	102%	105%	107%	99%	91%	104%
Covered payroll	N/A	N/A	N/A	N/A	N/A	N/A
Unfunded actuarial liability as a percentage of covered payroll	N/A	N/A	N/A	N/A	N/A	N/A
* Pension plan liability only - excludes relief benefits.						
**Covered Payroll is not presented because it is not applicable since this is a volunteer organization.						
N/A indicates data not available.						
Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.						

PENSION PLAN INFORMATION

Schedules of Contributions from Employers and Other Contributing Entities (cont'd)

Schedules of Contributions from Employers and Other Contributing Entities For the Fiscal Years Ended June 30, 2010 through 2005 <i>(dollars in millions)</i>						
	2010	2009	2008	2007	2006	2005
PUBLIC EMPLOYEES' RETIREMENT PLAN SYSTEM - PLAN 1						
Employers' annual required contribution	\$ 627.8	\$ 620.2	\$ 453.1	\$ 397.3	\$ 438.5	\$ 340.3
Employers' actual contribution	154.0	325.2	221.8	118.7	29.6	22.4
Percentage contributed	25%	52%	49%	30%	7%	7%
PUBLIC EMPLOYEES' RETIREMENT PLAN SYSTEM - PLAN 2/3						
Employers' annual required contribution	\$ 383.1	\$ 369.7	\$ 363.3	\$ 331.3	\$ 307.6	\$ 227.7
Employers' actual contribution	327.5	439.7	318.7	242.5	149.6	74.7
Percentage contributed	85%	119%	88%	73%	49%	33%
TEACHERS' RETIREMENT SYSTEM - PLAN 1						
Employers' annual required contribution	\$ 406.1	\$ 391.0	\$ 294.7	\$ 249.8	\$ 287.5	\$ 224.3
Employers' actual contribution	112.7	178.9	113.1	60.5	15.1	8.8
Percentage contributed	28%	46%	38%	24%	5%	4%
TEACHERS' RETIREMENT SYSTEM - PLAN 2/3						
Employers' annual required contribution	\$ 221.1	\$ 186.9	\$ 208.9	\$ 167.7	\$ 166.4	\$ 117.4
Employers' actual contribution	165.0	160.8	109.5	102.2	75.4	33.8
Percentage contributed	75%	86%	52%	61%	45%	29%
SCHOOL EMPLOYEES' RETIREMENT SYSTEM - PLAN 2/3						
Employers' annual required contribution	\$ 82.3	\$ 71.5	\$ 75.8	\$ 71.5	\$ 81.4	\$ 64.0
Employers' actual contribution	62.1	63.5	52.1	45.9	30.4	10.2
Percentage contributed	75%	89%	69%	64%	37%	16%
<p>The Annual Required Contribution (ARC) changes each year with the experience of the plans. Factors influencing the experience include changes in funding methods, assumptions, plan provisions, and economic and demographic gains and losses. The methods used to derive the ARC for this accounting disclosure are different from that used to derive the actual contributions required by law. These differences include the use of different actuarial valuations (actual contributions may be based on an earlier valuation), and different actuarial cost methods. For these reasons the actual contributions will not match the Annual Required Contributions.</p>						
<p>Source: Washington State Office of the State Actuary</p>						

PENSION PLAN INFORMATION

Schedules of Contributions from Employers and Other Contributing Entities (cont'd)

Schedules of Contributions from Employers and Other Contributing Entities						
For the Fiscal Years Ended June 30, 2010 through 2005 (dollars in millions)						
	2010	2009	2008	2007	2006	2005
LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS' RETIREMENT SYSTEM - PLAN 1						
Employers' annual required contribution	\$ -	\$ -	\$ -	\$ 0.1	\$ -	\$ -
Employers' actual contribution	-	-	-	0.1	0.1	-
Percentage contributed	N/A	N/A	N/A	100%	N/A	N/A
State annual required contribution	-	-	-	-	-	-
State actual contribution	-	-	-	-	-	-
Percentage contributed	N/A	N/A	N/A	N/A	N/A	N/A
LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS' RETIREMENT SYSTEM - PLAN 2						
Employers' annual required contribution*	\$ 111.1	\$ 105.3	\$ 61.3	\$ 56.9	\$ 60.8	\$ 48.5
Employers' actual contribution	77.0	77.8	73.4	58.2	48.5	32.8
Percentage contributed	69%	74%	120%	102%	80%	68%
State annual required contribution*	44.4	42.1	40.8	38.0	40.5	32.3
State actual contribution	51.4	51.1	45.9	37.9	31.7	21.3
Percentage contributed	116%	121%	113%	100%	78%	66%
WASHINGTON STATE PATROL RETIREMENT SYSTEM						
Employers' annual required contribution	\$ 6.6	\$ 5.0	\$ 6.8	\$ 5.3	\$ 6.1	\$ 3.4
Employers' actual contribution	5.3	6.4	6.1	3.3	3.1	-
Percentage contributed	80%	128%	90%	62%	51%	0%
N/A indicates data not available.						
*The Annual Required Contribution (ARC) for the LEOFF Plan 2 presented is the Office of the State Actuary's recommended figure; the LEOFF Plan 2 Retirement Board has proposed a higher ARC of \$113.5 million.						
The Annual Required Contribution (ARC) changes each year with the experience of the plans. Factors influencing the experience include changes in funding methods, assumptions, plan provisions, and economic and demographic gains and losses. The methods used to derive the ARC for this accounting disclosure are different from that used to derive the actual contributions required by law. These differences include the use of different actuarial valuations (actual contributions may be based on an earlier valuation), and different actuarial cost methods. For these reasons the actual contributions will not match the Annual Required Contributions.						
Source: Washington State Office of the State Actuary						

PENSION PLAN INFORMATION

Schedules of Contributions from Employers and Other Contributing Entities (concl'd)

Schedules of Contributions from Employers and Other Contributing Entities						
For the Fiscal Years Ended June 30, 2010 through 2005 (dollars in millions)						
	2010	2009	2008	2007	2006	2005
PUBLIC SAFETY EMPLOYEES' RETIREMENT PLAN SYSTEM - PLAN 2						
Employers' annual required contribution	\$ 14.8	\$ 14.3	\$ 12.4	\$ 7.1	N/A	N/A
Employers' actual contribution	15.2	14.5	11.7	6.6	N/A	N/A
Percentage contributed	103%	101%	94%	93%	N/A	N/A
JUDICIAL RETIREMENT SYSTEM						
Employers' annual required contribution	\$ 20.4	\$ 21.2	\$ 26.6	\$ 37.3	\$ 27.7	\$ 21.7
Employers' actual contribution	11.6	10.2	9.6	9.6	6.7	6.2
Percentage contributed	57%	48%	36%	26%	24%	29%
JUDGES' RETIREMENT FUND						
Employers' annual required contribution	\$ -	\$ -	\$ -	\$ -	\$ 0.1	\$ 0.1
Employers' actual contribution	-	-	-	0.3	0.3	0.5
Percentage contributed	N/A	N/A	N/A	N/A	300%	500%
VOLUNTEER FIRE FIGHTERS' AND RESERVE OFFICERS' RELIEF AND PENSION FUND						
Employers' annual required contribution	\$ 1.0	\$ 1.1	\$ 1.0	\$ 1.0	\$ 1.0	\$ 0.7
Employers' actual contribution	1.0	1.0	1.0	1.0	1.0	0.7
Percentage contributed	100%	91%	100%	100%	100%	100%
State annual required contribution	1.8	1.4	0.9	2.0	3.6	1.8
State actual contribution	5.7	5.2	5.0	6.0	4.6	4.4
Percentage contributed	317%	371%	556%	300%	128%	244%
N/A indicates data not available.						
The Annual Required Contribution (ARC) changes each year with the experience of the plans. Factors influencing the experience include changes in funding methods, assumptions, plan provisions, and economic and demographic gains and losses. The methods used to derive the ARC for this accounting disclosure are different from that used to derive the actual contributions required by law. These differences include the use of different actuarial valuations (actual contributions may be based on an earlier valuation), and different actuarial cost methods. For these reasons the actual contributions will not match the Annual Required Contributions.						
Source: Washington State Office of the State Actuary						

OTHER POSTEMPLOYMENT BENEFITS INFORMATION
Schedule of Funding Progress

Schedule of Funding Progress Other Postemployment Benefits Valuation Years 2009 through 2007 <i>(dollars in millions)</i>			
	2009	2008	2007
Actuarial valuation date	1/1/2009	1/1/2008	1/1/2007
Actuarial value of plan assets	\$ -	\$ -	\$ -
Actuarial accrued liability (AAL)*	3,787	4,014	3,800
Unfunded actuarial accrued liability (UAAL)	3,787	4,014	3,800
Funded ratio	0%	0%	0%
Covered payroll	5,678	5,170	5,427
UAAL as a percentage of covered payroll	66.69%	77.64%	70.01%
* Based on projected unit credit actuarial cost method.			
<i>Source: Washington State Office of the State Actuary</i>			

INFRASTRUCTURE ASSETS REPORTED USING THE MODIFIED APPROACH

CONDITION ASSESSMENT

The state’s highway system is divided into three main categories: pavement, bridges, and rest areas. Condition information about each of these areas as well as state managed airports follows.

Pavement Condition

The Washington State Department of Transportation (WSDOT) owns and maintains 20,498 lane miles of highway, including ramps, collectors and special use lanes. Special use lanes include High Occupancy Vehicle (HOV), climbing, chain-up, holding, slow vehicle turnout, two-way turn, weaving/speed change, bicycle, transit, truck climbing shoulder, turn and acceleration lanes. Special use and ramp/collector lane miles make up 1,927 of the total lane miles.

WSDOT has been rating pavement condition since 1969. Pavement rated in *good* condition is smooth and has few defects. Pavement in *poor* condition is characterized by cracking, patching, roughness and rutting. Pavement condition is rated using three factors: Pavement Structural Condition (PSC), International Roughness Index (IRI), and Rutting.

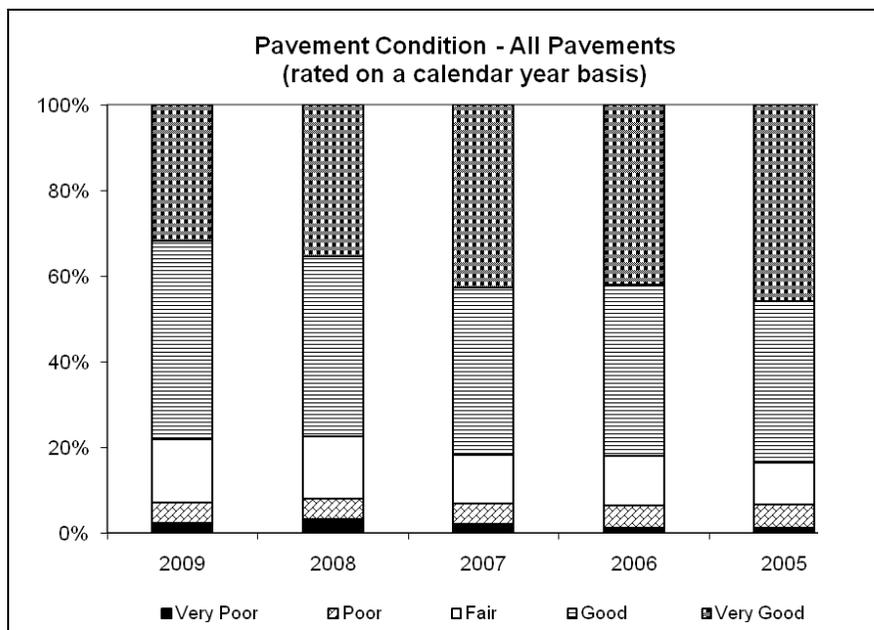
In 1993 the Legislature required WSDOT to rehabilitate pavements at the Lowest Life Cycle Cost (LLCC), which has been determined to occur at a PSC range between 40 and 60, or when triggers for roughness or rutting are met.

The trend over the last five years has shown that the percent of pavements in poor or very poor condition was fairly stable at 7 to 10 percent. WSDOT uses LLCC analysis to manage its pavement preservation program.

The principles behind LLCC are basic – if rehabilitation is done too early, pavement life is wasted; if rehabilitation is done too late, very costly repair work may be required, especially if the underlying structure is compromised. WSDOT continually looks for ways to best strike a balance between these two basic principles.

While the goal for pavements is zero miles in ‘poor’ condition, marginally good pavements may deteriorate into poor condition during the lag time between assessment and actual rehabilitation. As a result, a small percentage of marginally good pavements will move into the ‘poor’ condition category for any given assessment period.

WSDOT manages state highways targeting the LLCC per the Pavement Management System due date. While the Department has a long-term goal of no pavements in poor condition (a pavement condition index less than 40, on a 100 point scale), the current policy is to maintain 90 percent of all highway pavement types at a pavement condition index of 40 or better with no more than 10 percent of its highways at a pavement condition below 40. The most recent assessment, conducted in 2009, found that state highways were within the prescribed parameters with only 7 percent of all pavement types with a pavement condition index below 40.



WSDOT uses the following scale for Pavement Structural Condition (PSC):

Category	PSC Range	Description
Very Good	80 – 100	Little or no distress. Example: Flexible pavement with 5 percent of wheel track length having “hairline” severity alligator cracking will have a PSC of 80.
Good	60 – 80	Early stage deterioration. Example: Flexible pavement with 15 percent of wheel track length having “hairline” alligator cracking will have a PSC of 70.
Fair	40 – 60	This is the threshold value for rehabilitation. Example: Flexible pavement with 25 percent of wheel track length having “hairline” alligator cracking will have a PSC of 50.
Poor	20 – 40	Structural deterioration. Example: Flexible pavement with 25 percent of wheel track length having “medium (spalled)” severity alligator cracking will have a PSC of 30.
Very Poor	0 – 20	Advanced structural deterioration. Example: Flexible pavement with 40 percent of wheel track length having “medium (spalled)” severity alligator cracking will have a PSC of 10. May require extensive repair and thicker overlays.

The PSC is a measure based on distresses such as cracking and patching, which are related to the pavement’s ability to carry loads. Pavements develop structural deficiencies due to truck traffic and cold weather. WSDOT attempts to program rehabilitation for pavement segments when they are projected to reach a PSC of 50. A PSC of 50 can occur due to various amounts and severity of distress. For rigid pavements (such as Portland cement concrete), a PSC of 50 represents 50 percent of the concrete slabs exhibiting joint faulting with a severity of 1/8 to 1/4 inch (faulting is the elevation difference at slab joints and results in a rough ride – particularly in large trucks). Further, a PSC of 50 can also be obtained if 25 percent of concrete slabs exhibit two to three cracks per panel.

The International Roughness Index (IRI) uses a scale in inches per mile. WSDOT considers pavements with a ride performance measure of greater than 220 inches per mile to be in poor condition. For example, new asphalt overlays typically have ride values below 75 inches per mile, which is very smooth.

Rutting is measured in inches: a pavement with more than 0.58 inches of rutting is considered in poor condition.

The three indices (PSC, IRI, and Rutting) are combined to rate a section of pavement, which is assigned the lowest category of any of the three ratings.

The following table shows the combined explanatory categories and the ratings for each index.

Category	PSC	IRI	Rutting
Very Good	100 – 80	< 95	< 0.23
Good	80 – 60	95 – 170	0.23 – 0.41
Fair	60 – 40	170 – 220	0.41 – 0.58
Poor	40 – 20	220 – 320	0.58 – 0.74
Very Poor	0 – 20	> 320	> 0.74

Since 1999, WSDOT has used an semi-automated pavement distress survey procedure. In the automated survey, high-resolution video images are collected at highway speed and these video images are then rated on special workstations at 3-6 mph speed. Use of the semi-automated procedure has resulted in a more detailed classification and recording of various distresses that are rated.

In 2009, WSDOT rated pavement condition on 16,966 of the 20,498 lane miles of highway. The following chart shows recent pavement condition ratings for the State Highway System, using the combination of the three indices described on the preceding page.

Percentage of Pavement Lane Miles in Fair or Better Condition*					
	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Statewide - Chip seals	95%	95%	91%	91%	91%
Statewide - Asphalt	93%	92%	94%	94%	95%
Statewide - Concrete	90%	87%	93%	93%	91%
Statewide - All Pavements	93%	92%	93%	94%	93%

Percentage of Pavement Lane Miles in Poor or Very Poor Condition*					
	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Statewide - Chip seals	5%	5%	9%	9%	9%
Statewide - Asphalt	7%	8%	6%	6%	5%
Statewide - Concrete	10%	13%	7%	7%	9%
Statewide - All Pavements	7%	8%	7%	6%	7%

*Calendar year data. Assessments are typically physically conducted in the summer and fall of each year, and processed during the winter and spring, with final results released in July. Years indicated are when the physical assessment was conducted.

Note: The All Pavements percentages are calculated from total lane miles inspected and are not a statistical average of the three pavement type percentages. IRI or rutting is not used for sections identified as under construction in rating distress.

More information about pavement management at WSDOT may be obtained at:
<http://www.wsdot.wa.gov/biz/mats/pavement/>.

Bridge Condition

During Fiscal Year 2010, there were 3,184 state-owned vehicular structures over 20 feet in length with a total area of 45,695,870 square feet. In addition to bridges, the 3,184 structures include 97 culverts and 71 ferry terminal vehicle and pedestrian structures. (While ferry terminals are included in a depreciable asset category, they are included here with bridge condition information since they are evaluated by the WSDOT Bridge Office on a periodic basis.)

There was a net increase of 23 bridge and culvert structures in Fiscal Year 2010 due to new construction, additions of culvert structures not previously inventoried, and a sectional approach to inventory and inspection of large bridge structures such as those crossing Puget Sound and Lake Washington. Special emphasis is given to the ongoing inspection and maintenance of major bridges representing a significant public investment due to size, complexity or strategic location. All bridges are inspected every two years and underwater bridge components at least once every five years in accordance with Federal Highway Administration (FHWA) requirements.

Information related to public bridges is maintained in the Washington State Bridge Inventory System (WSBIS). This system is used to develop preservation strategies and comprehensive recommendations for maintenance and construction, and for reporting to the FHWA.

WSDOT’s policy is to maintain 95 percent of its bridges at a structural condition of at least fair, meaning that all primary structural elements are sound.

Three categories of condition were established in relation to the FHWA criteria as follows:

Category	National Bridge Inventory Code	Description
Good	6, 7, or 8	A range from no problems noted to some minor deterioration of structural elements.
Fair	5	All primary structural elements are sound but may have deficiencies such as minor section loss, deterioration, cracking, spalling or scour.
Poor	4 or less	Advanced deficiencies such as section loss, deterioration, cracking, spalling, scour or seriously affected primary structural components.

Note: Bridges rated in poor condition may be restricted for the weight and type of traffic allowed.

The most recent assessments over the last two years found that state-owned bridges were within the prescribed parameters with 97.9 percent having a condition rating of fair or better and only 2.1 percent of bridges having a condition rating of poor. Bridges rated as poor may have structural deficiencies that restrict the weight and type of traffic allowed. Bridges that are rated as poor are not necessarily unsafe for public travel. Any bridges determined to be unsafe are closed to traffic. There is one bridge currently closed.

WSDOT’s Bridge Seismic Retrofit Program prioritizes state bridges for seismic retrofit, and performs these retrofits as funding permits. Retrofit priorities are based on seismic risk of a site, structural detail deficiencies, and route importance.

The Seismic Retrofit Program includes 880 bridges that have been classified as needing retrofitting. WSDOT has fully or partially retrofitted 395 bridges. Of those, 256 are completely retrofitted, 139 are partially retrofitted. There are 13 bridges currently under contract to be retrofitted.

The following condition rating data is based on the structural sufficiency standards established in the FHWA “Recording and Coding Guide for the Structural Inventory and Appraisal of the Nation’s Bridges.” This structural rating relates to the evaluation of bridge superstructure, deck, substructure, structural adequacy and waterway adequacy.

The following charts show the most recent condition rating of Washington State bridges:

Percentage of Bridges in Fair or Better Condition					
Bridge Type	2010	2009	2008	2007	2006
Reinforced concrete (1,286 bridges in FY 2010)	98.1%	98.0%	98.0%	98.3%	98.6%
Prestressed concrete (1,379 bridges in FY 2010)	99.3%	99.0%	98.9%	99.3%	99.3%
Steel (370 bridges* in FY 2010)	96.6%	95.0%	93.9%	94.7%	94.1%
Timber (81 bridges in FY 2010)	80.2%	80.4%	71.7%	66.3%	68.1%
Statewide - All bridges (3,116 out of 3,184 bridges in FY 2010)	97.9%	97.5%	97.0%	97.4%	97.5%

Percentage of Bridges in Poor Condition					
Bridge Type	2010	2009	2008	2007	2006
Reinforced concrete (25 bridges in FY 2010)	1.9%	2.0%	2.0%	1.7%	1.4%
Prestressed concrete (10 bridges in FY 2010)	0.7%	1.0%	1.1%	0.7%	0.7%
Steel (13 bridges* in FY 2010)	3.4%	5.0%	6.1%	5.3%	5.9%
Timber (20 bridges in FY 2010)	19.8%	19.6%	28.3%	33.7%	31.9%
Statewide - All bridges (68 out of 3,184 bridges in FY 2010)	2.1%	2.5%	3.0%	2.6%	2.5%

*The steel bridge ratings for Fiscal Year 2010 include 44 ferry terminal structures with 41 rated as fair or better and three ferry terminal structures rated as poor.

Note: Bridges rated as poor may have structural deficiencies that restricted the weight and type of traffic allowed. WSDOT currently has two posted bridges and 141 restricted bridges. Posted bridges have signs posted which inform of legal weight limits. Restricted bridges are those where overweight permits will not be issued for travel by overweight vehicles. This is a decrease of nine posted bridges in 2010 as compared to 2009. The number of restricted bridges decreased by one.

Refer to <http://www.wsdot.wa.gov/commercialVehicle/Restrictions/> for more information on overweight restrictions. Any bridges determined to be unsafe are closed to traffic.

Additional information regarding the WSDOT's bridge inspection program may be obtained at: <http://www.wsdot.wa.gov/eesc/bridge/index.cfm>.

Safety Rest Area Condition

The WSDOT owns, operates, and maintains 47 developed safety rest area (SRA) facilities. Within these facilities, the Department manages the following assets: 94 buildings, 694 acres, 31 on-site public drinking water systems, 41 on-site sewage pre-treatment/treatment systems, and 20 recreational vehicle sanitary disposal facilities.

WSDOT performs SRA building and site condition assessments in odd-numbered calendar years, to determine the facility deficiencies. This biennial process, which began in 2003, helps prioritize renovation and replacement projects. Sites and buildings are divided into functional components that are assessed with a numerical rating of 1 to 5 based on guideline criteria (1 meets current standards, 5 is poor).

In addition, a weighting multiplier is applied based on the criticality of the individual component. For instance, a safety deficiency adds a weighting multiplier of ten while a department image deficiency has a weighting multiplier of two. The combined total building and site ratings are used to determine each facility's overall condition, and fall into one of five categories.

WSDOT SRA condition assessment rating parameters are not based on other state or national guidelines for safety rest areas. The model used is based on the capital facility program software already in use, with minor modifications to the rating parameters to better match the unique needs of SRA facilities. The SRA program goal is to have no more than 5 percent of the facilities rated poor.

The following charts show the most recent condition rating of Washington State safety rest areas:

Category	2009*	2007	2005
Percentage of facilities in fair or good condition	97.6%	95.2%	95.2%
Percentage of facilities in poor condition	2.4%	4.8%	4.8%

*2009 percentages are based on 43 inspected SRA sites.

Category	Description	Number of Safety Rest Areas in Category		
		2009	2007	2005
Good Condition	Facility is new construction and/or meets current standards.	8	8	11
Fair-High Condition	Facility meets current standards and/or is in adequate condition with minimal component deficiencies.	7	6	2
Fair-Mid Condition	Facility is functional, and in adequate condition with minor component deficiencies.	11	6	9
Fair-Low Condition	Facility has multiple system deficiencies.	16	20	18
Poor	Facility is at or beyond its service life, with multiple major deficiencies.	1	2	2
No Condition Assessment Data	No data in 2009 (Iron Goat, Dodge Junction, Keller Ferry, Dusty)	4	5	0
Total		47	47	42

State Managed Airport Condition

The WSDOT Aviation Division is authorized by RCW 47.68.100 to acquire, manage and maintain airports.

Under this authority, WSDOT manages 17 airports, eight of which the Department owns. The airports are used primarily for access to small communities and emergency purposes such as fire fighting, search and rescue, and medical evacuation (one airport is used only for helicopter and search and rescue operations). The airports are also used for recreational flying activities. Most are located near or adjacent to state highways and their runways range in character from paved, to gravel or turf.

Three airports are in operational condition 12 months of the year, and the remaining 14 are operational from June to October each year. Opening and closing dates may vary depending on weather conditions. In accordance

with WSDOT policy, maintenance is performed on each airport annually and inspections occur a minimum of three times per year. The use of state airports by all persons is solely at the risk of the user. Since these airports are maintained principally for emergency use, the state does not warrant the conditions at any state airport to be suitable for any other use.

The definitions below represent the classification category for state managed airports within the Washington Aviation System Plan (WASP). The system plan was adopted in 2009 as part of the Long-Term Air Transportation Study and represents the state-interest component of the statewide multimodal transportation plan. The system plan fulfills the statewide aviation planning requirements of federal government, coordinates statewide aviation planning, and identifies the program needs for public use of state airports.

Category	Definition
Local service airport	An airport with a paved runway capable of handling aircraft with a maximum gross certificated takeoff weight of 12,500 pounds.
Rural essential airport	An airport with a turf, gravel or sand (unpaved) runway near access to recreational opportunities with capacity for aircraft less than 12,500 pounds.

The following chart shows the most recent condition rating of Washington State managed airports:

Washington Aviation System Plan (1)							
Airport Classification	WSDOT Aviation Owned	WSDOT Aviation Managed	2010	2009	2008	2007	2006
Local Airports (2)	2	-					
Rural Essential Airports (3)	-	-					
Paved runway	-	1					
Turf runway	5	3					
Gravel runway	-	4					
Sand	-	1					
Helicopter only	1	-					
Total Airports	<u>8</u>	<u>9</u>					
Percentage of airports acceptable for general recreational use or better			94%	94%	88%	88%	88%
Percentage of airports not acceptable for general recreational use or better			6%	6%	12%	12%	12%

- (1) Eight airports are owned by WSDOT and nine are managed by WSDOT under various use/operating agreements.
- (2) Local airports are acceptable for general use and serve small to medium-sized communities.
- (3) Rural essential airports are acceptable for general recreation use and typically serve recreation communities and remote back country locations.

For more information about the airports which are acceptable for general recreational use or better, refer to WSDOT's website at: <http://www.wsdot.wa.gov/aviation/Airports/>.

**INFRASTRUCTURE ASSETS REPORTED
USING THE MODIFIED APPROACH**

**Comparison of Planned-to-Actual
Preservation and Maintenance**

For the Fiscal Years Ended June 30, 2010 through 2006
(expressed in thousands)

	2010			2009		
	Planned	Actual	Variance	Planned	Actual	Variance
PAVEMENT						
Preservation	\$ 147,424	\$ 137,952	\$ 9,472	\$ 125,246	\$ 109,279	\$ 15,967
Maintenance	20,780	21,489	(709)	19,651	19,170	481
Total	\$ 168,204	\$ 159,441	\$ 8,763	\$ 144,897	\$ 128,449	\$ 16,448
BRIDGES						
Preservation	\$ 40,958	\$ 30,904	\$ 10,054	\$ 63,436	\$ 16,586	\$ 46,850
Maintenance	13,532	13,532	-	13,365	13,406	(41)
Total	\$ 54,490	\$ 44,436	\$ 10,054	\$ 76,801	\$ 29,992	\$ 46,809
REST AREAS						
Preservation	\$ 162	\$ 144	\$ 18	\$ 199	\$ 193	\$ 6
Maintenance	5,653	5,781	(128)	5,808	5,631	177
Total	\$ 5,815	\$ 5,925	\$ (110)	\$ 6,007	\$ 5,824	\$ 183
AIRPORTS						
Preservation & maintenance	\$ 183	\$ 159	\$ 24	\$ 146	\$ 168	\$ (22)

In addition to increasing and improving the state highway system, WSDOT places a high priority on preserving and maintaining the current highway system. WSDOT breaks out preservation and maintenance into two separate functions. Preservation can be described as projects that maintain the structural integrity of the existing highway system including roadway pavements, safety features, bridges, and other structures/facilities. The maintenance function handles the day-to-day needs that occur such as guardrail replacement, patching pot holes, installing signs, and vegetation control.

WSDOT uses outcome based performance measures for evaluating the effectiveness of the maintenance program. The Maintenance Accountability Process (MAP) is a comprehensive planning, measuring and managing process that provides a means for communicating the impacts of policy and budget decisions on program service delivery. WSDOT uses it to identify investment choices and the effects of those choices in communicating with the Legislature and other stakeholders. The MAP measures and communicates the outcomes of 32 distinct highway maintenance activities. Maintenance results are measured via field condition

surveys and reported as Level of Service (LOS) ratings, which range from A to F. LOS targets are defined in terms of the condition of various highway features (i.e. percent of guardrail on the highway system that is damaged) and are set commensurate with the level of funding provided for the WSDOT highway maintenance program. More information about MAP may be obtained at: <http://www.wsdot.wa.gov/maintenance/accountability/default.htm>.

WSDOT's legally authorized budgets are biennial with the even year being the first fiscal year of the biennium. Planned amounts in this schedule are not the legal legislative authorizations but are the planned expenditures for the year within the legal authorizations. Therefore, a negative variance is not an indication of overspending the WSDOT's legal authorization but indicates that more expenditure activity occurred than was initially planned. Actual expenditures may vary from the budgeted or planned amounts for a variety of reasons which include, but are not limited to, management's decision to accelerate or defer preservation or maintenance activity or reduce planned activity in response to economic forecasts.

State of Washington

2008			2007			2006		
Planned	Actual	Variance	Planned	Actual	Variance	Planned	Actual	Variance
\$ 118,886	\$ 130,375	\$ (11,489)	\$ 111,195	\$ 99,416	\$ 11,779	\$ 108,409	\$ 130,340	\$ (21,931)
18,329	16,994	1,335	19,152	16,255	2,897	19,219	18,586	633
<u>\$ 137,215</u>	<u>\$ 147,369</u>	<u>\$ (10,154)</u>	<u>\$ 130,347</u>	<u>\$ 115,671</u>	<u>\$ 14,676</u>	<u>\$ 127,628</u>	<u>\$ 148,926</u>	<u>\$ (21,298)</u>
\$ 11,260	\$ 23,407	\$ (12,147)	\$ 21,055	\$ 20,138	\$ 917	\$ 8,434	\$ 20,338	\$ (11,904)
12,427	12,601	(174)	11,553	11,051	502	11,552	11,820	(268)
<u>\$ 23,687</u>	<u>\$ 36,008</u>	<u>\$ (12,321)</u>	<u>\$ 32,608</u>	<u>\$ 31,189</u>	<u>\$,1419</u>	<u>\$ 19,986</u>	<u>\$ 32,158</u>	<u>\$ (12,172)</u>
\$ 77	\$ 77	\$ -	\$ 188	\$ 173	\$ 15	\$ 188	\$ 129	\$ 59
5,590	5,778	(188)	5,056	5,359	(303)	5,021	5,187	(166)
<u>\$ 5,667</u>	<u>\$ 5,855</u>	<u>\$ (188)</u>	<u>\$ 5,244</u>	<u>\$ 5,532</u>	<u>\$ (288)</u>	<u>\$ 5,209</u>	<u>\$ 5,316</u>	<u>\$ (107)</u>
<u>\$ 146</u>	<u>\$ 134</u>	<u>\$ 12</u>	<u>\$ 83</u>	<u>\$ 200</u>	<u>\$ (117)</u>	<u>\$ 83</u>	<u>\$ 67</u>	<u>\$ 16</u>

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