This Preliminary Official Statement and the information contained herein are subject to completion, revision and amendment. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful.

PRELIMINARY OFFICIAL STATEMENT DATED JULY 31, 2012

SALE DATE: AUGUST 7, 2012
NEW ISSUE, BOOK-ENTRY ONLY

STATE OF WASHINGTON

Ratings:
Fitch Ratings: AA+
Moody's: Aa1
Standard & Poor's: AA+
(See "BOND RATINGS.")

$338,725,000*
VARIOUS PURPOSE GENERAL OBLIGATION REFUNDING BONDS, SERIES R-2013A

$364,545,000*
MOTOR VEHICLE FUEL TAX GENERAL OBLIGATION REFUNDING BONDS, SERIES R-2013B

Dated: Date of Initial Delivery

Due: January 1, 2013, and July 1 thereafter, as shown herein

The Series R-2013A Bonds and the Series R-2013B Bonds referenced above (collectively, the "Bonds") are general obligations of the State of Washington (the "state") to which the state has pledged its full faith, credit and taxing power. The Series R-2013B Bonds are first payable from state excise taxes on motor vehicle and special fuels. See "SECURITY FOR THE BONDS."

Interest on the Bonds is payable semiannually on each January 1 and July 1, beginning January 1, 2013. The principal of the Series R-2013A Bonds is payable in the stated maturity amounts on January 1, 2013, and thereafter on each July 1 as set forth on page i hereof. The principal of the Series R-2013B Bonds is payable in the stated maturity amounts on January 1, 2013, and thereafter on each July 1 as set forth on page ii hereof. The Bonds may be subject to redemption prior to maturity at the times and prices set forth herein under "DESCRIPTION OF THE BONDS—Redemption Provisions."

The Bonds are issuable as fully registered bonds under a book-entry only system, initially registered in the name of Cede & Co. (the "Registered Owner"), as bond owner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Individual purchases of the Bonds will be made in book-entry form only. The Bonds will be issued in the denomination of $5,000 each or any integral multiple thereof within a single maturity of each Series. Purchasers of the Bonds will not receive certificates representing their interest in the Bonds purchased. The principal of and interest on the Bonds are payable by the fiscal agency of the state, as paying agent, registrar, transfer agent, and authenticating agent (the "Bond Registrar") (currently The Bank of New York Mellon), to DTC, which in turn is obligated to remit such principal and interest to the DTC participants for subsequent disbursement to beneficial owners of the Bonds, as described herein under "DESCRIPTION OF THE BONDS—Book-Entry System."

In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issue date of the Bonds, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals. While interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by corporations is taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by certain S corporations may be subject to tax, and interest on the Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. Receipt of interest on the Bonds may have other federal tax consequences for certain taxpayers. See "TAX MATTERS."

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision. The Bonds are offered when, as and if issued, subject to receipt of the approving opinion of Foster Pepper PLLC, Seattle, Washington, Bond Counsel to the state, and certain other conditions. Certain legal matters in connection with the preparation of this Official Statement will be passed upon for the state by Foster Pepper PLLC, Seattle, Washington, as Disclosure Counsel to the state.

It is anticipated that the Bonds will be available for delivery through the facilities of DTC in New York, New York, or to the Bond Registrar on behalf of DTC by Fast Automated Securities Transfer on or about September 6, 2012.

* Preliminary, subject to change by the state.

No dealer, broker, salesperson, or other person has been authorized by the state to give any information or to make any representations with respect to the Bonds other than those contained in this Official Statement and, if given or made, such information or representations must not be relied upon. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information set forth herein has been obtained from sources that are believed to be current and reliable. The state, however, makes no representation regarding the accuracy or completeness of the information in Appendix E—"DTC AND ITS BOOK-ENTRY SYSTEM," which has been obtained from DTC's website. Estimates and opinions should not be interpreted as statements of fact. Summaries of documents do not purport to be complete statements of their provisions and such summaries are qualified by references to the entire contents of the summarized documents. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made by use of this Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the state since the date hereof.

In connection with the offering of the Bonds, the Underwriter(s) may overallot or effect transactions which stabilize or maintain the market price of the Bonds at levels above those which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued or recommenced at any time.

The presentation of certain information, including tables of receipts from taxes and other revenues, is intended to show recent historic information and is not intended to indicate future or continuing trends in the financial position or other affairs of the state. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue to be repeated in the future.

This Official Statement contains forecasts, projections and estimates that are based upon expectations and assumptions that existed at the time such forecasts, projections and estimates were prepared. In light of the important factors that may materially affect economic conditions in the state, the inclusion in this Official Statement of such forecasts, projections and estimates should not be regarded as a representation by the state that such forecasts, projections and estimates will occur. Such forecasts, projections and estimates are not intended as representations of fact or as guarantees of results.

If and when included in this Official Statement, the words "plan," "expect," "forecast," "estimate," "budget," "project," "intends," "anticipates" and similar words are intended to identify forward-looking statements, and any such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those projected. Such risks and uncertainties include, among others, general economic and business conditions, changes in political, social and economic conditions, regulatory initiatives and compliance with governmental regulations, litigation and various other events, conditions and circumstances, many of which are beyond the control of the state. These forward-looking statements speak only as of the date they were prepared.

The Bonds will not be registered under the Securities Act of 1933, as amended, in reliance upon an exception contained in such act.

This Preliminary Official Statement has been "deemed final" as of its date by the state pursuant to Rule 15c2-12 (the "Rule") of the Securities and Exchange Commission promulgated under the Securities Exchange Act of 1934, as amended, except for the omission of material permitted to be omitted by such Rule.

STATE OF WASHINGTON
$338,725,000 [1]
VARIOUS PURPOSE GENERAL OBLIGATION
REFUNDING BONDS, SERIES R-2013A

Due	Principal Amounts[1]	Interest Rates	Yields	Prices	CUSIP[3]
January 1, 2013	$ 1,765,000				
July 1, 2016	17,070,000				
July 1, 2017	17,755,000				
July 1, 2018	18,575,000				
July 1, 2019	19,535,000				
July 1, 2020	20,525,000				
July 1, 2021	21,585,000				
July 1, 2022	22,695,000				
July 1, 2023	23,855,000[2]				
July 1, 2024	25,080,000[2]				
July 1, 2025	26,365,000[2]				
July 1, 2026	27,715,000[2]				
July 1, 2027	29,140,000[2]				
July 1, 2028	30,625,000[2]				
July 1, 2029	17,765,000[2]				
July 1, 2030	18,675,000[2]				
Total	$338,725,000				

(1) Preliminary, subject to change as provided in the Official Notice of Sale.
(2) These amounts will constitute principal maturities of the Series R-2013A Bonds unless all or a portion of these Series R-2013A Bonds are designated as Term Bonds by the successful bidder, in which case these amounts will constitute mandatory sinking fund redemptions of such Series R-2013A Term Bonds.
(3) The CUSIP data herein is provided by the CUSIP Global Services, managed on behalf of the American Bankers Association by Standard and Poor's. The CUSIP numbers are not intended to create a database and do not serve in any way as a substitute for CUSIP service. CUSIP numbers have been assigned by an independent company not affiliated with the state and are provided solely for convenience and reference. The CUSIP numbers for a specific maturity are subject to change after the issuance of the Bonds. Neither the state nor the Underwriter(s) take responsibility for the accuracy of the CUSIP numbers.

STATE OF WASHINGTON
$364,545,000 [1]
MOTOR VEHICLE FUEL TAX GENERAL OBLIGATION
REFUNDING BONDS, SERIES R-2013B

Due	Principal Amounts[1]	Interest Rates	Yields	Prices	CUSIP[3]
January 1, 2013	$ 2,730,000				
July 1, 2013	4,280,000				
July 1, 2014	4,395,000				
July 1, 2015	4,555,000				
July 1, 2016	21,130,000				
July 1, 2017	22,185,000				
July 1, 2018	23,365,000				
July 1, 2019	22,230,000				
July 1, 2020	20,345,000				
July 1, 2021	21,625,000				
July 1, 2022	22,900,000				
July 1, 2023	24,115,000[2]				
July 1, 2024	25,520,000[2]				
July 1, 2025	26,765,000[2]				
July 1, 2026	28,095,000[2]				
July 1, 2027	29,635,000[2]				
July 1, 2028	31,265,000[2]				
July 1, 2029	16,910,000[2]				
July 1, 2030	12,500,000[2]				
Total	$364,545,000				

(1) Preliminary, subject to change as provided in the Official Notice of Sale.
(2) These amounts will constitute principal maturities of the Series R-2013B Bonds unless all or a portion of these Series R-2013B Bonds are designated as Term Bonds by the successful bidder, in which case these amounts will constitute mandatory sinking fund redemptions of such Series R-2013B Term Bonds.
(3) The CUSIP data herein is provided by the CUSIP Global Services, managed on behalf of the American Bankers Association by Standard and Poor's. The CUSIP numbers are not intended to create a database and do not serve in any way as a substitute for CUSIP service. CUSIP numbers have been assigned by an independent company not affiliated with the state and are provided solely for convenience and reference. The CUSIP numbers for a specific maturity are subject to change after the issuance of the Bonds. Neither the state nor the Underwriter(s) take responsibility for the accuracy of the CUSIP numbers.

STATE FINANCE COMMITTEE

OF THE

STATE OF WASHINGTON

JAMES L. McINTIRE ..... Treasurer and Chairman

CHRISTINE O. GREGOIRE.....Governor and Member

BRAD OWEN .....Lieutenant Governor and Member

Ellen L. Evans.....Deputy State Treasurer—Debt Management

BOND COUNSEL AND DISCLOSURE COUNSEL TO THE STATE

Foster Pepper PLLC
Seattle, Washington

FINANCIAL ADVISORS TO THE STATE

Montague DeRose and Associates, LLC
Walnut Creek, California

Seattle-Northwest Securities Corporation
Seattle, Washington

This Official Statement will be available upon request to the Office of the State Treasurer. This Official Statement is available via the Internet at the Office of the State Treasurer's Home Page:

http://www.tre.wa.gov/investors/investorinformation.shtml

The availability of this Official Statement via the Internet will not under any circumstances create any implication that there has been no change in the affairs of the state since the date hereof, or that the statements and information herein are current as of any date after the date hereof.

The website of the state or any state department or agency is not part of this Official Statement, and investors should not rely on information presented in the state's website, or on any other website referenced herein, in determining whether to purchase the Bonds. Information appearing on any such website is not incorporated by reference in this Official Statement.

CONTACT INFORMATION

State of Washington	Office of the State Treasurer Legislative Building Second Floor, Room 230 416 Sid Snyder Avenue SW Olympia, Washington 98501 Phone: (360) 902-9000
Bond Registrar and Paying Agent	The Bank of New York Mellon 101 Barclay Street, 21st Floor New York, New York 10286 Phone: (800) 438-5473
Bond Counsel and Disclosure Counsel	Foster Pepper PLLC 1111 Third Avenue, Suite 3400 Seattle, Washington 98101 Phone: (206) 447-4400
Financial Advisors	Montague DeRose and Associates, LLC 2175 N. California Boulevard, Suite 745 Walnut Creek, California 94596 Phone: (925) 256-9797
	Seattle-Northwest Securities Corporation 1420 Fifth Avenue, Suite 4300 Seattle, Washington 98101 Phone: (206) 628-2882 Date of Sale Phone: (206) 696-2950

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OFFICIAL NOTICE OF SALE

STATE OF WASHINGTON

$338,725,000*
VARIOUS PURPOSE GENERAL OBLIGATION
REFUNDING BONDS, SERIES R-2013A

$364,545,000*
MOTOR VEHICLE FUEL TAX GENERAL OBLIGATION
REFUNDING BONDS, SERIES R-2013B

Separate electronic bids will be received by the State Finance Committee (the "Committee") acting by and through the State Treasurer (the "Treasurer"), at the Office of the State Treasurer, Legislative Building, Second Floor, Room 230, 416 Sid Snyder Avenue SW, Olympia, Washington, on behalf of the State of Washington (the "state"), for purchase of each of the above separate Series of the Bonds (collectively, the "Bonds") on

AUGUST 7, 2012, at

SERIES R-2013A BONDS	**7:00 A.M., PACIFIC TIME**
SERIES R-2013B BONDS	**7:30 A.M., PACIFIC TIME**

Each Series of the Bonds will be sold separately, on an all-or-none basis. Bids must be submitted electronically via the Qualified Electronic Bid Provider (defined below). See "Bidding Detail."

Bidders are referred to the Preliminary Official Statement for additional information regarding the state, the Bonds, the security therefor, and other matters.

Modification; Cancellation; Postponement. Bidders are advised that the state may modify the terms of this Official Notice of Sale prior to the time for receipt of bids, including to change the principal amount and principal payments of one or more Series of the Bonds. Any such modifications will be announced through The Bond Buyer Wire (available on TM3, the Thomson Municipal Market Monitor, at *http://www.tm3.com*, which website is not incorporated herein by reference) (the "News Service"), prior to 1:00 p.m., Pacific Time, on August 6, 2012. In addition, the state may cancel or postpone the date and time for the receipt of bids for the Bonds at any time prior to the opening of the bids. The issuance of the Bonds is subject to market conditions. Notice of such cancellation or postponement will be communicated by the state through the News Service as soon as practicable following such cancellation or postponement. As an accommodation to bidders, telephone, facsimile or electronic notice of any amendment or modification of this Official Notice of Sale will be given to any bidder requesting such notice from the state's financial advisor at the address and phone number listed in the last paragraph of this Official Notice of Sale. Failure of any bidder to receive such notice by telephone, facsimile or the News Service will not affect the legality of the sale.

Each bidder (and not the Committee or the state) is responsible for the timely electronic delivery of its bid. The official time will be determined by the Committee acting by and through the Treasurer and not by any bidder or Qualified Electronic Bid Provider.

* Preliminary, subject to change by the state as described in this Official Notice of Sale.

Description of the Bonds

Series R-2013A Bonds. The Series R-2013A Bonds will be dated the date of their initial delivery, will be issued in denominations of $5,000 each or any integral multiple thereof within a single maturity and will bear interest at such rate or rates as the Committee acting by and through the Treasurer shall approve at the time of sale, payable semiannually on each January 1 and July 1, beginning January 1, 2013, to their maturity or earlier redemption.

The Series R-2013A Bonds will mature as follows:

Maturity Dates	Principal Amounts[1]
January 1, 2013	$ 1,765,000
July 1, 2016	17,070,000
July 1, 2017	17,755,000
July 1, 2018	18,575,000
July 1, 2019	19,535,000
July 1, 2020	20,525,000
July 1, 2021	21,585,000
July 1, 2022	22,695,000
July 1, 2023	23,855,000[2]
July 1, 2024	25,080,000[2]
July 1, 2025	26,365,000[2]
July 1, 2026	27,715,000[2]
July 1, 2027	29,140,000[2]
July 1, 2028	30,625,000[2]
July 1, 2029	17,765,000[2]
July 1, 2030	18,675,000[2]
	$338,725,000

(1) Preliminary, subject to change by the state as described in this Official Notice of Sale.
(2) These amounts will constitute principal maturities of the Series R-2013A Bonds unless all or a portion of these Series R-2013A Bonds are designated as Term Bonds by the successful bidder, in which case these amounts will constitute mandatory sinking fund redemptions of such Series R-2013A Term Bonds.

Series R-2013B Bonds. The Series R-2013B Bonds will be dated the date of their initial delivery, will be issued in denominations of $5,000 each or any integral multiple thereof within a single maturity and will bear interest at such rate or rates as the Committee acting by and through the Treasurer shall approve at the time of sale, payable semiannually on each January 1 and July 1, beginning January 1, 2013, to their maturity or earlier redemption.

The Series R-2013B Bonds will mature as follows:

Maturity Dates	Principal Amounts[1]
January 1, 2013	$ 2,730,000
July 1, 2013	4,280,000
July 1, 2014	4,395,000
July 1, 2015	4,555,000
July 1, 2016	21,130,000
July 1, 2017	22,185,000
July 1, 2018	23,365,000
July 1, 2019	22,230,000
July 1, 2020	20,345,000
July 1, 2021	21,625,000
July 1, 2022	22,900,000
July 1, 2023	24,115,000[2]
July 1, 2024	25,520,000[2]
July 1, 2025	26,765,000[2]
July 1, 2026	28,095,000[2]
July 1, 2027	29,635,000[2]
July 1, 2028	31,265,000[2]
July 1, 2029	16,910,000[2]
July 1, 2030	12,500,000[2]
	$364,545,000

(1) Preliminary, subject to change by the state as described in this Official Notice of Sale.
(2) These amounts will constitute principal maturities of the Series R-2013B Bonds unless all or a portion of these Series R-2013B Bonds are designated as Term Bonds by the successful bidder, in which case these amounts will constitute mandatory sinking fund redemptions of such Series R-2013B Term Bonds.

Adjustment of Amount of Bonds and Bid Price. The state has reserved the right to increase or decrease the preliminary principal amount of each Series of the Bonds by an amount not to exceed 10 percent following the opening of the bids. The state also reserves the right to increase or decrease the preliminary principal amount of any maturity of Series R-2013A Bonds by an amount not to exceed the greater of 15 percent of the preliminary principal amount of that maturity or $600,000. The state also reserves the right to increase or decrease the preliminary principal amount of any maturity of Series R-2013B Bonds by an amount not to exceed the greater of 15 percent of the preliminary principal amount of that maturity or $1,000,000. The price bid by the successful bidder will be adjusted by the state on a proportionate basis to reflect an increase or decrease in the principal amount and maturity schedule within 24 hours of the bid opening. The state will not be responsible in the event and to the extent that any adjustment affects the net compensation to be realized by the successful bidder.

Optional Redemption. The state may redeem either series of Bonds maturing on or after July 1, 2023, as a whole or in part on any date on or after July 1, 2022 (with the maturities to be redeemed to be selected by the state and randomly within a maturity in such manner as the Bond Registrar shall determine), at par plus accrued interest to the date fixed for redemption.

The state may declare, subject to market conditions, that a Series of Bonds will not be subject to optional redemption. The state will notify bidders through the News Service before the sale of the Bonds if it so declares.

Mandatory Redemption. The Bonds of a Series may be subject to mandatory redemption if the successful bidder for such Series designates certain maturities as Term Bonds. See "DESCRIPTION OF THE BONDS–Redemption Provisions" in the Preliminary Official Statement.

Book-Entry Only. The Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Individual purchases will be made in book-entry form only, and purchasers will not receive physical certificates representing their interests in the Bonds purchased. See Appendix E–"DTC AND ITS BOOK-ENTRY SYSTEM."

Purpose

The Series R-2013A Bonds are being issued to refund certain outstanding various purpose general obligation bonds of the state for debt service savings and to pay the costs of issuance of the Series R-2013A Bonds. The Series R-2013B Bonds are being issued to refund certain outstanding motor vehicle fuel tax general obligation bonds of the state for debt service savings and to pay the costs of issuance of the Series R-2013B Bonds. See "DESCRIPTION OF THE BONDS–Authority and Purpose" and "SOURCES AND USES OF FUNDS–Plan of Refunding" in the Preliminary Official Statement.

Security

The Bonds are general obligations of the state, and the full faith, credit and taxing power of the state are pledged irrevocably to the payment of the Bonds. The Series R-2013B are first payable from state excise taxes on motor vehicle and special fuels. See "SECURITY FOR THE BONDS" in the Preliminary Official Statement.

Bidding Detail

Electronic Bids. Electronic bids for each Series of the Bonds must be submitted via a Qualified Electronic Bid Provider only. The state has designated Parity® as the Qualified Electronic Bid Provider for purposes of receiving electronic bids for the Bonds. By designating a bidding service as a Qualified Electronic Bid Provider, the state does not endorse the use of such bidding service.

A bidder submitting an electronic bid for any Series of the Bonds thereby agrees to the following terms and conditions:

(1) If any provision in this Official Notice of Sale with respect to the Bonds conflicts with information or terms provided or required by the Qualified Electronic Bid Provider, this Official Notice of Sale, including any amendments issued through the News Service, shall control.

(2) Each bidder shall be solely responsible for making necessary arrangements to access the Qualified Electronic Bid Provider for purposes of submitting its bid in a timely manner and in compliance with the requirements of this Official Notice of Sale.

(3) The state shall not have any duty or obligation to provide or assure access to the Qualified Electronic Bid Provider to any bidder, and the state shall not be responsible for proper operation of, or have any liability for, any delays, interruptions or damages caused by use of the Qualified Electronic Bid Provider or any incomplete, inaccurate or untimely bid submitted by any bidder through the Qualified Electronic Bid Provider.

(4) The state is permitting use of the Qualified Electronic Bid Provider as a communication mechanism, and not as the state's agent, to conduct the electronic bidding for the Bonds. The Qualified Electronic Bid Provider is acting as an independent contractor, and is not acting for or on behalf of the state.

(5) The state is not responsible for ensuring or verifying bidder compliance with any Qualified Electronic Bid Provider procedures.

(6) If the bidder's bid is accepted by the Committee acting by and through the Treasurer, this Official Notice of Sale and the information that is transmitted electronically through the Qualified Electronic Bid Provider shall form a contract, and the bidder shall be bound by the terms of such contract.

(7) Information provided by the Qualified Electronic Bid Provider to bidders shall form no part of any bid or of any contract between the successful bidder and the state unless that information is included in this Official Notice of Sale.

Further information about the Qualified Electronic Bid Provider, including any fees charged, may be obtained by calling Bidcomp/Parity® at (212) 849-5021.

Form of Bids. Bids for each Series of the Bonds must be unconditional, and for not less than all of that Series. By submitting a bid, each bidder agrees to all of the terms and conditions of this Official Notice of Sale, as they may be modified in accordance herewith. Bids for each Series of the Bonds must be submitted electronically via the Qualified Electronic Bid Provider. Bids may not be withdrawn or revised after the time that bids are due.

Interest Rates Bid. Bidders for the Bonds may specify any number of interest rates in multiples of one-eighth or one-twentieth of one percent (1/8 or 1/20 of 1%), or both. All Bonds of the same maturity of a particular Series must bear interest at the same rate, and no Bond of a particular Series shall bear interest at more than one rate.

Premium and Discount. No bid offering to pay an amount less than 110 percent or more than 125 percent of the par value of the Series R-2013A Bonds will be considered. Each maturity of the Series R-2013A Bonds must be reoffered at a yield that will produce a price of not less than 98 percent.

No bid offering to pay an amount less than 110 percent or more than 125 percent of the par value of the Series R-2013B Bonds will be considered. Each maturity of the Series R-2013B Bonds must be reoffered at a yield that will produce a price of not less than 98 percent.

Selection of Winning Bid

The bids for the Bonds will be considered by the Committee acting by and through the Treasurer in the Office of the State Treasurer, commencing at approximately 11:00 a.m., Pacific Time, on August 7, 2012. The results of the foregoing bond sales will be posted on the Treasurer's website promptly following approval of the Bond Sale Resolutions by the Committee acting by and through the Treasurer.

The Bonds of each Series will be sold to the bidder submitting a bid in conformance with this Official Notice of Sale that produces the lowest true interest cost ("TIC") to the state, based on the bid price, the interest rates specified in the electronic bid and the principal amounts identified in this Official Notice of Sale. The TIC will be the rate necessary, when using a 360-day year and semiannual compounding, to

discount the debt service payments from the payment dates to the initial delivery date of the Bonds (currently anticipated to be September 6, 2012) and to the price bid.

The successful bidder for each Series of the Bonds will be bound to purchase such Series of the Bonds in the principal amount, at such price and with such interest rates as are specified in its bid.

Right of Rejection

The Committee acting by and through the Treasurer reserves the right to reject any or all bids and to waive any irregularity in any bid. In the event that two or more bidders for a Series of the Bonds submit bids at the same lowest TIC, the Committee acting by and through the Treasurer will determine which bidder is awarded those Bonds in its sole discretion.

Good Faith Deposit

The successful bidder shall deliver to the Treasurer a good faith deposit in the amount of $3,400,000 with respect to the Series R-2013A Bonds and $3,600,000 with respect to the Series R-2013B Bonds. The good faith deposit may be paid in one of the following ways:

(1) By federal funds wire transfer delivered no later than 90 minutes following the successful bidder's receipt of the verbal award. Wiring instructions will be provided to the successful bidder at the time of the verbal award.

(2) By certified or bank cashier's check made payable to the order of the State Treasurer and delivered to the Treasurer prior to the time of receipt of the bids.

Any good faith deposit submitted by a bidder whose bid is not accepted shall be returned promptly by the state, but the state shall not be liable for interest for any delay in such return.

The good faith deposit of the successful bidder for each Series of the Bonds will be retained by the state as security for the performance of such bid, and will be applied to the purchase price of such Series of the Bonds on the delivery of such Series of the Bonds to the successful bidder. Pending delivery of the Bonds, the good faith deposit for each Series of the Bonds may be invested for the sole benefit of the state.

If the Bonds of a Series are ready for delivery and the successful bidder for a Series of the Bonds fails to complete the purchase of such Series of the Bonds by September 6, 2012, such good faith deposit will be forfeited to the state, and, in that event, the Committee acting by and through the Treasurer may accept the next best bid or call for additional proposals.

Bond Insurance; Ratings

Bond Insurance. The purchase of any insurance policy for any Series of the Bonds or the issuance of any commitment therefor will be at the sole option and expense of the successful bidder(s) for such Series of Bonds. Bids may not be conditioned upon qualification for or the receipt of municipal bond insurance. Any increased costs of issuance of the Bonds of any Series resulting from such purchase of insurance will be paid by the successful bidder for that Series and will not, in any event, be paid by the state. Payment of any bond insurance premium and satisfaction of any conditions to the issuance of the municipal bond insurance policy will be the sole responsibility of the successful bidder. In particular, the state will not enter into any agreements with respect to the provisions of any such policy.

Failure of any municipal bond insurer to issue or deliver its policy will not constitute cause for failure or refusal by the successful bidder to accept delivery of or to tender payment for the Bonds.

The successful bidder must provide the state with the municipal bond insurance commitment and information with respect to the municipal bond insurance policy and the insurance provider for inclusion in the final Official Statement within two business days following the award of the bid by the Committee acting by and through the Treasurer. The state will require delivery, on or prior to the date of initial delivery of the Bonds, of:

(1) a certificate from the insurance provider regarding the accuracy and completeness of the information provided for inclusion in the Official Statement,

(2) an opinion of counsel to the insurance provider regarding the validity and enforceability of the municipal bond insurance policy, and

(3) a certificate with respect to certain tax matters,

each in a form reasonably satisfactory to the state and its Bond Counsel.

Ratings. The state has received ratings from Fitch Ratings, Moody's Investors Service Inc., and Standard & Poor's Ratings Services, a business unit within Standard & Poor's Financial Services LLC, a subsidiary of The McGraw-Hill Companies, Inc., of AA+, Aa1 and AA+, respectively. The state will pay the fees for these ratings. Any other ratings are the responsibility of the successful bidder(s).

Delivery of Bonds

The Bonds of each Series will be delivered to DTC in New York, New York, or to the Bond Registrar on behalf of DTC by Fast Automated Securities Transfer, against payment of the purchase price to the state, in immediately available federal funds less the amount of the good faith deposit for the applicable Series of the Bonds. On or before the date of initial delivery of the Bonds, the successful bidders for the Bonds shall provide to the state such information as Bond Counsel to the state deems necessary to determine the yield on the Bonds for purposes of Section 148 of the Code.

Upon award of each Series of Bonds, the successful bidder for each Series of such Bonds shall advise the state and Bond Counsel of the initial reoffering prices at which each maturity of such Series of Bonds is reasonably expected on the sale date to be sold to the public (the "Initial Reoffering Prices"), for the state's inclusion in the final Official Statement for the Bonds. Simultaneously with or before delivery of the Bonds, the successful bidder for each such Series of Bonds shall furnish to the state and Bond Counsel a certificate in form and substance acceptable to Bond Counsel:

(1) confirming the Initial Reoffering Prices,

(2) certifying that a *bona fide* offering of such Series of Bonds has been made to the public (excluding bond houses, brokers and other intermediaries),

(3) stating the first price at which a substantial amount (at least 10 percent) of each maturity of such Series of Bonds was sold to the public (excluding bond houses, brokers and other intermediaries),

(4) if the first price at which a substantial amount of any maturity of such Series of Bonds does not conform to the Initial Reoffering Price of that maturity, providing an explanation of the facts and circumstances that resulted in that non-conformity, and

(5) stating which maturities, if any, are amortization installments of Term Bonds of such Series of Bonds maturing in the years specified by the bidder.

The successful bidder for each Series of Bonds must actually reoffer all of the Bonds of such Series to the general public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers).

A draft form of such certificate will be available prior to the sale date from the state's financial advisor, Seattle-Northwest Securities Corporation.

The Bonds will be delivered in "book-entry only" form in accordance with the letter of representations from the state to DTC. As of the date of the award of the Bonds, the successful bidder(s) must either participate in DTC or clear through or maintain a custodial relationship with an entity that participates in DTC.

The state will furnish to the successful bidder(s) of each Series of the Bonds one CD-ROM transcript of proceedings; additional transcripts will be furnished at such successful bidder's cost.

If, prior to the delivery of the Bonds, the interest on a Series of Bonds shall become includable in the gross income of the recipients thereof for federal income tax purposes, or if legislation which would have the same effect if adopted into law is passed by either house of Congress or proposed by a joint conference committee, the successful bidder(s), at its option, may be relieved of the obligation to purchase such Series of Bonds, or the state, at its option, may be relieved of the obligation to deliver such Series of Bonds.

CUSIP Numbers

It is anticipated that CUSIP identification numbers will be printed on the Bonds; however, neither the failure to print CUSIP numbers on any Bond nor any error with respect thereto will constitute cause for failure or refusal by the successful bidder(s) therefor to accept delivery of and pay for the Bonds.

The successful bidder for each Series of the Bonds is responsible for obtaining CUSIP numbers for the Bonds of such Series and the CUSIP Global Services charge for the assignment of those numbers is the responsibility of and shall be paid for by the successful bidder.

Legal Opinion

The state will furnish to the successful bidder(s) and have delivered with the Bonds of each Series the legal opinion of Foster Pepper PLLC, Seattle, Washington, Bond Counsel, for each Series of the Bonds in substantially the forms included in the Preliminary Official Statement as Appendix C.

Continuing Disclosure

The state has entered into an undertaking for the benefit of the beneficial owners of the Bonds to provide certain historical financial information and operating data to the Municipal Securities Rulemaking Board (the "MSRB") and to provide notice to the MSRB of certain events pursuant to the requirements of paragraph (b)(5)(i) of Securities and Exchange Commission ("SEC") Rule 15c2-12 (the "Rule"). See "CONTINUING DISCLOSURE UNDERTAKING" in the Preliminary Official Statement. The state never has failed to comply in any material respect with any previous undertaking entered into pursuant to the Rule.

Closing Documents

As a condition to the obligations of the successful bidder(s) to accept delivery of and pay for the Bonds of each Series, the successful bidder(s) will be furnished the following, dated as of the date of closing:

(1) A certificate of the Deputy State Treasurer on behalf of the Committee certifying that to her knowledge and belief, and after reasonable investigation, the Preliminary Official Statement relating to the Bonds did not as of its date, and the Official Statement relating to the Bonds did not as of its date or as of the date of closing, contain any untrue statement of a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, and no event affecting the Bonds has occurred since the date of the Official Statement which should be disclosed in the Official Statement for the purpose for which it is to be used or which it is necessary to disclose therein in order to make the statements and information therein not misleading in any material respect (except that in no event is any representation being made with respect to information therein regarding DTC and its book-entry only system and regarding any municipal bond insurer and its municipal bond insurance policy, and information provided by the successful bidders regarding reoffering prices and yields); and

(2) A certificate of an Assistant Attorney General of the state, based on such inquiry and investigation deemed sufficient by such Assistant Attorney General, to the effect that, except as otherwise disclosed in the Preliminary Official Statement or the Official Statement, no action, suit or proceeding or any inquiry or investigation by or before any court, governmental agency, public board or body in which the State has been served or, to the best of his/her knowledge, is pending or threatened against the State which: (a) questions the existence of the State or title to office of any member of the State Finance Committee; (b) affects or seeks to prohibit, restrain or enjoin the issuance, sale or delivery of the Bonds, the collection of revenues pledged under the Bond Resolutions or the use of the Official Statement; (c) affects or questions the validity or enforceability of the Bonds or the Bond Resolutions or any other proceedings authorizing the issuance of the Bonds; (d) questions the tax-exempt status of the Bonds, or the completeness or accuracy of the Official Statement; or (e) questions the powers of the State to carry out the transactions contemplated by the Official Statement or the Bond Resolutions.

Official Statement

The Preliminary Official Statement is in a form deemed final by the state for the purpose of the Rule, but is subject to revision, amendment and completion in a final Official Statement, which the state will deliver to the successful bidder for each Series of the Bonds not later than seven business days after the Committee's acceptance of the successful bidder's proposal, in sufficient quantities to permit the successful bidder(s) to comply with the Rule, at the state's expense.

The successful bidder(s) shall file, or cause to be filed, the final Official Statement with the MSRB within one business day following the receipt of the Official Statement from the state.

Each successful bidder also agrees:

(1) to provide to the Treasurer, in writing, within 24 hours of the acceptance of the bid, pricing and other related information, including Initial Reoffering Prices of the Bonds, necessary for completion of the final Official Statement;

(2) to disseminate to all members of the underwriting syndicate, if any, copies of the final Official Statement, including any amendments or supplements prepared by the state; and

(3) to take any and all actions necessary to comply with applicable SEC and MSRB rules governing the offering, sale and delivery of the Bonds to ultimate purchasers, including without limitation, the delivery of a final Official Statement to each investor who purchases Bonds.

Additional Information

Additional information may be obtained from the state's financial advisor, Seattle-Northwest Securities Corporation, 1420 Fifth Avenue, Suite 4300, Seattle, Washington 98101; telephone: (206) 628-2882; telephone on date of sale: (206) 696-2950. The Preliminary Official Statement may be obtained from i-Deal Prospectus, a service of i-Deal LLC, at *www.i-dealprospectus.com*; telephone (212) 849-5024.

STATE FINANCE COMMITTEE
STATE OF WASHINGTON

By: /s/ Ellen L. Evans
Deputy State Treasurer—Debt Management

OFFICIAL STATEMENT

STATE OF WASHINGTON

$338,725,000*[*]
VARIOUS PURPOSE GENERAL OBLIGATION
REFUNDING BONDS, SERIES R-2013A

$364,545,000[*]
MOTOR VEHICLE FUEL TAX GENERAL OBLIGATION
REFUNDING BONDS, SERIES R-2013B

INTRODUCTION

The purpose of this Official Statement, including the cover hereof and the appendices hereto, is to provide information in connection with the offering and sale by the State of Washington (the "state" or "Washington") of the above-captioned bonds (collectively, the "Bonds").

The references to and summaries of certain provisions of the Washington State Constitution (the "Constitution") and laws of the state and any other documents and agreements referred to herein do not purport to be complete and are qualified in their entirety by reference to the complete provisions thereof. Certain financial information regarding the state has been taken or derived from the audited financial statements and other financial reports of the state. General and economic information about the state is included in Appendix A—"GENERAL AND ECONOMIC INFORMATION," and audited basic financial statements for the state's fiscal year ended June 30, 2011, are included as Appendix D—"THE STATE'S 2011 AUDITED BASIC FINANCIAL STATEMENTS."

This Official Statement is not to be construed as a contract with the purchasers of the Bonds.

State Finance Committee

The State Legislature (the "Legislature"), by statute, has delegated to the State Finance Committee (the "Committee") authority to supervise and control the issuance of all state bonds and other state obligations, including certificates of participation and other financing contracts, authorized by the Legislature. The Committee is composed of the Governor, Lieutenant Governor and Treasurer. The Treasurer is designated as Chairman of the Committee, and pursuant to Chapter 3, Laws of 1981 (Section 43.33.030 of the Revised Code of Washington ("RCW")), the Office of the State Treasurer provides administrative support to the Committee. A Deputy State Treasurer acts as recording officer for the Committee and is responsible for the administration of its official duties in accordance with prescribed policies of the Committee.

By the enactment of Chapter 18, Laws of 2010, 1st Spec. Sess., the Legislature amended RCW 39.42.030(2) to authorize the Committee to delegate to the Treasurer the authority, by resolution, to (1) accept offers to purchase bonds, notes, or other evidences of indebtedness of the state and to sell and deliver such bonds, notes, or other evidences of indebtedness to the purchasers thereof; (2) determine the date or dates, price or prices, principal amounts per maturity, delivery dates, interest rate or rates (or

[*] Preliminary, subject to change by the state.

mechanisms for determining the interest rate or rates); and (3) set other terms and conditions as the Committee may deem necessary and appropriate; with each such delegation to be limited to bonds, notes, or other evidences of indebtedness which the Committee has authorized to be issued.

DESCRIPTION OF THE BONDS

Authority and Purpose

The State of Washington Various Purpose General Obligation Refunding Bonds, Series R-2013A (the "Series R-2013A Bonds"), in the principal amount of $338,725,000,* are being issued pursuant to Chapters 39.42 and 39.53 RCW, and Resolution No. 1116 of the Committee and Resolution No. ___ of the Committee acting by and through the Treasurer (collectively, the "Series R-2013A Bond Resolution"), for the purpose of refunding certain various purpose general obligation bonds of the state for debt service savings and to pay for the costs of issuance of the Series R-2013A Bonds.

The State of Washington Motor Vehicle Fuel Tax General Obligation Refunding Bonds, Series R-2013B (the "Series R-2013B Bonds"), in the principal amount of $364,545,000,* are being issued pursuant to Chapters 39.42 and 39.53 RCW, and Resolution No. 1116 of the Committee and Resolution No. ___ of the Committee acting by and through the Treasurer (collectively, the "Series R-2013B Bond Resolution"), for the purpose of refunding certain motor vehicle fuel tax general obligation bonds of the state for debt service savings and to pay for the costs of issuance of the Series R-2013B Bonds.

Based on market conditions, the state may refund none, some or all of the Refunded Bond Candidates. See "SOURCES AND USES OF FUNDS—Plan of Refunding."

Description of the Bonds

The Bonds are dated the date of their initial delivery and will be issued as fully registered, book-entry only bonds in the denominations of $5,000 each or any integral multiple thereof within a single maturity of each Series.

Interest on the Bonds is calculated on the basis of a 360-day year and 12 30-day months. Interest on the Bonds will be payable semiannually on each January 1 and July 1, beginning January 1, 2013, at the rates shown on pages i and ii hereof.

Principal of the Bonds is payable on January 1, 2013, and on each July 1 in the years and amounts shown on pages i and ii hereof.

Pursuant to authority granted in Chapter 43.80 RCW, the Committee appoints one or more fiscal agents for the state with the authority to act as paying agent, transfer agent, authenticating agent, and bond registrar for all obligations issued by the state and its political subdivisions. The fiscal agent appointed by the Committee from time to time is herein referred to as the Fiscal Agent or the Bond Registrar. The Committee is currently under contract with The Bank of New York Mellon to act as the fiscal agent for the state for a term that began February 1, 2007, and continues to January 31, 2015. Under the terms of the current fiscal agency contract, The Bank of New York Mellon will authenticate the Bonds for delivery to DTC and will remit payments received from the state as principal and interest to DTC. See "DESCRIPTION OF THE BONDS–Book-Entry Bonds."

* Preliminary, subject to change by the state.

Redemption Provisions

Optional Redemption. The state may redeem the Series R-2013A Bonds and the Series R-2013B Bonds maturing on or after July 1, 2023, as a whole or in part on any date on or after July 1, 2022 (with the maturities to be redeemed to be selected by the state and randomly within a maturity in such manner as the Bond Registrar shall determine), at par plus accrued interest to the date fixed for redemption.

The state may declare, subject to market conditions, that a Series of Bonds will not be subject to optional redemption. The state will notify bidders through the News Service before the sale of the Bonds if it so declares.

Mandatory Redemption. The state will redeem the Series R-2013A Term Bonds, if any, randomly in the manner determined by the Bond Registrar at par plus accrued interest on July 1 in the years and amounts set forth on page i hereof. The state will redeem the Series R-2013B Term Bonds, if any, randomly in the manner determined by the Bond Registrar at par plus accrued interest on July 1 in the years and amounts set forth on page ii hereof.

If the state redeems under the optional redemption provisions, purchases in the open market or defeases Term Bonds of a Series, the par amount of the Term Bonds so redeemed, purchased or defeased (irrespective of their actual redemption or purchase prices) will be credited against one or more scheduled mandatory redemption amounts for those Term Bonds, as determined by the state.

Partial Redemption. If less than all of the Bonds of a Series are to be redeemed at the option of the state, the state may select the maturity or maturities to be redeemed. If less than all of any maturity of the Bonds of a Series are to be redeemed, those Bonds or portions thereof to be redeemed are to be selected in a random method by the Bond Registrar or DTC, as applicable, in accordance with their respective standard procedures. Any Bond in the principal amount of greater than $5,000 may be partially redeemed in any integral multiple of $5,000.

Notice of Redemption; Conditional Notice of Optional Redemption. Notice of redemption shall be given by the Bond Registrar not less than 20 nor more than 60 days prior to the date fixed for redemption by first-class mail, postage prepaid, to the Registered Owners of the Bonds to be redeemed at the address appearing on the bond register maintained by the Bond Registrar; provided, however, so long as the Bonds are in book-entry only form, notice of redemption will be given in accordance with the operational arrangements then in effect at DTC. The state will not provide notice of redemption to any beneficial owners of the Bonds. In the case of an optional redemption, such redemption is to be conditioned on the receipt by the Bond Registrar of sufficient funds for such redemption. If the Bond Registrar does not receive funds sufficient to carry out an optional redemption, the redemption notice may be rescinded by further notice given to the Registered Owners of the affected Bonds. A notice of optional redemption may state that the state retains the right to rescind the redemption notice and the related optional redemption of Bonds by giving a notice of rescission to the affected Registered Owners at any time prior to the scheduled redemption date.

Purchase of Bonds

The state has reserved the right to purchase any of the Bonds at any time and at any price.

Defeasance

Each of the Series R-2013A Bond Resolution and the Series R-2013B Bond Resolution (each a "Bond Resolution") provides that if money and/or "Government Obligations" (as defined in Chapter 39.53

RCW, as now in existence or hereafter amended) maturing at such time(s) and bearing such interest to be earned thereon (without any reinvestment thereof) as will provide a series of payments which shall be sufficient, together with any money initially deposited, to provide for the payment of the principal of and interest on all or a designated portion of a Series of the Bonds when due in accordance with their respective terms are set aside in a special fund (the "trust account") to effect such payment, and are pledged irrevocably in accordance with a refunding plan adopted by the state for the purpose of effecting such payment, then no further payments need be made into the appropriate bond fund for the payment of principal of and interest on such Series of Bonds, the Registered Owners thereof shall cease to be entitled to any lien, benefit or security of the respective Bond Resolution, except the right to receive payment of the principal of and interest on such Bonds when due in accordance with their respective terms from the money and the principal and interest proceeds on the Government Obligations set aside in the trust account, and such Bonds shall no longer be deemed to be outstanding under the Bond Resolution.

Although as a matter of internal policy the state uses only direct obligations of the United States of America and obligations guaranteed by the United States of America in defeasance escrows, the Bond Resolution permits the use of any Government Obligation. The term "Government Obligations" has the meaning given in Chapter 39.53 RCW, as amended, currently: (1) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America and bank certificates of deposit secured by such obligations; (2) bonds, debentures, notes, participation certificates, or other obligations issued by the Banks for Cooperatives, the Federal Intermediate Credit Bank, the Federal Home Loan Bank system, the Export-Import Bank of the United States, Federal Land Banks, or the Federal National Mortgage Association; (3) public housing bonds and project notes fully secured by contracts with the United States; and (4) obligations of financial institutions insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, to the extent insured or to the extent guaranteed as permitted under any other provision of state law.

Book-Entry System

When issued, the Bonds will be registered in the name of Cede & Co. (or such other name as may be requested by an authorized representative of DTC), as nominee of DTC. DTC will act as securities depository for the Bonds. Individual purchases will be made in book-entry form only through DTC, and purchasers will not receive physical certificates representing their interests in the Bonds purchased. For information about DTC and its book-entry system, see Appendix E—"DTC AND ITS BOOK-ENTRY SYSTEM."

Termination of Book-Entry System

If DTC resigns as the securities depository and no substitute can be obtained, or if the state has determined that it is in the best interest of the beneficial owners of the Bonds that they be able to obtain bond certificates, the ownership of the Bonds may be transferred to any person as described in the Bond Resolutions and the Bonds no longer will be held in fully immobilized form. New bonds then will be issued in appropriate denominations and registered in the names of the beneficial owners. See Appendix E—"DTC AND ITS BOOK-ENTRY SYSTEM."

State and Bond Registrar Responsibilities

Neither the state nor the Bond Registrar will have any responsibility or any liability to the beneficial owners for any error, omission, action, or failure to act on the part of DTC or any Direct Participant or Indirect Participant of DTC with respect to the following: (1) proper recording of beneficial ownership interests of the Bonds or confirmation of their ownership interest; (2) proper transfers of such beneficial ownership interests; (3) the payment, when due, to the beneficial owners of principal of and premium, if

any, or interest on the Bonds; (4) any notices to beneficial owners; (5) any consent given; or (6) any other DTC or Participant error, omission, action or failure to act pertaining to the Bonds.

SOURCES AND USES OF FUNDS

Sources and Uses

The following table shows the estimated sources and uses of proceeds to be received from the sale of the Bonds:

	R-2013A	R-2013B	Total[1]
Sources			
Par Amount of Bonds			
Original Issue Premium/Discount			
Total Sources			
Uses			
Deposit to Escrow Funds			
Costs of Issuance[2]			
Underwriting Spread			
Total Uses			

(1) Totals may not add due to rounding.
(2) Includes fees for services of the rating agencies, financial advisors, escrow agent, escrow verification, Bond Counsel and disclosure counsel, and other costs.

Plan of Refunding

The Bonds are being issued to provide for the refunding of all or part of the various purpose general obligation bonds (the "Various Purpose Refunded Bond Candidates") and for the refunding of all or part of the motor vehicle fuel tax general obligation bonds (the "Motor Vehicle Fuel Tax Refunded Bond Candidates, and together with the Various Purpose Refunded Bond Candidates, the "Refunded Bond Candidates") shown in the tables set forth below. The refundings are being undertaken to achieve debt service savings.

For the current refunding of the Motor Vehicle Fuel Tax Refunded Bond Candidates consisting of the Motor Vehicle Fuel Tax General Obligation Refunding Bonds, Series R-2003B, on the issue date of the Series R-2013B Bonds, the state will irrevocably deposit proceeds of the Series R-2013B Bonds into the Highway Bond Retirement Account of the state in the State Treasury in an amount verified by Causey Demgen & Moore P.C., independent certified public accountants, to be sufficient to call, pay and redeem those Motor Vehicle Refunded Bond Candidates on the day immediately following the issue date.

For the advance refunding of the remaining Refunded Bond Candidates, on the issue date of the Bonds, the state will enter into an Escrow Agreement with U.S. Bank National Association, as Escrow Agent. The Escrow Agreement will provide for the refunding of all or part of those Refunded Bond Candidates. The Escrow Agreement creates an irrevocable trust fund to be held by the Escrow Agent and to be applied solely to the payment of the applicable Refunded Bond Candidates. The proceeds of the Bonds required to carry out that portion of the plan of refunding will be irrevocably deposited with the Escrow Agent and held in cash and/or invested in Government Obligations that will mature and bear interest at rates sufficient to pay the principal of and accrued interest coming due on the respective redemption dates of the applicable Refunded Bond Candidates.

The money and Government Obligations and earnings thereon are held solely for the benefit of the Registered Owners of the Refunded Bond Candidates.

The mathematical accuracy of (1) the computations of the adequacy of the money and maturing principal amounts of and interest on the Government Obligations to be held by the Escrow Agent to pay principal of and interest on the Refunded Bonds as described above, and (2) the computations supporting the conclusion of Bond Counsel that the Bonds are not "arbitrage bonds" under Section 148 of the Code, will be verified by Causey Demgen & Moore P.C., independent certified public accountants.

The following tables list the Refunded Bond Candidates. Issuance of the Bonds and the Refunded Bond Candidates to be refunded, if any, will be based on market conditions.

VARIOUS PURPOSE REFUNDED BOND CANDIDATES

Bonds	Maturity Dates	Interest Rates (%)	Par Amounts ($)	Call Dates	Call Price (%)	CUSIP Numbers
Various Purpose GO Bonds, 2006A, dated August 30, 2005						
Serials	07/01/2016	5.000	9,920,000	07/01/2015	100	93974BFY3
	07/01/2017	5.000	10,420,000	07/01/2015	100	93974BFZ0
	07/01/2018	5.000	10,960,000	07/01/2015	100	93974BGA4
	07/01/2019	5.000	11,525,000	07/01/2015	100	93974BGB2
	07/01/2020	5.000	12,110,000	07/01/2015	100	93974BGC0
	07/01/2021	5.000	12,735,000	07/01/2015	100	93974BGD8
	07/01/2022	5.000	13,390,000	07/01/2015	100	93974BGE6
	07/01/2023	5.000	14,070,000	07/01/2015	100	93974BGF3
	07/01/2024	5.000	14,790,000	07/01/2015	100	93974BGG1
	07/01/2025	5.000	15,550,000	07/01/2015	100	93974BGH9
	07/01/2026	5.000	16,350,000	07/01/2015	100	93974BGJ5
	07/01/2027	5.000	17,190,000	07/01/2015	100	93974BGK2
	07/01/2028	5.000	18,065,000	07/01/2015	100	93974BGL0
	07/01/2029	5.000	18,995,000	07/01/2015	100	93974BGM8
	07/01/2030	5.000	19,965,000	07/01/2015	100	93974BGN6
Subtotal			216,035,000			

Bonds	Maturity Dates	Interest Rates (%)	Par Amounts ($)	Call Dates	Call Price (%)	CUSIP Numbers
Various Purpose GO Bonds, 2006D, dated February 7, 2006						
Serials	01/01/2017	5.000	7,995,000	01/01/2016	100	93974BMT6
	01/01/2018	5.000	8,395,000	01/01/2016	100	93974BMU3
	01/01/2019	5.000	8,810,000	01/01/2016	100	93974BMV1
	01/01/2020	5.000	9,255,000	01/01/2016	100	93974BMW9
	01/01/2021	5.000	9,715,000	01/01/2016	100	93974BMX7
	01/01/2022	5.000	10,200,000	01/01/2016	100	93974BMY5
	01/01/2023	5.000	10,710,000	01/01/2016	100	93974BMZ2
	01/01/2024	5.000	11,250,000	01/01/2016	100	93974BNA6
	01/01/2025	5.000	11,815,000	01/01/2016	100	93974BNB4
	01/01/2026	5.000	12,400,000	01/01/2016	100	93974BNC2
	01/01/2027	5.000	13,020,000	01/01/2016	100	93974BND0
	01/01/2028	5.000	13,670,000	01/01/2016	100	93974BNE8
	01/01/2029	5.000	14,355,000	01/01/2016	100	93974BNF5
	01/01/2030	5.000	15,075,000	01/01/2016	100	93974BNG3
	01/01/2031	5.000	15,825,000	01/01/2016	100	93974BNH1
Subtotal			172,490,000			
Total			388,525,000			

MOTOR VEHICLE FUEL TAX REFUNDED BOND CANDIDATES

Bonds	Maturity Dates	Interest Rates (%)	Par Amounts ($)	Call Dates	Call Price (%)	CUSIP Numbers
Motor Vehicle Fuel Tax Refunding GO Bonds, R-2003B, dated December 4, 2002						
Serials	09/01/2013	5.000	4,515,000	09/07/2012	100	93974CUX6
	09/01/2014	5.000	4,755,000	09/07/2012	100	93974CUY4
	09/01/2015	5.000	5,000,000	09/07/2012	100	93974CUZ1
	09/01/2016	5.000	5,270,000	09/07/2012	100	93974CVA5
	09/01/2017	5.000	5,545,000	09/07/2012	100	93974CVB3
	09/01/2018	5.000	5,825,000	09/07/2012	100	93974AQX5
	09/01/2019	5.000	3,640,000	09/07/2012	100	93974AQY3
Subtotal			34,550,000			

Bonds	Maturity Dates	Interest Rates (%)	Par Amounts ($)	Call Dates	Call Price (%)	CUSIP Numbers
Motor Vehicle Fuel Tax GO Bonds, 2006B, dated August 30, 2005						
Serials	07/01/2016	5.000	6,635,000	07/01/2015	100	93974BGZ9
	07/01/2017	5.000	6,975,000	07/01/2015	100	93974BHA3
	07/01/2018	5.000	7,335,000	07/01/2015	100	93974BHB1
	07/01/2019	5.000	7,710,000	07/01/2015	100	93974BHC9
	07/01/2020	5.000	8,105,000	07/01/2015	100	93974BHD7
	07/01/2021	5.000	8,525,000	07/01/2015	100	93974BHE5
	07/01/2022	5.000	8,960,000	07/01/2015	100	93974BHF2
	07/01/2023	5.000	9,420,000	07/01/2015	100	93974BHG0
	07/01/2024	5.000	9,900,000	07/01/2015	100	93974BHH8
	07/01/2025	5.000	10,410,000	07/01/2015	100	93974BHJ4
	07/01/2026	5.000	10,945,000	07/01/2015	100	93974BHK1
	07/01/2027	5.000	11,505,000	07/01/2015	100	93974BHL9
	07/01/2028	5.000	12,095,000	07/01/2015	100	93974BHM7
	07/01/2029	5.000	12,720,000	07/01/2015	100	93974BHN5
	07/01/2030	5.000	13,365,000	07/01/2015	100	93974BHP0
Subtotal			144,605,000			
Motor Vehicle Fuel Tax GO Bonds, 2006C, dated September 21, 2005						
Serials	06/01/2016	4.000	1,355,000	06/01/2015	100	93974BJE3
	06/01/2017	4.000	1,990,000	06/01/2015	100	93974BJF0
	06/01/2018	4.000	2,250,000	06/01/2015	100	93974BJG8
	06/01/2019	4.125	2,505,000	06/01/2015	100	93974BJH6
	06/01/2020	4.125	2,750,000	06/01/2015	100	93974BJJ2
	06/01/2021	4.250	2,955,000	06/01/2015	100	93974BJK9
	06/01/2022	4.250	3,305,000	06/01/2015	100	93974BJL7
	06/01/2023	5.000	3,610,000	06/01/2015	100	93974BJM5
	06/01/2024	5.000	3,825,000	06/01/2015	100	93974BJN3
	06/01/2025	5.000	4,180,000	06/01/2015	100	93974BJP8
	06/01/2026	5.000	4,325,000	06/01/2015	100	93974BJQ6
	06/01/2027	5.000	4,500,000	06/01/2015	100	93974BJR4
	06/01/2028	5.000	4,830,000	06/01/2015	100	93974BJS2
	06/01/2029	5.000	5,180,000	06/01/2015	100	93974BJT0
	06/01/2030	5.000	5,370,000	06/01/2015	100	93974BJU7
Subtotal			52,930,000			

Bonds	Maturity Dates	Interest Rates (%)	Par Amounts ($)	Call Dates	Call Price (%)	CUSIP Numbers
Motor Vehicle Fuel Tax GO Bonds, 2006E, dated February 7, 2006						
Serials	01/01/2017	5.000	8,805,000	01/01/2016	100	93974BKW1
	01/01/2018	5.000	9,250,000	01/01/2016	100	93974BKX9
	01/01/2019	5.000	9,710,000	01/01/2016	100	93974BKY7
	01/01/2020	5.000	10,195,000	01/01/2016	100	93974BKZ4
	01/01/2021	5.000	10,700,000	01/01/2016	100	93974BLA8
	01/01/2022	5.000	11,235,000	01/01/2016	100	93974BLB6
	01/01/2023	5.000	11,795,000	01/01/2016	100	93974BLC4
	01/01/2024	5.000	12,390,000	01/01/2016	100	93974BLD2
	01/01/2025	5.000	13,015,000	01/01/2016	100	93974BLE0
	01/01/2026	5.000	13,665,000	01/01/2016	100	93974BLF7
	01/01/2027	5.000	14,340,000	01/01/2016	100	93974BLJ9
	01/01/2028	5.000	15,060,000	01/01/2016	100	93974BLG5
	01/01/2029	5.000	15,810,000	01/01/2016	100	93974BLK6
Term	01/01/2031	5.000	34,040,000	01/01/2016	100	93974BLH3
Subtotal			190,010,000			
Total			422,095,000			

SECURITY FOR THE BONDS

Pledge of Full Faith and Credit

The Bonds are general obligations of the state and, as provided in the Constitution and in each Bond Resolution, the full faith, credit and taxing power of the state are pledged irrevocably to the payment of general obligation bonds, including the Bonds. The Constitution requires the Legislature to provide by appropriation for the payment of the principal of and interest on the state's general obligation bonds as they become due and provides that in any event, any court of record may compel such payment. See Appendix A—"GENERAL AND ECONOMIC INFORMATION—GENERAL FUND" for a discussion of general state revenues that may be applied to pay general obligation bonds.

There is no express provision in the Constitution or in state law on the priority of payment of debt service on state debt as compared to the payment of other state obligations. The constitutional mandate regarding payment of state debt, however, does require that the Legislature appropriate sufficient funds to pay state debt when due, and provides expressly for judicial enforcement of the state's payment obligation on that debt. No other provision of the Constitution contains comparable language providing the courts with authority to compel payment of other state obligations.

Pledge of Excise Tax on Motor Vehicle and Special Fuels

The principal of and interest on the Series R-2013B Bonds are first payable from the proceeds of the state excise taxes on motor vehicle and special fuels imposed by RCW 82.36 and RCW 82.38 and required to be deposited in the Motor Vehicle Fund. In the Series R-2013B Bond Resolution, the Committee on behalf of the state pledges to the payment of the Series R-2013B Bonds and the interest thereon the proceeds of such excise taxes and provides that the charge on such excise taxes for payment of the Series R-2013B Bonds shall be equal to the charge on such excise taxes for the payment of the principal of and interest on any other general obligation bonds of the state to which motor vehicle and special fuel taxes are pledged on an equal basis. In the legislation authorizing the issuance of the Series R-2013B Bonds, the Legislature has agreed to continue to impose those excise taxes on motor vehicle and special fuels in

amounts sufficient to pay, when due, the principal of and interest on all bonds issued under the authority of such legislation, including the Series R-2013B Bonds.

The Constitution provides that the excise taxes on motor vehicle and special fuels are to be used only for highway purposes. The Legislature has established a statutory plan for the distribution and expenditure for highway purposes of specified percentages of such excise taxes received in the Motor Vehicle Fund. The Legislature also has provided that nothing in those provisions may be construed to violate the terms and conditions of any bond issues authorized by statute and whose payment is by such statute pledged to be paid from such excise taxes. See "TRANSPORTATION-RELATED REVENUES AND EXPENDITURES" in Appendix A for a description of the permitted uses and distributions of funds on deposit in the Motor Vehicle Fund.

Payment of Bonds

The Committee is required, on or before June 30 of each year, to certify to the Treasurer the amount required to pay principal of and interest on the Bonds in the next fiscal year. The Treasurer, subject to the applicable provisions of the various state statutes authorizing the Bonds, is required to withdraw from any general state revenues received in the state treasury (or from any available funds in the Motor Vehicle Fund, as applicable), and to deposit in the appropriate bond fund on or before each interest or principal and interest payment date such amounts as are required to pay debt service on the Bonds.

Additional Information

For additional information, see Appendix A—"GENERAL AND ECONOMIC INFORMATION—INDEBTEDNESS AND OTHER OBLIGATIONS" and Appendix B—"BONDS OUTSTANDING."

FUTURE SALES OF OBLIGATIONS

The state currently anticipates that it will issue approximately $380 million of various purpose general obligation bonds and approximately $575 million of motor vehicle fuel tax general obligation bonds in one or more sales in early 2013. In addition, the state expects to issue federal highway grant anticipation revenue bonds in an amount sufficient to generate approximately $300 million of bond proceeds in 2013.

In addition, when and if market conditions allow, additional refunding of outstanding bonds will be considered.

FINANCIAL STATEMENTS

Audited basic financial statements for the state for the Fiscal Year ended June 30, 2011, are included as Appendix D. These statements have been audited by the Auditor, an independent elected official. As described under "CONTINUING DISCLOSURE UNDERTAKING," the state is obligated to provide its audited financial statements to the Municipal Securities Rulemaking Board. In an effort to provide more timely reporting, the state successfully released its Fiscal Years 2011 and 2010 audited financial statements within 150 days of the fiscal year-end.

ECONOMIC AND REVENUE FORECASTS

Revenue, budgetary and economic information concerning the state government and Washington as a whole is contained in Appendix A—"GENERAL AND ECONOMIC INFORMATION." Pursuant to state law, the Office of Economic and Revenue Forecast Council (the "Forecast Council") provides state economic and revenue results and forecasts on a quarterly basis, generally in each March (February in

even-numbered years), June, September and November. The Forecast Council's next economic and revenue forecast is scheduled to be released on or about September 20, 2012. As described in Appendix A, state law requires that state budgets and any necessary budgetary actions of the Governor during a fiscal period be based upon the Forecast Council's official economic and revenue forecasts. The Forecast Council's most recent forecast was released in June 2012, and that forecast is summarized in Appendix A. The Forecast Council also provides monthly updates of certain other information, including estimates of collections. In addition, the state prepares transportation forecasts, including forecasts of motor vehicle fuel excise tax collections, and forecasts about the state's entitlement caseloads. See Appendix A—"GENERAL FUND—General Fund—State Operating Budget" for a discussion of various actions and proposals to address the reduction in state revenue resulting from the continued economic downturn.

LITIGATION

Based on an inquiry with the Attorney General's Office, there is no litigation now pending against the state in any way restraining or enjoining the sale, issuance or delivery of the Bonds, or in any manner challenging the validity of the Bonds, the security for the Bonds or the proceedings or authority pursuant to which they are to be sold and issued or the collection of revenues pledged for the payment of the Bonds.

The state and its agencies are parties to routine legal proceedings that normally occur as a consequence of regular governmental operations. At any given point, there are lawsuits involving state agencies that could, depending on the outcome of the litigation or the terms of a settlement agreement, impact the state's budget and expenditures to one degree or another. Some of these lawsuits are discussed in Appendix A and Appendix D. The state operates a self-insurance liability program for third-party claims against the state for injuries and property damage and purchases a limited amount of commercial insurance for these claims. The state maintains a risk management fund and is permitted to reserve up to 50 percent of total outstanding and actuarially determined liabilities. See Notes 7.E, 10 and 13.B in Appendix D—"THE STATE'S 2011 AUDITED BASIC FINANCIAL STATEMENTS" and "RISK MANAGEMENT" and "LITIGATION" in Appendix A—"GENERAL AND ECONOMIC INFORMATION."

BALLOT MEASURES

Under the Constitution, the voters of the state have the ability to initiate legislation by initiative, and by referendum, to modify, approve or reject all or a part of recently enacted legislation. Initiatives are new legislation proposed to the Legislature or for voter approval by petition of the voters. Referenda can be required on recently-enacted legislation through a petition of the voters, or a referendum on new legislation may be required by the Legislature itself. The Constitution may not be amended by initiative or referendum.

Any initiative or referendum approved by a majority of the voters may not be amended or repealed by the Legislature within a period of two years following enactment, except by a vote of two-thirds of all the members elected to each house of the Legislature. After two years, the relevant statute is subject to amendment or repeal by the Legislature by a simple majority vote. See "GENERAL FUND–Revenue and Expenditure Limitations" in Appendix A.

Initiatives. The Constitution requires an initiative petition to contain a number of signatures at least equal to eight percent of all votes cast for Governor in the most recent gubernatorial election in the state. There are two types of initiatives: (1) initiatives to the people and (2) initiatives to the Legislature. If certified to have sufficient signatures, initiatives to the people are submitted for a vote of the people at the next

state general election. If certified to have sufficient signatures, initiatives to the Legislature are submitted to the Legislature at its next regular session. The Legislature is required to either adopt the initiative, reject the initiative, or approve an alternative to the initiative. The latter two options require that the initiative or the initiative and the Legislature's alternative be placed on the ballot.

The following initiatives have been certified for the November 6, 2012, election: (1) Initiative 1185 would require all actions that "raise taxes" to be approved by a two-thirds vote in both the house of representatives and the senate or by the voters; "raises taxes" means any action by the Legislature that increases state tax revenue. In addition, the initiative would require that a fee may be imposed or increased only if approved with a simple majority vote in both the house and senate. (2) Initiative 1240 would allow a maximum of up to 40 public charter schools to be established over a five-year period as independently managed public schools operated by nonprofit organizations approved by the state. Charter schools would be overseen by a state charter school commission or a local school board and would receive funding based on student enrollment like existing public schools. (3) Initiative to the Legislature 502 would decriminalize marijuana.

Referenda. The Constitution requires a petition for referendum to contain a number of signatures at least equal to four percent of all votes cast for Governor in the most recent gubernatorial election in the state. There are two types of referenda: (1) referendum measures and (2) referendum bills. Referendum measures are laws recently passed by the Legislature that are placed on the ballot because of petitions signed by voters. Referendum bills are proposed laws referred to the voters by the Legislature.

LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale of the Bonds by the state are subject to the approving legal opinion of Foster Pepper PLLC, Bond Counsel to the state. The proposed forms of the opinions of such firm with respect to each Series of the Bonds are attached hereto as Appendix C. The opinions of Bond Counsel are given based on factual representations made to Bond Counsel, and under existing law, as of the date of initial delivery of the Bonds, and Bond Counsel assumes no obligation to revise or supplement its opinions to reflect any facts or circumstances that may thereafter come to its attention, or any changes in law that may thereafter occur. The opinions of Bond Counsel are an expression of its professional judgment on the matters expressly addressed in its opinions and do not constitute a guarantee of result. Bond Counsel will be compensated only upon the issuance and sale of the Bonds.

TAX MATTERS

Tax-Exemption of the Bonds

Exclusion From Gross Income. In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the Code that must be satisfied subsequent to the issue date of the Bonds, interest on the Bonds is excluded from gross income for federal income tax purposes.

Continuing Requirements. The state is required to comply with certain requirements of the Code after the date of issuance of the Bonds in order to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Bond proceeds and the facilities financed or refinanced with Bond proceeds, limitations on investing gross proceeds of the Bonds in higher yielding investments in certain circumstances, and the requirement to comply with the arbitrage rebate requirement to the extent applicable to the Bonds. The state has covenanted in the Bond Resolutions to comply with those requirements, but if the state fails to

comply with those requirements, interest on the Bonds could become taxable retroactive to the date of issuance of the Bonds. Bond Counsel has not undertaken and does not undertake to monitor the state's compliance with such requirements.

Corporate Alternative Minimum Tax. While interest on the Bonds is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, under Section 55 of the Code, tax-exempt interest, including interest on the Bonds, received by corporations is taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations (as defined for federal income tax purposes). Under the Code, alternative minimum taxable income of a corporation will be increased by 75 percent of the excess of the corporation's adjusted current earnings (including any tax-exempt interest) over the corporation's alternative minimum taxable income determined without regard to such increase. A corporation's alternative minimum taxable income, so computed, that is in excess of an exemption of $40,000, which exemption will be reduced (but not below zero) by 25 percent of the amount by which the corporation's alternative minimum taxable income exceeds $150,000, is then subject to a 20 percent minimum tax.

A small business corporation is exempt from the corporate alternative minimum tax for any taxable year beginning after December 31, 1997, if its average annual gross receipts during the three-taxable-year period beginning after December 31, 1993, did not exceed $5,000,000, and its average annual gross receipts during each successive three-taxable-year period thereafter ending before the relevant taxable year did not exceed $7,500,000.

Tax on Certain Passive Investment Income of S Corporations. Under Section 1375 of the Code, certain excess net passive investment income, including interest on the Bonds, received by an S corporation (a corporation treated as a partnership for most federal tax purposes) that has Subchapter C earnings and profits at the close of the taxable year may be subject to federal income taxation at the highest rate applicable to corporations if more than 25 percent of the gross receipts of such S corporation is passive investment income.

Foreign Branch Profits Tax. Interest on the Bonds may be subject to the foreign branch profits tax imposed by Section 884 of the Code when the Bonds are owned by, and effectively connected with a trade or business of, a United States branch of a foreign corporation.

Possible Consequences of Tax Compliance Audit. The Internal Revenue Service (the "IRS") has established a general audit program to determine whether issuers of tax-exempt obligations, such as the Bonds, are in compliance with requirements of the Code that must be satisfied in order for interest on those obligations to be, and continue to be, excluded from gross income for federal income tax purposes. Bond Counsel cannot predict whether the IRS would commence an audit of the Bonds. Depending on all the facts and circumstances and the type of audit involved, it is possible that commencement of an audit of the Bonds could adversely affect the market value and liquidity of the Bonds until the audit is concluded, regardless of its ultimate outcome.

Certain Other Federal Tax Consequences

Bonds <u>Not</u> "Qualified Tax-Exempt Obligations" for Financial Institutions. Section 265 of the Code provides that 100 percent of any interest expense incurred by banks and other financial institutions for interest allocable to tax-exempt obligations acquired after August 7, 1986, will be disallowed as a tax deduction. However, if the tax-exempt obligations are obligations other than private activity bonds, are issued by a governmental unit that, together with all entities subordinate to it, does not reasonably anticipate issuing more than $10,000,000 of tax-exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) in the current calendar year, and are

designated by the governmental unit as "qualified tax-exempt obligations," only 20 percent of any interest expense deduction allocable to those obligations will be disallowed.

The state is a governmental unit that, together with all subordinate entities, has issued more than $10,000,000 of tax-exempt obligations during the current calendar year and has not designated the Bonds as "qualified tax-exempt obligations" for purposes of the 80 percent financial institution interest expense deduction. Therefore, no interest expense of a financial institution allocable to the Bonds is deductible for federal income tax purposes.

Reduction of Loss Reserve Deductions for Property and Casualty Insurance Companies. Under Section 832 of the Code, interest on the Bonds received by property and casualty insurance companies will reduce tax deductions for loss reserves otherwise available to such companies by an amount equal to 15 percent of tax-exempt interest received during the taxable year.

Effect on Certain Social Security and Retirement Benefits. Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take receipts or accruals of interest on the Bonds into account in determining gross income.

Other Possible Federal Tax Consequences. Receipt of interest on the Bonds may have other federal tax consequences as to which prospective purchasers of the Bonds may wish to consult their own tax advisors.

Potential Future Federal Tax Law Changes. From time to time, there are legislative proposals in Congress which, if enacted, could require changes in the description of federal tax matters relating to the Bonds set forth above or adversely affect the market value of the Bonds. It cannot be predicted whether future legislation may be proposed or enacted that would affect the federal tax treatment of interest received on the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors regarding any proposed or pending legislation that would change the federal tax treatment of interest on the Bonds.

CONTINUING DISCLOSURE UNDERTAKING

In accordance with paragraph (b)(5) of Securities and Exchange Commission (the "SEC") Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended (the "Rule"), the state has entered into a written undertaking to provide continuing disclosure for the benefit of the holders and beneficial owners of the Bonds (the "Undertaking").

Annual Disclosure Report. The state covenants and agrees that not later than seven months after the end of each Fiscal Year (the "Submission Date"), beginning for the Fiscal Year ended June 30, 2012, the state will provide or cause to be provided, either directly or through a designated agent, to the Municipal Securities Rulemaking Board (the "MSRB"), in an electronic format as prescribed by the MSRB, accompanied by identifying information as prescribed by the MSRB, an annual report (the "Annual Disclosure Report") which will consist of the following:

(1) audited financial statements of the state prepared (except as noted in the financial statements) in accordance with generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board, as such principles may be changed from time to time, except that if the audited financial statements are not available by the Submission Date, the Annual Disclosure Report will contain unaudited financial statements in a format similar to the audited financial statements most recently prepared for the state, and the state's audited financial statements will be filed in the same manner as the Annual Disclosure Report when and if they become available;

(2) historical financial and operating data for the state of the type set forth in Appendix A; and

(3) a narrative explanation of any reasons for any amendments to the Undertaking made during the previous fiscal year and the effect of such amendments on the Annual Disclosure Report being provided.

Any or all of the items listed above may be included by specific reference to other documents available to the public on the Internet website of the MSRB or filed with the SEC. The state will identify clearly each document so included by reference. The MSRB has indicated that it intends to make continuing disclosure information submitted to it publicly available on the Internet on its Electronic Municipal Market Access system website.

The Annual Disclosure Report may be submitted as a single document or as separate documents comprising a package and may include by reference other information as provided herein; provided, that any audited financial statements may be submitted separately from the balance of the Annual Disclosure Report and later than the Submission Date if such statements are not available by the Submission Date.

If the state's fiscal year changes, the state may adjust the Submission Date by giving notice of such change in the same manner as notice is to be given of the occurrence of a Listed Event.

The state agrees to provide or cause to be provided to the MSRB, in a timely manner, notice of its failure to provide the Annual Disclosure Report on or prior to the Submission Date.

Listed Events. The state agrees to provide or cause to be provided, in a timely manner, not in excess of 10 business days after the occurrence of the event, to the MSRB notice of the occurrence of any of the following events with respect to the Bonds (the "Listed Events"): (1) principal and interest payment delinquencies; (2) nonpayment-related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notice of Proposed Issue (IRS form 5701 – TEB) or other material notices or determinations with respect to the tax status of the respective Series of Bonds; (7) modifications to rights of owners of the Bonds, if material; (8) Bond calls (other than scheduled sinking fund redemptions for which notice is given pursuant to Exchange Act Release 34-23856, if material, and tender offers; (9) defeasances; (10) release, substitution or sale of property securing the repayment of the respective Series of Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the state, as such "Bankruptcy Events" are defined in the Rule; (13) the consummation of a merger, consolidation, or acquisition involving the state or the sale of all or substantially all of the assets of the state, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material.

Termination or Modification of Undertaking. The state's obligations under the Undertaking will terminate upon the legal defeasance, prior prepayment or payment in full of all of the Bonds. The Undertaking, or any provision thereof, shall be null and void if the state:

(1) obtains an opinion of nationally recognized bond counsel to the effect that those portions of the Rule which require the Undertaking, or any such provision, have been repealed retroactively or otherwise do not apply to the Bonds; and

(2) notifies the MSRB, in a timely manner, of such opinion and the cancellation of the Undertaking.

The state may amend the Undertaking without the consent of any holder of any Bond or any other person or entity under the circumstances and in the manner permitted by the Rule. The Treasurer will give notice to the MSRB of the substance of any such amendment, including a brief statement of the reasons therefor.

If the amendment changes the type of Annual Disclosure Report to be provided, the Annual Disclosure Report containing the amended financial information will include a narrative explanation of the effect of that change on the type of information to be provided (or in the case of a change of accounting principles, the presentation of such information). In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements:

(1) notice of such change will be given in the same manner as for a Listed Event, and

(2) the Annual Disclosure Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Remedies. The right to enforce the provisions of the Undertaking will be limited to a right to obtain specific enforcement of the state's obligations thereunder, and any failure by the state to comply with the provisions of the Undertaking will not be a default with respect to the Bonds.

Additional Information. Nothing in the Undertaking will be deemed to prevent the state from disseminating any other information, using the means of dissemination set forth in the Undertaking or any other means of communication, or including any other information in any Annual Disclosure Report or notice of occurrence of a Listed Event, in addition to that which is required by the Undertaking. If the state chooses to include any information in any Annual Disclosure Report or notice of the occurrence of a Listed Event in addition to that specifically required by the Undertaking, the state will have no obligation to update such information or to include it in any future Annual Disclosure Report or notice of occurrence of a Listed Event.

Prior Compliance. The state has complied in all material respects with all prior written undertakings under the Rule.

BOND RATINGS

Fitch Ratings, Moody's Investors Service Inc. and Standard & Poor's Ratings Services, a business unit within Standard & Poor's Financial Services LLC, have assigned ratings on the Bonds of AA+, Aa1 and AA+, respectively. The state furnished certain information and materials to the rating agencies regarding the Bonds and the state. Generally, rating agencies base their ratings on the information and materials furnished to them and on their own investigations, studies and assumptions. Such ratings will reflect only the respective views of such rating agencies and are not a recommendation to buy, sell or hold the Bonds. An explanation of the significance of such ratings may be obtained from any of the rating agencies furnishing the same.

There is no assurance that such ratings would be maintained for any given period of time or that they may not be raised, lowered, suspended, or withdrawn entirely by the rating agencies, or any of them, if in their or its judgment, circumstances warrant. Any such downward change in or suspension or withdrawal of such ratings may have an adverse effect on the market price of the Bonds. The state undertakes no responsibility to oppose any such change or withdrawal.

FINANCIAL ADVISORS

Montague DeRose and Associates, LLC, and Seattle-Northwest Securities Corporation have served as financial advisors to the state relative to the preparation of the Bonds for sale and other matters relating to the Bonds. The financial advisors have not audited, authenticated or otherwise verified the information set forth in this Official Statement or other information relative to the Bonds. The financial advisors make no guaranty, warranty or other representation on any matter related to the information contained in the Official Statement. The financial advisors' compensation is not contingent upon the successful delivery of the Bonds.

UNDERWRITING

The Series R-2013A Bonds are being purchased by _____ at a price of $_____, and will be reoffered at a price of $_____, as reflected by the prices and yields set forth on page i of this Official Statement.

The Series R-2013B Bonds are being purchased by _____ at a price of $_____, and will be reoffered at a price of $_____, as reflected by the prices and yields set forth on page ii of this Official Statement.

The Underwriter(s) may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) and others at prices lower than the initial offering prices set forth on pages i and ii hereof, and such initial offering prices may be changed from time to time by the Underwriter(s). After the initial public offering, the public offering prices may be varied from time to time.

MISCELLANEOUS

Any statements made in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact.

The state has duly authorized the execution and delivery of this Official Statement.

STATE OF WASHINGTON

By:_____

State Treasurer and Chairman,
State Finance Committee

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APPENDIX A

GENERAL AND ECONOMIC INFORMATION

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INTRODUCTION

State Overview

The State of Washington (the "state" or "Washington"), the nation's 42nd state, was created in 1889 by an act of the U.S. Congress. The state is located on the Pacific Coast in the northwestern corner of the continental United States and comprises 71,303 square miles, including the more than 1,000 square miles of salt water known as Puget Sound.

Washington's population is 6,724,540 according to the 2010 U.S. Census, making the state the 13th most populous in the United States. The state's capital is Olympia at the southern end of Puget Sound, and the state's largest city, Seattle, also on Puget Sound, is approximately 60 miles north of Olympia.

Washington is a geographically diverse state with two mountain ranges that divide the state's land area. The Olympic Mountains separate the Olympic Peninsula – generally regarded as the largest rain forest in the Northern Hemisphere – from Puget Sound and the rest of the state. The Cascade Mountains extend from the northern border of the state with British Columbia, Canada, south to the State of Oregon. Mount Rainier, a 14.4 thousand-foot dormant volcano in the middle of the Cascade Range, is the fifth highest and most heavily glaciated peak in the lower 48 states.

Washington includes an international trade, manufacturing, technology, biotechnology and business service corridor that extends along Puget Sound from the City of Everett at the north end, south to Seattle and Tacoma. This corridor includes approximately 75 percent of the state's population and economic activity. A number of companies have chosen Washington as their headquarters or as a major center of operations, including, among others, Alaska Air Group, Amazon, Amgen, Boeing Commercial Airplanes, Costco, Expeditors International of Washington, Microsoft, Nintendo America, Nordstrom, PACCAR, Starbucks and Weyerhaeuser. According to the U.S. Bureau of Economic Analysis, Washington ranked 14th in the United States in terms of real gross domestic product ("GDP") in 2010.

East of the Cascade Mountains is the center of dairy operations and production of crops such as wheat, potatoes, tree fruits and grapes within the state. Washington leads the nation in apple production and, on both sides of the Cascade Mountains, produces wine, flower bulbs and lumber, wood pulp, paper and other wood products. The Olympic Peninsula and the Puget Sound region include one of the country's primary aquaculture and fish- and shellfish-processing areas.

Washington is one of the most trade-intensive states in the nation, as measured by the dollar value of per capita exports, and is an important gateway for trade with Asia and Canada and for domestic trade with Alaska and Hawaii. The Ports of Seattle and Tacoma, the state's largest ports, are closer to Asian ports than any other continental port in the United States. Seattle-Tacoma International Airport is Washington's primary airport, serving the region's air passengers and cargo. Direct access to midwest and east-coast markets by land is via four major interstate highways and two transcontinental rail service providers.

The state's ferry system, the largest ferry system in the United States and the third-largest ferry system in the world, is owned and operated by the Washington State Department of Transportation ("WSDOT") and connects 15 islands and other areas within and along the coast of Puget Sound.

See "DEMOGRAPHIC AND ECONOMIC INFORMATION" for additional economic and demographic information about the state.

State Government

Under the state Constitution (the "Constitution"), the legislative authority of the state is vested in the Legislature, and general elections are held on the first Tuesday in November in each even-numbered year. The state is divided into 49 legislative districts, each of which elects two representatives and one senator. Senators serve four-year terms, with one-half of the seats open in each general election. Representatives serve two-year terms, with every seat open in each general election. The Legislature convenes annual regular sessions of 105 days (beginning the second Monday in January) in odd-numbered years and 60 days (beginning the second Monday in January) in even-numbered years. The Governor may call an unlimited number of special sessions, each of which is limited to 30 days, and the Legislature itself may call special sessions with a two-thirds' vote of the members of each house.

Nine state executive officers are elected at-large to four-year terms at general elections held in the same years as elections for the President of the United States: the Governor, Lieutenant Governor, Secretary of State, Treasurer, Auditor, Attorney General, Superintendent of Public Instruction, Commissioner of Public Lands and Insurance Commissioner.

The nine justices of the state Supreme Court (the "Supreme Court") are elected at-large to six-year terms, with three seats open in each general election.

State Finance Committee

The Legislature, by statute, has delegated to the State Finance Committee (the "Committee") authority to supervise and control the issuance of all state bonds and other state obligations, including financing leases, authorized by the Legislature. The Committee is composed of the Governor, Lieutenant Governor and Treasurer. The Treasurer is designated as Chairman of the Committee, and the Office of the State Treasurer provides administrative support to the Committee. A Deputy State Treasurer acts as recording officer for the Committee and is responsible for the administration of the Committee's official duties in accordance with prescribed policies of the Committee. See "INDEBTEDNESS AND OTHER OBLIGATIONS."

In 2010, the Legislature authorized the Committee to delegate to the State Treasurer the authority, by resolution, to (1) accept offers to purchase bonds, notes, or other evidences of indebtedness of the state and to sell and deliver such bonds, notes, or other evidences of indebtedness to the purchasers thereof; (2) determine the date or dates, price or prices, principal amounts per maturity, delivery dates, interest rate or rates (or mechanisms for determining the interest rate or rates); and (3) set other terms and conditions as the Committee may deem necessary and appropriate; with each such delegation to be limited to bonds, notes, or other evidences of indebtedness which the Committee has authorized to be issued.

BUDGETING AND ACCOUNTING

Budget and Appropriation Process

The state operates on a July 1 to June 30 fiscal year ("Fiscal Year") and is required under state law to budget on a biennial basis. State law requires that the Governor submit a balanced budget to the Legislature no later than December 20 in the year preceding the session during which the biennial budget is to be considered. The operating, capital and transportation budgets are prepared separately. As described below, the Governor is required to include, and the Legislature is required to appropriate, amounts sufficient to pay debt service on all of the state's outstanding general obligation bonds. See "GENERAL FUND–General Fund Expenditures–Payment of General Obligation Bonds" and

"TRANSPORTATION-RELATED REVENUES AND EXPENDITURES–Transportation Expenditures–Payment of Bonds Payable from Excise Taxes on Motor Vehicle and Special Fuels."

Formulation of the state's biennial budget begins in May of even-numbered years, when the Office of Financial Management ("OFM") distributes instructions to all state agencies, establishing budget guidelines and information requirements. Formal budget requests from agencies are sent to OFM in late summer, after which they are analyzed and revised by OFM as appropriate to match the Governor's policy choices. Alternative methods of delivering services are examined and evaluated, and recommended budget levels and program and policy choices are prepared for the Governor by the Director of OFM. As described below, state revenues and expenditures are limited by statutes enacted by the Legislature and sometimes also are limited by initiatives or referenda approved by the voters. See "GENERAL FUND–Revenue and Expenditure Limitations" below and "BALLOT MEASURES" in the front portion of this Official Statement.

Under state law, the Governor's budget submitted to the Legislature must include estimates of all anticipated revenues and all proposed operating and capital expenditures, including debt service requirements on state general obligation indebtedness. Revenues are estimated for a fiscal period from the sources, and at the rates, authorized by law at the time of submission of the budget document and are based upon quarterly economic and revenue forecasts as described below. See "GENERAL FUND–Economic and Revenue Forecast" and "–Caseload Forecast." A "fiscal period" is the Fiscal Year or biennium for which an appropriation is made as specified within the act making the appropriation.

The Governor must submit a balanced budget to the Legislature. Specifically, state law requires that in the Governor's proposed budget the total of the beginning undesignated fund balance and estimated revenues, less working capital and other reserves, equal or exceed the total of proposed expenditures without reliance upon increases in indebtedness, changes in existing tax rates or other statutory changes. The Governor also may submit a second, alternative budget for the same fiscal period to include expenditures from revenue sources derived from proposed changes in statutes.

Within a biennium, the Governor may submit supplemental budgets to the Legislature during the regular session or during any special session. See "GENERAL FUND–General Fund–State Operating Budget."

State law also provides that if for any applicable fund or account the estimated receipts for the next fiscal period, plus cash beginning balances, is less than the aggregate of estimated disbursements proposed by the Governor for the next ensuing fiscal period, the Governor must include proposals as to the manner in which the anticipated cash deficit is to be met, whether by an increase in state indebtedness, by the imposition of new taxes, by increases in tax rates or by an extension of existing taxes. The Governor also may propose planned elimination of the fund's or account's anticipated cash deficit over one or more fiscal periods. See "–Fiscal Monitoring and Controls."

The Legislature is obligated under the Constitution to appropriate money for debt service requirements on state general obligation indebtedness. Appropriations providing for the payment of bond principal and interest requirements on each series of bonds normally are included in an omnibus appropriation act. Each operating and transportation budget enacted by the Legislature includes a "statutory appropriation," which provides that, in addition to the specified dollar amounts appropriated for the Treasurer to provide for (among other things) bond retirement and interest, there also is appropriated such further amounts as may be required or available for those purposes under any proper bond covenant made under law.

The Legislature engages in extensive budget deliberations and committee hearings. After revenue and expenditure appropriation bills are passed by the House of Representatives and the Senate, the bills are transmitted to the Governor, who has constitutional authority to veto one or more sections of the bills.

Typically, the Legislature enacts three budgets: an operating budget, a capital budget and a transportation budget. The transportation budget includes both operating and capital transportation-related expenditures. Of the three state budgets, the operating budget is the largest. Sales and other excise taxes deposited to the General Fund are the major state funding source for operating expenditures, and proceeds of state bonds have been the main sources for capital expenditures. The transportation budget is funded primarily from bond proceeds, excise taxes on motor vehicle and special fuels, license fees and other state revenues, federal funds and local and private funds.

Economic and Revenue Forecasting

To assist the state in financial planning and budgeting, the state's Economic and Revenue Forecast Council (the "Forecast Council") prepares quarterly economic and revenue forecasts (other than forecasts of transportation revenues, which are prepared by the state's Transportation Revenue Forecast Council, and other than the state entitlement caseload forecasts, which are prepared by the state's Caseload Forecast Council, both described below). The Forecast Council is an independent state agency consisting of seven members, two appointed by the Governor, one appointed by each of the two largest political caucuses of the Senate and House of Representatives, and the Treasurer. The Forecast Council approves the official economic and revenue forecasts for the state and reviews revenue collections monthly during each biennium. State law requires that the development of state budgets and any necessary budgetary actions of the Governor during a fiscal period be based upon the official economic and revenue forecasts of the Forecast Council and that the state's transportation budget be based upon the transportation forecast prepared by the Transportation Revenue Forecast Council. See "TRANSPORTATION-RELATED REVENUES AND EXPENDITURES–Transportation Revenue Forecast Council."

In mid-February (March in odd-numbered years), June, September and November, the Chief Economist prepares an official state economic and revenue forecast and two unofficial forecasts, one based upon optimistic economic and revenue assumptions and one based upon pessimistic economic and revenue assumptions. The forecasts are based in part upon forecasts of the United States economy and forecasts of state entitlement caseloads. See "GENERAL FUND–Economic and Revenue Forecast" and "–Caseload Forecast."

Fiscal Monitoring and Controls

When it enacts a biennial budget, the Legislature appropriates funding to state agencies for various purposes. Once the budget bills are signed by the Governor, OFM works with state agency fiscal staff to allot annual and biennial appropriations into monthly amounts. Revenues also are allotted for the biennium based upon forecasts prepared by the Forecast Council and for non-forecasted accounts, based upon information prepared by the administering agencies. Taken together, monthly allotments of expenditure authority and revenue form detailed monthly spending plans within the statutory maximums specified by appropriations in the biennial budget.

State agencies generally are prohibited from incurring cash deficits. State law does allow, however, for temporary negative cash balances in a specific fund or account if the temporary deficiency (1) results from disbursements under a spending plan approved by OFM; (2) was authorized by OFM within a fiscal period; (3) is in a fund or account neither in the state treasury nor in the custody of the Treasurer if the cash deficiency does not continue past the end of the biennium; or (4) is in a construction account and the deficiency is due to seasonal cash deficits pending receipt of proceeds from authorized bond or note sales.

OFM monitors spending plans on a monthly basis and recommends actions the Governor may take to adjust spending and revenue as appropriate. If at any time during the current fiscal period the Governor projects a cash deficit in a specific fund or account, the Governor may order across-the-board reductions

in allotments to that fund or account to prevent the cash deficit. The Legislature may direct that a cash deficit in a particular fund or account be eliminated over one or more fiscal periods. Unused appropriation authority resulting from an across-the-board reduction in a fund or account is placed in reserve status. Across-the-board reductions are not made to funding for basic education, pension benefits or general obligation debt service funding and can be made only within a fund with a cash deficit. In addition, the Governor may direct cabinet agencies to limit their discretionary spending. See "GENERAL FUND–State Operating Budget."

Accounting and Auditing

State law requires expenditures and revenues to be based upon generally accepted accounting principles ("GAAP"), and revenues typically are treated on a modified accrual basis so that funds are recognized when they become measureable and available. The state also is required to maintain accounting records in conformance with GAAP. OFM is the primary authority for the state's accounting and reporting requirements. The accounting system generates monthly and other periodic financial statements at the state-wide combined level and at the agency, fund and program levels for use by OFM and state agencies in monitoring expenditures and in preparing budgets and the state's annual financial statements. The state uses fund accounting, which includes governmental funds to account for governmental activities, proprietary funds (including the Workers' Compensation Fund and Unemployment Compensation Fund) and fiduciary funds (including for pensions and other employee benefits).

The Auditor, an independent elected official, audits the state-wide combined financial statements for each Fiscal Year. See Appendix D–"THE STATE'S 2011 AUDITED BASIC FINANCIAL STATEMENTS."

GENERAL FUND

The state provides for most of its general operations through the General Fund. Most of the state's unrestricted revenues are deposited to the General Fund, and most of the state's general expenditures and general obligation debt service are paid from the General Fund. Debt service on general obligation bonds to which excise taxes on motor vehicle and special fuels are pledged is payable first from the state's Motor Vehicle Fund and, if those funds are insufficient, from the General Fund. As described below and in Appendix D–"THE STATE'S 2011 AUDITED BASIC FINANCIAL STATEMENTS," the state also maintains a number of other funds and several hundred accounts.

General Fund Revenue

Most of the General Fund revenue is derived from state taxes and federal funds, with other charges, interest, license and other fees and miscellaneous income making up the remaining General Fund revenue. See "–General Fund-State Operating Budget" and Table 4.

General Fund tax revenues consist primarily of sales taxes, business and occupation taxes, other excise taxes and property taxes. There is no state income tax. Not all money deposited in the General Fund constitutes general state revenues or is available for the payment of general obligation debt service (e.g., restricted federal funds and local and private revenue). See "General Fund Expenditures–Payment of General Obligation Bonds" and "INDEBTEDNESS AND OTHER OBLIGATIONS–General Obligation Debt."

Excise Taxes. The retail sales tax and its companion use tax represent the largest source of state tax revenue. Retail sales and use taxes are applied to a broad base of tangible personal property, certain digital products and selected services purchased by consumers, including construction (labor and materials), some machinery and supplies used by businesses, services and repair of real and personal

property and other transactions not taxed in many other states. Unless waived or deferred by the Legislature, the state and local governments are obligated to pay the same retail sales and use taxes as other taxpayers. The Legislature, and the voters of the state through the initiative process, have changed the base of the state retail sales and use taxes on occasion, and this may occur again in the future. Among the various items not subject to the state retail sales and use taxes are most personal and professional services and motor vehicle and special fuels (all of which are subject to the separate excise taxes described below), food and food ingredients (excluding prepared food), trade-ins, manufacturing machinery and purchases for resale. The state retail sales and use tax rate was last increased in 1983. Certain local taxing jurisdictions also are authorized to impose retail sales and use taxes. In some circumstances the Legislature has granted credits to local jurisdictions against the state sales tax for the local retail sales and use taxes. These credits have the effect of reducing the amount of state sales tax revenues retained by the state. Current state and local retail sales and use tax rates are shown in Table 1.

Table 1
State and Local Retail Sales and Use Tax Rates

	General	New and Used Vehicles
State	6.5%	6.8%
Local	0.5 to 3.0	0.5 to 3.0

Source: Department of Revenue.

The state business and occupation ("B&O") tax is applied to "gross receipts" (the value of products, gross income from sales or certain other income) from business activities conducted within the state. B&O tax rate reductions and tax credits for specific categories of businesses are enacted from time to time. Certain local taxing jurisdictions also are authorized to impose business and occupation taxes. The state's current B&O tax rates vary, depending upon the classification of business activities, and in general range from 0.138 percent to 1.8 percent of gross receipts; most are under 0.5 percent. See "General Fund–State Operating Budget" and Table 4.

The state imposes a real estate excise tax of 1.28 percent on sales of real property. Each county treasurer is required by statute to retain 1.3 percent of the proceeds of this tax to defray costs of collection and on a monthly basis to pay over to the Treasurer the balance of the proceeds. Of the proceeds received by the Treasurer, the Treasurer is required to deposit an amount equal to 6.1 percent into the Public Works Assistance Account and an amount equal to 1.6 percent to the City-County Assistance Account. The balance is deposited to the General Fund. Certain local taxing jurisdictions are authorized to impose real estate excise taxes. In most areas in which a local real estate excise tax is imposed, the maximum local rate is 0.5 percent of the sales price.

Property Taxes. Property taxes apply to the assessed value of all taxable property, including all real and personal property located within the state, unless specifically exempted. Real property includes land, structures and certain equipment affixed to the structure. Personal property includes machinery, supplies, certain utility property and items owned by businesses and farmers that are generally movable.

The assessed value of most real property is determined by the county assessors, with the goal being to determine the fair market value of the property according to its highest and best use (unless an exemption applies that would permit a lower use to be considered). Property taxes for local taxing districts are levied against this assessed value. The state property tax is levied against the assessed value determined by the county assessors but then is adjusted to the state equalized value (a rate that would be equal across the state) in accordance with a ratio fixed by the Department of Revenue. For property taxes payable in

2011, assessed value against which property taxes were levied averaged 91.3 percent of fair market value as determined by the county assessors.

The Constitution provides that the aggregate of all regular (nonvoted) tax levies upon taxable real and personal property by the state and local taxing districts may not exceed 1.0 percent of the true and fair value of such property unless for the purpose of preventing the impairment of the obligation of a contract when ordered to do so by a court of last resort. Excess property tax levies are subject to voter approval and are not subject to this limitation.

Increases in assessed values of property are not limited; however, by statute, the state property tax levy is limited to the limit factor (the lesser of 101 percent, or 100 percent plus inflation) multiplied by the amount of property taxes levied by the state in the highest of the three most recent years, plus an additional amount calculated by multiplying the increase in assessed value resulting from new construction and improvements by the property tax rate for the preceding year. The average state levy rate for property taxes due in calendar year 2011 was $2.06 per $1,000 of true and fair property value.

By statute, all of the proceeds of the state's property tax levy are to be deposited to the General Fund and may be used only for the support of common schools (K-12), including debt service on bonds issued by the state for capital construction projects for common schools.

Other State Tax Revenue. The state imposes a number of other taxes, including estate taxes, liquor taxes, rental car and telephone taxes, taxes on hazardous substances and taxes on cigarettes and other tobacco products.

State Non-Tax Revenue. The largest components of state non-tax revenue include revenues derived from the sale of supplies, materials and services; fines and forfeitures; income from property; and income from liquor sales.

Federal Revenue. Legislative appropriations for federal programs are designated specifically to be funded from federal revenue sources. To the extent that federal funds are not received, the appropriated expenditures may not be incurred. Use of federal funds is subject to audit, and often federal funds are payable only on a reimbursement basis. The state also may be required to appropriate and expend its own funds as a condition to receiving the federal revenue. As shown in Tables 4 and 5, federal funds for a variety of different programs increased significantly in Fiscal Years 2009, 2010 and 2011 as a result of federal funds made available under the American Recovery and Reinvestment Act of 2009 ("ARRA"). Federal revenues may be deposited into the General Fund, but are not "general state revenue." See "General Fund Expenditures–Payment of General Obligation Bonds," "General Fund–State Operating Budget," and "TRANSPORTATION-RELATED REVENUES AND EXPENDITURES."

Private and Local Revenues. Revenues provided to the state by private individuals, local governments (but not the federal government), commercial enterprises and foundations under agreements that restrict the use of such revenues and revenues received as payment for private or local purchases of goods or services or as reimbursement for expenditures by the state are separate from "general state revenues."

Tax and Other Revenue Collection. Four state agencies are responsible for administering the major state taxes: the Department of Revenue, the Department of Licensing, the Liquor Control Board, and the Office of the Insurance Commissioner. The Treasurer receives the revenues from the collecting agencies and is required to deposit and distribute the funds as directed by law. Nearly all state agencies collect some form of revenue. See Table 4.

General Fund Expenditures

The state's largest General Fund expenditures are for education, social and health services and corrections. As described below, most of these expenditures are mandated either by state law (education, corrections and debt service) or by federal law (Medicaid and certain other human services). Federal funds are available to pay some of the federally-mandated costs.

Education. The state's expenditures for public schools are mandated by the constitutional requirement that the state support the common schools, and as shown in Table 5, a significant portion of the General Fund budget is used for supporting public schools. The Supreme Court has interpreted the Constitution to require the state to ensure that each public school district receives the funds needed to provide a basic education.

In past legislative sessions, the Legislature enacted legislation intended to improve the stability and predictability of school funding, including legislation that (1) prescribes course offerings, teacher contract hours and core student/staff ratios; (2) limits local property tax levies and provides for the gradual equalization of levy capacity per student throughout the state; (3) limits local compensation increases to those authorized by the state; (4) provides for state assistance to equalize tax rates for local levies; (5) establishes a state-wide salary allocation schedule with mandated minimum salaries for teachers; and (6) requires school districts to maintain minimum teacher/student ratios. In the past, state voters, through the initiative process, have also affected school expenditures, and current litigation may affect expenditures in the future. See "BALLOT MEASURES" in the front portion of this Official Statement and "LITIGATION" in this Appendix A. The Legislature temporarily suspended two initiatives relating to school expenditures as part of the amended 2009-11 Biennium Budget and the 2011-13 Biennium Budget. See "General Fund–State Operating Budget" and "LITIGATION."

Social and Health Services. The Department of Social and Health Services ("DSHS") provides services that include protective services for children, the aged and mentally disabled people and services for people in institutions and other residential care facilities.

While in the past the largest expenditure within DSHS was the Medical Assistance Program, as of July 1, 2011, this program became part of the Health Care Authority. Through this program, medical care is made available to recipients of cash assistance programs, beneficiaries of Supplemental Security Income and other eligible people with low incomes who do not qualify for income assistance. In addition to support from the General Fund, funding is received from the federal government for those people and for services covered under Medicaid. The Medical Assistance Program budget has grown significantly in recent years. Growth in the number of eligible recipient groups, rising health care costs and requirements to provide higher payments to hospitals have resulted in increased expenditures.

The Economic Services Program provides support to families with limited incomes and to disabled people who cannot work. The federal government provides funds for the Temporary Assistance for Needy Families Program and for several other, smaller programs.

DSHS is also responsible for supporting community mental health programs and for operating state psychiatric hospitals, institutions for the developmentally disabled, nursing homes, institutions for juvenile rehabilitation, child welfare service programs, child support enforcement activities, drug and substance abuse treatment programs, foster care programs and vocational rehabilitation services.

Corrections. As of December 30, 2011, the Department of Corrections ("DOC") had 12 correctional institutions and 15 work release facilities and leased additional rental beds in-state. As of December 30, 2011, the offender population was approximately 17,500 in the prison system. In 2010, the state closed

Ahtanum View Corrections Center in Yakima and the Pine Lodge Corrections Center for Women in Medical Lake. In 2011, the state closed McNeil Island Corrections Center in south Puget Sound.

Employees and Employee Benefits. The state budgeted for 112,546 full-time equivalents ("FTEs") in Fiscal Year 2009, including Higher Education employees. Compensation for approximately 40 percent of these FTEs constituted expenditures of the General Fund in Fiscal Year 2009. In Fiscal Year 2010, the state budgeted amounts for 109,973 FTEs. The 2012 Supplemental Budget adopted in April 2012 budgets for 106,042 FTEs, which lower level reflects the series of cuts made in the past several legislative sessions. Approximately 53 percent of these FTEs are represented by collective bargaining organizations. There are 29 different collective bargaining organizations currently representing state employees. The largest, the Washington Federation of State Employees, represents approximately 31,000 state employees. State law provides that nothing in the state collective bargaining statute permits or grants to any employee the right to strike or refuse to perform his or her official duties.

The state, through the Public Employees Benefits Board 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 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. State employees self-pay for coverage beyond the state's contribution. The average benefit was $893 in Fiscal Year 2011, with $799 paid by the state and $94 by the employee. State employees accrue vested vacation leave at a variable rate based on years of service, which in general cannot exceed 240 hours per year. It is the state's policy to liquidate unpaid compensated absences outstanding at June 30 with future resources. State employees accrue sick leave at the rate of one day per month without limitation. 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. For a discussion of the state retirement plans and post employment benefits, see "RETIREMENT SYSTEMS."

Payment of General Obligation Bonds. Statutes authorizing bonds and other general obligations of the state require the Committee to certify to the Treasurer on or before June 30 of each year the amount needed to provide for payment of debt service and require the Treasurer to deposit "general state revenues" in such amount into the Bond Retirement Accounts. The term "general state revenues" is defined in Article VIII of the Constitution and, as described below, not all money deposited in the General Fund constitutes "general state revenues" available for the payment of debt service (e.g., restricted federal funds or local and private revenue are excluded). See the description of general state revenues under "INDEBTEDNESS AND OTHER OBLIGATIONS–General Obligation Debt–Constitutional General Obligation Debt Limitation" and Table 4.

Some general obligation bond statutes provide that the General Fund will be reimbursed for bond debt service from discrete revenues that are not considered "general state revenues." For example, tuition fees charged by institutions of higher education must be used to reimburse the General Fund for payment of debt service for a number of higher education construction bond issues. Similar reimbursement requirements apply to hospital patient fees (for University of Washington hospital construction bonds) and to lease-rental proceeds (for Washington State University research center bonds). All of these required reimbursements have been made to date. In addition, a portion of net lottery and retail sales tax proceeds collected in King County reimburse the state for debt service payable on bonds issued to finance construction of a stadium and exhibition center in Seattle. See "INDEBTEDNESS AND OTHER OBLIGATIONS."

Revenue and Expenditure Limitations

From time to time the Legislature or state voters limit (by initiative or referendum) the state's authority to increase revenues. Initiative 601, approved by the voters in 1993, as amended by the Legislature and restored by subsequent initiatives in 2007 and 2010, requires that any action by the Legislature to raise taxes be approved either by a two-thirds' vote of the members of each house of the Legislature or by the voters or, in certain cases, by both, and that a fee may only be imposed or increased if approved by a majority vote of each house. See "BALLOT MEASURES" in the front portion of this Official Statement for a related initiative that has been certified for the November 6, 2012, election.

In addition to limiting the state's authority to generate revenues, from time to time state voters (by initiative or referendum) limit the state's authority to make expenditures. Initiative 601 prohibits the state from increasing expenditures from the General Fund during any Fiscal Year by more than the fiscal growth factor. The fiscal growth factor is calculated annually and is defined as the average growth in state personal income for the prior 10 Fiscal Years, adjusted for actual expenditures in the previous year and for certain money transfers and program cost shifts (to take into account federal and local revenue). Under current law, voter approval would be required to exceed the expenditure limit, except in case of an emergency. In the event revenues collected exceed the amount of revenues that may be expended under the expenditure limitation, the excess revenues are to be deposited to the Budget Stabilization Account as described in the next subsection. See "BALLOT MEASURES" in the front portion of this Official Statement.

Budget Stabilization Account

In 2008, the Constitution was amended to create a Budget Stabilization Account. By June 30 of each Fiscal Year, the Budget Stabilization Account receives 1.0 percent of the general state revenues that Fiscal Year. The Legislature may appropriate additional amounts to the Budget Stabilization Account. Money may be appropriated from the Budget Stabilization Account by a majority vote of the members of each house of the Legislature if (1) forecasted state employment growth for any Fiscal Year is estimated to be less than 1.0 percent or (2) the Governor declares an emergency resulting from a catastrophic event that necessitates government action to protect life or public safety. Amounts may be withdrawn from the Budget Stabilization Account at any time by the favorable vote of three-fifths of the members of each house of the Legislature. In addition, when the balance in the Budget Stabilization Account equals more than 10 percent of the estimated general state revenues in that Fiscal Year, the amount above 10 percent may be appropriated to the Education Construction Fund by a majority vote of the members of each house of the Legislature. In November 2011, voters approved a measure that requires that "extraordinary growth in state revenues," which is defined as the amount by which the growth in state revenues exceeds by one-third the average biennial growth in state revenues over the prior five biennia, be transferred to the Budget Stabilization Account at the end of each fiscal biennium.

Economic and Revenue Forecast

State law requires the Forecast Council to prepare an economic and revenue forecast on a quarterly basis. Additionally, the Forecast Council is required to publish monthly updates that include economic data releases and a report of revenue collections for the previous monthly collection period. The most recent economic and revenue forecast was released on June 20, 2012 (the "June 2012 Forecast"). The next revenue forecast is expected to be released in September 2012.

June 2012 Forecast. The June 2012 Forecast was based on the IHS Global Insight Model of the U.S. Economy issued in June 2012, modified according to the Forecast Council's standard practice to reflect the Blue Chip GDP forecast published in the Blue Chip Economic Indicators and NYMEX oil futures

prices. The June 2012 Forecast utilized futures market predictions for both Brent and West Texas Intermediate crude oil prices. The Washington economy continues to perform as expected in the February 2012 Forecast.

Since the February 2012 Forecast, revenue collections have come in close to expectations. Adjusted collections for major tax sources were up 7.2 percent year-over-year in the most recent collection period. In the June 2012 Forecast, General Fund-State revenues are forecast to be $30.440 billion for the 2011-13 Biennium, an increase of $156 million above the February 2012 Forecast. The June 2012 Forecast also projects state revenues of $32.626 billion for the 2013-15 Biennium, up $197 million compared with the February 2012 Forecast. Revenues are expected to grow 7.9 percent during the 2011-13 Biennium and 7.2 percent between 2011-13 and 2013-15.

As was the case in the February 2012 Forecast, downside uncertainty attributable to economic and financial strains in Europe and slowing growth in Asia remains high.

In the four months since the February 2012 Forecast, the Washington economy added 11,900 jobs, which is consistent with the February 2012 Forecast. As expected, manufacturing employment growth was strong, construction employment remained flat and government employment declined further with the loss of 2,500 jobs. Aerospace employment continued to expand, but at a slower rate than in 2011. Boeing has reported over seven years of commercial orders on its books. Software publishing employment also continued to grow. The June 2012 Forecast expects aerospace employment to peak by the end of 2012. Washington's unemployment was slightly higher at 8.3 percent after reaching a 39 month low in April. As was the case in February, the June 2012 Forecast assumes the Washington economy will continue to outperform the U.S. economy. The job growth forecast for 2012 and 2013 is 1.5 percent and 1.8 percent, respectively, down slightly from the February 2012 Forecast, with the forecast for 2014 and 2015 largely unchanged.

Aside from transportation equipment (primarily aircraft), export growth slowed in the first quarter as the global economy weakened. Total exports (including a 63.0 percent increase in transportation equipment) grew 24.9 percent over the year-ago-level. Excluding transportation equipment, exports grew 2.0 percent over the year.

Personal income still tracks above the state's forecasts in February 2012. This positive variance largely reflects the extension of the payroll tax cut and emergency unemployment benefits through the end of 2012, which had not been factored into the February 2012 Forecast.

Housing construction was stronger than expected in the first four months of 2012, with most of the recent improvement in the multi-family segment; single-family housing growth has been flatter. First quarter single-family housing permits averaged 15,700 units and multifamily permits averaged 12,000 units, both exceeding forecasts. The March S&P/Case-Shiller Home Price Index for Seattle jumped the most since January 2006, yet remains 1.3 percent below the year-earlier level.

Added strength in the housing market also is reflected in the recent Seattle consumer price index data where rising rents are helping drive Seattle area inflation above the national average. Overall, Seattle inflation from April 2011 to April 2012 was 2.9 percent compared to 2.3 percent for the U.S. city average. Core inflation in Seattle was 3.0 percent compared to 2.3 percent for the nation.

In most respects, the June 2012 Forecast is very similar to the February 2012 Forecast. Personal income growth in 2012 is expected to reach 3.5 percent compared to the 2.7 percent assumed in the February 2012 Forecast primarily due to the extension of the payroll tax cut and emergency unemployment compensation. The June 2012 Forecast also projects slightly higher personal income growth in 2013 at

4.7 percent compared to 4.6 percent, but less growth in 2014 and 2015 at 5.6 percent and 5.4 percent, compared to the 5.7 percent and 5.5 percent in the February 2012 Forecast.

Table 2 summarizes some of the historical values and forecasts of the primary economic drivers upon which the June 2012 Forecast was based.

Table 2
Summary of Economic Factors
(% Annual Change)

						Forecast	
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Personal Income	8.1	6.2	(3.6)	3.0	5.2	3.5	4.7
Nonfarm Payroll Employment	2.6	0.9	(4.6)	(1.3)	1.3	1.5	1.8
Housing Units[1]	(5.3)	(39.0)	(41.2)	21.6	(0.5)	19.3	4.3

(1) Reflects single-family and multi-family units authorized by permits.

Source: Washington Economic and Revenue Forecast Council Revenue Review: June 20, 2012.

Alternative June 2012 Economic Forecasts. As required by statute, the Forecast Council also adopts an optimistic and a pessimistic forecast. The level of uncertainty in the baseline forecast remains high; downside risks are still elevated and considerably higher than the upside risks.

In the optimistic forecast scenario, the housing market is assumed to improve faster, underlying pent-up demand continues to drive the recovery, hiring picks up, the European debt crisis does not turn into a banking crisis, and other factors help the economy rebound more quickly. As a result, in the optimistic scenario 2011-13 Biennium revenues would be $1.234 billion higher than the baseline forecast.

In the pessimistic forecast scenario, the sovereign debt crisis in Europe worsens, with Greece exiting the Eurozone in a disorderly manner and the Spanish banking bailout expanding to bailout for the entire country, the Chinese economy has a hard landing, and there is turmoil in global oil markets. As a result, in the pessimistic scenario 2011-13 Biennium revenues would be $1.281 billion below the baseline forecast.

Caseload Forecast

The Caseload Forecast Council is charged with forecasting the entitlement caseloads for the state. The forecast identifies the number of persons expected to qualify for and to require the services of public assistance programs, state correctional institutions, state correctional non-institutional supervision, state institutions for juvenile offenders, the common school system, long-term care, medical assistance, foster care and adoption support.

The Caseload Forecast Council meets three times per year in February, June and November and adopts a formal projection of caseloads for the current biennium. The November forecast is used in preparing the Governor's proposed budget and the March caseload forecast is used by the Legislature in the development of the omnibus biennial appropriations act. The Caseload Forecast Council consists of six members: two members appointed by the Governor and one member appointed by the Chair of each of the two largest political caucuses in the Senate and House of Representatives.

General Fund-State Operating Budget

General. The state's operating budget includes appropriations for the general day-to-day operating expenses of state agencies, colleges and universities and public schools. Employee salaries and benefits, leases, goods and services and public assistance payments are typical operating expenses. More than half of the operating budget is funded by unrestricted revenues from the General Fund, with the balance from federal and other funding sources.

Since the onset of the economic downturn in 2008, the Governor and Legislature have modified the state operating budget several times in response to lower actual and projected general state revenues and higher costs associated with growth in mandatory caseloads, school enrollment and medical assistance costs.

2009-11 Biennium Budget. During the 2009-2011 Biennium, quarterly forecast updates of revenues declined while expenses increased due to the cost of providing services such as education, medical assistance and public safety. Several times during the Biennium, the Governor proposed and the Legislature adopted supplemental operating budgets to deal with the shortfalls. In addition, in the fall of 2010, the Governor issued an Executive Order directing across-the-board cuts for General Fund agencies. The supplemental budgets and across-the-board cuts reduced state expenditures in areas including health care and human services, natural resources, higher education, early learning, state prisons and K-12 education (other than basic education). Since the original enacted 2009-11 budget, General Fund expenditures were reduced by $1.059 billion. The General Fund benefited from $2.6 billion in ARRA funds as well as approximately $337 million in federal funds from the extension of the federal Medical Assistance percentage enhancement and $208 million in new education funding. In addition to the expenditure reductions, new revenue was raised through a combination of permanent and temporary tax increases and transfers from the Budget Stabilization Account and other accounts.

2011-13 Biennium Budget. The Legislature adopted a General Fund budget for the 2011-13 Biennium in the spring of 2011 that included expenditures of $31.7 billion and total resources (including the beginning fund balance) of $31.9 billion, leaving a proposed ending General Fund-State Fund balance of $163 million (including the Budget Stabilization Account). During an "early action" special legislative session in December 2011, the Legislature approved a supplemental budget that provided $480 million in savings and/or revenues. In April 2012, the Legislature adopted a revised supplemental budget with $30.788 billion of expenditures for the 2011-13 Biennium, including a $265 million balance in the Budget Stabilization Account and $40 million General Fund ending balance. Among the spending reductions since the beginning of the 2011-13 Biennium were a 3.0 percent reduction in compensation for state employees, increases to state employees' share for health insurance premiums, increased pension contribution rates, reduced funds targeted to reduce class sizes, reductions in K-12 teacher and administrative staff salaries, elimination of the automatic cost-of-living increases for retired workers in the PERS 1 and TRS 1 pension plans, reduced benefits for workers hired starting in May 2013, reduced state support of higher education through cuts in academic services and reductions in salary, temporary suspension of two voter-approved education initiatives to reduce class sizes and provide an annual cost of living increase for school employees, and cuts for health and human services. The Legislature gave the state's universities the authority to raise tuition beyond the budgeted tuition increase. The budgets did not include major tax increases; they did, however, eliminate some tax deductions and include some fee increases and other transfers. The budgets did not reduce required spending on basic education, debt service or federally-mandated Medicaid.

Table 3 summarize the actions taken by the Legislature and other adjustments made to develop a budget for the 2011-13 Biennium during the regular and special sessions from the spring of 2011 through the spring of 2012.

Table 3
2011-13 General Fund-State Adjustments
February 2010 through June 2012
($ in millions)

	Adjustments
Beginning Balance	(92)
Revenue	
February 2010 Forecast	32,224
June 2010 Forecast	1,858
September 2010 Forecast	(668)
November 2010 Forecast	(809)
March 2011 Forecast	(698)
June 2011 Forecast	(387)
September 2011 Forecast	(1,413)
November 2011 Forecast	(122)
Transfer to Budget Stabilization Account	(266)
2011 Revenue Legislation (Net Change)	146
2011 Budget Driven Revenue	58
SHB 2058 December 2011 Early Action	51
February 2012 Forecast	45
2012 Revenue Legislation and Budget Driven Revenue	29
Reduced Distributions to Local Governments	73
Solid Waste Tax/Jobs Package	70
June 2012 Forecast	(16)
Total Revenue	30,175
Other Resource Changes	
Enacted Fund Transfers and Other Adjustments	272
SHB 2058 December 2011 Early Action	106
Adjustment to Working Capital	238
Total Other Resource Changes	616
Total Resources	30,699
Spending	
Enacted Budget	31,721
SHB 2058 December 2011 Early Action	(323)
2012 Supplemental	(610)
Governor's Vetoes of 2012 Supplemental	8
Estimated Reversions	(120)
Total Spending	30,676
Ending Balance and Reserves	
Unrestricted Ending Fund Balance	23
Budget Stabilization Account Balance	266
Total Reserves	289

Totals may not add due to rounding.

Source: Office of Financial Management.

Revenues and Expenditures. The state separates its General Fund revenues and expenditures into three categories: General Fund-State, General Fund-Federal and General Fund-Private/Local to indicate the general source of revenues. Tables 4 and 5 summarize such revenues and expenditures for the Fiscal Years 2007 through 2011, forecast revenues for the two Fiscal Years 2012 and 2013, and budgeted expenditures through Fiscal Year 2013. Table 4 is derived from the Forecast Council's forecast documents, which include forecasts of revenues through Fiscal Year 2013 (other than federal and local and private revenues and fund transfers, which are estimated through Fiscal Year 2013). The information in Table 5 is extracted from the state's budget documents. General Fund in the financial statements attached as Appendix D has three revenue sources: state, federal and private/local. General Fund-State in Tables 4 and 5 is the portion supported by state revenues (taxes, fees, other state charges, transfers, and other revenues).

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Table 4
General Fund Revenues and Resources[1]
Fiscal Years ended June 30
(Modified Accrual Basis)
($ in millions)

	2007	2008	2009	2010	2011	2012[6]	2013[6]
Beginning General Fund Balance	1,271	1,372	805	279	(561)	(92)	(467)
General Fund-State Revenues[1]							
State Tax Revenues							
Retail Sales Tax	7,388	7,705	6,870	6,417	6,620	6,722	7,058
Business and Occupation Taxes	2,714	2,874	2,640	2,574	3,010	3,086	3,329
Use Taxes (General Fund portion)	504	511	460	423	534	484	515
Property Taxes	1,670	1,721	1,770	1,822	1,840	1,897	1,931
Real Estate Excise Taxes	1,070	663	389	380	373	387	389
Other Excise Taxes[2]	24	25	23	17	18	17	17
Other Taxes[3]	1,596	1,590	1,582	1,535	1,804	1,804	1,906
Subtotal State Tax Revenues	14,966	15,089	13,734	13,168	14,199	14,397	15,145
State Non-Tax Revenues							
Licenses, permits and other fees	92	98	95	84	87	94	98
Liquor profits and fees	78	66	69	71	117	60	146
Investment income	110	125	63	2	(12)	(11)	(12)
Lottery transfers	8	-	11	13	9	-	-
Other Non-Tax Revenue	214	281	186	233	248	294	228
Subtotal State Non-Tax Revenues	502	570	424	403	449	437	460
Adjustments and Transfers							
Enacted Transfers/Prior Period Adjustments	229	(266)	1,043	699	550	245	134
Adjustment to Working Capital	-	-	-	-	-	-	238
Transfers from Budget Stabilization Account	-	-	-	45	223	-	-
Transfers to Emergency Reserve Account/Budget Stabilization Account[4]	(289)	-	(115)	(119)	(129)	(129)	(136)
Subtotal Adjustment and Transfers	(60)	(266)	928	625	644	116	236
Total State General Fund Resources	16,679	16,765	15,891	14,475	14,731	14,858	15,374
General Fund-State Resources	16,679	16,765	15,891	14,475	14,731	14,858	15,374
General Fund-Federal Revenues[5]	5,577	5,898	6,498	8,339	7,975	7,325	7,349
General Fund-Private/Local Revenues	178	207	220	225	250	294	287
Total General Fund Resources	22,434	22,870	22,609	23,039	22,956	22,477	23,010

(1) Includes revenues that before July 1, 2009, were deposited to the Public Safety and Education, Equal Justice, Water Quality, Health Services, Violence Reduction and Drug Enforcement and Student Achievement Accounts.
(2) Includes liquor, beer and wine, tobacco, boat and timber excise taxes, among others.
(3) Includes estate and inheritance taxes, public utility taxes and insurance premium and other taxes.
(4) The Emergency Reserve Account was abolished, and the Budget Stabilization Account was created effective July 1, 2009. See "GENERAL FUND—Budget Stabilization Account."
(5) Includes ARRA funding in 2009, 2010 and 2011 of $1.0 billion, $2.1 billion, and $1.9 billion, respectively.
(6) Based on June 2012 Revenue Forecast, the December 2011 Early Action legislative session and the 2012 legislative session.
Totals may not add due to rounding.

Source: Compiled by the Office of Financial Management from forecast and budget documents.

Table 5
General Fund Expenditures and Ending Fund Balance[1]
Fiscal Years ended June 30
(Modified Accrual Basis)
($ in millions)

	2007	2008	2009	2010	2011[6]	2012[6]	2013[6]
Education							
Public School	6,006	6,326	6,409	6,512	6,334	6,819	6,802
Higher Education	1,503	1,588	1,593	1,396	1,355	1,186	1,201
Other Education	64	85	93	82	39	41	43
Total Education	7,573	7,999	8,095	7,990	7,728	8,046	8,046
Human Services							
Dept. Social and Health Services[2]	4,471	4,796	4,433	4,303	4,425	2,726	2,755
Dept. Corrections	758	857	896	708	792	816	787
Other Human Services[2]	388	457	481	370	233	2,158	2,152
Total Human Services	5,617	6,110	5,810	5,381	5,450	5,700	5,694
Natural Resources Recreation	255	253	246	198	160	139	128
Government Operations	261	289	293	238	212	219	235
Transportation	39	43	38	40	34	37	34
Debt Service[3]	703	851	714	870	907	940	981
Other Expenditures[4]	860	416	416	319	332	244	233
Total General Fund-State Expenditures	15,308	15,961	15,612	15,036	14,823	15,325	15,351
Expenditures from Federal Funds	5,577	5,898	6,498	8,339	7,975	7,325	7,349
Expenditures from Private/Local Funds[5]	178	207	220	225	250	294	287
Total General Fund Expenditures	21,063	22,066	22,330	23,600	23,048	22,944	22,987
Total General Fund Resources	22,434	22,870	22,609	23,039	22,956	22,477	23,010
Total General Fund Expenditures	(21,063)	(22,066)	(22,330)	(23,600)	(23,048)	(22,944)	(22,987)
Unrestricted General Fund Ending Balance	1,371	804	279	(561)	(92)	(467)	23
Emergency Reserve/Budget Stabilization Balance	293	303	21	95	1	129	266
Total Reserves	1,664	1,107	300	(466)	(91)	(338)	289

(1) Includes expenditures that before July 1, 2009, were made from the Public Safety and Education, Equal Justice, Water Quality, Health Services, Violence Reduction and Drug Enforcement and Student Achievement Accounts.
(2) The Medical Assistance Program moved from DSHS to the Health Care Authority beginning in Fiscal Year 2012.
(3) Does not include debt service payments reimbursed from sources that are not general state revenues, including tuition fees, patient fees, admission taxes, parking taxes and certain King County sales and use taxes. See Tables 11 and 12.
(4) Includes legislative and judicial agencies and other special appropriations. Also assumes $60 million per year in state General Fund reversions.
(5) Includes spending from grants, contracts and other agreements from private/local sources.
(6) Based on June 2012 Forecast.

Totals may not add due to rounding.

Source: Office of Financial Management from forecast documents, December 2011 Early Action legislative session and the 2012 legislative session. Includes December 2011 and April 2012 Supplemental Budgets.

Capital Budget

The capital budget includes appropriations for construction and repair of state office buildings, college and university buildings, prisons and juvenile rehabilitation facilities; parks; public schools; housing for low-income and disabled persons, farm workers and others; and for other capital facilities and programs. Approximately half of the capital budget typically is financed by state-issued bonds, while the rest is funded primarily from dedicated accounts, trust revenue and federal funding sources. The budget includes money re-appropriated from previous biennia when projects are not completed before the end of that biennium.

Table 6 summarizes the capital budget for the 2007-09 Biennium, the enacted capital budget for the 2009-11 Biennium and capital budgets enacted as part of the 2010 and 2011 supplemental budgets for the 2009-2011 Biennium, and the enacted capital budget for the 2011-13 Biennium, as supplemented in the 2012 legislative session.

Table 6
Capital Budget
(Modified Accrual Basis)
($ in millions)

		2009-2011			2011-2013	
	2007-2009 Final Budget	**2009-2011 Enacted Budget**	**2010 Supplemental Budget**	**2011 Final Budget**	**2011-13 Enacted Budget**	**2012 Supplemental Budget**
Education						
Public Schools	1,254	1,190	1,067	1,067	1,064	1,080
Higher Education	1,539	1,305	1,070	1,061	763	897
Other Education	45	30	34	33	19	27
Total Education	2,838	2,525	2,171	2,161	1,846	2,004
Human Services						
Department of Social and Health Services	85	44	44	44	30	33
Other Human Services	518	259	250	244	213	263
Total Human Services	603	303	294	288	243	296
Natural Resources and Recreation	1,721	1,568	1,771	1,762	1,799	2,000
General Government	1,952	1,270	1,318	1,292	1,092	1,556
Transportation(1)	17	10	10	7	-	1
Total Capital Budget Expenditures	7,131	5,676	5,564	5,510	4,980	5,857

(1) Transportation reflects the Omnibus Capital budget and not the Transportation Capital budget. See "TRANSPORTATION-RELATED REVENUES AND EXPENDITURES."

Source: Office of Financial Management.

TRANSPORTATION-RELATED REVENUES AND EXPENDITURES

The Washington State Department of Transportation ("WSDOT") is the state department responsible for building, maintaining, and operating the state highway system and the state ferry system and working in partnership with others to maintain and improve local roads, railroads, airports, and multi-modal alternatives to driving. WSDOT operates 18,500 state highway lane miles, over 3,600 bridge structures,

including the four longest floating bridges in the United States, 48 safety rest areas, 22 ferry vessels and 20 ferry terminals.

Transportation Revenue

Transportation revenues include taxes and fees, ferry fares and concessions, toll revenue and federal funds. Most transportation revenues are deposited to the Motor Vehicle Fund. Revenues from excise taxes on motor vehicle and special fuels are restricted to highway purposes. Toll revenue from the SR 520 Corridor is deposited into the SR 520 Corridor Account (also known as the Toll Facilities Account). Federal-Aid Highway Program funds (except for debt service reimbursements) are deposited into the Motor Vehicle Fund.

Excise Taxes on Motor Vehicle and Special Fuels. The primary component of transportation revenue is excise taxes on motor vehicle and special fuels. In 1921, the Legislature established a motor vehicle fuel tax at a fixed rate of $0.01 per gallon. The tax rate has been increased several times since then. Table 7 lists the increases in the excise tax on motor vehicle fuel since April 1, 1990. The same rates are charged per gallon for diesel and alternative fuels.

Table 7
Motor Vehicle Fuel Tax Rate History
(Per Gallon)

Effective Date of Change	Increase ($)	Per-Gallon Tax ($)
4/1/1990	0.040	0.220
4/1/1991	0.010	0.230
7/1/2003	0.050	0.280
7/1/2005	0.030	0.310
7/1/2006	0.030	0.340
7/1/2007	0.020	0.360
7/1/2008	0.015	0.375

Source: Washington State Department of Transportation.

Federal Funds. WSDOT receives substantial federal funds, primarily from the Federal-Aid Highway Program, which encompasses most of the federal programs providing highway funds to the states. The Federal-Aid Highway Program is a reimbursement program that is financed from transportation user-related revenues, primarily excise taxes on motor fuel, deposited in the Highway Trust Fund. The program and the imposition of the taxes dedicated to the Highway Trust Fund must be periodically reauthorized by Congress. Once a project has been approved, the federal government pays a portion of the costs (typically 86.5 percent in the state) of the project as costs are incurred. States also may apply to be reimbursed for debt service on obligations issued to finance an approved project. The SR 520 Project has been approved for debt service reimbursement. See "Transportation Expenditures."

Tolls. Currently the state is collecting tolls on three facilities: the Tacoma Narrows Bridge, State Route ("SR") 167 High Occupancy Toll ("HOT") Lanes Pilot Project and the SR 520 Corridor. Tolling on the Tacoma Narrows Bridge does not vary based on time of day, and tolls are collected only in the eastbound direction. Tolling on SR 167 is "dynamic"; cars with two or more people use the HOT lane for free and single occupant drivers have the option to pay the posted toll and use the carpool lane. The Legislature recently extended the SR 167 HOT Lanes Pilot Project through June 2013. Tolling on the SR 520 Corridor began in December 2011. Tolling is variable depending on the time of day and number of axles

and is collected electronically. The Legislature recently designated the Alaskan Way Viaduct (the "Viaduct"), I-405 Corridor, and Columbia River Crossing as "eligible toll facilities," but no tolls are currently being collected. See "Transportation Expenditures–The Alaskan Way Viaduct" and "–Columbia River Crossing."

Transportation Revenue Forecast Council. The Transportation Revenue Forecast Council (the "Transportation Forecast Council"), comprised of technical staff of the Department of Licensing, WSDOT and the Economic and Revenue Forecast Council, prepares quarterly forecasts of transportation revenues (including revenues from excise taxes on motor vehicle and special fuels). The transportation forecast is based in part upon the separate economic and demographic forecasts and assumptions made by the Economic and Revenue Forecast Council. No increases in fuel tax rates are included in the forecast. Unlike the Forecast Council's quarterly forecasts, which generally extend over a three-year period, the Transportation Forecast Council forecasts are required to cover six years.

In its most recent forecast, released in June 2012, the Transportation Forecast Council projects that transportation revenues for the 2011-13 Biennium will total approximately $4.32 billion, an increase of 6.0 percent from the previous biennium's total revenue of $4.075 billion.

Transportation Expenditures

Transportation Excise Tax Revenue Distributions. The Constitution requires that all proceeds of the excise taxes on motor vehicle and special fuels be placed in the Motor Vehicle Fund, a special fund within the state treasury, and used exclusively for highway purposes, including the capital and operating costs of public highways, county roads, bridges and city streets and the operation of ferries that are part of any public highway, county road or city street and including the payment of state debt obligations for which excise taxes on the motor vehicle and special fuels have been legally pledged.

State statutes require that excise taxes on motor vehicle and special fuels be distributed to local governments and to certain state accounts, all to be used for highway purposes. The statutes provide, however, that nothing therein be construed to violate any terms or conditions contained in any highway construction bond issues then or thereafter authorized and to which such taxes are pledged. Excise taxes collected on motor vehicle and special fuels are distributed monthly. See Tables 8 and 9.

Transportation Operating Budget. Highway and ferry operations and maintenance are the two largest components of the state's transportation operating budget. Ferry operations and maintenance are funded in part by ferry fares. Aviation, public transportation and rail operations are funded with other non-fuel tax revenues.

Payment of Bonds Payable from Excise Taxes on Motor Vehicle and Special Fuels. Each legislative act that authorizes the issuance and sale of motor vehicle fuel tax bonds provides that the principal of and interest on such bonds are secured by a pledge of the excise taxes levied on motor vehicle and special fuels. That pledge constitutes a charge against the revenues from such motor vehicle and special fuels excise taxes equal to the charge of any other general obligation bonds of the state that have been and may thereafter be authorized that also pledge, on an equal basis, excise taxes on motor vehicle and special fuels for their payment. By state law, the Legislature also covenants to continue to levy those excise taxes in amounts sufficient to pay, when due, the principal of and interest on all of the bonds issued under those legislative authorizations. All motor vehicle fuel tax general obligation bonds of the state are further secured by a pledge of the full faith, credit and taxing power of the state. See "INDEBTEDNESS AND OTHER OBLIGATIONS–General Obligation Debt–Motor Vehicle Fuel Tax General Obligation Bonds." Statutes authorizing the issuance of refunding bonds require that if the bonds to be refunded are secured

by motor vehicle fuel taxes, in addition to the pledge of the state's full faith, credit and taxing power, the refunding bonds must also be secured by the same taxes.

Under motor vehicle fuel tax bond statutes enacted before 1993, at least one year prior to the date any interest is due and payable on those bonds or prior to the maturity date of any such bonds, the Committee estimates, subject to the provisions of the pledge of revenue, the percentage of the monthly receipts of the motor vehicle fund resulting from collection of excise taxes on motor vehicle and special fuels that will be necessary to meet interest or bond payments when due. Each month, as such funds are paid into the Motor Vehicle Fund, the Treasurer must transfer such percentage of the monthly receipts from excise taxes on motor vehicle and special fuels in the Motor Vehicle Fund to the Highway Bond Retirement Fund and the Ferry Bond Retirement Fund. Money in the Ferry Bond Retirement Fund is to be used for payment when due of the principal of and interest on state ferry bonds. If in any month it appears that the estimated percentage of money to be transferred is insufficient to meet the requirements for interest and bond retirement, the Treasurer must notify the Committee, and the Committee must adjust its estimates so that all requirements for interest and principal of all bonds issued will be fully met at all times. Motor vehicle fuel tax bond statutes enacted in 1993 and thereafter require that such transfers from the Motor Vehicle Fund to the Highway Bond Retirement Fund be made in accordance with the bond proceedings, which generally provide that the transfers be made on the date a debt service payment is due, although in practice amounts are set aside monthly in the Motor Vehicle Fund for debt service. See Table 9.

Payment of Bonds Payable from Toll Revenue and Other Funds. The state expects to finance the SR 520 Floating Bridge and Eastside Project as part of the SR 520 Corridor Program described below with a combination of (i) general obligation bonds of the state first payable from toll revenue and excise taxes on motor vehicle and special fuels ("Triple Pledge Bonds"), (ii) toll revenue bonds that do not pledge state excise taxes on motor vehicle and special fuels or the full faith and credit of the state, and (iii) grant anticipation revenue vehicle ("GARVEE") bonds payable from Federal-Aid Highway Program funds and not secured by a pledge of toll revenue. The state issued the first series of bonds for the SR 520 Floating Bridge and Eastside Project in October 2011, as Triple Pledge Bonds. Under the authorizing legislation, "toll revenue" means only such toll revenue that is pledged to the payment of the bonds. The resolution authorizing the issuance of the Triple Pledge Bonds pledged to those bonds the toll revenue from the SR 520 Corridor and any other "Eligible Toll Facilities" that may become part of a system of Eligible Toll Facilities. If toll revenue is not sufficient to pay the Triple Pledge Bonds, the Triple Pledge Bonds are then payable first from excise taxes on motor vehicle and special fuels and then from other money of the state legally available therefor. The state issued the second series of bonds for the SR 520 Floating Bridge and Eastside Project in June 2012 as GARVEE bonds, payable solely from Federal-Aid Highway Program funds, including federal reimbursements of debt service on the GARVEE bonds and federal reimbursements to the state for projects or portions of projects not financed with bond proceeds. See "The SR 520 Corridor Program."

Transportation Capital Program. The state's transportation capital plan includes several mega-projects, including the SR 520 Floating Bridge and Eastside Project, replacement of the Viaduct, and the Columbia River Crossing. Other major highway projects include the I-405 and SR 520 interchange in Bellevue, the U.S. 395 North Spokane corridor, and the I-5 and SR 16 interchange in Tacoma. Construction of approximately 200 smaller highway projects, including construction of new interchanges, lanes and bridges, is underway. For ferry capital projects, one 64-auto ferry boat was delivered in 2010, one in 2011, and the final 64-auto ferry boat was delivered in January 2012. The state began construction on the first of two new 144-car ferries in March 2012. WSDOT estimates the first ferry will start service in early 2014. Cost of construction is $115 million, and the total cost of the vessel is $147 million. The second ferry is expected to be in service in early 2015 at a total cost of $132.5 million. The total cost includes owner-furnished equipment, construction management and contingencies. Federal funds made available under ARRA will support expansion of inter-city high-speed rail.

The SR 520 Corridor Program. The SR 520 floating bridge provides a major east-west link across Lake Washington. It is 12.8 miles from I-5 in Seattle to the west and crossing Lake Washington to SR 202 in Redmond. Built in the 1960s, the bridge currently is vulnerable to failure in severe windstorms and earthquakes. The SR 520 Floating Bridge and Eastside Project (a portion of the SR 520 Corridor Program) is underway and includes construction of a pontoon facility and pontoons for the new floating bridge, completion and reconfiguration of the HOV lane system on SR 520 to the east of Lake Washington, and construction of a new bridge to replace the Evergreen Point floating bridge.

The Legislature has authorized funding for the SR 520 Floating Bridge and Eastside Project and preliminary design and selected right-of-way acquisition for the Westside Project. The state issued $518.775 million in Triple Pledge Bonds in October 2011 and $500.4 million in GARVEE bonds in June 2012 for the project and expects to finance the remaining costs with additional bond proceeds, and from federal funds, toll revenue and excise taxes on motor vehicle and special fuels. It is expected that the total net proceeds of the various bond issues for the project will be approximately $1.58 billion. Tolling on the SR 520 Corridor began in December 2011. WSDOT is using the design-build methodology for the major components of the project and all major contracts have been awarded. The new bridge is expected to open to traffic in 2015. If funded by the Legislature, the Westside Project will construct a new six-lane corridor from I-5 to the new floating bridge, a new Portage Bay bridge, a reversible transit/HOV ramp to I-5, and other improvements. If the Westside Project is not funded, the new SR 520 Floating Bridge will be connected to the existing corridor between the bridge and I-5.

The state commissioned studies for the SR 520 Floating Bridge and Eastside Project that forecasted the toll traffic and gross revenue projections from Fiscal Years 2012 through 2056 for the project. The projections had assumed that initially traffic would be approximately 48 percent lower than pre-toll traffic levels. For the first five months of operation, gross toll revenues and traffic have exceeded projections.

The Alaskan Way Viaduct. The Viaduct was built in the 1950s and includes an elevated 2.2-mile portion of SR 99 along the edge of Puget Sound in downtown Seattle. The Viaduct is a main north-south route through Seattle and carries 20 to 25 percent of the traffic through downtown. The elevated structure was damaged during the region's 2001 Nisqually earthquake. Studies indicate that the Viaduct may collapse if another major earthquake occurs. The total cost of the Viaduct replacement project is estimated to be $3.1 billion, which is expected to be funded by state and federal investment and toll revenue. The Viaduct replacement project has been approved for $320 million in federal funds. The Viaduct's downtown waterfront section will be replaced with a bored tunnel beneath downtown Seattle. The design-build contractor was selected in December 2010. The City of Seattle has approved the project through agreements between the city and state and a recent public vote. The SR 99 tunnel is scheduled to open in December 2015.

Columbia River Crossing. Columbia River Crossing is a comprehensive five-mile project to improve safety, reduce congestion and enhance mobility on I-5 between SR 500 in Vancouver, Washington, and Columbia Boulevard in Portland, Oregon. The project will replace the current I-5 bridge, extend light rail to Vancouver, improve closely-spaced interchanges and access to the ports of Portland and Vancouver, and enhance the pedestrian and bicycle path between the two cities.

In April 2011, the governors of Oregon and Washington identified the deck truss bridge design as the best replacement structure for the I-5 bridge. The final environmental impact statement was published in September 2011, and in December 2011 the Federal Highway Administration and Federal Transit Administration signed a record of decision which finalizes the environmental review process and formally identifies the selected alternative for the Columbia River Crossing, which is to replace the I-5 bridge and include light rail. Funding has not been secured, but likely funding sources include federal highway and

transit sources, Washington and Oregon sources, and tolling. The cost estimate is between $3.1 and $3.4 billion (in year of expenditure dollars).

Transportation Revenues and Expenditures

Table 8 summarizes transportation-related revenues and other funding for the Fiscal Years 2008 through 2011 and forecasted transportation-related revenues and other funding for Fiscal Years 2012 and 2013. The forecasted revenues displayed in the following table are revenues used by WSDOT and do not include forecasted revenues for other transportation agencies such as the Department of Licensing, the Washington State Patrol or local grant agencies. It includes forecast revenues and projected bond proceeds, based upon the current budget, and assumed federal and local funds. The federal funds shown in Table 8 include funds received from all federal transportation agencies and that are appropriated by the Legislature. A portion of the funds received in the state's federal program is passed through to local entities and is not appropriated by the Legislature. Table 8 is presented on a state Fiscal Year, which produces different results than when presented on a federal fiscal year basis.

Table 9 summarizes transportation-related expenditures for Fiscal Years 2008 through 2011 and budgeted and projected expenditures for Fiscal Years 2012 and 2013. Expenditures reflected are for WSDOT programs only.

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Table 8
Transportation Revenues and Resources
Fiscal Years ended June 30
(Modified Accrual Basis)
($ in millions)

	2008	2009	2010	2011	Forecast 2012	Forecast 2013
Beginning Balance	503	587	287	1,439	519	1,395
Gross Fuel Tax Collections include Non-Highway	1,244	1,247	1,234	1,255	1,243	1,253
Refunds for Non-Highway Use	(73)	(79)	(57)	(62)	(81)	(67)
Adjusted Gross Fuel Tax Collections	1,171	1,168	1,177	1,193	1,162	1,186
WSDOT Portion of Licenses, Permits and Fees	300	295	288	294	300	343
Ferry Fares	148	145	147	147	155	159
Tacoma Narrows Bridge Tolls(1)	31	46	47	45	45	61
State Route 167 Hot Lane Tolls(1)	-	-	1	1	1	1
SR 520 Corridor Tolls(1)	-	-	-	-	29	63
Other Revenues and Adjustments(2)	148	134	90	90	97	97
Total State Sources(3)	1,798	1,788	1,750	1,770	1,789	1,910
Other Funding(4)						
Bond Proceeds (Bonds sold in Fiscal Year)	811	507	2,074	48	1,135	1,491
Bond Proceeds (GARVEE)(5)	-	-	-	-	601	341
Federal Aid Highway Funds(6)	-	-	-	-	-	18
Federal Stimulus Funds (ARRA)	-	-	195	129	23	23
Federal High Speed Rail Funds	-	-	-	2	118	118
Federal Highway Funds(7)	505	453	362	385	719	719
Local Funds	30	45	48	54	76	76
Total Other Funding	1,346	1,005	2,679	618	2,672	2,786
Total Sources	3,647	3,380	4,716	3,827	4,980	6,091

(1) Includes gross toll revenue, transponder sales, violations, civil penalties, and fees.
(2) Includes other non-forecasted sources (e.g., reserves, interest income, transfers from other state accounts, and other miscellaneous sources).
(3) Total State Sources includes WSDOT accounts and does not include other accounts that support expenditures for agencies such as Department of Licensing, the Washington State Patrol and local grant agencies.
(4) Federal and local funds in 2012-13 have been annualized from a biennial total.
(5) Bond proceeds for the 520 Bridge were fully appropriated in the 2012 budget to allow for flexibility. FY 2012 includes bond proceeds to reimburse 2009-11 expenditures.
(6) These amounts represent Federal Aid Highway funds for GARVEE Bond debt service.
(7) Federal Funds include both formula and allocated funds for all state appropriated accounts managed by WSDOT, including operating and capital programs. Funds are appropriated based on WSDOT's Fiscal Year, July 1 through June 30.

Totals may not add due to rounding.

Source: Washington State Department of Transportation.

Table 9
Transportation Expenditures and Ending Fund Balance[1]
Fiscal Years ended June 30
(Modified Accrual Basis)
($ in millions)

					2011-13 Enacted Supplemental Budget[1]	
	2008	**2009**	**2010**	**2011**	**2012**	**2013**
Distributions and Transfers						
Debt Service Transfers – Motor Fuel Tax[2]	274	310	332	409	416	492
Debt Service Transfers – Toll Revenue[2]	-	-	-	-	18	26
Debt Service Transfers – GO[2]	4	4	8	9	11	11
Debt Service Transfers – Federal Aid Highway Funds[2]	-	-	-	-	-	18
Fuel Tax Distribution to Cities and Counties	245	233	235	238	231	236
Fuel Tax Distributions to Support Local Grant Programs[3]	134	127	128	130	126	129
Expenditures by Other Agencies[4]	45	47	45	47	57	57
Total Distributions and Transfers	702	721	748	833	859	969
WSDOT Operations						
Toll Maintenance and Operations	16	13	14	11	22	35
Highway Maintenance and Operations	209	232	198	214	209	227
Ferries Maintenance and Operations	228	215	209	225	233	242
Aviation, Public Transportation and Rail	60	74	73	82	56	98
Local Programs and Economic Partnerships	6	7	6	6	6	6
Administrative Services[5]	155	156	149	149	140	156
Total Operations	674	697	648	687	666	764
WSDOT Capital						
Highway Construction[6]	1,545	1,485	1,636	1,553	1,899	3,626
Traffic Operations and Facilities	7	10	6	8	10	13
Ferry Construction	65	91	131	158	88	326
Rail Program	30	59	59	35	44	259
Local Programs	37	30	50	33	19	89
Total Capital	1,684	1,675	1,881	1,788	2,060	4,313
Total WSDOT Transportation Uses	3,060	3,093	3,277	3,308	3,585	6,046
Ending Fund Balance	587	287	1,439	519	1,395	45

(1) Table shows actuals through FY 2011. FY 2012 and 2013 expenditures reflect appropriations from the 2011 Supplemental Transportation Budget; revenue distributions are based on the June 2012 Transportation Revenue Forecast.
(2) Funds are transferred to debt retirements accounts on a monthly basis and include debt service for fuel tax bonds, general obligation bonds and toll revenue bonds. These transfers do not match fiscal year debt service.
(3) Grant programs are administered by the County Road Administration Board and the Transportation Improvement Board.
(4) Expenditures by other agencies includes certain legislative committees and commissions, as well as certain executive agencies.
(5) Administrative services includes facilities and maintenance, transportation planning, systems support, and insurance fees.
(6) The 2012 Supplemental Transportation Budget provides appropriation authority for the SR 520 Corridor Program that aligns with the program's remaining bond authorization. Additionally, the corridor improvements are being delivered as a program of projects. This allows appropriations to be distributed between projects that make up the program and to advance federal pay-go funding as needed for project delivery.

Totals may not add due to rounding.

Source: Washington State Department of Transportation.

INDEBTEDNESS AND OTHER OBLIGATIONS

All state general obligation debt and other evidences of indebtedness must be authorized by the Legislature and issued under the authority granted by the Legislature to the Committee. In addition to long-term bonds, the state may enter into financing contracts, including leases and installment purchase contracts, and notes. The state also may incur contingent obligations such as guarantees and may enter into payment agreements such as interest rate swaps (although to date it has not done so).

Debt Issuance Policy

The Committee maintains a Debt Issuance Policy that addresses, among other things, the roles and responsibilities of the Committee and the Treasurer, debt structuring guidelines and standards of conduct and appointment of professional service providers. The Debt Issuance Policy addresses debt service structure, mode of interest, refunding savings thresholds and the average life of debt (shorter than or equal to the estimated useful life of the facility financed). The requirements may not apply in all cases.

Debt Affordability Study

In January 2012, the Treasurer submitted the second annual Debt Affordability Study to the Legislature. The study presents information about the state's debt obligations to help guide policymakers as they make choices about the amounts, types and uses of debt financing undertaken in the state. The study describes issuance trends, borrowing costs and effective constraints on debt issuance and provides an assessment of the state's overall "debt affordability" by using demographic and financial indicators as well as peer analysis to measure the affordability of the state's existing and projected debt.

Recent Legislation

Through 2011 legislation, the Legislature created the Commission on State Debt to examine trends in the use of debt and other long term liabilities, compare debt service to other operating budget expenditures for similar policy objectives, and compare the state's debt limits and policies to other states. This commission issued findings in December 2011 and recommended certain constitutional and statutory changes regarding the calculation of state debt limits and the creation of a debt policy council to advise the Governor and Legislature regarding the appropriate level of state debt. The 2011 legislation further directed the State Finance Committee to recommend a working debt limit for purposes of budget development for various purpose capital bond appropriations, which is lower than the state constitutional debt limit in order to reserve capacity under the constitutional limit for emergencies and economic uncertainties. Through 2012 legislation, the Legislature authorized a ballot measure to amend the constitutional general obligation debt limitation. See "General Obligation Debt–Constitutional General Obligation Debt Limitation" below.

General Obligation Debt

General Obligation Debt Authority. The Constitution and enabling statutes authorize different means of incurring state general obligation debt, the payment of which is secured by a pledge of the state's full faith, credit and taxing power.

General obligation bonds may be authorized:

(1) by the affirmative vote of three-fifths of the members of each house of the Legislature, without voter approval, in which case the amount of such debt is generally (but not always) subject to the constitutional debt limitation described below;

(2) 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;

(3) by a body designated by statute (currently the Committee) without limitation as to amount, and without approval of the Legislature or approval of the voters:

(a) to refund outstanding state obligations; or

(b) to meet temporary deficiencies of the state treasury, to preserve the best interests of the state in the conduct of the various state institutions and agencies during each Fiscal Year if such debt is discharged (other than by refunding) within 12 months of the date of incurrence and is incurred only to provide for appropriations already made by the Legislature.

The Constitution also permits the state to incur additional debt to repel invasion, suppress insurrection or to defend the state in war.

Motor Vehicle Fuel Tax General Obligation Bonds. General obligation bonds that are payable from excise taxes on motor vehicle and special fuels may be issued for specified highway purposes and, as described below, such bonds are not subject to the constitutional general obligation debt limitation. Historically, no funds other than excise taxes on motor vehicle and special fuels have been used to pay such bonds. See "TRANSPORTATION-RELATED REVENUES AND EXPENDITURES–Transportation Expenditures–Payment of Bonds Payable from Excise Taxes on Motor Vehicle and Special Fuels."

Bonds for SR 520 Corridor Program. The Legislature has authorized the issuance of $1.95 billion of bonds to provide the funds necessary for the location, design, right-of-way, and construction of the Floating Bridge and Eastside Project portion of the SR 520 Corridor Program. In October 2011, the state issued $518.775 million of Triple Pledge Bonds first payable from toll revenue, then excise taxes on motor vehicle and special fuels, and finally by the full faith and credit of the state. In June 2012, the state issued $500.4 million of GARVEE bonds payable from Federal-Aid Highway Program funds to finance the Floating Bridge and Eastside Project. The state expects to issue additional GARVEE and other bonds in 2013 and 2014 for the project. It is expected that the total net proceeds of the various bond issues for the project will be approximately $1.58 billion. See "TRANSPORTATION-RELATED REVENUES AND EXPENDITURES."

Constitutional General Obligation Debt Limitation. With certain exceptions noted below, the amount of state general obligation debt that may be incurred is limited by the Constitution. The constitutional debt limitation prohibits the issuance of new debt if the aggregate debt contracted by the state would exceed the amount for which payments of principal and interest in any Fiscal Year would require the state to expend more than 9.0 percent of the arithmetic mean of general state revenues for the three immediately preceding 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.

Under the Constitution, "general state revenues" includes all state money received in the state treasury, with certain exceptions, including (1) fees and revenues derived from the operation of any undertaking, facility, or project; (2) moneys received as gifts, grants, donations, aid, or assistance when the terms require the application of such moneys otherwise then for general purposes of the state; (3) retirement

system moneys and performance bonds and deposits; (4) trust fund moneys, including moneys received from taxes levied for specific purposes; and (5) proceeds from sale of bonds or other indebtedness.

Principal and interest requirements on the following types of obligations are excluded from the calculation of the constitutional debt limitation: (1) obligations payable from excise taxes levied on motor vehicle fuels, license fees, income received from the investment of the permanent common school fund and revenue received from license fees on motor vehicles; (2) debt that has been refunded or defeased; (3) debt authorized by law for a single work or object and approved by a majority of those voting in a general or special election; (4) certificates of indebtedness issued to meet temporary deficiencies in the state treasury (described above under "General Obligation Debt Authority"); (5) principal requirements of bond anticipation notes; (6) financing contracts, including certificates of participation therein; (7) obligations issued to pay "current expenses of state government"; (8) obligations payable solely from the revenues derived from the ownership or operation of any particular facility or project; (9) obligations payable solely from gifts, grants, donations, aid or assistance that is limited to expenditure on specific purposes; and (10) any state guarantee of voter-approved general obligation debt of school districts in the state.

In November 2010, the state's voters approved an amendment to the Constitution specifying that for the purpose of computing the amount required for payment of interest on outstanding debt subject to the constitutional limitation described above, "interest" is reduced by subtracting the amount scheduled to be received by the state as payments from the federal government in each year in respect of such debt.

The Legislature authorized a Constitutional amendment that will be on the November 2012 ballot and, if passed, would reduce the constitutional debt limit to 8.5 percent starting July 1, 2014, 8.25 percent starting July 1, 2016, and 8.0 percent starting July 1, 2034. The number of years of general state revenue included in the debt calculation would be changed from the average of prior three years to six years. General state revenue for purposes of the calculation would be expanded to include property taxes received by the state.

Debt Service Within Constitutional Debt Limitation. The aggregate debt projected to be contracted by the state as of September 6, 2012, does not exceed that amount for which payments of principal and interest in any Fiscal Year would require the state to expend more than 9.0 percent of the arithmetic mean of its general state revenues for the three immediately preceding Fiscal Years. The arithmetic mean of general state revenues for Fiscal Years 2010, 2011 and 2012 is $12,521,646,962. The debt service limitation, 9.0 percent of this mean, is $1,126,948,227. The state's maximum annual debt service as of September 6, 2012, on debt service subject to the constitutional debt limitation is estimated to be $1,051,097,301 or $75,850,925 less than the debt service limitation.

Use of Short-Term General Obligation Debt Authority (Certificates of Indebtedness and Bond Anticipation Notes). Article VIII of the Constitution, Chapter 39.42 RCW and the state's other bond statutes delegate to the Committee the authority to issue, in the name of the state, temporary notes in anticipation of the sale of bonds. Pursuant to statutory authority and resolution of the Committee, such notes would be general obligations of the state, but principal of those notes would be excluded from the constitutional debt limitation. The state has no bond anticipation notes currently outstanding and currently does not plan to issue bond anticipation notes.

Article VIII of the Constitution and Chapter 39.42 RCW also provide for the issuance of certificates of indebtedness to meet temporary deficiencies in the state treasury. Such indebtedness must be retired other than by refunding within 12 months after the date of issue. Principal and interest on certificates of indebtedness are excluded from the constitutional debt limitation. The state has no certificates of

indebtedness currently outstanding and does not anticipate any short-term borrowing during Fiscal Year 2012.

Table 10 includes the total debt service requirements by pledge of revenues for the state general obligation bonds, and Table 11 includes a summary of the state's outstanding general obligation bonds.

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Table 10
Total Bond Debt Service Requirements by Pledge of Revenues
(in dollars)

Fiscal Year Ending	Outstanding 9/6/2012[1]								The Bonds [2]				Total Debt Service Requirements
	General Obligation						Limited Obligation		General Obligation				
	General State Revenues[3]		Motor Vehicle Fuel Tax Revenues		Triple Pledge		GARVEEs		General State Revenues		Motor Vehicle Fuel Tax Revenues		
June 30	Principal	Interest[4]	Principal	Interest[5]	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	[2][3][4][5]
2013[6]	285,765,000	271,136,477	96,044,745	157,722,847	-	26,024,975	-	12,418,000					849,112,043
2014	553,403,999	520,541,411	227,697,541	297,614,708	-	26,024,975	-	24,836,000					1,650,118,634
2015	578,511,564	504,196,097	234,212,993	290,018,634	-	26,024,975	-	24,836,000					1,657,800,263
2016	586,777,077	479,010,334	246,059,493	285,529,094	-	26,024,975	39,860,000	23,853,000					1,687,113,973
2017	586,521,191	469,333,586	258,393,239	281,688,301	10,835,000	26,024,975	41,830,000	21,835,250					1,696,461,543
2018	573,119,950	438,538,508	262,984,188	273,361,305	11,375,000	25,483,225	43,895,000	19,716,375					1,648,473,551
2019	561,671,629	411,658,618	271,866,883	265,920,840	11,945,000	24,914,475	46,065,000	17,486,375					1,611,528,820
2020	554,373,868	388,605,050	278,368,119	257,031,829	12,540,000	24,317,225	48,355,000	15,134,875					1,578,725,965
2021	533,423,505	345,985,235	276,746,687	247,009,788	13,165,000	23,690,225	50,770,000	12,669,250					1,503,459,690
2022	527,235,000	296,240,800	283,057,106	239,537,065	13,825,000	23,031,975	53,290,000	10,084,000					1,446,300,946
2023	528,625,000	269,723,563	280,372,167	229,766,710	14,515,000	22,340,725	55,940,000	7,364,250					1,408,647,415
2024	527,850,000	243,693,888	286,174,322	221,251,176	15,240,000	21,614,975	58,730,000	4,501,500					1,379,055,861
2025	506,305,000	217,409,488	294,524,917	210,843,056	16,005,000	20,852,975	61,665,000	1,516,625					1,329,122,061
2026	491,980,000	191,797,988	303,510,654	198,459,130	16,805,000	20,052,725	-	-					1,222,605,496
2027	475,180,000	167,460,875	301,513,610	186,218,965	17,685,000	19,170,463	-	-					1,167,228,912
2028	457,515,000	145,916,200	290,761,468	176,022,492	18,615,000	18,242,000	-	-					1,107,072,161
2029	455,120,000	124,572,850	290,546,913	164,856,869	19,545,000	17,311,250	-	-					1,071,952,883
2030	432,780,000	103,845,000	284,665,835	152,758,252	20,525,000	16,334,000	-	-					1,010,908,088
2031	406,800,000	84,194,575	252,825,000	80,534,193	21,550,000	15,307,750	-	-					861,211,518
2032	389,465,000	64,563,625	231,945,000	68,273,273	22,625,000	14,230,250	-	-					791,102,148
2033	353,830,000	45,851,588	201,315,000	57,029,233	23,760,000	13,099,000	-	-					694,884,821
2034	273,225,000	29,618,900	156,700,000	47,496,630	24,945,000	11,911,000	-	-					543,896,530
2035	196,455,000	16,882,288	132,740,000	39,954,956	26,195,000	10,663,750	-	-					422,890,993
2036	129,360,000	8,087,213	109,295,000	33,874,356	27,505,000	9,354,000	-	-					317,475,568
2037	70,775,000	2,756,475	113,340,000	28,311,172	28,880,000	7,978,750	-	-					252,041,397
2038	20,080,000	401,600	117,480,000	22,578,997	30,325,000	6,534,750	-	-					197,400,347
2039	-	-	121,825,000	16,601,838	31,840,000	5,018,500	-	-					175,285,338
2040	-	-	126,380,000	10,366,212	33,430,000	3,426,500	-	-					173,602,712
2041	-	-	100,335,000	4,750,337	35,100,000	1,755,000	-	-					141,940,337
2042	-	-	37,310,000	1,493,481	-	-	-	-					38,803,481
2043	-	-	11,465,000	221,828	-	-	-	-					11,686,828
Total	11,056,147,783	5,842,022,229	6,480,455,881	4,547,097,571	518,775,000	506,760,363	500,400,000	196,251,500					29,647,910,326

(1) Does not include the Bonds; does not include the defeasance of the Refunded Bonds. See "SOURCES AND USES OF FUNDS-Plan of Refunding" in front portion of this Official Statement. Includes the Series 2013A, 2013B-1, 2013B-2 and 2013T Bonds scheduled to close on August 2, 2012.

(2) Current offering dated September 6, 2012.

(3) The state may be reimbursed for some of these debt service payments from sources that are not general state revenues, including tuition fees, patient fees, admission taxes, parking taxes and certain King County sales and uses taxes. See Tables 11 and 12.

(4) Interest payments on certain variable rate bonds are only estimates and are subject to change from time to time as market conditions change; $108,800,000 in principal amount of variable rate bonds will be outstanding as of September 6, 2012.

(5) Debt service does not take into account the receipts of the 35 percent federal credit payments applicable to bonds issued as Build America Bonds.

(6) Remaining debt service on outstanding bonds. Upon the issuance of the Bonds, debt service requirements for entire Fiscal Year 2013 are estimated: principal $698,866,997; interest $874,305,266; total debt service $1,573,172,262.

Totals may not add due to rounding.

Source: Office of the State Treasurer.

Table 11
Summary of Outstanding Bonds
(in dollars)

	6/30/2008	6/30/2009	6/30/2010	6/30/2011	6/30/2012
Outstanding					
General Obligation Bonds					
General State Revenues and Other Sources[1]	9,003,114,410	9,831,964,833	10,410,327,277	10,763,996,170	10,980,895,035
Motor Vehicle Fuel Tax Revenue	4,004,259,674	4,285,988,810	6,189,623,828	6,004,454,495	6,353,055,881
Toll Revenue on the SR-520 Corridor	0	0	0	0	518,775,000
	13,007,374,085	14,117,953,643	16,599,951,104	16,768,450,665	17,852,725,916
Limited Obligation Bonds					
Pledged Federal Aid (GARVEE)	0	0	0	0	500,400,000
Total – Outstanding	13,007,374,085	14,117,953,643	16,599,951,104	16,768,450,665	18,353,125,916
Annual Debt Service Requirements by Fiscal Year					
General Obligation Bonds					
General State Revenues and Other Sources Debt Service[1]					
Payable from General State Revenues	747,270,056	816,725,594	866,032,566	904,457,910	937,548,291
Reimbursed from Other Sources [1]	95,960,521	91,360,751	91,743,874	88,239,461	86,327,135
	843,230,577	908,086,345	957,776,440	992,697,370	1,023,875,426
Motor Vehicle Fuel Tax Revenue Debt Service					
Payable from Excise Taxes on Motor Vehicle and Special Fuels	246,575,046	291,775,904	319,143,978	379,425,700	378,359,575
Reimbursed from Tolls on the Tacoma Narrows Bridge	14,388,752	26,915,419	34,925,419	42,200,419	43,266,544
	260,963,798	318,691,323	354,069,397	421,626,119	421,626,119
Toll Revenue Debt Service					
Payable from Toll Revenue on the SR-520 Corridor	0	0	0	0	15,253,527
Limited Obligation Bonds					
GARVEE Bond Debt Service	0	0	0	0	0
Total – Annual Debt Service by Fiscal Year	1,104,194,376	1,226,777,668	1,311,845,837	1,414,323,489	1,460,755,072

(1) The state may be reimbursed from sources that are not general state revenues, including tuition fees, patient fees, admission taxes, parking taxes and certain King County sales and use taxes.

Totals may not add due to rounding.

Source: Office of the State Treasurer.

Table 12
Bonds by Source of Payment[1]
(Outstanding as of September 6, 2012)
(in dollars)

General Obligation Bonds		
Various Purpose General Obligation Bonds		
Payable from General State Revenues		10,221,778,964
Reimbursed from Other Sources[2]		834,368,819
Sub Total		11,056,147,783
Motor Vehicle Fuel Tax General Obligation Bonds		
Payable from Excise Taxes on Motor Vehicle and Special Fuels		5,913,280,000
Payable from Tolls on the SR-520 Corridor		518,775,000
Reimbursed from Tolls on the Tacoma Narrows Bridge		567,175,881
Sub Total		6,999,230,881
	Total General Obligation Bonds	18,055,378,664
Limited Obligation Bonds		
GARVEE Bonds	**Total Limited Obligation Bonds**	500,400,000
	Total	18,555,778,664

(1) Preliminary, subject to change. Includes the Series 2013A, 2013B-1, 2013B-2 and 2013T Bonds scheduled to close on August 2, 2012. Does not include the Bonds (expected to be dated September 6, 2012), which will be determined by the state as described in the Official Notice of Bond Sale, and does not include the defeasance of the Refunded Bonds.

(2) The state may be reimbursed from sources that are not general state revenues, including tuition fees, patient fees, admission taxes, parking taxes and certain King County sales and use taxes.

Totals may not add due to rounding.

Source: Office of the State Treasurer.

Certificates of Participation/Financing Contracts for State and Local Agencies

Financing Contracts and Leases for State Agencies. The Legislature has authorized the state to enter into financing contracts, including leases, installment purchase agreements and other interest-bearing contracts, for the acquisition by state agencies of personal and real property. The state's current program provides for the financing of essential equipment and real estate projects with proceeds received from the sale of certificates of participation in master financing contracts. By their terms, the master financing contracts are payable only from current appropriations and/or from funds that do not constitute "general state revenues," and are not "debt" under the Constitution. Unlike bonds, the state's obligations under the master financing contracts and state agencies' obligations under their financing addenda are subject to appropriation by the Legislature and Executive Order reduction by the Governor.

The Committee is charged with oversight of financing contracts entered into by the state and state agencies, and all financing contracts for state real estate projects require prior approval of the Legislature. At the start of each biennium, the Office of the State Treasurer, as staff to the Committee, reports on prior usage of financing contracts and presents a proposed financing plan for the upcoming biennium. In addition, the Committee is required by law to establish from time to time a maximum aggregate principal amount payable from payments to be made under financing contracts entered into by the state.

The state also has entered into two long-term leases with separate nonprofit corporations that issued "63-20" lease revenue bonds on behalf of the state. The first lease, entered into in 2004 with Tumwater Office Properties, is for an office building being used as offices by WSDOT and DOC (now known as the "Edna

Lucille Goodrich Building" and formerly the "Tumwater Office Building"). The second lease, entered into in 2009 with FYI Properties, is for a state data center and an office building in Olympia to be used by the Department of Enterprise Services and Consolidated Technology Services and several smaller agencies (the "1500 Jefferson Building"). The state began making lease payments for the 1500 Jefferson Building in July 2011. The state's payments under the leases have been assigned to separate trustees as security for the "63-20" bonds issued by each of the lessors. Under each lease, the state's obligation to make payments of rent is subject to appropriation by the Legislature and subject to Executive Order reduction by the Governor, and neither lease is a "debt" under the Constitution.

Financing Contracts for Local Agencies. The Legislature has authorized the state to enter into financing contracts on behalf of certain local government agencies for the acquisition of essential real and personal property. Pursuant to that authorization, the Treasurer established the state's Local Capital Asset Lending Program under which certain local government agencies with taxing power enter into financing contracts with the state for the acquisition of real and personal property. The obligations of local agencies under financing contracts with the state are general obligations to which the local agencies pledge their full faith and credit to make required payments. Local agency payments received by the state are used to make payments under financing contracts of the state. The state incurs a contingent obligation to make payments on behalf of a local agency in the event a local agency fails to make its required payment. This contingent payment obligation of the state is subject to appropriation by the Legislature and to Executive Order reduction by the Governor. If any local agency fails to make a payment due, the Treasurer is obligated to withhold an amount sufficient to make such payment from the local agency's share, if any, of state revenues or other amounts authorized or required by law to be distributed by the state to such local agency, if otherwise legally permissible.

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Table 13 summarizes by Fiscal Year payments to be made relating to outstanding certificates of participation, and Table 14 summarizes the "63-20" lease revenue bond payments by Fiscal Year.

Table 13
Payments of Certificates of Participation in State Financing Contracts for State and Local Agencies by Fiscal Year[(1)]
(Outstanding as of September 6, 2012)[(2)]
(in dollars)

	State				Local				State and Local Real Estate & Equipment Total Payments[(3)]
	Real Estate		Equipment		Real Estate		Equipment		
Fiscal Year	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2013	14,637,326	8,696,598	15,917,305	2,005,709	1,773,205	733,464	5,182,648	785,569	49,731,823
2014	32,286,083	14,807,115	25,696,906	3,154,268	3,171,129	1,377,569	8,030,704	1,305,749	89,829,523
2015	29,953,057	13,608,656	19,628,058	2,345,973	3,079,810	1,262,922	6,618,371	1,029,764	77,526,612
2016	31,049,795	12,434,258	13,653,510	1,698,584	3,155,118	1,147,680	4,961,194	812,319	68,912,459
2017	24,175,000	11,199,235	11,311,384	1,214,665	2,941,682	1,028,327	4,147,143	640,790	56,658,225
2018	23,310,000	10,282,960	5,718,812	888,908	2,242,758	920,396	3,474,166	485,386	47,323,386
2019	22,790,000	9,370,407	4,438,036	701,315	2,110,027	833,309	2,770,018	363,166	43,376,277
2020	22,320,000	8,474,301	3,291,693	539,945	2,015,013	750,594	2,390,941	263,478	40,045,967
2021	22,100,000	7,563,109	2,900,698	419,089	1,865,000	671,465	1,400,836	185,515	37,105,712
2022	21,170,000	6,663,328	1,559,543	315,909	1,625,000	597,383	985,457	135,091	33,051,710
2023	21,035,000	5,767,926	1,534,647	259,520	1,680,000	526,363	695,353	89,505	31,588,314
2024	19,850,000	4,884,249	1,600,000	193,800	1,745,000	452,800	650,000	58,125	29,433,975
2025	16,825,000	4,058,721	1,670,000	125,125	1,825,000	375,718	275,000	26,575	25,181,138
2026	16,615,000	3,322,363	1,435,000	64,800	1,910,000	292,203	290,000	15,200	23,944,565
2027	16,410,000	2,579,598	165,000	6,600	1,810,000	208,406	80,000	3,200	21,262,804
2028	12,890,000	1,888,236	-	-	1,855,000	125,141	-	-	16,758,378
2029	12,070,000	1,295,349	-	-	750,000	38,994	-	-	14,154,343
2030	12,305,000	699,929	-	-	150,000	10,736	-	-	13,165,666
2031	6,225,000	270,194	-	-	80,000	5,550	-	-	6,580,744
2032	1,170,000	53,094	-	-	65,000	2,744	-	-	1,290,838
2033	415,000	7,522	-	-	10,000	181	-	-	432,703
Total	379,601,261	127,927,147	110,520,591	13,934,210	35,858,744	11,361,943	41,951,831	6,199,432	727,355,159

(1) Excludes payments on state leases supporting "63-20" lease revenue bonds. See Table 14.
(2) Does not include Certificates of Participation selling August 7, 2012, with preliminary principal amount of $85.4 million and expected to close on August 23, 2012.
(3) Total payments for 2013 are $96,519,638.
Totals may not add due to rounding.
Source: Office of the State Treasurer.

Table 14
Payments Under "63-20" Lease Revenue Bonds by Fiscal Year
(Outstanding as of September 6, 2012)
(in dollars)

Fiscal Year	E.L. Goodrich Building		1500 Jefferson Building		Total Lease Revenue Bonds
	Principal	Interest	Principal	Interest	
2013	-	1,320,344	5,455,000	16,181,375	22,956,719
2014	1,360,000	2,606,688	5,725,000	15,908,625	25,600,313
2015	1,540,000	2,534,188	6,015,000	15,622,375	25,711,563
2016	1,740,000	2,450,013	6,310,000	15,321,625	25,821,638
2017	1,955,000	2,353,019	6,630,000	15,006,125	25,944,144
2018	2,180,000	2,244,475	6,965,000	14,674,625	26,064,100
2019	2,420,000	2,123,725	7,310,000	14,326,375	26,180,100
2020	2,685,000	1,989,719	7,675,000	13,960,875	26,310,594
2021	2,960,000	1,841,538	8,060,000	13,577,125	26,438,663
2022	3,260,000	1,678,263	8,460,000	13,174,125	26,572,388
2023	3,570,000	1,498,975	8,885,000	12,751,125	26,705,100
2024	3,905,000	1,302,756	9,350,000	12,284,663	26,842,419
2025	4,265,000	1,093,625	9,845,000	11,793,788	26,997,413
2026	4,640,000	871,000	10,360,000	11,276,925	27,147,925
2027	5,035,000	629,125	10,905,000	10,733,025	27,302,150
2028	5,480,000	366,250	11,450,000	10,187,775	27,484,025
2029	4,585,000	114,625	12,035,000	9,600,963	26,335,588
2030	-	-	12,665,000	8,969,125	21,634,125
2031	-	-	13,360,000	8,272,550	21,632,550
2032	-	-	14,095,000	7,537,750	21,632,750
2033	-	-	14,870,000	6,762,525	21,632,525
2034	-	-	15,690,000	5,944,675	21,634,675
2035	-	-	16,555,000	5,081,725	21,636,725
2036	-	-	17,465,000	4,171,200	21,636,200
2037	-	-	18,425,000	3,210,625	21,635,625
2038	-	-	19,440,000	2,197,250	21,637,250
2039	-	-	20,510,000	1,128,050	21,638,050
Total	51,580,000	27,018,325	304,510,000	279,656,989	662,765,313

Totals may not add due to rounding.
Source: Office of the State Treasurer.

School Bond Guarantee Program

In 1999, the Legislature authorized a state school district credit enhancement program. The program's purpose is to provide savings to state taxpayers by pledging the full faith, credit and taxing power of the state to the payment of voter-approved school district general obligation bonds. The proposed law was approved by a vote of the electorate as a constitutional amendment.

Each school district is responsible for paying in full the principal of and interest on its bonds guaranteed by the state under the guarantee program. If sufficient money to make any scheduled debt service payment on guaranteed bonds of a school district has not been transferred to the paying agent in a timely manner, the Treasurer is required to transfer sufficient money to the paying agent for such payment. The Treasurer is entitled to recover from the school district any funds paid by the state on behalf of a school district under the guarantee program in a manner consistent with Chapter 39.98 RCW. The state has not been called upon to pay debt service on any guaranteed school debt.

As of July 1, 2012, the aggregate total principal amount outstanding on 502 voter-approved bond issues guaranteed under the program is $8.33 billion. The bonds were issued by 185 school districts.

Washington Guaranteed Education Tuition Program

The Washington Guaranteed Education Tuition Program ("GET program") is a 529 prepaid college tuition plan that allows Washington residents or individuals opening accounts for Washington residents to prepay for future college tuition. Individual accounts are guaranteed by the state to keep pace with rising college tuition, based on the highest tuition at Washington's public universities. The after-tax contributions to a GET account grow tax-free and can be withdrawn tax-free when used for eligible higher education expenses. GET funds are held in the state treasury and invested by the Washington State Investment Board.

According to the actuarial valuation prepared by an outside firm, the market value of program assets as of June 30, 2010, totaled $1.6 billion, or 86.2 percent of the "best estimate" of the actuarially determined present value of obligations for future payments of $1.85 billion. The 2011 Legislature transferred limited tuition-setting authority to some institutions of higher education ("new tuition-setting policy"), which has resulted in higher tuitions at some state colleges than anticipated. The new tuition-setting policy lowered the funded status, as of June 30, 2010, to 69.9 percent. According to a preliminary actuarial valuation prepared by an outside firm, the market value of program assets as of June 30, 2011, totaled $2.16 billion, or 79.1 percent of the "best estimate" of the actuarially determined present value of obligations for future payments of $2.73 billion. The GET program has a goal to gradually rebuild a stabilization reserve, which as of June 30, 2011, had a deficit of $570.1 million or 20.9 percent of obligations. Results as of June 30, 2012, are that the market value of program assets was $2.306 billion, or 81.4 percent of the "best estimate" of the actuarially determined present value of obligations for future payments of $2.833 billion.

There is no generally accepted standard of practice within the actuarial profession addressing prepaid tuition programs. The actuarial valuations for the GET program include a best estimate of the actuarial value of the obligations uses methodologies applicable to retirement systems and depends on certain assumptions regarding the rate of increase in tuition, investment returns and expense inflation. A 2010 report and a March 2011 solvency analysis completed by the Office of the Washington State Actuary ("OSA") concluded that under the status quo, the likelihood that the state will need to make required contributions to meet GET program tuition obligations over the next 50 years is low, but should it occur, the dollar amount would be high. OSA released a new analysis in August 2011 with the results of the new tuition-setting policy. Based on this analysis, the GET Committee approved a plan to recover from the unexpected past losses, which includes adopting a price that amortizes the unfunded liability over 30 years. In June 2012, OSA released a new analysis that indicates that the plan adopted in 2011 is expected to result in full funding in 2029; the probability that the state will need to make distributions over the next 50 years is 2.4 percent; and there is a 24.4 percent chance that the funded status could drop below 50 percent.

INVESTMENTS

The Treasurer manages and invests two distinct sets of funds: state funds and Local Government Investment Pool ("LGIP") funds. State funds include funds in the state treasury that are subject to legislative appropriation and funds in the Treasurer's Trust, which are accounts placed in the custody of the Treasurer and not typically subject to legislative appropriation. Separately, the Treasurer manages the LGIP funds, a voluntary investment option for local governments.

Both the state funds and funds in the LGIP are managed by the Office of the State Treasurer pursuant to state laws that govern the permissible investments for each and to investment policies that provide further restrictions. Historically, the Treasury and Treasurer's Trust Funds and the LGIP have had sufficient

liquidity to meet all cash flow demands. In keeping with state law, funds within the Treasury and Treasurer's Trust Funds are comingled for investment and cash management purposes.

Separately, the Washington State Investment Board manages and invests state retirement plan funds, state injured-worker insurance funds and various permanent funds. Its 15-member board consists of 10 voting members and five non-voting members. The 10 voting members include the Director of the Department of Labor and Industries and the Director of Retirement Systems, the Treasurer, five representatives of the public employee retirement systems and two legislators (one from each chamber).

For a description of permitted investments for the LGIP, Treasurer's Trust Funds, state pension plans and Workers' Compensation Funds, see Note 3 in Appendix D–"THE STATE'S 2011 AUDITED BASIC FINANCIAL STATEMENTS."

Treasury and Treasurer's Trust Funds

The Treasury and Treasurer's Trust Funds are separated into sub-portfolios, a Liquidity Portfolio and a Core Portfolio, each managed by a separate portfolio manager within the Office of the State Treasurer. Earnings on the two sub-portfolios are calculated and distributed to individual funds on an accrued basis. Objectives are set for each portfolio as described below.

Liquidity Portfolio. The objective of the Liquidity Portfolio is to meet daily cash requirements of all Treasury and Treasurer's Trust Funds (which include state operating and capital accounts). Additionally, the Liquidity Portfolio serves as a short-term investment fund for any cash holdings of the Core Portfolio. Balances in the Liquidity Portfolio fluctuate within a wide range (from near zero to more than $1.0 billion), increasing sharply with the receipt of seasonal tax payments and bond proceeds and declining with the pace of operating and capital expenditures. Investment holdings of this portfolio are generally repurchase agreements, reverse repurchase agreements, U.S. agency discount notes and deposits with qualified depositaries. Performance of this portfolio is measured against benchmarks used for the LGIP described below.

Core Portfolio. Cash not anticipated to be needed to meet cash flow requirements for the foreseeable future is invested in the Core Portfolio. The maximum maturity for this portfolio is 10 years with a target duration of about 1.75 years. Investment holdings of this portfolio include obligations of the U.S. Government, U.S. agencies and bank notes guaranteed by the FDIC under the temporary liquidity guarantee program (the "TLGP"). Performance benchmarks of the Core Portfolio are the total return and accrued yield of the Bank of America/Merrill Lynch 1-3 Treasury/Agency Index and the accrued yield of a blended ladder of two- and five-year U.S. Treasuries.

Table 15
Treasury and Treasurer's Trust Funds
Average Daily Balances by Security Class
($ in thousands)

	June 2012		July 2011-June 2012[1]	
	$	**%**	**$**	**%**
Agency	1,126,177	27.2	1,303,622	42.6
Treasury	542,936	13.1	322,008	10.5
Repurchase Agreements	1,905,800	46.0	840,224	27.4
Reverse Repo	-	-	-	-
Bank Deposits	216,165	5.2	354,306	11.6
LGIP Deposit[2]	350,267	8.5	224,793	7.3
NOW Accounts	-	-	-	-
TLGP Bonds	-	-	16,605	0.5
	4,141,345	100.0	3,061,558	100.0
Weighted Average Maturity:	346 days			

(1) Average Balance.
(2) See "Local Government Investment Pool Funds."
Source: Office of the State Treasurer.

Local Government Investment Pool Funds

The LGIP, authorized by the Legislature in 1986 and managed by the Office of the State Treasurer, is a voluntary pool that provides its participants the opportunity to take advantage of the economies of scale inherent in pooling. The LGIP also is intended to offer participants safety of principal and the ability to achieve a higher investment yield than otherwise would be available to them. The more than 450 local governments that participate in the LGIP are allowed 100 percent liquidity on a daily basis. Although not regulated by the U.S. Securities and Exchange Commission (the "SEC"), the LGIP closely follows the SEC guidelines for Rule 2a-7 money market funds; for example, currently a maximum weighted average maturity ("WAM") of 60 days, a maximum weighted average life of 120 days. The maximum final maturity is 397 days except for floating- and variable-rate securities and securities that are used for repurchase agreements. The WAM of the LGIP generally ranges from 30 to 60 days. Typical investment holdings of the LGIP are repurchase agreements, U.S. Treasury bills and notes, U.S. agency discount notes, coupons, floating- and variable-rate notes, reverse repurchase agreements and bank deposits. The benchmarks utilized for the LGIP are the Government and Agency money market net and gross yields reported by iMoneyNet. The net yield is utilized for external comparisons while the gross yield is used internally to assess portfolio manager performance. The Treasury and Treasurer's Trust Funds are authorized to invest in the LGIP.

Table 16
Local Government Investment Pool Funds
Average Daily Balances by Security Class
($ in thousands)

	June 2012		July 2011-June 2012[1]	
	$	%	$	%
Agency	3,663,896	39.4	3,972,226	43.4
Treasury	1,837,422	19.8	1,201,042	13.1
Repurchase Agreements	3,142,024	33.8	3,272,815	35.7
Reverse Repo	-	-	(29,098)	(0.3)
Bank Deposits	412,093	4.4	569,553	6.2
NOW Accounts	235,789	2.5	176,201	1.9
	9,291,224	100.0	9,162,739	100.0
Weighted Average Maturity:	40 days			

(1) Average balance.
Source: Office of the State Treasurer.

RISK MANAGEMENT

Insurance

The state operates a self-insurance liability program (the "SILP") for third-party claims against the state for injuries and property damage up to $10 million for each occurrence. An excess insurance policy is also purchased for these risks, which covers amounts above a self-insured retention (the "SIR") up to an annual limit of $40 million. The current SIR is $10 million for all agencies except DSHS and DOC, each of which has an $18 million SIR. Insurance is procured annually, and the SIR may change. The SILP is administered by OFM with money available in a statutorily-based Liability Account within the Risk Management Fund. The Liability Account is funded by annual premiums assessed to state agencies based on each agency's loss history (paid claims over the most recent five years and open reserves for pending claims). State statutes do not permit the Liability Account to exceed 50 percent of the state's outstanding liabilities as determined bi-annually by an independent actuary. General and auto claims are investigated and settled through the coordinated efforts of OFM, the Office of the Attorney General and WSDOT with consultation and agreement of the affected agency. Approved claims (including judgments, settlements and related defense costs) are paid by OFM from the Liability Account. As of June 30, 2011, the Liability Account held $95.3 million designated for payment of tortious liability and certain federal due process claims. As of June 30, 2011, outstanding and actuarially determined claims against the state and its agencies (except for the University of Washington), including projected defense costs, that were payable from the Liability Account were $702.6 million.

The SILP covers the state, its agencies, governing bodies, boards and commissions, including all state employees, elected and appointed officials, members of boards or commissions, volunteers and reserve officers, all while acting within the scope of their employment or assigned volunteer activities. Students in state four-year universities and in the community and technical colleges are not covered by the SILP unless they otherwise qualify as state employees or volunteers. The University of Washington does not participate in SILP but operates its own self-insurance program and purchases a variety of commercial insurance, including excess and property policies. See Notes 7(E), 10 and 13(B) in Appendix D–"THE STATE'S 2011 AUDITED BASIC FINANCIAL STATEMENTS."

The Ferries Division of WSDOT does not participate in the SILP, so the state purchases a marine policy that covers the vessels and operations of the Washington State Ferry System and several small vessels

owned by DOC to transport individuals to the McNeil Island Corrections Center. The policy combines general liability, pollution liability, vessel hull and machinery and property in a master policy. It provides coverage up to $250 million annually for liability, $250 million for pollution, approximately 60 percent of the value of the ferries ($879 million) and all terminals, docks and shore-side facilities ($400 million). There is a single $1.0 million deductible per occurrence. The policy also has a special protection for war risk for selected vessels and routes, which provides the above coverage for losses as a result of foreign or domestic terrorism. This is needed because acts of war are excluded from the general marine policy.

The state also purchases other commercial insurance such as aviation insurance covering aircraft and airport liability coverage for agencies and colleges with aviation exposures, a master property policy covering all risks for selected buildings, contents and electronic data processing equipment (replacement value insurance including earthquakes and floods), a fidelity policy covering fraudulent or dishonest acts of all state officers and employees, and special policies covering specific buildings such as certain buildings at Washington State University, and business interruption and property coverage for toll facilities, including the Tacoma Narrows Bridge and the SR 520 Corridor.

Workers' Compensation Program

The Workers' Compensation Program insures payment of benefits for approximately 70 percent of the work force in the state, excluding self-insured employers and their employees. The Workers' Compensation Program provides time-loss, medical, vocational, disability and pension benefits to qualifying individuals who sustain work-related injuries or illness.

The main benefits plans of the Workers' Compensation Program are funded based on rates that are designed to keep these plans solvent in accordance with recognized actuarial principles and to limit fluctuations in premium rates. The accrual of these future payments for workers that were injured as of June 30, 2011, was estimated to be approximately $11.3 billion as of June 30, 2011, without any cost-of-living adjustments ("COLA"). The accrual of future payments for workers that were injured as of June 30, 2011, was estimated to be approximately $23 billion as of June 30, 2011, with COLA. There are $12.5 billion of invested assets, mainly long-term fixed income securities, to help fund these accrued benefits.

The supplemental pension plan supports COLA granted for time-loss and disability payments for all injured workers, including those of self-insured employers. The supplemental pension component covers both state funded and self-insured employees. The accrual of these future payments for workers that were injured as of June 30, 2011, was estimated to be approximately $11.7 billion as of June 30, 2011. By statute, the state is permitted to collect only enough revenue to fund the current COLA payments. No assets are allowed to accumulate for the future funding of claims' COLA benefits payable. The programs' actuaries estimate these rates so that yearly premium payments will be sufficient to make these current payments.

In the 2011 legislative session, the Legislature adopted two bills designed to improve return-to-work outcomes and reduce the cost of the Workers' Compensation Program. One bill directs the Department of Labor and Industries to create a single, statewide provider network for injured workers and expands access to the state's Centers of Occupation Health Education, which are community-based organizations that use occupational health best practices. The second bill, among other provisions, (1) eliminates the Fiscal Year 2012 cost-of-living adjustment with no future catch-up and delays the first adjustment for future claims by one year, (2) allows certain workers to resolve all but the medical portion of their claims with a claim resolution structured settlement agreement that provides a periodic payment schedule, (3) provides that if a pension is awarded after a permanent partial disability award, all permanent partial disability compensation must be either deducted from the worker's monthly pension benefits or deducted

from the pension reserve, and (4) authorizes state fund employers to receive a wage subsidy and certain reimbursements for employing an injured worker at light duty or transitional work.

See Note 7(E) in Appendix D–"THE STATE'S 2011 AUDITED BASIC FINANCIAL STATEMENTS."

State Unemployment Compensation Fund

The Washington State Unemployment Insurance Program provides weekly unemployment insurance payments for workers who lose their jobs through no fault of their own. The unemployment insurance program is a partnership among federal and state governments. Employers pay unemployment insurance through unemployment taxes to both the state and the federal government. Workers in Washington State do not pay unemployment taxes.

Federal unemployment tax revenues are used to finance specific purposes related to running the states' unemployment insurance programs, such as state employment security staff salaries, equipment, software, and supplies that are used in direct support of the Unemployment Insurance, Employment Services, and Labor Market Information programs. The federal tax also provides benefit reserve funds for possible extended benefits programs and provides a loan fund for states that deplete their benefit accounts.

State unemployment tax revenues are directed to the state's benefit trust fund, which can only be used to pay unemployment benefits. This trust fund is held in the national unemployment insurance trust fund of the U.S. Treasury. According to state statute, tax rates are intended to maintain fund balances sufficient to cover at least 12 months of unemployment benefits during a severe recession. By statute, the state may add an additional solvency tax of 0.2 percent to an employer's rate if the balance in the trust fund drops below a level needed to pay seven months of benefits. The state has not borrowed from the federal government to pay unemployment benefits since the mid-1980s.

There are two major components of state unemployment taxes, an experience-rated tax based on a rolling four-year average of the employer's layoff history and a social-cost tax based on benefit costs from the previous year that are not attributed to a specific employer.

The average combined unemployment tax rates as a percentage of taxable wages for Fiscal Years 2005 to 2011 are shown in the following table.

Table 17
Average Combined Unemployment Tax Rates
(Fiscal Year ended June 30)

Year	Average Tax Rate[1]
2005	2.80%
2006	2.80
2007	2.38
2008	1.97
2009	1.66
2010	1.40
2011	2.25

(1) Average Tax Rate on taxable wages as of second quarter of the year. The Average Tax Rate for the 12 months ending March 31, 2012, was 2.58 percent.

Source: U.S. Department of Labor-Unemployment Insurance Data Summary.

The balance in the trust fund as of March 2012 was $2.48 billion, which is calculated to provide 12.7 months of benefits. The following table shows the unemployment compensation balances for Fiscal Years 2005 through 2011.

Table 18
Unemployment Compensation Fund Balance[1]
(Fiscal Year ended June 30)
($ in millions)

Year	Balance
2005	1,638
2006	2,528
2007	3,321
2008	4,000
2009	3,398
2010	2,316
2011	2,545

(1) The state trust fund is held in an account for the state in the national unemployment trust fund of the U.S. Treasury.

Source: TreasuryDirect®.

In April 2012, approximately 185,000 unemployed workers received benefits under the program. Beginning July 1, 2012, new claimants entering the program are entitled to up to 26 weeks of regular unemployment insurance benefits from the state with a maximum state liability of $15,704 (which is the maximum weekly benefit amount times 26). The maximum weekly benefit amount is calculated based on 63 percent of Washington's average weekly wage per unemployed worker.

Workers who applied for unemployment between March 6, 2011, and November 5, 2011, receive an additional $25 per week. This is in addition to the calculated weekly benefit amount maximum that was effective July 2011, which brings the maximum state liability to $15,808 for these claims.

In February 2012, the federal government again extended the Emergency Unemployment Compensation program. This program potentially adds up to 53 weeks of unemployment insurance to unemployed workers, but the new extension establishes triggers based on the unemployment rate for three of the four tiers of benefits. This program was initially effective through March 2009, and has since been extended eight times, currently until the end of December 2012. The federal government pays for the total cost of these benefits.

In February 2009, the state qualified for the federal Extended Benefits Program that allowed up to an additional 20 weeks of benefits. The qualification triggers are based upon unemployment rates and those rates compared to prior years. The two levels available, one for up to 13 weeks of benefits and one for up to 20 weeks, depend upon the seasonally adjusted total unemployment rate–the higher number of weeks are available when the rate is high. Beginning in April 2012, the state no longer qualifies for extended benefits, even though the unemployment rate remains high, because the extended benefits trigger calculation compares the current year unemployment rate to prior periods and requires the rate to be higher. Instead, the rate has been declining slowly. Currently a maximum of 47 weeks of Emergency Unemployment Compensation is available in the state, with the amount reduced to 37 weeks after September 8, 2012. The number of Emergency Unemployment Compensation weeks also could be reduced further based on the unemployment rate in the future.

Seismic Activity and Other Natural Disasters

The state is in an area of seismic activity, with frequent small earthquakes and occasionally moderate and larger earthquakes. Certain soil types and property in certain areas of the state could become subject to liquefaction (the transformation of soil from a solid state to a liquid state) following a major earthquake, to landslides caused by an earthquake and to ongoing shaking that could follow a major earthquake. The state contains identified geologic faults. In addition to various faults beneath the state, the state is within the Cascadia subduction zone, a fault beneath the Pacific Ocean, which produced a large earthquake several hundred years ago and is thought to be capable of causing extensive damage if another such earthquake occurs. The most recent notable earthquake in the state, which measured 6.8 on the Richter Scale, occurred in 2001. Areas of the state also could experience the effects of a tsunami following a major earthquake on the West Coast or in areas outside the United States. WSDOT has determined that, among other infrastructure, the seawall between downtown Seattle and Puget Sound; the Alaskan Way Viaduct, an elevated highway adjacent to the seawall; and the SR 520 Evergreen Point Bridge, one of only two bridges that cross Lake Washington, are likely to be damaged if another major earthquake occurs. Other natural disasters, including volcanic eruptions and tsunamis, are possible. The loss of life and property damage that could result from a major earthquake or other major natural disasters could have a material and adverse impact on the state and its economy and financial condition. See "TRANSPORTATION-RELATED REVENUES AND EXPENDITURES–Transportation Expenditures–The SR 520 Corridor Program" and "–The Alaskan Way Viaduct."

RETIREMENT SYSTEMS

Overview

The state administers 13 defined benefit retirement plans, three of which contain hybrid defined benefit/defined contribution options. As of June 30, 2011, the plans covered 502,515 eligible state and local government employees. These plans are administered through the Department of Retirement Systems and the Board for Volunteer Fire Fighters. See Table 19.

The state's retirement plans are funded by a combination of funding sources: (1) contributions from the state; (2) contributions from employers (including the state as employer and other governmental employers); (3) contributions from employees; and (4) investment returns.

See "LITIGATION" for a discussion of certain litigation concerning the state's retirement plans. Additional information regarding retirement funds can be found in Notes 3 and 11 of Appendix D–"THE STATE'S 2011 AUDITED BASIC FINANCIAL STATEMENTS."

The Office of the State Actuary ("OSA") is statutorily required to perform biennial actuarial valuations, although in practice actuarial valuations are performed annually. The final audited actuarial valuation report is typically released in the fall. OSA also is required to recommend contribution rates and to provide actuarial services to the Legislature, the Governor, and to certain boards and state agencies. OSA recommendations are non-binding.

Rate-Setting Process

Contribution rates for the upcoming biennium are adopted during even-numbered years according to a statutory rate-setting process. The process begins with OSA's actuarial valuation of each plan and a determination of calculated contribution rates. OSA provides its preliminary results to the Select Committee on Pension Policy ("SCPP") and the Pension Funding Council ("PFC"). The SCPP then recommends contribution rates to the PFC, which in turn is required to adopt contribution rates no later

than the end of July in even-numbered years. The rates adopted by the PFC are subject to revision by the Legislature, and during the years 2001 through 2011 the rates adopted by the Legislature were lower than those that would have been required to produce actuarially required contributions to two closed plans, Plan 1 of the Public Employees Retirement System ("PERS 1") and Plan 1 of the Teachers Retirement System ("TRS 1"), in those years. The rates adopted by the PFC for PERS 1 and TRS 1 for the 2011-13 Biennium were sufficient to produce actuarially required contributions. The Law Enforcement Officers' and Fire Fighters' Retirement System 2 ("LEOFF 2") is the single exception to this process. OSA's preliminary valuation is presented to the LEOFF 2 Board, which is also required to adopt contribution rates no later than the end of July in even-numbered years.

The 20-member SCPP is made up of legislators, state agency representatives, and stakeholders. The six-member PFC consists of the Director of the Department of Retirement Systems, the Director of OFM, the chair and ranking minority member of the House of Representatives Ways and Means Committee, and the chair and ranking minority member of the Senate Ways and Means Committee.

Retirement Plans

A summary of each of the state retirement plans as of June 30, 2011, the period reported on in the last preliminary actuarial valuation report, is provided below. The final valuation is expected in August 2012.

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Table 19
Overview of Retirement Plans
(As of June 30, 2011[1])

Retirement System/Plan	Administered by	Benefit Type	Active and Terminated Vested Members	Members Receiving Benefits	Closed in
Public Employees' Retirement System ("PERS") was established in 1947 and is a cost-sharing multiple-employer retirement system.					
PERS 1	Dept of Retirement Systems	Defined Benefit	9,522	53,264	1977
PERS 2/3		Defined Benefit/Hybrid[2]	172,820	26,099	Open
Teachers' Retirement System ("TRS") was established in 1938 and is a cost-sharing multiple-employer retirement system comprised principally of non-state employees.					
TRS 1	Dept of Retirement Systems	Defined Benefit	4,321	36,118	1977
TRS 2/3		Defined Benefit/Hybrid[2]	71,086	5,591	Open
School Employees' Retirement System ("SERS") was established in 1998 and is a cost-sharing multiple-employer retirement system comprised principally of non-state employees.					
SERS 2/3	Dept of Retirement Systems	Defined Benefit/Hybrid[2]	62,594	6,428	Open
Law Enforcement Officers' and Fire Fighters' Retirement System ("LEOFF") was established in 1970 and is a cost-sharing multiple-employer retirement system comprised primarily of non-state employees, with the Department of Fish and Wildlife enforcement officers as the major exception.					
LEOFF 1	Dept of Retirement Systems	Defined Benefit	251	7,932	1977
LEOFF 2		Defined Benefit	17,460	2,015	Open
Washington State Patrol Retirement System ("WSPRS") was established in 1947 and is a single employer retirement system.					
WSPRS 1	Dept of Retirement Systems	Defined Benefit	833	875	2002
WSPRS 2		Defined Benefit	321	0	Open
Public Safety Employees' Retirement System ("PSERS") was established in 2004 and is a cost-sharing multiple-employer retirement system.					
PSERS 2	Dept of Retirement Systems	Defined Benefit	4,188	15	Open
Judicial Retirement System ("JRS") was established in 1971 and is an agent multiple-employer retirement system. The plan is funded by legislative appropriation.					
JRS	Dept of Retirement Systems	Defined Benefit	5	125	1988
Judges' Retirement Fund ("Judges") was established in 1937 to provide retirement benefits to judges of the Supreme Court, Court of Appeals, and Superior Courts. It is an agent multiple-employer retirement system. Judges are now covered under PERS. The plan is funded by legislative appropriation.					
Judges	Dept of Retirement Systems	Defined Benefit	0	13	1971
Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Act ("VFFRPF") was established in 1945 and is a cost-sharing multiple-employer retirement system. The plan is funded by legislative appropriation.					
VFFRPF	Board for Volunteer Fire Fighters	Defined Benefit	16,931	3,708	Open

(1) Preliminary member data as of June 30, 2011, except for JRS, Judges and VFFRPF member data, which is as of June 30, 2010.
(2) Hybrid = defined benefit/defined contribution,

Source: Department of Retirement Systems.

The following table lists the contribution rates for the state and employees for the retirement plans as of July 1, 2012, expressed as a percentage of current year covered payroll (total state payroll rate that is subject to pension contribution).

Table 20
Contribution Rates
(in percentage)

	State Rate[1]	Employee Rate
PERS Plan 1	7.21	6.00
PERS Plan 1 elected state officials	10.74	7.50
PERS Plan 2/3[2][3]	7.21	4.64
TRS Plan 1	8.04[4]	6.00
TRS Plan 1 elected state officials	8.04[4]	7.50
TRS Plan 2/3[2][3]	8.04[4]	4.69
SERS Plan 2/3[3]	7.58[5]	4.09
PSERS Plan 2	8.87	6.36
LEOFF Plan 2[6]	8.62	8.46
WSPRS Plan 1	8.07	6.59
WSPRS Plan 2	8.07	6.59

(1) Includes 0.16 percent Department of Retirement Systems administrative expense rate.
(2) Includes elected state officials.
(3) Plan 3 members do not contribute to the defined benefit plan.
(4) Contribution rate increases on September 1, 2012, to 8.05 percent.
(5) Contribution rate increases on September 1, 2012, to 7.59 percent.
(6) Other than ports and universities, local government employers pay 5.24 percent and the state contributes 3.38 percent for local government members.

Source: Department of Retirement Systems.

In July 2012, the PFC recommended higher contribution rates for PERS, TRS, SERS and PSERS for the 2013-15 Biennium. The actual rates are subject to revision by the Legislature. The recommended increases are as follows (1) employee rates increase the following percent of pay: 0.28 percent for PERS, 0.27 percent for TRS, and 0.55 percent for SRS, and (2) employer rates increase 2.11 percent for PERS, 2.33 percent for TRS, 2.22 percent for SERS and 1.78 percent for PSERS.

The State Actuary's website (http://osa.leg.wa.gov/Actuarial_Services/Funding/contribution_rates.htm) includes projected employer and employee contribution rates for the various plans for 2013-2017 under optimistic, expected and pessimistic scenarios and under various assumptions. Actual contribution rates could well vary from those projected.

State Contributions

Table 21 summarizes the state's contributions to the retirement plans, as adopted by the Legislature.

Table 21
State's Contributions
($ in millions)

	2009	2010	2011
PERS Plan 1	169.0	78.2	72.3
PERS Plan 2/3	217.6	160.4	158.0
TRS Plan 1	8.0	5.6	4.4
TRS Plan 2/3	0.8	0.8	0.7
SERS Plan 2/3	-	-	-
PSERS Plan 2	7.7	7.8	8.0
LEOFF Plan 1[(1)]	-	-	-
LEOFF Plan 2	52.0	52.2	52.9
VFFRPF	5.2	5.7	5.7
WSPRS Plan ½	6.4	5.3	5.3
JRS	10.3	11.6	10.9
Judges	-	-	-
Total	477.0	327.6	318.2

(1) LEOFF Plan 1 has no Unfunded Actuarial Accrued Liability so no contributions are required

Source: Department of Retirement Systems.

In Fiscal Year 2011, the state's payments for pension contributions paid from the General Fund were approximately 2.8 percent of General Fund expenditures.

Contribution Ratios. In addition to the state's required contributions, employees and local government employers must meet their required contributions. Participating governmental employers include, but are not limited to, school districts, counties, municipalities, and political subdivisions.

Table 22
Estimated State and Local Government
Employer Contribution Ratios by Funding Source[1]
(in percents)

System	General Fund-State	Non-General Fund-State	Local Government
PERS	19.9	28.4	51.7
TRS	66.3	0.0	33.7
SERS	44.6	0.0	55.4
PSERS	71.0	7.6	21.4
LEOFF 1[2]	0.0	0.0	0.0
LEOFF 2	40.0	0.0	60.0
WSPRS	8.0	92.0	0.0

(1) These splits are used by OSA to model approximate cost allocations for employers by fund or type of employer in actuarial fiscal notes. The reader should exercise caution when using numbers provided in this table for any other purpose. Note these splits are based upon the June 30, 2010, actuarial valuation.
(2) No contributions required when the plan is fully funded. The plan has been fully funded since 2000.
Source: Office of the State Actuary.

Investments

Retirement funds are invested by the Washington State Investment Board, which has 15 members, including active members of the various retirement systems, the Treasurer, a member of the House of Representatives and Senate, and Directors of the Department of Retirement Systems and Labor and Industries. State law requires the Board to prepare quarterly reports summarizing the investment activities. The Treasurer is the custodian of all funds in the retirement accounts. State law requires that the Board adopt investment policies and in its investments use reasonable care, skill, prudence and diligence, diversify, and consider the risk and return objectives reasonably suited to the fund. State law does not include a list of permitted investments for retirement funds.

As of March 31, 2012, there was $62.4 billion invested in the retirement plans, of which 21.9 percent was in fixed income securities, 37.59 percent in public equity, 25.12 percent in private equity, 13.28 percent in real estate, 1.33 percent in tangible assets, and 0.78 percent in cash or other. The following table shows the investment returns on the retirement funds for the past 10 years.

Table 23
Historical Investment Returns on Retirement Funds
(in percents)

Fiscal Year	1 Year Annualized Return
2002	-5.15
2003	3.02
2004	16.72
2005	13.05
2006	16.69
2007	21.33
2008	-1.24
2009	-22.84
2010	13.22
2011	21.14

Source: Office of the State Actuary.

Notes 3 and 11 of Appendix D–"THE STATE'S 2011 AUDITED BASIC FINANCIAL STATEMENTS" list the Board's policy regarding permitted investments, the commingled trust fund that is the investment vehicle for 14 separate retirement plans, the securities lending programs the pension trust funds are permitted, the derivative investments as of June 30, 2011, and a break down of investments as of June 30, 2011.

Actuarial Valuation and Funding

Actuarial Reporting. The State Actuary is required, pursuant to Chapter 41.45 RCW, to provide an actuarial valuation of PERS, TRS, SERS, PSERS, LEOFF, and WSPRS plans every two years. In practice, valuations are provided annually but only valuations for odd-numbered years are used to determine contribution rates. The demographic assumptions were last updated in the 2007 Actuarial Valuation Report based upon the 2001-2006 Experience Study Report. The next review of the demographic assumptions is expected to be completed in 2014.

The results shown in this section reflect the following assumptions, adopted by the PFC and the LEOFF 2 Board, respectively, which went into effect in 2009: (1) rate of investment return: 8.0 percent per annum; (2) general salary increases: 4.0 percent per annum (4.5 percent in LEOFF 2); (3) rate of Consumer Price Index increase: 3.5 percent (where applicable); and (4) growth in membership: 1.25 percent (0.9 percent for TRS). The long-term investment return assumption is used as the discount rate for determining the liabilities for a plan.

The State Actuary issued a report in August 2011 that recommends that the PFC adopt new long-term economic assumptions, including decreasing the inflation assumption from 3.5 percent to 3.0 percent, the annual investment return assumption from 8.0 percent to 7.5 percent, and the general salary growth assumption from 4.0 percent to 3.75 percent and to phase in the recommended change to the assumed rate of return over the next five biennia. In October 2011, the PFC recommended a 7.9 percent constant return decreasing to 7.5 percent over five biennia and accepted the remaining recommendations of the State Actuary. Legislation adopted in 2012 sets the following new rates of return assumption: 7.9 percent as of July 1, 2013, 7.8 percent as of July 1, 2015, and 7.7 percent as of July 1, 2017. The LEOFF 2 Board adopted the economic assumptions as recommended by the State Actuary.

Funding Policy. State law adopts systematic actuarial funding to finance the retirement plans. The funding policy's goals include to fully fund Plans 2 and 3 for the various systems and WSPRS, fully amortize costs of LEOFF 1 by not later than June 30, 2024, fully amortize the UAAL in PERS 1 and TRS 1 over a rolling 10-year period, and establish relatively predictable long-term employer contribution rates. To calculate contribution rates, the state uses an actuarial cost method to pay for the cost of future benefit obligations over the working lifetimes of members based on the plan-specific actuarial cost method set in statute.

Valuation Method. The state uses two funded status measures. The first funded status measure compares the Actuarial Value of Assets ("AVA") to the Projected Unit Credit ("PUC") liabilities. The PUC cost method projects future benefits using salary growth and other assumptions and applies the service that has been earned as of the valuation date to determine accrued liabilities. The asset valuation method smoothes the inherent volatility in the Market Value of Assets ("MVA") by deferring a portion of the annual investment gains or losses over a period of up to eight years. This method is consistent with governmental accounting standards. This smoothing method, which the state has followed in all actuarial valuations since September 30, 2003, helps to limit fluctuations in contribution rates and funded status that would otherwise arise from short-term changes in MVA. For example, portions of investment gains in 2004 through 2007 were deferred for recognition in later years, and one-eighth of investment losses in 2008-2009 were recognized in that Fiscal Year, with the result that the remaining unrecognized losses

will continue to put downward pressure on the funded status of all plans for seven more years as the remainder of 2008-2009 losses are recognized.

The state also uses a second measure, comparing the MVA to the PUC liabilities calculated using a short-term interest rate assumption. This measure is used for the closed plans, PERS 1, TRS 1, and LEOFF 1.

Funded Status. The following table displays the funded status on an actuarial value basis for the PERS, TRS, SERS, PSERS, LEOFF and WSPRS plans discussed above. The June 30, 2010, actuarial valuation showed that the funded status of all of the state-administered plans combined is 102 percent. Two funds – PERS 1 and TRS 1 – are underfunded with an unfunded liability of $4.7 billion as of June 30, 2010, approximately $2.4 billion of which is the responsibility of the state and the remainder a liability of local governments. Assets from one plan may not be used to fund benefits for another plan. However, all employers in PERS, PSERS and SERS are required to make contributions at a rate (percentage of payroll) determined by OSA every two years for the sole purpose of amortizing the PERS 1 Unfunded Actuarial Accrued Liability ("UAAL") over a rolling ten-year period. UAAL represents the excess, if any, of the present value of future benefits earned at the valuation date over the Actuarial Value of Assets. In addition, all employers in TRS are required to make contributions at a rate (percentage of payroll) determined by OSA every two years for the sole purpose of amortizing the TRS 1 UAAL over a rolling ten-year period. For this purpose, the Legislature has established certain maximum contribution rates that began in 2009 and will continue until 2015 and certain minimum contribution rates that are to become effective in 2015 and remain in effect until the actuarial value of assets in PERS 1 and TRS 1 equals 100 percent of the actuarial accrued liability of PERS 1 and TRS 1, respectively. Upon completion of each biennial actuarial valuation, OSA is to recommend to the PFC any adjustments in the minimum contribution rates that may be needed as a result of material changes in benefits or actuarial assumptions, methods or experience. Any changes adopted by the PFC are subject to revision by the Legislature.

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Table 24
Funded Status on an Actuarial Value Basis[1]

	PERS		TRS		SERS	PSERS	LEOFF		WSPRS	Total[2]
	Plan 1	Plan 2/3	Plan 1	Plan 2/3	Plan 2/3	Plan 2	Plan 1	Plan 2	Plan 1/2	
PUC Liability[3]	12,567	18,815	9,258	6,299	2,607	107	4,135	5,576	829	60,193
Valuation Assets[3]	8,883	20,997	7,485	7,141	2,872	141	5,565	6,621	949	60,654
Unfunded Liability Surplus[3]	3,684	(2,182)	1,773	(842)	(265)	(34)	(1,430)	(1,045	(120)	(461)
Funded Ratio (%)										
2000[4]	98	190	100	196	170	n/a	136	161	152	131
2001[4]	97	179	100	197	197	n/a	129	154	147	126
2002	92	158	98	182	169	n/a	119	137	135	118
2003	82	142	89	155	138	n/a	112	125	123	107
2004	81	134	88	153	137	n/a	109	117	118	105
2005[4]	74	127	80	134	122	n/a	114	114	113	99
2006[4]	74	121	80	133	125	99	117	116	114	100
2007[4]	71	120	76	130	126	120	123	129	118	99
2008[4]	71	119	77	125	121	127	128	133	121	100
2009	70	116	75	118	116	128	125	128	119	99
2010[5][6]	74	113	84	116	113	129	127	124	118	102
2011[5][6][7]	71	112	81	113	110	132	135	119	115	101

(1) Liabilities have been valued using the Projected Unit Credit ("PUC") cost method at an interest rate of 8.0 percent while assets have been valued using the actuarial value of assets. The state's Audited Basic Financial Statements attached as Appendix D use the entry age actuarial cost method, which is intended to serve as a surrogate for the funded status and funding progress of the plans.
(2) Assets from one plan may not be used to fund benefits for another plan.
(3) Dollars in millions. Based on preliminary actuarial valuation as of June 30, 2011.
(4) Actuarial assumptions changed.
(5) Includes results of 2011-13 legislation that eliminated the annual adjustment increase for retirees in PERS 1 and TRS 1.
(6) 2010 Funded ratio for PERS 1 and TRS 1 would drop to 63 percent for PERS 1 and 70 percent for TRS 1 if both "gain sharing" and the annual adjustment were reinstated. See "LITIGATION–Employment and Pension" for a discussion of litigation relating to gain sharing and the annual adjustments.
(7) Based on preliminary actuarial valuation as of June 30, 2011.

Totals may not add due to rounding.

Source: Office of the State Actuary.

Preliminary June 30, 2011, Funded Status. It is expected that the June 30, 2011, actuarial valuation will be issued in the end of August 2012. In June 2012, the State Actuary prepared a preliminary June 30, 2011, actuarial valuation that showed that the funded status of all of the state-administered plans combined was 101 percent. PERS 1 had an unfunded accrued liability of $3.7 billion and TRS 1 had an unfunded accrued liability of $1.8 billion as of June 30, 2011. The long-term assumptions used in the preliminary valuation are as described under "Actuarial Reporting." These are preliminary results and are subject to change based on the rates adopted by the PFC in July 2012 and the results of an outside actuarial audit that is underway. The preliminary calculated employer contribution rates for 2013-15 are 9.03 percent for PERS, 10.21 percent for TRS, 9.64 percent for SERS, 10.22 percent for PSERS, and 7.63 percent for WSPRS. The investment rate of return on the state-administered plans was -1.02 percent from July 1, 2011, through May 31, 2012.

Alternative Methodology. In August 2010, OSA released the "2010 Risk Assessment" of the state's pension plans to assist the Legislature in proactively addressing pension plan funding levels. This report uses a dynamic risk assessment model with a stochastic (or probabilistic) component to quantify the likelihood and magnitude of possible future outcomes for pensions taking into account the variability of investment returns and revenue growth. It also differentiates between model outcomes in which (1) all actuarially recommended contributions are made and there are no future improvements in benefits, and (2) drawing on past practice, contributions are made at less than actuarially recommended rates and future benefits are improved. This differs from the traditional reporting methodology which provides funded status information at a single point in time based on what is expected to occur. OSA expects to use both methodologies in future reports on the financial condition of the pension systems.

Using this alternative methodology, the funded status of two closed plans (PERS 1 and TRS 1) is expected to decline to the 50 percent range by 2016 (when asset value losses as of June 2009 will be fully realized) and then rise thereafter provided that the plans are fully funded going forward and benefits are not further improved. If, instead, contribution rates and decisions to improve benefits follow past practice, the funded status for these two plans is expected to decline to the 20-30 percent range by 2030 and then rise thereafter. Alternatively, the funded status of PERS 2/3, the largest open plan, is expected to be in or above the 90 percent range in the projected 50-year period assuming the plan is fully funded and benefits are not improved. If contribution rates are lower and benefits improve as seen in the past, the expected funded status for PERS 2/3 drops to the 80 percent range. The 2010 Risk Assessment also notes model outcomes for each pension plan in more optimistic and more pessimistic scenarios.

Additional Information. Additional information on the state's defined benefit plans, including the benefits to retirees, information on the state's smoothing method used in the rate setting process, the UAAL as a percentage of covered payroll of each plan, and annual required contribution ("ARC") is presented in Note 11 and in the Required Supplemental Information – Pension Plan Information in Appendix D—"THE STATE'S 2011 AUDITED BASIC FINANCIAL STATEMENTS." Note 3 in Appendix D—"THE STATE'S 2011 AUDITED BASIC FINANCIAL STATEMENTS" describes eligible investments for the state's pension plans.

Recent Legislation. Since 1995, there has been an automatic, annual, service-based adjustment paid every July 1 for eligible PERS and TRS Plans 1 retirees. The budget adopted by the Legislature for the 2011-13 Biennium ends the future automatic annual increase, which is a fixed dollar amount that increases by 3.0 percent each year and is multiplied by the member's total years of service, for most retirees in the PERS and TRS Plans 1 except for the minimum benefits. The basic minimum benefit amount for retirees in those plans will continue to be increased by the annual increase amount and the alternative minimum benefit is raised to $1,545 per month. The UAAL in PERS and TRS Plans 1 reduced from $6.884 billion in 2009 to $4.439 billion in 2010 due in large part to the elimination of the

annual increase. In addition, the minimum employer contribution rates for the PERS Plan 1 UAAL will be reduced from 5.75 percent to 3.5 percent and from 8.0 percent to 5.75 percent for TRS Plan 1.

In 2012, the Legislature passed legislation that modifies early retirement factors for employees hired after May 1, 2013; those employees will have their benefits reduced by 5.0 percent per year for each year the employee retires before age 65.

Federal Benefits. State law extends to state employees the basic protection accorded to others by the old age and survivors insurance system embodied in the social security act. Members in the WSPRS have opted out of federal social security program. Other state employees have opted into the federal program. The state pays the U.S. Treasury the amount prescribed under the social security act for contributions with respect to wages. The state withholds the employee contribution from state employee's wages.

Other Post-Employment Benefits

PEBB Plan Overview. The state offers other post-employment benefits ("OPEB") including medical (which includes medical, prescription drug, and vision), dental, life, disability and long-term care insurance to retired employees. See "STATE GENERAL FUND—Employees" for a description of benefits for current state employees.

The Public Employee Benefits Board ("PEBB"), created within the Washington State Health Care Authority ("HCA"), offers retirees access to all of these OPEB benefits ("PEBB Plan"). Employers participating in the PEBB plan include the state (general government agencies and higher education institutions) and K-12 school districts, numerous political subdivisions of the state and tribal governments. Employers subsidize a portion of the cost of some PEBB Plan benefits.

The relationship between the PEBB 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, which the Governments Accounting Standards Board (GASB) defines as the plan as understood by employers or employees. For additional information on the state's PEBB Plan, see Note 12 in Appendix D—"THE STATE'S 2011 AUDITED BASIC FINANCIAL STATEMENTS."

PEBB Membership. The PEBB 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. PEBB Plan members are covered in the following retirement systems: PERS, TRS, SERS, PSERS, WSPRS, and Higher Education retirement systems. See "RETIREMENT SYSTEMS—Retirement Plans." The following table shows PEBB Plan membership.

Table 25
Membership in PEBB Plan
(As of June 30, 2011)

	Active Employees	Retirees[1]	Total
State	108,251	28,385	136,636
K-12 Schools and ESDs[2]	2,009	27,159	29,168
Political Subdivision	11,753	1,188	12,941
Total	122,013	56,732	178,745

(1) Retirees include retired employees, surviving spouses, and terminated members entitled to a benefit.
(2) In Fiscal Year 2011, there were 99,896 full-time equivalent active employees in the 246 K-12 schools and ESDs that elected to limit participation in PEBB only to their retirees.

Source: Washington State Comprehensive Annual Financial Reports ("CAFR") for Fiscal Year Ended June 30, 2011.

OPEB Subsidies. PEBB Plan employers provide monetary assistance or subsidies to retirees only for medical and life insurance. Retirees pay the full cost of other benefits.

Participating employers provide two different types of medical insurance subsidies to retirees:

(1) Explicit Subsidy. Retirees enrolled in Medicare Parts A and B receive an explicit subsidy which lowers the monthly premium. The amount of the subsidy is determined annually by PEBB. For 2011 this amount was $183 monthly for each participant. This subsidy was reduced by the Legislature for the 2011-2013 Biennium to $150 monthly beginning January 2012.

(2) Implicit Subsidy. Non-Medicare eligible retired members pay a premium based in part on a pool that includes claims experience for active employees that, on average, are younger and healthier. There is an implicit subsidy as the premiums are lower than they would be if the retirees were insured separately. The value of the implicit subsidy reflects the difference between the age-based claims cost and the premium paid by retirees.

PEBB also provides subsidized basic life insurance coverage to retirees. This is an explicit life insurance subsidy and is set up by the PEBB Board and approved as part of the budget process. In 2009-2011 that subsidy was $4.34 per month per retiree. This explicit benefit was discontinued January 1, 2012. Retirees may elect to continue life insurance through the PEBB plan, but will pay the entire premium.

Funding of OPEB Subsidies – PEBB Plan. The explicit subsidy (retiree benefit) is set each biennium by the Legislature as part of the budget process. The implicit subsidy (retiree benefit) is indirectly set annually by HCA when it determines the premium of each of the non-Medicare health plans. These subsidies (contributions) are funded on a pay-go basis.

GASB 45. GASB 45 requires each employer to calculate OPEB's actuarial accrued liability ("AAL") on the medical and life insurance explicit and implicit subsidies. It also requires a calculation of the annual required contribution ("ARC"), representing the annual contribution that will fund the current active and retired members' subsidies by the end of their working lifetimes. The net OPEB obligation ("NOO") is the cumulative difference between the annual OPEB cost and the actual contributions. The annual OPEB cost is the ARC, plus the interest on the NOO and the amortization of the NOO.

The most recent valuation for the PEBB Plan prepared by the Office of the State Actuary and published in November 2011, determined the plan's liabilities as of January 1, 2011 ("2011 OPEB Report"). Small changes in the assumptions or methods or changes in the plan provisions could result in relatively large changes in OPEB liabilities and the state's ARC, NOO and annual OPEB cost.

Valuation Assumptions and Methods. Valuations in the 2011 OPEB Report are based on methods selected by the Office of Financial Management and on assumptions detailed in the 2011 OPEB Report and summarized below. The actuarial method chosen to allocate costs and the AAL for the 2011 OPEB Report is the Projected Unit Credit ("PUC"), one of six methods permitted by GASB. The PUC cost method is a standard actuarial funding method. The annual cost of benefits under the PUC is comprised of two components: normal cost (the estimated present value of projected benefits current plan members will earn in the year following the valuation date; represents today's value of one year of earned benefits) and amortization of the unfunded actuarial liability.

The assumed return on investment earnings and the discount rate used in calculating the AAL (4.5 percent) were selected in consultation with the Office of the State Treasurer to represent a long-term average of short-term investment rates, and annual inflation is assumed to be 3.5 percent. Annual growth in membership is assumed to be at a rate of 1.25 percent (0.90 percent for K-12 Teachers), and annual salary increases were assumed to be at a rate of 4.0 percent. Assumptions underlying the medical inflation trend rates (ranging from 7.0–9.0 percent in 2011 to 5.0 percent through 2083) were provided by health care actuaries at Milliman, Incorporated. The unfunded AAL is amortized over a closed 30-year period as a level percent of payroll. Participation level is assumed to be 65 percent (50 percent for K-12 School and Education Service Districts) of eligible employees and 45 percent of spouses of eligible employees. It is assumed that all employees will get Medicare coverage after becoming eligible.

Table 26 summarizes key GASB 45 funded status as of January 1, 2009, and January 1, 2011, based upon the PEBB Plan AAL. Table 27 shows annual OPEB costs and net OPEB obligations for the Fiscal Years ended June 30, 2010, and June 30, 2011.

Table 26
Funded Status and Funding Progress of PEBB Plan
($ in thousands)

	1/1/2009	**1/1/2011**
Actuarial Accrued Liability (AAL) (1)	3,786,869	3,491,970
Actuarial Value of Plan Assets (2)	-	-
Unfunded Actuarial Accrued Liability (UAAL) (3)	3,786,869	3,491,970

(1) Actuarial Accrued Liability ("AAL"): Represents the portion of the present value of fully projected benefits attributable to service credit that has been accrued as of the valuation date measured in today's dollars.
(2) The plan is pay-as-go and has no assets.
(3) Unfunded Actuarial Accrued Liability (UAAL) is the excess, if any, of the actuarial accrued liability over the actuarial value of assets or the present values of benefits accrued to date not covered by plan assets.

Source: Washington State Comprehensive Annual Financial Report ("CAFR") for Fiscal Years Ended June 30, 2011 and June 30, 2010.

Table 27
Annual OPEB Cost and Net OPEB Obligation
($ in thousands)

	2010	2011
Beginning Net OPEB Obligation (NOO)[1]	493,551	777,872
Annual Required Contribution (ARC)[2]	349,326	320,991
Interest on the Net OPEB Obligation	22,210	35,004
Amortization of the Net OPEB Obligation	(17,116)	(27,427)
Annual OPEB Cost[3]	354,420	328,568
Contributions for Fiscal Year[4]	(70,099)	(78,673)
Net OPEB Obligation (NOO)[1]	777,872	1,027,767

(1) Net OPEB Obligation ("NOO"). The GASB disclosure requirement on the balance sheet. It is the cumulative difference between the annual OPEB cost and the actual employer contributions.
(2) Annual Required Contribution ("ARC") is the annual contribution that will fund the current active and inactive members' subsidies by the end of their working lifetimes.
(3) Annual OPEB cost is the ARC less the amortization of the NOO plus the interest that would have been earned on the NOO if the state had funded the NOO.
(4) Contributions for Fiscal Year include the estimated explicit subsidies and implicit subsidies.

Source: Washington State Comprehensive Annual Financial Reports ("CAFR") for Fiscal Years Ended June 30, 2011 and June 30, 2010.

LITIGATION

The state and its agencies are parties to numerous routine legal proceedings that occur as a consequence of regular government operations. At any given point, there are numerous lawsuits involving state agencies which could, depending on the outcome of the litigation or the terms of a settlement agreement, impact revenue or expenditures of the state. There are risk management funds reserved by the state for these claims, and insurance is available to pay all or a portion of most damages for most types of claims. There has been a trend in recent years of higher jury verdicts on certain types of damage claims. The collective impact of these claims, however, is not likely to have a material impact on state revenues or expenditures.

In addition to the regular damages claims, there are currently a number of lawsuits challenging the management and administration of state programs, some arising as a result of recent state budget cuts. The potential impact of this type of litigation is the most difficult to predict. Conceivably, a court could order the restructuring or expansion of certain entitlement programs that would result in a major restructuring of state budgeting and expenditures. No such ruling has yet to occur nor is such a court ruling currently anticipated. Most of these cases involve programs administered by the Department of Social and Health Services ("DSHS"). Only a few of these cases are called out specifically because it is not possible to quantify with exactitude what the fiscal impact of such claims could ultimately be, and it is not possible to know ahead of time what state or federal legislative responses could be taken to mitigate such impacts.

Those cases, which may raise potentially significant, but specifically incalculable, fiscal impacts, are described below.

In *McCleary v. State of Washington*, judgment for petitioners was entered on February 24, 2010, by the King County Superior Court. The court found that the state is not meeting its constitutional mandate to

make ample provision for the education of all K-12 public school children. The court ordered the Legislature to conduct a study of what state funding was needed to "amply provide" all Washington public school students with the "education" required by Article IX of the Constitution. The court also ordered the Legislature to indicate how the state will fund that cost with "stable and dependable" state funding sources. Prior to the trial, in the 2009 legislative session, the Legislature enacted a sweeping reform of the substance of and funding for K-12 education. That program of reform is scheduled to be fully implemented no later than 2018. The state appealed the superior court decision to the Supreme Court and the Supreme Court issued its opinion on January 5, 2012. The Supreme Court affirmed the trial judgment that the state is not making ample provisions for the basis education of Washington's K-12 public school students. However, it agreed with the state that the Legislature has already identified areas that need more funding and embarked on a reform program to be implemented no later than 2018. The Supreme Court reversed the trial court remedy ordering a cost study, but retained jurisdiction to facilitate the full implementation of the reforms and funding as dictated by legislation passed in 2009. This result preserves the Legislature's prerogative to reform, define and provide full funding for K-12 education. It does not require changes, financially or otherwise, that the Legislature has not already committed to make. The *McCleary* decision, by itself, does not translate into immediate or short-term impacts on the state budget. Implementing the reforms contemplated by the Legislature, however, could increase state funding for K-12 public education by billions of dollars. On July 18, 2012 the Supreme Court issued an additional ruling in the case, essentially adopting the state's position regarding the process for the court's monitoring of the implementation of the 2009 reform legislation. The court rejected the plaintiffs' request for a different procedure and rejected plaintiffs' request for attorneys' fees and costs to be borne by the state. This ruling calls for annual reporting by the Legislature to the court with the opportunity for plaintiffs to submit their position in response to the report. This process will continue through the expected full implementation of reforms in 2018.

Solis v. Washington Department of Social and Health Services is a U.S. Department of Labor ("USDOL") lawsuit filed in U.S. District Court seeking back overtime wages and liquidated damages on behalf of approximately 2,000 social workers with the Children's Administration of DSHS. The court entered judgment for DSHS on May 3, 2010, after granting DSHS's motion for summary judgment. The Ninth Circuit Court of Appeals reversed the District Court's summary judgment ruling on September 9, 2011, and remanded the case for trial. On October 21, 2011, the state filed a petition for rehearing and, at the request of the Ninth Circuit, the USDOL filed a response to one of the issues raised on DSHS's petition for rehearing. The estimated potential liability for back wages as of May 25, 2010, if all issues were construed in plaintiff's favor, is $40 million. Liquidated damages would double this to approximately $80 million.

Programs and Services

In the matter of *Rekhter v. DSHS* and two other consolidated cases (*Pfaff* and *SEIU* 775NW), plaintiffs argue that pursuant to DSHS's methodology ("shared living rule") for computing the number of hours of paid care available to the recipient class, those with live-in providers received approximately 15 percent less than those recipients who use live-out providers. This rule was invalidated by the Supreme Court ruling (*Jenkins v. DSHS*) issued on May 3, 2007, and was subsequently repealed by DSHS. Plaintiffs seek reimbursement by way of "money damages" for the recipient and provider classes for the approximately 15 percent fewer authorized hours, and injunctive relief barring application of the rule in the future. The Thurston County Superior Court has ruled that the recipient class is entitled to "retroactive compensatory relief" and ruled that the recipient class can go back to April 2003 for any award of money damages. The state argued that the recipient class could only go back, at most, 90 days from the date the complaint was filed on May 4, 2007. The trial for the provider class breach of contract claims concluded on December 20, 2010. The jury found that DSHS had not breached the express terms of the contracts, but did find violation of the "duty of good faith and fair dealing" when entering into the

contracts. The jury awarded the provider class plaintiffs $57 million. Subsequently, the trial court granted plaintiffs' motion for pre- and post-judgment interest. On December 2, 2011, the trial court entered the final judgment for the Client Class claims and two final judgments, one for the Client Class and one for the Provider Class. The court did not award the Client Class any monetary or other remedies. For the Provider Class, the court entered a judgment in the amount of $96 million, which includes the jury verdict of $57 million and prejudgment interest of $39 million. The court also awarded post-judgment interest at $18,780.43 per day beginning on December 3, 2011. The judgment reserved ruling on the claims administration and residual funds process pending the outcome of any appeal. A decision by the trial court on plaintiffs' motion for attorney fees and costs is pending. Both parties have filed cross-appeals with the Supreme Court.

MR v. Dreyfus was filed in federal district court in Seattle on December 21, 2010, challenging reductions in personal care services for adults scheduled for implementation on January 1, 2011. The plaintiffs include 14 individuals who receive in-home personal care services. The reductions at issue were implemented as a result of the Governor's September 2010 directive for an across-the-board budget reduction of 6.3 percent for all state agencies, and they are projected to save the General Fund-State almost $4 million per month or $117 million over the remainder of Fiscal Year 2011 and the next biennium. Plaintiffs allege violations of Medicaid law, the Americans with Disabilities Act, and due process requirements. They further claim that client notices were inadequate, that reduced services will lead to institutionalization, and that approval from the Centers for Medicare and Medicaid Services was necessary. Plaintiffs moved for a temporary restraining order ("TRO") to stop the reductions, which was denied by the trial court. Plaintiffs filed an emergency appeal with the Ninth Circuit seeking to overturn the denial of the TRO. On January 14, the Ninth Circuit panel issued an emergency order stopping the reductions pending the district court's ruling on plaintiffs' motion for preliminary injunction. As a result DSHS sent notices to all recipients and providers notifying them that hours reduced January 1 were being reauthorized pending further order of the court. On February 9, 2011, the U.S. District Court denied plaintiffs' motion for preliminary injunction. DSHS then reinstated the reductions effective March 1, 2011. Plaintiffs appealed the preliminary injunction denial to the Ninth Circuit and sought a second emergency injunction staying the reductions until the Ninth Circuit rules on the appeal. On February 18, 2011, the Ninth Circuit denied plaintiffs' request for the emergency stay. On December 8, 2011, the Court issued a split decision with the majority holding that the district court had abused its discretion in finding that plaintiffs had not suffered irreparable harm that there were "serious questions going to the merits" regarding a potential violation of the integration mandate of the Americans with Disabilities Act. The Court remanded the case to the district court, but did not order any class-wide relief. DSHS petitioned for rehearing en banc, and plaintiffs petitioned for rehearing by the panel (to have the decision apply to the entire putative class), but on June 18, 2012, the Ninth Circuit denied both petitions. The case has now returned to the district court and the parties are conferring on how discovery and dispositive motions should proceed. No date is set for trial.

TR v. Dreyfus is a class action lawsuit "to enforce the rights of Washington's Medicaid eligible children under the age of 21, with mental health needs, to receive the intensive home and community-based mental health services necessary to correct or ameliorate their mental health conditions." The suit claims violations of the (1) Medicaid Act-EPSDT/Comparability/Due Process provisions; (2) 14th Amendment due process under the U.S. Constitution; and (3) the Americans with Disabilities Act and Section 504 of the Rehabilitation Act. Plaintiffs seek sweeping and extraordinarily expensive changes to the service delivery system for children's mental health care. The parties agreed to engage in a formal mediation process with the goal of developing a plan for improvements to the system or, at a minimum, narrowing the issues for trial. The parties have engaged in mediation over the past year with substantial progress being made but it is not yet complete.

Taxes

The Department of Revenue ("DOR") routinely has claims for refunds in various stages of administrative and legal review. In addition, the state is defending cases challenging the constitutionality of certain taxes that fund discrete state programs.

In the matter of *Automotive United Trades Organization v. State of Washington*, a fuel distributor and a nonprofit corporation filed a lawsuit against the state and the Treasurer challenging the Hazardous Substance Tax under Article I, Section 40 of the Washington Constitution (Amendment 18). In April 2011, King County Superior Court granted summary judgment to the state and dismissed the lawsuit on two grounds: (1) the lawsuit was untimely filed and (2) the plaintiffs did not meet their burden of proving that the tax violates the state Constitution. The Supreme Court accepted direct review of the case and oral argument was heard on June 14, 2012. If the appeal is successful, the revenue generated by this tax would be diverted to the Motor Vehicle Fund and its uses would be limited to highway purposes only.

In the matter of *Dot Foods, Inc. v. Dep't of Revenue*, Dot Foods challenges 2010 legislation that retroactively amended the direct seller's exemption, RCW 82.04.423, with respect to tax periods before May 1, 2010. The 2010 legislation also repealed the exemption effective May 1, 2010, but Dot Foods does not challenge the repeal. Dot Foods alleges the retroactive portion of the legislation violates the federal due process clause and the constitutional separation of powers doctrine. Dot Foods further alleges that, even if the retroactive portion of the 2010 legislation is valid with respect to other taxpayers, section 1706 of the legislation preserves the *res judicata* effect of Dot Food's judgment in *Dot Foods, Inc. v. Dep't of Revenue*, 166 Wn.2d 912, 215 P.3d 185 (2009) (Dot Foods I), through the effective date of the repeal of the exemption. In Dot Foods I, the Supreme Court expansively construed the direct seller's exemption to grant Dot Foods a business and operation ("B&O") tax refund for the period January 2000 through April 2006. This case is currently stayed pending the Superior Court's acknowledgement of the parties' notice that the mandate in *Tesoro v. Dep't of Revenue* has been issued. The parties, however, have exchanged discovery pending the lifting of the stay.

In *Estate of Bracken*, personal representatives of the estate (petitioners) object to DOR findings that assert additional state estate tax is due. Petitioners seek relief under RCW 11.96A.080 and .090, claiming that the estate has paid all estate tax that is due under state law. This is one of a number of estate tax refund actions that have been filed against DOR in various superior courts. The petitioners in these actions argue that a Washington QTIP (qualified terminable interest property) election under RCW 83.100.047 was not made in the estates of the decedents' predeceased spouses and, therefore, DOR has erroneously included the marital trust assets left for the decedents' benefit in the decedents' taxable estates for purposes of Washington's estate tax. DOR estimates the potential refunds and lost revenues at risk based on the QTIP issue is approximately $25 million. Some of the petitioners also seek costs and attorneys' fees under RCW 11.96A.150. This case was consolidated with two other cases (*Estate of Toland* and *Estate of Nelson*) because each raises the same legal issue. On November 13, 2009, the Court granted summary judgment to DOR, holding that QTIP is not deductible and must be included in the decedents' Washington estates. On December 11, 2009, the *Estate of Nelson* filed an appeal in the Court of Appeals. On January 4, 2010, the *Estate of Bracken* filed a direct appeal in the Washington Supreme Court. The *Estate of Toland* did not file an appeal. Subsequently, the appeal in *Estate of Nelson* was transferred to the Washington Supreme Court and consolidated with *Estate of Bracken*. The Washington Supreme Court held oral arguments on May 19, 2011, and a decision is pending.

In the matter of *Wall v. State of Washington*, plaintiff alleges the transfer of funds made by the Legislature from the education legacy trust account in 2008 and 2010 into the state general fund violate article VII, section 5 of the Washington State Constitution. Plaintiff contends the amounts transferred exceed $100

million and asks that the money be restored to the education legacy trust account and the defendants enjoined from any further unconstitutional diversions.

Employment and Pension

In *WEA, et al. v. Department of Retirement Services and State of Washington*, a King County Superior Court was asked to overturn the Legislature's repeal of "gain sharing" benefits for various retirement system plans based on alleged constitutional impairment of contracts, due process, and estoppel theories. Four separate lawsuits were filed, which were consolidated under one case; one of those lawsuits was voluntarily dismissed in June 2009 leaving only three cases in the consolidated case. Summary judgment arguments were heard in Phase 1 of the litigation in July 2010. The plaintiff's motion for summary judgment was granted on the contract and estoppel claims, and the state's cross-motion was denied. Summary judgment arguments were heard in Phase 2 of the litigation in December 2011, regarding whether the benefits enacted to replace gain sharing could be repealed as a matter of law once gain sharing was restored by court order. The trial court issued an order holding that the replacement benefits could be repealed as a matter of law. The state has appealed the trial court's Phase I decision and has asked the Supreme Court for review. If plaintiffs ultimately prevail on all issues before the court, there could be a significant fiscal impact potentially requiring the Legislature to pursue additional funding of the plans or other remedies. See "RETIREMENT SYSTEMS."

The matter of *Moore v. Washington Health Care Authority* is a class action lawsuit alleging that the state has wrongfully denied medical benefits to current and former non-permanent employees by inconsistently applying eligibility standards, misclassifying employees to deny them benefits in alleged violation of the applicable statutes and regulations. A comprehensive ruling for plaintiffs on all issues in dispute could have a potentially significant impact. The trial court has ruled against the state on most liability issues and in December 2011 certified a damages class. Trial is set for September 2012.

Washington Federation of State Employees v. State of WA/Dept of Retirement Systems, Washington Education Association v. State of WA/Dept of Retirement Systems and *Retired Public Employees' Council v. State of WA/Dept of Retirement Systems* were filed in Thurston County Superior Court in October 2011 and January 2012. Both plaintiff groups challenge the 2011 Legislature's repeal of what is termed the Uniform Cost of Living Adjustment ("COLA") as described under "RETIREMENT SYSTEMS–Actuarial Valuation and Funding–2011 Legislation." This COLA (which is not a COLA per se, but, instead, was a guaranteed annual increase) was provided to retirees of Public Employees Retirement System (PERS) Plan 1 and Teachers Retirement System (TRS) Plan 1 on an annual basis by increasing the retirees' monthly retirement benefit in July of every year. Plaintiffs ask for declaratory and injunctive relief seeking, inter alia, the restoration of the COLA. The court granted class action status for the plaintiffs. A partial summary judgment motion and a motion to dismiss are scheduled to be heard by the court in September 2012.

Other

In *US v. WA* (culverts/phase II), plaintiff Tribes and the United States allege that state-owned culverts that block fish passage violate Tribes' treaty rights. The state is awaiting the court's decision and is assessing potential issues for appeal in anticipation of the court's decision.

Washington State Hospital Association v. State was filed in King County Superior Court on July 18, 2011. The plaintiff is seeking to prevent the Health Care Authority from implementing House Bill ("HB") 2069, which the Legislature enacted in 2011. The plaintiff asserts that HB 2069 establishes a tax in violation of Article VII, Section 5 of the Washington Constitution by failing to set forth the purpose of the revenues generated from the Hospital Safety Net Assessment fund. HB 2069 reduces the state's

payment rates to hospitals for the services they provide to Medicaid recipients, although the rates still would exceed the levels that existed before the Safety Net Assessment was enacted, and increases the amounts from the Safety Net Assessment fund that can be used to support Medicaid payments to hospitals. On February 8, 2012, the court denied plaintiff's motion for summary judgment and granted the state's cross-motion for summary judgment. Plaintiff filed a notice of appeal with the Washington Supreme Court on March 2, 2012.

In 1998, the state joined 45 other states in a Master Settlement Agreement with the nation's largest tobacco manufacturers to provide restitution for money spent under health care programs for the treatment of smoking-related illnesses. Determinations were made that disadvantages experienced by manufacturers as a result of participating in the settlement were a significant factor contributing to market share loses by those manufacturers, resulting in adjustments in the state's share of the settlement. An arbitration of these claims is scheduled for April 2012. See Note 13 in Appendix D–"THE STATE'S 2011 AUDITED BASIC FINANCIAL STATEMENTS."

DEMOGRAPHIC AND ECONOMIC INFORMATION

Business in Washington

A number of corporations have chosen Washington as their headquarters or as a major center of operations, including, among others, Alaska Air Group, Amazon, Amgen, Boeing Commercial Airplanes, Costco, Expeditors International of Washington, Microsoft, Nintendo America, Nordstrom, PACCAR, Starbucks and Weyerhaeuser. Key sectors in the state's economy include:

Table 28
Gross Business Income by Industry Sector (NAICS[1])
(Calendar Year 2011)
(in dollars)

	Gross Business Income	Percent of Total
Business, Personal and Other Services	127,357,116,906	20.5
Wholesale Trade	127,024,472,166	20.5
Retail Trade	112,406,073,053	18.1
Manufacturing–General	102,297,913,142	16.5
Manufacturing–Aerospace	39,278,805,021	6.3
Construction	34,108,002,598	5.5
Finance, Insurance, Real Estate	31,768,358,440	5.1
Information	17,307,677,859	2.8
Utilities	12,218,931,631	2.0
Transportation	10,998,428,335	1.8
Agriculture, Forestry, Fishing	3,812,023,792	0.6
Warehousing & Storage	718,241,809	0.1
Mining	577,991,147	0.1

(1) North American Industry Classification System.

Source: Washington State Department of Revenue, "Quarterly Business Review Calendar Year 2011" Table 1.

Table 29
Twenty-Five Largest Employers in Washington [1]
(as of August 2011)

		Full-Time Washington Employees[2]			Full-Time Washington Employees[2]
1	The Boeing Co.	76,452	14	Costco Wholesale Corp.	8,224
2	Joint Base Lewis-McChord	51,000	15	Group Health Cooperative	8,125
3	Navy Region Northwest[3]	41,300	16	Nordstrom Inc.	7,343
4	Microsoft Corp.	40,311	17	Swedish	7,069
5	University of Washington	27,920	18	Alaska Air Group Inc.	6,253
6	Providence Health & Services Washington	19,091	19	Fairchild Air Force Base	5,835
7	Wal-Mart Stores Inc.	17,975	20	United Parcel Service	5,554
8	Fred Meyer Stores	13,495	21	QFC – Quality Food Centers	5,479
9	King County Government	13,382	22	Washington State University	5,297
10	United States Postal Service	12,367	23	Virginia Mason Medical Center	5,177
11	City of Seattle	10,627	24	Seattle Public Schools	5,048[4]
12	MultiCare Health System	9,028	25	Pacific Northwest National Laboratory	4,900
13	Franciscan Health System	8,226			

(1) Amazon.com Inc. and Starbucks Corp. did not participate in the survey, but if they had participated, the Puget Sound Business Journal believes both companies would have been ranked in this list of 25 Largest Employers. The Book of Lists does not include total employment figure for state employees or federal employees.
(2) Employment totals are as of December 31, 2010.
(3) Includes Whidbey Naval Air Station and Everett Naval Air Station.
(4) Does not include substitutes.

Source: Puget Sound Business Journal, December 23, 2011.

Trade

Washington is one of the most trade-intensive states in the nation and is an important gateway for trade with Asia and Canada and for domestic trade with Alaska and Hawaii. In 2011, based on U.S. Department of Commerce Census Bureau statistics, Washington was the fifth largest exporter in the United States with a total of $64.6 billion in goods exported.

Ports. Washington has seven deep-draft ports on the Puget Sound, one on the Pacific Coast and three on the Columbia River. The ports of Seattle and Tacoma, on Puget Sound, are the state's largest ports and are closer to Asian ports than is any other continental United States port. According to the U.S. Department of Commerce Bureau of Census, the port of Seattle nationally ranked fifth in 2011 when measured by total dollar value of foreign imports and exports, and the ports of Seattle and Tacoma combined are the third largest container load center in the United States.

Airport. Seattle-Tacoma International Airport is Washington's primary airport and, measured by total passengers, was the 17th busiest airport in the country in 2010 according to the Federal Aviation Administration Air Carrier Activity Information System database. The airport also ranks as the 18th busiest cargo airport in the United States based on all-cargo landed weight.

Aerospace

The aerospace industry represented approximately 7.5 percent of all taxable business income generated in the state in calendar year 2011 and accounted for approximately 41.9 percent of the total value of goods exported by the state in calendar year 2011. There are 153 aerospace companies in the state, with Boeing being the largest aerospace employer in the area, and more than 650 in the industry cluster (including machine shops, engineering and research firms, and other suppliers and supporting entities). Although Boeing has dominated manufacturing employment, other manufacturers also have experienced growth, thus reducing Boeing's percentage of total manufacturing jobs in the state. Boeing delivered its first 787 in September 2011. Boeing has opened a second 787 production line in South Carolina, which may affect the state in the long-run. In December 2011, Boeing announced that the 737 MAX would be produced at the Boeing facility in Renton, Washington.

Forest Products

Natural forests cover nearly 50 percent of the state's land area. Forest products, including lumber, paper products and other wood and pulp products, are a traditional manufacturing sector in the state, although overall production has declined in recent years. Weyerhaeuser is the state's largest forest products employer.

Agriculture and Food Processing

In 2010 (the last year for which such data are available), the state's $40 billion food and agriculture industry employed approximately 160,000 people and contributed 12 percent to the state's economy. Nearly 300 agricultural commodities are produced commercially in Washington, and in 2010 the state's top 10 agricultural commodities (in value of production for 2010) were apples, milk, wheat, potatoes, cattle, hay, cherries, nursery/greenhouses, cherries, grapes and pears. Washington ranked first in United States production of apples, sweet cherries, pears, red raspberries and hops and second in United States production of potatoes and grapes. In 2010, Washington was the second-largest wine-producer in the nation, with more than 600 wineries.

In 2011, food processing was an $13.6 billion dollar industry employing 37,000 people supporting approximately 3,000 companies that take advantage of the state's production of crops, access to low-cost energy, inter-modal access and ability to ship products.

The agricultural and food processing sector is export-oriented. In 2011, nearly $15.5 billion in food and agricultural products were exported through Washington ports.

Several locally-based manufacturers of specialty food processing equipment and packaging support the food-processing sector in the state. Locally-based companies design and manufacture food processing equipment, such as sorters, scanners, conveyors, packaging and bottling technology, and freezing and refrigeration equipment for both ship- and land-based facilities.

Information and Communications Technology

The state's approximately 4,200 software companies make the state the largest employer of software publishing workers in the nation, according to the U.S. Departments of Employment Security and Commerce. The state ranks first in the nation in the creation of new software companies. The state also is a global center for gaming design and development, with approximately 300 companies involved in game development. California-based companies Adobe, Google, Hewlett Packard, Intel, Oracle and Yahoo! all have established engineering and operations bases in the state.

Global Health and Biotechnology

The state is a global center for the advancement of medicine and life sciences. More than 33,500 workers were directly employed in the life sciences sector in the state in 2011, and the life sciences industry in the state generated an estimated $10.4 billion in revenues in 2011. The life sciences sector in Washington includes the development and manufacture of medical devices, cancer research, therapeutics and the prevention and treatment of infectious diseases.

The University of Washington Medical Center is the largest public university recipient of federal research dollars, receiving approximately $1.0 billion in external funds for research each year, and is second nationally in National Institutes of Health research funding.

Washington is also home to some of the leading global health research institutes and non-profit organizations, including the Bill and Melinda Gates Foundation, PATH, Seattle BioMed and the Fred Hutchinson Cancer Research Center.

Services/Tourism

Tourism is important to Washington's economy. Tourists are drawn to the state's mountains, water, proximity to Canada and Alaska, and metropolitan areas. As the business, legal and financial center of the state, Seattle has the largest selection of hospitality and entertainment venues in the state. The Washington State Convention Center has the capacity for events involving as many as 11,000 people. There are more than 10,000 hotel rooms in downtown Seattle and nearby venues, and entertainment options include professional football, soccer and baseball teams, theatres and music halls, the historic Pike Place Market, the Space Needle and the Seattle Center landmark from the 1962 World's Fair, and the architecturally unique Seattle Public Library, among others. Seattle is an embarkation port for several cruiseship lines, primarily sailing to Canada and Alaska.

Military

Washington has a number of major military bases and installations, including the Fort Lewis Army Base, Madigan Army Medical Center and McChord Air Force Base in Pierce County (known as Joint Base Lewis-McChord); Puget Sound Naval Shipyard, Naval Station Bremerton and Bangor Naval Submarine Base in Kitsap County; Fairchild Air Force Base in Spokane County; Everett Naval Station in Snohomish County; and Whidbey Island Naval Air Station in Island County.

Construction

Table 30 provides information on housing permits for the state and the United States.

Table 30
Housing Units Authorized by Building Permits
in Washington and United States

	Washington			
Year	**Single Family**	**Multi-Family**	**Total**	**United States**
2003	33,091	9,734	42,825	1,889,214
2004	36,489	13,600	50,089	2,070,077
2005	41,407	11,581	52,988	2,155,316
2006	35,611	14,422	50,033	1,838,903
2007	30,390	17,007	47,397	1,398,415
2008	17,440	11,479	28,919	905,359
2009	12,991	4,020	17,011	582,963
2010	14,702	5,989	20,691	604,610
2011	13,159	7,705	20,864	624,061

Source: U.S. Bureau of the Census.

Federal Spending

Federal spending in Washington totaled approximately $70.4 billion in federal fiscal year ("FFY") ended September 30, 2010 (the last year for which such information is available). In addition to making grants to the state (approximately $14.7 billion in FFY 2010), the federal government paid salaries to military and other federal employees in Washington ($11.5 billion), retirement and disability payments ($20.5 billion), payments for equipment and other procurement ($10.0 billion) and other direct payments ($13.7 billion) in FFY 2010.

Other Employment Information

Table 31
Resident Civilian Labor Force and Employment in Washington State
(Employment Numbers in Thousands)[1]

	2008	2009	2010	2011	2012
Resident Civilian Labor Force	3,472.1	3,522.8	3,516.5	3,484.8	3,494.4
Unemployment	188.2	329.5	349.1	319.5	304.9
WA Unemployment Rate (Percent)[2]	5.4	9.4	9.9	9.2	8.7
U.S. Unemployment Rate (Percent)	5.8	9.3	9.6	8.9	n/a
Nonagricultural Wage and Salary Workers Employed in Washington					
Nonfarm Employment	2,958.9	2,822.4	2,786.3	2,823.5	2,827.6
Durable Manufacturing	211.3	190.5	184.3	193.5	200.1
Aerospace	83.0	82.9	80.8	86.6	91.8
Computer and Electronic Products	22.5	20.1	19.1	19.7	19.7
Nondurable Manufacturing	79.9	74.9	73.9	75.3	72.3
Natural Resources and Mining	7.5	6.0	5.9	6.0	5.6
Construction	200.5	159.5	140.7	137.4	132.1
Trade, Transportation, Communication, Utilities	553.4	522.4	517.0	525.8	528.0
Information	105.6	103.9	103.0	104.0	102.8
Software Publishers	50.9	51.5	50.9	51.7	51.7
Financial	152.4	142.9	137.9	137.7	136.4
Professional and Business Services	348.6	324.4	326.4	339.6	341.6
Education and Health Services	362.1	372.4	375.4	381.5	386.9
Leisure and Hospitality	283.7	269.6	266.5	270.9	267.5
Other Services	107.7	106.3	105.5	108.4	107.4
Government	546.3	549.5	550.0	543.6	547.0

(1) Averages of monthly data (not seasonally adjusted); 2012 averages through April 2012.
(2) Not seasonally adjusted. As reported by Washington Department of Employment Security in July 2012, the June 2012 unemployment rate (seasonally adjusted) was 8.3 percent in Washington and 8.2 percent in the U.S. as a whole.

Source: Department of Employment Security and U.S. Bureau of Labor Statistics.

Table 32
Composition of Employment by Industry Sector[1]
(percents)

	State of Washington		United States	
	2001	**2011**	**2001**	**2011**
Manufacturing				
Nondurable Manufacturing				
Food Manufacturing	1.4	1.2	1.2	1.1
Pulp and Paper	0.5	0.3	0.4	0.3
Other	1.5	1.1	3.0	2.0
Subtotal	3.4	2.7	4.6	3.4
Durable Manufacturing				
Lumber and Wood	0.7	0.5	0.4	0.3
Primary and Fabricated Metals	1.0	0.8	1.7	1.3
Machinery	0.7	0.6	1.5	1.1
Computers	1.2	0.7	1.3	0.8
Transportation Equipment	3.7	3.4	1.5	1.1
Other	1.1	0.9	1.4	1.0
Subtotal	8.3	6.9	7.8	5.5
Total Manufacturing	11.7	9.5	12.5	8.9
Nonmanufacturing				
Natural Resources and Mining	0.4	0.2	0.5	0.6
Construction	5.9	4.9	5.2	4.2
Trade, Transportation and Utilities	19.4	18.7	19.7	19.0
Information	3.7	3.7	2.8	2.0
Financial	5.4	4.7	5.9	5.8
Professional and Business Services	11.0	12.0	12.5	13.2
Education and Health Services	11.1	13.5	11.9	15.1
Leisure and Hospitality	9.2	9.6	9.1	10.1
Other Services	3.6	3.8	4.0	4.1
Government	19.9	19.3	16.0	16.8
Total Nonmanufacturing	89.4	90.5	87.5	91.1
Total[2]	100.0	100.0	100.0	100.0

(1) Figures are calculated as a percentage of total wage-and-salary employment.
(2) Numbers may not add due to rounding.

Source: Washington State Office of the Economic and Revenue Forecast Council.

The state's population has increased approximately 12.9 percent since 2002. Based upon the 2010 Census, the state is the thirteenth most populous in the nation. The following table summarizes the state's population for 2002-2012.

Table 33
State of Washington Population

April 1	Population
2002	6,041,710
2003	6,098,300
2004	6,167,800
2005	6,256,400
2006	6,375,600
2007	6,488,000
2008	6,587,600
2009	6,668,200
2010	6,724,540
2011	6,767,900
2012	6,817,770

Source: Office of Financial Management; 2010 from U.S. Census.

Income Characteristics

The state's per capita income consistently has exceeded the national level and has increased approximately 33.7 percent since 2002. Table 34, derived from U.S. Bureau of Economic Analysis ("BEA") statistics, provides a comparison of personal income and per capita income for the state and the nation. BEA also calculates that per capita disposable personal income (personal income less personal taxes) in Washington ($40,364 in 2011) has consistently been higher than the average per capita disposable personal income in the United States as a whole ($37,167 in 2011).

Table 34
Personal Income Comparisons
Washington and United States

	Total Income ($ in billions)				Per Capita Income (in dollars)	
	Washington		United States			
Year	Amount	Percent Change	Amount	Percent Change	Washington	United States
2002	200.5	-	9,054.7	-	33,126	31,481
2003	206.9	3.2	9,369.1	3.5	33,909	32,295
2004	222.4	7.5	9,928.8	6.0	35,998	33,909
2005	230.1	3.5	10,476.7	5.5	36,766	35,452
2006	252.1	9.6	11,256.5	7.4	39,570	37,725
2007	272.6	8.1	11,900.6	5.7	42,192	39,506
2008	289.4	6.2	12,451.7	4.6	44,106	40,947
2009	278.9	(3.6)	11,916.8	(4.3)	41,837	38,846
2010	287.2	3.0	12,353.6	3.7	42,589	39,937
2011	302.5	5.3	12,981.7	5.1	44,294	41,663

Source: U.S. Department of Commerce, Bureau of Economic Analysis, 2002-2011 as of March 28, 2012.

APPENDIX B

BONDS OUTSTANDING

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Debt Authorization and Outstanding Debt
General State Revenue and/or Other Sources
As of September 6, 2012
(in dollars)

Subject to Constitutional Debt Limitation

Chapter and Laws	Bonds Authorized	Issued [1]	Bonds Outstanding [1]	Unissued [2]
Ch. 138 -- Laws of 1965 (R-93B).....	230,950,000	230,950,000	41,905,000	-
Ch. 138 -- Laws of 1965 (R-2001T).....	12,050,000	12,050,000	660,000	-
Ch. 138 -- Laws of 1965 (R-2004A).....	123,140,000	123,140,000	73,805,000	-
Ch. 138 -- Laws of 1965 (R-2004C).....	119,015,000	119,015,000	79,290,000	-
Ch. 138 -- Laws of 1965 (R-2005A).....	343,600,000	343,600,000	276,135,000	-
Ch. 138 -- Laws of 1965 (R-2006A).....	461,170,000	461,170,000	375,380,000	-
Ch. 138 -- Laws of 1965 (R-2007A).....	321,050,000	321,050,000	216,290,000	-
Ch. 138 -- Laws of 1965 (R-2007C).....	375,895,000	375,895,000	252,410,000	-
Ch. 138 -- Laws of 1965 (R-2010A).....	386,380,000	386,380,000	342,165,000	-
Ch. 138 -- Laws of 1965 (R-2010B).....	215,500,000	215,500,000	205,210,000	-
Ch. 138 -- Laws of 1965 (R-2011A).....	365,605,000	365,605,000	365,605,000	-
Ch. 138 -- Laws of 1965 (R-2011B).....	401,435,000	401,435,000	397,480,000	-
Ch. 138 -- Laws of 1965 (R-2012A).....	461,380,000	461,380,000	429,425,000	-
Ch. 138 -- Laws of 1965 (R-2012C).....	733,705,000	733,705,000	733,705,000	-
Ch. 34 -- Laws of 1982 as amended.....	19,771,750	19,771,750	-	-
Ch. 14 -- Laws of 1989, 1st Ex. Sess., as amended.....	584,464,431	552,665,000	107,440,000	31,799,431
Ch. 31 -- Laws of 1991, 1st Sp. Sess., as amended.....	612,950,000	609,087,302	116,534,101	3,862,698
Ch. 12 -- Laws of 1993, 1st Sp. Sess.....	420,544,716	420,544,716	124,339,586	-
Ch. 17 -- Laws of 1995, 2nd Sp. Sess., as amended.....	424,401,667	424,401,667	139,054,378	-
Ch. 456 -- Laws of 1997, Regular Sess.....	18,340,000	18,340,000	5,455,000	-
Ch. 380 -- Laws of 1999, Regular Sess.....	261,580,000	244,330,000	505,000	17,250,000
Ch. 9 -- Laws of 2001, 2nd Sp. Sess.....	230,035,000	223,975,000	27,635,000	6,060,000
Ch. 240 -- Laws of 2002, Regular Sess.....	20,500,000	20,500,000	5,515,000	-
Ch. 3 -- Laws of 2003, 1st Sp. Sess.....	683,930,000	683,930,000	504,610,000	-
Ch. 18 -- Laws of 2003, 1st Sp. Sess.....	629,830,000	571,290,000	515,880,000	58,540,000
Ch. 147 -- Laws of 2003, Regular Sess.....	220,300,000	155,545,000	141,875,000	64,755,000
Ch. 487 -- Laws of 2005, Regular Sess.....	1,332,740,000	1,332,740,000	1,141,195,000	-
Ch. 167 -- Laws of 2006, Regular Sess.....	273,595,000	137,980,000	134,020,000	135,615,000
Ch. 521 -- Laws of 2007, Regular Sess.....	1,833,805,000	1,833,805,000	1,650,905,000	-
Ch. 179 -- Laws of 2008, Regular Sess.....	50,000,000	5,405,000	5,085,000	44,595,000
Ch. 6 -- Laws of 2009, Regular Sess.....	133,000,000	124,325,000	114,725,000	8,675,000
Ch. 498 -- Laws of 2009, Regular Sess.....	2,219,000,000	2,010,345,000	1,929,410,000	208,655,000
Ch. 49 -- Laws of 2011, 1st Sp. Sess.....	1,122,000,000	282,935,000	282,935,000	839,065,000
Ch. 1 -- Laws of 2012, 1st Sp. Sess.....	505,466,000	45,970,000	45,970,000	459,496,000
Subtotal.....	16,147,128,563	14,268,760,434	10,782,553,065	1,878,368,129

(1) Does not include current offering dated September 6, 2012 (R-2013A), which will be determined by the state as described in the Official Notice of Bond Sale. Includes offering dated August 2, 2012 (2013A and 2013T).

(2) Does not include bonds authorized under a bond act which are unissuable because all required deposits or transfers under that act have been completed.

Excluded From Constitutional Debt Limitation

Chapter and Laws	Bonds Authorized	Issued	Bonds Outstanding	Unissued
Ch. 138 -- Laws of 1965 (R-2013T).....	78,295,000	78,295,000	78,295,000	-
Ch. 220 -- Laws of 1997, Regular Sess.....	222,130,000	217,074,718	101,904,718	5,055,282
Ch. 179 -- Laws of 2008, Regular Sess.....	100,000,000	95,370,000	93,395,000	4,630,000
Subtotal.....	400,425,000	390,739,718	273,594,718	9,685,282
Total.....	16,547,553,563	14,659,500,151	11,056,147,783	1,888,053,412

Debt Authorization and Outstanding Debt
Motor Vehicle Fuel Tax Revenue
and Pledged Federal Aid
As of September 6, 2012
(in dollars)

Motor Vehicle Fuel Tax Revenue

Chapter and Laws	Bonds Authorized	Issued [1]	Bonds Outstanding [1]	Unissued
Ch. 138 -- Laws of 1965 (R-2003B).....	67,760,000	67,760,000	34,550,000	-
Ch. 138 -- Laws of 1965 (R-2004B).....	57,045,000	57,045,000	34,420,000	-
Ch. 138 -- Laws of 1965 (R-2004D).....	156,475,000	156,475,000	106,180,000	-
Ch. 138 -- Laws of 1965 (R-2005B).....	95,800,000	95,800,000	71,330,000	-
Ch. 138 -- Laws of 1965 (R-2007B).....	63,810,000	63,810,000	41,740,000	-
Ch. 138 -- Laws of 1965 (R-2007D).....	73,030,000	73,030,000	55,015,000	-
Ch. 138 -- Laws of 1965 (R-2010C).....	121,235,000	121,235,000	115,470,000	-
Ch. 138 -- Laws of 1965 (R-2011C).....	393,950,000	393,950,000	380,840,000	-
Ch. 138 -- Laws of 1965 (R-2012B).....	42,330,000	42,330,000	41,685,000	-
Ch. 138 -- Laws of 1965 (R-2012D).....	271,055,000	271,055,000	271,055,000	-
Ch. 7 -- Laws of 1967, Ex. Sess. (Sections 13-23).....				
as amended by Ch 11, Laws of 1993.....	6,290,000	6,290,000	235,000	-
Ch. 83 -- Laws of 1967, 1st Ex. Sess.....	103,890,000	61,320,000	6,945,000	42,570,000
Ch. 180 -- Laws of 1979, 1st Ex. Sess.....	28,480,000	28,480,000	1,475,000	-
Ch. 315 -- Laws of 1981.....	36,860,000	36,860,000	3,370,000	-
Ch. 316 -- Laws of 1981.....	148,375,000	148,375,000	4,070,000	-
Ch. 293 -- Laws of 1990.....	15,000,000	13,400,000	4,520,000	1,600,000
Ch. 431 -- Laws of 1993, as amended.....	357,705,000	131,872,709	44,647,709	225,832,291
Ch. 432 -- Laws of 1993.....	81,280,000	6,085,000		75,195,000
Ch. 440 -- Laws of 1993.....	36,880,000	29,370,000	6,385,000	7,510,000
Ch. 15 -- Laws of 1995, 2nd Sp. Sess.....	11,200,000	4,990,000		6,210,000
Ch. 321 -- Laws of 1998.....	1,325,730,000	1,190,081,712	862,120,959	135,648,288
Ch. 147 -- Laws of 2003.....	3,011,225,000	2,305,888,877	2,073,488,877	705,336,123
Ch. 315 -- Laws of 2005.....	5,300,000,000	2,419,423,336	2,320,913,336	2,880,576,664
Ch. 498 -- Laws of 2009 (2).....	1,449,600,000	518,775,000	518,775,000	930,825,000
Total.....	13,255,005,000	8,243,701,634	6,999,230,881	5,011,303,366

Pledged Federal Aid

Chapter and Laws	Bonds Authorized	Issued	Bonds Outstanding	Unissued [1]
Ch. 498 -- Laws of 2009 (2).....	500,400,000	500,400,000	500,400,000	-
Subtotal.....	500,400,000	500,400,000	500,400,000	-
Total.....	13,755,405,000	8,744,101,634	7,499,630,881	5,011,303,366

(1) Does not include offering dated September 6, 2012 (R-2013B), which will be determined by the state as described in the Official Notice of Bond Sale. Includes current offering dated August 2, 2012 (2013B-1 and 2013B-2).

(2) Pursuant to the Chaper 498, Laws of 2009, the Legislature authorized the issuance and sale of $1,950,000,000 of general obligation bonds of the state first payable from toll revenue and then state excise taxes on motor vehicle and special fuels. Chaper 498, Laws of 2009 also authorizes the State Finance Commit to issue the authorized bonds as toll revenue bonds payable solely from toll revenue and not as general obligation bonds.

Grand Total.....	30,302,958,563	23,403,601,785	18,555,778,664	6,899,356,778

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APPENDIX C

PROPOSED FORMS OF LEGAL OPINIONS

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[FORM OF APPROVING LEGAL OPINION]

State of Washington
c/o State Finance Committee
Olympia, Washington

We have served as bond counsel in connection with the issuance by the State of Washington (the "State") of the bonds described below (the "Bonds"):

$_____
STATE OF WASHINGTON
VARIOUS PURPOSE GENERAL OBLIGATION
REFUNDING BONDS, SERIES R-2013A
DATED SEPTEMBER 6, 2012

The Bonds are issued pursuant to Chapters 39.42 and 39.53 RCW (collectively, the "Refunding Bond Act"), Resolution No. 1116 of the State Finance Committee (the "Committee") of the State adopted on September 7, 2011, and Resolution No. ____ of the Committee acting by and through the State Treasurer adopted on August 7, 2012 (collectively, the "Bond Resolution"), and other proceedings duly had and taken in conformity therewith. The Bonds are issued for the purpose of providing funds with which to pay the cost of refunding certain outstanding various purpose general obligation bonds of the State to provide a debt service savings to the State and to pay the administrative costs of such refunding and the costs of issuance and sale of the Bonds. Capitalized terms used in this opinion which are not otherwise defined shall have the meanings given to such terms in the Bond Resolution.

As to questions of fact material to our opinion, we have relied upon representations of the State contained in the Bond Resolution and in the certified proceedings and other certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

Under the Internal Revenue Code of 1986, as amended (the "Code"), the State is required to comply with certain requirements after the date of issuance of the Bonds in order to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Bond proceeds and the facilities financed or refinanced with Bond proceeds, limitations on investing gross proceeds of the Bonds in higher yielding investments in certain circumstances and the arbitrage rebate requirement to the extent applicable to the Bonds. The State has covenanted in the Bond Resolution to comply with those requirements, but if the State fails to comply with those requirements, interest on the Bonds could become taxable retroactive to the date of issuance of the Bonds. We have not undertaken and do not undertake to monitor the State's compliance with such requirements.

Based upon the foregoing, as of the date of initial delivery of the Bonds to the purchaser thereof and full payment therefor, it is our opinion that under existing law:

1. The Bonds are lawfully authorized and issued pursuant to and in full compliance with the Constitution and statutes of the State, including the Refunding Bond Act.

2. The Bonds have been legally issued and constitute valid general obligations of the State, except to the extent that the enforcement of the rights and remedies of the holders and owners of the Bonds may be limited by laws relating to bankruptcy, insolvency, moratorium, reorganization or other similar laws of general application affecting the rights of creditors, by the application of equitable principles and the exercise of judicial discretion.

3. The State has lawfully and unconditionally pledged its full faith, credit and taxing power to pay principal of and interest on the Bonds.

4. Assuming compliance by the State after the date of issuance of the Bonds with applicable requirements of the Code, the interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals; however, while interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by corporations is to be taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by certain S corporations may be subject to tax, and interest on the Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. We express no opinion regarding any other federal, state or local tax consequences of receipt of interest on the Bonds.

The State has not designated the Bonds as "qualified tax-exempt obligations" pursuant to Section 265(b)(3) of the Code.

This opinion is given as of the date hereof and we assume no obligation to update, revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

We bring to your attention the fact that the foregoing opinions are expressions of our professional judgment on the matters expressly addressed and do not constitute guarantees of result.

Respectfully submitted,

[FORM OF APPROVING LEGAL OPINION]

State of Washington
c/o State Finance Committee
Olympia, Washington

We have served as bond counsel in connection with the issuance by the State of Washington (the "State") of the bonds described below (the "Bonds"):

$_____
STATE OF WASHINGTON
MOTOR VEHICLE FUEL TAX GENERAL OBLIGATION
REFUNDING BONDS, SERIES R-2013B
DATED SEPTEMBER 6, 2012

The Bonds are issued pursuant to Chapters 39.42 and 39.53 RCW (collectively, the "Refunding Bond Act"), Resolution No. 1116 of the State Finance Committee (the "Committee") of the State adopted on September 7, 2011, and Resolution No. ____ of the Committee acting by and through the State Treasurer adopted on August 7, 2012 (collectively, the "Bond Resolution"), and other proceedings duly had and taken in conformity therewith. The Bonds are issued for the purpose of providing funds with which to pay the cost of refunding certain outstanding motor vehicle fuel tax general obligation bonds of the State to provide a debt service savings to the State and to pay the administrative costs of such refunding and the costs of issuance and sale of the Bonds. Capitalized terms used in this opinion which are not otherwise defined shall have the meanings given to such terms in the Bond Resolution.

As to questions of fact material to our opinion, we have relied upon representations of the State contained in the Bond Resolution and in the certified proceedings and other certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

Under the Internal Revenue Code of 1986, as amended (the "Code"), the State is required to comply with certain requirements after the date of issuance of the Bonds in order to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Bond proceeds and the facilities financed or refinanced with Bond proceeds, limitations on investing gross proceeds of the Bonds in higher yielding investments in certain circumstances and the arbitrage rebate requirement to the extent applicable to the Bonds. The State has covenanted in the Bond Resolution to comply with those requirements, but if the State fails to comply with those requirements, interest on the Bonds could become taxable retroactive to the date of issuance of the Bonds. We have not undertaken and do not undertake to monitor the State's compliance with such requirements.

Based upon the foregoing, as of the date of initial delivery of the Bonds to the purchaser thereof and full payment therefor, it is our opinion that under existing law:

1. The Bonds are lawfully authorized and issued pursuant to and in full compliance with the Constitution and statutes of the State, including the Refunding Bond Act.

2. The Bonds have been legally issued and constitute valid general obligations of the State, except to the extent that the enforcement of the rights and remedies of the holders and owners of the Bonds may be limited by laws relating to bankruptcy, insolvency, moratorium, reorganization or other similar laws of general application affecting the rights of creditors, by the application of equitable principles and the exercise of judicial discretion.

3. The State has lawfully and unconditionally pledged its full faith, credit and taxing power to pay principal of and interest on the Bonds.

4. The Bonds are first payable from state excise taxes on motor vehicle and special fuels and are secured by liens and charges on such taxes as set forth in the Bonds and the Bond Resolution. The State has covenanted that it will continue to levy such taxes in amounts sufficient to pay when due the principal of and interest on the Bonds.

5. Assuming compliance by the State after the date of issuance of the Bonds with applicable requirements of the Code, the interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals; however, while interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by corporations is to be taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by certain S corporations may be subject to tax, and interest on the Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. We express no opinion regarding any other federal, state or local tax consequences of receipt of interest on the Bonds.

The State has not designated the Bonds as "qualified tax-exempt obligations" pursuant to Section 265(b)(3) of the Code.

This opinion is given as of the date hereof and we assume no obligation to update, revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

We bring to your attention the fact that the foregoing opinions are expressions of our professional judgment on the matters expressly addressed and do not constitute guarantees of result.

Respectfully submitted,

APPENDIX D

THE STATE'S 2011 AUDITED BASIC FINANCIAL STATEMENTS

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Washington State Auditor
Brian Sonntag

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

November 22, 2011

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, 2011, 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, 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:

Opinion Unit	Percent of Total Assets	Percent of Net Assets	Percent of Total Revenues/ Additions
Governmental Activities	12.1%	21.3%	8.8%
Business-Type Activities	79.2%	100%	29.2%
Higher Education Special Revenue Fund	47.9%	48.5%	47.6%
Higher Education Endowment Fund	90.7%	95.9%	90.7%
Higher Education Student Services Fund	68.8%	73.3%	82.5%
Workers' Compensation Fund	86.4%	100%	32.4%
Other Activities Fund	56.1%	100%	74.0%
Aggregate Discretely Presented Component Units and Remaining Fund Information	91.4%	94.5%	78.7%

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Department of Retirement Systems, Washington's Lottery, Local Government Investment Pool, University of Washington, and the funds managed by the State Investment Board were not audited in accordance with *Government Auditing Standards*. 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, 2011, 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 $24.9 billion which comprise 26.7% of total assets and 30.3% 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.

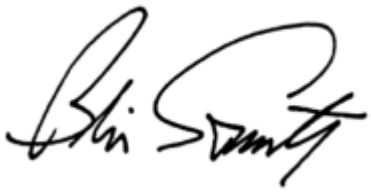
As described in Note 2, during the year ended June 30, 2011, the State implemented Governmental Accounting Standards Board *Statement No. 54 - Fund Balance Reporting and Governmental Fund Type Definitions* and *Statement No. 59 – Financial Instruments Omnibus*.

In accordance with *Government Auditing Standards*, we have also issued our report on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report will be issued under separate cover in the State's Single Audit Report. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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 listed 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.



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, 2011. 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 $19.0 billion (reported as net assets). Of this amount, $(8.5) 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 $10.6 billion, an increase of 0.1 percent compared with the prior year.

- The General Fund reported unassigned fund balance (deficit) of $(107.8) million, at the end of fiscal year 2011, or 0.4 percent of total General Fund expenditures.

- The state's capital assets increased by $1.4 billion while total bond debt increased by $488 million during the current fiscal year.

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 fund balances 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, 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, the Higher Education Student Services Fund, and the Other Activities 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 46-53 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 54-55 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 61-62 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 56-57 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 59-154 of this report.

OTHER REQUIRED INFORMATION

In addition to this discussion and analysis, this report also presents required supplementary information on 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 155-179 of this report.

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 181-241 of this report.

STATE OF WASHINGTON
Statement of Net Assets
(in millions of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
ASSETS						
Current and other assets	$ 17,210	$ 16,915	$ 23,249	$ 22,080	$ 40,459	$ 38,995
Capital assets	32,960	31,247	1,947	2,254	34,907	33,501
Total assets	50,170	48,162	25,196	24,334	75,366	72,496
LIABILITIES						
Current and other liabilities	3,900	3,730	3,109	3,421	7,009	7,151
Long-term liabilities outstanding	21,540	21,234	27,832	27,934	49,372	49,168
Total liabilities	25,440	24,964	30,941	31,355	56,381	56,319
NET ASSETS						
Invested in capital assets, net of related debt	18,723	18,201	718	913	19,441	19,114
Restricted	4,847	5,214	3,199	2,930	8,046	8,144
Unrestricted (deficit)	1,160	(217)	(9,662)	(10,864)	(8,502)	(11,081)
Total net assets	$ 24,730	$ 23,198	$ (5,745)	$ (7,021)	$ 18,985	$ 16,177

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 $19.0 billion at June 30, 2011 as compared to $16.2 billion as reported at June 30, 2010.

The largest portion of the state's net assets (102.4 percent for fiscal year 2011 as compared to 118.2 percent for fiscal year 2010) 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 (42.4 percent for fiscal year 2011 as compared to 50.3 percent for fiscal year 2010) represents resources that are subject to external restrictions on how they may be used. The remaining balance of $(8.5) 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, unrestricted net assets improved from $(217) million deficit in fiscal year 2010 to $1.2 billion in fiscal year 2011. The improvement was a

combination a modest increase in revenues, and the state's ability to curtail spending in response to revenue shortfalls.

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

(in millions of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
REVENUES						
Program revenues:						
Charges for services	$ 4,902	$ 4,584	$ 6,466	$ 5,987	$ 11,368	$ 10,571
Operating grants and contributions	12,609	12,193	2,305	2,468	14,914	14,661
Capital grants and contributions	833	939	13	-	846	939
General revenues:						
Taxes	16,166	14,982	174	160	16,340	15,142
Interest and investment earnings (loss)	474	449	1,611	1,743	2,085	2,192
Total Revenues	34,984	33,147	10,569	10,358	45,553	43,505
EXPENSES						
General government	(1,674)	(1,738)	-	-	(1,674)	(1,738)
Education - K-12	(8,055)	(8,468)	-	-	(8,055)	(8,468)
Education - Higher education	(6,257)	(6,051)	-	-	(6,257)	(6,051)
Human services	(13,364)	(12,946)	-	-	(13,364)	(12,946)
Adult corrections	(935)	(938)	-	-	(935)	(938)
Natural resources and recreation	(996)	(1,084)	-	-	(996)	(1,084)
Transportation	(1,981)	(2,073)	-	-	(1,981)	(2,073)
Interest on long-term debt	(882)	(810)	-	-	(882)	(810)
Workers' compensation		-	(1,219)	(4,268)	(1,219)	(4,268)
Unemployment compensation		-	(3,690)	(4,729)	(3,690)	(4,729)
Higher education student services		-	(1,820)	(1,628)	(1,820)	(1,628)
Liquor control		-	(556)	(552)	(556)	(552)
Washington's lottery		-	(393)	(389)	(393)	(389)
Other business-type activities		-	(784)	(345)	(784)	(345)
Total Expenses	(34,144)	(34,108)	(8,462)	(11,911)	(42,606)	(46,019)
Excess (deficiency) of revenues over expenses before contributions to endowments and transfers	840	(961)	2,107	(1,553)	2,947	(2,514)
Contributions to endowments	69	52	-	-	69	52
Transfers	231	252	(231)	(252)	-	-
Special item	-	-	(223)	-	(223)	-
Increase (decrease) in net assets	1,140	(657)	1,653	(1,805)	2,793	(2,462)
Net assets - July 1, as restated	23,590	23,855	(7,398)	(5,216)	16,192	18,639
Net assets - June 30	$ 24,730	$ 23,198	$ (5,745)	$ (7,021)	$ 18,985	$ 16,177

Governmental Activities. Governmental activities resulted in an increase in the state of Washington's net assets of $1.1 billion. A number of factors contributed to the increase:

- Tax revenues increased by $1.2 billion in fiscal year 2011 as compared to fiscal year 2010 reflecting sluggish positive growth in the economy. Sales and use taxes reported an increase of $478 million. Sales and use taxes are the main tax revenue for governmental activities. The increase in sales tax is attributable to both a slight increase in taxable sales in fiscal year 2011 and a tax penalty amnesty program in the spring of 2011. Business and occupation tax, the second largest source of tax revenue in governmental activities, increased by $480 million in fiscal year 2011 over 2010. It is a tax on the gross receipts of all businesses operating in Washington. Growth in business and occupation tax revenue in fiscal year 2011 was mainly due to an increase in the tax rate on services which increased from 1.5 percent to 1.8 percent. Business and occupation tax collections were also aided by the tax penalty amnesty program and other legislative changes.

- Operating and capital grants and contributions increased $310 million in fiscal year 2011 as compared to fiscal year 2010. While American Recovery and Reinvestment Act (ARRA) grants contributed $1.6 billion in fiscal year 2011, it was a decrease of $615 million from the level contributed in fiscal year 2010. Offsetting the decrease in ARRA grants were increases in non-ARRA student financial assistance and supplemental nutrition assistance grants.

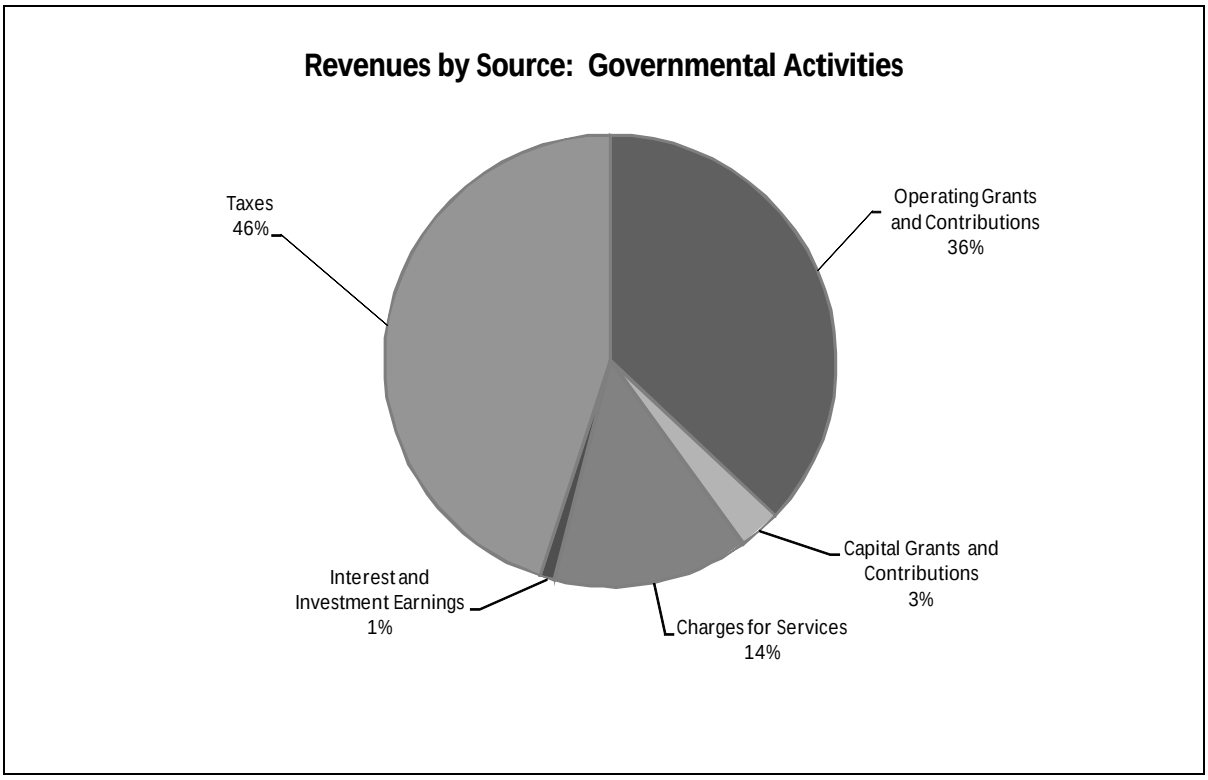
- Expenses grew slightly in fiscal year 2011 as compared to fiscal year 2010. The expenses for human services and education comprised 81.1 percent of the total expenses for governmental activities which is fairly consistent with the 80.5 percent in fiscal year 2010. Human services accounted for the majority of the growth in expenses increasing by $418 million or 3.2 percent in fiscal year 2011 over fiscal year 2010 reflecting the increased number of citizens seeking assistance from state programs and services due to the economic recession.

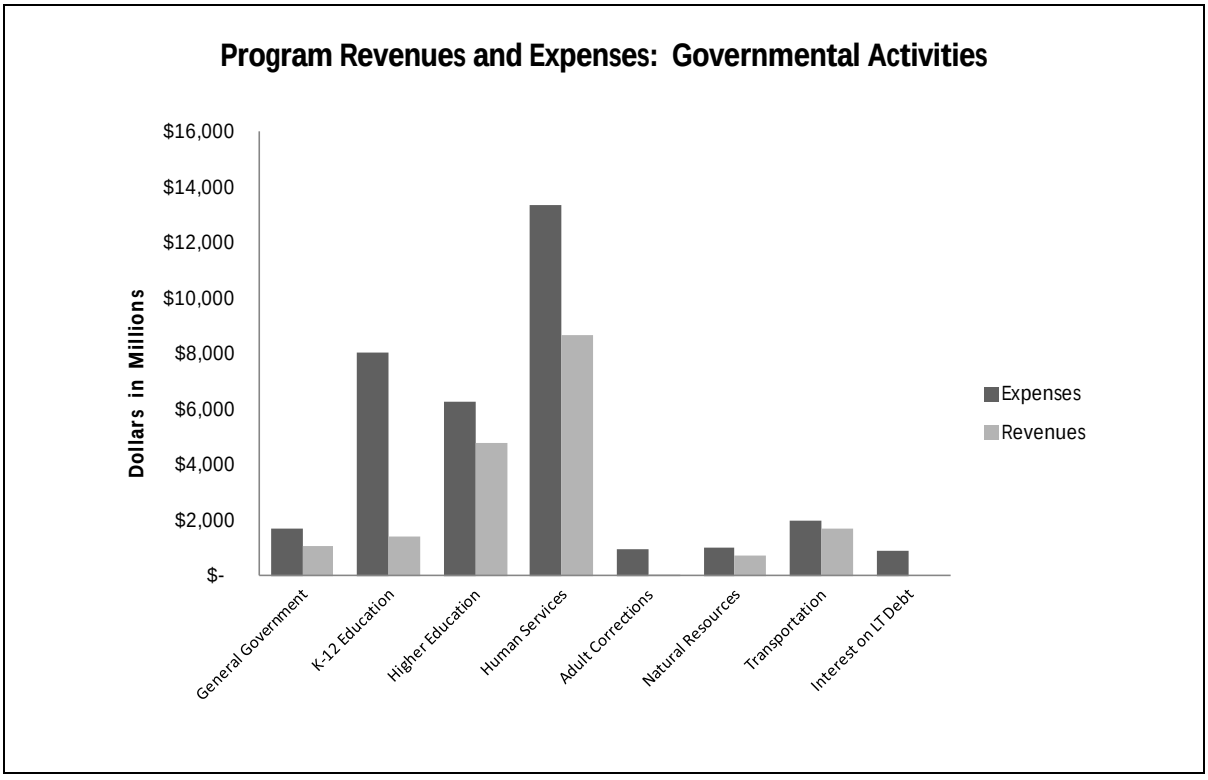
Business-Type Activities. Business-type activities increased the state of Washington's net assets by $1.7 billion which included increases in both the workers' compensation and unemployment compensation activities. Key factors contributing to the operating results of business-type activities are:

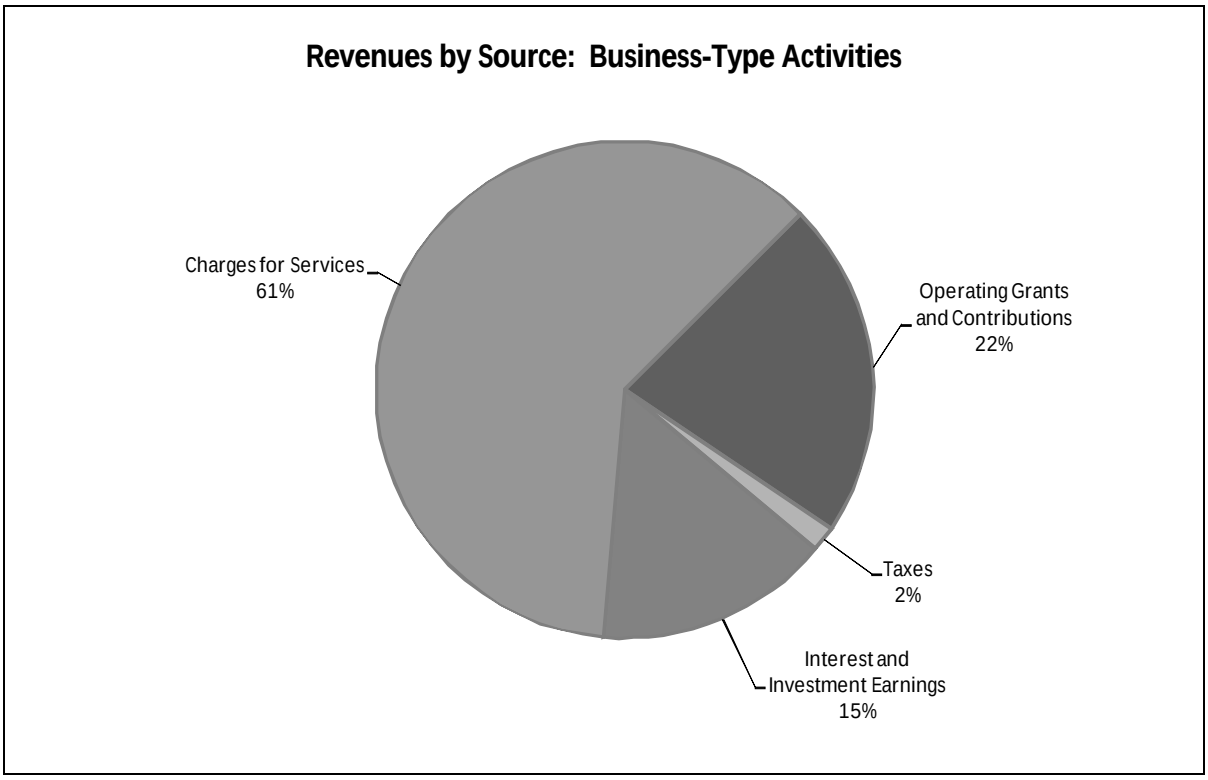
- The increase in net assets in the workers' compensation activity in fiscal year 2011 was $1.8 billion after a decrease of $1.0 billion in fiscal year 2010. A number of factors contributed to the turn around. Premium revenue increased by $256 million as a result of a January 2011 premium rate increase that averaged 12 percent and a slight increase in reported hours worked. Claims costs decreased by $3.1 billion in fiscal year 2011 compared with fiscal year 2010 in large part due to workers' compensation reform legislation. Substitute Senate Bill 5801 and Engrossed House Bill 2123 provided for: (1) the implementation of a single statewide network of health care providers to treat injured workers and expansion of the Centers of Occupational Health and Education, which increases the use of occupational health best practices in treating injured workers; (2) a structured settlement option for injured workers who are age 55 by January 1, 2012; and (3) a one year cost of living adjustment freeze and a one year delay for first-time COLA during fiscal year 2012. Other factors contributing to the decline in claims costs included the use of generic drugs and the low wage rate growth. Nonoperating investment income decreased by $457 million due to lower returns on fixed income securities.

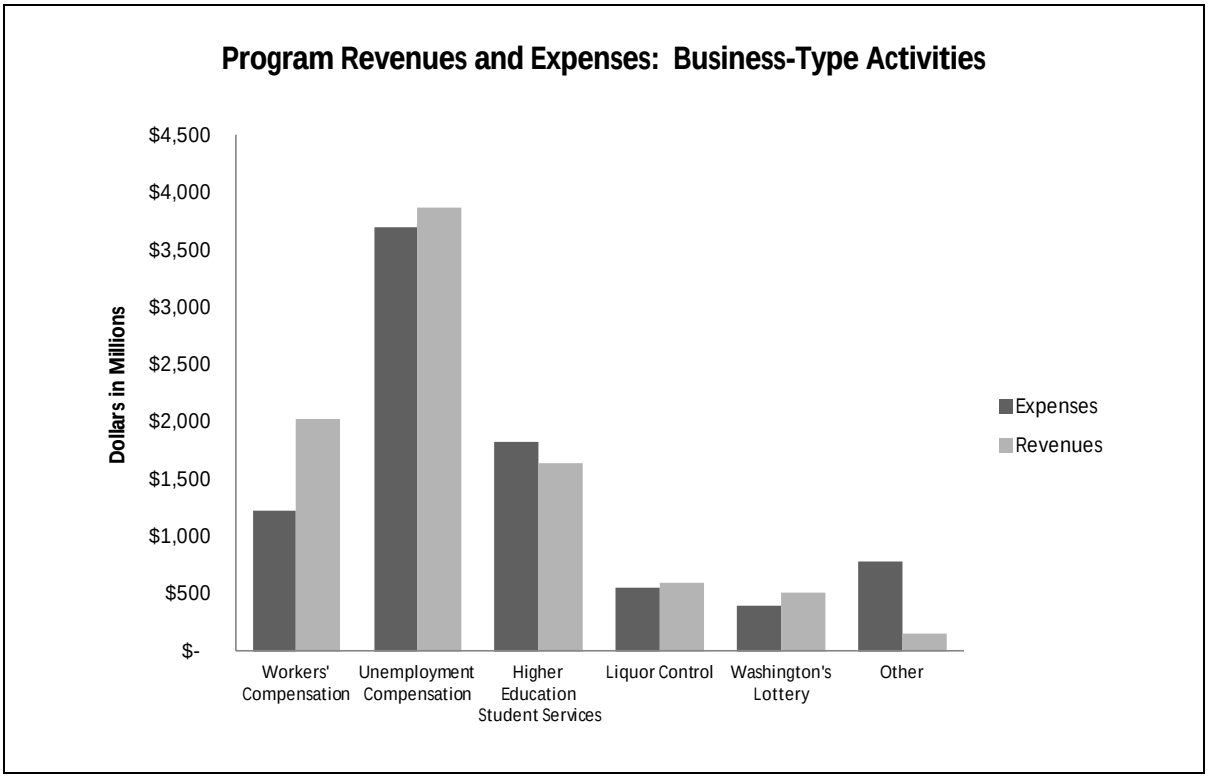
- The unemployment compensation activity reported operating income in fiscal year 2011 of $171 million, compared to a $985 million operating loss in fiscal year 2010. Washington's unemployment insurance program is an experience-based system. Due to the recession, Washington has seen a rise in the number of unemployed starting in 2009. The rise in unemployment has resulted in increased premium charges to employers. Additionally, the taxable wage base increased to $37,300 in 2011 from $36,800 in 2010. Unemployment insurance benefits declined by $1.0 billion in fiscal year 2011 over fiscal year 2010. The decrease in benefit costs was the result of a decline in the number of claims and the duration of claims. While the annualized unemployment rate for the state was 9.3 percent in fiscal year 2011, up from 8.7 percent in fiscal year 2010, the insured rate declined to 3 percent in fiscal year 2011 from 3.75 percent in fiscal year 2010.

- 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.


Revenues by Source: Governmental Activities
Taxes 46%
Operating Grants and Contributions 36%
Capital Grants and Contributions 3%
Charges for Services 14%
Interest and Investment Earnings 1%


Program Revenues and Expenses: Governmental Activities
Dollars in Millions
$16,000
$14,000
$12,000
$10,000
$8,000
$6,000
$4,000
$2,000
$-
General Government
K-12 Education
Higher Education
Human Services
Adult Corrections
Natural Resources
Transportation
Interest on LT Debt
Expenses
Revenues


Revenues by Source: Business-Type Activities
Charges for Services 61%
Operating Grants and Contributions 22%
Taxes 2%
Interest and Investment Earnings 15%


Program Revenues and Expenses: Business-Type Activities
Dollars in Millions
$4,500
$4,000
$3,500
$3,000
$2,500
$2,000
$1,500
$1,000
$500
$-
Workers' Compensation
Unemployment Compensation
Higher Education Student Services
Liquor Control
Washington's Lottery
Other
Expenses
Revenues

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 fund balances. Such information is useful in assessing the state of Washington's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

Adjustments to Beginning Fund Balances. As described in Note 2 to the financial statements on pages 70 and 71, beginning fund balances of governmental funds were adjusted. To enhance comparability, all amounts presented for fiscal year 2010 in this discussion and analysis were revised, where applicable, to reflect these changes as if the changes had been made in the prior year.

- Net reclassification of $253.9 million from the Nonmajor Governmental Funds to the General Fund related to the implementation of Governmental Accounting Standards Board Statement Number 54.

- Reclassification of the Motor Vehicle Fund from a major fund to a nonmajor governmental fund because it fell below the major fund threshold.

Fund Balances. At June 30, 2011, the state's governmental funds reported combined ending fund balances of $10.6 billion. Of this amount, $3.75 billion or 35.6 percent is nonspendable, either due to its form or legal constraints, and $3.81 billion or 36.1 percent is restricted for specific programs by external constraints, constitutional provisions or contractual obligations. An additional $2.15 billion or 20.4 percent of total fund balance has been committed to specific purposes. Committed amounts cannot be used for any other purpose unless approved by the Legislature. An additional $1.11 billion or 10.6 percent of total fund balance has been assigned to specific purposes by management. The remaining $(282) million or (2.7) percent of fund balance is unassigned.

The General Fund is the chief operating fund of the state of Washington. At the end of fiscal year 2011, total fund balance for the General Fund equaled $1.2 billion, an increase of $585.6 million over fiscal year 2010. Assigned fund balance included $1.1 billion in fiscal year 2011 which is assigned for working capital purposes. This amount relates to certain accrued revenues which are not considered by management to be available for budgetary purposes.

The unassigned fund balance deficit of $(107.8) million in the General Fund indicates that the state has overspent funds available for discretionary purposes. The deficit fund balance in fiscal year 2011 reflects improvement over the $(561) million deficit in fiscal year 2010. The back to back deficits are due to the recessionary economic conditions which have adversely impacted state revenues.

STATE OF WASHINGTON
General Fund
(in millions of dollars)

	Fiscal Year 2011	Fiscal Year 2010	Difference Increase (Decrease)
REVENUES			
Taxes	$ 14,423	$ 13,169	$ 1,254
Federal grants	9,597	9,648	(51)
Investment revenue (loss)	(15)	(7)	(8)
Other	645	563	82
Total	24,650	23,373	1,277
EXPENDITURES			
Human services	13,473	13,238	235
Education	9,211	9,491	(280)
Other	1,519	1,632	(113)
Total	24,203	24,361	(158)
Net transfers in (out)	(215)	(7)	(208)
Other financing sources	354	137	217
Net increase (decrease) in fund balance	$ 586	$ (858)	$ 1,444

Expenditures continue to be concentrated in services and programs most vital to citizens – primarily human services and public education. In fiscal year 2011, the General Fund received $1.2 billion in American Recovery and Reinvestment Act down from $1.7 billion in fiscal year 2010. The majority of the ARRA funding in the General Fund was for human services programs.

In addition to the General Fund, the state reports the Higher Education Special Revenue, and the Higher Education Endowment Funds as major governmental funds.

The fund balance of the Higher Education Special Revenue Fund increased by $107 million in fiscal year 2011. Increases in tuition and federal grant revenues offset the increased costs of higher education activities.

The fund balance for the Higher Education Endowment Fund increased by $364 million. Support from donors increased by $17 million over the prior year and investment earnings increased by $89 million over the same period. The increase in donor support comes after four straight years of decreases and reflects slowly improving economic conditions.

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 an increase in net assets of $1.8 billion in fiscal year 2011. Operating revenues increased by $264 million and operating expenses decreased by $3.0 billion as compared to fiscal year 2010. As noted previously, operating revenues increased due to an increase in premium rates and claims expense decreased in large part due to workers' compensation reform legislation. Investment income decreased as compared to fiscal year 2010 due to lower returns on fixed income securities.

- Washington's Unemployment Compensation Fund reported operating income of $171 million. The increase in premium revenue of $304 million in fiscal year 2011 over 2010 was partially offset by a decrease in federal aid of $167 million over the same period. Unemployment benefit claims decreased by $1.0 billion in fiscal year 2011 as compared to 2010. As reported previously, while the unemployment rate in Washington remains high, the insured rate declined in fiscal year 2011.

- The Other Activities Fund was presented as a major proprietary fund for the first time in fiscal year 2011. The major activity in the Other Activities Fund is the state's guaranteed education tuition (GET) program. The GET program reported a net loss of $311 million in fiscal year 2011. While the program continues to attract new enrollments and investment returns are up, tuition rates have been escalating much higher than assumed in prior valuations. Tuition rates for the 2011-2012 school year increased by 19.0 percent exceeding the 7.5 percent assumed in the prior valuation. Tuition growth assumptions have been increased for future years.

- The state's Convention and Trade Center (CTC) which was reported as a nonmajor enterprise fund in prior years, was transferred to a public facilities district (PFD) in fiscal year 2011. The transfer agreement with the PFD required the PFD to provide the state with funds to retire the state's existing debt on the CTC. The transfer resulted in a net loss to the state of $223 million which is reported as a special item.

- The Higher Education Student Services and other nonmajor enterprise funds reported activity generally consistent with prior years.

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 biennium ended June 30, 2011. While there were no significant increases or decreases, changes to estimates are summarized as follows:

- Estimated resources increased by $1.1 billion over the course of the biennium. A decrease of $1.9 billion was reported for taxes reflecting the continued sluggish economy. The decrease in estimated tax revenue was offset by increases to federal grants-in-aid of $1.8 billion and transfers from other funds of $940 million.

- Appropriated expenditure authority increased by $1.8 billion over the course of the biennium ended June 30, 2011. Increases were recorded in human services, education and transfers to other funds of $856 million, $204 million, and $523 million, respectively. The largest decrease was in transportation of $5 million.

The state did not overspend its legal spending authority for the 2009-2011 Biennium. Actual General Fund revenues and expenditures were 96.9 and 96.8 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, 2011, totaled $34.9 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 2011 investment in capital assets, net of current year depreciation, was $1.4 billion, including increases to the state's transportation infrastructure of $1.3 billion. The state's construction in progress includes both new construction and major improvements to state capital facilities and infrastructure. Remaining commitments on these construction projects total $9.1 billion.

The land, buildings, furnishings and equipment (net of accumulated depreciation) of the Convention and Trade Center (CTC) which totaled $410 million were removed from the state records when the CTC was transferred to a public facilities district.

Additional information on the state of Washington's capital assets can be found in Note 6 beginning on page 98 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, state managed airports, and two short rail lines. While the rail lines are reported net of depreciation, the state highway system and state managed 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
(in millions of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	$ 1,331	$ 1,179	$ 65	$ 143	$ 1,396	$ 1,322
Transportation infrastructure and other assets not depreciated	21,092	19,758	-	-	21,092	19,758
Buildings	7,080	6,926	1,363	1,671	8,443	8,597
Furnishings, equipment and intangible assets	1,368	1,362	144	142	1,512	1,504
Other improvements and infrastructure	1,119	1,157	82	87	1,201	1,244
Construction in progress	970	865	293	211	1,263	1,076
Total	$ 32,960	$ 31,247	$ 1,947	$ 2,254	$ 34,907	$ 33,501

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 2011 was a net of $1.3 billion to add additional lane miles, replace and build new bridges and highway structures, improve highway safety, increase mobility and extend the life of existing infrastructure. As part of this highway improvement investment, the Washington State Department of Transportation (WSDOT) accomplished a net addition of 89 lane miles and 21 bridges and other highway structures in fiscal year 2011. Amounts spent during fiscal year 2011 to maintain and preserve these infrastructure assets were not significantly different from estimated spending plans according to the biennial budget.

The state highway system, bridges, and state managed airports continue to meet established condition levels. No significant changes in condition levels were noted for pavements or airports. Bridge assessments in fiscal year 2011 included a third condition measurement related to deck surface and resulted in an additional 2.5 percent of bridges in poor condition. 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 2012 through 2015, would commit approximately $6.8 billion for 387 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 2011, the state of Washington had general obligation bond debt outstanding of $16.8 billion, relatively unchanged from fiscal year 2010. This debt is secured by a pledge of the full faith and credit of the state. Additionally, the state had authorized $9.6 billion general obligation debt that remains unissued.

During fiscal year 2011, the state issued general obligation debt, totaling $2.1 billion, for various capital and transportation projects as well as to refund outstanding bones. Bonds totaling $1.9 billion were retired during the year which included $34.0 million in Convention and Trade Center (CTC) bonds that were refunded when the assets and activities of the CTC were transferred by the state to a public facilities district. Washington's refunding activity produced a savings of $155.9 million in future 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, 2011, 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 2008, 2009, and 2010 is $12.2 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, 2011, subject to the constitutional debt limitation is $995 million, or $101 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_cdl2011.pdf.

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, 2011, 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.

STATE OF WASHINGTON
Bond Debt
(in millions of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
General obligation (GO) bonds	$ 16,750	$ 16,540	$ 18	$ 60	$ 16,768	$ 16,600
Accreted interest on zero interest rate GO bonds	393	367	-	42	393	409
Revenue bonds	740	743	1,423	1,084	2,163	1,827
Total	$ 17,883	$ 17,650	$ 1,441	$ 1,186	$ 19,324	$ 18,836

The state had revenue debt outstanding at June 30, 2011, of $2.2 billion, an increase of $336 million over fiscal year 2010. This increase is 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 102 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 Outlook. The forecast for Washington for fiscal year 2012 is for continued slow recovery from the recession. That said, in the coming year, legislative leaders and management will be facing a number of challenges.

- Consumer confidence remains low.
- The state's economy will continue to be adversely impacted by the uncertainty plaguing the global economy.
- The November 2011 state's revenue forecast of General Fund state revenue increased the projected revenue shortfall for the 2011 – 2013 biennium to $1.6 billion.

In light of negative revenue projections in both the June and September forecasts, Governor Gregoire announced that she will call legislators in for a special session beginning November 28, 2011, to address the state's budget. On October 27, 2011, Governor Gregoire presented a list of budget reduction alternatives as a starting point to the conversation lawmakers must engage in to resolve the state's budget deficit.

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, 2011, $129 million was transferred to the BSA from the General Fund in accordance with the provisions of the Constitution. Also during fiscal year 2011, Engrossed Substitute House Bill 1086 authorized the transfer of $223 million from the BSA to the General Fund.

The BSA has a fund balance of $564 thousand as of June 30, 2011.

General Election. There were measures on the state's November 8, 2011, general election ballot that addressed state laws related to state expenditures on transportation, requirements for long-term care workers and providers, and the distribution and sale of wine and spirits. These measures, if passed, could impact the state fiscally. Election results are not final or official until certified. By law December 8, 2011, 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, Statewide Accounting, P.O. Box 43113, Olympia, WA 98504-3113.

Basic Financial Statements

Government-wide Financial Statements

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Statement of Net Assets

June 30, 2011

(expressed in thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
ASSETS				
Cash and pooled investments	$ 4,192,162	$ 6,062,493	$ 10,254,655	$ 78,720
Taxes receivable (net of allowance)	3,043,494	10,514	3,054,008	-
Other receivables (net of allowance)	1,222,946	1,492,462	2,715,408	2,062
Internal balances (net)	159,895	(159,895)	-	-
Due from other governments	3,841,826	183,094	4,024,920	-
Inventories	89,938	98,122	188,060	-
Investments, noncurrent	4,277,739	14,910,710	19,188,449	16,138
Other assets	97,741	366,838	464,579	87,560
Restricted assets:				
Cash and pooled investments	243,934	284,630	528,564	-
Receivables	40,446		40,446	-
Capital assets (Note 6):				
Non-depreciable assets	23,392,880	358,129	23,751,009	34,677
Depreciable assets, net of depreciation	9,567,210	1,589,116	11,156,326	322,866
Total capital assets, net of depreciation	32,960,090	1,947,245	34,907,335	357,543
Total Assets	$ 50,170,211	$ 25,196,213	$ 75,366,424	$ 542,023
LIABILITIES				
Accounts payable	$ 1,559,577	$ 113,036	$ 1,672,613	$ 54,936
Contracts and retainage payable	198,422	17,177	215,599	3,141
Accrued liabilities	658,472	234,262	892,734	3,895
Obligations under security lending agreements	223,779	2,579,797	2,803,576	-
Due to other governments	960,692	122,868	1,083,560	-
Unearned revenue	299,337	41,733	341,070	5,189
Long-term liabilities (Note 7):				
Due within one year	1,311,879	2,163,282	3,475,161	-
Due in more than one year	20,228,250	25,669,118	45,897,368	20,750
Total Liabilities	25,440,408	30,941,273	56,381,681	87,911
NET ASSETS				
Invested in capital assets, net of related debt	18,723,038	717,778	19,440,816	331,840
Restricted for:				
Unemployment compensation	-	3,199,137	3,199,137	-
Higher education	1,020,304	-	1,020,304	-
Expendable endowment funds	1,553,252	-	1,553,252	-
Nonexpendable permanent endowments	1,700,603	-	1,700,603	-
Transportation	315,447	-	315,447	-
Loan programs	242,751		242,751	-
Other purposes	14,067	-	14,067	20,108
Unrestricted (deficit)	1,160,341	(9,661,975)	(8,501,634)	102,164
Total Net Assets (Deficit)	$ 24,729,803	$ (5,745,060)	$ 18,984,743	$ 454,112

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

Statement of Activities

For the Fiscal Year Ended June 30, 2011

(expressed in thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
PRIMARY GOVERNMENT				
Governmental Activities:				
General government	$ 1,674,061	$ 645,269	$ 403,541	$ 344
Education - elementary and secondary (K-12)	8,054,781	16,493	1,386,388	-
Education - higher education	6,257,439	2,379,335	2,349,362	48,596
Human services	13,363,482	461,623	8,216,895	1,710
Adult corrections	935,264	7,270	2,264	-
Natural resources and recreation	996,349	478,059	171,079	51,270
Transportation	1,980,584	914,343	79,372	730,939
Interest on long-term debt	881,961	-	-	-
Total Governmental Activities	34,143,921	4,902,392	12,608,901	832,859
Business-Type Activities:				
Workers' compensation	1,219,310	2,018,981	9,165	-
Unemployment compensation	3,690,343	1,573,368	2,288,291	-
Higher education student services	1,819,520	1,614,592	7,367	13,227
Liquor control	556,212	595,690	41	-
Washington's lottery	393,227	510,619	-	-
Other	784,306	152,061	-	-
Total Business-Type Activities	8,462,918	6,465,311	2,304,864	13,227
Total Primary Government	$ 42,606,839	$ 11,367,703	$ 14,913,765	$ 846,086
COMPONENT UNITS	$ 130,380	$ 16,739	$ 105,081	$ 1,023
Total Component Units	$ 130,380	$ 16,739	$ 105,081	$ 1,023

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, transfers and special item

Contributions to endowments

Transfers

Special item - Transfer of Convention and Trade Center to another government

Change in Net Assets

Net Assets (Deficit) - Beginning, as restated

Net Assets (Deficit) - Ending

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

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Units
$ (624,907)	$ -	$ (624,907)	
(6,651,900)	-	(6,651,900)	
(1,480,146)	-	(1,480,146)	
(4,683,254)	-	(4,683,254)	
(925,730)	-	(925,730)	
(295,941)	-	(295,941)	
(255,930)	-	(255,930)	
(881,961)	-	(881,961)	
(15,799,769)	-	(15,799,769)	
-	808,836	808,836	
-	171,316	171,316	
-	(184,334)	(184,334)	
-	39,519	39,519	
-	117,392	117,392	
-	(632,245)	(632,245)	
-	320,484	320,484	
(15,799,769)	320,484	(15,479,285)	
			$ (7,537)
			(7,537)
7,349,216	-	7,349,216	-
3,076,917	-	3,076,917	-
1,857,837	-	1,857,837	-
1,205,859	-	1,205,859	-
442,015	35,310	477,325	-
493,755	-	493,755	-
445,985	-	445,985	-
413,097	-	413,097	-
880,236	139,029	1,019,265	-
474,223	1,611,271	2,085,494	1,552
16,639,140	1,785,610	18,424,750	1,552
839,371	2,106,094	2,945,465	(5,985)
69,436	-	69,436	-
230,732	(230,732)	-	-
-	(222,794)	(222,794)	-
1,139,539	1,652,568	2,792,107	(5,985)
23,590,264	(7,397,628)	16,192,636	460,097
$ 24,729,803	$ (5,745,060)	$ 18,984,743	$ 454,112

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Basic Financial Statements

Fund Financial Statements

Balance Sheet
GOVERNMENTAL FUNDS
June 30, 2011
(expressed in thousands)

	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
ASSETS					
Cash and pooled investments	$ 30,417	$ 370,496	$ 316,809	$ 2,572,010	$ 3,289,732
Investments	-	1,150,922	3,043,187	240,061	4,434,170
Taxes receivable (net of allowance)	2,909,152	21,795	-	112,547	3,043,494
Other receivables (net of allowance)	159,463	384,430	27,075	713,649	1,284,617
Due from other funds	175,013	319,730	122	581,747	1,076,612
Due from other governments	1,160,118	155,035	42	2,282,541	3,597,736
Inventories and prepaids	13,981	14,066	-	47,323	75,370
Restricted assets:					
Cash and pooled investments	28,302	-	-	215,632	243,934
Receivables	3,212	27,796	-	-	31,008
Total Assets	$ 4,479,658	$ 2,444,270	$ 3,387,235	$ 6,765,510	$ 17,076,673
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 939,027	$ 70,206	$ 28,528	$ 414,956	$ 1,452,717
Contracts and retainages payable	34,039	3,313	2,078	117,276	156,706
Accrued liabilities	160,621	249,340	9,926	59,561	479,448
Obligations under security lending agreements	-	-	176,616	47,163	223,779
Due to other funds	183,362	92,291	3,506	611,802	890,961
Due to other governments	565,615	18,367	-	166,579	750,561
Deferred revenue	1,369,593	190,551	8,304	985,757	2,554,205
Claims and judgments payable	9,200	-	-	8,028	17,228
Total Liabilities	3,261,457	624,068	228,958	2,411,122	6,525,605
Fund Balances:					
Nonspendable fund balance	89,916	157,849	1,577,691	1,928,654	3,754,110
Restricted fund balance	23,273	744,826	1,580,586	1,465,165	3,813,850
Committed fund balance	98,077	917,527	-	1,134,996	2,150,600
Assigned fund balance	1,114,699	-	-	45	1,114,744
Unassigned fund balance	(107,764)	-	-	(174,472)	(282,236)
Total Fund Balances	1,218,201	1,820,202	3,158,277	4,354,388	10,551,068
Total Liabilities and Fund Balances	$ 4,479,658	$ 2,444,270	$ 3,387,235	$ 6,765,510	$ 17,076,673

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, 2011
(expressed in thousands)

Total Fund Balances for Governmental Funds		$ 10,551,068
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	$ 23,355,789	
Depreciable assets	15,928,569	
Less: Accumulated depreciation	(6,781,461)	
Total capital assets		32,502,897
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.		2,256,097
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.		10,700
Unmatured interest on general obligation bonds is not recognized in the funds until due.		(363,498)
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.		(39,519)
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	$ (17,748,170)	
Accreted interest on bonds	(393,181)	
Compensated absences	(502,199)	
Other postemployment benefits obligations	(921,841)	
Unfunded pension obligations	(234,320)	
Claims and judgments	(36,303)	
Pollution remediation obligations	(168,219)	
Other obligations	(183,709)	
Total long-term liabilities		(20,187,942)
Net Assets of Governmental Activities		$ 24,729,803

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, 2011
(expressed in thousands)

	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
REVENUES					
Retail sales and use taxes	$ 7,274,926	$ -	$ -	$ 74,290	$ 7,349,216
Business and occupation taxes	3,072,245	-	-	4,672	3,076,917
Property taxes	1,857,837	-	-	-	1,857,837
Excise taxes	414,362	-	-	32,707	447,069
Motor vehicle and fuel taxes	-	-	-	1,205,859	1,205,859
Other taxes	1,804,138	117,373	-	225,088	2,146,599
Licenses, permits, and fees	88,464	629	-	982,663	1,071,756
Timber sales	4,037	-	22,224	179,863	206,124
Other contracts and grants	199,408	797,112	-	40,428	1,036,948
Federal grants-in-aid	9,597,099	1,757,935	271	1,243,400	12,598,705
Charges for services	59,882	2,010,187	145	620,259	2,690,473
Investment income (loss)	(15,055)	45,857	368,404	75,017	474,223
Miscellaneous revenue	229,905	83,389	1,841	341,321	656,456
Unclaimed property	62,987	-	-	-	62,987
Contributions and donations	-	-	69,436	-	69,436
Total Revenues	24,650,235	4,812,482	462,321	5,025,567	34,950,605
EXPENDITURES					
Current:					
General government	923,216	-	131	451,864	1,375,211
Human services	13,472,743	363	-	660,529	14,133,635
Natural resources and recreation	387,553	-	-	578,370	965,923
Transportation	41,234	-	-	1,767,266	1,808,500
Education	9,211,186	4,461,526	3,710	409,136	14,085,558
Intergovernmental	102,335	-	-	290,221	392,556
Capital outlays	48,504	218,129	2,441	2,134,383	2,403,457
Debt service:					
Principal	16,104	29,018	-	651,991	697,113
Interest	502	13,171	-	816,032	829,705
Total Expenditures	24,203,377	4,722,207	6,282	7,759,792	36,691,658
Excess of Revenues Over (Under) Expenditures	446,858	90,275	456,039	(2,734,225)	(1,741,053)
OTHER FINANCING SOURCES (USES)					
Bonds issued	336,009	26,359	-	581,826	944,194
Refunding bonds issued	-	-	-	1,160,990	1,160,990
Payments to escrow agents for refunded bond debt	-	-	-	(1,339,372)	(1,339,372)
Bond issue premiums	3,678	657	-	219,195	223,530
Other debt issued	14,700	21,523	-	118,601	154,824
Refunding COPs issued	-	-	-	9,310	9,310
Payments to escrow agents for refunded COP debt	-	-	-	(11,054)	(11,054)
Transfers in	938,822	140,148	2,876	2,778,501	3,860,347
Transfers out	(1,154,483)	(171,790)	(94,954)	(2,214,952)	(3,636,179)
Total Other Financing Sources (Uses)	138,726	16,897	(92,078)	1,303,045	1,366,590
Net Change in Fund Balances	585,584	107,172	363,961	(1,431,180)	(374,463)
Fund Balances - Beginning, as restated	632,617	1,713,030	2,794,316	5,785,568	10,925,531
Fund Balances - Ending	$ 1,218,201	$ 1,820,202	$ 3,158,277	$ 4,354,388	$ 10,551,068

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, 2011
(expressed in thousands)

Net Change in Fund Balances - Total Governmental Funds		$ (374,463)
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	$ 2,240,190	
Less: Depreciation expense	(539,915)	1,700,275
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.		113,945
Pension trust funding in excess of annual required contributions uses current financial resources, but does not qualify as an expense.		(1,800)
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.		210,805
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	$ (2,824,069)	
Principal payments on bonds and other financing contracts	2,629,497	
Accreted interest on bonds	(26,666)	(221,238)
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	$ 10,356	
Other postemployment benefits obligations	(224,628)	
Unfunded pension obligations	(42,931)	
Pollution remediation obligations	6,134	
Claims and judgments	(2,640)	
Accrued interest	(25,711)	
Unclaimed property	(6,973)	
Other obligations	(1,592)	(287,985)
Change in Net Assets of Governmental Activities		$ 1,139,539

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

Statement of Fund Net Assets
PROPRIETARY FUNDS
June 30, 2011
(expressed in thousands)

	Business-Type Activities Enterprise Funds			
	Workers' Compensation	Unemployment Compensation	Higher Education Student Services	Other Activities
ASSETS				
Current Assets:				
Cash and pooled investments	$ 43,372	$ 2,554,055	$ 684,156	$ 96,345
Investments	2,217,078	-	3,594	362,719
Taxes receivable (net of allowance)	-	-	-	-
Other receivables (net of allowance)	673,619	605,698	182,819	4,405
Due from other funds	55	6,771	320,306	791
Due from other governments	1,127	91,850	41,957	3,428
Inventories	94	-	41,976	84
Prepaid expenses	-	-	19,087	12
Restricted assets:				
Cash and pooled investments	-	-	284,630	-
Receivables	-	-	-	-
Total Current Assets	2,935,345	3,258,374	1,578,525	467,784
Noncurrent Assets:				
Investments, noncurrent	12,512,691	-	278,183	1,897,675
Other noncurrent assets	-	-	84,577	262,346
Capital assets:				
Land and other non-depreciable assets	3,240	-	60,344	-
Buildings	65,134	-	1,933,708	-
Other improvements	1,662	-	79,107	110
Furnishings and equipment	68,809	-	410,284	9,351
Infrastructure	-	-	41,273	-
Intangible assets	4,338	-	19,358	-
Accumulated depreciation	(87,042)	-	(997,418)	(7,417)
Construction in progress	13,041	-	279,789	-
Total Noncurrent Assets	12,581,873	-	2,189,205	2,162,065
Total Assets	15,517,218	3,258,374	3,767,730	2,629,849
LIABILITIES				
Current Liabilities:				
Accounts payable	8,820	-	68,686	1,940
Contracts and retainages payable	6,959	-	10,223	129,500
Accrued liabilities	135,119	8,591	205,459	8,866
Obligations under security lending agreements	2,217,078	-	-	362,719
Bonds and notes payable	3,206	-	59,212	-
Due to other funds	6,114	1,182	480,735	565
Due to other governments	14	49,464	160	4,392
Unearned revenue	7,676	-	34,045	-
Claims and judgments payable	1,741,968	-	-	2,038
Total Current Liabilities	4,126,954	59,237	858,520	510,020
Noncurrent Liabilities:				
Claims and judgments payable	21,201,343	-	-	9,977
Bonds and notes payable	14,876	-	1,421,341	-
Other long-term liabilities	34,556	-	154,165	2,606,489
Total Noncurrent Liabilities	21,250,775	-	1,575,506	2,616,466
Total Liabilities	25,377,729	59,237	2,434,026	3,126,486
NET ASSETS				
Invested in capital assets, net of related debt	51,100	-	630,521	2,043
Restricted for:				
Unemployment compensation	-	3,199,137	-	-
Unrestricted	(9,911,611)	-	703,183	(498,680)
Total Net Assets (Deficit)	$ (9,860,511)	$ 3,199,137	$ 1,333,704	$ (496,637)

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

Nonmajor Enterprise Funds	Total	Governmental Activities Internal Service Funds
$ 55,735	$ 3,433,663	$ 681,644
45,439	2,628,830	14,108
10,514	10,514	-
25,921	1,492,462	17,020
8,345	336,268	141,915
460	138,822	10,442
55,968	98,122	17,209
809	19,908	4,469
-	284,630	-
-	-	9,438
203,191	8,443,219	896,245
222,161	14,910,710	50,251
3	346,926	-
1,715	65,299	3,836
41,605	2,040,447	168,467
2,426	83,305	15,514
50,916	539,360	787,437
-	41,273	1,818
1,029	24,725	4,901
(48,117)	(1,139,994)	(558,033)
-	292,830	33,254
271,738	17,204,881	507,445
474,929	25,648,100	1,403,690
33,590	113,036	106,883
-	146,682	41,713
100,451	458,486	50,335
-	2,579,797	-
3,135	65,553	55,785
32,123	520,719	104,184
-	54,030	40,475
12	41,733	1,227
-	1,744,006	244,675
169,311	5,724,042	645,277
-	21,211,320	593,040
12,329	1,448,546	180,964
214,042	3,009,252	23,928
226,371	25,669,118	797,932
395,682	31,393,160	1,443,209
34,114	717,778	262,607
-	3,199,137	-
45,133	(9,661,975)	(302,126)
$ 79,247	$ (5,745,060)	$ (39,519)

Statement of Revenues, Expenses, and Changes in Fund Net Assets
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2011
(expressed in thousands)

	Business-Type Activities Enterprise Funds			
	Workers' Compensation	Unemployment Compensation	Higher Education Student Services	Other Activities
OPERATING REVENUES				
Sales	$ -	$ -	$ 123,257	$ 153
Less: Cost of goods sold	-	-	87,957	83
Gross profit	-	-	35,300	70
Charges for services	-	-	1,275,485	74,997
Premiums and assessments	1,983,348	1,545,016	-	-
Federal aid for unemployment insurance benefits	-	2,288,291	-	-
Lottery ticket proceeds	-	-	-	-
Miscellaneous revenue	35,634	28,352	211,123	3,217
Total Operating Revenues	2,018,982	3,861,659	1,521,908	78,284
OPERATING EXPENSES				
Salaries and wages	135,979	-	635,834	23,628
Employee benefits	51,397	-	174,338	8,099
Personal services	6,366	-	16,119	3,278
Goods and services	72,443	-	713,179	20,232
Travel	3,401	-	20,225	622
Premiums and claims	888,160	3,690,343	-	-
Lottery prize payments	-	-	-	-
Depreciation and amortization	8,037	-	94,293	1,552
Guaranteed education tuition expense	-	-	-	639,365
Miscellaneous expenses	52,463	-	15,541	1,100
Total Operating Expenses	1,218,246	3,690,343	1,669,529	697,876
Operating Income (Loss)	800,736	171,316	(147,621)	(619,592)
NONOPERATING REVENUES (EXPENSES)				
Earnings (loss) on investments	997,577	97,979	225,438	283,923
Interest expense	(1,064)	-	(62,034)	(13)
Distributions to other governments	-	-	-	-
Tax and license revenue	130	-	-	21,557
Other revenues (expenses)	9,164	-	12,094	29
Total Nonoperating Revenues (Expenses)	1,005,807	97,979	175,498	305,496
Income (Loss) Before Contributions, Transfers and Special Item	1,806,543	269,295	27,877	(314,096)
Capital contributions	-	-	13,227	-
Transfers in	-	-	128,476	-
Transfers out	-	-	(58,525)	(3,250)
Net Contributions and Transfers	-	-	83,178	(3,250)
SPECIAL ITEM				
Transfer of Convention and Trade Center to another government (Note 2)	-	-	-	-
Change in Net Assets	1,806,543	269,295	111,055	(317,346)
Net Assets (Deficit) - Beginning, as restated	(11,667,054)	2,929,842	1,222,649	(179,291)
Net Assets (Deficit) - Ending	$ (9,860,511)	$ 3,199,137	$ 1,333,704	$ (496,637)

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

Nonmajor Enterprise Funds	Total	Governmental Activities Internal Service Funds
$ 660,197	$ 783,607	$ 99,781
429,167	517,207	91,918
231,030	266,400	7,863
8,385	1,358,867	590,630
-	3,528,364	1,449,731
-	2,288,291	-
510,457	510,457	-
1,700	280,026	121,292
751,572	8,232,405	2,169,516
71,105	866,546	271,021
34,365	268,199	83,035
15,516	41,279	15,647
114,447	920,301	246,399
1,592	25,840	3,307
-	4,578,503	1,267,281
295,155	295,155	-
8,529	112,411	70,751
-	639,365	-
226	69,330	2,157
540,935	7,816,929	1,959,598
210,637	415,476	209,918
6,354	1,611,271	4,826
(18,545)	(81,656)	(8,961)
(47,128)	(47,128)	-
152,652	174,339	23
(724)	20,563	(3,293)
92,609	1,677,389	(7,405)
303,246	2,092,865	202,513
-	13,227	1,771
29,890	158,366	23,920
(327,321)	(389,096)	(17,397)
(297,431)	(217,503)	8,294
(222,794)	(222,794)	-
(216,979)	1,652,568	210,807
296,226	(7,397,628)	(250,326)
$ 79,247	$ (5,745,060)	$ (39,519)

Statement of Cash Flows
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2011
(expressed in thousands)

	Business-Type Activities Enterprise Funds		
	Workers' Compensation	Unemployment Compensation	Higher Education Student Services
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	$ 1,824,052	$ 1,464,198	$ 1,115,737
Payments to suppliers	(2,038,603)	(3,654,975)	(539,004)
Payments to employees	(181,791)	-	(778,198)
Other receipts (payments)	35,634	2,325,435	211,121
Net Cash Provided (Used) by Operating Activities	(360,708)	134,658	9,656
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers in	-	-	128,476
Transfers out	-	-	(58,525)
Operating grants and donations received	9,250	-	9,701
Taxes and license fees collected	130	-	-
Distributions to other governments	-	-	-
Net Cash Provided (Used) by Noncapital Financing Activities	9,380	-	79,652
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Interest paid	(1,143)	-	(58,557)
Principal payments on long-term capital financing	(4,030)	-	(32,800)
Proceeds from long-term capital financing	-	-	400,371
Proceeds from sale of capital assets	95	-	25,997
Acquisitions of capital assets	(13,954)	-	(206,773)
Net Cash Provided (Used) by Capital and Related Financing Activities	(19,032)	-	128,238
CASH FLOWS FROM INVESTING ACTIVITIES			
Receipt of interest	569,678	97,979	212,976
Proceeds from sale of investment securities	4,419,372	-	14,212
Purchases of investment securities	(4,622,325)	-	(55,980)
Net Cash Provided (Used) by Investing Activities	366,725	97,979	171,208
Net Increase (Decrease) in Cash and Pooled Investments	(3,635)	232,637	388,754
Cash and Pooled Investments, July 1, as restated	47,007	2,321,418	580,031
Cash and Pooled Investments, June 30	$ 43,372	$ 2,554,055	$ 968,785
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating Income (Loss)	$ 800,736	$ 171,316	$ (147,621)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operations:			
Depreciation	8,037	-	94,293
Change in Assets: Decrease (Increase)			
Receivables (net of allowance)	(108,684)	(72,027)	(282,503)
Inventories	25	-	126
Prepaid expenses	-	-	311
Change in Liabilities: Increase (Decrease)			
Payables	(1,060,822)	35,369	345,050
Net Cash or Cash Equivalents Provided by (Used in) Operating Activities	$ (360,708)	$ 134,658	$ 9,656

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

Continued

Other Activities	Nonmajor Enterprise Funds	Total	Governmental Activities Internal Service Funds
$ 914,488	$ 1,171,064	$ 6,489,539	$ 2,171,437
(665,784)	(894,428)	(7,792,794)	(1,663,935)
(30,789)	(102,034)	(1,092,812)	(351,477)
3,191	1,674	2,577,055	92,487
221,106	176,276	180,988	248,512
-	29,890	158,366	23,920
(3,250)	(327,321)	(389,096)	(17,397)
-	25	18,976	532
21,557	151,926	173,613	23
-	(100,550)	(100,550)	-
18,307	(246,030)	(138,691)	7,078
(13)	(3,563)	(63,276)	(8,961)
(297)	(273,991)	(311,118)	(25,590)
-	-	400,371	32,032
-	271,841	297,933	6,965
(283)	(4,848)	(225,858)	(92,011)
(593)	(10,561)	98,052	(87,565)
31,323	88	912,044	5,212
405,929	101,070	4,940,583	69,550
(679,888)	(50,535)	(5,408,728)	(59,867)
(242,636)	50,623	443,899	14,895
(3,816)	(29,692)	584,248	182,920
100,161	85,427	3,134,044	498,724
$ 96,345	$ 55,735	$ 3,718,292	$ 681,644
$ (619,592)	$ 210,637	$ 415,476	$ 209,918
1,552	8,529	112,411	70,751
(37,958)	(7,796)	(508,968)	18,541
(11)	(131)	9	755
3	65	379	631
877,112	(35,028)	161,681	(52,084)
$ 221,106	$ 176,276	$ 180,988	$ 248,512

Statement of Cash Flows
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2011
(expressed in thousands)

	Business-Type Activities Enterprise Funds		
	Workers' Compensation	Unemployment Compensation	Higher Education Student Services
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES			
Contributions of capital assets	$ -	$ -	$ 13,227
Acquisition of capital assets through capital leases	-	-	2,714
Amortization of annuity prize liability	-	-	-
Increase (decrease) in fair value of investments	421,195	-	281
Refunding bonds issued	-	-	10,400
Refunding bonds redeemed	-	-	10,890
Amortization of debt premium (issue costs/discount)	-	-	448
Increase in ownership of joint venture	-	-	12,169

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

Concluded

Other Avtivities	Nonmajor Enterprise Funds	Total	Governmental Activities Internal Service Funds
$ -	$ -	$ 13,227	$ 1,771
-	-	2,714	586
-	14,982	14,982	-
253,048	6,266	427,742	(338)
-	-	10,400	-
-	-	10,890	-
-	-	448	-
-	-	12,169	-

Statement of Fiduciary Net Assets
FIDUCIARY FUNDS
June 30, 2011
(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	$ 9,234	$ 2,509,133	$ 385,135	$ 294,185
Investments	-	5,646,806	-	-
Receivables, pension and other employee benefit plans:				
Employers	-	-	117,834	-
Members (net of allowance)	-	-	2,684	-
Interest and dividends	-	-	184,280	-
Investment trades pending	-	-	3,133,472	-
Due from other pension and other employee benefit funds	-	-	968	-
Other receivables, all other funds	-	1,988	-	7,570
Due from other funds	-	-	1,454	479
Due from other governments	-	-	-	19,184
Total Current Assets	9,234	8,157,927	3,825,827	321,418
Noncurrent Assets:				
Investments, noncurrent, pension and other employee benefit plans:				
Public equity	-	-	29,858,894	-
Fixed income	-	-	11,765,036	-
Private equity	-	-	15,613,270	-
Real estate	-	-	8,598,192	-
Security lending	-	-	2,718,939	-
Liquidity	-	-	1,949,411	-
Tangible assets	-	-	718,740	-
Investments, noncurrent, all other funds	24,174	708,861	-	28,343
Other noncurrent assets	-	-	-	40,842
Capital assets:				
Furnishings and equipment	32	-	-	-
Accumulated depreciation	(19)	-	-	-
Total Noncurrent Assets	24,187	708,861	71,222,482	69,185
Total Assets	33,421	8,866,788	75,048,309	$ 390,603
LIABILITIES				
Accounts payable	328	-	-	$ 5,444
Contracts and retainages payable	-	-	-	60,345
Accrued liabilities	148	108	3,857,768	6,910
Obligations under security lending agreements	-	-	2,718,938	-
Due to other funds	-	-	2,527	38,337
Due to other pension and other employee benefit funds	-	-	968	-
Due to other governments	-	3,552	-	238,724
Unearned revenue	-	-	893	-
Other long-term liabilities	-	-	-	40,843
Total Liabilities	476	3,660	6,581,094	$ 390,603
NET ASSETS				
Net assets held in trust for:				
Pension benefits	-	-	65,528,135	
Deferred compensation participants	-	-	2,939,080	
Local government pool participants	-	8,863,128	-	
Individuals, organizations & other governments	32,945	-	-	
Total Net Assets	$ 32,945	$ 8,863,128	$ 68,467,215	

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, 2011
(expressed in thousands)

	Private-Purpose Trust	Local Government Investment Pool	Pension and Other Employee Benefit Plans
ADDITIONS			
Contributions:			
Employers	$ -	$ -	$ 902,855
Members	-	-	959,141
State	-	-	68,699
Participants	-	16,566,893	186,734
Total Contributions	-	16,566,893	2,117,429
Investment Income:			
Net appreciation (depreciation) in fair value	-	-	10,557,243
Interest and dividends	-	22,019	1,614,756
Less: Investment expenses	-	-	(216,935)
Net Investment Income (Loss)	-	22,019	11,955,064
Other Additions:			
Unclaimed property	42,191	-	-
Transfers from other pension plans	-	-	11,441
Other contracts, grants and miscellaneous	31	-	1,462
Total Other Additions	42,222	-	12,903
Total Additions	42,222	16,588,912	14,085,396
DEDUCTIONS			
Pension benefits	-	-	2,937,334
Pension refunds	-	-	282,064
Transfers to other pension plans	-	-	11,441
Administrative expenses	3,353	724	2,649
Distributions to participants	-	16,054,499	149,010
Payments to or on behalf of individuals, organizations and other governments in accordance with state unclaimed property laws	31,827	-	-
Total Deductions	35,180	16,055,223	3,382,498
Net Increase (Decrease)	7,042	533,689	10,702,898
Net Assets - Beginning	25,903	8,329,439	57,764,317
Net Assets - Ending	$ 32,945	$ 8,863,128	$ 68,467,215

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

Statement of Fund Net Assets
COMPONENT UNITS
June 30, 2011
(expressed in thousands)

	Public Stadium	Nonmajor Component Units	Total
ASSETS			
Current Assets:			
Cash and pooled investments	$ 7,235	$ 25,746	$ 32,981
Investments	-	42,038	42,038
Investments - restricted	3,701	-	3,701
Other receivables (net of allowance)	834	1,228	2,062
Prepaid expenses	21	109	130
Total Current Assets	11,791	69,121	80,912
Noncurrent Assets:			
Investments, noncurrent - restricted	16,138	-	16,138
Other noncurrent assets	-	87,430	87,430
Capital assets:			
Land	34,677	-	34,677
Buildings	460,610	-	460,610
Furnishings, equipment and intangible assets	20,979	1,596	22,575
Accumulated depreciation	(158,943)	(1,376)	(160,319)
Total Noncurrent Assets	373,461	87,650	461,111
Total Assets	385,252	156,771	542,023
LIABILITIES			
Current Liabilities:			
Accounts payable	98	54,838	54,936
Contracts and retainages payable	3,141	-	3,141
Accrued liabilities	3,855	40	3,895
Unearned revenue	-	5,189	5,189
Total Current Liabilities	7,094	60,067	67,161
Noncurrent Liabilities:			
Other long-term liabilities	20,750	-	20,750
Total Noncurrent Liabilities	20,750	-	20,750
Total Liabilities	27,844	60,067	87,911
NET ASSETS			
Invested in capital assets, net of related debt	331,620	220	331,840
Restricted for deferred sales tax	19,029	-	19,029
Restricted for other purposes	-	1,079	1,079
Unrestricted	6,759	95,405	102,164
Total Net Assets (Deficit)	$ 357,408	$ 96,704	$ 454,112

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, 2011
(expressed in thousands)

	Public Stadium	Nonmajor Component Units	Total
OPERATING REVENUES			
Charges for services	$ 1,051	$ 15,688	$ 16,739
Total Operating Revenues	1,051	15,688	16,739
OPERATING EXPENSES			
Salaries and wages	398	4,567	4,965
Employee benefits	103	1,268	1,371
Personal services	304	1,612	1,916
Goods and services	783	2,198	2,981
Travel	3	21	24
Depreciation and amortization	15,469	150	15,619
Miscellaneous expenses	-	979	979
Total Operating Expenses	17,060	10,795	27,855
Operating Income (Loss)	(16,009)	4,893	(11,116)
NONOPERATING REVENUES (EXPENSES)			
Earnings (loss) on investments	704	848	1,552
Operating grants and contributions	-	103,065	103,065
Distributions of operating grants	-	(102,140)	(102,140)
Naming rights	2,016	-	2,016
Other	(385)	-	(385)
Total Nonoperating Revenues (Expenses)	2,335	1,773	4,108
Income (Loss)	(13,674)	6,666	(7,008)
Capital grants and contributions	1,023	-	1,023
Total Contributions and Transfers	1,023	-	1,023
Change in Net Assets	(12,651)	6,666	(5,985)
Net Assets - Beginning	370,059	90,038	460,097
Net Assets - Ending	$ 357,408	$ 96,704	$ 454,112

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

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For the Fiscal Year Ended June 30, 2011

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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. The Tobacco Settlement Authority (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 $357 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 $12.2 million was recorded in fiscal year 2011, bringing the total equity investment to $75 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 661 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 tuition, student fees, and grants and contracts received for research and other educational purposes.

- 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.

- Other Activities Fund primarily accounts for the guaranteed education tuition program. The other activities fund also reports the operation of computer systems for legislative information, the pollution liability insurance program; and the Judicial Information System.

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 restricted or committed 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; the state's transportation programs which include the operation of the state's ferry system and maintenance and preservation of interstate and non-interstate highway systems; driver licensing, highway and non-highway operations and capital improvements; K-12 school construction; and construction and loan programs for local public works projects.

- Debt Service Funds account for the accumulation of resources that are restricted or committed to expenditures for, and the payment of, principal and interest on the state's bonds issued in support of governmental activities.

- **Capital Projects Funds** account for financial resources that are restricted or committed to expenditures for the acquisition, construction, or improvement of major state-owned capital facilities (other than highway infrastructure or those financed by proprietary funds).

- **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; and vocational/education programs at correctional institutions.

- **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, 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.

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 obligations are 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 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 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 value based on appraisals or estimates in the absence of readily ascertainable fair values. At June 30, 2011, these investments are valued at $24.9 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 $6.2 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 separated 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 governmental fund type accounts, fund equity is called "fund balance." Fund balance is reported in the following classifications which reflect the extent to which the state is bound to honor constraints on the purposes for which the amounts can be spent: nonspendable, restricted, committed, assigned, and unassigned.

When resources meeting more than one of the classifications (excluding nonspendable) are comingled in an account, assuming that an expenditure meets the constraints of the classification, the assumed order of spending is restricted first, committed second, and finally assigned.

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 employers to secure coverage for job-related injuries and diseases with few exceptions, 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 payable are recomputed quarterly using a variety of actuarial and statistical techniques. These techniques are used to produce current estimates that reflect recent settlements, claim frequency, expected inflation, and other economic, legal, and social factors. Adjustments to claims payable are charged or credited to claims 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 nine 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. The Uniform Medical Plan enrolled 62.3 percent of the eligible subscribers in fiscal year 2011. 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.

Under the current spending policy, distributions to programs approximate an annual percentage rate of 4 percent of a five-year rolling average of the endowment's market valuation.

The net appreciation available for authorization for expenditure by governing boards totaled $172 million. This amount is reported as restricted for expendable endowment funds on the government-wide Statement of Net Assets.

Note 2

Accounting, Reporting, and Entity Changes

Reporting Changes. Effective for fiscal year 2011 reporting, the state implemented the following new standards issued by the Governmental Accounting Standards Board (GASB):

Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB Statement No. 54 provides clearer fund balance classifications and clarifies the existing governmental fund type definitions. The new hierarchical fund balance classification structure is based primarily on the extent to which a government is bound to follow constraints on how resources can be used. New fund balance classifications include: nonspendable, committed, restricted, assigned, and unassigned. Details on the state's fund balance classifications and policies are reflected in Note 9.

The governmental funds used by the state were evaluated taking into consideration the provisions of Statement No. 54. A number of accounts reported within special revenue funds did not meet the clarified definition for special revenue funds. As a result, a reclassification of $253.9 million was made to reduce the beginning fund balance of special revenue funds and increase beginning fund balance of the General Fund.

Statement No. 59 *Financial Instruments Omnibus*. Statement No. 59 updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools. Existing state reporting and disclosure practices comply with the requirements of Statement No. 59.

Fund Reclassification. During fiscal year 2011, it was determined that an activity being reported in Other Activities, a major enterprise fund, would be more appropriately reported in the General Services Fund, an internal service fund. Accordingly, beginning fund balances were restated by $5.9 million to effect the proper fund classification of the activity.

Prior Period Adjustments. The University of Washington recorded a prior period adjustment to properly report balances related to their Internal Lending Program which is reported within the Higher Education Student Services Fund. The adjustment impacted the Higher Education Special Revenue Fund, a major governmental fund, with an increase of $479.2 million, other nonmajor governmental funds with a decrease of $94.9 million, the Higher Education Student Services, a major enterprise fund, with a decrease of $370.2 million, and internal service funds with an increase of $1.7 million. The adjustment also increased pooled cash in an agency fund by $15.8 million.

Entity Change – Special Item. During fiscal year 2011, except as noted in the following paragraph, all assets and liabilities of the Convention and Trade Center, reported by the state as a nonmajor enterprise fund, were transferred to a public facilities district. The net transfer of the assets and liabilities is reported as a special item on the Statement of Revenues, Expenses, and Changes in Fund Net Assets.

As part of the agreement between the state and the public facilities district, the public facilities district issued $271 million in bonds and wired the proceeds to the state to refund the debt held by the state that was related to the Convention and Trade Center.

Fund equity at July 1, 2010, has been restated as follows (expressed in thousands):

	Fund equity (deficit) at June 30, 2010, as previously reported	Fund Reclassification	Prior Period Adjustment	Fund equity (deficit) as restated, July 1, 2010
Governmental Funds:				
General	$ 378,749	$ 253,868	$ -	$ 632,617
Higher Education Special Revenue	1,319,702	(85,906)	479,234	1,713,030
Motor Vehicle Fund*	1,580,914	(1,580,914)		-
Higher Education Endowment	2,728,726	65,590	-	2,794,316
Nonmajor Governmental *	4,533,121	1,347,362	(94,915)	5,785,568
Proprietary Funds:				
Enterprise Funds:				
Workers' Compensation	(11,667,054)	-	-	(11,667,054)
Unemployment Compensation	2,929,842	-	-	2,929,842
Higher Education Student Services	1,592,870	-	(370,221)	1,222,649
Other Activities**	-	(179,291)		(179,291)
Nonmajor Enterprise**	122,818	173,408		296,226
Internal Service Funds	(257,912)	5,883	1,703	(250,326)
Fiduciary Funds:				
Private Purpose Trust	25,903	-	-	25,903
Local Government Investment Pool	8,329,439	-	-	8,329,439
Pension and Other Employee Benefit Plans	57,764,317	-	-	57,764,317
Component Units:				
Public Stadium	370,059	-	-	370,059
Nonmajor Component Units	90,038	-	-	90,038

* The Motor Vehicle Special Revenue was reported as a major governmental fund in fiscal year 2010, but became a nonmajor fund for reporting purposes in fiscal year 2011.

** The Other Activities Enterprise Fund was reported as a nonmajor proprietary fund in fiscal year 2010, but became a major fund for reporting purposes in fiscal year 2011.

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, 2011, $1.09 billion of the state's deposits with financial institutions were either insured or collateralized, with the remaining $22.1 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 pension trust funds consist of retirement contributions from employer and employee participants in the Washington State Retirement System and related earnings on those contributions. The Retirement System is administered by the Department of Retirement Systems. The WSIB has exclusive control of the investment of all money invested in the pension trust funds.

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. The WSIB is authorized by statute as having investment management responsibility for pension funds. The WSIB is authorized to invest as provided by statute (chapter 43.33A RCW) and WSIB policy 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; 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 2011.

Commingled Trust Fund. Pension trust funds are invested in the Commingled Trust Fund (CTF). The CTF is a diversified pool of investments used as an investment vehicle for 14 separate retirement plans. These plans hold "units" in the CTF, which represent a percentage ownership in the pool of investments. Plans are allowed to purchase or sell units in the CTF, based on the fair value of the underlying assets, on the first business day of each month. In addition to unit ownership in the CTF, each plan holds short-term investments that are used to manage the cash needs of each retirement plan.

The CTF consists of the Public Employees' Retirement System (PERS) Plans 1 and 2/3; Teachers' Retirement System (TRS) Plans 1 and 2/3; School Employees' Retirement System (SERS) Plans 2/3; Law Enforcement Officers' and Fire Fighters' Retirement Plans 1 and 2; Washington State Patrol Retirement System Plans 1 and 2; Public Safety Employees' Retirement System Plan 2; and Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund. PERS Plan 3, TRS Plan 3 and SERS Plan 3 are hybrid defined benefit/defined contribution plans. The participants of those plans have the option to direct their contributions to the CTF or invest their defined contributions in other external options not managed by the WSIB.

CTF Investment Policies and Restrictions. The CTF is comprised of public markets equities, fixed income securities, private equity investments, tangible assets, real estate, and an innovation portfolio. 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.

The public markets equity program uses a global benchmark, the Dow Jones Global Total Stock Market Index, reflecting the globalization of capital markets. At the beginning of the fiscal year, the public equity portfolio in the CTF was a combination of separate U.S. and international components. Over the course of the fiscal year, the WSIB restructured the public equity program within the CTF into four components: passive U.S. equity, passive international equity, active global equity and active emerging markets equity.

Because U.S. equity markets are generally efficient and international equity markets are increasingly efficient, most of the WSIB's public equity investments are in low-cost, broad-based passive index funds. The WSIB employs both passive U.S. equity and passive international equity in order to maintain policy weights in both areas. All the global equity mandates and all the emerging market equity mandates are actively managed.

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

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

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 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 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 real estate portfolio 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, there are three investment strategies in the innovation portfolio, two involving private partnerships and one investing in public equities.

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, 2011, the retirement funds had unfunded commitments of $6.87 billion, $6.90 billion, $505.3 million and $308.7 million in private equity, real estate, tangible assets and the innovation portfolio, 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, 2011, were $3 billion and $2.92 billion, respectively. At fiscal 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.

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

Cash and cash equivalents	$1,426,003
Bank and promissory notes	537,089
Commercial paper	423,043
Securitized debt instruments	227,695
Repurchase agreements	182,814
Miscellaneous	90,432
Guaranteed insurance contracts	62,897
Sovereign debt	49,139
Total collateral held	$2,999,112

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

Cash collateral was invested by the WSIB's agents in securities in the WSIB's separately managed short-term investment pool (average final maturity of 34 days). Because the securities lending agreements were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral.

Non-cash collateral could not be pledged or sold absent borrower default. Accordingly, non-cash collateral held under securities lending contracts with a value of $280.2 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 2011, there were no significant violations of legal or contractual provisions and no failures by any borrowers to return loaned securities or to pay distributions thereon. Further, the pension trust funds incurred no losses during fiscal year 2011 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. 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 meet or 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, 2011, the pension trust funds' duration was within the duration target of this index.

The schedule below provides information about the interest rate risks associated with the pension trust funds' investments as of June 30, 2011. 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. Certain foreign investments are recorded in U.S. dollars (USD), while others are generally recorded in non U.S. dollars (Non USD) but have been converted to U.S. dollars for reporting purposes.

Pension Trust Funds
June 30, 2011
(expressed in thousands)

Investment Type	Fair Value	Maturity: Less than 1 Year	1-5 Years	6-10 Years	More than 10 Years	Credit Rating
Asset backed securities	$ 121,518	$ 101,242	$ 20,215	$ -	$ 61	Aaa
Residential mortgage-backed securities	2,371,654	355,901	1,931,388	84,365	-	Aaa
Commercial mortgage-backed securities	328,066	99,188	227,260	1,618	-	Multiple
Corporate bonds - domestic (USD)	1,338,352	-	267,658	909,612	161,082	Multiple
Corporate bonds - domestic (Non USD)	27,120	-	27,120	-	-	Multiple
Corporate bonds - foreign (USD)	3,560,256	2,029	714,911	2,316,870	526,446	Multiple
Corporate bonds - foreign (Non USD)	143,388	-	54,576	56,256	32,556	Multiple
U.S. government treasuries	2,077,797	808,070	955,026	314,701	-	Aaa
Foreign government and agencies (USD)	1,010,463	-	92,435	755,526	162,502	Multiple
Foreign government and agencies (Non USD)	438,718	-	63,882	226,760	148,076	Multiple
Supranational (USD)	30,660	-	30,660	-	-	Aaa
Supranational (Non USD)	317,045	-	155,010	162,035	-	Aaa
	11,765,037	$ 1,366,430	$ 4,540,141	$ 4,827,743	$ 1,030,723	
Corporate stock (USD)	3,302,338					
Corporate stock (Non USD)	11,114,937					
Commingled equity index funds	9,455,236					
Alternative investments	24,930,203					
Liquidity	1,949,469					
Total	$ 62,517,220					

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, 2011
(expressed in thousands)

Moody's Equivalent Credit Rating	Investment Type: Commercial Mortgage-Backed Securities	Corporate Bonds - Domestic (USD)	Corporate Bonds - Domestic (Non USD)	Corporate Bonds - Foreign (USD)	Corporate Bonds - Foreign (Non USD)	Foreign Government and Agencies (USD)	Foreign Government and Agencies (Non USD)	Total
Aaa	$ 284,572	$ -	$ -	$ -	$ -	$ -	$ 163,954	$ 448,526
Aa1	-	-	-	-	-	17,308	-	17,308
Aa2	-	50,015	-	44,418	-	26,650	-	121,083
Aa3	43,494	52,049	-	54,624	-	76,868	-	227,035
A1	-	124,438	-	93,016	-	309,619	-	527,073
A2	-	115,052	-	11,100	32,556	22,518	50,303	231,529
A3	-	127,613	27,120	338,001	39,271	54,617	-	586,622
Baa1	-	308,349	-	495,521	27,115	57,646	-	888,631
Baa2	-	263,413	-	680,614	-	133,280	100,893	1,178,200
Baa3	-	87,630	-	1,054,216	44,446	244,092	12,309	1,442,693
Ba1 or lower	-	209,793	-	788,746	-	67,865	111,259	1,177,663
Total	$ 328,066	$ 1,338,352	$ 27,120	$ 3,560,256	$ 143,388	$ 1,010,463	$ 438,718	$ 6,846,363

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, 2011, 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, 2011.

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 schedule below presents the exposure of pension fund investments to foreign currency risk. The schedule provides information on deposits and investments held in various foreign currencies. Private equity and real estate are presented according to the financial currency of the individual funds and is not a presentation of currency exposure relating to the underlying holdings. The schedule is stated in U.S. dollars.

Pension Trust Funds
Foreign Currency Risk
June 30, 2011
(expressed in thousands)

	Investment Type					
Foreign Currency Denomination	**Currency**	**Fixed Income**	**Common Stock**	**Private Equity**	**Real Estate**	**Total**
Australia-Dollar	$ 325	$ 375,499	$ 684,846	$ -	$ 24,388	$ 1,085,058
Brazil-Real	356	244,617	91,868	-	-	336,841
Canada-Dollar	3,060	-	864,750	-	-	867,810
Denmark-Krone	466	-	103,820	-	-	104,286
E.M.U.-Euro	8,709	-	2,923,558	2,229,058	143,085	5,304,410
Hong Kong-Dollar	1,085	-	399,609	-	-	400,694
India-Rupee	462	46,979	66,737	-	-	114,178
Indonesia-Rupiah	117	100,006	55,093	-	-	155,216
Japan-Yen	12,254	-	1,967,771	-	-	1,980,025
Mexico-Peso	255	32,556	42,354	-	-	75,165
Norway-Krone	1,223	-	102,606	-	-	103,829
Singapore-Dollar	324	-	170,932	-	-	171,256
South Africa-Rand	10	-	82,763	-	-	82,773
South Korea-Won	-	-	129,125	-	-	129,125
Sweden-Krona	1,119	-	263,775	1,857	-	266,751
Switzerland-Franc	(91)	-	720,504	-	-	720,413
Taiwan-Dollar	1,047	-	84,640	-	-	85,687
Turkey-Lira	726	60,511	53,783	-	-	115,020
United Kingdom-Pound	(1,003)	-	2,113,310	8,997	-	2,121,304
Other-Miscellaneous	2,645	66,103	193,093	-	-	261,841
Total	$ 33,089	$ 926,271	$ 11,114,937	$ 2,239,912	$ 167,473	$ 14,481,682

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, 2011, 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, 2011, 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 TBAs 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. TBAs carry future settlement risk due to the possibility of not receiving the asset or associated gains specified in the contract. Such loss associated with failure by counterparties to deliver under the contracts was not deemed material at June 30, 2011.

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 and rebalance the total portfolio.

Forward currency contracts are agreements to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. These forward commitments are not standardized and carry credit risk due to the possible nonperformance by one of the counterparties. The maximum potential loss is the aggregate face value in U.S. dollars at the time the contract was opened; however, the likelihood of such loss is remote.

At June 30, 2011, the pension trust funds had outstanding forward currency contracts to purchase foreign currencies with a fair value of $1.29 billion and outstanding contracts to sell foreign currencies with a fair value of $1.29 billion. The net unrealized loss of $874,000 is included in the Statement of Changes in Net Assets. The contracts have varying maturity dates ranging from July 1, 2011, to September 21, 2011.

At June 30, 2011, the pension trust funds' fixed income portfolio held derivative securities consisting of collateralized mortgage obligations with a fair value of $875.8 million. Domestic and foreign passive equity index fund managers may also utilize various derivative securities to manage exposure to risk and increase portfolio returns. Information on the extent of use and holdings of derivative securities by passive equity index fund managers is unavailable.

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

At June 30, 2011, the counterparties' for forward currency contracts that are subject to credit risk had a credit rating of no less than A1 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, 2011
(expressed in thousands)

	Changes in Fair Value - Included in Investment Income (Loss) Amount	Fair Value - Investment Derivative Amount	Notional
Futures Contracts:			
Bond index futures	$ 15,904	$ (1,231)	$ 6
Equity index futures	8,343	-	-
Total	$ 24,247	$ (1,231)	$ 6
To Be Announced (TBA) Securities:			
Total	$ 7,997	$ 328,896	$ 312,000
Forward Currency Contracts:			
Australia-Dollar	$ 40,328	$ 375	$ (44,903)
Brazil-Real	112	-	-
Canada-Dollar	16,506	(8)	(202)
Czech Republic-Koruna	267	1	1,392
Denmark-Krone	1,118	(3)	(2,035)
E.M.U.-Euro	51,926	(601)	29
Hong Kong-Dollar	(91)	(1)	59,135
Hungary-Forint	(153)	-	-
Israel-Shekel	21	-	-
Japan-Yen	28,501	(77)	1,295,417
Mexico-Peso	(24)	-	-
New Zealand-Dollar	517	(5)	(148)
Norway-Krone	761	(656)	(60,694)
Poland-Zloty	(359)	-	-
Singapore-Dollar	397	24	5,652
South Africa-Rand	192	1	1,990
Sweden-Krona	14,940	(285)	-
Switzerland-Franc	12,091	8	10,221
United Kingdom-Pound	13,853	353	(32,311)
United States-Dollar	(172,982)	-	70,031
Total	$ 7,921	$ (874)	$ 1,303,574

8. Reverse Repurchase Agreements – None.

C. INVESTMENTS – WORKERS' COMPENSATION FUND

1. Summary of Investment Policies

Under RCW 43.33A.030, trusteeship 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 the objectives 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.
- Treasury inflation protection securities (TIPS).
- 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. 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.
- TIPS will be managed to plus or minus 20 percent of the duration of the Barclays Capital U.S. TIPS Index.
- 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 to the target allocations as soon as it is practical.

- Total market value of below investment grade credit bonds (as defined by Barclays Capital Global Family of Fixed Income Indices) shall not exceed 5 percent of the total market value of the funds. Although below investment grade mortgage-backed, asset-backed and commercial mortgage-backed securities may not be purchased, portfolio holdings that are downgraded to those levels or are no longer rated may continue to be held.

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

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, 2011 was $2.45 billion and $2.38 billion, respectively. As of June 30, 2011, 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.

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

Cash collateral was invested by the workers' compensation fund in the WSIB's short-term investment pool (average final maturity of 34 days). Because the securities lending agreements were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. Non-cash collateral could not be pledged or sold absent borrower default. Accordingly, non-cash collateral held under securities lending contracts with a value of $228.5 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 2011, there were no significant violations of legal or contractual provisions, no failures by any borrowers to return loaned securities or to pay distributions thereon. Further, the workers' compensation fund incurred no losses during fiscal year 2011 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.

As of June 30, 2011, workers' compensation fund portfolio durations were within the prescribed duration targets.

The schedule below provides information about the interest rate risks associated with the workers' compensation fund investments as of June 30, 2011. 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 the schedule are reported using the stated maturity date.

Workers' Compensation Fund
June 30, 2011
(expressed in thousands)

		Maturity				
Investment Type	**Fair Value**	**Less than 1 Year**	**1-5 Years**	**6-10 Years**	**More than 10 Years**	**Credit Rating**
Residential mortgage-backed securities	$ 1,666,287	$ 8,000	$ 563,234	$ 741,507	$ 353,546	Aaa
Commercial mortgage-backed securities	455,538	55,218	399,584	736	-	Multiple
Corporate bonds-domestic	3,012,126	87,789	610,473	974,662	1,339,202	Multiple
Corporate bonds-foreign (USD)	2,222,468	32,002	618,750	758,732	812,984	Multiple
Foreign government and agencies (USD)	660,072	-	258,272	330,012	71,788	Multiple
Supranational (USD)	296,350	41,778	151,290	103,282	-	Aaa
U.S. government treasuries	703,731	544,495	130,347	28,889	-	Aaa
U.S. treasury inflation protected securities	1,714,801	-	591,980	562,188	560,633	Aaa
	10,731,373	$ 769,282	$ 3,323,930	$ 3,500,008	$ 3,138,153	
Commingled index funds-domestic	975,192					
Commingled index funds-foreign	664,049					
Money market funds	142,101					
Total	$ 12,512,715					

USD: Reported in U.S. dollars

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, 2011
(expressed in thousands)

	Investment Type				
Moody's Equivalent Credit Rating	**Commercial Mortgage-Backed Securities**	**Corporate Bonds - Domestic**	**Corporate Bonds-Foreign (USD)**	**Foreign Government and Agencies (USD)**	**Total**
Aaa	$ 412,044	$ 5,021	$ -	$ 86,714	$ 503,779
Aa2	-	-	89,115	119,659	208,774
Aa3	43,494	253,467	200,994	90,211	588,166
A1	-	306,798	210,733	197,611	715,142
A2	-	658,343	51,648	-	709,991
A3	-	412,324	297,615	14,193	724,132
Baa1	-	504,802	278,461	21,423	804,686
Baa2	-	593,932	524,950	84,296	1,203,178
Ba3	-	187,432	436,983	25,490	649,905
Ba1 or lower	-	90,007	131,969	20,475	242,451
Total	$ 455,538	$ 3,012,126	$ 2,222,468	$ 660,072	$ 6,350,204

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, 2011, 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, 2011.

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. At June 30, 2011, the workers' compensation funds had $664.0 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, 2011.

Domestic and foreign passive equity index fund managers may also utilize various derivative securities to manage exposure to risk and increase portfolio returns. Information on the extent of use and holdings of derivative securities by passive equity index fund managers is unavailable.

At June 30, 2011, the only derivative securities held directly by the workers' compensation fund were collateralized mortgage obligations of $1.67 billion.

7. Reverse Repurchase Agreements – None.

D. INVESTMENTS – LOCAL GOVERNMENT INVESTMENT POOL

1. Summary of Investment Policies

The Local Government Investment Pool (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 the policy 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 state treasurer and designated investment officers shall adhere to all restrictions on the investment of funds established by law and by the policy.

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.

Safety of principal is the primary objective. Investments shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio.

The investment portfolio will remain liquid to enable the state treasurer to meet all cash requirements that might reasonably be anticipated.

The LGIP will be structured with the objective of attaining a market rate of return throughout budgetary and economic cycles, commensurate with the investment risk parameters and the cash flow characteristics of the pool.

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.

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)).
- Certificates of deposit with financial institutions qualified by the Washington Public Deposit Protection Commission.
- Obligations of the state of Washington or its political subdivisions.

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

- Investments are restricted to fixed rate securities that mature in 397 days or less, floating and variable rate securities that mature in 762 days or less, and securities utilized in repurchase agreements.
- The weighted average maturity of the portfolio will not exceed 60 days.
- The weighted average life of the portfolio will not exceed 120 days.
- The purchase of investments in securities other than those issued by the U.S. government or its agencies will be limited.
- 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

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.

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 2011, 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 no violations of legal or contractual provisions nor any losses resulting from a default of a borrower or lending agent during the year. There were no securities on loan as of June 30, 2011.

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 LGIP 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. To a great extent, 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 60-day maximum on the weighted average maturity and a 120-day maximum on the weighted average life. 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 that on any reset date can reasonably be expected to have a market value that approximates its amortized cost. As of June 30, 2011, the LGIP had a weighted average maturity of 57 days and a weighted average life of 109 days.

The following schedule presents the LGIP investments, deposits and related maturities, by type, and provides information about the interest rate risks associated with the LGIP investments as of June 30, 2011:

Local Government Investment Pool (LGIP)
June 30, 2011
(expressed in thousands)

		Maturity	
Investment Type	**Fair Value**	**Less than 1 Year**	**1-5 Years**
U.S. agency securities	$ 6,565,888	$ 5,857,027	$ 708,861
U.S. treasury securities	1,900,331	1,900,331	-
Repurchase agreements	250,000	250,000	-
Certificates of deposit	109,365	109,365	-
Demand deposit accounts	559,604	559,604	-
Total	$ 9,385,188	$ 8,676,327	$ 708,861

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 depositaries, and 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 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 counterparty, 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 by Moody's and AA+ by Standard & Poor's. 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. With the exception of U.S. treasury and U.S. agency securities, the LGIP limits the purchase of securities of any one issuer to no more than 5 percent of the portfolio.

As of June 30, 2011, U.S. treasury securities comprised 20.2 percent of the total portfolio. U.S. agency securities comprised 70.0 percent of the total portfolio, including Federal Home Loan Mortgage Corporation (24.7 percent), Federal Home Loan Bank (15.0 percent), Federal National Mortgage Association (17.2 percent), and Federal Farm Credit Bank (13.1 percent).

5. Foreign Currency Risk - None.

6. Derivatives - None.

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, 2011, 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 utilized in repurchase agreements must pass the Federal Financial Institutions Examination Council 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, 2011, repurchase agreements totaled $250.0 million.

E. INVESTMENTS – HIGHER EDUCATION SPECIAL REVENUE AND ENDOWMENT FUNDS

1. Summary of Investment Policies

The investments of the University of Washington represent 76 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, 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 venture capital, private equity, opportunistic investments, marketable alternatives, mortgages, real assets, and miscellaneous investments.

The University combines most short-term cash balances in the Invested Funds Pool. At June 30, 2011, the Invested Funds Pool totaled $1.25 billion. The fund also owns units in the Consolidated Endowment Fund valued at $447.4 million on June 30, 2011.

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 2011. Endowment operating and gift accounts received 3 percent in fiscal year 2011. 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. Chapter 24.55 RCW allows for the spending of appreciation in the CEF.

During fiscal year 2011, the Board of Regents adopted a new long-term spending policy for the CEF replacing the interim spending policy which was effective in fiscal years 2009 and 2010. Under the new policy, quarterly distributions to programs are based on an annual percentage rate of 4 percent applied to the five-year rolling average. The new policy was 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 is now based on a five-year average value similar to 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 $1.31 billion permanent endowment funds (at fair value) as of June 30, 2011, the aggregate amount of the deficiencies where the fair value of the assets is less than the original gifts is $21.9 million.

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 $51.8 million at June 30, 2011. Income received from these trusts, which is included in investment income, was $2.0 million for the year ended June 30, 2011.

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 $128.1 million in 2011 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 appreciation in the fair value of investments during the year ended June 30, 2011 was $324.1 million.

The following schedule presents the fair value of the University of Washington's investments by type at June 30, 2011:

University of Washington
June 30, 2011
(expressed in thousands)

Investment Type	Fair Value
Cash equivalents	$ 544,489
Domestic fixed income	1,311,329
Foreign fixed income	28,292
Domestic equity	414,524
Foreign equity	614,061
Non-marketable alternatives	618,705
Absolute return	329,723
Real assets	7,525
Miscellaneous	3,620
Total	$ 3,872,268

2. Funding Commitments

The University enters into contracts with investment managers to fund alternate investments. As of June 30, 2011, the University had outstanding commitments to fund alternative investments in the amount of $242.0 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, 2011, the University had 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, 2011, exclude $313.2 million of fixed-income securities held outside the CEF and the Invested Funds Pool. This amount makes up 8.1 percent of the University's investments.

University of Washington
Interest Rate Risk
Duration as of June 30, 2011
(expressed in thousands, modified duration in years)

	Consolidated Endowment Fund		Invested Funds Pool	
	Asset Value	Duration	Asset Value	Duration
Asset Category				
Domestic cash and cash equivalents	$ 28,968	-	$ 332,658	-
Foreign cash and cash equivalents	1,877	-	-	-
Domestic fixed income	265,455	1.90	916,485	3.50
Foreign fixed income	19,795	2.44	5,707	1.76
Total	$ 316,095	1.54	$ 1,254,850	2.56

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 25 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 securities.

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 CEF investment policy limits concentration by manager, country (other than U.S.) and market sector. The University further mitigates concentration of credit risk through the due diligence of each manager and careful monitoring of asset concentrations.

The schedule below provides information on investments subject to credit risk. It excludes $313.2 million of fixed-income securities held outside the CEF and the Invested Funds Pool.

University of Washington
Investments Credit Rating
As of June 30, 2011
(expressed in thousands)

Credit Rating	Consolidated Endowment Fund Asset Value	Invested Funds Asset Value
AAA	$ 229,100	$ 1,172,898
AA	47,780	42,629
A	29,331	12,183
BBB	2,704	2,696
BB	-	4,691
B	-	4,697
CCC	253	8,863
CC	159	386
C	152	-
D	-	863
Not rated	6,616	4,944
Total	$ 316,095	$ 1,254,850

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, 2011, the University had net outstanding forward commitments to sell foreign currency with a total fair value of $7.1 million, which equals 0.18 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, 2011
(expressed in thousands)

Foreign Currency	Foreign Cash and Fixed Income	Foreign Equity	Alternatives and Other Investments
Australia-Dollar	$ 1,924	$ 10,614	$ 6,061
Brazil-Real	41	43,694	679
Britain-Pound	5,955	66,882	10,393
Canada-Dollar	4,258	11,792	10,510
China-Renminbi	-	54,054	9,888
E.M.U.-Euro	2,632	72,863	71,586
India-Rupee	56	29,543	23,601
Hong Kong-Dollar	44	25,117	5,439
Japan-Yen	-	38,759	12,035
Russia-Ruble	-	35,108	2,607
Switzerland-Franc	753	19,792	777
Taiwan-Dollar	567	17,294	3,286
Remaining currencies	5,443	174,785	26,274
Total	$ 21,673	$ 600,297	$ 183,136

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 enters into total return swaps to manage its exposure to market fluctuations in various asset classes. Total return swaps involve commitments to pay interest in exchange for a market linked return, both based on notional amounts.

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, 2011.

The University did not hold any investment or hedging derivatives as of June 30, 2011. Details on foreign currency derivatives are disclosed under Foreign Currency Risk.

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, including 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 to 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.
- Obligations of the state of Washington or its political subdivisions.

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 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, 2011, 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 2011, 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, 2011:

Office of the State Treasurer (OST)
Cash Management Account
June 30, 2011
(expressed in thousands)

		Maturity	
Investment Type	**Fair Value**	**Less than 1 Year**	**1-5 Years**
U.S. agency obligations	$ 1,398,477	$ 618,755	$ 779,722
U.S. government obligations	159,093	-	159,093
Repurchase agreements	1,274,531	1,274,531	-
Certificates of deposit	140,651	140,651	-
Interest bearing bank accounts	610,207	610,207	-
Total	$ 3,582,959	$ 2,644,144	$ 938,815

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 depositaries.

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 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 2011, 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 utilized in repurchase agreements must pass the Federal Financial Institutions Examination Council 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, 2011.

Note 4
Receivables and Deferred/Unearned Revenues

A. GOVERNMENTAL FUNDS

Taxes Receivable

Taxes receivable at June 30, 2011, consisted of the following (expressed in thousands):

Taxes Receivable	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
Property	$ 979,085	$ -	$ -	$ 279	$ 979,364
Sales	1,411,929	-	-	2,219	1,414,148
Business and occupation	565,340	-	-	-	565,340
Estate	3,781	21,795	-	-	25,576
Fuel	-	-	-	110,687	110,687
Other	2,071	-	-	166	2,237
Subtotals	2,962,206	21,795	-	113,351	3,097,352
Less: Allowance for uncollectible receivables	53,054	-	-	804	53,858
Total Taxes Receivable	$ 2,909,152	$ 21,795	$ -	$ 112,547	$ 3,043,494

Other Receivables

Other receivables at June 30, 2011, consisted of the following (expressed in thousands):

Other Receivables	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
Public assistance (1)	$ 972,348	$ -	$ -	$ -	$ 972,348
Accounts receivable	25,584	193,953	1,191	67,524	288,252
Interest	46	6,950	5,375	1,652	14,023
Loans (2)	4,244	131,548	-	415,175	550,967
Long-term contracts (3)	2,083	-	8,086	57,268	67,437
Miscellaneous	7,876	74,044	12,423	194,619	288,962
Subtotals	1,012,181	406,495	27,075	736,238	2,181,989
Less: Allowance for uncollectible receivables	852,718	22,065	-	22,589	897,372
Total Other Receivables	$ 159,463	$ 384,430	$ 27,075	$ 713,649	$ 1,284,617

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 $111 million in the Higher Education Special Revenue Fund for student loans and $403 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, 2011, consisted of the following (expressed in thousands):

Deferred Revenue	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
Property taxes	$ 952,133	$ -	$ -	$ 93	$ 952,226
Other taxes	344,700	9,133	-	132	353,965
Timber sales	2,083	-	8,086	57,268	67,437
Charges for services	11,132	174,159	218	32,744	218,253
Donable goods	5	-	-	6,223	6,228
Grants and donations	31,062	984	-	19,097	51,143
Loan program	2,014	-	-	812,424	814,438
Miscellaneous	26,464	6,275	-	57,776	90,515
Total Deferred Revenue	$ 1,369,593	$ 190,551	$ 8,304	$ 985,757	$ 2,554,205

B. PROPRIETARY FUNDS

Taxes Receivable

Taxes receivable at June 30, 2011, consisted of $10.5 million in liquor taxes reported in Nonmajor Enterprise Funds.

Other Receivables

Other receivables at June 30, 2011, consisted of the following (expressed in thousands):

	Business-Type Activities Enterprise Funds						Governmental Activities
Other Receivables	Workers' Compensation	Unemployment Compensation	Higher Education Student Services	Other Activities	Nonmajor Enterprise Funds	Total	Internal Service Funds
Accounts receivable	$ 139,234	$ -	$ 234,685	$ 417	$ 26,061	$ 400,397	$ 10,004
Interest	109,020	-	531	3,987	-	113,538	36
Miscellaneous	563,588	697,984	28,747	1	55	1,290,375	7,186
Subtotals	811,842	697,984	263,963	4,405	26,116	1,804,310	17,226
Less: Allowance for uncollectible receivables	138,223	92,286	81,144	-	195	311,848	206
Total Other Receivables	$ 673,619	$ 605,698	$ 182,819	$ 4,405	$ 25,921	$ 1,492,462	$ 17,020

Unearned Revenue

Unearned revenue at June 30, 2011, consisted of the following (expressed in thousands):

	Business-Type Activities Enterprise Funds						Governmental Activities
Unearned Revenue	Workers' Compensation	Unemployment Compensation	Higher Education Student Services	Other Activities	Nonmajor Enterprise Funds	Total	Internal Service Funds
Charges for services	$ -	$ -	$ 33,155	$ -	$ 12	$ 33,167	$ 1,219
Other taxes	127	-	-		-	127	-
Miscellaneous	7,549	-	890		-	8,439	8
Total Unearned Revenue	$ 7,676	$ -	$ 34,045	$ -	$ 12	$ 41,733	$ 1,227

C. FIDUCIARY FUNDS

Other Receivables

Other receivables at June 30, 2011, consisted of the following (expressed in thousands):

Other Receivables	Local Government Investment Pool	Agency Funds
Interest	$ 1,988	$ 6,862
Other	-	3,421
Subtotals	1,988	10,283
Less: Allowance for uncollectible receivables	-	2,713
Total Other Receivables	$ 1,988	$ 7,570

Unearned Revenue

Unearned revenue at June 30, 2011, consisted of $893 thousand 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, 2011, consisted of the following (expressed in thousands):

	Due From				
Due To	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Workers' Compensation
General	$ -	$ 42,137	$ -	$ 102,041	$ 203
Higher Educ. Special Revenue	28,261	-	24	13,424	463
Higher Education Endowment	-	-	-	110	-
Nonmajor Governmental Funds	128,169	46,343	3,482	191,985	31
Workers' Compensation	4	40	-	4	-
Unemployment Compensation	1,931	2,035	-	1,763	696
Higher Educ. Student Services	416	217	-	275,967	214
Other Activities	667	4	-	58	1
Nonmajor Enterprise Funds	2,881	43	-	3,902	13
Internal Service Funds	21,009	1,251	-	22,518	4,493
Fiduciary Funds	24	221	-	30	-
Totals	$ 183,362	$ 92,291	$ 3,506	$ 611,802	$ 6,114

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 $968 thousand within the state's Pension Trust Funds.

Due From						
Unemployment Compensation	Higher Education Student Services	Other Activities	Nonmajor Enterprise Funds	Internal Service Funds	Fiduciary Funds	Totals
$ -	$ -	$ 287	$ 29,340	$ 1,002	$ 3	$ 175,013
-	272,138	-	1	5,408	11	319,730
-	-	-	-	-	12	122
1,182	208,494	14	143	1,879	25	581,747
-	-	-	-	-	7	55
-	53	14	124	155	-	6,771
-	-	-	-	11,961	31,531	320,306
-	-	-	-	60	1	791
-	24	3	1,358	78	43	8,345
-	26	247	893	83,632	7,846	141,915
-	-	-	264	9	1,385	1,933
$ 1,182	$ 480,735	$ 565	$ 32,123	$ 104,184	$ 40,864	$ 1,556,728

B. INTERFUND TRANSFERS

Interfund transfers as reported in the financial statements for the year ended June 30, 2011, consisted of the following (expressed in thousands):

	Transferred To				
Transferred From	**General**	**Higher Education Special Revenue**	**Higher Education Endowment**	**Nonmajor Governmental Funds**	**Workers' Compensation**
General	$ -	$ 87,351	$ -	$ 1,052,892	$ -
Higher Educ. Special Revenue	80,735	-	-	4,992	-
Higher Education Endowment	-	286	-	94,668	-
Nonmajor Governmental Funds	573,077	4,391	2,876	1,590,850	-
Workers' Compensation	-	-	-	-	-
Higher Educ. Student Services	-	34,967	-	23,500	-
Other Activities	3,250	-	-	-	-
Nonmajor Enterprise Funds	276,601	11,900	-	10,048	-
Internal Service Funds	5,159	1,253	-	1,551	-
Totals	$ 938,822	$ 140,148	$ 2,876	$ 2,778,501	$ -

* Transfers of $39 thousand 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.

On June 30, 2011, $129 million was transferred from the General Fund Basic Account to the Budget Stabilization Account (BSA) in accordance with the provisions of the Constitution. The BSA is reported as an Administrative Account within the General Fund. 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 2011, Engrossed Substitute House Bill 1086 authorized the transfer of $223 million from the BSA to the General Fund Basic Account.

Engrossed Substitute House Bill 1086 also required transfer of $576 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 $11.4 million within the state's Pension Trust Funds.

Transferred To					
Higher Education Student Services	Other Activities	Nonmajor Enterprise Funds	Internal Service Funds	Capital Asset Transfers*	Totals
$ 505	$ -	$ 61	$ 13,674	$ -	$ 1,154,483
85,214	-	-	849	-	171,790
-	-	-	-	-	94,954
38,938	-	-	4,820	-	2,214,952
-	-	-	-	-	-
-	-	-	58	-	58,525
-	-	-	-	-	3,250
-	-	28,733	-	39	327,321
3,819	-	1,096	4,519	-	17,397
$ 128,476	$ -	$ 29,890	$ 23,920	$ 39	$ 4,042,672

Note 6
Capital Assets

Capital assets at June 30, 2011, 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, 2011 (expressed in thousands):

Capital Assets	Balances July 1, 2010	Additions	Deletions*	Balances June 30, 2011
Capital assets, not being depreciated:				
Land	$ 1,178,764	$ 193,372	$ (41,619)	$ 1,330,517
Transportation infrastructure	19,644,610	1,331,745	-	20,976,355
Intangible assets- indefinite lives	2,552	863	-	3,415
Art collections, library reserves, and museum and historical collections	110,483	2,588	-	113,071
Construction in progress	865,388	473,646	(369,512)	969,522
Total capital assets, not being depreciated	21,801,797			23,392,880
Capital assets, being depreciated:				
Buildings	10,401,323	533,124	(155,650)	10,778,797
Accumulated depreciation	(3,475,448)	(270,390)	47,267	(3,698,571)
Net buildings	6,925,875			7,080,226
Other improvements	1,234,929	42,939	(63,194)	1,214,674
Accumulated depreciation	(514,187)	(43,940)	19,117	(539,010)
Net other improvements	720,742			675,664
Furnishings, equipment and intangible assets	3,902,665	309,082	(139,500)	4,072,247
Accumulated depreciation	(2,540,405)	(269,323)	105,046	(2,704,682)
Net furnishings, equipment and intangible assets	1,362,260			1,367,565
Infrastructure	806,465	34,520	-	840,985
Accumulated depreciation	(370,216)	(27,014)	-	(397,230)
Net infrastructure	436,249			443,755
Total capital assets, being depreciated, net	9,445,126			9,567,210
Governmental Activities Capital Assets, Net	$ 31,246,923			$ 32,960,090

*Deletions include the removal of facilities and equipment related to the closure of the McNeil Island Correctional Center.

B. BUSINESS-TYPE CAPITAL ASSETS

The following is a summary of business-type capital asset activity for the year ended June 30, 2011 (expressed in thousands):

Capital Assets	Balances July 1, 2010	Additions	Deletions*	Balances June 30, 2011
Capital assets, not being depreciated:				
Land	$ 142,716	$ -	$ (77,452)	$ 65,264
Art collections	35	-	-	35
Construction in progress	211,017	253,147	(171,334)	292,830
Total capital assets, not being depreciated	353,768			358,129
Capital assets, being depreciated:				
Buildings	2,403,821	31,670	(395,044)	2,040,447
Accumulated depreciation	(732,435)	(59,410)	114,838	(677,007)
Net buildings	1,671,386			1,363,440
Other improvements	97,813	5,481	(19,989)	83,305
Accumulated depreciation	(27,166)	(3,870)	2,979	(28,057)
Net other improvements	70,647			55,248
Furnishings, equipment and intangible assets	534,626	51,196	(21,737)	564,085
Accumulated depreciation	(392,464)	(48,119)	20,498	(420,085)
Net furnishings, equipment and intangible assets	142,162			144,000
Infrastructure	30,110	12,497	(1,334)	41,273
Accumulated depreciation	(13,833)	(1,012)	-	(14,845)
Net infrastructure	16,277			26,428
Total capital assets, being depreciated, net	1,900,472			1,589,116
Business-Type Activities Capital Assets, Net	$ 2,254,240			$ 1,947,245

*Deletions include the removal of the land, buildings, furnishings and equipment of the Convention and Trade Center which were transferred to a public facilities district (refer to Note 2).

C. DEPRECIATION

Depreciation expense for the year ended June 30, 2011, was charged by the primary government as follows (expressed in thousands):

	Amount
Governmental Activities:	
General government	$ 55,339
Education - elementary and secondary (K-12)	3,622
Education - higher education	339,595
Human services	25,474
Adult corrections	56,627
Natural resources and recreation	37,067
Transportation	92,943
Total Depreciation Expense - Governmental Activities *	$ 610,667
Business-Type Activities:	
Workers' compensation	$ 8,037
Unemployment compensation	-
Higher education student services	94,293
Other	10,081
Total Depreciation Expense - Business-Type Activities	$ 112,411

*Includes $70.8 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, 2011, are as follows (expressed in thousands):

Agency / Project Commitments	Construction In Progress June 30, 2011	Remaining Project Commitments
Department of General Administration:		
O'Brien building improvement, transportation building improvements, capitol campus high voltage project and other projects	$ 56,801	$ 20,164
Department of Labor and Industries:		
Early claims solution software and Retro rewrite	13,040	4,171
Department of Social and Health Services:		
GHS IMU health center and admin, underground utilities replacement and other projects	60,705	5,367
Department of Veterans Affairs:		
Veterans cemetery and Walla Walla veterans home	8,818	32,118
Department of Corrections:		
Prison intake center	-	247,837
Correctional centers improvements and other projects	47,279	23,848
Department of Transportation:		
State highway office and maintenance facilities, and ferry vessels and terminals	236,638	33,952
Transportation infrastructure		6,785,963
Department of Fish and Wildlife:		
Skookumchuck hatchery renovation, Deschutes watershed center, and other projects	9,864	12,928
Employment Security Department:		
Next generation TAXIS system project	21,711	32,766
University of Washington		
HUB renovation	203,240	425,949
Washington Biomed research facilities, Ravenna clinic, and other expansion projects	17,276	143,988
Husky ballpark and Husky stadium projects	15,630	446,926
UWMC equipment purchases	127,132	110,875
Terry Hall, housing projects, garage, fleet services and other projects	90,424	56,462
Washington State University		
Veterinary medical research and global animal health building	39,848	100,642
Biomedical and health sciences building	3,645	74,970
Martin stadium improvement, Community/Duncan Dunn & Northside residence hall	6,755	122,445
Applied technology classroom building	26,614	15,052
Student information system, voice over internet protocol system (VOIP), & other projects	17,611	21,477
Eastern Washington University		
Residence hall project, Patterson Hall renovation, Science center	14,564	67,784
Central Washington University		
Hogue Hall renovation, residence hall project, and other projects	28,976	44,014
The Evergreen State College		
Housing project and other projects	1,704	2,129
Western Washington University		
Miller Hall renovation, housing and dining, and other projects	64,268	12,527
Community and Technical Colleges		
Bellevue health science building	3,275	42,276
Bellingham campus center	15,187	16,297
Everett index replacement and student fitness and health center	22,884	5,586
Lake Washington allied health building	27,230	667
Other miscellaneous community college projects	27,333	85,859
Peninsula business and humanities center	30,046	921
Seattle Community College District Duwamish, PSIEC, Edison N. renovation, employment residence center, wood construction replacement	12,999	66,702
Tacoma health careers center	1,954	38,922
Other agency projects	8,901	1,098
Total Construction in Progress	$ 1,262,352	$ 9,102,682

Note 7
Long-Term Liabilities

A. BONDS PAYABLE

Bonds payable at June 30, 2011, 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 2011 is $1.1 billion.

This computation excludes specific bond issues and types, which are not secured by general state revenues. Of the $16.8 billion general obligation bond debt outstanding at June 30, 2011, $10.5 billion is subject to the limitation.

Based on the debt limitation calculation, the debt service requirements as of June 30, 2011, 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_cdl2011.pdf, or to the Statistical Section of this report.

Authorized But Unissued

The state had a total of $9.6 billion in general obligation bonds authorized but unissued as of June 30, 2011, for the purpose of capital construction, higher education, and transportation projects throughout the state.

Interest Rates

Interest rates on fixed rate general obligation bonds ranged from 0.63 to 7.25 percent. Variable rate demand obligations (VRDO) of $117.8 million as of June 30, 2011, 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 2011. 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.

Total debt service requirements to maturity for general obligation bonds as of June 30, 2011, are as follows (expressed in thousands):

	Governmental Activities		Business-Type Activities		Totals	
General Obligation Bonds	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
By Fiscal Year:						
2012	$ 642,535	$ 814,764	$ 3,205	$ 897	$ 645,740	$ 815,661
2013	669,362	783,568	3,400	717	672,762	784,285
2014	702,492	753,964	3,605	527	706,097	754,491
2015	732,860	731,530	3,820	325	736,680	731,855
2016	795,582	703,082	4,050	110	799,632	703,192
2017-2021	3,961,273	3,089,844	-	-	3,961,273	3,089,844
2022-2026	3,774,239	2,078,842	-	-	3,774,239	2,078,842
2027-2031	3,324,533	1,197,971	-	-	3,324,533	1,197,971
2032-2036	1,732,245	292,016	-	-	1,732,245	292,016
2037-2041	415,250	52,671	-	-	415,250	52,671
Total Debt Service Requirements	$ 16,750,371	$ 10,498,252	$ 18,080	$ 2,576	$ 16,768,451	$ 10,500,828

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, 2011, include $162 million in governmental activities and $650.7 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, 2011, are as follows (expressed in thousands):

	Governmental Activities		Business-Type Activities		Totals	
Revenue Bonds	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
By Fiscal Year:						
2012	$ 26,615	$ 40,527	$ 53,020	$ 62,615	$ 79,635	$ 103,142
2013	8,400	39,446	32,940	65,387	41,340	104,833
2014	21,243	39,084	47,390	63,813	68,633	102,897
2015	17,705	37,889	39,730	62,174	57,435	100,063
2016	27,107	36,948	41,335	60,421	68,442	97,369
2017-2021	133,486	162,111	249,834	269,242	383,320	431,353
2022-2026	141,967	121,278	217,372	218,117	359,339	339,395
2027-2031	218,005	72,694	207,016	160,148	425,021	232,842
2032-2036	66,135	25,074	251,178	118,048	317,313	143,122
2037-2041	79,028	6,549	283,352	24,330	362,380	30,879
Total Debt Service Requirements	$ 739,691	$ 581,600	$ 1,423,167	$ 1,104,295	$ 2,162,858	$ 1,685,895

Governmental activities include revenue bonds outstanding at June 30, 2011, of $406.6 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 $754 million, payable through 2032. For the current year, pledged revenue and debt service were $41.7 million and $43.7 million, respectively.

Governmental activities include revenue bonds outstanding at June 30, 2011, of $108.9 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 $169.5 million, payable through 2034. For the current year, pledged revenue and debt service were $31.5 million and $7.1 million, respectively.

Governmental activities also include revenue bonds outstanding at June 30, 2011, of $54 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 $86.7 million, payable through 2028. For the current year, pledged revenue and debt service were $3.7 million and $3.7 million, respectively.

Additionally, governmental activities include revenue bonds outstanding at June 30, 2011, of $10.8 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 $13.2 million, payable through 2022. For the current year, pledged revenue and debt service were $1.5 million and $1.5 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, 2011, are as follows (expressed in thousands):

Source of Revenue Pledged	Housing and Dining Revenues (Net of Operating Expenses)	Student Facilities Fees and Earnings on Invested Fees	Parking Revenues (Net of Operating Expenses)	Bookstore Revenues
Current revenue pledged	$ 51,411	$ 37,439	$ 13,770	$ 949
Current year debt service	24,625	20,572	2,113	228
Total future revenues pledged *	612,048	474,914	35,518	4,953
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	2013-2040	2019-2038	2024-2030	2034
Percentage of debt service to pledged revenues (current year)	47.9%	54.9%	15.3%	24.1%

* Total future principal and interest payments.

B. CERTIFICATES OF PARTICIPATION

Certificates of participation at June 30, 2011, 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, 2011, are as follows (expressed in thousands):

	Governmental Activities		Business-Type Activities		Totals	
Certificates of Participation	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
By Fiscal Year:						
2012	$ 84,814	$ 26,822	$ 8,508	$ 3,432	$ 93,322	$ 30,254
2013	50,484	16,120	6,460	2,062	56,944	18,182
2014	44,254	14,394	5,663	1,842	49,917	16,236
2015	38,169	12,821	4,884	1,640	43,053	14,461
2016	34,486	11,334	4,413	1,450	38,899	12,784
2017-2021	109,504	40,055	16,356	5,125	125,860	45,180
2022-2026	82,428	19,107	10,547	2,445	92,975	21,552
2027-2031	37,790	4,032	4,835	516	42,625	4,548
Total Debt Service Requirements	$ 481,929	$ 144,685	$ 61,666	$ 18,512	$ 543,595	$ 163,197

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.

Current Year Defeasances

Bonds

Governmental Activities. On August 10, 2010, the state issued $365.6 million of various purpose general obligation refunding bonds with an average interest rate of 5 percent to refund $401.4 million of various purpose general obligation bonds with an average interest rate of 5 percent. The refunding resulted in a $47.2 million gross debt service savings over the next 14 years and a net present value savings of $42.5 million.

On September 8, 2010, the state issued $401.4 million of various purpose general obligation refunding bonds with an average interest rate of 4.76 percent to refund $421.5 million of various purpose general obligation bonds with an average interest rate of 5 percent. The refunding resulted in a $51.8 million gross debt service savings over the next 17 years and a net present value savings of $39.5 million.

On September 16, 2010, the state issued $394 million of motor vehicle fuel tax refunding bonds with an average interest rate of 4.67 percent to refund $416.7 million of motor vehicle fuel tax bonds with an average interest rate of 4.96 percent. The refunding resulted in a $56.9 million gross debt service savings over the next 17 years and a net present value savings of $43.7 million.

Business-Type Activities. On October 5, 2010, the University of Washington issued $10.4 million of general revenue and refunding revenue bonds with an average interest rate of 3.9 percent to refund $10.9 million of housing and dining revenue bonds with an average interest rate of 5 percent. The refunding resulted in a $991 thousand gross debt service savings over the next 21 years and an economic gain of $640 thousand.

Certificates of Participation (COPs)
On August 17, 2010, the state issued $9.3 million in refunding certificates of participation with an average interest rate of 1.50 percent to refund $11.1 million of certificates of participation with an average interest rate of 6.33 percent. The refunding resulted in a $440 thousand gross debt service savings over the next three years and a net present value savings of $413 thousand.

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.

General Obligation Bond Debt
On June 30, 2011, $1.3 billion of general obligation bonded debt outstanding is considered defeased.

Revenue Bond Debt
On June 30, 2011, $78.0 million of revenue bonded debt outstanding is considered defeased.

Certificates of Participation Debt
On June 30, 2011, $56.1 million of certificates of participation debt outstanding is considered defeased.

D. LEASES

Leases at June 30, 2011, 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.

Land, buildings and equipment under capital leases as of June 30, 2011, include the following (expressed in thousands):

	Governmental Activities	Business-Type Activities
Land (non-depreciable)	$ 1,918	$ -
Buildings	14,041	4,512
Equipment	17,071	17,742
Less: Accumulated depreciation	(25,300)	(19,614)
Totals	$ 7,730	$ 2,640

The following schedule presents future minimum payments for capital and operating leases as of June 30, 2011 (expressed in thousands):

	Capital Leases		Operating Leases	
Capital and Operating Leases	Governmental Activities	Business-Type Activities	Governmental Activities	Business-Type Activities
By Fiscal Year:				
2012	$ 2,876	$ 1,005	$ 106,185	$ 37,157
2013	1,941	946	94,841	38,553
2014	577	946	84,925	38,647
2015	252	937	71,917	38,916
2016	224	926	50,758	39,507
2017-2021	525	3,193	159,593	207,011
2022-2026	24	433	117,716	105,563
2027-2031	-	-	117,084	14,698
2032-2036	-	-	123,099	17,034
2037-2041	-	-	129,522	22,760
Total Future Minimum Payments	6,419	8,386	1,055,640	559,846
Less: Executory Costs and Interest Costs	(506)	(1,896)	-	-
Net Present Value of Future Minimum Lease Payments	$ 5,913	$ 6,490	$ 1,055,640	$ 559,846

The total operating lease rental expense for fiscal year 2011 for governmental activities was $270.9 million, of which $2.6 million was for contingent rentals. The total operating lease rental expense for fiscal year 2011 for business-type activities was $50.7 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, 2011, $39.5 billion of unpaid claims and claim adjustment expenses are presented at their net present and settlement value of $23.0 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 $23.0 billion as of June 30, 2011, include $11.7 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 $11.3 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 2010 and 2011 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
2010	$ 22,164,068	3,943,217	(2,081,453)	$ 24,025,832
2011	$ 24,025,832	1,016,932	(2,099,453)	$ 22,943,311

Risk Management

The Risk Management Fund administers tort and sundry claims filed against Washington state agencies, except the University of Washington and the Department Transportation Ferries Division. The Fund reports a tort 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 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, 2011, outstanding and actuarially determined claims against the state and its agencies, with the exception of the University of Washington, including actuarially projected defense costs were $702.6 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, 2011, the Risk Management Fund held $96.4 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 2010 and 2011 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
2010	$ 720,197	82,387	(47,425)	(28,023)	$ 727,136
2011	$ 727,136	86,297	(74,051)	(36,750)	$ 702,632

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, 2011, health insurance claims liabilities totaling $85.0 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 2010 and 2011 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
2010	$ 83,441	879,324	(874,370)	$ 88,395
2011	$ 88,395	736,340	(739,745)	$ 84,990

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 23 projects in progress for which the state has recorded a liability of $24.7 million.

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. At June 30, 2011, the state has recorded a liability of $143.5 million for remaining project commitments.

Overall, the state has recorded a pollution remediation liability of $168.2 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, 2011, 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 2011 is as follows (expressed in thousands):

Governmental Activities:	Beginning Balance July 1, 2010	Additions	Reductions	Ending Balance June 30, 2011	Amounts Due Within One Year
Long-Term Debt:					
GO Bonds Payable:					
General obligation (GO) bonds	$ 15,836,220	$ 2,078,825	$ 1,830,870	$ 16,084,175	$ 607,640
GO - zero coupon bonds (principal)	703,838	-	37,642	666,196	34,895
Subtotal - GO bonds payable	16,540,058	2,078,825	1,868,512	16,750,371	642,535
Accreted interest - GO - zero coupon bonds	366,515	26,666	-	393,181	-
Revenue bonds payable	742,998	26,359	29,666	739,691	26,615
Less: Deferred amounts for issuance discounts	(7,950)	640	-	(7,310)	-
Total Bonds Payable	17,641,621	2,132,490	1,898,178	17,875,933	669,150
Other Liabilities:					
Certificates of participation *	498,587	110,338	126,996	481,929	84,814
Claims and judgments	934,048	66,762	109,571	891,239	266,912
Installment contracts	2,670	4,500	158	7,012	96
Leases	14,286	663	9,036	5,913	2,720
Compensated absences	547,752	323,947	334,245	537,454	62,722
Unfunded pension obligations	191,389	63,436	20,505	234,320	-
Other postemployment benefits obligations	697,213	224,628	-	921,841	-
Pollution remediation obligations	174,353	6,413	12,547	168,219	-
Unclaimed property refunds	93,199	6,975	2	100,172	49
Other *	488,691	869,738	1,042,332	316,097	225,416
Total Other Liabilities	3,642,188	1,677,400	1,655,392	3,664,196	642,729
Total Long-Term Debt	$ 21,283,809	$ 3,809,890	$ 3,553,570	$ 21,540,129	$ 1,311,879

* Beginning balances restated as a result of fund reclassifications.

For governmental activities, certificates of participation are being repaid approximately 41 percent from the General Fund, 47 percent from the Higher Education Special Revenue Fund, and the balance from various governmental funds. The compensated absences liability will be liquidated approximately 48 percent by the General Fund, 29 percent by the Higher Education Special Revenue Fund, and the balance by various other governmental funds. The claims and judgments liability will be liquidated approximately 79 percent by the Risk Management Fund (an internal service fund), 10 percent by the Health Insurance Fund (an internal service fund), and the balance by various other governmental funds. The other postemployment benefits obligations liability will be liquidated approximately 52 percent by the General Fund, 28 percent by the Higher Education Special Revenue Fund, and the balance by various other governmental funds. The pollution remediation liability will be liquidated approximately 85 percent by the Wildlife and Natural Resources Fund, a nonmajor governmental fund, and the balance by various other governmental funds. The unclaimed property refunds will be liquidated against future unclaimed property deposited to the General Fund. Leases, installment contract obligations, and other liabilities will be repaid from various other governmental funds.

Long-term liability activity for business-type activities for the fiscal year 2011 (expressed in thousands) is as follows:

Business-Type Activities	Beginning Balance July 1, 2010	Additions	Reductions **	Ending Balance June 30, 2011	Amounts Due Within One Year
Long-Term Debt:					
GO Bonds Payable:					
General obligation (GO) bonds	$ 32,510	$ -	$ 14,430	$ 18,080	$ 3,205
GO - zero coupon bonds (principal)	27,383	-	27,383	-	-
Subtotal - GO bonds payable	59,893	-	41,813	18,080	3,205
Accreted interest - GO - zero coupon bonds	41,760	-	41,760	-	-
Revenue bonds payable	1,083,945	373,366	34,144	1,423,167	53,020
Plus: Unamortized amounts issuance premiums	12,942	1,917	1,197	13,662	-
Less: Deferred amounts for issuance discounts	(483)	34	-	(449)	-
Less: Deferred gain/loss on bond refunding	(8,908)	614	223	(8,517)	-
Total Bonds Payable	1,189,149	375,931	119,137	1,445,943	56,225
Other Liabilities:					
Certificates of participation *	243,639	591	182,564	61,666	8,508
Less: Deferred amounts for issuance discounts	(1,019)	-	(1,019)	-	-
Claims and judgments	24,038,322	664,004	1,747,000	22,955,326	1,744,006
Lottery prize annuities payable	275,911	58,832	94,585	240,158	46,852
Tuition benefits payable	1,853,404	992,187	114,891	2,730,700	129,500
Leases	6,091	2,714	2,315	6,490	820
Compensated absences	59,200	29,210	27,419	60,991	28,687
Other postemployment benefits obligations	80,659	26,889	1,622	105,926	-
Other *	139,959	606,271	521,030	225,200	148,684
Total Other Liabilities	26,696,166	2,380,698	2,690,407	26,386,457	2,107,057
Total Long-Term Debt	$ 27,885,315	$ 2,756,629	$ 2,809,544	$ 27,832,400	$ 2,163,282

* Beginning balances restated as a result of fund reclassifications.

** Reductions include the defeasance of the bonds and certificates of participation of the Convention and Trade Center. As part of the agreement between the state and a newly created public facilities district, the public facility district issued $271 million in bonds and wired the proceeds to the state to refund the Convention and Trade Center debt held by the state.

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, 2011, balances for the "No Commitment" debt of the state's financing authorities (expressed in thousands):

Financing Authorities	Principal Balance
Washington State Housing Finance Commission	$ 3,736,479
Washington Higher Education Facilities Authority	671,779
Washington Health Care Facilities Authority	5,300,000
Washington Economic Development Finance Authority	768,613
Total No Commitment Debt	$ 10,476,871

Note 9
Governmental Fund Balances

A. GOVERNMENTAL FUND BALANCES

The state's governmental fund balances are classified according to the relative constraints that control how amounts can be spent. Classifications include:

- Nonspendable. Balances that either are not in a spendable form or are legally or contractually required to remain intact.
- Restricted. Balances that are restricted for specific purposes by the constitution, enabling legislation or external resource providers such as creditors, grantors, or laws or regulations of other governments;
- Committed. Balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the state Legislature;
- Assigned. Balances that are constrained by management to be used for specific purposes, but are neither restricted nor committed.
- Unassigned. Residual balances that are not contained in the other classifications.

A summary of governmental fund balances at June 30, 2011, is as follows (expressed in thousands):

Fund Balances	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
Nonspendable:					
Permanent funds	$ -	$ -	$ 1,513,158	$ 187,446	$ 1,700,604
Consumable inventories	13,977	11,789	-	40,736	66,502
Petty cash	586	3,096	-	733	4,415
Investments	-	36,994	64,533	965	102,492
Student loans receivable - long-term	-	103,337	-	-	103,337
Other receivables – long-term	75,353	2,633	-	1,698,774	1,776,760
Total Nonspendable Fund Balance	89,916	157,849	1,577,691	1,928,654	3,754,110
Restricted for:					
Higher education	-	744,826	1,544,574	69,769	2,359,169
Education	-	-	35,893	4,774	40,667
Transportation	-	-	-	782,926	782,926
Other purposes	683	-	-	15,531	16,214
Human services	-	-	119	113,684	113,803
Wildlife and natural resources	12,736	-	-	139,812	152,548
Local grants and loans	6,844	-	-	281	7,125
School construction	2,446	-	-	64,444	66,890
State facilities	-	-	-	73,781	73,781
Budget stabilization	564	-	-	-	564
Debt service	-	-	-	86,897	86,897
Pollution remediation	-	-	-	113,266	113,266
Total Restricted Fund Balance	23,273	744,826	1,580,586	1,465,165	3,813,850
Committed for:					
Higher education	41,440	917,527	-	46,615	1,005,582
Education	-	-	-	1,322	1,322
Transportation	-	-	-	113,944	113,944
Other purposes	19,572	-	-	65,607	85,179
Human services	6,398	-	-	222,055	228,453
Wildlife and natural resources	26,619	-	-	411,443	438,062
Local grants and loans	4,048	-	-	53,412	57,460
State facilities	-	-	-	17,503	17,503
Debt service	-	-	-	203,095	203,095
Total Committed Fund Balance	98,077	917,527	-	1,134,996	2,150,600
Assigned for:					
Working capital	1,065,252	-	-	-	1,065,252
Other purposes	49,447	-	-	45	49,492
Total Assigned Fund Balance	1,114,699	-	-	45	1,114,744
Unassigned	(107,764)	-	-	(174,472)	(282,236)
Total Unassigned Fund Balance	(107,764)	-	-	(174,472)	(282,236)
Total Fund Balance	$ 1,218,201	$ 1,820,202	$ 3,158,277	$ 4,354,388	$ 10,551,068

B. BUDGET STABILIZATION ACCOUNT

In accordance with Article 7, Section 12 of the Washington State Constitution, the state maintains the Budget Stabilization Account ("Rainy Day Fund"). The Budget Stabilization Account is reported in the General Fund.

By June 30th of each fiscal year, an amount equal to 1 percent of the general state revenues for that fiscal year is transferred to the Budget Stabilization Account.

The Budget Stabilization Account balance can only be used as follows: (a) If the governor declares a state of emergency resulting from a catastrophic event that necessitates government action to protect life or public safety, then for that fiscal year money may be withdrawn and appropriated from the Budget Stabilization Account, via separate legislation setting forth the nature of the emergency and containing an appropriation limited to the above-authorized purposes as contained in the declaration, by a favorable vote of a majority of the members elected to each house of the Legislature; (b) If the employment growth forecast for any fiscal year is estimated to be less than 1 percent, then for that fiscal year money may be withdrawn and appropriated from the Budget Stabilization Account by the favorable vote of a majority of the members elected to each house of the Legislature; (c) Any amount may be withdrawn and appropriated from the Budget Stabilization Account at any time by the favorable vote of at least three-fifths of the members of each house of the Legislature.

When the balance in the Budget Stabilization Account, including investment earnings, equals more than 10 percent of the estimated general state revenues in that fiscal year, the Legislature by the favorable vote of a majority of the members elected to each house of the Legislature may withdraw and appropriate the balance to the extent that the balance exceeds 10 percent of the estimated general state revenues. These appropriations may be made solely for deposit to the Education Construction Fund.

As June 30, 2011, the Budget Stabilization Account had restricted fund balance of $564 thousand.

Note 10
Deficit Fund Balance/Net Assets

State Route Number 520 Corridor Account

The State Route Number 520 Corridor Account within the Multimodal Transportation Fund, a special revenue fund, had deficit fund balance of $174.5 million at June 30, 2011.

The account administers the financing for and construction of the replacement of State Route Number 520 floating bridge and necessary landings.

Construction costs were incurred during fiscal year 2011, however tolling was not initiated nor construction bonds issued until after June 30, 2011, resulting in deficit fund balance at June 30, 2011.

The following schedule details the changes in fund balance for the State Route Number 520 Corridor Account during the fiscal year ended June 30, 2011 (expressed in thousands):

State Route Number 520 Corridor Account	Fund Balance (Deficit)
Balance, July 1, 2010	$ (986)
Fiscal year 2011 activity	(173,486)
Balance, June 30, 2011	$ (174,472)

Risk Management Fund

The Risk Management Fund, an internal service fund, had deficit net assets of $610.7 million at June 30, 2011. The Risk Management Fund is used to administer the Self-Insurance Liability Program. This program investigates, processes, and adjudicates tort and sundry claims filed against Washington state agencies, with the exception of the University of Washington and the Department of Transportation Ferries Division. 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, 2011 (expressed in thousands):

Risk Management Fund	Net Assets (Deficit)
Balance, July 1, 2010	$ (616,115)
Fiscal year 2011 activity	5,400
Balance, June 30, 2011	$ (610,715)

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.

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, 2010, 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	53,742	1,979	8,409	598	64,728
PERS 2	22,043	23,513	86,770	33,056	165,382
PERS 3	1,114	3,368	10,342	17,351	32,175
TRS 1	36,015	701	4,533	58	41,307
TRS 2	2,320	2,467	5,973	3,469	14,229
TRS 3	2,235	5,782	31,379	20,913	60,309
SERS 2	3,311	4,758	14,385	5,973	28,427
SERS 3	2,073	4,942	17,856	14,125	38,996
LEOFF 1	8,008	1	301	-	8,310
LEOFF 2	1,639	781	13,119	3,656	19,195
WSPRS 1	851	119	806	-	1,776
WSPRS 2	-	6	122	159	287
PSERS 2	7	-	-	4,210	4,217
JRS	125	-	5	-	130
Judges	13	-	-	-	13
JRA	3	181	10	-	194
VFFRPF	3,708	6,118	4,076	6,735	20,637
Total	137,207	54,716	198,086	110,303	500,312

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	144	227	158	180
PERS 2	179	-	271	494
PERS 3	166	-	205	302
TRS 1	49	263	-	-
TRS 2	25	288	-	-
TRS 3	28	302	-	-
SERS 2	-	299	-	-
SERS 3	-	300	-	-
LEOFF 1	-	-	48	14
LEOFF 2	8	-	214	152
WSPRS 1	1	-	-	-
WSPRS 2	1	-	-	-
PSERS 2	11	-	65	1
JRS	2	-	-	-
Judges	-	-	-	-
JRA	3	-	-	-
VFFRPF	-	-	-	642

Employers can participate in multiple systems and/or plans.

B. PLAN DESCRIPTIONS

Public Employees' Retirement System

The Legislature established the Public Employees' Retirement System (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 50 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 2011, 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.

The monthly benefit is 2 percent of the average final compensation (AFC) per year of service capped at 60 percent. AFC is the monthly average of the 24 consecutive highest-paid service credit months.

The monthly benefit is subject to a minimum for PERS Plan 1 retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. If a survivor option is chosen, the benefit is further reduced.

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.

The surviving spouse or designated beneficiary of a Plan 1 member who dies after leaving eligible employment having earned ten years of service credit has the option of receiving either a monthly survivor benefit or a lump sum of the member's contributions plus interest.

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.

PERS Plan 2 members are vested after completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. AFC is the monthly average of the 60 consecutive highest-paid service months.

Half time service credit is granted for members of PERS Plans 2 and 3 for educational employment prior to January 1, 1987.

PERS Plan 2 members who have at least 20 years of service credit and are 55 years of age or older are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old, can retire under one of two provisions:

- With a benefit that is reduced by 3 percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

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 the monthly average of the 60 consecutive highest-paid service months.

Effective June 7, 2006, PERS Plan 3 members may be vested in the defined benefit portion of their plan after ten years of service or after five years of service, if 12 months of that service are earned after age 44 or after 5 service credit years earned in PERS Plan 2 by June 1, 2003. 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 or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65;

- If they have 30 service credit years and are at least 55 years old, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.

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.

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 may have up to ten years of interruptive military service credit; 5 years at no cost, and 5 years that may be purchased by paying the required contributions. Effective July 24, 2005, a member who becomes totally incapacitated for continued employment while serving in the uniformed services, or a surviving spouse or eligible children, 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, if any, in PERS benefit provisions for the fiscal year ended June 30, 2011, are listed in the table at the end of this section.

Teachers' Retirement System

The Teachers' Retirement System (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 2011, 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 benefits as well as permanent 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.

TRS Plan 2 members who have 30 or more years of service credit and are at least 55 years old, can retire under one of two provisions:

- With a benefit that is reduced by 3 percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

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. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Effective June 7, 2006, TRS Plan 3 members may be vested in the defined benefit portion of the plan 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.

Vested TRS Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least 10 service credit years and are 55 years old, the benefit is reduced by an ERF that varies according to age, for each year before age 65;
- If they have 30 service credit years and are at least 55 years old, they have the choice of a benefit that is reduced 3 percent for each year before age 65, or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.

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, if any, in TRS benefit provisions for the fiscal year ended June 30, 2011, are listed in the table at the end of this section.

School Employees' Retirement System

The Legislature established the School Employees' Retirement System (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 2011, 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.)

SERS Plan 2 members who have at least 20 years of service credit and are 55 years of age or older are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65. SERS Plan 2 members who have 30 service credit years and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by 3 percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

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 SERS Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least 10 service credit years and are 55 years old, the benefit is reduced by an ERF that varies according to age, for each year before age 65;

- If they have 30 service credit years and are at least 55 years old, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.

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.

Half time service credit is granted for members of SERS Plans 2 and 3 for educational employment prior to January 1, 1987.

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, if any, in SERS benefit provisions for the fiscal year ended June 30, 2011, are listed in the table at the end of this section.

Law Enforcement Officers' and Fire Fighters' Retirement System

The Law Enforcement Officers' and Fire Fighters' Retirement System (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 2011, 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.

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.

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 die or retire due to disability.

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. Effective June 2010, benefits to LEOFF Plan 2 members who are catastrophically disabled include payment of eligible health care insurance premiums.

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 $214,000 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. The death benefit amount is adjusted each year by the Seattle Consumer Price Index up to a maximum of 3 percent each year. This applies to all members of LEOFF Plan 2 killed in the course of employment since January 1, 2009.

Effective June 2009, domestic partners of LEOFF Plan 2 members are granted the same pension rights and options as spouses.

The optional lump sum payment payable upon remarriage is increased for LEOFF 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.

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.

Department of Fish and Wildlife Enforcement Officers can transfer service credit earned as an enforcement officer in PERS Plan 2 or PERS Plan 3 to LEOFF Plan 2. Member, employer and state contribution rates 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 Plan 2.

Active LEOFF members can choose whether or not to obtain and pay for Medicare coverage through a "divided referendum" process.

Material changes, if any, in LEOFF benefit provisions for the fiscal year ended June 30, 2011, are listed in the table at the end of this section.

Washington State Patrol Retirement System

The Washington State Patrol Retirement System (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 2011, 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 Plan 1 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.

Effective June 2009, state-registered domestic partners are granted the ability to receive the survivor and death benefits available to spouses.

A $214,000 death benefit is provided to the estate (or duly designated nominee) of a WSPRS 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. The death benefit amount is adjusted each year by the Seattle Consumer Price Index up to a maximum of 3 percent each year. This applies to all members of WSPRS Plan 2 killed in the course of employment since January 1, 2009.

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.

Compensation for members of WSPRS Plans 1 and 2 who become totally disabled during the line of duty includes any payments for premiums for employer-provided medical insurance.

Material changes, if any, in WSPRS benefit provisions for the fiscal year ended June 30, 2011, are listed in the table at the end of this section.

Public Safety Employees' Retirement System

The Public Safety Employees' Retirement System (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;
- Washington cities except for Seattle, Tacoma and Spokane; and
- Interlocal corrections agencies.

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 2011, 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.

The optional lump sum payment payable upon remarriage is increased for 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.

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, if any, to PSERS benefit provisions for the fiscal year ended June 30, 2011, are listed in the table at the end of this section.

Judicial Retirement System

The Judicial Retirement System (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 2011, 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, if any, in JRS benefit provisions for the fiscal year ended June 30, 2011, are listed in the table at the end of this section.

Judges' Retirement Fund

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, if any, in benefit provisions for Judges for the fiscal year ended June 30, 2011, are listed in the table at the end of this section.

The Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund

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.
The Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund (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 June 10, 2010, members of the VFFRPF retirement system with vested pensions who have reached age 65 may, under certain conditions, retire from service, draw their pensions, and return to service. Additional service does not count toward the pension, and members cannot draw disability compensation.

Departments opting to allow their members to participate in the retire-rehire program agree to pay for annual physicals and an additional surcharge.

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, if any, in VFFRPF benefit provisions for the fiscal year ended June 30, 2011, are listed in the table at the end of this section.

Material Legislative Changes to Pension Plans
For the Fiscal Year Ended June 30, 2011

System/Plan Affected	Effective Date	Description of the changes
PERS Plan 3, TRS Plan 3, and SERS Plan 3	6/30/10 - 6/30/11	The Employee Retirement Benefits Board was abolished and its former duties were transferred to the Department of Retirement Systems (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).
PERS Plan 1 and TRS Plan 1	6/30/11	The automatic annual benefit increase for retirees/beneficiaries in PERS Plan 1 and TRS Plan 1 is eliminated. Additionally, the minimum employer contribution rates for the unfunded liability of both of these plans are lowered, and the Adjusted Minimum Benefit limit is increased to $1,545 per month (Chapter 362, Laws of 2011).

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 Plan 2 Retirement Board provided for minimum contribution rates for the LEOFF Plan 2. These minimum rates will go into effect beginning with the 2011-13 biennium.

As part of Substitute House Bill 2021, the Legislature reduced the Plan 1 UAAL minimum rates starting in 2015 to 3.5 percent in PERS and to 5.75 percent in TRS.

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 2011.

Public Employees' Retirement System

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 the Public Employees' Retirement System (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

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 the Teachers' Retirement System (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.

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 Plan 1 Supreme Court Justices, Court of Appeals Judges and Superior Court Judges is the TRS Plan 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.

The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.32 and 41.45 RCW.

School Employees' Retirement System

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 the School Employees' Retirement System (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

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 Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 2 Retirement 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 Plan 2 Retirement 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 2011, the state contributed $52.0 million to LEOFF Plan 2.

Washington State Patrol Retirement System

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 4.85 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

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

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 Judicial Retirement System 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 2011, the state contributed $10.9 million.

Judges' Retirement Fund

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 2011, however, no appropriations or contributions were made.

The Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund

The retirement provisions of Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund (VFFRPF) are funded through member contributions of $30 per year, varying employer contributions, and 40 percent of the Fire Insurance Premium Tax, as per chapter 41.24 RCW.

Employers consist of fire departments, emergency medical service districts and law enforcement agencies. The contribution rate for fire districts is set by the Legislature and was $30 per member for the years 2010 and 2011. The rate for emergency medical service districts and law enforcement agencies is set each year by the State Board for Volunteer Fire Fighters' and Reserve Officers' Relief and Pension, based on the actual cost of participation as determined by the Office of the State Actuary. For the year 2011, the rate was $90 per member. Employers may opt to pay the member's fee on their behalf.

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.

Required contribution rates (expressed as a percentage of current year covered payroll) for all retirement plans at the close of fiscal year 2011 were as follows:

Actual Contribution Rates	Employer			Employee		
	Plan 1	Plan 2	Plan 3	Plan 1	Plan 2	Plan 3
PERS						
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 govt 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%****
TRS						
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 govt 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
SERS						
State agencies*	N/A	5.45%	5.45%**	N/A	3.15%	***
Local governmental units*	N/A	5.45%	5.45%**	N/A	3.15%	***
LEOFF						
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
WSPRS						
State agencies*	6.57%	6.57%	N/A	5.09%	5.09%	N/A
PSERS						
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

N/A indicates data not available.

* Includes an 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.

	2011	2010	2009
PERS Plan 1	$ 72.3	$ 78.2	$ 169.0
PERS Plan 2/3	158.0	160.4	217.6
TRS Plan 1	4.4	5.6	8.0
TRS Plan 2/3	0.7	0.8	0.8
SERS Plan 2/3	0.0	0.0	0.0
PSERS Plan 2	8.0	7.8	7.7
LEOFF Plan 1	0.0	0.0	0.0
LEOFF Plan 2	52.9	52.2	52.0
VFFRPF	5.7	5.7	5.2

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, 2010, 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	$ 9,293.0	$ 12,538.1	$ 3,245.1	74%	$ 507.3	640%
PERS Plan 2/3*	19,474.1	20,028.8	554.7	97%	8,206.2	7%
TRS Plan 1	7,791.3	9,201.3	1,410.0	85%	344.0	410%
TRS Plan 2/3*	6,593.3	6,557.8	(35.5)	101%	3,965.5	0%
SERS Plan 2/3*	2,664.1	2,705.5	41.4	98%	1,475.0	3%
LEOFF Plan 1	5,560.9	4,393.3	(1,167.6)	127%	29.1	0%
LEOFF Plan 2*	6,042.7	5,163.6	(879.1)	117%	1,490.1	0%
WSPRS Plan 1/2*	919.6	812.1	(107.5)	113%	82.5	0%
PSERS Plan 2*	102.9	94.1	(8.8)	109%	227.4	0%
JRS	3.8	83.8	80.0	5%	0.7	11,565%
Judges	2.8	3.2	0.4	87%	-	N/A
VFFRPF	165.6	165.6	-	100%	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

Defined Benefit Pension Plans Administered by the State

For the Fiscal Year Ended June 30, 2011

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	SERS Plan 2/3
Valuation date	6/30/2010	6/30/2010	6/30/2010	6/30/2010	6/30/2010
Actuarial cost method	Entry age normal[1]	Aggregate[2]	Entry age normal[1]	Aggregate[2]	Aggregate[2]
Amortization method					
Funding	Level %[4]	N/A	Level %[4]	N/A	N/A
GASB	Level $	N/A	Level $	N/A	N/A
Remaining amortization years (closed)	10-year rolling	Open plan	10-year rolling	Open plan	Open plan
Remaining amortization period (closed)	N/A	N/A	N/A	N/A	N/A
Asset valuation method	8-year graded smoothed fair value[6]	8-year graded smoothed fair value[6]	8-year graded smoothed fair value[6]	8-year graded smoothed fair value[6]	8-year graded smoothed fair value[6]
Actuarial assumptions					
Investment rate of return[9]	8.00%	8.00%	8.00%	8.00%	8.00%
Projected salary increases					
Salary inflation at 4.5%, plus the merit increases described below[5]:					
Initial salary merit (grades down to 0%)	6.1%	6.1%	5.8%	5.8%	6.9%
Merit period (years of service)	17 yrs	17 yrs	26 yrs	26 yrs	20 yrs
Includes inflation at	N/A	3.50%	N/A	3.50%	3.50%
Cost of living adjustments	Minimum COLA[7]	CPI increase, maximum 3%	Minimum COLA[7]	CPI increase, maximum 3%	CPI increase, maximum 3%

N/A indicates data not applicable.

[1] PERS and TRS Plans 1 use a variation of the entry age normal (EAN) cost method, whereas LEOFF Plan 1 uses a variation of the frozen initial liability (FIL) cost method.

[2] The aggregate cost method does not identify or separately amortize unfunded actuarial accrued liabilities.

[3] Pay as you go basis for funding.

[4] Level percent of system payroll, including system growth.

[5] LEOFF Plan 2 assumes 4.5% salary inflation.

[6] 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 VFFRPF annual gain/loss is centered around a 7% expected rate of return instead of 8%.

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%			

LEOFF Plan 1	LEOFF Plan 2	PSERS Plan 2	VFFRPF[8]
6/30/2010	6/30/2010	6/30/2010	6/30/2010
Frozen initial liability[1]	Aggregate[2]	Aggregate[2]	Entry age[8]
Level %[4]	N/A	N/A	Level $
Level $	N/A	N/A	Level $
14	Open plan	Open plan	Open plan
6/30/2024	N/A	N/A	15-year rolling
8-year graded smoothed fair value[6]	8-year graded smoothed fair value[6]	8-year graded smoothed fair value[6]	8-year graded smoothed fair value[6]
8.00%	8.00%	8.00%	7.00%
11.0%	11.0%	6.1%	N/A
21 yrs	21 yrs	17 yrs	N/A
3.50% CPI increase	3.50% CPI increase maximum 3%	3.50% CPI increase, maximum 3%	N/A None

[1] The PERS Plan 1 and TRS Plan 1 COLA: Qualifying retirees receive an increase in their monthly benefit once a year. The COLA on minimum benefit levels is calculated as the last unrounded COLA amount increased by 3%, rounded to the nearest penny. These are some historical monthly COLA amount per year of service:

Date	COLA Type	Amount
7/1/2002	Uniform	$1.14
7/1/2003	Uniform	$1.18
7/1/2004	Uniform	$1.21
7/1/2005	Uniform	$1.25
7/1/2006	Uniform	$1.29
7/1/2007	Uniform	$1.33
7/1/2008	Uniform	$1.73
7/1/2009	Uniform	$1.83
7/1/2010	Uniform	$1.88
7/1/2010	Uniform	$1.88
7/1/2011	Uniform	$1.94

[8] VFFRPF uses the entry age funding method for pensions, and the pay-as-you-go method for the relief costs.
[9] The Legislature prescribes the assumed rate of investment return for all plans.

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	$2.3	$18.6	$0.1
Interest on NPO	(0.9)	5.8	(0.1)
Adjustment to annual required contribution	1.4	(16.7)	0.3
Annual pension cost	6.8	7.7	0.3
Less: Contributions made	5.3	10.9	0.0
Increase (decrease) in NPO	1.5	(3.2)	0.3
NPO at beginning of year	(11.4)	71.8	(1.1)
NPO at end of year	$(9.9)	$68.6	$(0.8)
Actuarial assumptions:			
Valuation date	6/30/2010	6/30/2010	6/30/2010
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.

***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:

	2011	2010	2009
WSPRS			
Annual pension cost	$ 6.8	$ 7.1	$ 5.0
% of APC contributed	77.2	74.2	127.4
NPO	$ (9.9)	$ (11.4)	$(13.4)
JRS			
Annual pension cost	$ 7.7	$ 9.1	$ 9.8
% of APC contributed	141.6	127.5	105.1
NPO	$ 68.6	$ 71.8	$ 74.3
Judges			
Annual pension cost	$ 0.3	$ 0.2	$ 0.2
% of APC contributed	0.0	0.0	0.0
NPO	$ (0.8)	$ (1.1)	$ (1.3)

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

There were no changes in actuarial assumptions for the fiscal year 2011 reporting period.

The method for estimating WSPRS Plan 1 standard survivor benefit liabilities was improved by replacing an estimated survivor benefit reduction with factors found in WAC 415-103-215.

I. CHANGES IN BENEFIT PROVISIONS

Effective June 30, 2011, the automatic annual benefit increase for retirees/beneficiaries in PERS Plan 1 and TRS Plan 1 is eliminated. Additionally, the minimum employer contribution rates for the unfunded liability of both of these plans are lowered, and the Adjusted Minimum Benefit limit is increased to $1,545 per month.

J. DEFINED CONTRIBUTION PLANS

Public Employees' Retirement System Plan 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 Plan 2/3 defined benefit plan.

For fiscal year 2011, employee contributions required and made were $94.1 million, and plan refunds paid out were $59.1 million.

Teachers' Retirement System Plan 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 Plan 2/3 defined benefit plan.

For fiscal year 2011, employee contributions required and made were $257.7 million and plan refunds paid out were $115.6 million.

School Employees' Retirement System Plan 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 Plan 2/3 defined benefit plan.

For fiscal year 2011, employee contributions required and made were $60.3 million and plan refunds paid out were $53.2 million.

Judicial Retirement Account

The Judicial Retirement Account (JRA) 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 $1.5 million for the fiscal year ended June 30, 2011. For fiscal year 2011, 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 2011 totaled $445 thousand.

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. Effective June 2010, eligible employees of the Higher Education Coordinating Board have the ability to participate in the Higher Education Retirement Plan instead of the Public Employees' Retirement System.

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 28.B.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.

For fiscal year 2011, covered payroll was $1.9 billion. Employer and employee contributions were $162.4 and $162.4 million respectively, for a total of $324.8 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 2011. The previous valuation was performed in 2009.

The Unfunded Actuarial Accrued Liability (UAAL) calculated as of June 30, 2011, and 2009, was $352.3 million and $314.0 million, respectively, and is amortized over a 13 year period.

The Annual Required Contribution (ARC) of $49.8 million consists of amortization of the UAL ($28.9 million) and normal cost (or current cost) ($19.9 million).

The UAL and ARC were established using the entry age normal cost method. The actuarial assumptions included an investment rate of return of 4.3 to 8 percent and projected salary increases ranging from 2 to 4 percent. Approximately $1.9 billion and $1.8 billion of payroll were covered under these plans during 2011 and 2009, respectively.

The following table reflects the activity in the Net Pension Obligation (NPO) for the years ended June 30 (expressed in millions):

	2011	2010	2009
Annual required contribution	$ 49.8	$ 43.5	$43.1
Payments to beneficiaries	(3.7)	(3.7)	(1.9)
Increase (decrease) in NPO	46.1	39.8	41.2
NPO at beginning of year	119.6	79.8	38.6
NPO at end of year	$165.7	$119.6	$79.8

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, 2011
(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	$ 45,767	$ 118,442	$ 145	$ 38,971	$ 57,952	$ 4,304
Receivables:						
Employer accounts receivable	3,783	36,611	4,409	2,777	18,385	22,112
Member accounts receivable (net of allowance)	662	169	-	404	7	-
Due from other funds	2	4	316	2	730	-
Due from other pension and other employee benefit funds	171	-	-	-	610	-
Interest and dividends	24,218	59,300	2,863	20,436	20,144	8,886
Investment trades pending	411,624	1,032,905	24,345	347,344	418,141	75,553
Total Receivables	440,460	1,128,989	31,933	370,963	458,017	106,551
Investments, Noncurrent:						
Public equity	3,135,972	7,683,762	1,085,286	2,646,265	2,610,026	3,143,195
Fixed income	1,545,494	3,786,772	182,816	1,304,152	1,286,293	567,346
Private equity	2,051,011	5,025,389	242,613	1,730,728	1,707,027	752,920
Real estate	1,129,487	2,767,471	133,606	953,108	940,056	414,631
Security lending	357,169	875,135	42,249	301,394	297,266	131,116
Liquidity	245,190	620,298	34,905	209,537	213,123	104,785
Tangible assets	94,416	231,339	11,168	79,672	78,581	34,660
Total Investments, Noncurrent	8,558,739	20,990,166	1,732,643	7,224,856	7,132,372	5,148,653
Total Assets	9,044,966	22,237,597	1,764,721	7,634,790	7,648,341	5,259,508
LIABILITIES						
Obligations under security lending agreements	357,169	875,135	42,249	301,394	297,267	131,115
Accrued liabilities	509,700	1,264,282	33,120	430,658	511,449	95,288
Due to other funds	41	935	-	28	306	732
Due to other pension and other employee benefit funds	176	158	-	610	-	-
Unearned revenues	109	361	-	140	121	-
Total Liabilities	867,195	2,140,871	75,369	732,830	809,143	227,135
NET ASSETS						
Net assets held in trust for:						
Pension Benefits (Schedule of Funding Progress by Plan begins on Page 161)	8,177,771	20,096,726	1,689,352	6,901,960	6,839,198	5,032,373
Deferred compensation participants	-	-	-	-	-	-
Total Net Assets	$ 8,177,771	$ 20,096,726	$ 1,689,352	$ 6,901,960	$ 6,839,198	$ 5,032,373

Combining Statement of Plan Net Assets
Pension and Other Employee Benefit Funds

June 30, 2011
(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	$ 23,244	$ 1,038	$ 28,890	$ 35,823	$ 5,385	$ 1,106
Receivables:						
Employer accounts receivable	6,822	5,141	-	15,524	407	1,860
Member accounts receivable (net of allowance)	5	-	76	51	5	-
Due from other funds	203	-	-	1	-	1
Due from other pension and other employee benefit funds	176	-	-	-	-	10
Interest and dividends	8,091	2,760	15,343	18,744	2,644	410
Investment trades pending	161,076	23,470	260,856	318,776	44,958	6,960
Total Receivables	176,373	31,371	276,275	353,096	48,014	9,241
Investments, Noncurrent:						
Public equity	1,048,350	687,292	1,987,346	2,428,607	342,514	53,032
Fixed income	516,656	176,242	979,418	1,196,884	168,801	26,136
Private equity	685,649	233,890	1,299,777	1,588,374	224,014	34,685
Real estate	377,586	128,803	715,784	874,714	123,364	19,101
Security lending	119,401	40,730	226,347	276,604	39,011	6,040
Liquidity	84,265	32,135	156,534	205,124	27,516	6,722
Tangible assets	31,563	10,767	59,834	73,119	10,312	1,597
Total Investments, Noncurrent	2,863,470	1,309,859	5,425,040	6,643,426	935,532	147,313
Total Assets	3,063,087	1,342,268	5,730,205	7,032,345	988,931	157,660
LIABILITIES						
Obligations under security lending agreements	119,401	40,730	226,347	276,604	39,010	6,040
Accrued liabilities	197,123	31,967	319,181	389,698	55,163	8,506
Due to other funds	176	131	7	138	9	18
Due to other pension and other employee benefit funds	-	-	-	-	-	23
Unearned revenues	17	-	-	145	-	-
Total Liabilities	316,717	72,828	545,535	666,585	94,182	14,587
NET ASSETS						
Net assets held in trust for:						
Pension Benefits (Schedule of Funding Progress by Plan begins on Page 161)	2,746,370	1,269,440	5,184,670	6,365,760	894,749	143,073
Deferred compensation participants	-	-	-	-	-	-
Total Net Assets	$ 2,746,370	$ 1,269,440	$ 5,184,670	$ 6,365,760	$ 894,749	$ 143,073

Combining Statement of Plan Net Assets
Pension and Other Employee Benefit Funds

June 30, 2011
(expressed in thousands)

concluded

	JRS	JRA	Judges	VFFRPF	Deferred Compensation	Total
ASSETS						
Cash and pooled investments	$ 213	$ 8	$ 2,335	$ 18,825	$ 2,687	$ 385,135
Receivables:						
Employer accounts receivable	3	-	-	-	-	117,834
Member accounts receivable (net of allowance)	-	3	-	-	1,302	2,684
Due from other funds	-	1	-	5	189	1,454
Due from other pension and other employee benefit funds	-	-	-	-	1	968
Interest and dividends	1	-	-	439	1	184,280
Investment trades pending	-	-	-	7,464	-	3,133,472
Total Receivables	4	4	-	7,908	1,493	3,440,692
Investments, Noncurrent:						
Public equity	-	13,016	-	56,868	2,937,363	29,858,894
Fixed income	-	-	-	28,026	-	11,765,036
Private equity	-	-	-	37,193	-	15,613,270
Real estate	-	-	-	20,481	-	8,598,192
Security lending	-	-	-	6,477	-	2,718,939
Liquidity	4,874	-	-	4,403	-	1,949,411
Tangible assets	-	-	-	1,712	-	718,740
Total Investments, Noncurrent	4,874	13,016	-	155,160	2,937,363	71,222,482
Total Assets	5,091	13,028	2,335	181,893	2,941,543	75,048,309
LIABILITIES						
Obligations under security lending agreements	-	-	-	6,477	-	2,718,938
Accrued liabilities	31	-	-	9,140	2,462	3,857,768
Due to other funds	-	-	1	4	1	2,527
Due to other pension and other employee benefit funds	-	1	-	-	-	968
Unearned revenues	-	-	-	-	-	893
Total Liabilities	31	1	1	15,621	2,463	6,581,094
NET ASSETS						
Net assets held in trust for:						
Pension Benefits (Schedule of Funding Progress by Plan begins on Page 161)	5,060	13,027	2,334	166,272	-	65,528,135
Deferred compensation participants	-	-	-	-	2,939,080	2,939,080
Total Net Assets	$ 5,060	$ 13,027	$ 2,334	$ 166,272	$ 2,939,080	$ 68,467,215

Combining Statement of Changes in Plan Net Assets
Pension and Other Employee Benefit Funds

For the Fiscal Year Ended June 30, 2011
(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	$ 145,585	$ 328,258	$ -	$ 96,803	$ 168,264	$ -
Members	38,315	282,292	94,129	25,758	22,714	257,718
State	-	-	-	-	-	-
Participants	-	-	-	-	-	-
Total Contributions	183,900	610,550	94,129	122,561	190,978	257,718
Investment Income:						
Net appreciation (depreciation) in fair value	1,335,975	3,035,259	259,223	1,121,993	1,029,044	802,515
Interest and dividends	216,284	499,579	23,678	181,753	169,235	75,051
Less: investment expenses	(28,852)	(66,402)	(3,677)	(24,240)	(22,998)	(11,389)
Net investment income (loss)	1,523,407	3,468,436	279,224	1,279,506	1,175,281	866,177
Transfers from other pension plans	90	4,036	1,546	1	847	650
Other additions	-	-	-	-	-	-
Total Additions	1,707,397	4,083,022	374,899	1,402,068	1,367,106	1,124,545
DEDUCTIONS						
Pension benefits	1,149,523	310,942	164	899,818	72,138	542
Pension refunds	3,471	33,686	59,143	1,822	2,281	115,571
Transfers to other pension plans	174	8,027	612	-	119	1,367
Administrative expenses	332	658	-	258	94	-
Distributions to participants	-	-	-	-	-	-
Total Deductions	1,153,500	353,313	59,919	901,898	74,632	117,480
Net Increase (Decrease)	553,897	3,729,709	314,980	500,170	1,292,474	1,007,065
Net Assets - Beginning	7,623,874	16,367,017	1,374,372	6,401,790	5,546,724	4,025,308
Net Assets - Ending	$ 8,177,771	$ 20,096,726	$ 1,689,352	$ 6,901,960	$ 6,839,198	$ 5,032,373

Combining Statement of Changes in Plan Net Assets
Pension and Other Employee Benefit Funds

For the Fiscal Year Ended June 30, 2011
(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	$ 62,316	$ -	$ 3	$ 79,733	$ 5,250	$ 15,591
Members	19,415	60,313	1,128	136,548	5,207	15,422
State	-	-	-	52,024	-	-
Participants	-	-	-	-	-	-
Total Contributions	81,731	60,313	1,131	268,305	10,457	31,013
Investment Income:						
Net appreciation (depreciation) in fair value	414,369	189,039	821,548	948,683	138,884	18,532
Interest and dividends	67,942	23,598	133,750	156,267	22,702	3,138
Less: investment expenses	(9,201)	(3,270)	(17,796)	(20,717)	(3,016)	(415)
Net investment income (loss)	473,110	209,367	937,502	1,084,233	158,570	21,255
Transfers from other pension plans	415	500	-	2,936	415	5
Other additions	-	-	-	-	-	-
Total Additions	555,256	270,180	938,633	1,355,474	169,442	52,273
DEDUCTIONS						
Pension benefits	43,338	182	338,775	61,876	38,387	35
Pension refunds	2,492	53,242	48	8,181	316	1,778
Transfers to other pension plans	332	597	211	1	1	-
Administrative expenses	69	-	66	1,069	41	32
Distributions to participants	-	-	-	-	-	-
Total Deductions	46,231	54,021	339,100	71,127	38,745	1,845
Net Increase (Decrease)	509,025	216,159	599,533	1,284,347	130,697	50,428
Net Assets - Beginning	2,237,345	1,053,281	4,585,137	5,081,413	764,052	92,645
Net Assets - Ending	$ 2,746,370	$ 1,269,440	$ 5,184,670	$ 6,365,760	$ 894,749	$ 143,073

Combining Statement of Changes in Plan Net Assets
Pension and Other Employee Benefit Funds

For the Fiscal Year Ended June 30, 2011
(expressed in thousands)

concluded

	JRS	JRA	Judges	VFFRPF	Deferred Compensation	Total
ADDITIONS						
Contributions:						
Employers	$ 46	$ 43	$ -	$ 963	$ -	$ 902,855
Members	46	43	-	93	-	959,141
State	10,860	-	-	5,815	-	68,699
Participants	-	-	-	-	186,734	186,734
Total Contributions	10,952	86	-	6,871	186,734	2,117,429
Investment Income:						
Net appreciation (depreciation) in fair value	(2)	1,769	(13)	22,627	417,798	10,557,243
Interest and dividends	17	191	25	3,882	37,664	1,614,756
Less: investment expenses	(8)	(20)	-	(494)	(4,440)	(216,935)
Net investment income (loss)	7	1,940	12	26,015	451,022	11,955,064
Transfers from other pension plans	-	-	-	-	-	11,441
Other additions	-	5	-	-	1,457	1,462
Total Additions	10,959	2,031	12	32,886	639,213	14,085,396
DEDUCTIONS						
Pension benefits	9,737	445	500	10,932	-	2,937,334
Pension refunds	-	-	-	33	-	282,064
Transfers to other pension plans	-	-	-	-	-	11,441
Administrative expenses	-	-	-	30	-	2,649
Distributions to participants	-	-	-	-	149,010	149,010
Total Deductions	9,737	445	500	10,995	149,010	3,382,498
Net Increase (Decrease)	1,222	1,586	(488)	21,891	490,203	10,702,898
Net Assets - Beginning	3,838	11,441	2,822	144,381	2,448,877	57,764,317
Net Assets - Ending	$ 5,060	$ 13,027	$ 2,334	$ 166,272	$ 2,939,080	$ 68,467,215

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), 58 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 246 K-12 schools and ESDs. As of June 2011, membership in the PEBB plan consisted of the following:

	Active Employees	Retirees[1]	Total
State	108,251	28,385	136,636
K-12 schools and ESDs[2]	2,009	27,159	29,168
Political subdivisions	11,753	1,188	12,941
Total	122,013	56,732	178,745

[1]Retirees include retired employees, surviving spouses, and terminated members entitled to a benefit.
[2]In fiscal year 2011, there were 99,896 full-time equivalent active employees in the 246 K-12 schools and ESDs that elected to limit participation in PEBB only to their retirees.

For fiscal year 2011, the estimated monthly cost for PEBB benefits for active employees (average across all plans and tiers) is as follows:

Required Premium[3]	
Medical	$805
Dental	81
Life	5
Long-term disability	2
Total	$893
Employer contribution	$799
Employee contribution	94
Total	$893

[3]Per 2011 Index Rate Model 7.20.

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 2010, the average weighted implicit subsidy was valued at $272 per member per month, and in calendar year 2011, the average weighted implicit subsidy is projected to be $301 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 2010, the explicit subsidy was $183 per member per month, and in calendar year 2011, 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 2010. The explicit subsidy is also $5 per member per month in calendar year 2011.

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 2011, the cost of the subsidies was approximately 6.8 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 2011, the amount contributed to the plan, and changes in the state's Net OPEB Obligation (NOO) (expressed in thousands):

Annual required contribution	$320,991
Interest on Net OPEB Obligation	35,004
Amortization of Net OPEB Obligation	(27,427)
Annual OPEB cost (expense)	328,568
Contributions made	(78,673)
Increase in Net OPEB Obligation	249,895
Net OPEB Obligation - beginning of year	777,872
Net OPEB Obligation - end of year*	$1,027,767
*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 2009, 2010 and 2011 were as follows (expressed in thousands):

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/11	$328,568	23.9%	$1,027,767
6/30/10	354,420	19.8%	777,872
6/30/09	334,374	25.9%	493,551

Funded Status and Funding Progress

The funded status of the plan as of January 1, 2011, the latest date for which information is available, was as follows (expressed in thousands):

Actuarial accrued liability (AAL)	$3,491,970
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$3,491,970
Funded ratio (actuarial value of plan assets/AAL)	0.00%
Covered payroll (active plan members)	$5,937,061
UAAL as a percentage of covered payroll	58.8%

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, 2011
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	4.0%
Health care inflation rate	7.0% initial rate, 5% ultimate rate in 2083
Inflation rate	3.5%

In addition to the assumptions above, several factors also significantly contributed to the actuarial results. The PEBB voted to permanently eliminate the subsidy paid for life insurance premiums beginning in January 2012. Also in January 2012, explicit subsidies for retirees enrolled in Medicare Parts A and B will be reduced from $183 per month to $150 per month. These changes caused the net liabilities to decrease.

Note 13
Commitments and Contingencies

A. CONSTRUCTION AND OTHER COMMITMENTS

Capital commitments

Outstanding commitments related to state infrastructure and facility construction, improvement, and/or renovation totaled $9.1 billion at June 30, 2011.

Encumbrances

Encumbrances, which represent commitments related to unperformed contracts for goods or services, are included in restricted, committed or assigned fund balance, as appropriate. 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 the end of fiscal year 2011 are (in thousands):

General Fund	$ 32,901
Higher Education Special Revenue Fund	2,597
Nonmajor Governmental Funds	274,432

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, reduction, or elimination of specific state programs that could significantly impact expenditures, revenues, 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 foster children, the disabled and elderly; and inadequate funding for the provision of mental health services to children. Collective claims in these programmatic and service cases exceed $400 million exclusive of the basic education case, which could be substantial but is difficult to quantify at this juncture. 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 state is a defendant in a number of lawsuits related to: habitat restoration and environmental clean-up arising out of highway/roadway construction and maintenance and historic mining activity. While estimates are not available for all lawsuits, claims for damages equate to approximately $200 million.

The state is the defendant in numerous lawsuits by employees alleging various infractions of law or contract. These suits claim back pay and damages in

excess of $62 million. Pursuant to the legislative repeal, replacement retirement benefits were offered in lieu of the elimination of gain sharing. It is estimated that if the gain sharing benefit is restored and replacement benefits are retained, the biennial cost to the public employers participating in the plans would be approximately $244 million for the 2013-15 biennium.

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 $110.7 million in fiscal year 2011 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 2011 strategic contribution payment was approximately $37.1 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" in its share 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.

In addition, the states and the participating manufacturers have entered into an agreement under which the states will not contest that the disadvantages experienced by manufacturers as a result of participating in the MSA were a significant factor contributing to market share losses for the years 2007, 2008 and 2009, respectively. Washington faces a potential NPM adjustment of between $0 and $123 million for the year 2007, $0 and $173 million for the year 2008, and $0 and $176 million for the year 2009.

Washington and 37 other states each filed court actions seeking declarations that they had diligently enforced their escrow statutes – a defense to the adjustment claim. 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. This issue was resolved in favor of the manufacturers. 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 judges. The panel is in place and some preliminary hearings have been held. 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. A two week hearing has been scheduled for April 2012 to address issues of general applicability. Individual state hearings will begin in May 2012. A specific hearing date has not yet been set for Washington.

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 2011, the state had guaranteed 212 school districts' voter-approved general obligation debt with 190 districts having a total outstanding principal of $8.35 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, 2011, outstanding certificates of participation notes totaled $78 million for 170 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 (1500 Jefferson Street). 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 called for FYI to design and construct an office building and to finance it with tax-exempt obligations that met 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. 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 was occupied starting in early fiscal year 2012.

Note 14
Subsequent Events

A. BOND ISSUES

In July 2011, the University of Washington issued $211.4 million in general revenue bonds. The purpose of the bonds was to refund $74.5 million in long-term debt, convert $75 million in commercial paper to long-term debt and use $61.8 million to fund various capital projects.

In August 2011, the state issued:

- $390.8 million in various purpose general obligation bonds to fund various state capital projects, state buildings and facilities for institutions of higher education and state programs for Columbia River Basin water supply development, farmland preservation, riparian protection and outdoor recreation.
- $327.7 million in motor vehicle fuel tax general obligation bonds to provide funds to pay for and reimburse state expenditures for state and local highway improvements or the construction of two ferries and improvements to state ferry facilities.
- $27.7 million in taxable bonds to fund certain non-transportation related projects and purposes that cannot be financed with tax exempt bonds.

In October 2011, the state issued:

- $518.8 million in motor vehicle fuel tax and general obligation bonds to cover preliminary costs of the State Route 520 Bridge.
- $461.4 million in various purpose general obligation refunding bonds.
- $42.3 million in motor vehicle fuel tax general obligation refunding bonds.

B. CERTIFICATES OF PARTICIPATION

In August 2011, the state issued $16.5 million to refund Certificates of Participation.

C. U.S. CREDIT RATING

On August 5, 2011, the credit rating agency Standard & Poor's downgraded the United States' credit rating for the first time in history from AAA to AA+. Moody's and Fitch, however, maintained the country's triple A credit rating and have issued statements about their outlook on the U.S. credit standing. The state's investment holdings include U.S. Government Securities. The state continuously monitors the credit ratings of its entire portfolio and manages investments according to established policies.

D. LITIGATION

During the 2011 legislative session, the Washington State Legislature suspended the payment of an annual increase to most retirees of the Public Employees' Retirement System (PERS) Plan 1 and the Teachers' Retirement System (TRS) Plan 1. This payment is often referred to as the Uniform COLA, although the payment is not based on the cost of living. The state estimated that by suspending the COLAs to PERS and TRS Plan 1 members, public employers of the state would save $501 million in employer pension contributions in the 2011-2013 biennium. In October, two public employee unions filed lawsuits challenging the suspension of the COLA, and another union is seeking intervention in those lawsuits. The state will vigorously contest the lawsuits. The outcome is uncertain at this time.

E. GENERAL ELECTION

There were measures on the state's November 8, 2011, general election ballot that addressed state laws related to state expenditures on transportation, requirements for long-term care workers and providers, and the distribution and sale of wine and spirits. These measures, if passed, could impact the state fiscally.

Election results are not final or official until certified. By law December 8, 2011, 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 COMPARISON SCHEDULE
General Fund

Budgetary Comparison Schedule
General Fund
For the Biennium Ended June 30, 2011
(expressed in thousands)

	Original Budget 2009-11 Biennium	Final Budget 2009-11 Biennium	Actual 2009-11 Biennium	Variance with Final Budget
Budgetary Fund Balance, July 1, as restated	$ 509,169	$ 509,169	$ 509,169	$ -
Resources				
Taxes	29,336,378	27,409,554	27,388,974	(20,580)
Licenses, permits, and fees	187,670	174,449	174,387	(62)
Other contracts and grants	359,882	423,759	376,645	(47,114)
Timber sales	5,698	8,892	8,892	-
Federal grants-in-aid	15,488,080	17,322,490	16,237,599	(1,084,891)
Charges for services	132,086	131,906	115,542	(16,364)
Investment income (loss)	22,897	(13,139)	(7,835)	5,304
Miscellaneous revenue	204,808	413,964	345,016	(68,948)
Unclaimed property	95,773	114,455	114,455	-
Transfers from other funds	2,655,194	3,595,242	3,279,428	(315,814)
Total Resources	48,997,635	50,090,741	48,542,272	(1,548,469)
Charges To Appropriations				
General government	3,571,046	3,615,275	3,426,306	188,969
Human services	23,462,921	24,318,584	23,891,845	426,739
Natural resources and recreation	598,387	678,786	633,404	45,382
Transportation	104,550	99,945	91,038	8,907
Education	18,860,255	19,064,258	18,656,007	408,251
Capital outlays	831,066	976,968	665,737	311,231
Transfers to other funds	1,133,145	1,656,540	1,436,016	220,524
Total Charges To Appropriations	48,561,370	50,410,356	48,800,353	1,610,003
Excess Available For Appropriation Over (Under) Charges To Appropriations	436,265	(319,615)	(258,081)	61,534
Reconciling Items				
Bond sale proceeds	431,442	397,355	466,691	69,336
Bond issue premiums	-	2,114	5,804	3,690
Refunding other debt issued	-	-	(69)	(69)
Changes in reserves (net)	-	-	(176,025)	(176,025)
Entity adjustments (net)	-	-	24,030	24,030
Total Reconciling Items	431,442	399,469	320,431	(79,038)
Budgetary Fund Balance, June 30	$ 867,707	$ 79,854	$ 62,350	$ (17,504)

BUDGETARY COMPARISON SCHEDULE
Budget to GAAP Reconciliation

General Fund
For the Biennium Ended June 30, 2011
(expressed in thousands)

	General Fund
Sources/Inflows of Resources	
Actual amounts (budgetary basis) "Total Resources" from the Budgetary Comparison Schedule	$ 48,542,272
Differences - budget to GAAP:	
The following items are inflows of budgetary resources but are not revenue for financial reporting purposes:	
Transfers from other funds	(3,279,428)
Budgetary fund balance at the beginning of the biennium	(509,169)
Appropriated loan principal repayment	(2,292)
The following items are not inflows of budgetary resources but are revenue for financial reporting purposes:	
Noncash commodities and electronic food stamp benefits	2,965,582
Revenues collected for other governments	204,483
Unanticipated receipts	47,401
Noncash revenues	46,091
Other	5,991
Biennium total revenues	48,020,931
Fiscal year 2010 total revenues, as restated	(23,372,813)
Nonappropriated activity	2,117
Total Revenues (GAAP Basis) as Reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	$ 24,650,235
Uses/Outflows of Resources	
Actual amounts (budgetary basis) "Total Charges to Appropriations" from the Budgetary Comparison Schedule	$ 48,800,353
Differences - budget to GAAP:	
The following items are outflows of budgetary resources but are not expenditures for financial reporting purposes:	
Appropriated transfers to other funds	(2,515,560)
Other transfers to other funds	(1,436,016)
Appropriated loan disbursements	(572)
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	2,965,582
Distributions to other governments	204,483
Expenditures related to unanticipated receipts	47,401
Certificates of participation and capital lease acquisitions	15,727
Other	5,991
Biennium total expenditures	48,087,389
Fiscal year 2010 total expenditures, as restated	(24,361,201)
Nonappropriated activity	477,189
Total expenditures (GAAP basis) as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds	$ 24,203,377

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 schedule is 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 schedule 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, 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. Because allotments are not the strict legal limit on expenditures/expenses, the accompanying budgetary schedule is 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.

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 restricted, committed or assigned 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 capital 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 generally includes the following as reported on the Governmental Funds Balance Sheet: restricted, committed, assigned, and unassigned fund balances. The General Fund Basic Account Budgetary Fund Balance only includes unassigned fund balance.

Fiscal Year 2010 Restatement

As described in Note 2 to the financial statements on pages 68 and 69, GASB Statement No. 54 was implemented in fiscal year 2011. To enhance comparability, all amounts presented for fiscal year 2010 in these budgetary schedules were revised, where applicable, to reflect the implementation of GASB Statement No. 54 as if it had been made in fiscal year 2010.

PENSION PLAN INFORMATION
Schedules of Funding Progress

continued

Schedule of Funding Progress
Public Employees' Retirement System - Plan 1
Valuation Years 2010 through 2005
(dollars in millions)

	2010	2009	2008	2007	2006	2005
Actuarial valuation date	6/30/2010	6/30/2009	6/30/2008	6/30/2007	9/30/2006	9/30/2005
Actuarial value of plan assets	$ 9,293	$ 9,776	$ 9,853	$ 9,715	$ 9,591	$ 9,707
Actuarial accrued liability	12,538	13,984	13,901	13,740	13,129	13,704
Unfunded actuarial liability	3,245	4,208	4,048	4,025	3,538	3,997
Percentage funded	74%	70%	71%	71%	73%	71%
Covered payroll	507	580	638	676	725	786
Unfunded actuarial liability as a percentage of covered payroll	640%	726%	634%	595%	488%	509%

Source: Washington State Office of the State Actuary.

Schedule of Funding Progress
Public Employees' Retirement System - Plan 2/3
Valuation Years 2010 through 2005
(dollars in millions)

	2010	2009	2008	2007	2006	2005
Actuarial valuation date	6/30/2010	6/30/2009	6/30/2008	6/30/2007	N/A	N/A
Actuarial value of plan assets	$ 19,474	$ 18,260	$ 16,693	$ 14,888	N/A	N/A
Actuarial accrued liability	20,029	18,398	16,508	14,661	N/A	N/A
Unfunded actuarial liability	555	138	(185)	(227)	N/A	N/A
Percentage funded	97%	99%	101%	102%	N/A	N/A
Covered payroll	8,206	8,132	7,869	7,157	N/A	N/A
Unfunded actuarial liability as a percentage of covered payroll	7%	0%	0%	0%	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.

PENSION PLAN INFORMATION
Schedules of Funding Progress

continued

Schedule of Funding Progress
Teachers' Retirement System - Plan 1
Valuation Years 2010 through 2005
(dollars in millions)

	2010	2009	2008	2007	2006	2005
Actuarial valuation date	6/30/2010	6/30/2009	6/30/2008	6/30/2007	9/30/2006	9/30/2005
Actuarial value of plan assets	$ 7,791	$ 8,146	$ 8,262	$ 8,302	$ 8,275	$ 8,450
Actuarial accrued liability	9,201	10,820	10,754	10,826	10,359	10,894
Unfunded actuarial liability	1,410	2,674	2,492	2,524	2,084	2,444
Percentage funded	85%	75%	77%	77%	80%	78%
Covered payroll	344	389	432	426	478	546
Unfunded actuarial liability as a percentage of covered payroll	410%	687%	577%	592%	436%	448%

Source: Washington State Office of the State Actuary.

Schedule of Funding Progress
Teachers' Retirement System - Plan 2/3
Valuation Years 2010 through 2005
(dollars in millions)

	2010	2009	2008	2007	2006	2005
Actuarial valuation date	6/30/2010	6/30/2009	6/30/2008	6/30/2007	N/A	N/A
Actuarial value of plan assets	$ 6,593	$ 6,160	$ 5,681	$ 5,277	N/A	N/A
Actuarial accrued liability	6,558	6,048	5,264	4,682	N/A	N/A
Unfunded (assets in excess of) actuarial liability	(36)	(112)	(417)	(595)	N/A	N/A
Percentage funded	101%	102%	108%	113%	N/A	N/A
Covered payroll	3,966	3,957	3,621	3,318	N/A	N/A
Unfunded actuarial liability as a percentage of covered payroll	0%	0%	0%	0%	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.

PENSION PLAN INFORMATION
Schedules of Funding Progress

continued

Schedule of Funding Progress
School Employees' Retirement System - Plan 2/3
Valuation Years 2010 through 2005
(dollars in millions)

	2010	2009	2008	2007	2006	2005
Actuarial valuation date	6/30/2010	6/30/2009	6/30/2008	6/30/2007	N/A	N/A
Actuarial value of plan assets	$ 2,664	$ 2,503	$ 2,303	$ 2,133	N/A	N/A
Actuarial accrued liability	2,706	2,493	2,207	1,998	N/A	N/A
Unfunded (assets in excess of) actuarial liability	41	(10)	(96)	(135)	N/A	N/A
Percentage funded	98%	100%	104%	107%	N/A	N/A
Covered payroll	1,475	1,467	1,379	1,283	N/A	N/A
Unfunded actuarial liability as a percentage of covered payroll	3%	0%	0%	0%	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.

Schedule of Funding Progress
Law Enforcement Officers' and Fire Fighters' Retirement System - Plan 1
Valuation Years 2010 through 2005
(dollars in millions)

	2010	2009	2008	2007	2006	2005
Actuarial valuation date	6/30/2010	6/30/2009	6/30/2008	6/30/2007	9/30/2006	9/30/2005
Actuarial value of plan assets	$ 5,561	$ 5,612	$ 5,592	$ 5,298	$ 5,018	$ 4,800
Actuarial accrued liability	4,393	4,492	4,368	4,340	4,309	4,243
Unfunded (assets in excess of) actuarial liability	(1,168)	(1,120)	(1,224)	(958)	(709)	(557)
Percentage funded	127%	125%	128%	122%	116%	113%
Covered payroll	29	33	37	43	48	56
Unfunded actuarial liability as a percentage of covered payroll	0%	0%	0%	0%	N/A	N/A

N/A indicates data not available.

Source: Washington State Office of the State Actuary.

PENSION PLAN INFORMATION
Schedules of Funding Progress

continued

Schedule of Funding Progress
Law Enforcement Officers' and Fire Fighters' Retirement System - Plan 2
Valuation Years 2010 through 2005
(dollars in millions)

	2010	2009	2008	2007	2006	2005
Actuarial valuation date	6/30/2010	6/30/2009	6/30/2008	6/30/2007	N/A	N/A
Actuarial value of plan assets	$ 6,043	$ 5,564	$ 5,053	$ 4,360	N/A	N/A
Actuarial accrued liability	5,164	4,641	3,998	3,626	N/A	N/A
Unfunded (assets in excess of) actuarial liability	(879)	(923)	(1,055)	(734)	N/A	N/A
Percentage funded	117%	120%	126%	120%	N/A	N/A
Covered payroll	1,490	1,442	1,345	1,234	N/A	N/A
Unfunded actuarial liability as a percentage of covered payroll	0%	0%	0%	0%	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.

Schedule of Funding Progress
Washington State Patrol Retirement System - Plan 1/2
Valuation Years 2010 through 2005
(dollars in millions)

	2010	2009	2008	2007	2006	2005
Actuarial valuation date	6/30/2010	6/30/2009	6/30/2008	6/30/2007	N/A	N/A
Actuarial value of plan assets	$ 920	$ 900	$ 870	$ 800	N/A	N/A
Actuarial accrued liability	812	790	745	702	N/A	N/A
Unfunded (assets in excess of) actuarial liability	(108)	(110)	(125)	(98)	N/A	N/A
Percentage funded	113%	114%	117%	114%	N/A	N/A
Covered payroll	83	83	79	72	N/A	N/A
Unfunded actuarial liability as a percentage of covered payroll	0%	0%	0%	0%	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.

PENSION PLAN INFORMATION
Schedules of Funding Progress

continued

Schedule of Funding Progress
Public Safety Employees' Retirement System - Plan 2
Valuation Years 2010 through 2005
(dollars in millions)

	2010	2009	2008	2007	2006	2005
Actuarial valuation date	6/30/2010	6/30/2009	6/30/2008	6/30/2007	N/A	N/A
Actuarial value of plan assets	$ 103	$ 69	$ 39	$ 14	N/A	N/A
Actuarial accrued liability	94	64	37	19	N/A	N/A
Unfunded (assets in excess of) actuarial liability	(9)	(5)	(2)	6	N/A	N/A
Percentage funded	109%	108%	106%	74%	N/A	N/A
Covered payroll	227	223	200	134	N/A	N/A
Unfunded actuarial liability as a percentage of covered payroll	0%	0%	0%	0%	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.

Schedule of Funding Progress
Judicial Retirement System
Valuation Years 2010 through 2005
(dollars in millions)

	2010	2009	2008	2007	2006	2005
Actuarial valuation date	6/30/2010	6/30/2009	6/30/2008	6/30/2007	9/30/2006	9/30/2005
Actuarial value of plan assets	$ 4.0	$ 2.0	$ 1.0	$ 1.0	$ 0.3	$ 2.0
Actuarial accrued liability	84	89	92	85	88	89
Unfunded actuarial liability	80	87	91	84	88	87
Percentage funded	5%	2%	1%	1%	0%	2%
Covered payroll	0.7	0.9	1.3	1.3	1.4	1.7
Unfunded actuarial liability as a percentage of covered payroll	11565%	9667%	7000%	6462%	6286%	5118%

Source: Washington State Office of the State Actuary.

PENSION PLAN INFORMATION
Schedules of Funding Progress

concluded

Schedule of Funding Progress
Judges' Retirement Fund
Valuation Years 2010 through 2005
(dollars in millions)

	2010	2009	2008	2007	2006	2005
Actuarial valuation date	6/30/2010	6/30/2009	6/30/2008	6/30/2007	9/30/2006	9/30/2005
Actuarial value of plan assets	$ 2.8	$ 3.3	$ 3.6	$ 4.0	$ 4.1	$ 4.2
Actuarial accrued liability	3.2	3.4	3.5	3.9	4.0	4.5
Unfunded (assets in excess of) actuarial liability	0.4	0.1	(0.1)	(0.1)	(0.1)	0.3
Percentage funded	87%	97%	103%	103%	103%	93%
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.

Schedule of Funding Progress
Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund
Valuation Years 2010 through 2005
(dollars in millions)

	2010	2009	2008	2007	2006	2005
Actuarial valuation date	6/30/2010	6/30/2009	6/30/2008	6/30/2007	12/31/2006	12/31/2005
Actuarial value of plan assets***	$ 166	$ 166	$ 161	$ 151	$ 140	$ 127
Actuarial accrued liability*	166	163	153	141	142	140
Unfunded (assets in excess of) actuarial liability	-	(3)	(8)	(10)	2	13
Percentage funded	100%	102%	105%	107%	99%	91%
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.

*** Board for Volunteer Fire Fighters adopted a new funding policy as of 2010 where assets above the accrued pension liability are allocated to fund relief benefits.

N/A indicates data not available.

Source: Washington State Office of the State Actuary.

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, 2011 through 2006
(dollars in millions)

	2011	2010	2009	2008	2007	2006
PUBLIC EMPLOYEES' RETIREMENT PLAN SYSTEM - PLAN 1						
Employers' annual required contribution	$ 439.3	$ 627.8	$ 620.2	$ 453.1	$ 397.3	$ 438.5
Employers' actual contribution	145.6	154.0	325.2	221.8	118.7	29.6
Percentage contributed	33%	25%	52%	49%	30%	7%
PUBLIC EMPLOYEES' RETIREMENT PLAN SYSTEM - PLAN 2/3						
Employers' annual required contribution	$ 408.6	$ 383.1	$ 369.7	$ 363.3	$ 331.3	$ 307.6
Employers' actual contribution	328.3	327.5	439.7	318.7	242.5	149.6
Percentage contributed	80%	85%	119%	88%	73%	49%
TEACHERS' RETIREMENT SYSTEM - PLAN 1						
Employers' annual required contribution	$ 205.9	$ 406.1	$ 391.0	$ 294.7	$ 249.8	$ 287.5
Employers' actual contribution	96.8	112.7	178.9	113.1	60.5	15.1
Percentage contributed	47%	28%	46%	38%	24%	5%
TEACHERS' RETIREMENT SYSTEM - PLAN 2/3						
Employers' annual required contribution	$ 232.3	$ 221.1	$ 186.9	$ 208.9	$ 167.7	$ 166.4
Employers' actual contribution	168.3	165.0	160.8	109.5	102.2	75.4
Percentage contributed	72%	75%	86%	52%	61%	45%
SCHOOL EMPLOYEES' RETIREMENT SYSTEM - PLAN 2/3						
Employers' annual required contribution	$ 88.6	$ 82.3	$ 71.5	$ 75.8	$ 71.5	$ 81.4
Employers' actual contribution	62.3	62.1	63.5	52.1	45.9	30.4
Percentage contributed	70%	75%	89%	69%	64%	37%

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 reporting 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 ARCs. Starting in 2009, the ARC for PERS and TRS Plans 1 was calculated using the Entry Age Normal cost method with a rolling 10-year amortization (excluding the temporary rate ceilings). Starting in 2011, the calculation of the ARC reflects the underlying actuarial cost method (excluding minimum contribution rates).

Source: Washington State Office of the State Actuary

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, 2011 through 2006
(dollars in millions)

	2011	2010	2009	2008	2007	2006
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	N/A	100%	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*	$ 84.0	$ 111.1	$ 105.3	$ 61.3	$ 56.9	$ 60.8
Employers' actual contribution	79.7	77.0	77.8	73.4	58.2	48.5
Percentage contributed	95%	69%	74%	120%	102%	80%
State annual required contribution*	$ 33.6	$ 44.4	$ 42.1	$ 40.8	$ 38.0	$ 40.5
State actual contribution	52.0	51.4	51.1	45.9	37.9	31.7
Percentage contributed	155%	116%	121%	113%	100%	78%
WASHINGTON STATE PATROL RETIREMENT SYSTEM						
Employers' annual required contribution	$ 2.3	$ 6.6	$ 5.0	$ 6.8	$ 5.3	$ 6.1
Employers' actual contribution	5.3	5.3	6.4	6.1	3.3	3.1
Percentage contributed	230%	80%	128%	90%	62%	51%

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 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 reporting 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 ARCs. Starting in 2009, the ARC for PERS and TRS Plans 1 was calculated using the Entry Age Normal cost method with a rolling 10-year amortization (excluding the temporary rate ceilings). Starting in 2011, the calculation of the ARC reflects the underlying actuarial cost method (excluding minimum contribution rates).

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, 2011 through 2006
(dollars in millions)

	2011	2010	2009	2008	2007	2006
PUBLIC SAFETY EMPLOYEES' RETIREMENT PLAN SYSTEM - PLAN 2						
Employers' annual required contribution	$ 14.7	$ 14.8	$ 14.3	$ 12.4	$ 7.1	N/A
Employers' actual contribution	15.6	15.2	14.5	11.7	6.6	N/A
Percentage contributed	106%	103%	101%	94%	93%	N/A
JUDICIAL RETIREMENT SYSTEM						
Employers' annual required contribution	$ 18.6	$ 20.4	$ 21.2	$ 26.6	$ 37.3	$ 27.7
Employers' actual contribution	10.9	11.6	10.2	9.6	9.6	6.7
Percentage contributed	59%	57%	48%	36%	26%	24%
JUDGES' RETIREMENT FUND						
Employers' annual required contribution	$ 0.1	$ -	$ -	$ -	$ -	$ 0.1
Employers' actual contribution	-	-	-	-	0.3	0.3
Percentage contributed	0%	N/A	N/A	N/A	N/A	300%
VOLUNTEER FIRE FIGHTERS' AND RESERVE OFFICERS' RELIEF AND PENSION FUND						
Employers' annual required contribution	$ 1.1	$ 1.0	$ 1.1	$ 1.0	$ 1.0	$ 1.0
Employers' actual contribution	1.1	1.0	1.0	1.0	1.0	1.0
Percentage contributed	100%	100%	91%	100%	100%	100%
State annual required contribution	$ 4.2	$ 1.8	$ 1.4	$ 0.9	$ 2.0	$ 3.6
State actual contribution	5.8	5.7	5.2	5.0	6.0	4.6
Percentage contributed	138%	317%	371%	556%	300%	128%

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 reporting 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 ARCs. Starting in 2009, the ARC for PERS and TRS Plans 1 was calculated using the Entry Age Normal cost method with a rolling 10-year amortization (excluding the temporary rate ceilings). Starting in 2011, the calculation of the ARC reflects the underlying actuarial cost method (excluding minimum contribution rates).

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 2011 through 2008
(dollars in millions)

	2011	2009	2008
Actuarial valuation date	1/1/2011	1/1/2009	1/1/2008
Actuarial value of plan assets	$ -	$ -	$ -
Actuarial accrued liability (AAL)*	3,492	3,787	4,014
Unfunded actuarial accrued liability (UAAL)	3,492	3,787	4,014
Funded ratio	0%	0%	0%
Covered payroll	5,937	5,678	5,170
UAAL as a percentage of covered payroll	59%	67%	78%

* Based on projected unit credit actuarial cost method.

Source: Washington State Office of the State Actuary

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 20,587 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 1,956 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.

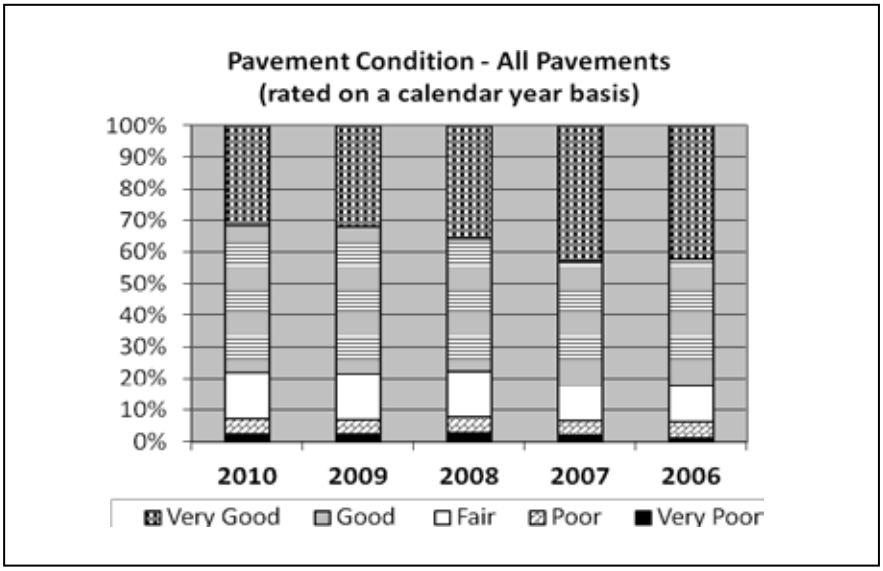
In 1993, the Legislature required WSDOT to rehabilitate pavements at the Lowest Life Cycle Cost (LLCC), which has been determined to occur at a PSC range between 40 and 60, or when triggers for roughness or rutting are met.

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 2010, found that state highways were within the prescribed parameters with only 7.3 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

WSDOT uses a 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 2010, WSDOT rated pavement condition on 17,178 of the 20,587 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*					
	2010	2009	2008	2007	2006
Statewide - Chip seals	95%	95%	95%	91%	91%
Statewide - Asphalt	92%	93%	92%	94%	94%
Statewide - Concrete	91%	90%	87%	93%	93%
Statewide - All Pavements	93%	93%	92%	93%	94%

Percentage of Pavement Lane Miles in Poor or Very Poor Condition*					
	2010	2009	2008	2007	2006
Statewide - Chip seals	5%	5%	5%	9%	9%
Statewide - Asphalt	8%	7%	8%	6%	6%
Statewide - Concrete	9%	10%	13%	7%	7%
Statewide - All Pavements	7%	7%	8%	7%	6%

*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 Pavement percentages are calculated from total database averages, not a statistical average of the three pavement type percentages. IRI and rutting are 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/Business/MaterialsLab/Pavements/Default.htm.

BRIDGE CONDITION

During fiscal year 2011, there were 3,205 state-owned vehicular structures over 20 feet in length with a total area of 45,818,813 square feet. In addition to bridges, the 3,205 structures include 111 culverts.

There was a net increase of 21 bridge structures in fiscal year 2011 due to new construction, asset exchanges, and demolition. 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. This system is used to develop preservation strategies and comprehensive recommendations for maintenance and construction, and for reporting to the FHWA.

WSDOT uses a performance measure which classifies a bridge as good, fair, or poor using the National Bridge Inspection Standards (NBIS) bridge superstructure, substructure, and deck codes. Prior to fiscal year 2011, WSDOT only used superstructure and substructure codes. For fiscal year 2011, the deck code was included as part of the performance measure as WSDOT made improvements in the measurement and consistency of this data and the bridge deck is a primary load-carrying element. Prior to fiscal year 2011, deck area codes were excluded due to data quality issues, which WSDOT has resolved. In order for a deck rating to be classified as "poor," 2 percent or more of the total bridge deck area must have been temporarily repaired by maintenance crews and/or there is active concrete deterioration. The inclusion of the NBIS deck code in fiscal year 2011 is the main reason the percentage of bridges in the poor condition category increased. Bridge deck condition ratings could not be retroactively applied to years prior to 2011. The data is presented for 2011 in two columns, one without and the other with the impact of the deck condition data.

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.

The most recent assessments over the last two years found that state-owned bridges were within the prescribed parameters with 95.2 percent having a condition rating of fair or better and only 4.8 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. No bridges that are currently rated as poor are unsafe for public travel. Any bridges determined to be unsafe are closed to traffic.

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 900 bridges that have been classified as needing retrofitting. Seismic analysis has determined that 43 bridges do not require a retrofit. WSDOT has fully or partially retrofitted 394 bridges. Of those, 259 are completely retrofitted, 135 are partially retrofitted. There are 16 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.

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 following charts show the most recent condition rating of Washington State bridges:

Percentage of Bridges in Fair or Better Condition						
Bridge Type	**2011(1)**	**2011(2)**	**2010**	**2009**	**2008**	**2007**
Reinforced concrete (1,299 bridges in FY 2011)	95.0%	97.9%	98.1%	98.0%	98.0%	98.3%
Prestressed concrete (1,386 bridges in FY 2011)	97.6%	99.3%	99.3%	99.0%	98.9%	99.3%
Steel (368 bridges in FY 2011)	91.4%	96.1%	96.6%	95.0%	93.9%	94.7%
Timber (79 bridges in FY 2011)	79.8%	79.8%	80.2%	80.4%	71.7%	66.3%
Statewide - All bridges (3,132 out of 3,205 bridges in FY 2011)	95.2%	97.7%	97.9%	97.5%	97.0%	97.4%

Percentage of Bridges in Poor Condition(3)						
Bridge Type	**2011(1)**	**2011(2)**	**2010**	**2009**	**2008**	**2007**
Reinforced concrete (28 bridges in FY 2011)	5.0%	2.1%	1.9%	2.0%	2.0%	1.7%
Prestressed concrete (10 bridges in FY 2011)	2.4%	0.7%	0.7%	1.0%	1.1%	0.7%
Steel (15 bridges in FY 2011)	8.6%	3.9%	3.4%	5.0%	6.1%	5.3%
Timber (20 bridges in FY 2011)	20.2%	20.2%	19.8%	19.6%	28.3%	33.7%
Statewide - All bridges (73 out of 3,205 bridges in FY 2011)	4.8%	2.3%	2.1%	2.5%	3.0%	2.6%

(1) Data in this column reflects the condition of bridges based on three condition measurement criteria, deck condition as well as superstructure and substructure. It is presented here to fairly report the condition of bridges as a group under the additional rating measurement as well as for comparison to the 2011 conditions without the addition of deck measurements.

(2) Data in this column reflects the condition of bridges based on two condition measurement criteria, superstructure and substructure only which are the measurements used for the previous four years of inspections. It is presented here for comparison to the previous four years.

(3) Bridges rated as poor may have structural deficiencies that restricted the weight and type of traffic allowed. WSDOT currently has 17 posted bridges and 125 restricted bridges for a total of 142 load posted and restricted bridges. Posted bridges have signs posted which inform of legal weight limits. Restricted bridges are those permits where overweight will not be issued for travel by overweight vehicles.

For more information on overweight restrictions, refer to http://www.wsdot.wa.gov/commercialVehicle/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: 100 buildings, 706 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 will conduct the next condition assessment in 2011 to be reported in the 2012 annual report.

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 WSDOT 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 aviation policy, ongoing routine maintenance is performed on each airport and inspections occur a minimum of three times per year.

The definitions below represent the classification category for state managed airports within the Washington Aviation System Plan. 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

Airport Classification	WSDOT Aviation Owned	WSDOT Aviation Managed
Local Airports	2	-
Rural Essential Airports	-	-
Paved runway	-	1
Turf runway	5	3
Gravel runway	-	4
Sand	-	1
Helicopter only	1	-
Total Airports	8	9

	2011	2010	2009	2008	2007
Percentage of airports acceptable for general recreational use or better	94%	94%	94%	88%	88%
Percentage of airports not acceptable for general recreational use or better	6%	6%	6%	12%	12%

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, 2011 through 2007
(expressed in thousands)

	2011			2010		
PAVEMENT	**Planned**	**Actual**	**Variance**	**Planned**	**Actual**	**Variance**
Preservation	$ 100,272	$ 98,123	$ 2,149	$ 147,424	$ 137,952	$ 9,472
Maintenance	21,931	19,688	2,243	20,780	21,489	(709)
Total	$ 122,203	$ 117,811	$ 4,392	$ 168,204	$ 159,441	$ 8,763
BRIDGES						
Preservation	$ 33,201	$ 30,586	$ 2,615	$ 40,958	$ 30,904	$ 10,054
Maintenance	13,507	13,123	384	13,532	13,532	-
Total	$ 46,708	$ 43,709	$ 2,999	$ 54,490	$ 44,436	$ 10,054
REST AREAS						
Preservation	$ 616	$ 624	$ (8)	$ 162	$ 144	$ 18
Maintenance	5,643	5,890	(247)	5,653	5,781	(128)
Total	$ 6,259	$ 6,514	$ (255)	$ 5,815	$ 5,925	$ (110)
AIRPORTS						
Preservation & maintenance	$ 148	$ 192	$ (44)	$ 183	$ 159	$ 24

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.

2009			2008			2007		
Planned	Actual	Variance	Planned	Actual	Variance	Planned	Actual	Variance
$ 125,246	$ 109,279	$ 15,967	$ 118,886	$ 130,375	$ (11,489)	$ 111,195	$ 99,416	$ 11,779
19,651	19,170	481	18,329	16,994	1,335	19,152	16,255	2,897
$ 144,897	$ 128,449	$ 16,448	$ 137,215	$ 147,369	$ (10,154)	$ 130,347	$ 115,671	$ 14,676
$ 63,436	$ 16,586	$ 46,850	$ 11,260	$ 23,407	$ (12,147)	$ 21,055	$ 20,138	$ 917
13,365	13,406	(41)	12,427	12,601	(174)	11,553	11,051	502
$ 76,801	$ 29,992	$ 46,809	$ 23,687	$ 36,008	$ (12,321)	$ 32,608	$ 31,189	$ 1,419
$ 199	$ 193	$ 6	$ 77	$ 77	$ -	$ 188	$ 173	$ 15
5,808	5,631	177	5,590	5,778	(188)	5,056	5,359	(303)
$ 6,007	$ 5,824	$ 183	$ 5,667	$ 5,855	$ (188)	$ 5,244	$ 5,532	$ (288)
$ 146	$ 168	$ (22)	$ 146	$ 134	$ 12	$ 83	$ 200	$ (117)

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APPENDIX E

DTC AND ITS BOOK-ENTRY SYSTEM

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DTC AND ITS BOOK-ENTRY SYSTEM

The following information has been provided by DTC. The state takes no responsibility for the accuracy or completeness thereof, or for the absence of material changes in such information subsequent to the date hereof. Beneficial Owners should confirm the following with DTC or the Participants (as hereinafter defined).

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity within a series of the Bonds in the principal amount of such maturity and will be deposited with DTC.

2. DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com (which website is not incorporated by reference).

3. Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

4. To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership.

DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. When notices are given, they shall be sent by the Bond Registrar to DTC only. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

6. Redemption notices will be sent to DTC. If less than all of the Bonds within a Series are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the state as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the state or the Bond Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Bond Registrar or the state, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments to Cede & Co. (or any other nominee as may be requested by an authorized representative of DTC) are the responsibility of the state or the Bond Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the state or the Bond Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

10. The state may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

11. The information in this appendix concerning DTC and DTC's book-entry system has been obtained from sources that the state believes to be reliable, but the state takes no responsibility for the accuracy thereof.