

*Official Statement
State of Washington
General Obligation Bonds*

\$487,950,000 Various Purpose, Series 2010E

January 13, 2010



Cover: Photo of the Methow River looking towards Last Chance, Methow Valley, Eastern Washington, Washington State.

Photo by Mary Kiesau, Methow Conservancy (www.methowconservancy.org).
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NEW ISSUE, BOOK-ENTRY ONLY



STATE OF WASHINGTON

Ratings
Fitch Ratings: AA
Moody's: Aa1
Standard & Poor's: AA+
(See "Other Bond
Information—Bond
Ratings.")

\$487,950,000

VARIOUS PURPOSE GENERAL OBLIGATION BONDS, SERIES 2010E

Dated: Date of Initial Delivery

**Due: February 1
as shown on inside cover**

The State of Washington Various Purpose General Obligation Bonds, Series 2010E (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.

Interest on the Bonds is payable semiannually on each February 1 and August 1, beginning August 1, 2010. The principal of the Bonds is payable on the stated maturities on each February 1 as set forth on the inside cover hereof. The Bonds are subject to redemption prior to maturity at the times and prices set forth herein under "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. 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 "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 subject to the federal alternative minimum tax. Interest on the Bonds received by certain S corporations may be subject to tax, interest on the Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax, and receipt of interest on the Bonds may have other federal tax consequences for certain taxpayers. See "Tax Exemption of the Bonds" and "Certain Other Federal Tax Consequences" under "Tax and Legal Information."

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 decision. The Bonds are offered when, as and if issued, subject to approval of tax exemption and legality by Foster Pepper PLLC, Seattle, Washington, Bond Counsel to the state, and certain other conditions.

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 January 27, 2010.

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 which are believed to be current and reliable. However, the state makes no representation regarding the accuracy or completeness of the information in Appendix E—Book-Entry Transfer System, which is provided by DTC. Estimates and opinions included herein should not be interpreted as statements of fact. The information and expressions of opinion stated herein are subject to change without notice. The delivery of this Official Statement shall not, under any circumstances, create any implication that there has been no change in the information or opinions set forth herein or in the affairs of the state, or any agency or instrumentality thereof, since the date hereof. Neither this Official Statement nor any statement made herein is to be construed as a contract with the purchasers of any of the Bonds.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT LEVELS ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED OR RECOMMENCED AT ANY TIME.

Certain statements included or incorporated by reference in this Official Statement, including but not limited to Appendix A, constitute “forward looking statements.” Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “forecast,” “estimate,” “budget,” or other similar words. The achievement of certain results or other expectations contained in such forward looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. The state does not plan to issue any updates or revisions to those forward looking statements.

MATURITY SCHEDULE

STATE OF WASHINGTON

\$487,950,000⁽¹⁾

VARIOUS PURPOSE GENERAL OBLIGATION BONDS, SERIES 2010E

Due February 1	Principal Amounts	Interest Rates	Yields	Prices	CUSIP ⁽²⁾
2011	\$ 10,325,000	2.000%	0.250%	101.766%	93974CPQ7
2012	10,735,000	5.000	0.800	108.362	93974CPR5
2013	11,275,000	5.000	1.090	111.551	93974CPS3
2014	11,835,000	5.000	1.430	113.868	93974CPT1
2015	12,425,000	5.000	1.800	115.267	93974CPU8
2016	13,040,000	5.000	2.350	114.774	93974CPV6
2017	13,695,000	5.000	2.650	114.945	93974CPW4
2018	14,375,000	5.000	2.910	114.838	93974CPX2
2019	15,100,000	5.000	3.130	114.583	93974CPY0
2020	15,860,000	5.000	3.270	114.668	93974CPZ7
2021	16,650,000	5.000	3.370	113.752 ⁽³⁾	93974CQA1
2022	17,485,000 ⁾	5.000	3.440	113.117 ⁽³⁾	93974CQB9
2023	18,355,000 ⁾	5.000	3.520	112.396 ⁽³⁾	93974CQC7
2024	19,275,000	5.000	3.590	111.769 ⁽³⁾	93974CQD5
2025	20,235,000	5.000	3.660	111.147 ⁽³⁾	93974CQE3
2026	21,250,000	4.000	4.000	100.000	93974CQF0
2027	22,310,000	4.000	4.100	98.783	93974CQG8
2028	23,430,000	5.000	3.890	109.131 ⁽³⁾	93974CQH6
2029	24,600,000	5.000	3.960	108.526 ⁽³⁾	93974CQJ2
2030	25,830,000	4.000	4.148	98.000	93974CQK9
2031	27,125,000	5.000	4.130	107.074 ⁽³⁾	93974CQL7
2032	28,480,000	5.000	4.200	106.483 ⁽³⁾	93974CQM5
2033	29,900,000	5.000	4.270	105.895 ⁽³⁾	93974CQN3
2034	31,395,000	5.000	4.340	105.312 ⁽³⁾	93974CQP8
2035	<u>32,965,000</u>	5.000	4.380	104.981 ⁽³⁾	93974CQQ6
Total	\$ 487,950,000				

(1) Authorized by Chapter 14, Laws of 1989, 1st Ex. Sess; Chapter 15, Laws of 1990, 1st Ex. Sess; Chapter 18, Laws of 2003, 1st Sp. Sess.; Chapter 167, Laws of 2006; Chapter 521, Laws of 2007; Chapter 179, Laws of 2008; Chapter 498, Laws of 2009, and Chapter 39.42 RCW; and Resolution No. 1084 of the Committee.

(2) CUSIP numbers are provided by CUSIP Global Services, managed on behalf of the American Bankers Association by Standard & Poor's. CUSIP® is a registered trademark of the American Bankers Association. 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 are provided for convenience and reference only and are subject to change. Neither the state nor the Underwriters take responsibility for the accuracy of the CUSIP numbers.

(3) Priced to the February 1, 2020, par call date.

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**STATE FINANCE COMMITTEE
OF THE
STATE OF WASHINGTON**

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<http://www.tre.wa.gov>

The availability of this publication 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, nor 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 statement.

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OFFICIAL STATEMENT

STATE OF WASHINGTON

\$487,950,000

VARIOUS PURPOSE GENERAL OBLIGATION BONDS, SERIES 2010E

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

Numerous state agencies including, in particular, the Office of the State Treasurer, the Department of Revenue, the State Attorney General, the Economic and Revenue Forecast Council, the Department of Retirement Systems, and the Office of Financial Management have assisted the State Finance Committee in assembling the information contained herein. All references to and summaries of certain provisions of 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. Reference is made to the audited financial statements and other financial reports, and their accompanying notes. See the state’s 2009 Audited General Purpose Financial Statements included in Appendix D.

State Finance Committee

The State Finance Committee (the “Committee”) is composed of the Governor, Lieutenant Governor and State Treasurer, the latter being designated by law as Chairman. 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. By statutory provision, the Committee is delegated authority to supervise and control the issuance of all state bonds. 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.

THE BONDS

Authority and Purpose

The \$487,950,000 principal amount of State of Washington Various Purpose General Obligation Bonds, Series 2010E (the “Bonds”), is being issued pursuant to Chapter 14, Laws of 1989, 1st Ex. Sess; Chapter 15, Laws of 1990, 1st Ex. Sess; Chapter 18, Laws of 2003, 1st Sp. Sess.; Chapter 167, Laws of 2006; Chapter 521, Laws of 2007; Chapter 179, Laws of 2008; Chapter 498, Laws of 2009, and Chapter 39.42 RCW; and Resolution No. 1084 of the Committee (the “Bond Resolution”) to provide funds to pay and reimburse the state for various capital project expenditures, including state and higher education building construction, state programs for Columbia River Basin water supply development, preservation and conservation of wildlife habitat, farm and riparian lands, and outdoor recreation facilities, and to pay for the costs of issuance of the Bonds.

Description

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.

Interest on the Bonds is calculated on the basis of a 360-day year and twelve 30-day months. Interest on the Bonds will be payable semiannually on each February 1 and August 1, beginning August 1, 2010, at the rates shown on the inside cover hereof.

Principal of the Bonds is payable on each February 1 in the years and amounts shown on the inside cover 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 of Washington for a term that began February 1, 2007, and continues to January 31, 2011. 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 “Book-Entry System.”

Redemption Provisions

Optional Redemption. The state may redeem any of the Bonds maturing on or after February 1, 2021, as a whole or in part on any date on or after February 1, 2020 (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.

Mandatory Redemption. The Bonds are not subject to mandatory redemption.

Notice of Redemption. Notice of redemption shall be given by the Bond Registrar not less than 30 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 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 indicate 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 Owner 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

The 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 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 the Bonds, the Registered Owners thereof shall cease to be entitled to any lien, benefit or security of the Bond Resolution, except the right to receive payment of the principal of and interest on the 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 the Bonds shall no longer be deemed to be outstanding under the Bond Resolution.

The term “Government Obligations” has the meaning given in chapter 39.53 RCW, as amended, currently: (i) 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; (ii) 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; (iii) public housing bonds and project notes fully secured by contracts with the United States; and (iv) 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

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. For information about the DTC book-entry system, see Appendix E—Book-Entry Transfer 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 certificates, the ownership of the Bonds may be transferred to any person as described in the Bond Resolution 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 bond owners.

State and Bond Registrar Responsibilities. Neither the state, the Committee 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 with respect to the following:

- (i) proper recording of beneficial ownership interests of the Bonds;
- (ii) proper transfers of such beneficial ownership interests;
- (iii) the payment, when due, to the Beneficial Owners of principal of and premium, if any, or interest on the Bonds;
- (iv) any notices to Beneficial Owners, or
- (v) any other matter pertaining to the Bonds.

SOURCES AND USES OF FUNDS

The following table shows the sources and uses of funds:

SOURCES	
Par Amount of Bonds	\$ 487,950,000
Net Original Issue Premium	<u>40,223,889</u>
Total Sources	\$ 528,173,889
USES	
Deposit to Project Funds	\$ 526,564,987
Costs of Issuance*	221,380
Underwriting Spread	<u>1,387,522</u>
Total Uses	\$ 528,173,889

* Includes fees for services of the rating agencies, financial advisors and bond counsel, and other costs.

SECURITY FOR THE BONDS

Pledge of Full Faith and Credit

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.

Repayment Procedure

The Committee is required, on or before June 30 of each year, to certify to the State Treasurer the amount required to pay principal of and interest on the Bonds in the next fiscal year. The State 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, 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 Appendix C—Bonds Outstanding.

FUTURE SALES OF OBLIGATIONS

The state currently anticipates that it will authorize and issue approximately \$1,130 million various purpose general obligation bonds and approximately \$1,300 million motor vehicle fuel tax general obligation bonds in one or more sales between April 2010 and June 2011.

In addition, when and if market conditions allow refunding of additional higher rate bonds, such refundings will be considered.

ECONOMIC AND REVENUE FORECASTS

Revenue, budgetary and economic information concerning the state government and Washington State as a whole is contained in Appendix A. Pursuant to state law, the Office of Economic and Revenue Forecast Council (the “Council”) provides state economic and tax revenue results and forecasts on a quarterly basis, which are summarized in Appendix A. The most recent release of data occurred on November 17, 2009, and is summarized in Appendix A. The forecast is available on the state’s website (www.erfc.wa.gov), which website is not incorporated herein by reference. The next forecast is expected to be released on or

about February 12, 2010. Appendix A also includes transportation forecasts, including motor vehicle fuel excise tax collections. See Appendix A—General and Economic Information—Revenues, Expenditures and Fiscal Controls—State Economic and Revenue Forecasting Process.

CERTAIN STATEMENTS INCLUDED IN OR INCORPORATED BY REFERENCE IN THIS OFFICIAL STATEMENT, INCLUDING BUT NOT LIMITED TO APPENDIX A, CONSTITUTE “FORWARD LOOKING STATEMENTS.” SUCH STATEMENTS ARE GENERALLY IDENTIFIABLE BY THE TERMINOLOGY USED SUCH AS “PLAN,” “EXPECT,” “FORECAST,” “ESTIMATE,” “BUDGET,” OR OTHER SIMILAR WORDS. THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD LOOKING STATEMENTS. **THE STATE DOES NOT PLAN TO ISSUE ANY UPDATED OR REVISED FORWARD LOOKING STATEMENTS.**

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 affecting the validity of the Bonds, the security of the Bonds or the proceedings, or authority pursuant to which they are to be sold and issued or the pledge or application of any moneys provided for the payment of the Bonds.

The state and its agencies are parties to numerous routine legal proceedings that normally occur as a consequence of regular government operations. At any given point, there may be numerous lawsuits involving state agencies which could, depending on the outcome of the litigation or the terms of a settlement agreement, impact expenditures to one degree or another. 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 sort of damages claims, there are currently a number of lawsuits challenging the management and administration of state programs. Some lawsuits seek an expansion of program social services for certain constituents. The potential impact of this 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. These cases are not called out specifically in this disclosure 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.

Specific matters that may raise potentially significant, but specifically incalculable, fiscal impacts include the following cases:

In *McCleary v. State of Washington*, a matter currently before the King County Superior Court, petitioners are asking the Court to find that the State of Washington is not meeting its constitutional mandate pertaining to the provision of public education because all children are not achieving successful education outcomes. Trial concluded in October 2009. No ruling has been issued yet.

In *Jane Doe 1 and Jane Doe 2 v. Clarke*, female inmate class action plaintiffs allege that the State Department of Corrections failed to properly investigate and prevent alleged sexual assaults and alleged sexual misconduct by state prison guards. The parties engaged in settlement negotiations and reached an agreement on the damages portion of the case for one million dollars; however, settlement is contingent

upon the parties agreeing on the resolution of the injunctive portion of the case. The Governor has authorized further settlement discussions so long as there is no requirement to seek Legislative funding. The parties have entered into a stay, rescheduling the trial until March 2010. The stay requires the Department to implement changes at the women's facilities while the stay is in place and allows the Department to bargain with unions in order to implement more change in the interim. The parties have until January 31, 2010, to negotiate a final settlement agreement, or the case will move forward to trial.

Solis v. Washington Department of Corrections is a U.S. Department of Labor lawsuit filed in U.S. District Court seeking back overtime wages on behalf of approximately 870 community corrections employees statewide. The Department of Corrections has estimated the maximum potential liability for back wages if all issues were construed in plaintiff's favor to be as much as \$15 million. It is unlikely that such an outcome could occur, given the complexity of the issues in dispute. A four-week trial has been rescheduled in U.S. District Court for May 2010.

In a matter being pursued by various Native American Tribes against the state in federal court, *United States v. State of Washington*, the plaintiffs allege that state-owned culverts associated with hundreds of state roads and other public property have acted as blocks to migrating fish passages, allegedly harming the tribes' ability to fully exploit their rights to benefit from the unhindered propagation of certain fish species. Trial concluded in October 2009. Post-trial briefing will take place in December.

In *WEA, et al. v. DRS and State of Washington*, a King County Court is being 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 promissory estoppel theories. Four separate law suits were filed which were consolidated under one case. In June 2009 the Washington Public Employees Association withdrew its case by taking a voluntary dismissal, leaving only three cases in the consolidated case. If plaintiffs 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. Motions for Summary Judgment were scheduled to be heard on October 30, 2009; however, after negotiations the parties suspended the briefing schedule and defendants will be taking depositions of the class representatives and the declarants. A new proposed briefing schedule will be stipulated to once the deposition schedule is set.

In a Department of Social and Health Services ("DSHS") matter, *Tamas v. DSHS*, three children alleged that the Department failed to protect them and they were subjected to abuse by a foster parent and/or foster-adoptive parent. The case was removed to federal court. DSHS moved to dismiss the federal civil rights claims. The motion was denied. DSHS filed an interlocutory appeal which is currently pending before the Ninth Circuit. Oral argument was heard on October 15, 2009. All state law claims are stayed pending the outcome of the Ninth Circuit ruling. No decision has been issued yet.

In the matter of the *United States v. WSDOT*, the U.S. Environmental Protection Agency ("EPA") is seeking \$6.8 million in administrative costs incurred during the Thea Foss Waterway cleanup. The Washington State Department of Transportation ("WSDOT") has counterclaimed against the United States, alleging that the US Army Corps of Engineers ("USACE") contributed to the pollution of the waterway by dredging contaminated sediment during 1900 – 1950 and disposing of it on the banks of the waterway where it could cause further waterway contamination. WSDOT is seeking to have some or all of the EPA administrative costs apportioned to USACE, as well as recovery of some or all of the judgment entered in *PSE and PacifiCorp v. WSDOT*. Trial is set in US District Court for February 2011.

The matter of *Moore v. State* is a class action lawsuit alleging that the state has wrongfully denied health benefits to current and former non-permanent employees by inconsistently applying eligibility standards, misclassifying employees to deny them benefits in alleged violation of the Washington Constitution. A comprehensive ruling for plaintiffs on all issues in dispute could have a potentially significant impact. The parties were involved in settlement negotiations but recently stalemated. The case is set for trial in February 2010.

Finally, the matter of *Tourism Alliance, et al. v. State of Washington et al.* involves constitutional and impairment of contract challenges to the transfer of \$57,000,000 from two Washington State Convention and Trade Center accounts to the General Fund. In the 2008 supplemental budget, the Legislature directed the Washington State Treasurer to make this transfer on June 30, 2009. This case was filed on June 1, 2009, and cross motions for summary judgment are to be rescheduled soon.

Again, the lawsuits addressed above are not likely to have any material impact on state revenues or expenditures; 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.

INITIATIVE AND REFERENDUM

Under the State Constitution, the voters of the state have the ability to initiate legislation and to modify, approve and reject existing statutes through the powers of initiative and referendum. Initiatives and referenda are submitted to the voters upon receipt of a petition signed by at least eight percent (initiatives) and four percent (referenda) of the number of voters registered and voting for the office of Governor at the preceding regular gubernatorial election. Any law approved in this manner by a majority of the voters may not be amended or repealed by the State 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 State Legislature. After two years, the law is subject to amendment or repeal by the State Legislature in the same manner as other laws. The State Constitution may not be amended by initiative or referendum.

TAX AND LEGAL INFORMATION

Approval of Counsel

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. A form of the opinion of such firm with respect to the Bonds is attached hereto as Appendix B. The opinion of Bond Counsel is 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 opinion to reflect any facts or circumstances that may thereafter come to its attention, or any changes in law that may thereafter occur. The opinion of Bond Counsel is an expression of its professional judgment on the matters expressly addressed in its opinion and do not constitute a guarantee of result. Bond Counsel will be compensated only upon the issuance and sale of the Bonds.

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 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.

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 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.

Alternative Minimum Tax. Under existing federal law, interest on the Bonds received by individuals and corporations is *not* treated as an item of tax preference for purposes of the federal alternative minimum tax, and interest on the Bonds received by corporations is *not* taken into account in determining adjusted current earnings of corporations for purposes of the federal alternative minimum tax.

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% 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

De Minimis Safe Harbor Exception for Tax-Exempt Interest Expense of Financial Institutions. The state has **not** designated the Bonds as “qualified tax-exempt obligations” for purposes of Section 265(b)(3) of the Code. However, pursuant to Section 265(b)(7) of the Code, the Bonds are not taken into account in determining the portion of the total interest expense of a bank or other financial institution that is allocable to tax-exempt interest (and with respect to which 100% of the interest expense otherwise would be disallowed) to the extent that the average adjusted bases of tax-exempt obligations held by a bank or other financial institution does not exceed 2% of the average adjusted bases of all assets of the bank or other financial institution. To the extent that the Bonds are not taken into account under this *de minimis* safe harbor exception, only 20% of the interest expense of a bank or other financial institution allocable to the Bonds is disallowed as a deduction for federal 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% 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.

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 Treasurer, on behalf of the Committee, has agreed in the Bond Resolution to enter into a written undertaking in the form of a Disclosure Agreement for the benefit of the holders 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 January 31, 2010, for the fiscal year ended June 30, 2009, 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:

- (i) 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;
- (ii) financial and operating data for the state as set forth in Appendix A to this Official Statement;
- (iii) a summary of the state debt structure by revenue pledge; and
- (iv) a narrative explanation of any reasons for any amendments to this 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 Material 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.

Material Events. The state agrees to provide or cause to be provided to the MSRB, in a timely manner, notice of the occurrence of any of the following events with respect to the Bonds, if material (the “Material Events”):

- (i) principal and interest payment delinquencies;
- (ii) nonpayment-related defaults;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;

- (vi) adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- (vii) modifications to rights of owners of the Bonds;
- (viii) optional, contingent or unscheduled Bond calls (other than scheduled sinking fund redemptions for which notice is given pursuant to Exchange Act Release 34-23856);
- (ix) defeasances;
- (x) release, substitution or sale of property securing the repayment of the Bonds; and
- (xi) rating changes.

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:

- (i) 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
- (ii) 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 State 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:

- (i) notice of such change will be given in the same manner as for a Material Event, and
- (ii) 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; Beneficiaries. 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 Material 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 Material 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 Material Event.

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

OTHER BOND INFORMATION

Bond Ratings

Fitch Ratings, Moody's Investors Service Inc. and Standard & Poor's Ratings Services have assigned ratings of "AA," "Aa1" and "AA+," respectively, to the Bonds. 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 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 will 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 factors 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.

Underwriter of the Bonds

The Bonds are being purchased by Merrill Lynch & Co. at a price of \$526,786,366.72, and will be reoffered at a price of \$528,173,888.65, as reflected by the prices and yields set forth on the inside cover of this Official Statement.

The Underwriter 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 the inside cover hereof, and such initial offering prices may be changed from time to time by the Underwriter. After the initial public offering, the public offering prices may be varied from time to time.

STATE OF WASHINGTON

By: /s/ _____

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”) is located in the northwest corner of the contiguous 48 states and is the 20th largest state by land area and the 15th largest state by population. Based on the U.S. Census Bureau’s 2000 Census, the state’s resident population is 5,894,121, an increase of 21.1 percent over 1990. Washington Territory was created in 1853 by carving out of the Oregon Territory all of what is now Washington and part of Idaho and Montana. Washington was admitted to the union as the 42nd state in 1889.

The state’s capital is Olympia, and its largest city is Seattle. Seattle is situated on Puget Sound and is part of the international trade, manufacturing, high technology, and business service corridor that extends from Everett to Tacoma. The Pacific Coast/Puget Sound region of the state includes approximately 75 percent of the population, the bulk of industrial activity and most of the state’s forests, which are important to the timber and paper industries. The balance of the state includes agricultural areas primarily devoted to grain, apple and other fruit orchards and dairy operations.

In recent years the state’s economy has diversified, with employment in the trade and service sectors representing an increasing percentage of total employment relative to the manufacturing sector.

State Government

Under the State Constitution, the legislative authority of the state is vested in the Legislature, consisting of a 49-member Senate and a 98-member House of Representatives. General elections are held on the first Tuesday in November in each even-numbered year. Members of the Senate serve four-year terms, with one seat in each legislative district open in each general election. Members of the House of Representatives serve two-year terms, with every seat open in each general election. The Legislature convenes annual regular sessions of 105 days (January to April) in odd-numbered years and 60 days (January to March) in even-numbered years. The Governor may call an unlimited number of special sessions, each of which is limited to no more than 30 days.

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 are elected at-large to six-year terms, with three seats open in each general election.

State Finance Committee

The State Finance Committee (the “Committee”) is composed of the Governor, Lieutenant Governor and State Treasurer, the latter being designated by law as Chairman. The Office of the State Treasurer provides administrative support to the Committee. By statutory provision, the Committee is delegated authority to supervise and control the issuance of all state bonds. A Deputy State Treasurer acts as recording officer for the Committee and is responsible for the administration of official duties in accordance with prescribed policies of the Committee.

REVENUES AND EXPENDITURES

The state operates on a July 1 to June 30 fiscal year and budgets on a biennial basis. The following tables display state General Fund revenues and expenditures for the past four biennia.

GENERAL FUND REVENUES Modified Accrual Basis (millions)

	1999-2001 Biennium	2001-2003 Biennium	2003-2005 Biennium	2005-2007 Biennium
Beginning General Fund-State Balance	\$462	\$599	\$405	\$870
General Fund-State Revenue				
Retail Sales and Use Taxes	\$11,683	\$11,740	\$12,742	\$15,203
Real Estate Excise Tax	802	873	1,327	2,002
Business and Occupation Tax	3,773	3,791	4,202	5,048
Property Tax	2,693	2,645	2,783	2,826
Other Taxes	1,729	1,775	1,871	2,081
Subtotal Tax Revenue	\$20,680	\$20,824	\$22,925	\$ 27,160
Other Nontax Revenue	\$472	\$375	\$461	\$641
Other Financing	111	(57)	2	(29)
Transfers from Other Funds/Other Adjustments	120	1,113	658	192
Federal Fiscal Relief (Grant Portion)	0	100	90	0
Spillover Transfer to Emergency Reserve Account	(198)	0	0	0
Transfer to Budget Stabilization Account	0	0	0	(289)
Total General Fund-State Revenue*	\$21,645	\$22,954	\$24,541	\$28,545
Federal Revenue	\$8,211	\$9,749	\$10,665	\$11,565
Private/Local Revenue	496	501	600	368
Total	\$30,352	\$33,204	\$35,806	\$40,478

* Includes balance from previous biennium.

Note: Totals may not add due to rounding.

Source: *Office of Financial Management*

GENERAL FUND EXPENDITURES
Modified Accrual Basis
(millions)

	1999-2001	2001-2003	2003-2005	2005-2007
	Biennium	Biennium	Biennium	Biennium
Education				
Public Schools	\$9,459	\$9,872	\$10,179	\$11,047
Higher Education	2,549	2,733	2,696	2,950
Other Education	55	52	40	78
Total Education	\$12,063	\$12,657	\$12,915	\$14,075
Human Services				
Department of Social and Health Services	\$5,300	\$6,226	\$6,696	\$7,991
Department of Corrections	914	1,111	1,261	1,449
Other Human Services	187	163	171	188
Total Human Services	\$6,401	\$7,500	\$8,128	\$9,628
Natural Resources and Recreation	\$305	\$336	\$347	\$423
Government Operations	403	476	426	471
Other Expenditures*				
Debt Service	\$1,119	\$1,210	\$1,236	\$1,374
Other Expenditures	754	370	620	1,794
Total Other Expenditures	\$1,873	\$1,580	\$1,856	\$3,168
Total General Fund-State Expenditures	\$21,045	\$22,549	\$23,672	\$27,765
Federal	\$8,211	\$9,749	\$10,665	\$11,565
Private/Local	496	501	600	368
Total	\$29,752	\$32,799	\$34,937	\$39,698
Ending General Fund-State Balance	\$599	\$405	\$870	\$781
Emergency Reserve Account Balance	460	57	0	293
Budget Stabilization Account	0	0	0	0
Total Reserves	\$1,059	\$462	\$870	\$1,074

* Includes legislative, judicial and transportation agencies, as well as debt service and contributions to LEOFF and Judges and Judicial Retirement System. See "Retirement Systems."

Note: Totals may not add due to rounding.

Source: Office of Financial Management

Revenues

The state's tax revenues consist primarily of excise and *ad valorem* taxes. The State Constitution, as interpreted by the State Supreme Court, prohibits the imposition of a graduated tax on net income.

Excise Taxes. The retail sales tax and its companion use tax represent the largest source of state tax revenue. The retail sales and use tax is applied to a broad base of tangible personal property 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. Among the various items not subject to this tax are most personal services, motor vehicle fuel, food for off-premises consumption, trade-ins, manufacturing machinery, and purchases for resale. The current state retail sales and use tax rate is 6.5 percent and was last increased in 1983. Local taxing jurisdictions are also authorized to impose retail sales and use taxes, and the total rate imposed in the state ranges from 7.0 percent to 9.5 percent.

The business and occupation tax is applied to gross receipts of all business activities conducted within the state. Business and occupation tax rates currently include a principal rate of 0.484 percent of gross income for most manufacturing and wholesaling businesses, which has been adjusted four times since the highest rate of 0.581 percent was imposed in 1983. Retail firms currently pay 0.471 percent, and services pay 1.5 percent. Certain local taxing jurisdictions are also authorized to impose business and occupation taxes.

The state imposes a real estate excise tax of 1.28 percent on sales of real property. Each county treasurer is required to retain 1.3 percent of the proceeds of this tax to defray costs of collection. Each county treasurer is required to pay over to the State Treasurer the balance of the proceeds of this tax on a monthly basis for deposit in the General Fund. An amount equal to 6.1 percent of the proceeds of this tax received by the State Treasurer is then required to be deposited in the public works assistance account, and an amount equal to 1.6 percent of the proceeds of this tax received by the State Treasurer is required to be deposited in the city-county assistance account. Certain local taxing jurisdictions are also authorized to impose real estate excise taxes.

Property Tax. The state's property tax is levied against the true and fair value of property as determined by the Department of Revenue. The property tax for local taxing districts is levied against the assessed value as determined by county assessors. For property taxes payable in 2009, assessed value averaged 88.7 percent of fair market value. By constitutional provision, the aggregate of all regular (nonvoted) tax levies upon real and personal property by the state and local taxing districts may not exceed one percent of the true and fair value of such property. Excess levies are subject to voter approval.

By statute, the state property tax levy is limited to the lesser of 101 percent or 100 percent plus the percentage change in inflation of the dollar amount of property taxes levied 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 state levy rate for taxes due in 2008 was \$1.976 per \$1,000 of true and fair property value.

By statute, all of the income from the state's property tax levy is dedicated to the support of public schools.

State Nontax Revenue. The largest components of state nontax revenue include such items as revenues derived from the sale of supplies, materials and services, fines and forfeitures, income from property, transfer of lottery proceeds, and income from liquor sales.

Federal Grants. Legislative appropriations for federal programs are designated specifically from federal revenue sources. To the extent that federal funds are not received, the appropriated expenditures may not be incurred.

Tax 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 State Treasurer receives the revenues from the collecting agencies and deposits and distributes the funds as required by law. Nearly all state agencies collect some form of revenue. For state budget purposes, however, the definition of tax generally excludes such revenue sources as license fees, liquor profits, lottery receipts, charges for service such as tuition, federal grants and revenue sharing, and proceeds of bond issues.

Expenditures

Education. The state's expenditures for public schools are mandated by the state constitutional requirement for support of the common schools. The State Supreme Court has interpreted the State Constitution to require the state to ensure that each public school district receives the funds needed to provide a basic education.

The Legislature has enacted legislation to improve the stability and predictability of school funding, including legislation that (i) prescribes course offerings, teacher contract hours and core student/staff ratios; (ii) limits local property tax levies and provides for the gradual equalization of levy capacity per student throughout the state; (iii) limits local compensation increases to those authorized by the state; and (iv) provides for state assistance to equalize tax rates for local levies, establishes a state-wide salary allocation schedule with mandated minimum salaries for teachers and requires school districts to maintain minimum teacher/student ratios.

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

The largest expenditure within DSHS is the Medical Assistance program. Through this program, necessary 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-State, funding is received from the federal government for those people and services covered under Medicaid. The Medical Assistance budget has grown significantly in recent years. Growth in the number of eligible recipient groups such as pregnant women and children, growth in other eligible populations such as disabled people, rising health care costs, and requirements to provide higher payments to hospitals have all resulted in increased expenditures.

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

DSHS is also responsible for supporting community mental health programs and 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, and vocational rehabilitation services.

Corrections. The Department of Corrections operates 15 correctional institutions and 15 work-training release facilities. The rapid growth in inmate population is in part attributable to various pieces of crime-reduction legislation, including the continuing effects of Initiative 593 ("Three Strikes and You're Out") approved by voters in 1993. In recent years, the Department of Corrections has added 6,500 new prison beds.

Revenue and Expenditure Limitations

Initiative 601, approved by the voters in 1993, requires that any action by the Legislature to raise state revenues be approved by a two-thirds vote of both houses of the Legislature. The Legislature has periodically enacted exceptions to permit revenues to be raised with a simple majority vote. See “Initiative and Referendum” in this Official Statement.

Under Initiative 601, the state generally is prohibited from increasing expenditures from the General Fund-State and certain related accounts during any fiscal year by more than the fiscal growth factor. In July 2009, the related accounts were merged into the General Fund. The fiscal growth factor is calculated annually and is defined as the average growth in state personal income for the prior ten fiscal years. Voter approval is required to exceed the spending limit. The fiscal growth factor is 5.53 percent for Fiscal Year 2008, 5.57 percent for Fiscal Year 2009, 5.20 percent for Fiscal Year 2010, 4.61 percent for Fiscal Year 2011, and 4.26 percent for Fiscal Year 2012.

Initiative 601 established two reserve funds (the Emergency Reserve Fund and the Education Construction Fund) for depositing revenues in excess of the spending limit. Initiative 728, approved by voters in 2000, added a third fund, the Student Achievement Fund, for depositing revenues in excess of the spending limit. Initiative 601 in its original form required that appropriations from the Emergency Reserve Fund be approved by a two-thirds vote of both houses of the Legislature. The Legislature changed this requirement to a simple majority in 2002.

In 2007 the Legislature enacted legislation to abolish the Emergency Reserve Fund and to create a new Budget Stabilization Account by amending the State Constitution, which required voter approval. The amendment was approved by voters. The Budget Stabilization Account receives one percent of the general state revenues each year. Money may be appropriated from the Budget Stabilization Account by a majority vote of each house of the Legislature if: (i) forecasted state employment growth for any fiscal year is less than one percent, or (ii) the Governor declares an emergency resulting from a catastrophic event that requires government action to protect life or public safety. Other withdrawals from the Budget Stabilization Account may be made only by a three-fifths vote of each house of the Legislature.

Initiative 960, approved by the voters in 2007, requires tax increases be approved by a two-thirds majority of each house of the Legislature and be submitted to the ballot for an advisory vote of the people; the Legislature may also approve tax increases with a simple majority vote if the increase is placed before the people in a referendum. Initiative 960 also provides for the notification of interested parties when the Legislature proposes or otherwise takes action upon measures that increase taxes or fees and requires the Office of Financial Management (“OFM”), the Governor’s budget agency, to provide ten-year estimates of the increased revenues and costs of such measures. Finally, Initiative 960 prohibits any fee from being imposed or increased without prior legislative approval.

BUDGETING AND ACCOUNTING

Budget Process

The state operates on a July 1 to June 30 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 the 20th day of December in the year preceding the session during which the biennial budget is to be considered. The operating budget, capital budget and transportation budget are prepared separately.

During a biennium, the Governor may submit supplemental budgets to the Legislature during the regular session or in any special session.

Under state law, the Governor’s budget offered to the Legislature must include estimates of all anticipated revenues and all proposed operating and capital expenditures. Revenues are estimated for such fiscal

period from the source and at the rates existing by law at the time of submission of the budget document. Further, the total of the beginning undesignated fund balance and estimated revenues less working capital and other reserves must equal or exceed the total of proposed expenditures. The Governor may additionally submit a proposal for expenditures in the ensuing fiscal period from revenue sources derived from proposed changes in statutes.

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

Operating Budget

Formulation of the state's operating budget starts when OFM distributes instructions to all state agencies establishing guidelines and information requirements. Development of agency budgets begins approximately nine months prior to the legislative sessions that convene in odd-numbered years. Formal budget requests from agencies are sent to OFM in late summer, after which they are analyzed and revised by OFM as appropriate. Alternative methods of delivering services are examined and evaluated, and recommended budget levels and program/policy choices are prepared for the Governor by the Director of OFM. State revenues and expenditures are limited by statute. See "Revenues and Expenditures—Revenue and Expenditure Limitations."

Fiscal Controls

To ensure that the budget remains in balance, fiscal controls are exercised during the biennium through an allotment process, which requires each agency to submit a monthly expenditure plan. This expenditure plan must be approved by OFM and provides the authority for agencies to spend funds within statutory maximums specified in the legislatively adopted budget. Reports are available that compare actual agency expenditures to estimates.

Budget tables and statistics provided by OFM for inclusion in this Official Statement are based on GAAP, which provides that revenues are recognized and included when they are measurable and earned, regardless of when the funds are received. Given the nature of the state's revenue collection, on an accrual basis revenues are available for expenditure prior to receipt. Recognizing that the expenditure of funds prior to receipt of offsetting revenue would result in negative cash balances, the Legislature has enacted laws that prohibit state agencies from incurring cash deficiencies, except for temporary cash deficiencies resulting from disbursements under an expenditure plan approved by the Legislature, authorized by OFM within a fiscal biennium, or in funds or accounts neither in the state treasury nor in the custody of the State Treasurer. This prohibition does not apply to expenditures of bond proceeds from construction accounts or expenditures resulting in seasonal cash deficits in construction accounts having unexpended appropriation authority pending receipt of additional proceeds of authorized bonds.

If at any time during the fiscal period (the fiscal year or fiscal biennium for which an appropriation is made in a budget act) the Governor projects a cash deficit because disbursements will exceed the aggregate of estimated receipts plus beginning cash surplus, the Governor is permitted to make across-the-board reductions in allotments to those funds estimated to have a deficit to cure the cash deficit, thereby reducing expenditures of appropriated funds, unless the Legislature has directed the liquidation of the cash deficit over one or more fiscal periods. Amounts garnered from an across-the-board reduction are placed in reserve status.

In addition, if, for any applicable fund or account, the estimated receipts for the next ensuing fiscal period plus cash beginning balances are less than the aggregate of estimated disbursements proposed by the Governor for the next ensuing fiscal period, the Governor shall include in the proposed budget the manner in which the anticipated cash deficit shall be met, whether by an increase in the indebtedness of the state, by the imposition of new taxes, by increases in tax rates or an extension thereof, or in any like manner.

Economic and Revenue Forecasting

To assist in its financial planning, 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 Transportation Revenue Forecast Council and described below. The Forecast Council is an independent state agency consisting of six members, two appointed by the Governor and two appointed from each of the political caucuses of the Senate and House of Representatives. The Forecast Council approves the official economic revenue forecast for the state and reviews financial performance at least eight times during the biennium. The development of state budgets and any necessary budgetary actions of the Governor during a fiscal period are required by law to be based upon the official economic and revenue forecasts of the Forecast Council.

In mid-February (or March in odd-numbered years), June, September, and November, subject to the approval of the Forecast Council, the forecast supervisor uses forecasts of the U.S. economy to prepare 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 most recent state forecast by the Forecast Council was released on November 19, 2009 and is summarized below. The next forecast is expected to be released on or about February 12, 2010. Copies may be obtained from the Economic Forecast Council (www.erfc.wa.gov, which website is not incorporated herein by reference).

Caseload Forecast Council

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 is governed by RCW 43.88C. The council meets three times per year in March, June and November and adopts a formal caseload forecast. The November forecast is the basis of the Governor's budget document and utilized by the Legislature in the development of the omnibus biennial appropriations act.

Transportation Forecasting

The Office of Financial Management carries out its forecast responsibilities for transportation revenues (including motor vehicle fuel excise tax revenues) through the Transportation Revenue Forecast Council, comprised of technical staff of the Department of Licensing, Department of Transportation and the Economic Forecast Council.

Transportation revenues are forecast to reach \$4.2 billion for the 2009-2011 Biennium. This is a \$2 million downward revision of the September forecast, reflecting the decline in gasoline consumption with higher fuel prices and a continued lower level of economic activity. The 2009-11 forecast revenues represent an increase of nearly three percent from the prior, 2007-09 Biennium.

Washington State Economic Forecast

In its November 19, 2009, report, the Economic and Revenue Forecast Council noted that growth has returned to the national and state economies, but that consumer spending and consumer confidence remain weak. A recovery in state revenues depends on a return of confidence and private spending, which depends in turn on labor market conditions. Employment growth appears to lag the recovery in activity, as employers hold off on rehiring workers until they are certain demand has returned. The most recent forecast reduced the revenue forecast for the 2009-11 Biennium by \$760 million to \$28.8 billion.

The November forecast anticipates that a recovery in private spending and revenue is likely to be slow due to a likely delayed recovery in labor markets. The state unemployment rate is not expected to peak at 9.8 percent until the spring of 2010. In addition, the Forecast Council notes a second round of credit contraction is possible due to the vulnerability of local and regional banks to a downturn in commercial real estate. Credit to small businesses and retailers remains tight.

Nonetheless, the state is expected to outperform the national economy in the recovery due to the relatively high trade-intensity of the state economy. Growth in East Asia and parts of Western Europe, which began in the second quarter, and a weaker dollar have helped expand exports earlier in the recovery cycle than usual.

The state is recovering from overexposure to construction. Most of this improvement can be seen in single family rather than multifamily building permits. Real estate excise tax collections are increasing, as evidenced both in the number of transactions and in the value per transaction.

The most recent forecast is not impacted by Boeing's recent announcement that its second 787 line will be located outside the state, although a further decline of about 1,400 aerospace jobs from October 2009 through the end of the biennium is likely. No further reductions in overall software employment are expected, and many reports indicate that Microsoft's launch of Windows 7 has been a success.

Alternative Economic Forecasts

The Forecast Council also adopted an optimistic and a pessimistic forecast in November 2009.

Optimistic Forecast (Five Percent Probability). In the optimistic scenario, foreign economies experience a stronger than expected rebound and consumer and business confidence return earlier than expected. In the optimistic forecast, the revenue forecast for the 2009-11 Biennium is expected to be \$1.3 billion higher than the baseline, or \$30.2 billion.

Pessimistic Forecast (Ten Percent Probability). The greatest risk to the recovery is that consumer spending will not improve sufficiently to generate self-sustaining growth as the fiscal stimulus tapers off in less than a year. The banking sector also remains vulnerable and there may be a second round of credit contraction. Finally, there is some concern that excess liquidity has supported the development of asset bubbles in Asia that could be abruptly reversed. In the pessimistic forecast, the revenue forecast for the 2009-11 Biennium is expected to be \$1.4 billion lower than the baseline, or \$27.5 billion.

Current General Fund Revenue Projections and Operating Budget

The following table provides projected General Fund revenue from the November 2009 revenue forecast.

GENERAL FUND REVENUES Modified Accrual Basis (millions)

	2007-2009 Estimate	2009-2011 Estimate	Governor's 2010 Supplemental (Proposed)
Beginning General Fund-State Balance	\$ 781	\$ 193	\$ 193
General Fund-State Revenue			
Retail Sales and Use Taxes	\$ 15,547	\$ 14,877	\$ 14,877
Real Estate Excise Tax	1,052	968	968
Business and Occupation Tax	5,344	5,444	5,444
Property Tax	3,019	3,645	3,645
Other Taxes	2,152	3,146	3,146
Subtotal Tax Revenue	\$ 27,114	\$ 28,080	\$ 28,080
Other Nontax Revenue	\$ 642	\$ 698	\$ 698
Other Financing	(54)	64	64
Total Current Revenues	\$ 27,702	\$ 28,843	\$ 28,843
Legislatively Enacted Fund Transfers	\$ 665	\$ 829	\$ 829
2009 Legislative Transfer in from Budget Stabilization	400	45	45
2008 Prior Period Adjustments	(7)	0	0
2009 Legislative Transfer of Related Accounts Balances	0	84	89
Governor's Proposed 2010 Fund Transfers			421
Use of Rainy Day Fund			229
Transfer to Budget Stabilization Account	(115)	(259)	(252)
Total General Fund-State Revenue*	\$ 29,426	\$ 29,734	\$ 30,396
Federal Revenue	\$ 12,238	\$ 13,305	\$ 15,831
Private/Local Revenue	455	475	533
Total	\$ 42,119	\$ 43,514	\$ 46,760

Source: Office of Financial Management

The following table provides general fund expenditures in the final enacted operating budget for the 2007-2009 Biennium, the enacted operating budget for the 2009-2011 Biennium, and the Governor's proposed 2010 Supplemental Budget, which proposes changes to the enacted 2009-11 budget. Ending balances take into account updated revenues from the November 2009 forecast shown in the previous table.

GENERAL FUND EXPENDITURES
Modified Accrual Basis
(millions)

	2007-09	2009-11	Governor's 2010
	Estimate	Estimate	Supplemental
			(Proposed)
Education			
Public Schools	\$ 12,245	\$ 13,168	\$ 13,008
Higher Education	3,183	2,937	2,588
Other Education	181	166	139
Total Education	\$ 15,609	\$ 16,271	\$ 15,735
Human Services			
Department of Social and Health Services	\$ 8,489	\$ 8,955	\$ 8,946
Department of Corrections	1,729	1,581	1,570
Other Human Services	230	714	527
Total Human Services	\$ 10,448	\$ 11,250	\$ 11,043
Natural Resources and Recreation	\$ 452	\$ 380	\$ 375
Government Operations	531	479	437
Other Expenditures*			
Debt Service	\$ 1,570	\$ 1,813	\$ 1,795
Other Expenditures	623	725	700
Total Other Expenditures	\$ 2,193	\$ 2,538	\$ 2,495
Total General Fund-State Expenditures	\$ 29,233	\$ 30,918	\$ 30,085
Federal	\$ 12,238	\$ 13,305	\$ 15,831
Private/Local	455	475	533
Total	\$ 41,926	\$ 44,698	\$ 46,449
Ending General Fund-State Balance	\$ 193	\$ (1,184)	\$ 311
Budget Stabilization Account	21	236	0
Total Reserves	\$ 214	\$ (948)	\$ 311

* Includes legislative, judicial and transportation agencies, as well as debt service and contributions to LEOFF and Judges and Judicial Retirement System. See "Retirement Systems."

Source: Office of Financial Management

Shortfall Addressed in the Enacted 2009 Supplemental Operating Budget and the 2009-11 Biennial Operating Budget

In December 2008, the Governor proposed a 2009 supplemental operating budget and an operating budget for the 2009-11 Biennium. Together, they addressed an approximate \$5.7 billion shortfall expected through the 2009-11 Biennium. However, by the time the Legislature approved its final budget in April 2009, the revenue shortfall had grown to nearly \$9 billion for this three-year period. This shortfall reflected significant declines in revenue and increases in the cost of providing services such as

basic education and medical assistance, and higher caseloads. The enacted 2009-11 legislative budget addressed this estimated revenue shortfall by proposing substantial reductions in state expenditures in the areas of natural resources, health care and human services, higher education, early learning, public safety and K-12 education (other than basic education). It did not reduce expenditures for items the state is required to provide, including basic education, federally mandated Medicaid, pensions and debt service, and did not include any proposed tax increases. Also included in this legislative budget was the estimated federal stimulus funding expected to be received by the state over the next three years.

Enacted 2009-11 Biennial Budget

For the 2009-11 Biennium, the make-up of the General Fund was changed by the passage of ESSB 5073, which merged Health Services, Public Safety and Education, Equal Justice, Student Achievement, Water Quality, and Violence Reduction and Drug Enforcement into the General Fund. Before these accounts are merged into the General Fund-State, revenues are projected to be \$27.7 billion, a zero percent increase from the 2007-09 Biennium, plus a carry-forward of \$398 million. Once these accounts are merged into the General Fund, the revenues are projected to be \$28.8 billion, an increase of 4.1 percent over the 2007-09 Biennium. Also included is \$874 million in a shift of revenue to and from other funds, plus other adjustments. There is also a transfer of \$259 million into the Budget Stabilization Account (the Rainy Day Account).

The enacted 2009-11 operating budget contains overall General Fund-State expenditures of \$30.9 billion, an increase of \$1.7 billion or 5.9 percent over the 2007-09 Biennium after the merger of the related accounts.

In the 2009-11 Biennium, 52 percent of the General Fund-State budget goes to supporting public schools and higher education. The funding for K-12 public schools includes special education funding, classified staff recognition, and the increased cost of teacher and staff health benefits. Despite an allocation of \$81.5 million of federal stimulus funding, higher education funding is about 17 percent below the amount needed to continue the current level of programs and activities. About \$230 million in reductions is offset by tuition increases, which are expected to be about 14 percent per year for resident undergraduates at the public baccalaureate institutions, and seven percent per year at the community and technical colleges. The net reductions after assuming the tuition increases are between six percent and seven percent. Because of these reductions, student enrollment is expected to be reduced by about 3,500 students.

The 2009-11 biennial budget contains no salary increases for K-12 teachers and state employees, but does include health benefit rate increases. Funding for pension contributions is reduced to reflect changes to actuarial assumptions and methods used for the state's various retirement systems (reduction of the assumed rate of salary growth, delay of the adoption of new mortality tables until the 2011-13 Biennium, suspension of contribution rate minimums for the 2009-11 Biennium in all plans except for the Washington State Patrol Retirement System, modification of the total contribution rate minimum in that retirement system, and phased adoption of a new funding method for the Plan 1 unfunded liabilities).

Governor's Proposed 2010 Supplemental Budget

Since the 2009-11 Biennial Budget was enacted in May 2009, forecasts of state General Fund revenue have declined by almost \$1.7 billion. At the same time, expenses have risen with increases in caseloads, K-12 enrollment, health benefits, and other necessary expenses. This has created an expected biennial shortfall of \$2.6 billion.

To address this problem, the Governor proposed a 2010 Supplemental Budget in December 2009 which incorporates expenditure reductions and identifies additional resources. These changes bring the 2009-11 budget for the General Fund back into balance using only revenues established in current law. The proposed supplemental budget proposes the following changes:

Additional Resources	
Other Fund Transfers to General Fund	\$ (421)
Use of Rainy Day Fund (all)	(229)
Use of Health Benefit Fund Reserves	(52)
Lower Ending General Fund-State Balance	(202)
Expenditure Reductions	
K-12 Education	(375)
Higher Education	(370)
Other Education Agencies	(14)
Human Services	(850)
Natural Resources	(25)
General Government	(41)
Transportation	<u>(5)</u>
Total	\$ (2,583)

The Governor has indicated she intends to submit a second supplemental budget proposal in January 2010 that will identify additional revenues to restore funding for selected education and social service programs. That budget may also include proposed legislation to increase revenues. It is expected that that the Governor and the Legislature will enact a 2010 supplemental budget and supporting revenue package that will alleviate the potential need for external short-term borrowing during the 2011 fiscal year.

The Governor's 2010 supplemental budget also recommends modest changes to the Transportation and Capital budgets, updating existing project costs and making \$219 million in new capital investments.

Forecast Adjustments

The following tables provide the General Fund-State forecast adjustments for the 2007-09 and 2009-2011 Biennia.

2007-09 BIENNIUM
GENERAL FUND-STATE FORECAST ADJUSTMENTS
(Modified Accrual Basis)
(in Millions)

Beginning Fund Balance	\$781
Revenue Updates	
November 2006	\$29,533
March 2007	(18)
June 2007	331
September 2007	213
November 2007	(130)
February 2008	(423)
June 2008	(50)
September 2008	(167)
November 2008	(503)
March 2009	(736)
June 2009	(184)
September 2009	(7)
2007 Session Legislative Changes	(19)
2008 Session Legislative Changes	(11)
2009 Session Legislative Changes	518
2009 Legislative Transfer in from Budget Stabilization	400
Smokeless Tobacco Settlement	(23)
Rainy Day Account (Budget Stabilization)	(115)
Changes in Reserves and Other Adjustments	<u>33</u>
Total Sources	<u>\$29,423</u>
Total Expenditures	\$29,233
Ending General Fund-State Balance	\$190
Budget Stabilization Account	<u>21</u>
Total Reserves	\$211

Source: *Office of Financial Management*

**2009-2011 BIENNIUM
GENERAL FUND-STATE FORECAST ADJUSTMENTS
(Modified Accrual Basis)
(in Millions)**

Beginning Fund Balance	\$ 193
Revenue Updates	
February 2008	31,918
June 2008	(153)
September 2008	(256)
November 2008	(1,428)
March 2009	(2,125)
June 2009	(502)
September 2009	(231)
November 2009	(760)
2009 Session Legislative Changes	1,079
2009 Legislative Transfer in from Budget Stabilization	45
2009 Legislative Merge of Related Accounts	2,214
Rainy Day Account (Budget Stabilization)	(259)
Changes in Reserves and Other Adjustments	<u>(1)</u>
Total Sources	\$ 29,734
Total Expenditures	<u>\$ 30,918</u>
Ending General Fund-State Balance	\$ (1,184)
Budget Stabilization Account	<u>236</u>
Total Reserves	\$ (948)

Note: Totals may not add due to rounding.

Source: *Office of Financial Management*

Capital Budget

The following table provides the enacted capital budget for the 2007-09 Biennium, the enacted capital budget for the 2009-11 Biennium, and the Governor's 2010 Supplemental Capital Budget.

CAPITAL BUDGET (Modified Accrual Basis) (in Millions)

	2007-09 Estimate	2009-11 Estimate	Governor's 2010 Supplemental (Proposed)
Education			
Public Schools	\$ 1,254	\$ 1,190	\$ 1,108
Higher Education	1,539	1,305	1,410
Other Education	45	30	30
Total Education	\$ 2,838	\$ 2,525	\$ 2,548
Human Services			
Department of Social and Health Services	\$ 85	\$ 44	\$ 44
Other Human Services	518	259	268
Total Human Services	\$ 603	\$ 303	\$ 312
Natural Resources and Recreation	\$ 1,721	\$ 1,568	\$ 1,639
General Government	1,952	1,270	1,296
Transportation	17	10	10
Total Capital Budget Expenditures	\$ 7,131	\$ 5,676	\$ 5,805

Source: Office of Financial Management

In the 2009-11 capital budget, \$1.4 billion is provided for higher education projects, \$1.2 million for K-12 education, and \$1.6 million for natural resource projects. Other capital funds are divided across the remaining state governmental functions.

The largest projects in the 2009-11 capital budget include: School Construction Grants, \$689 million (\$428 million in general obligation bonds); Housing Assistance, \$100 million (\$90 million in bonds); Western Washington University—Miller Hall Renovation, and \$56.625 million in general obligation bonds.

The capital budget contains \$188.6 million in federal stimulus funding for Community Development Block Grants, Low-Income Weatherization, Drinking Water Assistance Program, Leaking Underground Tanks, Diesel Emissions Reduction, Water Pollution Control Revolving Fund Program, Habitat Restoration Grants, and Hazardous Fuels Reduction, Forest Health, and Ecosystem Improvements.

Chapter 500, Laws of 2009 (Substitute Senate Bill 5537), effective July 1, 2009, repealed the statutory debt limit with the result that there is now a single debt limit: the constitutional debt limit. This will increase the transparency of this calculation for the public and interested parties.

Another change made by the Legislature will also result in the state's ability to incur additional debt under the constitutional debt limit. ESSB 5073 merged the following accounts into the General Fund: Health Services, Public Safety and Education, Equal Justice, Student Achievement, Water Quality, and Violence Reduction and Drug Enforcement. The bill also deletes the statutory dedication of these revenues with the exception of the revenues into the Student Achievement Account. The resulting increases in revenues treated as general state revenues will have the effect of increasing the base against which the constitutional

debt limit is measured, as well as increasing deposits to the Budget Stabilization Account (the Rainy Day Fund). See the information under “Indebtedness—General Obligation Debt” below.

Transportation Budget

The Legislature passed the state transportation budget for the 2009-11 Biennium on April 25, 2009. The total \$7.7 billion budget includes \$4.4 billion for the Department of Transportation capital funding for roads, bridges, ferries, rail, and transit improvements. The transportation budget bill also contains funding for the Washington State Patrol, the Department of Licensing and other transportation agencies. The budget includes a deep bored tunnel to replace the Alaskan Way Viaduct, to be funded from a combination of \$2.4 million from the state, local funding, and as much as \$400 million in toll revenue. The Legislature authorized tolling on the SR 520 Bridge beginning in 2010. The total cost of the SR 520 project may not exceed \$4.65 billion. Improvements to I-90 across Snoqualmie Pass include adding an additional lane in each direction, extending chain-up areas, building several new bridges, and improving culverts. This \$595 million project will be operationally complete in 2015. The budget also provides \$11 million for the purchase of three 64-auto ferries that will go into service in June 2010, August 2011, and August 2012. The bill reappropriates the \$341 million in federal stimulus funding that will be awarded to the state for highway/transportation projects. Any amount spent in Fiscal Year 2009 was reduced from this funding level once the 2007-09 Biennium was closed.

Accounting and Auditing

The state’s accounting records are maintained in conformance with generally accepted accounting principles (“GAAP”), as promulgated by the Governmental Accounting Standards Board (“GASB”). The accounting system produces monthly financial statements at the state-wide combined level and at the agency level, which are used in the preparation of the state’s fiscal year Comprehensive Annual Financial Report (“CAFR”).

The Government Finance Officers Association of the United States and Canada has awarded a Certificate of Achievement for Excellence in Financial Reporting to the state for its CAFR for each of the Fiscal Years 1987 through 2008.

The State Auditor, an independent elected official, audits the state-wide combined financial statements each fiscal year. Such audits are required to include determinations as to the validity and accuracy of accounting methods, procedures and standards utilized in preparation of such financial statements, as well as the accuracy of such financial statements themselves.

The state’s fiscal 2009 CAFR contains annual financial statements prepared in accordance with GAAP as promulgated by GASB (the “2009 Annual Financial Statements”), a copy of which has been filed with each nationally recognized municipal securities information repository (“NRMSIR”). The state’s 2009 audited General Purpose Financial Statements are attached as Appendix D. Copies of the state’s entire 2009 CAFR are available on the OFM’s website at <http://www.ofm.wa.gov/cafr/2009/default.asp>, which website is not incorporated herein by reference.

INVESTMENTS

The State Treasurer’s Office is responsible for the investment management of the state’s operating funds totaling approximately \$2 billion to \$6 billion from time to time through its Treasurer’s Cash Management Account (the “CMA”). The Treasurer also is responsible for administering the Washington State Local Government Investment Pool (the “LGIP”), an approximately \$6 billion to \$10 billion fund that invests money on behalf of more than 400 cities, counties, special purpose districts, and higher education institutions.

Permissible investments for both funds include U.S. government and agency securities, bankers acceptances, high quality commercial paper, repurchase and reverse repurchase agreements, and certificates of deposits with qualified state depositories.

Treasurer's Cash Management Account. The CMA is a nonvoluntary pool of state agency funds; agencies are not permitted to make discretionary withdrawals for alternative investment purposes. The CMA may invest in securities with maturities out to ten years. The average life of the CMA generally ranges from one to two years.

In its management of the CMA pursuant to the Investment Policy adopted by the State Treasurer in April 2009, the State Treasurer sets its investment objectives pursuant to modern portfolio theory. To manage state funds more efficiently and effectively, the State Treasurer's CMA investments are separated into two portfolios, each with its own risk objectives. The policy sets forth, among other things, the practices, procedures and restrictions applicable to the investment of funds and specifies eligible investments and certain restrictions on portfolio composition. Internal controls and reporting requirements are mandated by the Investment Policy to allow for oversight and monitoring of performance.

Local Government Investment Pool. The LGIP, authorized by state law, is a voluntary pool that provides its participants the opportunity to take advantage of the economies of scale inherent in pooling. It also is intended to offer participants increased safety of principal and the ability to achieve a higher investment yield than otherwise would be available to them. Although not regulated by the SEC, the LGIP closely follows the SEC guidelines for Rule 2a-7 money market funds, *e.g.*, a maximum weighted average maturity ("WAM") of 90 days and a maximum final maturity of 397 days. The WAM generally ranges from 30 to 60 days.

The LGIP is designed to adhere to the traditional principles applicable to the prudent investment of public funds, which are, in order of priority: (i) the safety of principal, (ii) the assurance of sufficient liquidity to meet cash flow demands, and (iii) the attainment of the highest possible yield within the constraints of the first two goals. Historically, both the CMA and the LGIP have had sufficient liquidity to meet all cash flow demands.

**WASHINGTON STATE TREASURER PORTFOLIOS
AVERAGE DAILY BALANCES BY SECURITY CLASS
(Dollars in 000)**

CMA	Nov 2009		Dec 2008-Nov 2009*	
	(\$)	(%)	(\$)	(%)
Agency	1,399,412	47.0	1,887,452	59.5
Treasury	300,726	10.1	89,268	2.8
Repurchase Agreements	-	-	17,907	0.6
Reverse Repo	-	-	(61,831)	(1.9)
Bank Deposits	198,266	6.7	365,189	11.5
NOW Accounts	787,580	26.4	636,688	20.1
TLGP Bonds	291,966	9.8	237,258	7.5
Commercial Paper	-	-	-	-
	<u>2,977,950</u>	<u>100.0</u>	<u>3,171,931</u>	<u>100.0</u>

Weighted Average Maturity: 555 days

LGP	Nov 2009		Dec 2008-Nov 2009*	
	(\$)	(%)	(\$)	(%)
Agency	5,795,797	58.9	4,694,143	59.1
Treasury	1,937,953	19.7	1,507,802	19.0
Repurchase Agreements	-	-	52,746	0.7
Reverse Repo	-	-	(109,292)	(1.4)
Bank Deposits	470,347	4.8	510,437	6.4
NOW Accounts	1,641,860	16.7	1,288,229	16.2
Commercial Paper	-	-	-	-
	<u>9,845,957</u>	<u>100.0</u>	<u>7,944,065</u>	<u>100.0</u>

Weighted Average Maturity: 55 days

* Average balance

Source: Office of the State Treasurer

ASSET LIABILITY MANAGEMENT

Up to ten percent of the state's total general obligation debt may be in variable rate form under a policy adopted by the Committee in July 1995. Nearly all of the state's debt has been issued in long-term, fixed-rate form, while state investments are made in short-term instruments. See "Indebtedness—State Bonds Outstanding" and Schedules 1 through 3.

INDEBTEDNESS

Debt Issuance Policy

All state general obligation debt and other evidence of indebtedness is authorized by the Legislature and issued under the authority granted to the Committee by the Legislature.

In 1996, the Committee adopted a Debt Issuance Policy that, among other things, addresses the roles and responsibilities of the Committee and the State Treasurer, standards of conduct and appointment of professional service providers. The Debt Issuance Policy also addresses methods of sale, appointments of underwriters, pricing and allocation of negotiated sales, and refunding savings thresholds.

Under “Conditions of Sale,” the Debt Issuance Policy generally calls for (i) level debt service, i.e., approximately equal amounts of principal and interest per year; (ii) fixed interest rates; and (iii) debt life shorter than or equal to estimated useful life of the facility financed. These conditions may not apply in all cases.

The state, through the State Finance Committee, is authorized by law to enter into payment agreements such as interest rate swaps, but to date has not done so.

General Obligation Debt

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

- (i) by the affirmative vote of 60 percent of both houses of the Legislature, without voter consent (in which case the amount of such debt is generally but not always subject to the constitutional limitation; see “Constitutional General Obligation Debt Limitation” below);
- (ii) by the affirmative vote of 50 percent of both houses of the Legislature and a majority of the voters voting thereon (in which case the amount of the debt so approved is not subject to other constitutional limitations; see “Constitutional General Obligation Debt Limitation” below); or
- (iii) by a body designated by statute (currently the Committee) without limitation as to amount, without approval of the Legislature (except as to appropriation of the sums borrowed) and without the approval of the voters; however, such debt:
 - (a) may be incurred only to meet temporary deficiencies of the State Treasury, to preserve the best interests of the state in the conduct of the various state institutions, departments, bureaus, and agencies during each fiscal year;
 - (b) must be discharged, other than by refunding, within 12 months of the date of incurrence;
 - (c) may be incurred only to provide for appropriations already made by the Legislature; or
 - (d) may be incurred to refund outstanding obligations of the state.

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

Constitutional General Obligation Debt Limitation. With certain exceptions noted below, the amount of state general obligation debt which may be incurred by the means described in the section entitled “General Obligation Debt Authority” above is limited by the State Constitution. The former statutory limitation on the state general obligation debt was repealed by Chapter 500, Laws of 2009 (Substitute Senate Bill 5537), effective July 1, 2009. The constitutional limitation prohibits the issuance of new debt if the new debt would cause the maximum annual debt service on all thereafter outstanding general obligation debt to exceed nine 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 which may be paid by the state in future years.

“General state revenues” is defined for purposes of the constitutional limitation as including all state money received in the State Treasury, with certain exceptions that include (i) fees and revenues derived from the operation of any facility; (ii) earmarked gifts, grants, donations, and aid; (iii) money for retirement system funds and performance bonds; (iv) money from trust funds, proceeds from sale of bonds or other indebtedness; and (v) taxes levied for specific purposes.

Debt service on the following types of general obligation debt is excluded from the calculation of the constitutional debt limitation:

- (i) debt payable primarily from excise taxes levied on motor vehicle fuels, income received from the investment of the permanent common school fund and revenue received from license fees on motor vehicles;
- (ii) debt which has been refunded;
- (iii) debt issued after approval of both houses of the Legislature and a majority of those voting in a general or special election;
- (iv) debt issued to meet temporary deficiencies in the State Treasury (described in “General Obligation Debt Authority” above);
- (v) debt issued in the form of bond anticipation notes;
- (vi) debt issued to fund or refund debt of the State Building Authority (no longer in existence);
- (vii) debt issued to pay “current expenses of state government;”
- (viii) debt payable solely from the revenues of particular public improvements (revenue debt of the state); and
- (ix) any state guarantee of voter-approved general obligation debt of school districts in the state.

Current General Obligation Debt Capacity. By applying the constitutional limitation on general obligation debt, the state’s estimated general obligation debt capacity (excluding Committee-authorized short-term debt described above) is calculated as follows (as of January 27, 2010):

CURRENT GENERAL OBLIGATION DEBT CAPACITY

	<u>Constitutional (9 Percent)*</u>
Estimated arithmetic mean of general state revenues for fiscal years ending June 30, 2007, 2008, and 2009 (1)	\$ 12,518,405,539
Debt service limitation (9% of above) (maximum annual debt service on general obligation debt to be outstanding may not exceed this sum).....	\$ 1,126,656,499
Maximum annual debt service on outstanding general obligation debt (1/27/2010).....	\$ 971,256,899
Uncommitted portion of debt service limitation (1/27/2010).....	\$ 155,399,600
Remaining state general obligation principal debt capacity after the current bond offering (assuming a 25-year amortization and an interest rate of 6.00% on future issues) (2)	\$ 1,986,528,432

(1) The arithmetic means of general state revenues for the previous three-year fiscal periods are shown below. Source: "Certification of the Debt Limitation of the State of Washington" for fiscal years 1999 through 2009.

<u>Fiscal Years Ending</u>	<u>Constitutional</u>
June 30 2004, 2005, and 2006	\$ 10,314,780,406
June 30 2005, 2006, and 2007	\$ 11,526,125,727
June 30 2006, 2007, and 2008	\$ 12,605,844,962

(2) The amount of debt that can be issued under this debt limitation calculation is subject to numerous factors, including state revenues, debt structure and interest rates, and may vary over time.

* Preliminary, subject to change.

Source: *Office of the State Treasurer*

Use of Short-Term General Obligation Debt Authority (Certificates of Indebtedness and Bond Anticipation Notes). Chapter 39.42 RCW and the respective bond statutes of the state 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 are general obligations of the state. Principal of and interest on such notes are excluded from the constitutional limitation. The state has no bond anticipation notes currently outstanding. The state does not currently plan to issue cash management notes.

Article VIII of the State Constitution and chapter 39.42 RCW 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 twelve months of the date of issue. Principal and interest on certificates of indebtedness is excluded from the constitutional limitation. The state has no certificates of indebtedness currently outstanding and does not anticipate any external short-term borrowing during the current fiscal year.

Motor Vehicle Fuel Tax Obligations

As of January 27, 2010, there will be outstanding \$5,051,107,127 motor vehicle fuel tax bonds secured by a pledge of, and first payable from, excise taxes levied against motor vehicle and special fuels. These bonds are also secured by the full faith, credit and taxing power of the state, but are not subject to the constitutional debt limitation.

Motor Vehicle Fuel Tax Rates. In 1983, the Legislature established a motor vehicle fuel tax at a fixed rate of \$0.180 per gallon. The following table provides the per-gallon tax since April 1, 1990.

MOTOR VEHICLE FUEL TAX RATE HISTORY

Date Changed	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: Department of Transportation

All proceeds of the motor vehicle fuel tax are required by the state constitution to be placed in a special fund within the state treasury and used exclusively for highway purposes, including the payment of state obligations for which the motor vehicle fuel tax has been legally pledged.

Certain of the motor vehicle fuel taxes are required by state statute to be distributed to local governments, and certain of the motor vehicle fuel taxes distributed to the state are restricted for expenditure on specified projects.

Revenue Available for Debt Service. The following table presents the state’s motor vehicle fuel excise tax collections and the allocations of excise tax pledged for bond principal and interest payments.

MOTOR VEHICLE FUEL EXCISE TAX COLLECTIONS AND ALLOCATIONS OF EXCISE TAX PLEDGED

Fiscal Year	Revenue Pledge	County-City Allocation ⁽¹⁾	State Allocation ⁽²⁾
1999	\$ 712,559,355	\$ 95,059,580	\$ 356,426,320
2000	721,684,773	96,276,797	365,130,833
2001	723,945,995	96,578,457	366,272,623
2002	720,305,001	96,092,728	364,429,773
2003	732,805,981	97,760,429	370,749,618
2004	888,237,589	99,866,758	512,808,590
2005	911,683,662	99,265,533	538,209,753
2006	1,002,731,346	100,413,860	611,459,003
2007	1,107,091,064	100,960,199	698,188,782
2008	1,168,113,704	99,972,410	758,534,609
2009	1,164,355,418	95,384,681	773,006,818
2010 Est. ⁽³⁾	1,214,631,200	98,832,000	809,344,500
2011 Est. ⁽³⁾	1,244,632,400	101,278,500	829,354,300

- (1) Allocation of excise tax revenues first used for payment of debt service for county-city urban program.
- (2) Allocation of excise tax revenues first used for payment of debt service for ferry vessels, State Route 90 and the state highway bonds.
- (3) Transportation Forecast Council November 2009 forecast.

Source: Transportation Forecast Council

Revenue Pledge and Distribution Percentages. Each legislative act authorizing 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 hereafter be authorized that also pledge motor vehicle and special fuels excise taxes for their payment. By statutory provision the Legislature has covenanted to continue to levy that excise tax in amounts sufficient to pay, when due, the principal and interest on all of those bonds issued under the respective 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. The act authorizing the issuance of refunding bonds requires, as to bonds to be refunded that are secured by motor vehicle fuel taxes, that the refunding bonds be secured by the same taxes in addition to the pledge of the state's full faith and credit and taxing power.

The Legislature has established a statutory plan for the distribution and expenditure for various purposes of specified percentages of motor vehicle and special fuels excise taxes received in the motor vehicle fund. However, the Legislature has provided that nothing in those provisions may be construed to violate the terms and conditions of any highway construction bond issues authorized by statute and whose payment is by such statute pledged to be paid from any excise taxes on motor vehicle and special fuels. With the pledge of the aggregate of motor vehicle and special fuels excise taxes for payment of the principal of and interest on all motor vehicle fuel tax bonds currently authorized, that statutory plan can be characterized as a mandate as to which portion of such excise taxes should first be used to transfer funds to the Highway and Ferry Bond Retirement Funds.

Appropriation Process

The Legislature is obligated to appropriate money for state debt service requirements. Appropriations providing for the payment of bond principal and interest requirements on each series of bonds normally are included in the omnibus appropriation act or occasionally in another appropriation act of each biennial session. In addition, it has been the practice to provide in each omnibus appropriation act an appropriation of such additional money as may be required to satisfy bond covenants and laws for reserves, surplus funds and other "set-asides."

Generally, each bond statute provides that on or before June 30 of each year the Committee shall certify to the State Treasurer the amount required for payment of bond principal and interest for the ensuing fiscal year. For bonds authorized before the First Extraordinary Session of the 1977 Legislature on July 1 (in some instances on June 30), the State Treasurer was required to transfer those funds from any state general revenues, component or dedicated revenues, depending on the revenue pledge, to the specified bond fund. For bonds authorized during the 1977 First Extraordinary Legislative Session and for all subsequent authorizations made prior to the 1989 Legislative Session, the State Treasurer must transfer the funds necessary to pay debt service to the respective bond redemption funds not less than 30 days prior to the principal or interest payment date. For bonds authorized during and since the 1989 Legislative Session, the State Treasurer must transfer the funds necessary to pay debt service to the respective bond redemption funds on the principal or interest payment date.

The statutes(s) authorizing the bonds and other general obligations of the state require the Committee to certify annually the amount needed to provide for payment of debt service and require the State Treasurer to deposit "general state revenues" in such amount into the General Obligation Bond Retirement Fund from time to time. The term "general state revenues" is defined in Article VIII in the State Constitution. Not all money deposited in the General Fund-State constitutes general state revenues.

Some general obligation bond statutes provide that the General Fund-State will be reimbursed from discrete revenues which are not considered general state revenues. For example, tuition fees charged by institutions of higher education must reimburse the General Fund-State for payment of debt service for a number of higher education construction bonds. Other similar reimbursement requirements apply to hospital patient

fees (for University of Washington Hospital Construction Bonds) and lease-rental proceeds (for Washington State University Research Center Bonds). All of these required reimbursements have been made to date.

In addition, special hotel-motel tax proceeds collected in King County are pledged to reimburse the General Fund-State debt service payments for the 1983 State Convention and Trade Center Bonds.

Under statutes enacted before 1993 authorizing motor vehicle fuel tax bonds, 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 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 State 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, the latter of which is to be used for payment of the principal of and interest on the state ferry bonds when due. If in any month it appears that the estimated percentage of money so transferred is insufficient to meet the requirements for interest and bond retirement, the State 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. Later-enacted statutes authorizing motor vehicle fuel tax bonds require that such transfers from the Motor Vehicle Fund to the Highway Bond Retirement Fund be made in accordance with the bond proceedings.

The state retains and expects to continue to retain a minimum surplus of funds in the Highway Bond Retirement Fund pending the development of clear estimates of the consequences of energy conservation measures and more definite Department of Transportation revenue projections.

With respect to state ferry bonds, concurrently with the distribution of motor vehicle and special fuel tax revenue to the Ferry Bond Retirement Fund, the State Treasurer must transfer a like amount of funds from the Puget Sound Capital Construction Account to the Motor Vehicle Fund.

State Bonds Outstanding

The following table summarizes as of January 27, 2010, the state’s general obligation bonds and general obligation bonds secured by motor vehicle fuel tax revenue. See Schedule 1.

General Obligation Bonds.....	\$ 10,481,647,277
Motor Vehicle Fuel Tax General Obligation.....	5,051,107,127
	\$ 15,532,754,403

Coverage of the projected highest annual debt service on all outstanding motor vehicle fuel tax general obligation bonds in any one fiscal year of \$414.422 million (see Schedule 3, “Motor Vehicle Fuel Tax Revenues” column) is 2.91 times based upon estimated motor vehicle fuel tax revenues of \$1.206 billion (Total Motor Vehicle Fuel Tax Net for Distribution—Transportation Forecast Council’s November 2009 Forecast) for the fiscal year ending June 30, 2010.

Schedules

Schedules Nos. 1 through 3 show debt service on outstanding and proposed general obligation bonds and motor vehicle fuel tax bonds and analyses of the various types of revenues pledged to secure these bonds.

SCHEDULE NO. 1

TOTAL BONDS OUTSTANDING AND JANUARY 27, 2010, BOND OFFERING

Fiscal Year Ending June 30th	Outstanding 1/27/2010 ⁽¹⁾		January 27, 2010, Bond Offering ⁽²⁾		Total ⁽³⁾
	Principal	Interest ⁽⁴⁾	Principal	Interest	
	2010	\$ 88,848,299	\$ 77,385,877	\$ -	
2011	620,153,541	730,703,038	10,325,000	23,653,782	1,384,835,360
2012	616,533,890	706,583,937	10,735,000	23,187,350	1,357,040,177
2013	644,713,288	675,235,624	11,275,000	22,650,600	1,353,874,512
2014	675,811,540	643,458,651	11,835,000	22,086,850	1,353,192,041
2015	706,769,557	621,578,170	12,425,000	21,495,100	1,362,267,827
2016	730,549,481	604,961,295	13,040,000	20,873,850	1,369,424,626
2017	738,804,784	594,768,431	13,695,000	20,221,850	1,367,490,065
2018	726,313,144	559,859,590	14,375,000	19,537,100	1,320,084,833
2019	717,358,200	530,518,095	15,100,000	18,818,350	1,281,794,645
2020	709,451,495	503,627,407	15,860,000	18,063,350	1,247,002,252
2021	692,765,193	444,122,387	16,650,000	17,270,350	1,170,807,929
2022	687,822,106	392,434,191	17,485,000	16,437,850	1,114,179,148
2023	681,227,167	362,116,199	18,355,000	15,563,600	1,077,261,967
2024	681,379,322	333,681,047	19,275,000	14,645,850	1,048,981,220
2025	662,224,917	303,535,055	20,235,000	13,682,100	999,677,072
2026	650,510,654	272,937,168	21,250,000	12,670,350	957,368,171
2027	625,663,610	242,802,357	22,310,000	11,820,350	902,596,317
2028	587,711,468	215,696,012	23,430,000	10,927,950	837,765,431
2029	575,971,913	189,676,349	24,600,000	9,756,450	800,004,712
2030	535,305,835	163,101,490	25,830,000	8,526,450	732,763,775
2031	464,275,000	78,482,788	27,125,000	7,493,250	577,376,038
2032	417,590,000	55,887,536	28,480,000	6,137,000	508,094,536
2033	342,225,000	35,832,787	29,900,000	4,713,000	412,670,787
2034	207,395,000	20,525,184	31,395,000	3,218,000	262,533,184
2035	96,510,000	11,302,184	32,965,000	1,648,250	142,425,434
2036	29,910,000	8,000,342	-	-	37,910,342
2037	31,005,000	6,330,966	-	-	37,335,966
2038	32,145,000	4,600,340	-	-	36,745,340
2039	33,320,000	2,806,272	-	-	36,126,272
2040	34,540,000	946,569	-	-	35,486,569
	<u>\$ 15,044,804,403</u>	<u>\$ 9,393,497,337</u>	<u>\$ 487,950,000</u>	<u>\$ 365,098,982</u>	<u>\$ 25,291,350,723</u>

Note: Totals may not add due to rounding.

(1) Outstanding Bonds by Revenue Pledge	Principal	Interest
(a) General State Revenues.....	\$ 9,993,697,277	\$ 5,658,004,938
(b) Motor Vehicle Fuel Tax.....	5,051,107,127	3,735,492,399
Total Bonds Outstanding.....	<u>\$ 15,044,804,403</u>	<u>\$ 9,393,497,337</u>
(2) January 27, 2010, Bond Offering		
(a) Series 2010E, dated 1/27/2010.....	\$ 487,950,000	\$ 365,098,982
Total January 27, 2010, Bond Offering.....	<u>\$ 487,950,000</u>	<u>\$ 365,098,982</u>
(3) Total Bonds Outstanding Following January 27, 2010, Bond Offering.....	<u>\$ 15,532,754,403</u>	<u>\$ 9,758,596,319</u>

(4) Interest payments are only estimates and are subject to change from time to time as market conditions change.

SCHEDULE NO. 2

SUMMARY - DEBT STRUCTURE BY REVENUE PLEDGE
General Obligation ⁽¹⁾

	<u>6/30/2005</u>	<u>6/30/2006</u>	<u>6/30/2007</u>	<u>6/30/2008</u>	<u>6/30/2009</u>	<u>1/27/2010 ⁽²⁾</u>
Outstanding						
General State Revenues and Components	\$ 7,575,311,302	\$ 7,702,642,072	\$ 8,304,968,946	\$ 9,003,114,410	\$ 9,831,964,833	\$ 10,481,647,277
Motor Vehicle Fuel Tax Revenue	2,404,758,801	2,881,445,657	3,368,311,634	4,004,259,674	4,285,988,810	5,051,107,127
Toll Revenue	-----	-----	-----	-----	-----	-----
Total - Outstanding	<u>\$ 9,980,070,103</u>	<u>\$ 10,584,087,730</u>	<u>\$ 11,673,280,580</u>	<u>\$ 13,007,374,085</u>	<u>\$ 14,117,953,643</u>	<u>\$ 15,532,754,403</u>
Annual Debt Service Requirements						
Fiscal Year	\$ 896,463,314	\$ 939,827,748	\$ 1,013,402,558	\$ 1,104,194,376	\$ 1,226,777,668	\$ 1,314,681,591
Authorized -- Unissued						
General State Revenues	\$ 3,165,528,029	\$ 2,909,033,029	\$ 3,858,263,029	\$ 2,879,113,029	\$ 3,856,638,029	\$ 2,775,013,029
Motor Vehicle Fuel Tax Revenue	3,087,256,199	7,540,254,343	6,945,663,366	7,303,663,366	6,875,438,366	5,970,663,366
Toll Revenue	-----	-----	-----	-----	1,950,000,000	1,950,000,000
Total - Unissued	<u>\$ 6,252,784,228</u>	<u>\$ 10,449,287,372</u>	<u>\$ 10,803,926,395</u>	<u>\$ 10,182,776,395</u>	<u>\$ 12,682,076,395</u>	<u>\$ 10,695,676,395</u>
Issued (New Money and Refunding)						
Fiscal Year	\$ 1,523,297,666	\$ 1,558,261,856	\$ 2,452,060,976	\$ 1,891,150,000	\$ 1,702,700,000	\$ 2,709,515,000

(1) No limited obligation debt is outstanding.

(2) Includes current Bond offering dated January 27, 2010.

Note: Totals may not add due to rounding.

SCHEDULE NO. 3

TOTAL DEBT SERVICE REQUIREMENTS ⁽¹⁾
by Pledge of Revenues

Fiscal Year Ending June 30th	General State Revenues (or Components)	Motor Vehicle Fuel Tax Revenues	Total Principal	Total Interest	Total Debt Service Requirements
2010	\$960,612,194	\$354,069,397	\$617,172,538	\$697,509,052	\$1,314,681,591
2011	996,602,352	388,233,009	630,478,541	754,356,820	1,384,835,360
2012	972,861,409	384,178,769	627,268,890	729,771,287	1,357,040,177
2013	967,492,756	386,381,756	655,988,288	697,886,224	1,353,874,512
2014	958,161,762	395,030,278	687,646,540	665,545,501	1,353,192,041
2015	968,584,346	393,683,482	719,194,557	643,073,270	1,362,267,827
2016	967,303,285	402,121,341	743,589,481	625,835,145	1,369,424,626
2017	956,440,641	411,049,424	752,499,784	614,990,281	1,367,490,065
2018	912,224,237	407,860,596	740,688,144	579,396,690	1,320,084,833
2019	871,911,191	409,883,454	732,458,200	549,336,445	1,281,794,645
2020	838,769,660	408,232,591	725,311,495	521,690,757	1,247,002,252
2021	756,385,913	414,422,017	709,415,193	461,392,737	1,170,807,929
2022	700,452,713	413,726,435	705,307,106	408,872,041	1,114,179,148
2023	675,379,275	401,882,692	699,582,167	377,679,799	1,077,261,967
2024	649,413,650	399,567,570	700,654,322	348,326,897	1,048,981,220
2025	601,533,738	398,143,334	682,459,917	317,217,155	999,677,072
2026	561,943,625	395,424,546	671,760,654	285,607,518	957,368,171
2027	520,731,638	381,864,680	647,973,610	254,622,707	902,596,317
2028	478,602,025	359,163,406	611,141,468	226,623,962	837,765,431
2029	452,409,125	347,595,587	600,571,913	199,432,799	800,004,712
2030	403,925,325	328,838,450	561,135,835	171,627,940	732,763,775
2031	353,553,225	223,822,813	491,400,000	85,976,038	577,376,038
2032	316,601,050	191,493,486	446,070,000	62,024,536	508,094,536
2033	262,246,663	150,424,125	372,125,000	40,545,787	412,670,787
2034	165,399,750	97,133,434	238,790,000	23,743,184	262,533,184
2035	75,900,250	66,525,184	129,475,000	12,950,434	142,425,434
2036	0	37,910,342	29,910,000	8,000,342	37,910,342
2037	0	37,335,966	31,005,000	6,330,966	37,335,966
2038	0	36,745,340	32,145,000	4,600,340	36,745,340
2039	0	36,126,272	33,320,000	2,806,272	36,126,272
2040	0	35,486,569	34,540,000	946,569	35,486,569
Total	\$17,345,441,795	\$9,094,356,342	\$16,061,078,643	\$10,378,719,495	\$26,439,798,138

(1) Includes current Bond offering dated January 27, 2010.

Note: Totals may not add due to rounding.

SELECTED DEBT RATIOS

Debt Ratios

Year	State Debt Per Capita	State Debt/ Personal Income (Percentage)	Total Debt Service/ Personal Income (Percentage)	State Debt/ Market Value Taxable Property (Percentage)
2006	\$1,706	4.32%	0.40%	1.54%
2007	1,908	4.57%	0.41%	1.47%
2008	2,053	4.82%	0.44%	1.39%
2009 *	2,291	5.51%	0.47%	1.47%
2010 *	2,306	5.39%	0.48%	1.50%

Factors for the Debt Ratios

Year	Population ⁽¹⁾ (000)	Personal Income ⁽²⁾ (000,000)	Debt Service ⁽³⁾ (000)	Market Value Taxable Property ⁽⁴⁾ (000)	State Debt ⁽⁵⁾ (000)
2006	6,376	\$252,023	\$1,013,403	\$707,348,409	\$10,878,525
2007	6,488	271,008	1,104,194	844,113,769	12,376,911
2008	6,588	280,678	1,226,778	973,042,989	13,525,096
2009 *	6,668	277,091	1,314,682	1,036,261,173	15,277,494
2010 *	6,735	288,135	1,384,835	1,036,261,173	15,532,754

- (1) Population -- Office of the Forecast Council, "Washington Economic and Revenue Forecast November 2009," Table A5.1.
 - (2) Personal Income -- Office of the Forecast Council, "Washington Economic and Revenue Forecast November 2009," Table A3.3.
 - (3) Debt Service -- Reported by the State Finance Committee for the ensuing fiscal year.
 - (4) True and fair market value (100%) as reported by the Department of Revenue for state taxes due and payable in calendar years 2005 through 2008 -- Department of Revenue, "Property Tax Statistics 2009," Table 25. Under current law, business inventories are exempt from any property tax.
 - (5) State Debt -- Reported by the Office of State Treasurer for December 31 each year. Outstanding as of January 27, 2010.
- * Estimate.

State Bonded Debt by Source of Payments

General Obligation		
Payable from General State Revenues		\$9,544,231,797 ⁽¹⁾
First Payable from Other Sources		5,988,522,606 ⁽²⁾
Limited Obligation		0
		<u>\$15,532,754,403</u>

General Obligation Debt

	Payable From General State Revenues	First Payable from Other Sources	Total State Bonded Debt
Debt to True Market Value.....	0.92%	0.58%	1.50%
Per Capita Debt.....	\$1,417.17	\$889.20	\$2,306.38

- (1) Outstanding bonds as of January 27, 2010.
- (2) Certain state general obligation bonds are payable first from sources other than general state revenues (\$5,051,107,127 from motor vehicle fuel taxes and \$937,415,480 from tuition fees, patient fees, admissions taxes, parking taxes, certain King County sales and use taxes, or hotel and motel taxes) and are additionally full faith and credit obligations of the state.

OTHER OBLIGATIONS

Certificates of Participation/Financing Contracts

The 1989 Legislature authorized the state to enter into financing contracts for personal and real property. The state currently has in place a program that provides for the financing of equipment and real estate projects by competitive sale of certificates of participation in master financing contracts. The state's obligations are subject to appropriation.

The Committee is charged with oversight of financing contracts entered into by the state and related policy guidelines (RCW 39.94.040). 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 from time to time to establish an aggregate principal amount payable for financing contracts entered into by the state. At its June 9, 2009, meeting, the Committee (i) approved a proposed finance plan totaling \$180,053,000 plus financing expenses and required reserves for Financing Contracts that may be entered into by the state during the 2009-11 Biennium, and a threshold of \$30,000,000 for financings requiring individual approval by the Committee; and (ii) established for the 2009-11 Biennium a maximum aggregate principal amount payable of \$1,460,000,000 under financing contracts. In addition, the Committee approved the issuance of any refinancing contract that meets the Committee's Debt Issuance Policy's savings threshold.

The following table displays outstanding state certificates of participation/financing contracts as of December 31, 2009.

CERTIFICATES OF PARTICIPATION/FINANCING CONTRACTS
(As of December 31, 2009)

	2009-11		
	Outstanding	Debt Service Requirement	Final Maturity
DOE Refunding, 2001	\$16,370,000	\$12,008,638	2012
Washington State Patrol, 1997 - Port Angeles Office	165,000	119,490	2012
UW, McCarty-Lander, 2001C	2,160,000	1,187,958	2013
WA Liquor Control Board Warehouse Expansion, 2006I	12,350,000	5,656,850	2014
Equipment Series, Competitive; since 1997	13,046,503	9,620,995	2015
Bellevue, Spokane Falls, Shoreline and Edmonds CCs, 2001B	1,200,000	550,271	2015
Veterans Affairs, 2001	2,255,000	745,283	2016
Master Installment Program -- RE, 1993	880,000	866,820	2016
LOCAL Real Property B - Taxable	150,000	62,475	2016
DOE Refunding, 2003B	25,715,000	2,280,975	2016
Dept Personnel Human Resources Systems, 2004D	24,705,000	8,229,544	2016
LOCAL Real Property	2,744,391	1,302,430	2017
Washington State Convention and Trade Center	136,715,000	41,096,913	2018
SOS, Records Center EWU, 2002	8,350,000	2,246,930	2018
WSU - 2006A Refunding of 1996A Consolidated Info Cntr	5,210,000	1,472,223	2018
Columbia Basin CC, 2004F	6,640,000	1,489,623	2020
GA, Tacoma Co-location Project, 1996	9,230,000	2,742,810	2020
Quarterly Pooled Financings; since 2004	153,399,489	86,278,208	2020
DOC, 2001 Workrelease Facility- Spokane Brownstone	2,140,000	471,903	2021
UW, 1999, Sandpoint and Primate Center	6,105,000	2,238,208	2021
UW, Sandpoint Phase 2, 2001A	1,135,000	251,649	2021
UW, Husky Den, 2001B	4,505,000	952,560	2022
Refunding-Pooled State Real Estate, 2009G	33,135,000	4,300,279	2022
UW, Sandpoint Phase 2B, 2001D	2,645,000	554,163	2022
UW, Sandpoint Bldg 29, 2002A	3,605,000	744,528	2022
GA, Isabella Bush Record Center, 2002	3,015,000	581,035	2023
UW, Sandpoint Bldg 5 Phase IIC, 2002E	2,105,000	406,295	2023
Bellevue Community College, RE-2003C	12,320,000	2,301,905	2023
Highline Community College, RE-2003F	9,805,000	1,826,909	2023
CWU, Edmonds, 2002D	4,010,000	774,355	2023
Dept of Ecology, COP 2009C Series	7,410,000	807,216	2024
Big Bend, Clark, Spokane, SPSC, Walla Walla CCs, 2004A	9,720,000	2,223,535	2024
UW, Sandpoint Bldgs 5 and 29, RE-2003E	3,500,000	618,060	2024
DOT Acquisitions, CCs and Adams Cnty, COP Series 2005D	12,845,000	3,025,895	2025
DOC, 2005B, Tumwater and Airway Heights	7,965,000	1,370,968	2025
GA Cherberg Bldg Rehabilitation, COP Series 2006D	7,190,000	1,208,438	2026
St Board for Community and Tech Colleges, COP Series 2006C	8,270,000	1,840,550	2026
WA CTC (Shoreline), COP Series 2006G	13,695,000	2,273,550	2026
CTC and Pend Oreille FD 3, COP Seriece 2006F	14,365,000	2,425,548	2026
WA COP-CTC (Edmonds, Pierce) and Parks (Camas), Series 2007C	15,775,000	2,516,430	2027
WA COP WSU, CTC, GA, Franklin Cnty, 2007A	14,725,000	2,521,755	2027
COP-CTC (Tacoma and Columbia), Mason County and Port Royal Slope	17,620,000	2,867,405	2028
Pooled State and Local Real Estate, 2008B	27,620,000	4,948,575	2028
WA COP CTC RE Pool, Series 2009F	55,360,000	4,458,431	2029
WA COP RE Pool, Series 2009D	33,215,000	3,438,379	2029
Pooled State and Local Real Estate, 2009A	51,170,000	8,222,850	2029
	\$806,255,383	\$238,129,803	

Source: Office of the State Treasurer

In 1998, the Legislature authorized the state to enter into financing contracts on behalf of certain local government agencies for the acquisition of real and personal property. Pursuant to that authorization, the State Treasurer established the state's Local Capital Asset Lending Program under which certain local government agencies with taxing power may 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 on master 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 executive order reduction by the Governor.

Other Contingencies

The following table displays other contingencies as of January 27, 2010.

	2009-11	
	Debt Service	Final
	Requirement	Maturity
Outstanding		
Tumwater Office Properties Lease Revenue Bonds, 2004	\$54,875,000	2028
FYI Properties Lease Revenue Bonds, 2009	305,810,000	2039
	\$360,685,000	\$36,535,875

School Bond Guarantee Program. During the 1999 Legislative Session, the Legislature passed Senate Joint Resolution 8206, effectively creating a Washington State school district credit enhancement program. The program's purpose is to provide savings to state taxpayers by pledging the full faith and credit of the state to the payment of voter-approved school district general obligation bonds. Since the program authorization required a constitutional amendment, the proposed law was submitted to a vote of the electorate, who passed the constitutional amendment in November 1999 by a vote of 60 percent to 40 percent. The program is authorized in chapter 39.98 RCW.

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 State Treasurer is required to transfer sufficient money to the paying agent for such payment. The State Treasurer will recover from the 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 school debt.

As of December 31, 2009, the aggregate total principal amount outstanding on 469 voter-approved bonds guaranteed by the program is \$7.754 billion. The bonds were issued by 192 school districts.

Workers' Compensation Program

The Workers' Compensation Program insures approximately 70 percent of the work force in the state, excluding self-insured employers and their employees, against work-related accidents and medical claims. The program has three main components: Accident, Medical Aid and Supplemental Pension. Accident Fund premiums are paid by employers, and premiums for the Medical Aid and Supplemental Pension Funds are shared equally by employers and employees. A separate pension fund sufficient to pay future pension obligations is established in the Accident Fund and not through separate premium assessments. The Supplemental Pension component covers both state fund and self-insured employees. The Accident, Medical Aid and Pension components are designed to be self-sustaining; assets are accumulated to fund future benefits.

The Supplemental Pension Fund was adopted by the Legislature in 1973 to provide inflation adjustment payments for time lost for the temporarily disabled and pension benefits for the permanently disabled. This plan operates on a current, “pay-as-you-go” basis. In accordance with GASB, the Supplemental Cost of Living Benefit is characterized as an obligation of the Workers’ Compensation Fund, a special enterprise fund, and employer and employee future contributions are not shown as an offsetting asset. The potential future liability of the fund to pay all claims for Supplemental Cost of Living Benefits for all employees is estimated to be \$4.5 billion; however, the state’s obligation to its own employees is substantially lower, and the state anticipates contributions from the private sector will be sufficient to satisfy all liabilities for nonpublic employees.

State Unemployment Compensation Fund

Currently, unemployed workers are entitled to up to 26 weeks of regular unemployment insurance benefits, with a maximum state liability of \$15,730 per unemployed worker. Additional weeks of emergency and extended benefits (up to 53 weeks) are also available, which are paid by separate federal funds.

The maximum and minimum weekly benefit amounts payable are defined as percentages of the state’s average weekly wage in covered employment. There is now a temporary increase in benefit amounts above the calculated percentage because of state economic stimulus legislation. The maximum is now \$605; the minimum is \$155.

Unless extended, the increases for state stimulus payments end with claims starting the beginning of 2010. Existing claims at that time will continue at the higher amount but new claims will drop to the calculated percentage or a maximum of \$560 and a minimum of \$133 for a maximum total state liability of \$14,560 per unemployed worker.

The fund’s experience rating system sets employer tax rates based on the reserve fund level and the amount of benefits charged to employers, with a maximum tax rate of 5.4 percent to conform to federal requirements.

UNEMPLOYMENT COMPENSATION FUND
(Dollars in Millions)

	Beginning			June 30 Balance ⁽¹⁾	
	Balance	Receipts	Disbursements	Dollars	Percent ⁽²⁾
FY 1993	\$1,710	\$684	\$646	\$1,748	4.2
FY 1994	1,748	688	845	1,591	3.7
FY 1995	1,591	674	813	1,452	3.2
FY 1996	1,452	682	815	1,319	2.7
FY 1997	1,319	765	728	1,356	2.6
FY 1998	1,356	852	691	1,517	2.6
FY 1999	1,517	921	816	1,622	2.4
FY 2000	1,622	1,109	799	1,932	2.6
FY 2001	1,932	1,029	1,051	1,910	2.4
FY 2002	1,910	1,102	1,572	1,440	1.8
FY 2003	1,440	1,159	1,499	1,100	1.4
FY 2004	1,100	1,421	1,278	1,243	1.6
FY 2005	1,243	1,562	702	2,103	2.6
FY 2006	2,103	1,568	705	2,966	3.2
FY 2007	2,966	1,442	711	3,697	3.7
FY 2008	3,697	1,348	928	4,117	3.9

(1) As of September 30 beginning in FY 2000.

(2) As a percent of total wages for the preceding calendar year.

Source: Employment Security Department

RETIREMENT SYSTEMS

Overview

The state administers 13 defined benefit retirement plans, three combination defined benefit/defined contribution retirement plans, and one defined contribution retirement plan covering 473,602 eligible members of the state and local governments. The plans are administered through the Department of Retirement Systems, the Board for Volunteer Fire Fighters, and the Administrative Office of the Courts.

Detailed information can be found in Note 11 of the state's CAFR. See Appendix D—The State's 2009 Audited General Purpose Financial Statements.

The Department of Retirement Systems ("DRS") also prepares a stand-alone financial report. Information about this report may be obtained directly from DRS.

Retirement Plans

A summary of each of the state retirement plans as of June 30, 2008, the date of the last actuarial valuation, is provided below. Each plan was established by the Legislature. The plans are funded from a combination of investment earnings, state and local employer contributions, employee contributions, and in some cases, special legislative contributions. State funding is provided through both the General Fund and non-General Fund contributions.

Public Employees' Retirement System ("PERS"). The Legislature established PERS in 1947. PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans. Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan.

- (i) PERS 1 had 13,934 active and terminated-vested members, with 54,581 retirees and survivors receiving benefits. PERS 1 was closed as of 1977.
- (ii) PERS 2/3 had 175,001 active and terminated-vested members, with 18,541 retirees and survivors receiving benefits.

Teachers' Retirement System ("TRS"). The Legislature established TRS in 1938. TRS is a cost-sharing multiple-employer retirement system consisting 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 is comprised principally of non-state employees.

- (i) TRS 1 had 7,020 active and terminated-vested members, with 35,879 retirees and survivors receiving benefits. TRS 1 was closed as of 1977.
- (ii) TRS 2/3 had 68,202 active and terminated-vested members, with 3,271 retirees and survivors receiving benefits.

School Employees' Retirement System ("SERS"). The Legislature established SERS in 2000. SERS is a cost-sharing multiple-employer retirement system comprised of two different plans for membership purposes. Plan 2 is a defined benefit plan, and Plan 3 is a combination defined benefit/defined contribution plan. As of June 30, 2008, the date of the last actuarial valuation, SERS included 60,374 active and terminated-vested members, with 3,873 retirees and survivors receiving benefits. SERS is comprised principally of non-state employees.

Law Enforcement Officers' and Fire Fighters' Retirement System ("LEOFF"). The Legislature established LEOFF in 1970. LEOFF is a cost-sharing multiple-employer retirement system with two separate defined benefit plans. LEOFF membership is comprised primarily of non-state employees, with the Department of Fish and Wildlife enforcement officers as the major exception.

- (i) LEOFF 1 had 422 active and terminated-vested members, with 8,134 retirees and survivors receiving benefits. LEOFF 1 was closed as of 1977.
- (ii) LEOFF 2 had 17,275 active and terminated-vested members, with 1,134 retirees and survivors receiving benefits.

Washington State Patrol Retirement System (“WSPRS”). The Legislature established WSPRS in 1947. WSPRS is a single-employer defined benefit retirement system, comprised of two plans. WSPRS included 1,148 active and terminated-vested members, with 831 retirees and survivors receiving benefits.

Public Safety Employees’ Retirement System (“PSERS”). The Legislature established PSERS in 2006. PSERS is a cost sharing multi-employer defined benefit plan comprised of a single defined benefit plan, PSERS 2. PSERS had 3,981 active members, one retiree, and no terminated-vested members or survivors receiving benefits.

Judicial Retirement System (“JRS”). The Legislature established JRS in 1971. JRS is an agent multiple-employer retirement system comprised of a single defined benefit plan. JRS had 11 active and terminated-vested members, with 127 retirees and survivors receiving benefits.

Judges’ Retirement Fund (“Judges”). The Judges Retirement Fund was created in 1937 to provide retirement benefits to judges of the Supreme Court, Court of Appeals, or Superior Courts of the State of Washington. 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 as subsequent legislation required judges appointed or elected to office on or after August 1, 1971, to enter JRS. As of June 30, 2008, Judges was comprised of 13 retirees and survivors receiving benefits.

Volunteer Fire Fighters’ and Reserve Officers’ Relief and Pension Act (“VFFRPF”). The VFFRPF was established in 1945. VFFRPF is a cost-sharing multiple-employer retirement system. Membership as of June 30, 2008, included 16,708 active and terminated-vested members, with 3,575 retirees and survivors receiving benefits.

State Contributions

The Office of the State Actuary (“OSA”) performs certain actuarial services for the state, including studies required by law. OSA is overseen by the State Actuary Appointment Committee and the Executive Committee of the Select Committee on Pension Policy.

The Pension Funding Council (“PFC”) was created under RCW 41.45.100. The PFC consists of the directors of the Office of Financial Management and DRS, along with the chairs and ranking minority members of the House Appropriations and Senate Ways and Means committees. The PFC reviews and adopts changes to the long-term economic and demographic assumptions developed by OSA and used in its actuarial valuations. Additionally, the PFC adopts contribution rates (as defined below) to be charged each biennium. All assumptions and contribution rates adopted by the PFC are subject to revision by the Legislature.

The Law Enforcement Officers’ and Fire Fighters’ Plan 2 Retirement Board (the “Board”) serves a similar purpose as the PFC, but focuses strictly on LEOFF Plan 2. As with the PFC, all contribution rates adopted by the Board are subject to revision by the Legislature.

Contribution Rate-Setting Cycle. By law, in July of even-numbered years, the PFC reviews the basic contribution rates recommended by OSA based on an actuarial valuation performed on asset, participant, and plan information compiled in odd-numbered years. Contribution rates are developed using the present value of fully projected benefits.

Minimum contribution rates were adopted by the Legislature for all retirement plans and will take effect as follows. For the 2009-11 Biennium: LEOFF 2, and WSPRS (at a reduced level for this biennium); for the 2011-13 Biennium: PERS Plan 2/3, TRS Plan 2/3, SERS Plan 2/3, PSERS 2, and WSPRS 1/2; And for the 2015-17 Biennium: PERS 1, and TRS 1.

The following table summarizes the state's required contributions to cost-sharing plans in accordance with the respective funding policies. All contributions by the funding method were paid.

STATE'S REQUIRED CONTRIBUTIONS

	<u>2009</u>	<u>2008</u>	<u>2007</u>
PERS Plan 1	\$169.0	\$115.5	\$ 59.9
PERS Plan 2/3	217.6	159.6	118.3
TRS Plan 1	8.0	4.3	2.1
TRS Plan 2/3	0.8	0.5	0.6
SERS Plan 2/3	-	-	-
PSERS Plan 2	7.7	5.9	2.8
LEOFF Plan 1	-	-	-
LEOFF Plan 2	52.0	45.9	38.6
VFFRPF	5.2	5.0	6.0

Contribution Ratios. In addition to the state, employer participants include school districts, counties, municipalities, and political subdivisions. The following table contains the current contribution ratios for the state and local government employers. The state's contributions are funded from both the General Fund and non-General Fund state sources.

CONTRIBUTION RATIOS*

<u>System</u>	<u>GF-State(%)</u>	<u>Non-GF-State(%)</u>	<u>Local Government(%)</u>
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	100.0	0.0	0.0
WSPRS	8.0	92.0	0.0

* These splits are used internally by the Office of the State Actuary to model approximate allocations of cost for employers by fund or type of employer. Use of the numbers provided in this table for any other purpose would be inappropriate.

Actuarial Valuation and Funding

Actuarial Reporting. The state is required, per Chapter 41.45 RCW, to provide an actuarial valuation of PERS, TRS, SERS, PSERS, LEOFF, and WSPRS plans every two years. By practice, valuations are provided annually but only valuations for odd-numbered years are used to determine required employer 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, which went into effect in 2009:

- (i) Rate of assumed investment return: 8.0 percent per annum;

- (ii) General salary increases: 4.00 percent per annum (4.5 percent in LEOFF 2); and
- (iii) Rate of Consumer Price Index increase: 3.50 percent (where applicable).

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 smooths 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.

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, PERS1, TRS1, and LEOFF1. Additional information on this measure is provided in the 2008 Actuarial Valuation Report.

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. Assets from one plan may not be used to fund benefits for another plan.

FUNDED STATUS ON AN ACTUARIAL VALUE BASIS⁽¹⁾

	PERS		TRS		SERS	PSERS	LEOFF		WSPRS	Total
	Plan 1	Plan 2/3	Plan 1	Plan 2/3	Plan 2/3	Plan 2	Plan 1	Plan 2		
PUC Liability	\$13,915	\$14,065	\$10,794	\$4,529	\$1,906	\$30	\$4,354	\$3,786	\$719	\$54,098
Valuation Assets	9,853	16,693	8,262	5,681	2,303	39	5,592	5,053	870	54,345
Unfunded Liability	\$4,062	(\$2,627)	\$2,532	(\$1,152)	(\$397)	(\$8)	(\$1,238)	(\$1,266)	(\$150)	(\$247)
Funded Ratio (%)										
1999	93	189	93	188	n/a	n/a	125	154	159	124
2000 ⁽²⁾	98	190	100	196	170	n/a	136	161	152	131
2001 ⁽²⁾	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 ⁽²⁾	74	127	80	134	122	n/a	114	114	113	99
2006 ⁽²⁾	74	121	80	133	125	99	117	116	114	100
2007 ⁽²⁾	71	120	76	130	126	120	123	129	118	99
2008 ⁽²⁾	71	119	77	125	121	127	128	133	121	100

(1) Liabilities have been valued using the PUC cost method at an interest rate of eight percent while assets have been valued using the actuarial value of assets.

(2) Assumptions changed.

Note: Totals may not agree due to rounding. The funded ratios presented in this table are not based on the liability measure used to develop contribution rates. See the 2008 Actuarial Valuation Report for more information.

Alternative Methodology. The State Actuary has prepared an alternative reporting methodology of the projected funded status of the plans to assist the Legislature in proactively addressing pension plan funding levels. Traditional reporting methodology provides funded status information at a single point in time. Relying on the same underlying data and assumptions as the traditional approach noted above, this alternative reporting methodology projects the funded status through 2057. It highlights that the projected funded status for two closed plans (PERS 1 and TRS 1) is expected to decline to the 50 percent range by 2016 (when asset value losses recorded as of June 2009 will be fully realized) and then rise thereafter. The lowest funded status for all other plans projected over this period exceeds 80 percent. The State Actuary expects to use both methodologies in future reports on the financial condition of the pension plans.

Valuation Methods and Assumptions. Additional information on the state's defined benefit plans as of the latest valuation date is presented in Note 11, pages 128 and 129: Retirement Plans, Section E. Funded Status and Funding Progress, in Appendix D—The State's 2009 Audited General Purpose Financial Statements.

Further demographic and other miscellaneous assumptions used in the valuation can be found in the 2008 Actuarial Valuation Report on OSA's website at <http://osa.leg.wa.gov>. The key economic assumptions are provided under "Actuarial Valuation and Funding—Actuarial Reporting."

Investment of Retirement Funds. The Washington State Investment Board directs the investment of retirement system contributions. RCW 43.33A.110 requires the investment board to maximize investment returns at a prudent level of risk.

Other Post-Employment Benefits

PEBB Overview. The Public Employee Benefits Board ("PEBB"), created within the Washington State Health Care Authority ("HCA"), administers medical, dental and life insurance plans for Washington State public employees and retirees. Employers who participate in the PEBB plan include the state, K-12 school districts, and political subdivisions of the state. The OPEB relationship between PEBB 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.

PEBB Membership. Retirees' access to PEBB depends on the retirement eligibility of their respective retirement system. PEBB members are covered in the PERS, TRS, SERS, WSPRS, Judicial, and Higher Education retirement systems. The following table shows PEBB plan membership.

MEMBERSHIP BY EMPLOYER

Active Members	Subscribers	Eligible	Percent Participating*
State	106,352	113,025	94
K-12	2,429	115,764	2
Political Subdivision	10,929	16,396	67
Total Active Members	119,710	245,185	49
Inactive Members			
State	29,589	29,589	100
K-12	20,770	20,770	100
Political Subdivision	863	863	100
Total Inactive Members	51,222	51,222	100
Total	170,932	296,407	58

* Percentage of eligible members currently participating in PEBB.

Source: Washington State 2008 OPEB Report

2008 OPEB Actuarial Valuation Report—Summary of Benefits and Subsidies. PEBB offers retirees access to medical, prescription drug, life, dental, vision, disability and long-term care insurance. PEBB employers provide monetary assistance or subsidies, only for medical, prescription drug, vision and life insurance. Retirees pay the cost of other benefits.

For medical insurance coverage the HCA has two claim pools: (i) covering employees and non-Medicare eligible retirees, and (ii) covering retirees enrolled in Medicare Parts A and B. Each participating employer pays a portion of the premiums for active employees. For retirees, participating employers provide two different subsidies:

- (i) *Explicit Subsidy.* Lowers the monthly premium paid by retired members enrolled in Medicare Parts A and B. The explicit subsidy is determined annually.
- (ii) *Implicit Subsidy.* Retired members pay a premium based on a pool that includes claims experience for employees and non-Medicare eligible retirees. The subsidies are valued using the difference between the age-based claims cost and the premium paid by retirees.

Funding of Benefits. In the state, retiree benefits are set each biennium as part of the budget process. These benefits are funded on a pay-as-you-go basis. The table below summarizes the annual cost of retiree insurance for all PEBB employer groups (state, K-12 school district, and political subdivision) between 2002 and 2007.

**ANNUAL PEBB PLAN COSTS OF RETIREE BENEFITS
(Dollars in Thousands)**

Fiscal Year	Implicit	Explicit
2002	\$37,055	\$39,318
2003	41,199	46,860
2004	44,738	55,320
2005	47,021	63,792
2006	49,290	76,343
2007	50,970	88,627
2008	50,998	100,765
2009	50,713	107,012

Source: Washington State Health Care Authority

GASB 43 and 45. GASB Statement 43, effective June 30, 2007, requires disclosure of information related to the entire plan. GASB Statement 45 requires each employer to calculate its OPEB liability, as well as the annual required contribution (“ARC”). The state was first subject to the GASB 45 requirements for financial reporting for the fiscal year ending June 30, 2008.

In August 2008, the state issued its *2008 Other Post-Employment Benefits (OPEB) Actuarial Valuation Report*. Since no contract or plan document exists, the state’s current cost-sharing policy was used to project the retiree contributions and average retiree claims cost using the same medical inflation trend rate for each. The valuation was prepared using the PUC method, a closed, 30-year amortization as a level percent of payroll method, and an expected long-term yield of 4.50 percent. The table below shows the GASB 45 liabilities as of January 1, 2008.

**GASB 45 KEY RESULTS
(Dollars in Thousands)**

	State	K-12	Political Subdivisions	Total
Actuarial Accrued Liability ⁽¹⁾	\$4,014,270	\$3,541,802	\$348,538	\$7,904,610
Annual Required Contribution ⁽²⁾	331,688	314,534	36,585	682,807
Annual OPEB Cost ⁽³⁾	334,374	317,031	36,927	688,332
Net OPEB Obligation ⁽⁴⁾⁽⁵⁾	493,551	478,942	65,227	1,037,720

- (1) Actuarial Accrued Liability (“AAL”): the amount of subsidies expected to be paid to current retirees and current active members (future retirees) that have already been earned, measured in today’s dollars.
- (2) Annual Required Contribution (“ARC”): the annual amount required under the actuarial cost method and funding policy for amortizing the unfunded actuarial accrued liability. It is made up of the normal cost (the amount earned in the next year) plus the amortization of the unfunded AAL. The state is using a closed, 30-year amortization as a level percent of payroll method.
- (3) Annual OPEB Cost: the ARC plus the amortization of the Net OPEB Obligation. The Annual OPEB Cost is the “expense” for financial reporting.
- (4) Net OPEB Obligation (“NOO”): the cumulative difference between the Annual OPEB Cost and the actual employer contributions. The NOO is the “balance sheet liability” for financial reporting.
- (5) Estimated as of June 30, 2008.

Source: Washington State 2008 OPEB Report

Sensitivity of Data. Certain assumptions were used in the OPEB valuation. Small changes in these assumptions could result in relatively large changes in OPEB liabilities. This valuation is based upon a “closed group” assumption and would change if an “open group” assumption were made.

The entire 2008 *Other Post-Employment Benefits Actuarial Valuation Report*, including a sensitivity analysis, can be found at the state’s actuarial website at http://osa.leg.wa.gov/Actuarial_Services/OPEB/PDF_Docs/2008_OPEB_Report.pdf (which website is not incorporated herein by reference).

DEMOGRAPHIC AND ECONOMIC INFORMATION

This section provides certain information concerning the economic condition of the state. The demographic information and statistical data which are provided do not necessarily present all factors which may have a bearing on the state’s fiscal and economic affairs.

Overview

Population. The 2000 U.S. census count of the state’s population was 5,894,121, or 21.1 percent more than the 4,866,700 counted in 1990.

The Seattle-Bellevue-Everett Primary Metropolitan Statistical Area (the “Seattle PMSA”) is the biggest single component of the state’s economy, with a population of 2,414,616 in 2000, up 18.8 percent since 1990. King County and the adjacent counties to the north, Snohomish and Island Counties, comprise the Seattle PMSA, which is the fourth largest metropolitan center on the Pacific Coast. The city of Seattle, located in northwestern Washington, is the largest city in the Pacific Northwest and serves as the King County seat. The population trends of King County and the Seattle PMSA show continued growth at a higher rate than Seattle’s, reflecting the stable economy of the area and the greater availability of residential construction sites outside Seattle.

In the eastern half of the state, population in the Spokane area grew to 417,939 in 2000, an increase of 15.7 percent over 1990, and the Yakima area’s population increased to 222,581, growing by 17.9 percent since 1990.

Infrastructure. The state is the home of two full-facility sea ports, located in Seattle and Tacoma, and the Seattle-Tacoma International Airport (“Sea-Tac”). The state also is served by the federal interstate highway system and Union Pacific and Burlington Northern-Santa Fe railroads, as well as Amtrak passenger lines.

Human Resources. The concentration of technical, engineering, managerial, scientific, and other professional skills within the state’s work force is due in part to the state’s state-supported higher education system, which consists of two major universities, four regional universities and a system of community colleges. In addition, the state has 18 private colleges.

Economic Base. The economic base of the state includes manufacturing and service industries as well as agricultural and timber production. Industry sectors exhibiting growth include transportation, communication and utilities employment; finance, insurance and real estate; and services. Boeing, the state’s largest private employer, is preeminent in aircraft manufacture and exerts a significant impact on overall state production, employment and labor earnings. The state ranks fourth among 12 leading states in the percentage of its work force employed in technology-related industries and ranks third among the largest software development centers.

Population Characteristics

COMPONENTS OF POPULATION CHANGE STATE OF WASHINGTON 1998-2009 (Population Numbers in Thousands)

April 1	Population	Population Change	
		Number	Percent
1998	5,750.0	86.3	-
1999	5,830.8	80.8	1.4
2000	5,894.1	63.3	1.1
2001	5,974.9	80.8	1.4
2002	6,041.7	66.8	1.1
2003	6,098.3	56.6	0.9
2004	6,167.8	69.5	1.1
2005	6,256.4	88.6	1.4
2006	6,375.6	119.2	1.9
2007	6,488.0	112.4	1.8
2008	6,587.6	99.6	2.8
2009	6,682.6	806.0	1.2

Source: Office of Financial Management

DISTRIBUTION OF POPULATION BY AGE STATE OF WASHINGTON (Population Numbers in Thousands)

Age	1990	Percent of Total	2000	Percent of Total	2008	Percent of Total
under 5	374,357	7.7	394,306	6.7	433,346	6.6
5-19	1,031,290	21.2	1,288,713	21.9	1,334,021	20.3
20-24	352,530	7.2	390,185	6.6	474,655	7.2
25-34	855,519	17.6	841,130	14.3	890,586	13.5
35-44	800,915	16.5	975,087	16.5	926,992	14.1
45-54	499,706	10.3	845,972	14.4	990,197	15.0
55-64	380,971	7.8	496,580	8.4	766,492	11.6
65 and over	571,404	11.7	662,148	11.2	771,311	11.7

Source: Office of Financial Management

Income Characteristics

The following table provides a comparison of personal income for the state and the nation for ten years of historical data and one year of projections.

PERSONAL INCOME COMPARISON WASHINGTON AND U.S. 1999-2009 (Dollars in Billions)

Year	Current Dollars ⁽¹⁾				2005 Chained Dollars ⁽²⁾			
	Washington		United States		Washington		United States	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
1999	\$175.5	-	\$7,910.9	-	\$200.4	-	\$9,030.5	-
2000	187.9	7.0	8,559.4	8.2	209.3	4.4	9,533.6	5.6
2001	193.5	3.0	8,883.3	3.8	211.5	1.1	9,709.7	1.8
2002	197.5	2.0	9,060.1	2.0	212.9	0.7	9,769.8	0.6
2003	202.9	2.8	9,378.2	3.5	214.5	0.7	9,910.7	1.4
2004	218.4	7.6	9,937.3	6.0	224.9	4.9	10,233.3	3.3
2005	226.6	3.7	10,485.9	5.5	226.6	0.7	10,485.1	2.5
2006	245.8	8.5	11,268.1	7.5	239.2	5.6	10,966.4	4.6
2007	265.7	8.1	11,894.1	5.6	251.9	5.3	11,273.4	2.8
2008	276.1	3.9	12,238.8	2.9	253.2	0.5	11,225.4	(0.4)
2009	274.5	(0.6)	12,005.7	(1.9)	251.5	(0.7)	10,999.6	(2.0)

- (1) Current dollars: the actual price of something when it was bought, not adjusted for cost of living index (commonly called inflation).
- (2) Chained dollars: created from the geometric mean of two growth calculations; allows for a comparison of data in a time series to accurately indicate growth or decline in indicators.
- (3) Revenue forecast as of September 2009.

Source: Washington State Office of the Forecast Council and U.S. Department of Commerce, Bureau of Economic Analysis

PER CAPITA PERSONAL INCOME COMPARISON WASHINGTON AND U.S. 1999-2008

Year	Washington	United States
1999	\$30,037	\$27,939
2000	31,780	29,847
2001	32,319	30,582
2002	32,606	30,838
2003	33,214	31,530
2004	35,347	33,157
2005	36,227	34,690
2006	38,639	36,794
2007	41,203	38,615
2008	42,356	39,751

Source: Washington State Bureau of Economic Analysis Regional Economic Accounts March 24, 2009, State Personal Income Release

Employment Characteristics

AVERAGE ANNUAL EMPLOYMENT ⁽¹⁾ RESIDENT CIVILIAN LABOR FORCE AND EMPLOYMENT IN WASHINGTON STATE (Employment Numbers in Thousands)

	2004	2005	2006	2007	2008	2009 ⁽²⁾
Resident Civilian Labor Force	3,199.2	3,258.8	3,319.6	3,391.2	3,476.8	3,558.2
Unemployment	199.7	179.4	162.6	153.9	185.8	323.2
Unemployment Rate (Percent)	6.2	5.5	4.9	4.5	5.3	9.1
Total Employment	2,999.5	3,079.5	3,157.0	3,237.4	3,291.0	3,235.0
Nonagricultural Wage and Salary Workers						
Employed in Washington						
Nonfarm	2,701.0	2,777.0	2,859.1	2,933.6	2,958.9	2,854.5
Durable Manufacturing	182.4	191.5	204.0	211.9	211.3	193.1
Aerospace	61.5	65.6	73.4	80.1	83.0	83.4
Computer	22.1	22.2	22.5	22.7	22.5	20.8
Nondurable Manufacturing	81.3	81.1	81.9	81.4	79.8	75.6
Natural	9.1	9.0	8.7	8.2	7.5	6.1
Construction	164.2	177.4	194.9	208.2	200.7	167.0
Trade, Transportation, Communication, Utilities	518.4	530.4	541.6	553.4	553.5	532.2
Information	92.8	94.7	98.4	102.4	105.6	102.2
Software	39.3	41.3	44.7	47.6	50.9	52.2
Financial	151.8	154.5	156.2	155.5	152.3	144.9
Professional	301.6	316.1	330.5	344.7	348.8	330.0
Education	319.7	329.3	337.2	348.3	362.0	374.3
Leisure	255.6	263.5	271.7	280.5	283.7	275.7
Other Service	100.3	102.7	104.0	105.3	107.3	105.4
Government	523.7	526.7	530.0	533.8	546.3	548.0

(1) Averages of monthly data.

(2) Revenue forecast as of September 2009.

Source: Washington State Office of the Forecast Council

COMPARISON OF EMPLOYMENT TRENDS BY INDUSTRY SECTOR (%) ⁽¹⁾

	State		United States	
	1999	2009⁽²⁾	1999	2009⁽²⁾
Manufacturing				
Nondurable Manufacturing				
Food and Kindred	1.5	1.2	1.2	1.1
Pulp and Paper	0.6	0.3	0.5	0.3
Other	1.6	1.1	3.4	2.1
Subtotal	3.6	2.6	5.0	3.5
Durable Manufacturing				
Lumber and Wood	0.8	0.5	0.5	0.3
Primary Metals	0.4	0.2	0.5	0.3
Fabricated Metals	0.7	0.6	1.3	1.0
Machinery	0.6	0.5	1.1	0.8
Computers	1.3	0.7	1.4	0.9
Transportation Equipment	4.3	3.3	1.6	1.0
Other	1.3	1.1	2.0	1.3
Subtotal	9.3	6.8	8.4	5.6
Total Manufacturing	13.0	9.4	13.4	9.1
Nonmanufacturing				
Natural Products	0.4	0.2	0.5	0.6
Construction	5.8	5.9	5.1	4.7
Trade, Transportation, Communication, Utilities	19.6	18.6	20.0	19.1
Information	3.2	3.6	2.6	2.1
Financial	5.4	5.1	5.9	5.9
Professional	10.8	11.6	12.4	12.7
Education	10.6	13.1	11.5	14.6
Leisure	9.3	9.7	8.9	10.0
Other	3.9	3.7	3.9	4.1
Government	17.9	19.2	15.7	17.0
Total Nonmanufacturing	87.0	90.6	86.6	90.9
Total⁽³⁾	100.0	100.0	100.0	100.0

(1) Figures are calculated as a percentage of total wage and salary employment.

(2) Revenue forecast as of September 2009.

(3) Numbers may not add due to rounding.

Source: Washington State Office of the Forecast Council

**ANNUAL AVERAGE CIVILIAN LABOR FORCE, UNEMPLOYMENT AND
UNEMPLOYMENT RATES FOR WASHINGTON AND THE UNITED STATES
2002-2009**

(Employment Numbers in Thousands)

Year	Civilian Labor Force		Number of Unemployed		Unemployment Rate		State Unemployment as % of US Rate (%)
	State	US	State	US	State (%)	US (%)	
2002	3,105	145,125	228	8,644	7.3	5.8	126.8
2003	3,146	146,500	233	8,770	7.4	6.0	123.6
2004	3,199	147,380	200	8,140	6.2	5.5	112.7
2005	3,259	149,292	179	7,578	5.5	5.1	108.5
2006	3,320	151,413	163	6,992	4.9	4.6	106.1
2007	3,391	153,126	154	7,077	4.5	4.6	97.9
2008	3,477	154,329	186	8,961	5.3	5.8	91.9
2009*	3,558	154,424	323	14,169	9.1	9.2	98.9

* Revenue forecast as of September 2009.

Source: Washington State Office of the Forecast Council and the U.S. Dept. of Labor, Bureau of Labor Statistics

Companies. The following tables provide information on the top companies headquartered in the state, ranked by revenues and by number of employees in the state. The Boeing Company, headquartered in Chicago, Illinois, is the largest employer in the state, with revenues in 2008 of \$60.9 billion.

**WASHINGTON'S TWENTY-FIVE LARGEST PUBLIC COMPANIES,
RANKED BY 2008 NET REVENUE
(in Millions)**

	<u>Net Revenues</u>		<u>Net Revenues</u>	
1	Costco Wholesale Corp.	\$72,483	14 Plum Creek Timber Co. Inc.	\$1,614
2	Microsoft Corp.	60,420	15 Esterline Technology Corp.	1,483
3	Amazon.com Inc.	19,166	16 TrueBlue Inc.	1,384
4	Paccar Inc.	14,972	17 Eddie Bauer Holdings Inc.	1,023
5	Starbucks Corp.	10,383	18 Coinstar Inc.	912
6	Nordstrom Inc.	8,272	19 Intermec (formerly Unova Inc.)	891
7	Weyerhaeuser Corp.	8,018	20 Sterling Financial Corp.	787
8	Expeditors International Inc.	5,634	21 Emeritus Corp.	769
9	Alaska Air Group Inc	3,663	22 F5 Networks Inc.	650
10	Puget Energy	3,358	23 Washington Federal Inc.	641
11	Expedia Inc.	2,937	24 RealNetworks Inc.	605
12	Itron Inc.	1,910	25 Potlatch Corp.	440
13	Avista Corp.	1,677		

Source: Puget Sound Business Journal, 2009 Book of Lists

**WASHINGTON'S TWENTY LARGEST EMPLOYERS,
RANKED BY NUMBER OF EMPLOYEES IN THE STATE**

Rank	Company	Number of Employees
1	The Boeing Co.	76,400
2	U.S. Army Fort Lewis	42,400
3	Microsoft Corp.	41,400
4	University of Washington	24,600
5	Navy Region Northwest	24,000
6	Providence Health & Services Washington	18,700
7	Wal-Mart Stores Inc.	17,900
8	King County Government	14,000
9	Fred Meyer Stores	12,500
10	City of Seattle	10,300
11	Group Health Cooperative	8,900
12	MultiCare Health System	8,700
13	Costco Wholesale Corp	8,000
14	Weyerhaeuser Co.	7,000
15	Alaska Air Group Inc.	6,100
16	United Parcel Service	6,000
17	QFC - Quality Food Centers	5,500
18	Washington State University	5,500
19	Nordstrom Inc.	5,200
20	Macy's	5,100

Source: Puget Sound Business Journal, 2010 Book of Lists

Annual Retail Sales Activity

The state is home to a number of specialty retail companies that have reached national stature, including Nordstrom, Eddie Bauer, Costco, and Recreational Equipment Inc. The following table provides a history of retail sales activity in the state.

FISCAL YEAR RETAIL SALES ACTIVITY 1998-2008*
(Dollars in Billions)

<u>Year</u>	<u>Washington</u>	<u>% Change</u>	<u>United States</u>	<u>% Change</u>
1998	72.1	8.0	2,778.3	4.8
1999	77.2	7.1	2,948.9	6.1
2000	83.3	8.0	3,205.0	8.7
2001	85.6	2.8	3,333.5	4.0
2002	84.4	(1.4)	3,430.1	2.9
2003	86.2	2.1	3,531.5	3.0
2004	90.1	4.6	3,752.1	6.2
2005	97.3	7.9	4,038.7	7.6
2006	107.0	9.9	4,287.4	6.1
2007	115.5	7.9	4,432.6	3.3
2008	118.7	2.7	4,492.6	3.2

* U.S. data based on sales by retail and food service establishments. Washington data reflects sales subject to the Washington 6.5 percent retail sales tax.

Source: Washington State Office of the Forecast Council and the U.S. Department of Commerce

Trade

One in six jobs in the state is related to international trade. The state, particularly the Puget Sound corridor, is a trade center for the Northwest and the state of Alaska. During the past 20 years, the state consistently has ranked number one or number two in the nation in international exports per capita.

Ports. The Ports of Seattle and Tacoma serve as one of the three major gateways for marine commerce into the United States from the Pacific Rim, and each ranks among the top 20 ports in the world based upon volume of containerized cargo shipped. The ten largest shipping lines in the world call at these ports, and on a combined basis, these ports rank as the second-largest load center for the shipment of containerized cargo in the United States.

Approximately 70 percent of the cargo passing through the Ports of Seattle and Tacoma has an ultimate destination outside of the Pacific Northwest. Therefore, trade levels depend largely on national and world economic conditions, rather than local economic conditions.

Airport. The city of Seattle is the commercial center for the state and is near a major international airport, Sea-Tac, which has scheduled passenger service by 17 U.S. carriers and 11 foreign flag carriers. In addition, six all-cargo carriers have scheduled cargo service at Sea-Tac. Sea-Tac was ranked 17th nationwide in total passengers in 2008.

Manufacturing

The state's manufacturing base includes aircraft manufacture, with the aerospace industry currently representing approximately eight percent of all taxable business income generated in the state. Boeing remains the largest employer in the Puget Sound area. In September 2001, the company relocated its corporate headquarters to Chicago, Illinois.

While Boeing has dominated manufacturing employment, other manufacturers also have experienced growth, thus reducing Boeing's percentage of total manufacturing jobs in the state.

Technology-Related Industries

The most significant growth in manufacturing jobs, exclusive of aerospace, has occurred in high technology-based companies. The state is the home of approximately 1,000 advanced technology firms; nearly 50 percent of these firms are computer-related businesses. Microsoft, which is headquartered in Redmond, Washington, is the largest microcomputer software company in the world.

Services/Tourism

As the business, legal and financial center of the state, Seattle ranks ninth in the country in the number of downtown hotel rooms (7,600 rooms in 50 hotels and motels). The Washington State Convention and Trade Center opened in June 1988, with the capacity for events involving as many as 11,000 people. An expansion of the Convention and Trade Center that doubled the exhibition space and added a private office tower, hotel and museum was completed in 2001.

Timber

Natural forests cover more than 40 percent of the state's land area. Forest products rank second behind aerospace in value of total production. The Weyerhaeuser Company is the state's largest forest products employer.

A continued decline in overall production during the next few years is expected due to federally imposed limitations on the harvest of old-growth timber and the inability to maintain the recent record levels of production increases. The decline is not expected to have a significant effect on the state's overall economic performance.

Agriculture and Food Processing

Agriculture, combined with food processing, is an important state industry. The state's major products—wheat, apples, milk, and cattle—comprise more than half of total production. The values and uses of farmland in the state are expected to change in the future, with the listing of certain local salmon runs as endangered or threatened by the U.S. Environmental Protection Agency.

Construction

The following table provides information on housing units for the state and the United States.

HOUSING UNITS AUTHORIZED IN WASHINGTON AND THE UNITED STATES 2001-2009

<u>Year</u>	<u>State</u>	<u>US⁽¹⁾</u>
2001	38,345	1,601,167
2002	40,200	1,710,250
2003	42,825	1,853,750
2004	50,089	1,949,500
2005	52,988	2,072,917
2006	50,033	1,811,917
2007	47,397	1,341,833
2008	28,919	900,333
2009 ⁽²⁾	15,166	582,952

(1) Actual housing starts prior to current year.

(2) Revenue forecast as of September 2009.

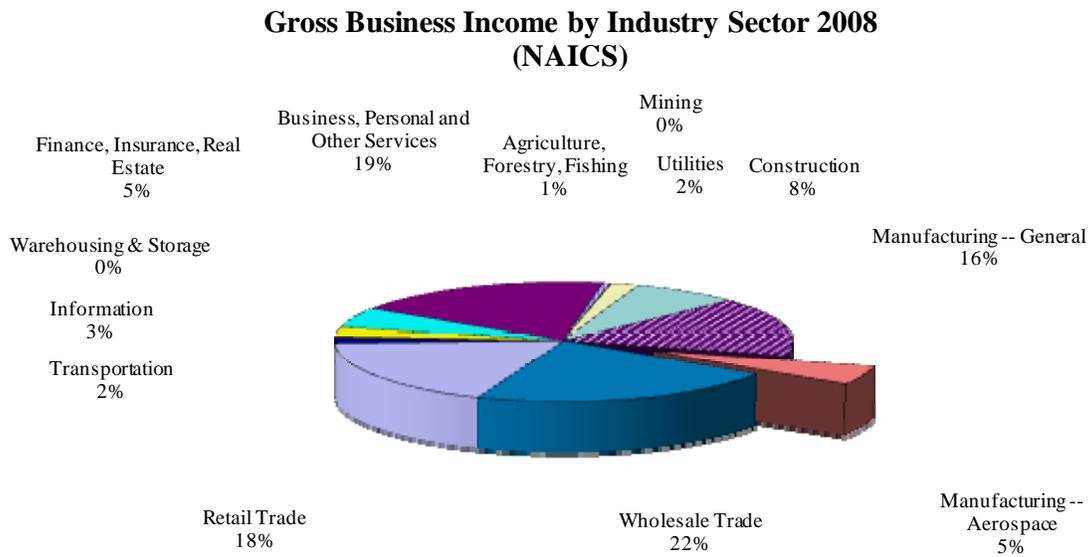
Source: Washington State Office of the Forecast Council and the Department of Commerce

Federal, State and Local Government

On a combined basis, employment in the government sector represents approximately 18.7 percent of all wage and salary employment in the state. Seattle is the regional headquarters of a number of federal government agencies, and the state receives an above-average share of defense expenditures.

Summary

The following diagram provides an overall description of business income by industry sector for 2008.



Source: Department of Revenue, "Quarterly Business Review Calendar Year 2008", Table 1.

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APPENDIX B
PROPOSED FORM OF LEGAL OPINION

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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”):

\$487,950,000
STATE OF WASHINGTON
VARIOUS PURPOSE GENERAL OBLIGATION BONDS, SERIES 2010E
DATED JANUARY 27, 2010

The Bonds are issued pursuant to Ch. 14, Laws of 1989, 1st Ex. Sess.; Ch. 15, Laws of 1990, 1st Ex. Sess.; Ch. 18, Laws of 2003, 1st Ex. Sess.; Ch. 167, Laws of 2006; Ch. 521, Laws of 2007; Ch. 179, Laws of 2008; and Ch. 498, Laws of 2009, of the State (collectively, the “Bond Act”), Ch. 39.42 RCW, Resolutions Nos. 1084 and 1097 of the State Finance Committee of the State adopted on June 9, 2009, and January 13, 2010, respectively (collectively, the “Bond Resolution”), and other proceedings duly had and taken in conformity therewith. The Bonds are issued for the purpose of providing funds to finance the General State Projects. Capitalized terms used in this opinion which are not otherwise defined shall have the meanings given to such terms in the Bond Resolution.

We have not been engaged nor have we undertaken to review the accuracy, completeness or sufficiency of the official statement or other offering material related to the Bonds (except to the extent, if any, stated in the official statement), and we express no opinion relating thereto, or relating to the undertaking by the State to provide ongoing disclosure pursuant to SEC Rule 15c2-12.

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 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 subject to the federal alternative minimum tax; however, 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 C
BONDS OUTSTANDING

The following table identifies the amounts of authorized, issued and outstanding General Obligation Bonds of the state:

**DEBT AUTHORIZATION SECURED BY
GENERAL STATE REVENUE AND/OR COMPONENTS
January 27, 2010**

Subject to Constitutional Debt Limitation

Chapter and Laws	Bonds		Bonds	
	Authorized	Issued ⁽¹⁾	Outstanding ⁽¹⁾	Unissued
Ch. 138 -- Laws of 1965 (R-93A).....	\$ 206,055,000	\$ 206,055,000	\$ 8,400,000	\$ -
Ch. 138 -- Laws of 1965 (R-93B).....	230,950,000	230,950,000	59,325,000	-
Ch. 138 -- Laws of 1965 (R-97A Ex).....	25,026,467	25,026,467	25,026,467	-
Ch. 138 -- Laws of 1965 (R-2001A).....	316,790,000	316,790,000	7,905,000	-
Ch. 138 -- Laws of 1965 (R-2001T).....	12,050,000	12,050,000	1,075,000	-
Ch. 138 -- Laws of 1965 (R-2003A).....	605,875,000	605,875,000	403,280,000	-
Ch. 138 -- Laws of 1965 (R-2003C).....	76,960,000	76,960,000	20,785,000	-
Ch. 138 -- Laws of 1965 (R-2004A).....	124,140,000	124,140,000	95,955,000	-
Ch. 138 -- Laws of 1965 (R-2004C).....	119,015,000	119,015,000	92,955,000	-
Ch. 138 -- Laws of 1965 (R-2005A).....	343,600,000	343,600,000	309,880,000	-
Ch. 138 -- Laws of 1965 (R-2006A).....	461,170,000	461,170,000	442,365,000	-
Ch. 138 -- Laws of 1965 (R-2007A).....	321,050,000	321,050,000	250,900,000	-
Ch. 138 -- Laws of 1965 (R-2007C).....	376,810,000	376,810,000	347,680,000	-
Ch. 138 -- Laws of 1965 (R-2010A).....	386,380,000	386,380,000	376,570,000	-
Ch. 138 -- Laws of 1965 (R-2010B).....	215,500,000	215,500,000	215,500,000	-
Ch. 34 -- Laws of 1982 as amended.....	21,697,181	21,697,181	3,151,220	-
Ch. 14 -- Laws of 1989, 1st Ex. Sess., as amended....	656,565,000	623,075,569	200,858,444	33,489,431
Ch. 15 -- Laws of 1990, 1st Ex. Sess.....	10,000,000	10,000,000	347,956	-
Ch. 31 -- Laws of 1991, 1st Sp. Sess., as amended....	624,680,000	609,087,302	198,985,120	15,592,698
Ch. 12 -- Laws of 1993, 1st Sp. Sess.....	429,137,000	420,544,716	162,670,994	8,592,284
Ch. 17 -- Laws of 1995, 2nd Sp. Sess., as amended...	453,795,000	424,401,667	165,557,359	29,393,333
Ch. 456 -- Laws of 1997, Regular Sess.....	306,075,000	279,855,000	6,455,000	26,220,000
Ch. 380 -- Laws of 1999, Regular Sess.....	678,400,000	621,352,000	418,987,000	57,048,000
Ch. 9 -- Laws of 2001, 2nd Sp. Sess.....	1,034,010,000	974,603,000	789,578,000	59,407,000
Ch. 240 -- Laws of 2002, Regular Sess.....	89,700,000	83,375,000	73,545,000	6,325,000
Ch. 3 -- Laws of 2003, 1st Sp. Sess.....	1,212,000,000	1,125,350,000	1,004,070,000	86,650,000
Ch. 18 -- Laws of 2003, 1st Sp. Sess.....	772,500,000	707,170,000	677,220,000	65,330,000
Ch. 147 -- Laws of 2003, Regular Sess.....	249,500,000	128,550,000	121,385,000	120,950,000
Ch. 487 -- Laws of 2005, Regular Sess.....	1,434,000,000	1,332,740,000	1,238,690,000	101,260,000
Ch. 167 -- Laws of 2006, Regular Sess.....	273,595,000	84,075,000	82,205,000	189,520,000
Ch. 521 -- Laws of 2007, Regular Sess.....	1,972,000,000	1,792,815,000	1,753,260,000	179,185,000
Ch. 179 -- Laws of 2008, Regular Sess.....	50,000,000	5,405,000	5,405,000	44,595,000
Ch. 6 -- Laws of 2009, Regular Sess.....	133,000,000	124,325,000	124,325,000	8,675,000
Ch. 498 -- Laws of 2009, Regular Sess.....	2,219,000,000	549,635,000	549,635,000	1,669,365,000
<i>Subtotal</i>	\$ 16,441,025,648	\$ 13,739,427,901	\$ 10,233,932,559	\$ 2,701,597,747

(1) Includes current Bond offering dated January 27, 2010.

Excluded From Constitutional Debt Limitation

Chapter and Laws	Bonds		Bonds	
	Authorized	Issued ⁽¹⁾	Outstanding ⁽¹⁾	Unissued
Ch. 138 -- Laws of 1965 (R-2001A).....	\$ 88,850,000	\$ 88,850,000	\$ -	-
Ch. 220 -- Laws of 1997, Regular Sess.....	300,000,000	294,944,718	216,074,718	5,055,282
Ch. 179 -- Laws of 2008, Regular Sess.....	100,000,000	31,640,000	31,640,000	68,360,000
<i>Subtotal</i>	<u>\$ 488,850,000</u>	<u>\$ 415,434,718</u>	<u>\$ 247,714,718</u>	<u>\$ 73,415,282</u>
Total	<u><u>\$ 16,929,875,648</u></u>	<u><u>\$ 14,154,862,619</u></u>	<u><u>\$ 10,481,647,277</u></u>	<u><u>\$ 2,775,013,029</u></u>

(1) Includes current Bond offering dated January 27, 2010.

BOND AUTHORIZATION AND OUTSTANDING DEBT
MOTOR VEHICLE FUEL TAX REVENUE
January 27, 2010

Chapter and Laws	Bonds Authorized	Issued	Bonds Outstanding	Unissued
Ch. 138 -- Laws of 1965 (R-93C).....	\$ 104,075,000	\$ 104,075,000	\$ 825,000	-
Ch. 138 -- Laws of 1965 (R-2003B).....	70,325,000	70,325,000	49,320,000	-
Ch. 138 -- Laws of 1965 (R-2004B).....	57,045,000	57,045,000	44,230,000	-
Ch. 138 -- Laws of 1965 (R-2004D).....	156,475,000	156,475,000	124,505,000	-
Ch. 138 -- Laws of 1965 (R-2005B).....	95,800,000	95,800,000	81,730,000	-
Ch. 138 -- Laws of 1965 (R-2007B).....	63,810,000	63,810,000	49,415,000	-
Ch. 138 -- Laws of 1965 (R-2007D).....	73,030,000	73,030,000	66,260,000	-
Ch. 138 -- Laws of 1965 (R-2010C).....	121,235,000	121,235,000	121,235,000	-
Ch. 7 -- Laws of 1967, Ex. Sess. (Sections 13-23) as amended by Ch 11, Laws of 1993.....	9,010,000	9,010,000	3,320,000	-
Ch. 83 -- Laws of 1967, 1st Ex. Sess.	103,890,000	61,320,000	7,430,000	42,570,000
Ch. 180 -- Laws of 1979, 1st Ex. Sess.....	28,480,000	28,480,000	2,060,000	-
Ch. 315 -- Laws of 1981.....	36,860,000	36,860,000	6,175,000	-
Ch. 316 -- Laws of 1981.....	148,375,000	148,375,000	5,670,000	-
Ch. 293 -- Laws of 1990.....	15,000,000	13,400,000	6,620,000	1,600,000
Ch. 431 -- Laws of 1993, as amended.....	420,360,000	178,525,000	99,890,000	241,835,000
Ch. 432 -- Laws of 1993.....	81,280,000	6,085,000	55,000	75,195,000
Ch. 440 -- Laws of 1993.....	51,510,000	44,000,000	24,815,000	7,510,000
Ch. 15 -- Laws of 1995, 2nd Sp. Sess.....	11,200,000	4,990,000	115,000	6,210,000
Ch. 321 -- Laws of 1998.....	1,803,255,000	1,546,156,634	1,345,682,127	257,098,366
Ch. 147 -- Laws of 2003.....	3,200,000,000	1,997,205,000	1,874,000,000	1,202,795,000
Ch. 315 -- Laws of 2005.....	5,300,000,000	1,164,150,000	1,137,755,000	4,135,850,000
Ch. 498 -- Laws of 2009.....	1,950,000,000	-	-	1,950,000,000
<i>Total</i>	<u>\$ 13,901,015,000</u>	<u>\$ 5,980,351,634</u>	<u>\$ 5,051,107,127</u>	<u>\$ 7,920,663,366</u>
<i>Grand Total</i>	<u>\$ 30,830,890,648</u>	<u>\$ 20,135,214,253</u>	<u>\$ 15,532,754,403</u>	<u>\$ 10,695,676,395</u>

APPENDIX D

THE STATE'S 2009 AUDITED GENERAL PURPOSE FINANCIAL STATEMENTS

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**Washington State Auditor
Brian Sonntag**

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

December 23, 2009

The Honorable Christine Gregoire
Governor, State of Washington

Dear Governor Gregoire:

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 fiscal year ended June 30, 2009, 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 Workers' Compensation Fund of the Department of Labor and Industries, Washington's Lottery, Department of Retirement Systems, Local Government Investment Pool, University of Washington, Western Washington University, and the funds managed by the State Investment Board. Those financial statements represent part or all of the total assets, net assets, and revenues or additions of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component units and remaining fund information as follows:

<u>Opinion Unit</u>	<u>Percent of Total Assets</u>	<u>Percent of Net Assets</u>	<u>Percent of Total Revenues/ Additions</u>
Governmental Activities	11.6%	19.1%	4.8%
Business-Type Activities	74.8%	100%	60.5%
Higher Education Special Revenue Fund	37.7%	29.8%	46.1%
Higher Education Endowment Fund	92.4%	96.5%	100.0%
Higher Education Student Services Fund	71.6%	82.1%	85.5%
Workers' Compensation Fund	100%	100%	100%
Aggregate Discretely Presented Component Units and Remaining Fund Information	89.8%	94.6%	40.1%

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 Workers' Compensation Fund of the Department of Labor and Industries, Washington's Lottery, Department of Retirement Systems, Local Government Investment Pool, University of Washington, Western Washington University, 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, 2009, 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 \$18.8 billion which comprise 25.2% of total assets and 28.8% 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2009, on our consideration of the State of Washington'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 read in conjunction with this report in considering 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 have and the other auditors have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

A handwritten signature in black ink, appearing to read "Brian Sonntag", written in a cursive style.

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, 2009. 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 \$18.6 billion (reported as net assets). Of this amount, \$(8.3) 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 \$9.5 billion, a decrease of 24 percent compared with the prior year.
- Unreserved fund balance for the General Fund was \$189 million, at the end of Fiscal Year 2009, or one percent of total General Fund expenditures.
- The state's capital assets increased by \$2.0 billion while total bond debt increased by \$1.2 billion 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 balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for three 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 Permanent Fund. Individual fund data for the state's nonmajor governmental funds are provided in the form of combining statements elsewhere in this report. The governmental fund financial statements can be found on pages 42-45 of this report.

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 57-146 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 147-171 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 173-223 of this report.

STATE OF WASHINGTON						
Statement of Net Assets						
<i>(in millions of dollars)</i>						
	Governmental		Business-Type		Total	
	2009	2008	2009	2008	2009	2008
ASSETS						
Current and other assets	\$ 15,611	\$ 19,620	\$ 21,027	\$ 21,665	\$ 36,638	\$ 41,285
Capital assets	29,558	27,692	2,099	1,995	31,657	29,687
Total assets	45,169	47,312	23,126	23,660	68,295	70,972
LIABILITIES						
Current and other liabilities	3,593	5,201	2,653	2,973	6,246	8,174
Long-term liabilities outstanding	17,721	16,014	25,689	24,971	43,410	40,985
Total liabilities	21,314	21,215	28,342	27,944	49,656	49,159
NET ASSETS						
Invested in capital assets, net of related debt	17,551	17,029	721	521	18,272	17,550
Restricted	4,887	5,524	3,800	4,406	8,687	9,930
Unrestricted (deficit)	1,417	3,544	(9,737)	(9,211)	(8,320)	(5,667)
Total net assets	\$ 23,855	\$ 26,097	\$ (5,216)	\$ (4,284)	\$ 18,639	\$ 21,813

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 \$18.6 billion at June 30, 2009 as compared to \$21.8 billion as reported at June 30, 2008.

The largest portion of the state's net assets (98.0 percent for Fiscal Year 2009 as compared to 80.5 percent for Fiscal Year 2008) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), 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 (46.6 percent for Fiscal Year 2009 as compared to 45.5 percent for Fiscal Year 2008) represents resources that are subject to external restrictions on how they may be used.

State of Washington

The remaining balance of (\$8.3) billion represents unrestricted (deficit) net assets. The state's overall negative balance is caused by the workers' compensation program that provides time-loss, medical, disability and pension payments to qualifying individuals who sustain work-related injuries or develop occupational diseases as a result of their required work activities.

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

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

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

STATE OF WASHINGTON						
Changes in Net Assets						
<i>(in millions of dollars)</i>						
	Governmental		Business-Type		Total	
	Activities		Activities			
	2009	2008	2009	2008	2009	2008
REVENUES						
Program revenues:						
Charges for services	\$ 4,398	\$ 3,912	\$ 5,640	\$ 5,364	\$ 10,038	\$ 9,276
Operating grants and contributions	10,565	8,725	572	42	11,137	8,767
Capital grants and contributions	706	746	-	-	706	746
General revenues:						
Taxes	16,001	16,894	113	115	16,114	17,009
Interest and investment earnings	(212)	464	291	767	79	1,231
Total Revenues	31,458	30,741	6,616	6,288	38,074	37,029
EXPENSES						
General government	(1,815)	(1,609)	-	-	(1,815)	(1,609)
Education - K-12	(8,549)	(7,476)	-	-	(8,549)	(7,476)
Education - Higher education	(6,044)	(5,710)	-	-	(6,044)	(5,710)
Human services	(12,436)	(11,260)	-	-	(12,436)	(11,260)
Adult corrections	(1,044)	(1,020)	-	-	(1,044)	(1,020)
Natural resources and recreation	(1,062)	(931)	-	-	(1,062)	(931)
Transportation	(1,883)	(1,894)	-	-	(1,883)	(1,894)
Interest on long-term debt	(728)	(643)	-	-	(728)	(643)
Workers' compensation	-	-	(2,544)	(4,068)	(2,544)	(4,068)
Unemployment compensation	-	-	(2,360)	(791)	(2,360)	(791)
Higher education student services	-	-	(1,502)	(1,470)	(1,502)	(1,470)
Liquor control	-	-	(540)	(551)	(540)	(551)
Washington's lottery	-	-	(401)	(418)	(401)	(418)
Other business-type activities	-	-	(391)	(235)	(391)	(235)
Total Expenses	(33,561)	(30,543)	(7,738)	(7,533)	(41,299)	(38,076)
Excess (deficiency) of revenues over expenses before contributions to endowments, extraordinary loss, and transfers	(2,103)	198	(1,122)	(1,245)	(3,225)	(1,047)
Contributions to endowments	57	95	-	-	57	95
Transfers	(190)	272	190	(272)	-	-
Increase (decrease) in net assets	(2,236)	565	(932)	(1,517)	(3,168)	(952)
Net assets - July 1, as restated*	26,091	25,532	(4,284)	(2,767)	21,807	22,765
Net assets - June 30	<u>\$ 23,855</u>	<u>\$ 26,097</u>	<u>\$ (5,216)</u>	<u>\$ (4,284)</u>	<u>\$ 18,639</u>	<u>\$ 21,813</u>
* Beginning Net Assets balances were restated in Fiscal Year 2008 to reflect fund type reclassifications and in Fiscal Year 2009 for prior period adjustments.						

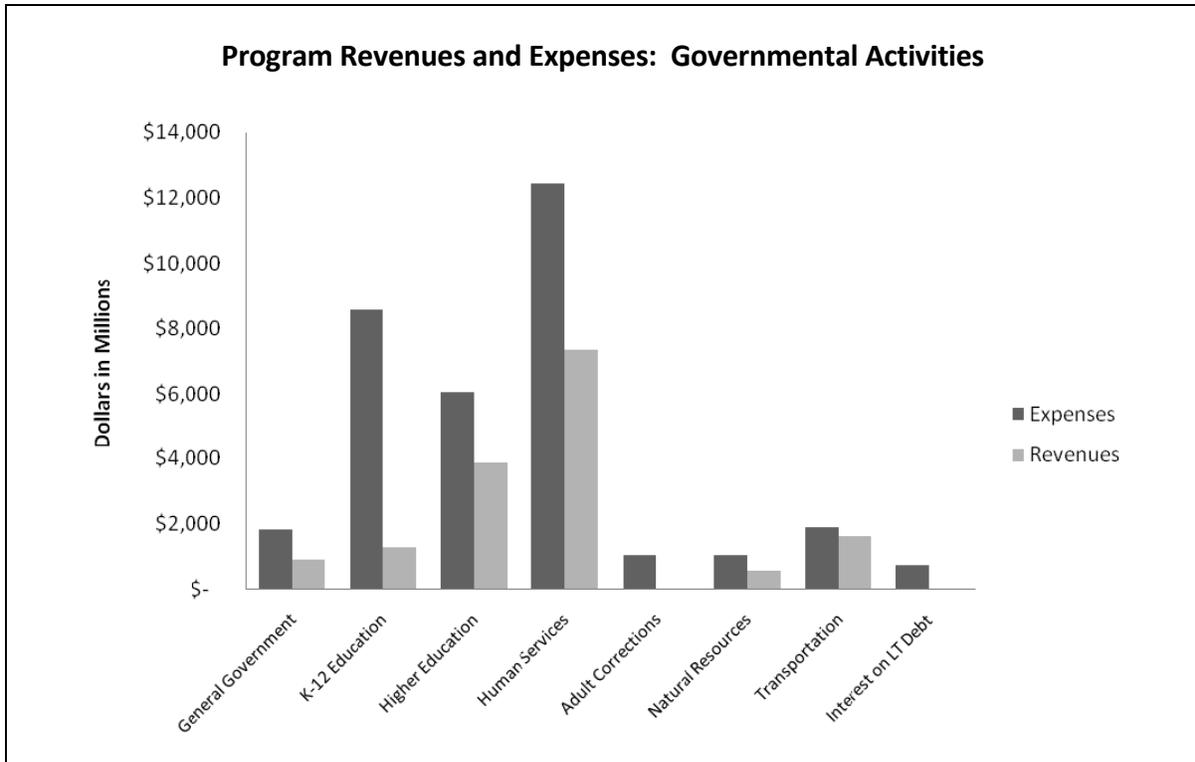
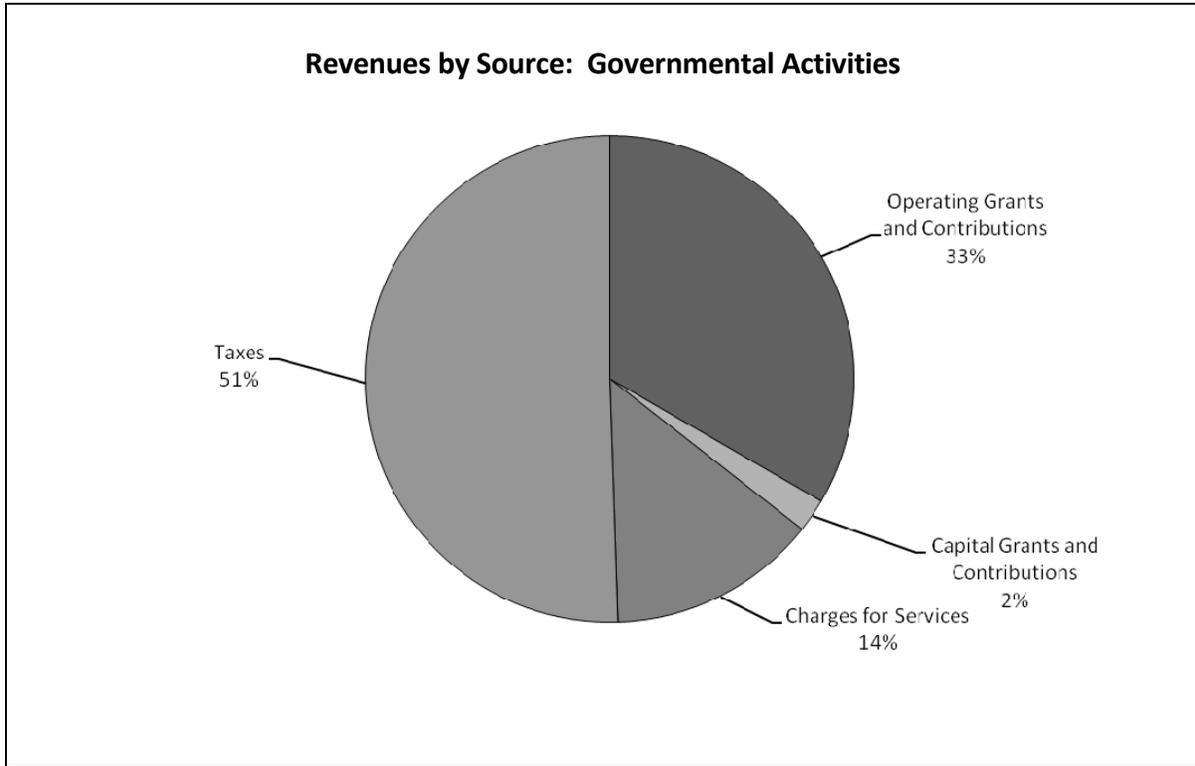
Governmental Activities. Governmental activities resulted in a decrease in the state of Washington's net assets of \$2.2 billion. A number of factors contributed to the decrease:

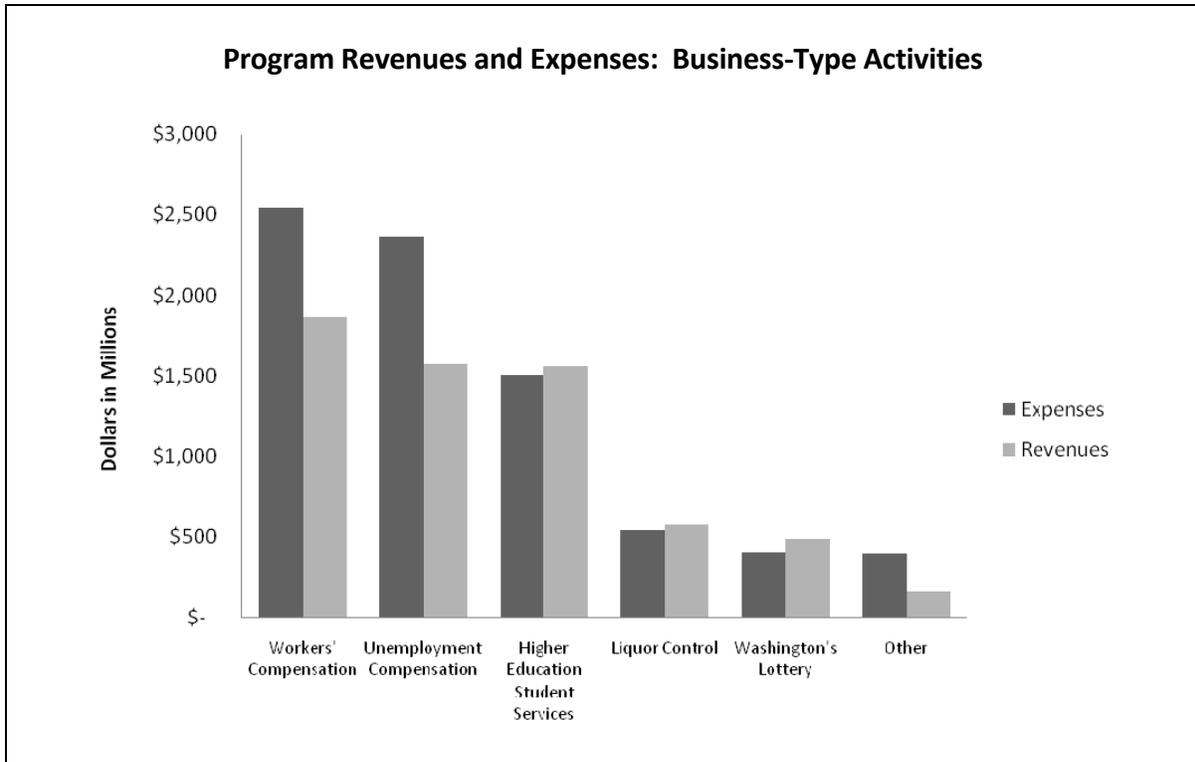
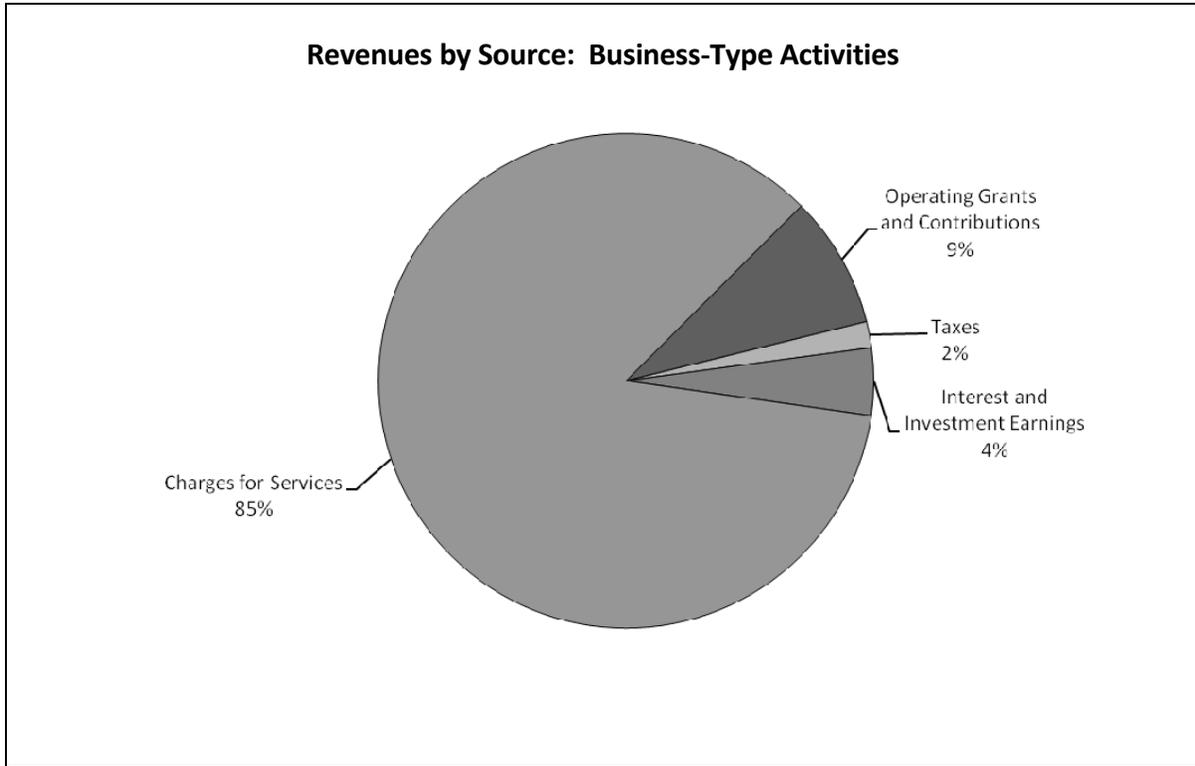
- Tax revenues decreased \$893 million in Fiscal Year 2009 as compared to Fiscal Year 2008. While certain tax sources showed moderate increases, sales and use taxes reported a decrease of \$1.0 billion. Sales and use taxes are the main tax revenue for governmental activities. Taxable sales have declined sharply due to reductions in consumer spending power as a result of job losses as well as weak consumer confidence. Real estate excise taxes also declined by \$294 million reflecting the continued decline in real estate activity as home prices and housing permits continued to decline throughout Fiscal Year 2009.
- Growth in expenses outpaced growth in revenues. The expenses for human services and education comprised 80.5 percent of the total expenses for governmental activities which is consistent with the 80 percent in Fiscal Year 2008. Human services expenses grew by \$1.2 billion or 10 percent in Fiscal Year 2009 over Fiscal Year 2008 reflecting the increased number of citizens seeking assistance from state programs and services due to the economic recession. K-12 education also increased in Fiscal Year 2009 as compared to Fiscal Year 2008 due to increases in enrollment and construction grants to local school districts. Approximately 40 percent of the increased costs of human services and K-12 education were financed with federal fiscal stabilization funds.

Business-Type Activities. Business-type activities decreased the state of Washington's net assets by \$932 million which included losses in both the workers' compensation and unemployment compensation activities.

Key factors contributing to the operating results of business-type activities are:

- The operating loss in the workers' compensation activity in Fiscal Year 2009 was \$1.8 billion less than in Fiscal Year 2008. A number of factors contributed to the decreased operating loss including an increase in premium revenue of \$260 million which resulted when the Fiscal Year 2008 rate holiday did not extend into Fiscal Year 2009 and a decrease in claims costs of \$1.5 billion. The decrease in claims costs is attributable to lower projections of supplemental pension costs related to changes in the forecast of future wage inflation.
- The unemployment compensation activity reported a Fiscal Year 2009 operating loss of \$789 million, compared to \$333 million operating income in Fiscal Year 2008. Washington's unemployment insurance program is an experience-based system. Since Washington had relatively low unemployment until Fiscal Year 2009, unemployment premium revenue had been declining. Fiscal Year 2009 premium revenues were \$146 million less than Fiscal Year 2008. While this decrease was more than offset by an increase in federal aid of \$531 million, which included federal fiscal stabilization funding, costs for unemployment insurance benefits rose \$1.6 billion. The increase in costs was the result of increases in the number of claims, the duration of claims and the benefit amounts. The annualized unemployment rate for the state was 7.3 percent in Fiscal Year 2009, up from 4.7 percent in Fiscal Year 2008, a 55 percent increase.
- The higher education student services activity reported relatively proportional increases in both expenses and charges for services when compared to the prior year. Additionally, both liquor control and Washington's lottery activities reported operating revenues and expenses consistent with the prior year.





Financial Analysis of the Government's Funds

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

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

The General Fund is the chief operating fund of the state of Washington. At the end of the fiscal year, total fund balance for the General Fund equaled \$1.2 billion.

Unreserved fund balance included \$898 million designated for working capital purposes. This amount relates to certain accrued revenues and is not considered by management to be available to spend. The remaining unreserved fund balance of \$189 million is undesignated and is considered available to spend.

The fund balance of the state of Washington's General Fund decreased by \$757 million during Fiscal Year 2009. While increases in federal grant revenue approximated the decreases in tax revenue, increased demands for services had a negative impact on fund balance.

STATE OF WASHINGTON			
General Fund			
<i>(in millions of dollars)</i>			
	Fiscal Year		Difference
	2009	2008	Increase (Decrease)
REVENUES			
Taxes	\$12,791	\$ 14,307	\$ (1,516)
Federal grants	8,311	6,557	1,754
Investment revenue	64	123	(59)
Other	421	462	(41)
Total	21,587	21,449	138
EXPENDITURES			
Human services	11,912	10,921	991
Education	9,044	8,235	809
Other	1,223	1,144	79
Total	22,179	20,300	1,879
Net transfers in (out)	(192)	(1,145)	953
Other financing sources	27	12	15
Net increase (decrease) in fund balance	\$ (757)	\$ 16	\$ (773)

Expenditure growth continues to be concentrated in services and programs most vital to citizens – primarily human services and public education. As explained earlier, increased demand for services due to recessionary economic conditions resulted in the expenditure growth reported in the General Fund. The increased costs were supported in part with increased federal grant funding including federal fiscal stabilization funds.

In addition to the General Fund, the state reports the Higher Education Special Revenue and Higher Education Endowment Funds as major governmental funds. The fund balance of the Higher Education Special Revenue Fund decreased by \$346 million in Fiscal Year 2009 largely

due to transfer activity. The fund balance for the Higher Education Endowment Fund decreased by \$533 million. The decrease in the Higher Education Endowment Fund is primarily due to decline in the market value of investments and, to a lesser extent, to a decline in support from donors, both related to the current economic situation.

The fund balance for nonmajor governmental funds decreased by \$1.3 billion. The largest factor contributing to the decrease is an increase in transfers to other funds - \$755 million of which was transferred to the General Fund to cover the revenue shortfall.

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

- The Workers' Compensation Fund reported a loss of \$0.5 billion in Fiscal Year 2009. Operating revenues increased by \$260 million and operating expenses decreased by \$1.5 billion as compared to Fiscal Year 2008. As noted previously, the decrease in operating costs is attributable to lower projections of supplemental pension costs related to changes in the forecast of future wage inflations. The positive changes were partially offset by a decrease in investment income of \$253 million due to the ongoing turmoil in the investment market.
- Washington's unemployment rate increased markedly in Fiscal Year 2009, as the slowing national economy and weakening housing markets took their toll on the labor markets. Despite an increase in federal aid of \$531 million, which included federal fiscal stabilization funding, the Unemployment Compensation Fund incurred a loss of \$607 million.
- Activity for the various nonmajor proprietary funds resulted in a decrease to net assets of \$387 million. The largest component of the decrease is the loss of \$340 million reported by the state's guaranteed college tuition (GET) program which is included in the Other Activities Fund. This loss was primarily caused by a reduction in investment earnings and higher than projected tuition unit payout values. The GET program is proceeding cautiously and analyzing the market for strategic investment opportunities.

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 two years ended June 30, 2009. While there were no significant increases or decreases, changes to estimates are summarized as follows:

- Estimated resources increased by \$619 million over the course of the biennium. A decrease of \$1.8 billion was reported for taxes. The decrease in estimated tax revenue was offset by increases to federal grants-in-aid and transfers from other funds of \$1.4 billion and \$842 million, respectively.

- Appropriated expenditure authority increased by \$858 million over the course of the biennium ended June 30, 2009. Increases were recorded in general government, human services and education of \$189 million, \$409 million and \$422 million, respectively. The largest decrease was in transfers to other funds of \$167 million.

The state did not overspend its legal spending authority for the 2007-09 Biennium. Actual General Fund revenues and expenditures were 97 and 98 percent of final budgeted revenues and appropriations, respectively, for the 2007-09 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, 2009 amounted to \$31.7 billion (net of accumulated depreciation). This investment in capital assets includes land, infrastructure, museum and historical collections, buildings and other improvements, furnishings and equipment, as well as construction in progress.

Washington's Fiscal Year 2009 investment in capital assets, net of current year depreciation, was \$2.0 billion, including increases to the state's transportation infrastructure of \$1.3 billion and buildings of \$816 million. The state's construction in progress includes both new construction and major improvements to state and common school capital facilities, transportation projects and assistance to local governments for public works capital projects. Remaining commitments on these construction projects total \$7.8 billion.

Additional information on the state of Washington's capital assets can be found in Note 6 beginning on page 94 of this report.

Infrastructure. The state of Washington first reported infrastructure under the requirements of the Governmental Accounting Standards Board in Fiscal Year 2002. Transportation infrastructure reported includes the state highway system, emergency airports, and two short rail lines. While the rail lines are reported net of depreciation, the state highway system and emergency airports are reported using the modified approach. Under the modified approach, rather than recording depreciation, asset condition is reported.

STATE OF WASHINGTON						
Capital Assets - Net of Depreciation						
<i>(in millions of dollars)</i>						
	Governmental		Business-Type		Total	
	Activities		Activities			
	2009	2008	2009	2008	2009	2008
Land	\$ 1,130	\$ 1,051	\$ 142	\$ 136	\$ 1,272	\$ 1,187
Transportation infrastructure and other assets not depreciated	18,328	17,021	-	-	18,328	17,021
Buildings	6,473	5,731	1,566	1,492	8,039	7,223
Furnishings, equipment, and collections	1,377	1,392	150	135	1,527	1,527
Other improvements and infrastructure	1,065	1,013	88	58	1,153	1,071
Construction in progress	1,185	1,484	153	174	1,338	1,658
Total	\$ 29,558	\$ 27,692	\$ 2,099	\$ 1,995	\$ 31,657	\$ 29,687

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 163.

The Washington State Department of Transportation (WSDOT) accomplished a net addition of 141 lane miles and 21 bridges in Fiscal Year 2009. The state highway system value increased a net of \$1.3 billion during the fiscal year. Amounts spent during Fiscal Year 2009 to maintain and preserve these infrastructure assets were not significantly different from estimated spending plans according to the biennial budget. The state highway system and emergency airports continue to meet established condition levels. No significant changes in condition levels were noted for pavements or bridges.

Detailed information about targeted and actual condition levels for roads, bridges, rest areas, and airports can be found in the required supplementary information section of this report.

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

The WSDOT's planned highway infrastructure projects for the next four years, fiscal years 2010 through 2013, would commit approximately \$6.5 billion for 460 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 2009, the state of Washington had general obligation bond debt outstanding of \$14.1 billion, an increase of 8.5 percent over Fiscal Year

2008. This debt is secured by a pledge of the full faith and credit of the state. Additionally, the state had authorized \$12.7 billion general obligation debt that remains unissued.

The state had revenue debt outstanding at June 30, 2009, of \$1.7 billion, an increase of \$20 million over Fiscal Year 2008. This increase is primarily related to revenue bonds issued by state colleges and universities. Revenue bond debt is secured by specific sources of revenue.

During Fiscal Year 2009, the state issued general obligation debt, totaling \$1.7 billion, for various capital and transportation projects. The state ranked 13th in a list of the top 100 state and local issuers ranked by amount financed by municipal issuers in calendar year 2008, according to The Bond Buyer's 2009 Yearbook.

The Washington State Constitution and the Revised Code of Washington limit the amount of general obligation (GO) debt that may be issued. The constraining limit for 2009 is the statutory limit. For the fiscal year ended June 30, 2009, the maximum GO debt authorized by the statutory debt limit was \$10.8 billion.

This computation excludes specific bond issues and types that are not secured by general state revenues, such as motor vehicle fuel tax and reimbursable bonds. Of the \$14.1 billion general obligation bond debt outstanding at June 30, 2009, \$8.0 billion is subject to the limitation. Based on the debt limitation calculation, the debt service requirements as of June 30, 2009 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 or at: http://www.tre.wa.gov/documents/debt_cdl2009.pdf.

STATE OF WASHINGTON						
Bond Debt						
<i>(in millions of dollars)</i>						
	Governmental		Business-Type		Total	
	Activities		Activities			
	2009	2008	2009	2008	2009	2008
General obligation (GO) bonds	\$ 14,049	\$ 12,927	\$ 69	\$ 80	\$ 14,118	\$ 13,007
Accreted interest on zero interest rate GO bonds	328	295	38	34	366	329
Revenue bonds	616	555	1,074	1,115	1,690	1,670
Total	\$ 14,993	\$ 13,777	\$ 1,181	\$ 1,229	\$ 16,174	\$ 15,006

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, 2009, 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.

Additional information on the state's bond debt obligations is presented in Note 7 beginning on page 98 of this report.

Additional information on the state's legal debt limit is presented in the statistical section on page 258 of this report.

Conditions with Expected Future Impact

Economic Factors. The forecast for Washington for Fiscal Year 2010 is for the beginning of the end of the recession. That said, in the coming year, legislative leaders and management will be facing a number of challenges.

- Slower economic growth is forecasted as the impacts of the financial crisis and national and international recessions wind their way through Washington's economy.
- Employment will take time to pick up again as it typically lags the upturn in activity. Businesses will first meet demand by ramping up excess capacity and increasing workers' hours. Only after they are sure the recovery is going to be sustained will they start adding to payrolls. Accordingly, unemployment rates are expected

to increase as non-farm payroll employment in Washington is forecasted to decrease in Fiscal Year 2010 by 3.0 percent, marking two consecutive years of declining employment.

- Revenue growth is expected to be negatively impacted as economic changes to the tax system, including aerospace industry tax credits, take full effect by the end of the 2007-09 Biennium. State tax revenue is also expected to be adversely impacted by forecasted continued weak consumer spending.

Changes to the General Fund. Effective July 1, 2009, six accounts, previously reported within nonmajor governmental funds, will be consolidated into the General Fund. Because of the close relationship between these accounts and the General Fund, they had been designated as "related funds." They are being consolidated into the General Fund to improve budget transparency.

Federal Fiscal Stabilization. Since the American Recovery and Reinvestment Act was signed into law in February 2009, Washington has used fiscal stabilization grants to avoid making significant service and work force cuts in areas such as education, transportation, public health and the environment.

As of September 30, more than \$2 billion in federal fiscal stabilization grants have been awarded to the state. State agencies are using the grants to stabilize the state's budget, stimulate the economy and help citizens hardest hit by the recession. Proposals for additional funding have been submitted for a variety of projects in areas such as green jobs and worker training; broadband deployment; health information technology; high-speed rail development; and energy efficiency.

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).

On July 1, 2008, the balance in the Emergency Reserve Fund of \$303 million was transferred to the newly created BSA. An additional \$115 million was transferred from the General Fund to the BSA in Fiscal Year 2009 in accordance with the provisions of the Constitution.

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 2009, Engrossed Substitute House Bill 1244 authorized the transfer of \$400 million from the BSA

to the General Fund. The BSA has a balance of \$21.4 million as of June 30, 2009.

Requests for Information

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

Basic Financial Statements
Governmental-wide Financial Statements

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Statement of Net Assets

June 30, 2009

(expressed in thousands)

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Cash and pooled investments	\$ 4,186,623	\$ 6,857,854	\$ 11,044,477	\$ 68,710
Taxes receivable (net of allowance)	2,908,709	5,456	2,914,165	-
Other receivables (net of allowance)	1,176,257	1,145,044	2,321,301	1,300
Internal balances (net)	71,804	(71,804)	-	-
Due from other governments	3,638,185	139,245	3,777,430	-
Inventories	92,697	90,191	182,888	-
Investments, noncurrent	3,437,071	12,456,421	15,893,492	20,981
Other assets	100,030	405,179	505,209	58,767
Capital assets (Note 6):				
Non-depreciable assets	20,643,360	295,848	20,939,208	34,677
Depreciable assets, net of depreciation	8,914,577	1,803,083	10,717,660	353,738
Total capital assets, net of depreciation	29,557,937	2,098,931	31,656,868	388,415
Total Assets	\$ 45,169,313	\$ 23,126,517	\$ 68,295,830	\$ 538,173
LIABILITIES				
Accounts payable	\$ 1,389,827	\$ 133,626	\$ 1,523,453	\$ 35,035
Contracts and retainage payable	185,219	26,685	211,904	3,042
Accrued liabilities	592,346	247,473	839,819	3,835
Obligations under security lending agreements	126,592	2,165,450	2,292,042	-
Obligation under reverse repurchase agreements	194,243	2,174	196,417	-
Due to other governments	832,872	32,517	865,389	-
Unearned revenue	272,186	44,948	317,134	1,482
Long-term liabilities (Note 7):				
Due within one year	1,164,862	2,390,917	3,555,779	-
Due in more than one year	16,556,033	23,298,276	39,854,309	30,326
Total Liabilities	21,314,180	28,342,066	49,656,246	73,720
NET ASSETS				
Invested in capital assets, net of related debt	17,551,133	721,651	18,272,784	353,829
Restricted for:				
Unemployment compensation	-	3,799,721	3,799,721	-
Other purposes	1,783,271	-	1,783,271	23,137
Capital projects	449,534	-	449,534	-
Expendable permanent fund principal	1,281,879	-	1,281,879	-
Nonexpendable permanent endowments	1,372,769	-	1,372,769	-
Unrestricted (deficit)	1,416,547	(9,736,921)	(8,320,374)	87,487
Total Net Assets	\$ 23,855,133	\$ (5,215,549)	\$ 18,639,584	\$ 464,453

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

Statement of Activities
For the Fiscal Year Ended June 30, 2009
(expressed in thousands)

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT				
Governmental Activities:				
General government	\$ 1,814,776	\$ 599,627	\$ 320,087	\$ 441
Education - elementary and secondary (K-12)	8,548,600	19,403	1,262,665	-
Education - higher education	6,044,459	2,169,850	1,691,421	22,504
Human services	12,435,831	300,160	7,045,450	-
Adult corrections	1,044,398	9,363	2,005	-
Natural resources and recreation	1,062,025	399,567	146,513	38,389
Transportation	1,883,055	900,108	96,578	644,908
Interest on long-term debt	727,734	-	-	-
Total Governmental Activities	<u>33,560,878</u>	<u>4,398,078</u>	<u>10,564,719</u>	<u>706,242</u>
Business-Type Activities:				
Workers' compensation	2,543,743	1,856,013	7,419	-
Unemployment compensation	2,360,343	1,010,671	561,106	-
Higher education student services	1,501,566	1,555,501	3,350	-
Liquor control	540,005	573,861	13	-
Washington's lottery	400,716	487,734	-	-
Other	391,416	156,305	-	-
Total Business-Type Activities	<u>7,737,789</u>	<u>5,640,085</u>	<u>571,888</u>	<u>-</u>
Total Primary Government	<u>\$ 41,298,667</u>	<u>\$ 10,038,163</u>	<u>\$ 11,136,607</u>	<u>\$ 706,242</u>
COMPONENT UNITS	<u>\$ 28,608</u>	<u>\$ 14,503</u>	<u>\$ 1,146</u>	<u>\$ 726</u>
Total Component Units	<u>\$ 28,608</u>	<u>\$ 14,503</u>	<u>\$ 1,146</u>	<u>\$ 726</u>

General Revenues:
Taxes - sales and use
Taxes - business and occupation
Taxes - property
Taxes - motor vehicle and fuel
Taxes - excise
Taxes - other
Interest and investment earnings
Total general revenues
Excess (deficiency) of revenues over expenses before contributions
to endowments, extraordinary loss, and transfers
Contributions to endowments
Transfers
Change in Net Assets
Net assets - Beginning, as restated
Net assets - Ending

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

State of Washington

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-Type Activities	Total	
\$ (894,621)	\$ -	\$ (894,621)	
(7,266,532)	-	(7,266,532)	
(2,160,684)	-	(2,160,684)	
(5,090,221)	-	(5,090,221)	
(1,033,030)	-	(1,033,030)	
(477,556)	-	(477,556)	
(241,461)	-	(241,461)	
(727,734)	-	(727,734)	
<u>(17,891,839)</u>	<u>-</u>	<u>(17,891,839)</u>	
-	(680,311)	(680,311)	
-	(788,566)	(788,566)	
-	57,285	57,285	
-	33,869	33,869	
-	87,018	87,018	
-	(235,111)	(235,111)	
-	<u>(1,525,816)</u>	<u>(1,525,816)</u>	
<u>(17,891,839)</u>	<u>(1,525,816)</u>	<u>(19,417,655)</u>	
			<u>\$ (12,233)</u>
			<u>(12,233)</u>
7,305,841	-	7,305,841	-
2,614,380	-	2,614,380	-
1,785,064	-	1,785,064	-
1,183,360	-	1,183,360	-
486,610	57,081	543,691	-
2,625,435	55,651	2,681,086	-
(211,814)	291,057	79,243	5,605
<u>15,788,876</u>	<u>403,789</u>	<u>16,192,665</u>	<u>5,605</u>
<u>(2,102,963)</u>	<u>(1,122,027)</u>	<u>(3,224,990)</u>	<u>(6,628)</u>
56,983	-	56,983	-
(190,415)	190,415	-	-
(2,236,395)	(931,612)	(3,168,007)	(6,628)
26,091,528	(4,283,937)	21,807,591	471,081
<u>\$ 23,855,133</u>	<u>\$ (5,215,549)</u>	<u>\$ 18,639,584</u>	<u>\$ 464,453</u>

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Basic Financial Statements
Fund Financial Statements

Balance Sheet
GOVERNMENTAL FUNDS

June 30, 2009
(expressed in thousands)

	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
ASSETS					
Cash and pooled investments	\$ 133,849	\$ 326,973	\$ 396,484	\$ 2,905,383	\$ 3,762,689
Investments	151,604	767,972	2,211,823	318,299	3,449,698
Taxes receivable (net of allowance)	2,776,819	26,087	-	105,803	2,908,709
Other receivables (net of allowance)	268,899	345,305	21,334	601,723	1,237,261
Due from other funds	171,055	168,607	89	439,532	779,283
Due from other governments	1,151,966	144,125	-	2,272,976	3,569,067
Inventories	16,095	12,971	-	45,458	74,524
Total Assets	\$ 4,670,287	\$ 1,792,040	\$ 2,629,730	\$ 6,689,174	\$ 15,781,231
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 898,717	\$ 111,856	\$ -	\$ 337,199	\$ 1,347,772
Contracts and retainages payable	42,782	3,842	2,023	115,890	164,537
Accrued liabilities	161,973	155,254	41,932	85,645	444,804
Obligations under security lending agreements	-	-	97,282	29,310	126,592
Obligations under reverse repurchase agreements	101,088	8,841	1,229	78,683	189,841
Due to other funds	263,794	101,652	2,165	432,812	800,423
Due to other governments	595,197	644	-	176,501	772,342
Deferred revenues	1,423,927	204,500	6,893	715,091	2,350,411
Claims and judgments payable	20,859	-	-	14,787	35,646
Total Liabilities	3,508,337	586,589	151,524	1,985,918	6,232,368
Fund Balances:					
Reserved for:					
Encumbrances	52	2,419	-	213,857	216,328
Inventories	15,614	12,971	-	41,271	69,856
Permanent funds	-	-	2,478,206	176,442	2,654,648
Other specific purposes	59,263	220,151	-	1,848,085	2,127,499
Unreserved, designated for, reported in:					
Working capital	897,763	-	-	-	897,763
Higher education	-	155,679	-	-	155,679
Special revenue funds	-	-	-	165	165
Debt service funds	-	-	-	267,470	267,470
Unreserved, undesignated	189,258	814,231	-	-	1,003,489
Unreserved, undesignated reported in:					
Special revenue funds	-	-	-	1,848,410	1,848,410
Capital project funds	-	-	-	307,556	307,556
Total Fund Balances	1,161,950	1,205,451	2,478,206	4,703,256	9,548,863
Total Liabilities and Fund Balances	\$ 4,670,287	\$ 1,792,040	\$ 2,629,730	\$ 6,689,174	\$ 15,781,231

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, 2009
(expressed in thousands)

Total Fund Balances for Governmental Funds \$ 9,548,863

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	\$ 20,614,820	
Depreciable assets	14,449,903	
Less: Accumulated depreciation	<u>(5,960,475)</u>	
Total capital assets		29,104,248

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. 2,079,407

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. 14,800

Unmatured interest on general obligation bonds is not recognized in the funds until due. (305,951)

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. (187,678)

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	\$ (14,863,287)	
Accreted interest on bonds	(327,617)	
Compensated absences	(518,968)	
Other postemployment obligations	(443,655)	
Unfunded pension obligations	(154,130)	
Pollution remediation obligations	(35,005)	
Claims and judgments	(33,607)	
Other obligations	<u>(22,287)</u>	
Total long-term liabilities		<u>(16,398,556)</u>

Net Assets of Governmental Activities \$ 23,855,133

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, 2009

(expressed in thousands)

	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
REVENUES					
Retail sales and use taxes	\$ 7,233,911	\$ -	\$ -	\$ 71,930	\$ 7,305,841
Business and occupation taxes	2,530,373	-	-	84,007	2,614,380
Property taxes	1,528,814	-	-	256,250	1,785,064
Excise taxes	433,005	-	-	53,605	486,610
Motor vehicle and fuel taxes	-	-	-	1,183,360	1,183,360
Other taxes	1,064,683	221,913	-	706,421	1,993,017
Licenses, permits, and fees	95,089	621	-	803,148	898,858
Timber sales	1,287	-	22,002	145,146	168,435
Other contracts and grants	170,381	644,610	-	17,317	832,308
Federal grants-in-aid	8,311,279	1,138,469	-	1,097,864	10,547,612
Charges for services	54,993	1,615,277	-	557,969	2,228,239
Investment income (loss)	64,091	69,029	(473,941)	129,007	(211,814)
Miscellaneous revenue	74,916	274,074	2,293	483,203	834,486
Escheated property	24,656	-	-	-	24,656
Contributions and donations	-	-	56,983	-	56,983
Total Revenues	21,587,478	3,963,993	(392,663)	5,589,227	30,748,035
EXPENDITURES					
Current:					
General government	726,235	-	-	650,987	1,377,222
Human services	11,912,451	-	-	1,241,506	13,153,957
Natural resources and recreation	340,037	-	-	659,283	999,320
Transportation	37,048	732	-	1,809,555	1,847,335
Education	9,043,821	3,794,310	177	987,240	13,825,548
Intergovernmental	31,683	-	-	351,735	383,418
Capital outlays	69,448	146,102	24,010	2,206,404	2,445,964
Debt service:					
Principal	18,008	16,889	-	609,875	644,772
Interest	567	3,908	-	665,492	669,967
Total Expenditures	22,179,298	3,961,941	24,187	9,182,077	35,347,503
Excess of Revenues Over (Under) Expenditures	(591,820)	2,052	(416,850)	(3,592,850)	(4,599,468)
OTHER FINANCING SOURCES (USES)					
Bonds issued	-	-	-	1,702,700	1,702,700
Other debt issued	27,021	19,546	-	2,702	49,269
Bond issue premiums	-	-	-	78,379	78,379
Capital lease acquisitions	-	33	-	-	33
Transfers in	951,523	410,027	9,450	2,753,771	4,124,771
Transfers (out)	(1,143,562)	(777,908)	(125,428)	(2,293,436)	(4,340,334)
Total Other Financing Sources (Uses)	(165,018)	(348,302)	(115,978)	2,244,116	1,614,818
Net Change in Fund Balances	(756,838)	(346,250)	(532,828)	(1,348,734)	(2,984,650)
Fund Balances - Beginning, as restated	1,918,788	1,551,701	3,011,034	6,051,990	12,533,513
Fund Balances - Ending	\$ 1,161,950	\$ 1,205,451	\$ 2,478,206	\$ 4,703,256	\$ 9,548,863

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, 2009
(expressed in thousands)

Net Change in Fund Balances - Total Governmental Funds \$ (2,984,650)

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	\$ 2,362,813	
Less: Depreciation expense	<u>(487,942)</u>	1,874,871

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. 773,587

Pension trust funding in excess of annual required contributions uses current financial resources, but does not qualify as an expense. 14,800

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. (349,372)

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	\$ (1,918,735)	
Principal payments on bonds and other financing contracts	743,155	
Accreted interest on bonds	<u>(32,561)</u>	(1,208,141)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not recognized in governmental funds. Also, some 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:

Unfunded pension obligations	\$ (40,714)	
Compensated absences	(21,410)	
Claims and judgments	(5,327)	
Other postemployment obligations	(222,279)	
Pollution remediation	(9,219)	
Accrued interest	(25,341)	
Other obligations	<u>(33,200)</u>	(357,490)

Change in Net Assets of Governmental Activities \$ (2,236,395)

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

Statement of Fund Net Assets
PROPRIETARY FUNDS

June 30, 2009

(expressed in thousands)

	Business-Type Activities Enterprise Funds				Total	Governmental
	Workers' Compensation	Unemployment Compensation	Higher Education Student Services	Nonmajor Enterprise Funds		Internal Service Funds
ASSETS						
Current Assets:						
Cash and pooled investments	\$ 70,716	\$ 3,399,541	\$ 856,687	\$ 306,754	\$ 4,633,698	\$ 336,817
Investments	1,806,130	-	3,483	414,543	2,224,156	7,123
Taxes receivable (net of allowance)	-	-	-	5,456	5,456	-
Other receivables (net of allowance)	623,438	349,771	139,531	32,304	1,145,044	17,097
Due from other funds	3,685	5,418	53,393	40,969	103,465	196,293
Due from other governments	1,006	61,123	54,108	3,741	119,978	8,107
Inventories	142	-	40,264	49,785	90,191	18,174
Prepaid expenses	38	-	33,013	366	33,417	5,580
Total Current Assets	2,505,155	3,815,853	1,180,479	853,918	8,355,405	589,191
Noncurrent Assets:						
Investments, noncurrent	10,886,324	-	220,756	1,349,341	12,456,421	67,367
Other noncurrent assets	121,105	-	60,759	189,898	371,762	79
Capital assets:						
Land and other non-depreciable assets	3,240	-	60,069	79,073	142,382	3,836
Buildings	62,705	-	1,756,809	407,397	2,226,911	149,040
Other improvements	1,662	-	69,369	20,259	91,290	18,242
Furnishings, equipment, and collections	71,113	-	367,566	68,577	507,256	754,262
Infrastructure	-	-	34,995	-	34,995	478
Accumulated depreciation	(75,875)	-	(824,816)	(156,678)	(1,057,369)	(496,873)
Construction in progress	500	-	108,276	44,690	153,466	24,703
Total Noncurrent Assets	11,070,774	-	1,853,783	2,002,557	14,927,114	521,134
Total Assets	13,575,929	3,815,853	3,034,262	2,856,475	23,282,519	1,110,325
LIABILITIES						
Current Liabilities:						
Accounts payable	6,696	-	82,637	44,293	133,626	48,562
Contracts and retainages payable	7,251	-	15,569	67,164	89,984	20,652
Accrued liabilities	141,647	4,244	119,040	134,964	399,895	28,964
Obligations under security lending agreements	1,806,130	-	-	359,320	2,165,450	-
Obligations under reverse repurchase agreements	2,042	-	-	132	2,174	4,402
Bonds and notes payable	3,820	-	46,319	68,720	118,859	25,621
Due to other funds	6,628	924	79,087	87,040	173,679	103,547
Due to other governments	-	10,964	178	3,700	14,842	17
Unearned revenues	9,450	-	35,388	110	44,948	1,182
Claims and judgments payable	2,052,244	-	-	4,091	2,056,335	191,235
Total Current Liabilities	4,035,908	16,132	378,218	769,534	5,199,792	424,182
Noncurrent Liabilities:						
Claims and judgments payable	20,111,824	-	-	7,188	20,119,012	664,054
Bonds and notes payable	22,110	-	1,087,711	272,473	1,382,294	183,808
Other long-term liabilities	23,313	-	71,318	1,702,339	1,796,970	25,959
Total Noncurrent Liabilities	20,157,247	-	1,159,029	1,982,000	23,298,276	873,821
Total Liabilities	24,193,155	16,132	1,537,247	2,751,534	28,498,068	1,298,003
NET ASSETS						
Invested in capital assets, net of related debt	37,415	-	517,237	166,999	721,651	259,726
Restricted for:						
Unemployment compensation	-	3,799,721	-	-	3,799,721	-
Unrestricted	(10,654,641)	-	979,778	(62,058)	(9,736,921)	(447,404)
Total Net Assets (Deficit)	\$ (10,617,226)	\$ 3,799,721	\$ 1,497,015	\$ 104,941	\$ (5,215,549)	\$ (187,678)

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

Statement of Revenues, Expenses, and Changes in Fund Net Assets
PROPRIETARY FUNDS
 For the Fiscal Year Ended June 30, 2009
(expressed in thousands)

	Business-Type Activities Enterprise Funds				Governmental Activities	
	Workers' Compensation	Unemployment Compensation	Higher Education Student Services	Nonmajor Enterprise Funds	Total	Internal Service Funds
OPERATING REVENUES						
Sales	\$ -	\$ -	\$ 122,825	\$ 622,640	\$ 745,465	\$ 113,132
Less: Cost of goods sold	-	-	85,350	423,782	509,132	98,758
Gross profit	-	-	37,475	198,858	236,333	14,374
Charges for services	12	-	1,329,444	72,637	1,402,093	678,785
Premiums and assessments	1,824,276	934,690	-	-	2,758,966	1,019,131
Federal aid for unemployment insurance benefits	-	561,106	-	-	561,106	-
Lottery ticket proceeds	-	-	-	487,715	487,715	-
Miscellaneous revenue	31,667	75,981	110,852	5,958	224,458	45,572
Total Operating Revenues	1,855,955	1,571,777	1,477,771	765,168	5,670,671	1,757,862
OPERATING EXPENSES						
Salaries and wages	134,295	-	577,090	96,669	808,054	298,406
Employee benefits	45,400	-	124,271	37,831	207,502	82,132
Personal services	6,450	-	13,168	22,772	42,390	19,915
Goods and services	73,594	-	532,242	140,643	746,479	332,272
Travel	3,314	-	19,084	2,438	24,836	3,720
Premiums and claims	2,180,780	2,360,343	-	-	4,541,123	1,325,814
Lottery prize payments	-	-	-	301,280	301,280	-
Depreciation and amortization	10,003	-	76,963	13,785	100,751	71,246
Guaranteed education tuition expense	-	-	-	215,222	215,222	-
Miscellaneous expenses	88,441	-	15,526	254	104,221	1,000
Total Operating Expenses	2,542,277	2,360,343	1,358,344	830,894	7,091,858	2,134,505
Operating Income (Loss)	(686,322)	(788,566)	119,427	(65,726)	(1,421,187)	(376,643)
NONOPERATING REVENUES (EXPENSES)						
Earnings (loss) on investments	233,313	181,907	2,481	(126,644)	291,057	7,095
Interest expense	(1,467)	-	(57,872)	(37,632)	(96,971)	(8,263)
Distributions to other governments	-	-	-	(39,828)	(39,828)	-
Tax revenue	-	-	-	112,732	112,732	-
Other revenue (expenses)	7,477	-	(4,271)	28,964	32,170	(105)
Total Nonoperating Revenues (Expenses)	239,323	181,907	(59,662)	(62,408)	299,160	(1,273)
Income (Loss) Before Contributions and Transfers	(446,999)	(606,659)	59,765	(128,134)	(1,122,027)	(377,916)
Capital contributions	-	-	-	-	-	3,397
Transfers in	9,161	-	468,890	17,968	496,019	175,894
Transfers (out)	(13,991)	-	(15,159)	(276,454)	(305,604)	(150,746)
Net Contributions and Transfers	(4,830)	-	453,731	(258,486)	190,415	28,545
Change in Net Assets	(451,829)	(606,659)	513,496	(386,620)	(931,612)	(349,371)
Net Assets (Deficit) - Beginning, as restated	(10,165,397)	4,406,380	983,519	491,561	(4,283,937)	161,693
Net Assets (Deficit) - Ending	\$ (10,617,226)	\$ 3,799,721	\$ 1,497,015	\$ 104,941	\$ (5,215,549)	\$ (187,678)

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

Statement of Cash Flows
PROPRIETARY FUNDS
 For the Fiscal Year Ended June 30, 2009
 (expressed in thousands)

	Business-Type Activities			
	Enterprise Funds			
	Workers'	Unemployment	Higher	Nonmajor
	Compensation	Compensation	Education	Enterprise
			Student	Funds
			Services	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 1,727,247	\$ 956,027	\$ 1,417,552	\$ 1,381,377
Payments to suppliers	(1,892,431)	(2,360,238)	(627,994)	(964,998)
Payments to employees	(175,324)	-	(684,016)	(129,043)
Other receipts (payments)	31,667	601,964	110,853	5,958
Net Cash Provided (Used) by Operating Activities	(308,841)	(802,247)	216,395	293,294
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers in	9,161	-	468,890	17,968
Transfers out	(13,991)	-	(15,159)	(276,454)
Operating grants and donations received	7,312	-	3,583	13
Taxes and license fees collected	95	-	-	141,457
Distributions to other governments	-	-	-	(39,828)
Other noncapital financing sources (uses)	-	-	-	11,642
Net Cash Provided (Used) by Noncapital Financing Activities	2,577	-	457,314	(145,202)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Interest paid	(1,537)	-	(56,331)	(13,551)
Principal payments on long-term capital financing	(3,625)	-	(362,316)	(21,716)
Proceeds from long-term capital financing	-	-	412,785	38,189
Proceeds from sale of capital assets	40	-	74,356	58
Acquisitions of capital assets	(6,031)	-	(327,806)	(19,147)
Net Cash Provided (Used) by Capital and Related Financing Activities	(11,153)	-	(259,312)	(16,167)
CASH FLOWS FROM INVESTING ACTIVITIES				
Receipt of interest	501,224	181,907	9,463	17,335
Proceeds from sale of investment securities	3,754,505	-	62,157	414,139
Purchases of investment securities	(3,897,312)	-	(113,417)	(550,861)
Net Cash Provided (Used) by Investing Activities	358,417	181,907	(41,797)	(119,387)
Net Increase (Decrease) in Cash and Pooled Investments	41,000	(620,340)	372,600	12,538
Cash and Pooled Investments, July 1	29,716	4,019,881	484,087	294,216
Cash and Pooled Investments, June 30	\$ 70,716	\$ 3,399,541	\$ 856,687	\$ 306,754
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating Income (Loss)	\$ (686,322)	\$ (788,566)	\$ 119,427	\$ (65,726)
Adjustments to Reconcile Operating Income				
(Loss) to Net Cash Provided by Operations:				
Depreciation	10,003	-	76,963	13,785
Change in Assets: Decrease (Increase)				
Receivables (net of allowance)	(2,034)	(13,786)	(34,013)	(33,824)
Inventories	(1)	-	(735)	(15,946)
Prepaid expenses	(30)	-	(18,809)	(16)
Change in Liabilities: Increase (Decrease)				
Payables	369,543	105	73,562	395,021
Net Cash or Cash Equivalents Provided by (Used in) Operating Activities	\$ (308,841)	\$ (802,247)	\$ 216,395	\$ 293,294

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

Continued

Governmental Activities	
Total	Internal Service Funds
\$ 5,482,203	\$ 1,792,493
(5,845,661)	(1,713,020)
(988,383)	(380,581)
750,442	45,540
<u>(601,399)</u>	<u>(255,568)</u>
496,019	175,894
(305,604)	(150,746)
10,908	1,041
141,552	-
(39,828)	-
11,642	(2)
<u>314,689</u>	<u>26,187</u>
(71,419)	(8,319)
(387,657)	(33,233)
450,974	42,429
74,454	3,295
(352,984)	(54,738)
<u>(286,632)</u>	<u>(50,566)</u>
709,929	9,494
4,230,801	46,793
(4,561,590)	(59,776)
<u>379,140</u>	<u>(3,489)</u>
(194,202)	(283,436)
4,827,900	620,253
<u>\$ 4,633,698</u>	<u>\$ 336,817</u>
\$ (1,421,187)	\$ (376,643)
100,751	71,246
(83,657)	(15,535)
(16,682)	1,792
(18,855)	(1,132)
838,231	64,704
<u>\$ (601,399)</u>	<u>\$ (255,568)</u>

Statement of Cash Flows
PROPRIETARY FUNDS
 For the Fiscal Year Ended June 30, 2009
(expressed in thousands)

	Business-Type Activities Enterprise Funds			
	Workers' Compensation	Unemployment Compensation	Higher	Nonmajor Enterprise Funds
			Education	
			Student Services	
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES				
Contributions of capital assets	\$ -	\$ -	\$ -	\$ -
Amortization of annuity prize liability	-	-	-	20,000
Increase (decrease) in fair value of investments	268,780	-	14,357	(114,819)
Amortization of debt premium (issue costs/discount)	-	-	385	-
Accretion of interest on zero coupon bonds	-	-	-	(3,832)
Increase in ownership of joint venture	-	-	7,755	-

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

Concluded

**Governmental
Activities**

	Internal Service Funds
Total	
\$ -	\$ 3,397
20,000	-
168,318	314
385	-
(3,832)	-
<u>7,755</u>	<u>-</u>

Statement of Fiduciary Net Assets
FIDUCIARY FUNDS

June 30, 2009
(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	\$ 7,508	\$ 1,714,511	\$ 105,243	\$ 217,699
Investments	-	5,465,771	-	-
Receivables, pension and other employee benefit plans:				
Employers	-	-	146,734	-
Members (net of allowance)	-	-	2,824	-
Interest and dividends	-	-	134,048	-
Investment trades pending	-	-	897,888	-
Due from other pension and other employee benefit funds	-	-	7,012	-
Other receivables, all other funds	-	5,430	-	8,995
Due from other funds	-	-	268	78
Due from other governments	-	-	-	17,097
Total Current Assets	7,508	7,185,712	1,294,017	243,869
Noncurrent Assets:				
Investments, noncurrent, pension and other employee benefit plans:				
Public equity	-	-	20,441,834	-
Fixed income	-	-	10,889,256	-
Private equity	-	-	10,432,183	-
Real estate	-	-	7,837,564	-
Security lending	-	-	2,913,893	-
Liquidity	-	-	1,648,920	-
Tangible asset	-	-	528,520	-
Reverse repurchase agreements	-	-	5,082	-
Investments, noncurrent, all other funds	14,441	1,040,203	-	21,239
Other noncurrent assets	-	-	-	35,105
Capital assets:				
Furnishings, equipment, and collections	85	-	-	-
Accumulated depreciation	(81)	-	-	-
Total Noncurrent Assets	14,445	1,040,203	54,697,252	56,344
Total Assets	21,953	8,225,915	55,991,269	\$ 300,213
LIABILITIES				
Accounts payable	129	-	-	\$ 9,740
Contracts and retainages payable	-	-	-	34,057
Accrued liabilities	123	58	1,013,322	49,253
Obligations under security lending agreements	-	-	2,913,894	-
Obligations under reverse repurchase agreements	-	199,675	5,082	9,888
Due to other funds	-	-	1,706	32
Due to other pension and other employee benefit funds	-	-	7,012	-
Due to other governments	-	-	-	162,139
Unearned revenues	-	-	764	-
Other long-term liabilities	-	-	-	35,104
Total Liabilities	252	199,733	3,941,780	\$ 300,213
NET ASSETS				
Net assets held in trust for:				
Pension benefits	-	-	49,881,350	
Deferred compensation participants	-	-	2,168,139	
Local government pool participants	-	8,026,182	-	
Individuals, organizations & other governments	21,701	-	-	
Total Net Assets	\$ 21,701	\$ 8,026,182	\$ 52,049,489	

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, 2009
(expressed in thousands)

	Private- Purpose Trust	Local Government Investment Pool	Pension and Other Employee Benefit Plans
ADDITIONS			
Contributions:			
Employers	\$ -	\$ -	\$ 1,268,248
Members	-	-	1,046,012
State	-	-	66,564
Participants	-	16,847,861	184,544
Total Contributions	-	16,847,861	2,565,368
Investment Income:			
Net appreciation (depreciation) in fair value	-	-	(15,700,399)
Interest and dividends	-	108,671	1,122,447
Less: Investment expenses	-	-	(320,815)
Net Investment Income (loss)	-	108,671	(14,898,767)
Other Additions:			
Escheated property	64,626	-	-
Transfers from other pension plans	-	-	8,590
Other contracts, grants and miscellaneous	-	3	703
Total Other Additions	64,626	3	9,293
Total Additions	64,626	16,956,535	(12,324,106)
DEDUCTIONS			
Pension benefits	-	-	2,620,593
Pension refunds	-	-	203,610
Transfers to other pension plans	-	-	8,590
Administrative expenses	2,649	1,066	2,071
Distributions to participants	-	15,547,618	106,645
Payments to or on behalf of individuals, organizations and other governments in accordance with trust agreements	72,119	-	-
Total Deductions	74,768	15,548,684	2,941,509
Net Increase (Decrease)	(10,142)	1,407,851	(15,265,615)
Net Assets - Beginning, as restated	31,843	6,618,331	67,315,104
Net Assets - Ending	\$ 21,701	\$ 8,026,182	\$ 52,049,489

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

Statement of Fund Net Assets
COMPONENT UNITS
 June 30, 2009
 (expressed in thousands)

	Public Stadium	Nonmajor Component Units	Total
ASSETS			
Current Assets:			
Cash and pooled investments	\$ 6,946	\$ 19,735	\$ 26,681
Investments	3,712	38,317	42,029
Other receivables (net of allowance)	434	866	1,300
Prepaid expenses	23	148	171
Total Current Assets	11,115	59,066	70,181
Noncurrent Assets:			
Investments, noncurrent	20,316	665	20,981
Other noncurrent assets	-	58,596	58,596
Capital assets:			
Land	34,677	-	34,677
Buildings	459,973	-	459,973
Furnishings and equipment	23,113	1,590	24,703
Accumulated depreciation	(129,799)	(1,151)	(130,950)
Construction in progress	12	-	12
Total Noncurrent Assets	408,292	59,700	467,992
Total Assets	419,407	118,766	538,173
LIABILITIES			
Current Liabilities:			
Accounts payable	127	34,908	35,035
Contracts and retainages payable	3,042	-	3,042
Accrued liabilities	3,763	72	3,835
Unearned revenues	82	1,400	1,482
Total Current Liabilities	7,014	36,380	43,394
Noncurrent Liabilities:			
Other long-term liabilities	30,326	-	30,326
Total Noncurrent Liabilities	30,326	-	30,326
Total Liabilities	37,340	36,380	73,720
NET ASSETS			
Invested in capital assets, net of related debt	353,390	439	353,829
Restricted for deferred sales tax	22,637	-	22,637
Restricted for other purposes	-	500	500
Unrestricted	6,040	81,447	87,487
Total Net Assets (Deficit)	\$ 382,067	\$ 82,386	\$ 464,453

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, 2009
(expressed in thousands)

	Public Stadium	Nonmajor Component Units	Total
OPERATING REVENUES			
Charges for services	\$ 1,016	\$ 13,487	\$ 14,503
Total Operating Revenues	1,016	13,487	14,503
OPERATING EXPENSES			
Salaries and wages	394	4,880	5,274
Employee benefits	71	1,327	1,398
Personal services	154	1,326	1,480
Goods and services	307	2,182	2,489
Travel	3	37	40
Depreciation and amortization	16,313	117	16,430
Miscellaneous expenses	-	351	351
Total Operating Expenses	17,242	10,220	27,462
Operating Income (Loss)	(16,226)	3,267	(12,959)
NONOPERATING REVENUES (EXPENSES)			
Earnings (loss) on investments	3,276	2,329	5,605
Operating grants and contributions	-	1,146	1,146
Distributions of operating grants	-	(1,146)	(1,146)
Total Nonoperating Revenues (Expenses)	3,276	2,329	5,605
Income (Loss) Before Contributions and Transfers	(12,950)	5,596	(7,354)
Capital grants and contributions	726	-	726
Total Contributions and Transfers	726	-	726
Change in Net Assets	(12,224)	5,596	(6,628)
Net Assets - Beginning, as restated	394,291	76,790	471,081
Net Assets - Ending	\$ 382,067	\$ 82,386	\$ 464,453

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

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Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2009

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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 for construction of facilities for certain revenue generating activities such as housing, dining, and parking. These revenue bonds are payable solely from, and secured by, fees and revenues derived from the operation of constructed facilities; the legal liability for the bonds and the ownership of the college assets reside with the state. Colleges do not have separate corporate powers and sue and are sued as part of the state with legal representation provided through the state Attorney General's Office. Since the colleges are legally part of the state, their financial operations, including their blended component units, are reported in the primary government financial statements using the fund structure prescribed by GASB.

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

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

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

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

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

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

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

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

Other Blended Component Units. Tumwater Office Properties, The University of Washington Alumni Association, University of Washington Physicians, University of Washington Physicians Network, Community Development Properties C-D, Educational Research Properties, Radford Court Properties, Twenty-Fifth Avenue Properties, TSB Properties, and Washington Biomedical Research Properties I and II 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 \$388 million. The state issued general obligation bonds for a portion of the cost of the stadium construction. The total public share of the stadium and exhibition center cost did not exceed \$300 million from all state and local government funding sources, as defined in statute.

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

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

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

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

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

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

The state accounts for the Medical Center's interest in SCCA under the equity method of accounting. Income of \$7.8 million was recorded in Fiscal Year 2009, bringing the total equity investment to \$56 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 Ave. East
P.O. 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 649 accounts that are combined into 54 rollup funds. The state presents separate financial statements for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major individual proprietary funds are reported in separate columns in the fund financial statements, with nonmajor funds being combined into a single column regardless of fund type. Internal service and fiduciary funds are reported by fund type. Major funds include:

Major Governmental Funds:

- **General Fund** is the state's primary operating fund. This fund accounts for all financial resources and transactions not accounted for in other funds.
- **Higher Education Special Revenue Fund** primarily accounts for grants and contracts received for research and other educational purposes. This fund also accounts for charges for services by state institutions of higher education.
- **Higher Education Endowment Permanent Fund** accounts for gifts and bequests that the donors have specified must remain intact. Each gift is governed by various restrictions on the investment and use of the funds.

Major Enterprise Funds:

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

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

Nonmajor Governmental Funds:

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

Nonmajor Proprietary Funds:

- **Enterprise Funds** account for the state's business type operations for which a fee is charged to external users for goods or services including: the state lottery; state liquor stores; the guaranteed college tuition program; and the convention and trade center.

- **Internal Service Funds** account for the provision of legal, motor pool, data processing, risk management, health insurance, and other services by one department or agency to other departments or agencies of the state on a cost-reimbursement basis.

The state reports the following fiduciary funds:

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

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

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

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

For government-wide reporting purposes, the state uses the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when

earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

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

Property taxes are levied in December for the following calendar year. The first half-year collections are due by April 30, and the second half-year collections are due by October 31. Since the state is on a fiscal year ending June 30, the first half-year collections are recognized as revenue, if collectible within 60 days of the fiscal year end. The second half-year collections are recognized as receivables offset by deferred revenue. The lien date on property taxes is January 1 of the tax levy year.

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

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

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

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

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

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

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

1. Cash and Investments

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

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

Certain pension trust fund investments, including real estate and private equity, are reported at fair values based on appraisals or estimates in the absence of readily ascertainable fair values. At June 30, 2009, these investments are valued at \$18.8 billion. Because of the inherent uncertainties in the estimation of fair value, it is possible that the estimates will change. 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.C.

3. Inventories and Prepaids

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

All merchandise inventories are considered reportable for financial statement purposes. Merchandise inventories are generally valued at cost using the first-in, first-out method. Inventories of governmental funds are valued at cost and recorded using the consumption method. Proprietary funds expense inventories when used or sold.

For governmental fund financial reporting, inventory balances are also recorded as a reservation of fund balance indicating that they do not constitute "available spendable resources" except for \$4.7 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 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. 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;
- All other capital assets with a unit cost of \$5,000 or more.

Capital assets acquired by capital leases with a net present value or fair market value, whichever is less, of less than \$10,000 are not capitalized.

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. 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 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
Infrastructure	20-50 years

The cost and related accumulated depreciation 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 expense related to capital assets is reported in the Statement of Activities.

Capital assets and the related depreciation 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 acquired. No depreciation is reported.

5. 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.

6. 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. Original issuance premiums and discounts on debt issuance are also reported as other financing sources and uses, respectively. Issue costs are reported as debt service expenditures.

7. Fund Equity

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

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

E. OTHER INFORMATION

1. Insurance Activities

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

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

The Workers' Compensation Fund, an enterprise fund, is used to account for the workers' compensation program which provides time-loss, medical, vocational, disability, and pension benefits to qualifying individuals sustaining work-related injuries or illnesses. The main benefit plans of the workers' compensation program are funded based on rates that will keep these plans solvent in accordance with recognized actuarial principles. The supplemental pension plan supports cost-of-living adjustments (COLA) granted for time-loss and disability payments; however, these are funded on a pay-as-you-go basis. By statute, the state is only allowed to collect enough revenue to fund the current COLA payments.

Premiums are based on individual employers' reported payroll hours and insurance rates based on each employer's risk classification(s) and past experience. In addition to its regular premium plans, the Workers' Compensation Fund offers a retrospective premium rating plan under which premiums are adjusted annually for up to three years following the plan year based on group and individual employers' loss experience. Initial adjustments to the standard premiums are paid to or collected from the employers approximately ten months after the end of each plan year.

The Workers' Compensation Fund establishes claims liabilities based on estimates of the ultimate cost of claims (including future claims adjustment expenses) that have been reported but not closed, and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the benefit involved. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liabilities, claims adjudication, and judgments, the process used in computing claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent paid losses, claim frequency, and other economic, legal, and social factors. A provision for inflation in the calculation of estimated future claim costs is implicit in the calculation because reliance is placed both

on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

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

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

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

health insurance program. For additional information, refer to Note 12.

The state secures commercial insurance for certain coverage offered, but self-insures the risk of loss for the Uniform Medical Plan and the Aetna Public Health Plan. The Uniform Medical and Aetna Public Health Plans enrolled 62.7 percent of the eligible subscribers in Fiscal Year 2009. 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 the same medical and dental coverage available to state employees, available on a self-paid basis.

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

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

The net appreciation available for authorization for expenditure by governing boards totaled \$99.9 million. This amount is reported as Restricted for Permanent Funds – Expendable on the government-wide Statement of Net Assets.

Note 2

Accounting and Reporting Changes

Reporting Changes. Effective for Fiscal Year 2009 reporting, the state implemented the following new standards issued by the Governmental Accounting Standards Board (GASB):

Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. Statement No. 49 identifies the circumstances under which the state would be required to report a liability related to pollution remediation. Liabilities and expenses would be estimated using an “expected cash flows” measurement technique.

This statement also requires the state to disclose information about its pollution obligations associated with the cleanup efforts in the notes to the financial statements (refer to Note 7.F).

Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. Statement No. 52 requires the state to report changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine the fair value.

Prior Period Adjustments. The Department of Ecology recorded a prior period adjustment in a Nonmajor Governmental Fund to record cash received in a prior year. The University of Washington corrected beginning balances in an Internal Service Fund for capital assets and long-term debt related to Certificates of Participation originally recorded in governmental capital assets and long-term obligations.

Governmental Capital Assets and Long Term Obligations. The Department of Corrections recorded an adjustment to leasehold improvements, net of accumulated depreciation, and total bond liabilities in the amount of \$8.2 million and \$14.4 million, respectively, for a prior period sewer extension project. In conjunction with the implementation of GASB Statement No. 49, the state recorded beginning balances for pollution remediation obligations for all affected agencies totaling \$25.8 million.

Fund equity at July 1, 2008, has been restated as follows (expressed in thousands):

	Fund equity at June 30, 2008, as previously reported	Fund Reclassification	Prior Period Adjustment	Fund equity as restated, July 1, 2008
Governmental Funds:				
General	\$ 1,918,788	\$ -	\$ -	\$ 1,918,788
Higher Education Special Revenue	1,551,701	-	-	1,551,701
Higher Education Endowment	3,011,034	-	-	3,011,034
Nonmajor Governmental	6,050,104	-	1,886	6,051,990
Proprietary Funds:				
Enterprise Funds:				
Workers' Compensation	(10,165,397)	-	-	(10,165,397)
Unemployment Compensation	4,406,380	-	-	4,406,380
Higher Education Student Services	983,519	-	-	983,519
Nonmajor Enterprise	491,561	-	-	491,561
Internal Service Funds	163,558	-	(1,865)	161,693
Fiduciary Funds:				
Private Purpose Trust	31,843	-	-	31,843
Local Government Investment Pool	6,618,331	-	-	6,618,331
Pension and Other Employee Benefit Plans	67,315,104	-	-	67,315,104
Component Units:				
Public Stadium	394,291	-	-	394,291
Nonmajor Component Units	76,790	-	-	76,790

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) constitutes a multiple financial institution collateral pool. Pledged securities under the PDPC collateral pool are held by the PDPC's agent in the name of the collateral pool.

At June 30, 2009, \$1.5 billion of the state's deposits with financial institutions were either insured or collateralized, with the remaining \$26.1 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 WSIB does not manage or invest the self-directed investments of the Public Employees' Retirement System (PERS) Plan 3, Teachers' Retirement System (TRS) Plan 3, School Employees' Retirement System (SERS) Plan 3 or Deferred Compensation, which are accounted for and managed by the Department of Retirement Systems.

The WSIB is authorized to invest as provided by statute (Chapter 43.33A RCW) and WSIB policy. The WSIB is authorized and invests in the following: U.S. Treasury bills; discount notes; repurchase agreements; reverse repurchase agreements; banker's acceptances; commercial paper; guaranteed investment contracts; U.S. Government and Agency (government sponsored corporations eligible for collateral purposes at the Federal Reserve) securities; non-U.S. dollar bonds; investment grade corporate bonds; non-investment grade corporate bonds; publicly traded mortgage-backed securities; privately placed mortgages; private placements of corporate debt; U.S. and foreign common stock; U.S. preferred stock; convertible securities; private equity including but not limited to investment corporations, partnerships, and limited liability companies for venture capital, leveraged buy-outs, real estate and other tangible assets, or other forms of private equity; asset backed securities; and derivative securities including futures, options, options on futures, forward contracts, and swap transactions. There have been no violations of these investment restrictions during Fiscal Year 2009.

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 will be to meet the target allocation within consideration of the other remaining asset classes.

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

The Public Markets Equity portion of the retirement funds is benchmarked to the Dow Jones Global Index and includes strategies in the U.S., developed international and emerging markets. Because U.S. equity markets are generally efficient, most of the retirement system investments in this segment are in a low-cost, broad-based passive index fund. The program started the year with 75 percent of U.S. equity invested passively and the remaining 25 percent in enhanced index products. By fiscal year end, over 82 percent of U.S. equity was in passive investments (or in the process of being transitioned to passive) and less

than 18 percent remained in enhanced indexing. In keeping with the belief that international equity markets are less efficient, while acknowledging that international efficiency is increasing, the retirement system's developed markets international equity program also increased its use of passive strategies from 20 percent to over 27 percent but kept the majority of the program in active mandates. The entire emerging markets equity program is actively managed.

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

In addition, the major sector allocations are limited to the following ranges: 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, mortgage-backed securities – 5 percent to 45 percent and below investment grade credit bonds – 0 percent to 15 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 (including leveraged, management and employee buyouts), distressed, international and mezzanine investments. Private equity investments are made through limited partnership vehicles.

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

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

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

The WSIB's real estate program is an externally managed pool of selected partnership investments, intended to provide alternative portfolio characteristics when compared to traditional stock and bond investments.

The majority of the WSIB's partnerships invest in institutional-quality real estate assets that are leased to third parties. The combination of income generated from bond-like lease payments, coupled with the hard asset qualities of commercial real estate, combine to generate returns that are expected to fall between the return expectations for fixed income and equities. The real estate portfolio is managed to deliver risk-adjusted returns that are consistent with the Board's long-term return expectations for the asset class.

The WSIB's real estate partnerships typically invest in private real estate assets that are held for long-term income and appreciation. Many of the WSIB's investment partnerships do not involve co-investment with other financial entities, thereby providing the WSIB with control provisions related to liquidation, acquisition, and ongoing operational decisions for annual capital expenditures.

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

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

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

Currently, all Innovation Portfolio investment managers are investing in publicly traded common stock. Their individual holdings have been presented according to asset class on the Statement of Net Assets.

2. Unfunded Commitments

The WSIB has entered into a number of agreements that commit the retirement funds, upon request, to make additional investment purchases up to predetermined amounts. As of June 30, 2009, the retirement funds had unfunded commitments of \$8.9 billion, \$8.0 billion and \$516 million in private equity, real estate and tangible assets, respectively.

3. Securities Lending

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

In accordance with GASB Statement No. 28, the WSIB reports securities lent (the underlying securities) as assets in the Statement of Net Assets. Cash received as collateral on securities lending transactions and investments made with that cash are reported as assets.

Securities received as collateral are reported as assets if the WSIB 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 WSIB does 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 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, 2009 were \$3.3 billion and \$3.2 billion respectively. At year-end, the amounts the WSIB owed the borrowers exceeded the amounts the borrowers owed WSIB, resulting in no credit risk exposure.

During Fiscal Year 2009, securities lending transactions could be terminated on demand by either the WSIB or the borrower. The weighted average maturity of term loans amounting to \$2.7 billion was overnight and 16 days for term loans amounting to \$540 million at June 30, 2009.

Cash collateral was invested by the WSIB's agents in securities issued or guaranteed by the U.S. government, the WSIB's short-term investment pool (average final maturity of 136 days) or term loans. Because the securities lending agreements were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral.

Non-cash collateral could not be pledged or sold absent borrower default. Accordingly, non-cash collateral held under securities lending contracts with a value of \$365 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. JP Morgan indemnified the WSIB by agreeing to purchase replacement securities or return the cash collateral in the event a borrower failed to return the loaned securities or pay distributions thereon. JP Morgan's responsibilities included performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable federal regulations concerning securities lending.

During Fiscal Year 2009, there were no significant violations of legal or contractual provisions, or failures by any borrowers to return loaned securities or to pay distributions thereon. Further, the WSIB incurred no losses during Fiscal Year 2009 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 of debt investments will adversely affect the fair value of an investment. Effective duration is the measure of a debt investment's exposure to fair value changes arising from changes in interest rates. Effective duration uses the present value of cash flows, weighted for those flows as a percentage of the investment's full price. Increases in prevailing interest rates generally translate into decreases in fair values of those investments.

The WSIB does not have a formal policy specifically for interest rate risk. The pension fixed income investments are actively managed to exceed the return of the Barclays Capital Universal Index, with volatility as measured by duration to be similar to or less than the index.

As of June 30, 2009, the retirement funds' durations of the various fixed income classes were within the duration targets of this index.

State of Washington

The following schedule presents the pension fund investments by type and provides information about the interest rate risks associated with the pension trust funds investments as of June 30, 2009. The schedule displays

various asset classes held by maturity in years and credit ratings. Variable-rate securities are presented according to the length of time until the next reset date rather than the stated maturity.

Pension Trust Funds						
June 30, 2009						
(expressed in thousands)						
Investment Type	Fair Value	Maturity				Credit Rating
		Less than 1 year	1-5 years	6-10 years	More than 10 years	
Asset backed securities	\$ 69,643	\$ 69,291	\$ -	\$ -	\$ 352	Multiple
Residential mortgage backed securities	3,325,461	64,177	2,948,505	312,779	-	Multiple
Commercial mortgage backed securities	476,828	39,586	209,403	227,839	-	Aaa
Corporate bonds - domestic	1,752,536	17,065	369,195	1,043,184	323,092	Multiple
Corporate bonds - foreign	3,896,156	79,520	993,100	1,973,225	850,311	Multiple
Treasury inflation protected securities	1,368,630	485,853	579,933	302,844	-	Aaa
	<u>10,889,254</u>	<u>\$ 755,492</u>	<u>\$ 5,100,136</u>	<u>\$ 3,859,871</u>	<u>\$ 1,173,755</u>	
Corporate stock - domestic	467,415					
Corporate stock - foreign	5,806,059					
Commingled equity index funds	9,887,359					
Alternative investments	18,798,268					
Liquidity	1,645,037					
Securities lending collateral	2,913,892					
Total	<u>\$ 50,407,284</u>					

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

Pension Trust Funds					
Investments with Multiple Credit Ratings					
June 30, 2009					
(expressed in thousands)					
Moody's Equivalent Credit Rating	Investment Type				Total
	Asset-Backed Securities	Corporate Bonds - Domestic	Corporate Bonds - Foreign	Residential Mortgage Backed Securities	
Aaa	\$ 22,226	\$ 345	\$ 285,843	\$ 3,186,134	\$ 3,494,548
Aa1	-	661	72,411	10,383	83,455
Aa2	306	10,139	259,203	7,853	277,501
Aa3	10,531	58,265	195,806	14,697	279,299
A1	1,269	157,230	335,389	3,955	497,843
A2	3,532	301,657	298,441	1,003	604,633
A3	-	106,697	265,755	-	372,452
Baa1	5,592	359,825	401,553	4,749	771,719
Baa2	3,641	439,313	916,312	8,614	1,367,880
Baa3 & Lower	22,546	318,404	865,443	88,073	1,294,466
Total	\$ 69,643	\$ 1,752,536	\$ 3,896,156	\$ 3,325,461	\$ 9,043,796

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, 2009, 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, 2009.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of a failure of the counterparty to a transaction, the WSIB 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 securities lending collateral balances are from securities required to be listed under GASB Statement No. 3 Category 3 – Uninsured and unregistered with securities held by the counterparty, or by its trust department or agent but not in the WSIB's name. (This includes the amount of any repurchase agreement that exceeds the fair value of the underlying securities.)

6. Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The WSIB does not have a formal policy to limit foreign currency risk. The WSIB manages their exposure to fair value loss by requiring their international securities investment managers to maintain diversified

portfolios by sector and by issuer to limit foreign currency and security risk.

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

Pension Trust Funds
Foreign Currency Risk
June 30, 2009
(expressed in thousands)

Foreign Currency Denomination	Investment Type						Total
	Currency	Fixed Income	Equity	Commingled Equity Index Funds	Private Equity	Real Estate	
Australia-Dollar	\$ 3,336	\$ 128,894	\$ 326,488	\$ 149,998	\$ 72,475	\$ 119,403	\$ 800,594
Brazil-Real	1,110	103,612	36,163	144,097	3,913	49,126	338,021
Canada-Dollar	673	-	322,000	203,500	158,688	15,685	700,546
Chile-Peso	-	-	-	6,407	-	-	6,407
China-Yuan	-	-	-	79,495	132,973	250,900	463,368
Czech Republic-Koruna	-	-	202	4,012	8,847	12,799	25,860
Denmark-Krone	649	-	53,706	21,020	177,942	-	253,317
E.M.U.-Euro	36,852	-	1,672,706	653,698	1,358,441	448,721	4,170,418
Egypt-Pound	-	-	-	19,076	-	-	19,076
French Polynesia-CFP Franc	-	-	-	-	-	105,985	105,985
Hong Kong-Dollar	799	-	302,927	106,279	2,449	24,955	437,409
Hungary-Forint	-	-	9,933	1,605	-	31,621	43,159
India-Rupee	104	-	388	89,643	101,816	18,885	210,836
Indonesia-Rupiah	-	-	12,260	26,981	311	-	39,552
Israel-Shekel	100	-	3,539	20,718	14,026	-	38,383
Japan-Yen	11,122	-	1,149,626	504,390	20,306	136,916	1,822,360
Malaysia-Ringgit	-	-	3,525	18,195	-	-	21,720
Mexico-Peso	-	22,178	6,875	57,097	6,050	860,615	952,815
New Zealand-Dollar	82	-	12,442	2,715	7,347	-	22,586
Norway-Krone	286	-	46,379	16,643	31,171	-	94,479
Pakistan-Rupee	-	-	-	1,861	-	-	1,861
Philippines-Peso	29	-	-	11,305	-	-	11,334
Poland-Zloty	133	-	1,724	11,443	9,321	93,358	115,979
Romania-Leu	-	-	-	-	-	71,524	71,524
Russia-Ruble	-	-	-	68,262	-	753	69,015
Singapore-Dollar	799	-	113,196	30,388	91,502	7,419	243,304
South Africa-Rand	45	-	54,736	76,939	13,675	-	145,395
South Korea-Won	108	-	41,690	126,186	13,861	206,385	388,230
Sweden-Krona	1,683	-	148,161	50,541	202,457	753	403,595
Switzerland-Franc	849	-	375,496	147,457	5,047	753	529,602
Taiwan-Dollar	41	-	6,436	79,934	16,031	-	102,442
Thailand-Baht	-	-	1,028	27,483	-	16,862	45,373
Turkey-Lira	174	49,176	18,673	45,491	42,156	-	155,670
United Kingdom-Pound	4,345	-	1,085,760	425,453	515,258	65,501	2,096,317
Other-Miscellaneous	-	-	-	5,869	89,308	41,291	136,468
Total	\$ 63,319	\$ 303,860	\$ 5,806,059	\$ 3,234,181	\$ 3,095,371	\$ 2,580,210	\$ 15,083,000

7. Derivatives

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

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

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. At June 30, 2009, amounts held in futures contracts totaled \$1.2 billion. The unrealized loss for the contracts amounted to \$21.2 million at June 30, 2009.

Foreign exchange contracts are agreements to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. The WSIB uses these contracts primarily to hedge the currency exposure of its international investments. To reduce the risk of counterparty nonperformance, the WSIB enters into these contracts with institutions meeting high standards of credit worthiness.

At June 30, 2009, the WSIB held derivative securities consisting of collateralized mortgage obligations (CMOs) of \$1.3 billion.

8. Reverse Repurchase Agreements

State law permits the WSIB to enter into reverse repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The fair value of the securities underlying reverse repurchase agreements normally exceeds the cash received, providing the dealers margin against a decline in fair value of the securities. If the dealers default on their obligations to resell these securities to the state or provide securities or cash of equal value, the WSIB would suffer an economic

loss equal to the difference between the fair value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. There were no reverse repurchase agreements during the year and there were no liabilities outstanding as of June 30, 2009.

C. INVESTMENTS – WORKERS’ COMPENSATION FUND

1. Summary of Investment Policies

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

In accordance with state laws, workers’ compensation fund investments are to be managed to limit fluctuations in the industrial insurance premiums, and subject to this purpose, achieve a maximum return at a prudent level of risk. Based on this requirement, the order of the objectives is:

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

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

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

- Commercial Mortgage-Backed Securities rated investment grade, as defined by Barclays Capital Global Family of Fixed Income Indices.
- Investment Grade Non-U.S. Dollar Bonds.

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

- All assets under the management of the WSIB are to be invested to maximize return at a prudent level of risk in accordance with RCW 43.33A.110 and RCW 43.33A.140.
- Asset allocation will be reviewed every three to four years or sooner if there are significant changes in funding levels or the liability durations.
- Assets will be rebalanced across asset classes when the fair value of the assets falls outside the policy ranges. The timing of any rebalancing will be based on market opportunities, cash flows, and the consideration of transaction costs; therefore, they need not occur immediately.
- 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 All Country World Ex US Investable Market Index (MSCI ACW Ex US IMI). Both portfolios will be 100 percent passively managed in commingled index funds. The commingled funds may use futures for hedging or establishing a long position.
- The fixed income portfolios' structure varies depending upon the required duration target. The duration targets are reviewed every three years, or sooner, if there are significant changes in the funding levels or the liability durations.
- Sector allocation of fixed income investments must be managed within the following prescribed ranges: U.S. Treasuries and government agencies – 5 percent to 25 percent, credit bonds – 20 percent to 70 percent, asset backed securities – 0 percent to 10 percent, commercial mortgage backed securities – 0 percent to 10 percent and mortgage backed securities – 0 percent to 25 percent. These targets are long-term in nature.

Deviations may occur in the short-term as a result of interim market conditions. However, if a range is exceeded the portfolios must be rebalanced as soon as it is practical to the target allocations.

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

2. Securities Lending

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

In accordance with GASB Statement No. 28, the WSIB reports securities lent (the underlying securities) as assets in the Statement of Net Assets. Cash received as collateral on securities lending transactions and investments made with that cash are reported as assets. Securities received as collateral are reported as assets if the WSIB 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 WSIB 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, 2009 was \$2.0 billion and \$1.99 billion respectively. At year-end, the amounts the WSIB owed the borrowers exceeded the amounts the borrowers owed the WSIB, resulting in no credit risk exposure to borrowers.

During Fiscal Year 2009, securities lending transactions could be terminated on demand by either the WSIB or the borrower. All loans held at June 30, 2009, matured overnight.

Cash collateral was invested by the WSIB's agents in securities issued or guaranteed by the U.S. government, the WSIB's short-term investment pool (average final maturity of 60 days) or term loans.

Because the securities lending agreements were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. Non-cash collateral could not be pledged or sold absent borrower default.

Accordingly, non-cash collateral held under securities lending contracts with a value of \$226 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. JP Morgan indemnified the WSIB by agreeing to purchase replacement securities or return the cash collateral in the event a borrower failed to return the loaned securities or pay distributions thereon. JP Morgan's responsibilities included performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable federal regulations concerning securities lending.

During Fiscal Year 2009, there were no significant violations of legal or contractual provisions, no failures by any borrowers to return loaned securities or to pay distributions thereon. Further, the WSIB incurred no losses during Fiscal Year 2009 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 of debt investments will adversely affect the fair value of an

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

The workers' compensation fixed income investments are actively managed to exceed the return of the Comparable Market Index, with volatility as measured by duration to be similar to or less than the index. As of June 30, 2009, the durations of the various fixed income classes were within the duration targets of the Comparable Market Index.

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

The following schedule presents the workers' compensation fund investments by type and provides information about the interest rate risks associated with the investments as of June 30, 2009. The schedule displays various asset classes held by maturity in years and credit ratings. Variable-rate securities are presented according to the length of time until the next reset date rather than the stated maturity.

Workers' Compensation Fund						
June 30, 2009						
(expressed in thousands)						
Investment Type	Fair Value	Maturity				Credit Rating
		Less than 1 year	1-5 years	6-10 years	More than 10 years	
Residential mortgage backed securities	\$ 1,713,023	\$ 10,477	\$ 253,097	\$ 776,786	\$ 672,663	Multiple
Commercial mortgage backed securities	521,755	2,077	229,372	289,490	816	Aaa
Corporate bonds-domestic	2,838,052	83,157	607,230	911,037	1,236,628	Multiple
Corporate bonds-foreign	2,255,943	83,033	702,602	819,569	650,739	Multiple
Government securities-domestic:						
US government treasuries	424,484	424,484	-	-	-	Aaa
U.S. Treasury inflation protected securities	1,541,920	315,562	207,788	503,647	514,923	Aaa
	<u>9,295,177</u>	<u>\$ 918,790</u>	<u>\$ 2,000,089</u>	<u>\$ 3,300,529</u>	<u>\$ 3,075,769</u>	
Commingled index funds-domestic	667,631					
Commingled index funds-foreign	491,291					
Money market funds	429,911					
Securities lending collateral	<u>1,806,130</u>					
Total	<u>\$ 12,690,140</u>					

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

Workers' Compensation Fund
Investments with Multiple Credit Ratings
June 30, 2009
(expressed in thousands)

Moody's Equivalent Credit Rating	Investment Type			Total
	Residential Mortgage Backed Securities	Corporate Bonds - Domestic	Corporate Bonds - Foreign	
Aaa	\$ 1,698,890	\$ 4,723	\$ 372,212	\$ 2,075,825
Aa1	-	-	73,323	73,323
Aa2	-	-	173,076	173,076
Aa3	-	267,072	215,238	482,310
A1	14,133	305,894	246,979	567,006
A2	-	790,097	93,397	883,494
A3	-	297,208	250,056	547,264
Baa1	-	423,033	201,955	624,988
Baa2	-	553,624	382,916	936,540
Baa3	-	196,401	246,791	443,192
Total	\$ 1,713,023	\$ 2,838,052	\$ 2,255,943	\$ 6,807,018

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 funds as of June 30, 2009, 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 that the cost of no corporate fixed income issue 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, 2009.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of a failure of the counterparty to a transaction, the WSIB 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 securities lending collateral balances are from securities required to be listed under GASB Statement No. 3 Category 3 – Uninsured and unregistered with securities held by the counterparty, or by its trust department or agent but not in the WSIB's name. (This includes the amount of any repurchase agreement that exceeds the fair value of the underlying securities).

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 WSIB does not have a formal policy to limit foreign currency risk. The workers' compensation funds had \$491.3 million invested in an international

commingled equity index fund. As such, no currency denomination risk is presented.

6. Derivatives

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

Credit risks arising from derivative transactions are mitigated by selecting and monitoring creditworthy counterparties and collateral issuers.

Consistent with the WSIB authority to invest in derivatives, international active equity managers may make limited investments in financial futures, forward contracts or other derivative securities to manage exposure to currency rate risk and equitize excess cash holdings. No such derivative securities were held as of June 30, 2009.

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, 2009, the only derivative securities held directly by the WSIB were collateralized mortgage obligations (CMOs) of \$1.7 billion.

7. Reverse Repurchase Agreements

State law permits the WSIB to enter into reverse repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The fair value of the securities underlying reverse repurchase agreements normally exceeds the cash received, providing the dealers margin against a decline in fair value of the securities. If the dealers default on their obligations to resell these securities to the state or provide securities or cash of equal value, the WSIB would suffer an economic loss equal to the difference between the fair value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. There were no reverse repurchase agreements during Fiscal Year 2009 and there were no liabilities outstanding as of June 30, 2009.

D. INVESTMENTS – LOCAL GOVERNMENT INVESTMENT POOL (LGIP)

1. Summary of Investment Policies

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

Investment Objectives. 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).

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

- Adhere to all restrictions on the investment of funds established by law and by the policy.
- Limit the purchase of investments in securities so that the weighted average maturity of the portfolio, as defined in Section VI of the policy, does not exceed 90 days.

- Limit the purchase of investments to securities that have a maximum final maturity of 397 days, with the exceptions listed in section VI of the policy.
- Limit the purchase of investments in securities other than those issued by the U.S. government or its agencies.
- Prepare regular reports of portfolio activity.

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

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

- Obligations of the U.S. government.
- Obligations of U.S. government agencies, or of corporations wholly owned by the U.S. government.
- Obligations of government sponsored corporations that are, or may become eligible as collateral for advances to member banks as determined by the board of governors of the Federal Reserve.
- Banker's acceptances purchased on the secondary market rated with the highest short-term credit rating of any two Nationally Recognized Statistical Rating Organizations (NRSROs), at the time of purchase. If the banker's acceptance is rated by more than two NRSROs, it must have the highest rating from all of the organizations.
- Commercial paper provided that the OST adheres with policies and procedures of the WSIB regarding commercial paper (RCW 43.84.080(7)).
- Certificates of deposit with financial institutions qualified by the Washington Public Deposit Protection Commission.
- Obligations of the state of Washington or its political sub-divisions.

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

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

2. Securities Lending

The LGIP investment policy requires that any securities on loan be made available by the lending agent for next day liquidity at the option of the LGIP. During Fiscal Year 2009, 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 with the lending agent requires them to indemnify the LGIP if the borrowers fail to return the securities (and if collateral is inadequate to replace the securities lent) or if the borrower fails to pay the LGIP for income distribution by the securities' issuers while the securities are on loan.

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

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

agent to lend securities in the LGIP, earns a fee for this activity. The lending agent lends securities and receives collateral, which can be in the form of cash or other securities. The collateral, which must be valued at 102 percent of the fair value of the loaned securities, is priced daily and, if necessary, action is taken to maintain the collateralization level at 102 percent.

The cash is invested by the lending agent in repurchase agreements or money market instruments, in accordance with investment guidelines approved by the LGIP. The securities held as collateral and the securities underlying the cash collateral are held by the LGIP's custodian.

There were no securities on loan as of June 30, 2009.

3. Interest Rate Risk

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

The LGIP policy places a 90-day maximum on the weighted average maturity. Further, the maximum maturity of any security will not exceed 397 days, except securities utilized in repurchase agreements and U.S. Agency floating or variable rate notes may have a maximum maturity of 762 days, provided that they have reset dates within one year and which on any reset date can reasonably be expected to have a market value that approximates its amortized cost. As of June 30, 2009, the LGIP had a weighted average maturity of 56 days.

The following schedule presents the LGIP investments by type and provides information about the interest rate risks associated with the LGIP investments as of June 30, 2009.

Local Government Investment Pool (LGIP)			
June 30, 2009			
(expressed in thousands)			
Investment Type	Fair Value	Maturity	
		Less than 1 year	1-5 years
U.S. government obligations	\$ 2,922,172	\$ 2,922,172	\$ -
U.S. agency obligations	4,123,550	3,083,347	1,040,203
Certificates of deposit	229,000	229,000	-
Interest bearing bank accounts	1,408,210	1,408,210	-
Total	\$ 8,682,932	\$ 7,642,729	\$ 1,040,203

4. Credit Risk

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

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

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

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The LGIP mitigates concentration of credit risk by limiting the percentage of the portfolio invested with any one issuer. With the exception of U.S. Treasury and U.S. Agency securities, the OST mitigates concentration of credit risk by limiting the purchase of securities of any one issuer to no more than 5 percent of the portfolio. As of June 30, 2009, U.S. Treasury securities comprised 33.7 percent of the total portfolio. U.S. Agency securities comprised 47.5 percent of the total portfolio, including Federal Home Loan Mortgage Corporation (5.7 percent), Federal Home Loan Bank (16.2 percent), Federal National Mortgage Association (10.3 percent), and Federal Farm Credit Bank (15.3 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. On June 30, 2009, reverse repurchase agreement obligations totaled \$199.7 million. 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.

The market value, plus accrued income, of mortgage-backed securities utilized in repurchase agreements with more than seven days remaining until maturity will be 105 percent of the value of the repurchase agreement. The market value, plus accrued income, of securities utilized in all other repurchase agreements will be 102 percent of the value of the repurchase agreement.

The securities utilized in repurchase agreements are priced daily and held by the LGIP's custodian in the state's name. Collateralized Mortgage Obligations (CMO) utilized in repurchase agreements must pass the Federal Financial Institutions Examination Council (FFIEC) test, or not exceed a volatility rating of V-5 by Fitch Investor Services, or a similar rating of a nationally recognized rating agency. There were no repurchase agreements as of June 30, 2009.

E. INVESTMENTS – HIGHER EDUCATION SPECIAL REVENUE AND ENDOWMENT FUNDS

1. Summary of Investment Policies

The investments of the University of Washington represent 59 percent of the total investments in Higher Education Special Revenue and Endowment Funds.

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

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

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

The University combines most short-term cash balances in the Invested Funds Pool. At June 30, 2009, the Invested Funds Pool totaled \$884.7 million. The fund also owns units in the Consolidated Endowment Fund valued at \$322.3 million on June 30, 2009.

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. The difference between the actual earnings of the Invested Funds Pool and the calculated distributions is used to support activities benefiting all University departments.

The majority of the endowed funds are invested in a pooled fund called the Consolidated Endowment Fund (CEF). Individual endowments purchase units in the pool on the basis of a per unit valuation of the CEF at fair value on the last business day of the calendar quarter. Income is distributed based on the number of units held. During Fiscal Year 2009, in light of the 2008-2009 financial crises and the decline in the CEF market value, the Board of Regents implemented an interim spending policy. Under the interim policy, year-over-year CEF distributions will decrease from the Fiscal Year 2008 level by 25 percent in Fiscal Years 2009 and 2010. Thereafter, distributions will be held constant at the reduced levels until no later than Fiscal Year 2013, by such time the Board will determine the appropriate next steps. State law allows for the spending of appreciation in the CEF.

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 of approximately \$1.0 billion permanent endowment funds (at fair value) as of June 30, 2009, the aggregate amount of the deficiencies for all funds for which the fair value of the assets is less than the original gifts is \$80.7 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 approximately \$43.4 million at June 30, 2009. Income received from these trusts which is included in investment income, was \$2.3 million for the year ended June 30, 2009.

2. Unfunded Commitments

The University enters into contracts with investment managers to fund alternate investments. As of June 30, 2009, the University had unfunded commitments in the amount of \$254.2 million, which may be called during the period June 30, 2009 through 2020.

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, 2009 the University had no securities on loan.

The following schedule presents the fair value of the University of Washington's investments by type at June 30, 2009:

University of Washington	
June 30, 2009	
(expressed in thousands)	
Investment Type	Fair Value
Cash equivalents	\$ 440,742
Domestic fixed income	968,847
Foreign fixed income	12,272
Domestic equity	279,589
Foreign equity	399,056
Non-marketable alternatives	377,946
Marketable alternatives	341,032
Real estate	8,463
Miscellaneous	5,717
Total	\$ 2,833,664

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, 2009 exclude \$209.2 million of fixed-income securities held

outside the CEF and the Invested Funds Pool. These amounts, which in total makeup 7.4 percent of the University's investments, are not included in the duration figures below.

University of Washington

Interest Rate Risk

Duration as of June 30, 2009

(expressed in thousands, modified duration in years)

	Consolidated Endowment Fund		Invested Funds Pool	
	Asset Value	Duration	Asset Value	Duration
Domestic Fixed Income				
Asset backed securities	\$ 9,827	2.94	\$ 29,852	1.26
Cash equivalents (Short-term money market)	144,911	0.38	106,190	0.17
Corporate bonds	32,563	4.05	52,040	2.28
Government & agencies	118,068	2.43	662,331	3.14
Mortgage related	22,579	3.42	34,266	1.70
Total	\$ 327,948	1.77	\$ 884,679	2.61

5. Credit Risk

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

The investment policy for the CEF reflects its long-term nature by specifying average quality rating levels by individual manager, but still restricting investments to investment grade credits.

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

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The University mitigates concentration of credit risk by maintaining a portfolio of investment grade assets and by the due diligence of each manager.

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, 2009, the University had net outstanding forward commitments to sell foreign currency with a total fair value of \$40.2 million, which equals 1.42 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, 2009	
(expressed in thousands)	
Foreign Currency	Market Value
Brazil-Real	\$ 34,117
Britain-Pound	38,244
Canada-Dollar	20,910
China-Renminbi	41,397
E.M.U.-Euro	83,621
India-Rupee	31,374
Hong Kong-Dollar	27,188
Japan-Yen	63,786
Russia-Ruble	17,051
Singapore-Dollar	15,685
Other (less than 3% each)	129,983
Total	\$ 503,356

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.

8. Reverse Repurchase Agreements – None.

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

1. Summary of Investment Policies

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

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

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

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

- Obligations of the U.S. government.
- Obligations of U.S. government agencies, or of corporations wholly owned by the U.S. government.
- Obligations of government sponsored corporations that are or may become eligible as collateral for advances to member banks as determined by the board of governors of the Federal Reserve.
- Banker's acceptances purchased on the secondary market rated with the highest short-term credit rating of any two Nationally Recognized Statistical Rating Organizations (NRSROs), at the time of purchase. If the banker's acceptance is rated by more than two NRSROs, it must have the highest rating from all of the organizations.

- Commercial paper, provided that the State Treasurer adheres with policies and procedures of the State Investment Board regarding commercial paper (RCW 43.84.080(7)).
- Deposits with financial institutions qualified by the Washington Public Deposit Protection Commission.
- Local Government Investment Pool, for proceeds of bonds or other debt obligations, when the investments are made in order to comply with the Internal Revenue Code of 1986, as amended.
- Obligations of the state of Washington or its political sub-divisions.

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

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

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

2. Securities Lending

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

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

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

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

The contract with the lending agent requires them to indemnify the OST if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or if the borrower fails to pay the OST for income distribution by the securities' issuers while the securities are on loan. The OST cannot pledge or sell collateral securities received unless the borrower defaults. At June 30, 2009, 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 2009, the OST had no credit risk exposure to borrowers because the amounts owed to the borrowers exceeded the amounts the borrowers owed the OST.

The following schedule presents the fair value of the OST's investments by type at June 30, 2009.

Office of the State Treasurer (OST)
Cash Management Account
June 30, 2009
(expressed in thousands)

Investment Type	Fair Value	Maturity		
		Less than 1 year	1-5 years	6-10 years
U.S. agency obligations	\$ 2,049,414	\$ 70,533	\$ 1,932,925	\$ 45,956
Certificates of deposit	577,268	577,268	-	-
Interest bearing bank accounts	1,246,917	1,246,917	-	-
Total	\$ 3,873,599	\$ 1,894,718	\$ 1,932,925	\$ 45,956

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.

4. Credit Risk

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

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

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. For non-governmental securities, the OST limits its exposure to concentration of credit risk by restricting the amount of investments to no more than 5 percent of the portfolio to any single issuer. During Fiscal Year 2009, the non-governmental securities of a single issuer held by the Cash Management Account did not exceed 5 percent of the total portfolio.

5. Foreign Currency Risk - None.

6. Derivatives - None.

7. Reverse Repurchase Agreements

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

The market value, plus accrued income, of mortgage-backed securities utilized in repurchase agreements with more than seven days remaining until maturity will be 105 percent of the value of the repurchase agreement. The market value, plus accrued income, of securities utilized in all other repurchase agreements will be 102 percent of the value of the repurchase agreement. The securities utilized in repurchase agreements are priced daily and held by the Treasury/Trust custodian in the state's name. Collateralized Mortgage Obligations (CMOs) utilized in repurchase agreements must pass the Federal Financial Institutions Examination Council (FFIEC) test, or not exceed a volatility rating of V-5 by Fitch Investor Services, or a similar rating of a nationally recognized rating agency.

On June 30, 2009, reverse repurchase agreement obligations totaled \$211.4 million and the associated credit risk was \$130 thousand.

Note 4 Receivables and Deferred/Unearned Revenues

A. GOVERNMENTAL FUNDS

Taxes Receivable

Taxes receivable at June 30, 2009, consisted of the following (expressed in thousands):

Taxes Receivable	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
Property	\$ 956,965	\$ -	\$ -	\$ 159	\$ 957,124
Sales	1,419,380	4,584	-	19,243	1,443,207
Business and occupation	445,920	-	-	-	445,920
Estate	4,911	21,503	-	-	26,414
Fuel	-	-	-	86,537	86,537
Other	2,847	-	-	232	3,079
Subtotals	2,830,023	26,087	-	106,171	2,962,281
Less: Allowance for uncollectible receivables	53,204	-	-	368	53,572
Total Taxes Receivable	\$ 2,776,819	\$ 26,087	\$ -	\$ 105,803	\$ 2,908,709

Other Receivables

Other receivables at June 30, 2009, consisted of the following (expressed in thousands):

Other Receivables	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
Public assistance (1)	\$ 1,145,212	\$ -	\$ -	\$ -	\$ 1,145,212
Accounts receivable	23,754	169,740	941	89,362	283,797
Interest	-	9,379	3,760	3,684	16,823
Loans (2)	2,677	132,566	-	358,457	493,700
Long-term contracts (3)	711	-	6,283	59,152	66,146
Miscellaneous	38,350	52,910	10,351	133,136	234,747
Subtotals	1,210,704	364,595	21,335	643,791	2,240,425
Less: Allowance for uncollectible receivables	941,805	19,290	1	42,068	1,003,164
Total Other Receivables	\$ 268,899	\$ 345,305	\$ 21,334	\$ 601,723	\$ 1,237,261

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 \$109 million in the Higher Education Special Revenue Fund for student loans and \$348 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 Revenues

Deferred revenues at June 30, 2009, consisted of the following (expressed in thousands):

Deferred Revenues	General	Higher Education	Higher Education	Nonmajor	Total
		Special Revenue	Endowment	Governmental Funds	
Property taxes	\$ 932,405	\$ -	\$ -	\$ 48	\$ 932,453
Other taxes	429,453	17,847	-	186	447,486
Timber sales	712	-	6,283	59,152	66,147
Charges for services	14,929	182,861	610	60,387	258,787
Donable goods	481	-	-	4,187	4,668
Grants and donations	15,198	847	-	13,608	29,653
Loan Program	71	-	-	543,641	543,712
Miscellaneous	30,678	2,945	-	33,882	67,505
Total Deferred Revenues	\$ 1,423,927	\$ 204,500	\$ 6,893	\$ 715,091	\$ 2,350,411

B. PROPRIETARY FUNDS

Taxes Receivable

Taxes receivable at June 30, 2009, consisted of \$5.5 million in liquor taxes reported in Nonmajor Enterprise Funds.

Other Receivables

Other receivables at June 30, 2009, consisted of the following (expressed in thousands):

Other Receivables	Business-Type Activities				Total	Governmental
	Enterprise Funds					Activities
	Workers' Compensation	Unemployment Compensation	Higher Education Student Services	Nonmajor Enterprise Funds		Internal Service Funds
Accounts receivable	\$ 130,590	\$ -	\$ 201,565	\$ 27,545	\$ 359,700	\$ 4,138
Interest	99,735	-	1,067	3,604	104,406	28
Loans	-	-	5	-	5	-
Miscellaneous	549,132	454,279	14,296	1,262	1,018,969	13,090
Subtotals	779,457	454,279	216,933	32,411	1,483,080	17,256
Less: Allowance for uncollectible receivables	156,019	104,508	77,402	107	338,036	159
Total Other Receivables	\$ 623,438	\$ 349,771	\$ 139,531	\$ 32,304	\$ 1,145,044	\$ 17,097

Unearned Revenues

Unearned revenues at June 30, 2009, consisted of the following (expressed in thousands):

Unearned Revenues	Business-Type Activities				Total	Governmental
	Enterprise Funds					Activities
	Workers' Compensation	Unemployment Compensation	Higher Education Student Services	Nonmajor Enterprise Funds		Internal Service Funds
Charges for services	\$ 3	\$ -	\$ 34,112	\$ 11	\$ 34,126	\$ 1,009
Other taxes	436	-	-	99	535	-
Miscellaneous	9,011	-	1,276	-	10,287	173
Total Unearned Revenues	\$ 9,450	\$ -	\$ 35,388	\$ 110	\$ 44,948	\$ 1,182

C. FIDUCIARY FUNDS

Other Receivables

Other receivables at June 30, 2009, consisted of the following (expressed in thousands):

Other Receivables	Local Government Investment Pool	Agency Funds
Accounts receivable	\$ -	\$ 9,680
Interest	5,430	207
Miscellaneous	-	-
Subtotals	5,430	9,887
Less: Allowance for uncollectible receivables	-	892
Total Other Receivables	\$ 5,430	\$ 8,995

Unearned Revenues

Unearned revenues at June 30, 2009, consisted of \$0.8 million for service credit restorations reported in Pension and Other Employee Benefit Plans Funds.

Note 5

Interfund Balances and Transfers

A. INTERFUND BALANCES

Interfund balances as reported in the financial statements at June 30, 2009, consisted of the following (expressed in thousands):

Due To	Due From				
	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Workers' Compensation
General	\$ -	\$ 18,205	\$ -	\$ 137,345	\$ 514
Higher Educ. Special Revenue	29,196	-	6	31,556	222
Higher Education Endowment	-	25	-	21	-
Nonmajor Governmental Funds	203,785	456	2,159	212,873	30
Workers' Compensation	7	-	-	8	-
Unemployment Compensation	2,064	1,710	-	947	61
Higher Educ. Student Services	3,784	25,085	-	23,844	202
Nonmajor Enterprise Funds	4,657	147	-	3,511	37
Internal Service Funds	20,301	56,024	-	22,707	5,222
Fiduciary Funds	-	-	-	-	340
Totals	\$ 263,794	\$ 101,652	\$ 2,165	\$ 432,812	\$ 6,628

Except as noted, all 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.

Unemployment Compensation	Higher Education Student Services	Nonmajor Enterprise Funds	Internal Service Funds	Fiduciary Funds	Totals
\$ -	\$ 1	\$ 9,685	\$ 5,305	\$ -	\$ 171,055
1	73,664	13,447	20,081	434	168,607
-	-	-	-	43	89
923	1,325	13,804	4,159	18	439,532
-	-	-	3,644	26	3,685
-	25	80	124	407	5,418
-	-	-	14	464	53,393
-	60	31,752	788	17	40,969
-	4,012	18,266	69,432	329	196,293
-	-	6	-	-	346
\$ 924	\$ 79,087	\$ 87,040	\$ 103,547	\$ 1,738	\$ 1,079,387

B. INTERFUND TRANSFERS

Interfund transfers as reported in the financial statements for the year ended June 30, 2009, consisted of the following (expressed in thousands):

Transferred From	Transferred To				
	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Workers' Compensation
General	\$ -	\$ 187,958	\$ -	\$ 942,807	\$ -
Higher Educ. Special Revenue	82,896	-	2,739	170,154	-
Higher Education Endowment	-	92,470	-	32,875	-
Nonmajor Governmental Funds	754,699	113,868	6,711	1,399,422	2,096
Workers' Compensation	-	-	-	13,843	-
Higher Educ. Student Services	-	14,736	-	-	-
Nonmajor Enterprise Funds	110,628	-	-	148,985	-
Internal Service Funds	3,300	995	-	45,685	7,065
Totals	\$ 951,523	\$ 410,027	\$ 9,450	\$ 2,753,771	\$ 9,161

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 Revolving Account and the State Lottery Account as required by law, and 5) transfer amounts to and from the General Fund as required by law.

On July 1, 2008, the balance in the Emergency Reserve Fund (ERF) of \$303 million was transferred to the newly created Budget Stabilization Account (BSA) as required by law. Both the ERF and the BSA are reported within Nonmajor Governmental Funds. An additional \$115 million was transferred from the General Fund to the BSA in Fiscal Year 2009 in accordance with the provisions of the Constitution. 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 2009, Engrossed Substitute House Bill 1244 authorized the transfer of \$400 million from the BSA to the General Fund.

In addition to the transfers noted in the table above, there were transfers of \$9 million within the state's Pension Trust Funds.

Higher Education Student Services	Nonmajor Enterprise Funds	Internal Service Funds	Totals
\$ -	\$ -	\$ 12,797	\$ 1,143,562
468,697	-	53,422	777,908
83	-	-	125,428
-	-	16,640	2,293,436
-	-	148	13,991
-	-	423	15,159
-	16,742	99	276,454
110	1,226	92,365	150,746
\$ 468,890	\$ 17,968	\$ 175,894	\$ 4,796,684

Note 6

Capital Assets

Capital assets at June 30, 2009, 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, 2009 (expressed in thousands):

Capital Assets	Balances July 1, 2008	Additions	Deletions	Balances June 30, 2009
Capital assets, not being depreciated:				
Land	\$ 1,051,050	\$ 154,451	\$ (75,281)	\$ 1,130,220
Transportation infrastructure	16,909,702	1,304,917	-	18,214,619
Construction in progress	1,483,643	734,512	(1,033,533)	1,184,622
Art collections, library reserves, and museum and historical collections	111,880	2,144	(125)	113,899
Total capital assets, not being depreciated	19,556,275			20,643,360
Capital assets, being depreciated:				
Buildings	8,722,185	1,005,264	(22,904)	9,704,545
Accumulated depreciation	(2,991,580)	(246,320)	6,507	(3,231,393)
Net buildings	5,730,605			6,473,152
Furnishings, equipment, and collections	3,676,074	266,696	(152,181)	3,790,589
Accumulated depreciation	(2,283,821)	(250,731)	120,709	(2,413,843)
Net furnishings, equipment and collections	1,392,253			1,376,746
Other improvements*	1,082,072	62,451	(2,803)	1,141,720
Accumulated depreciation*	(434,326)	(39,202)	700	(472,828)
Net other improvements	647,746			668,892
Infrastructure (other)	690,089	44,981	-	735,070
Accumulated depreciation	(316,349)	(22,934)	-	(339,283)
Net infrastructure (other)	373,740			395,787
Total capital assets, being depreciated, net	8,144,344			8,914,577
Governmental Activities Capital Assets, Net	\$ 27,700,619			\$ 29,557,937

*Beginning balances restated to reflect leasehold improvements not previously reported (Refer to Note 2).

B. BUSINESS-TYPE CAPITAL ASSETS

The following is a summary of business-type capital asset activity for the year ended June 30, 2009 (expressed in thousands):

Capital Assets	Balances July 1, 2008	Additions	Deletions	Balances June 30, 2009
Capital assets, not being depreciated:				
Land	\$ 135,940	\$ 6,407	\$ -	\$ 142,347
Construction in progress	173,927	133,868	(154,329)	153,466
Art collections	35	-	-	35
Total capital assets, not being depreciated	309,902			295,848
Capital assets, being depreciated:				
Buildings	2,096,363	130,556	(8)	2,226,911
Accumulated depreciation	(603,800)	(56,967)	8	(660,759)
Net buildings	1,492,563			1,566,152
Furnishings, equipment, and collections	465,257	55,168	(13,169)	507,256
Accumulated depreciation	(330,280)	(39,309)	12,090	(357,499)
Net furnishings, equipment, and collections	134,977			149,757
Other improvements	58,607	34,186	(1,503)	91,290
Accumulated depreciation	(21,449)	(3,273)	975	(23,747)
Net other improvements	37,158			67,543
Infrastructure (other)	34,909	86	-	34,995
Accumulated depreciation	(14,162)	(1,202)	-	(15,364)
Net infrastructure (other)	20,747			19,631
Total capital assets, being depreciated, net	1,685,445			1,803,083
Business-Type Activities Capital Assets, Net	\$ 1,995,347			\$ 2,098,931

C. DEPRECIATION

Depreciation expense for the year ended June 30, 2009, was charged to functions of the primary government as follows (expressed in thousands):

	Amount
Governmental Activities:	
General government	\$ 60,374
Education - elementary and secondary (K-12)	3,435
Education - higher education	304,325
Human services	29,096
Adult corrections	35,854
Natural resources and recreation	39,191
Transportation	86,912
Total Depreciation Expense - Governmental Activities*	\$ 559,187
Business-Type Activities:	
Workers' compensation	\$ 10,003
Unemployment compensation	-
Higher education student services	76,963
Other	13,785
Total Depreciation Expense - Business-Type Activities	\$ 100,751

*Includes \$71 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, 2009, are as follows (expressed in thousands):

Agency / Project Commitments	Construction In Progress June 30, 2009	Remaining Project Commitments
Office of Financial Management:		
Grants, contracts, and loans management project	\$ 1,645	\$ 4,000
Department of General Administration:		
Legislative and other buildings rehab., repairs and expansion, and other projects	212,086	4,955
Liquor Control Board:		
Distribution Center expansion project	16,160	50
Washington State Patrol:		
Fire Training Academy Dormitory	2,449	271
Department of Social and Health Services:		
State hospital and juvenile rehab construction and renovations, and other projects	86,386	7,019
Department of Corrections:		
Correctional centers construction, improvements, and other projects	279,605	328,944
Department of Transportation:		
State highway office and maintenance facilities, and ferry vessels and terminals	193,283	146,248
Transportation infrastructure	-	6,474,785
Parks and Recreation Commission:		
State park facilities projects	8,276	3,012
Department of Fish and Wildlife:		
Hatchery Abatement Ponds, regional office, district office, Watershed Center	7,888	2,178
State Convention and Trade Center:		
MOHAI Property	28,530	29,470
Higher Education Facilities:		
University of Washington	206,100	158,014
Washington State University	71,755	265,799
Eastern Washington University	6,749	4,310
Central Washington University	28,763	14,185
The Evergreen State College	4,903	18,297
Western Washington University	15,242	21,118
Community and Technical Colleges	166,797	283,113
Other Agencies Miscellaneous Projects	1,471	1,982
Total Construction in Progress	\$ 1,338,088	\$ 7,767,750

Note 7

Long-Term Liabilities

A. BONDS PAYABLE

Bonds payable at June 30, 2009, 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 both legislative houses without voter consent, or from an affirmative vote of more than 50 percent of both legislative houses and a majority of the voters voting thereon.

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

Legal Debt Limitation

The State Constitution and current statutes generally limit debt authorized in the preceding procedures. The limitations prohibit the issuance of new debt if it would cause the maximum annual debt service, on all thereafter-outstanding general obligation debt, to exceed a specified percentage of the arithmetic mean of general state revenues for the preceding three fiscal years.

These limitations are on the incurrence of new debt, not on the amount of debt service that may be paid by the state in future years.

As certified by the State Treasurer, the maximum debt authorization subject to limitation for Fiscal Year 2009 was \$10.8 billion, under the statutory limitation.

This computation excludes specific bond issues and types, which are not secured by general state revenues. Of the \$14.1 billion general obligation bond debt outstanding at June 30, 2009, \$8.0 billion is subject to the limitation.

Based on the debt limitation calculation, the debt service requirements as of June 30, 2009, 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 or at: http://www.tre.wa.gov/documents/debt_cdl2009.pdf.

Authorized But Unissued

The state had a total of \$12.7 billion in general obligation bonds authorized but unissued as of June 30, 2009, for the purpose of capital construction and transportation projects throughout the state.

Interest Rates

Interest rates on fixed rate general obligation bonds ranged from 2.5 to 7.25 percent. Variable rate demand obligations (VRDO) of \$139.6 million as of June 30, 2009, are remarketed on a weekly basis. Interest rates on revenue bonds range from 2.5 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 2009.

A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington, 98504-0200, phone number (360) 902-9000 or TTY (360) 902-8963, or by visiting their website at: <http://www.tre.wa.gov/aboutUs/publications/annualReports.shtml>.

State of Washington

Total debt service requirements to maturity for general obligation bonds as of June 30, 2009, are as follows (expressed in thousands):

General Obligation Bonds	Governmental Activities		Business-Type Activities		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
By Fiscal Year:						
2010	\$ 609,086	\$ 675,235	\$ 8,912	\$ 4,459	\$ 617,998	\$ 679,694
2011	591,373	654,805	8,196	4,140	599,569	658,945
2012	588,035	631,542	7,484	3,767	595,519	635,309
2013	615,897	601,196	7,081	3,480	622,978	604,676
2014	649,482	573,196	3,805	553	653,287	573,749
2015-2019	3,469,141	2,532,876	28,901	44,910	3,498,042	2,577,786
2020-2024	3,212,176	1,730,556	4,425	11,835	3,216,601	1,742,391
2025-2029	2,768,713	1,003,265	-	-	2,768,713	1,003,265
2030-2034	1,545,246	228,697	-	-	1,545,246	228,697
Total Debt Service Requirements	\$ 14,049,149	\$ 8,631,368	\$ 68,804	\$ 73,144	\$ 14,117,953	\$ 8,704,512

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. 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, 2009, are as follows (expressed in thousands):

Revenue Bonds	Governmental Activities		Business-Type Activities		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
By Fiscal Year:						
2010	\$ 16,831	\$ 36,483	\$ 37,836	\$ 51,071	\$ 54,667	\$ 87,554
2011	17,556	36,195	29,029	50,993	46,585	87,188
2012	18,879	35,210	30,457	49,675	49,336	84,885
2013	12,480	34,232	32,235	48,273	44,715	82,505
2014	18,099	33,515	33,354	46,526	51,453	80,041
2015-2019	105,678	149,517	181,930	212,010	287,608	361,527
2020-2024	127,742	117,086	202,414	168,836	330,156	285,922
2025-2029	151,125	74,509	163,892	119,340	315,017	193,849
2030-2034	92,022	24,260	143,433	75,500	235,455	99,760
2035-2039	55,659	10,121	219,227	34,381	274,886	44,502
Total Debt Service Requirements	\$ 616,071	\$ 551,128	\$ 1,073,807	\$ 856,605	\$ 1,689,878	\$ 1,407,733

Governmental activities include revenue bonds outstanding at June 30, 2009, of \$440.9 million issued by the Tobacco Settlement Authority (TSA), which is a blended component unit of the state. In November 2002, the TSA issued \$517 million in bonds and transferred \$450 million to the state to be used for increased health care, long-term care, and other programs. These bonds do not constitute either a legal or moral obligation of the state, nor does the state pledge its full faith, credit, or taxing power for payment of these bonds. The bonds are obligations of the TSA and are secured solely by the TSA's right to receive 29.2 percent of the state's tobacco settlement revenues, restricted investments of the TSA, undistributed TSA bond proceeds, and the earnings thereon held under

the indenture authorizing the bonds. Total principal and interest remaining on the bonds is \$848.9 million, payable through 2032. For the current year, pledged revenue and debt service were \$56.3 million and \$56.7 million, respectively.

Governmental activities also include revenue bonds outstanding at June 30, 2009, of \$55.8 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 \$93.7 million, payable through 2028. For the current year, pledged revenue and debt service were \$5.2 million and \$3.6 million, respectively.

Additionally, governmental activities include revenue bonds outstanding at June 30, 2009, of \$13.4 million issued by the City of Aberdeen. The bonds, issued in 1998 and 2002, are payable solely from current operating appropriations.

The bonds were used to extend utilities to the Department of Corrections Stafford Creek Corrections Center (SCCC). 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 \$16.4 million, payable through 2022. For the current year, pledged revenue and debt service were \$1.6 million and \$1.6 million, respectively.

The University of Washington has issued 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. As of June 30, 2009, general revenue bonds were reported in both governmental and business-type activities.

Additionally, the University of Washington and the state's other colleges and universities also 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.

Total pledged specific revenues for the state's colleges and universities to repay the principal and interest of revenue bonds as of June 30, 2009, 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	\$ 49,288	\$ 38,421	\$ 8,734	\$ 514
Current year debt service	23,559	19,717	2,109	228
Total future revenues pledged *	549,822	524,577	39,743	5,709
Description of debt	Housing and dining bonds, issued in 1996- 2008	Student facilities bonds, issued in 1998-2007 and refunding revenue bonds, issued in 2002-2006	Parking system and refunding revenue bonds, issued in 1999- 2005	Student union and recreation center bonds issued in 2004
Purpose of debt	Construction and renovation of student housing projects	Construction, renovation and improvements to student activity facilities and sports stadium	Construction of parking garage and improvements	Construct new bookstore as part of new student union and recreation center building
Term of commitment	2013-2038	2019-2038	2024-2030	2034
Percentage of debt service to pledged revenues (current year)	47.8%	51.3%	24.2%	44.4%

* Total future principal and interest payments.

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. There were no debt refundings in Fiscal Year 2009.

Prior Year Defeasances

In prior years, the state defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the prior bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the state's financial statements.

Total debt service requirements for certificates of participation to maturity as of June 30, 2009, are as follows (expressed in thousands):

Certificates of Participation	Governmental Activities		Business-Type Activities		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
By Fiscal Year:						
2010	\$ 54,405	\$ 22,785	\$ 68,460	\$ 18,821	\$ 122,865	\$ 41,606
2011	43,912	13,778	27,926	11,909	71,838	25,687
2012	40,025	12,073	27,401	10,730	67,426	22,803
2013	37,189	10,453	27,612	9,539	64,801	19,992
2014	35,839	8,963	29,986	8,372	65,825	17,335
2015-2019	121,336	25,072	66,481	24,356	187,817	49,428
2020-2024	42,778	10,099	42,597	10,080	85,375	20,179
2025-2029	19,608	2,425	19,577	2,421	39,185	4,846
Total Debt Service Requirements	\$ 395,092	\$ 105,648	\$ 310,040	\$ 96,228	\$ 705,132	\$ 201,876

General Obligation Bond Debt

On June 30, 2009, \$715.1 million of general obligation bonded debt outstanding is considered defeased.

Revenue Bond Debt

On June 30, 2009, \$78.6 million of revenue bonded debt outstanding is considered defeased.

B. CERTIFICATES OF PARTICIPATION

Certificates of participation at June 30, 2009, 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.

C. 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, 2009, \$36.7 billion of unpaid claims and claim adjustment expenses are presented at their net present and settlement value of \$22.2 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 \$22.2 billion as of June 30, 2009, include \$11.4 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 \$10.7 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 2008 and 2009 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
2008	\$ 19,746,492	4,022,871	(1,882,215)	\$ 21,887,148
2009	\$ 21,887,148	2,334,749	(2,057,829)	\$ 22,164,068

Risk Management

Risk management reports liabilities when it becomes probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an actuarially determined amount for 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, 2009, outstanding and actuarially determined claims against the state and its agencies including actuarially projected defense costs were \$720.2 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, 2009, the risk management fund held \$107.2 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 2008 and 2009 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
2008	\$ 576,563	137,753	(44,906)	(19,649)	\$ 649,761
2009	\$ 649,761	142,517	(52,963)	(19,118)	\$ 720,197

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, 2009, health insurance claims liabilities totaling \$83.4 million are fully funded with cash and investments, net of obligations under securities lending agreements.

Changes in the balances of health insurance claim liabilities during Fiscal Years 2008 and 2009 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
2008	\$ 56,318	604,294	(590,678)	\$ 69,934
2009	\$ 69,934	779,143	(765,636)	\$ 83,441

D. LEASES

Leases at June 30, 2009, are reported by the state of Washington within governmental activities and business-type activities, as applicable.

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.

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

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, 2009, include the following (expressed in thousands):

	Governmental Activities	Business-Type Activities
Land (non-depreciable)	\$ 1,918	\$ -
Buildings	4,054	1,759
Equipment	26,533	26,107
Less: Accumulated depreciation	(26,444)	(26,461)
Totals	\$ 6,061	\$ 1,405

State of Washington

The following schedule presents future minimum payments for capital and operating leases as of June 30, 2009 (expressed in thousands):

Capital and Operating Leases	Capital Leases		Operating Leases	
	Governmental Activities	Business-Type Activities	Governmental Activities	Business-Type Activities
By Fiscal Year:				
2010	\$ 3,878	\$ 4,019	\$ 104,540	\$ 29,044
2011	2,637	2,538	94,300	29,326
2012	1,484	984	76,463	29,230
2013	1,385	389	66,176	29,877
2014	487	385	54,588	30,565
2015-2019	548	1,925	153,491	149,498
2020-2024	239	1,203	86,466	-
2025-2029	-	-	69,367	-
2030-2034	-	-	68,852	-
2035-2039	-	-	69,126	-
Total Future Minimum Payments	10,658	11,443	843,369	297,540
Less: Executory Costs and Interest Costs	(1,027)	(1,773)	-	-
Net Present Value of Future Minimum Lease Payments	\$ 9,631	\$ 9,670	\$ 843,369	\$ 297,540

The total operating lease rental expense for Fiscal Year 2009 for governmental activities was \$209.4 million, of which \$235 thousand was for contingent rentals. The total operating lease rental expense for Fiscal Year 2009 for business-type activities was \$111.6 million.

E. LONG-TERM LIABILITY ACTIVITY

Long-term liability activity at June 30, 2009, 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 2009 is as follows (expressed in thousands):

Governmental Activities:	Beginning Balance July 1, 2008	Additions	Reductions	Ending Balance June 30, 2009	Amounts Due Within One Year
Long-Term Debt:					
GO Bonds Payable:					
General obligation (GO) bonds	\$ 12,159,165	\$ 1,702,700	\$ 551,435	\$ 13,310,430	\$ 574,205
GO - zero coupon bonds (principal)	768,140	-	29,421	738,719	34,881
Subtotal - GO bonds payable	12,927,305	1,702,700	580,856	14,049,149	609,086
Accreted interest - GO - zero coupon bonds	295,056	32,561	-	327,617	-
Revenue bonds payable *	555,382	103,186	42,497	616,071	16,831
Less: Deferred amounts for issuance discounts	(9,713)	-	(984)	(8,729)	-
Total Bonds Payable	13,768,030	1,838,447	622,369	14,984,108	625,917
Other Liabilities:					
Certificates of participation **	382,883	87,238	75,029	395,092	54,405
Claims and judgments	826,753	1,171,762	1,073,974	924,541	233,085
Installment contracts	2,874	-	99	2,775	-
Leases	15,224	33	5,626	9,631	3,559
Compensated absences	532,300	354,395	333,721	552,974	61,138
Unfunded pension obligations	113,416	40,741	27	154,130	-
Other postemployment benefits obligation	221,375	222,280	-	443,655	-
Pollution remediation ***	25,786	17,826	8,607	35,005	-
Other	181,811	367,876	330,703	218,984	186,758
Total Other Liabilities	2,302,422	2,262,151	1,827,786	2,736,787	538,945
Total Long-Term Debt	\$ 16,070,452	\$ 4,100,598	\$ 2,450,155	\$ 17,720,895	\$ 1,164,862

* Beginning balance has been restated for short/long term bond liabilities for a Department of Corrections sewer extension project, and for a University of Washington fund reclassification.

** Additions include \$37,969 for internal service funds.

*** Beginning balance has been restated in conjunction with the implementation of GASB Statement No. 49.

For governmental activities, payments on the certificates of participation are being repaid directly from various governmental funds. The compensated absences liability will be liquidated approximately 52.2 percent by the General Fund, 24.2 percent by the Higher Education Special Revenue Funds, and the balance by various other

governmental funds. The claims and judgments liability will be liquidated primarily through the risk management fund, an internal service fund. Leases, installment contract obligations, and other liabilities will be repaid from various other governmental funds.

State of Washington

Long-term liability activity for business-type activities for the Fiscal Year 2009 (expressed in thousands) is as follows:

Business-Type Activities	Beginning Balance July 1, 2008	Additions	Reductions	Ending Balance June 30, 2009	Amounts Due Within One Year
Long-Term Debt:					
GO Bonds Payable:					
General obligation (GO) bonds	\$ 50,810	\$ 4,290	\$ 14,580	\$ 40,520	\$ 8,010
GO - zero coupon bonds (principal)	29,259	-	975	28,284	902
Subtotal - GO bonds payable	80,069	4,290	15,555	68,804	8,912
Accreted interest - GO - zero coupon bonds	34,329	3,832	110	38,051	-
Revenue bonds payable	1,115,457	308,125	349,775	1,073,807	37,836
Less: Deferred gain/loss on bond refunding	(8,215)	-	(468)	(7,747)	-
Plus: Unamortized amounts issuance premiums	12,372	9,433	10,509	11,296	-
Less: Deferred amounts for issuance discounts	(1,696)	-	(95)	(1,601)	-
Total Bonds Payable	1,232,316	325,680	375,386	1,182,610	46,748
Other Liabilities:					
Certificates of participation	261,179	84,536	35,675	310,040	68,460
Less: Deferred amounts for issuance discounts	(1,313)	-	(146)	(1,167)	-
Claims and judgments	21,894,850	1,070,969	790,472	22,175,347	2,056,335
Lottery prize annuities payable	346,595	76,538	113,169	309,964	54,644
Tuition benefits payable	1,104,000	456,486	68,386	1,492,100	63,300
Leases	15,402	-	5,732	9,670	3,651
Compensated absences	55,229	26,290	25,835	55,684	23,679
Other postemployment benefits obligation	24,480	25,416	-	49,896	-
Other	38,666	173,388	107,005	105,049	74,100
Total Other Liabilities	23,739,088	1,913,623	1,146,128	24,506,583	2,344,169
Total Long-Term Debt	\$ 24,971,404	\$ 2,239,303	\$ 1,521,514	\$ 25,689,193	\$ 2,390,917

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 21 projects in progress for which the state has recorded a liability of \$29.2 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, 2009, the state has recorded a liability of \$5.8 million for remaining project commitments.

Overall, the state has recorded a pollution remediation liability of \$35 million, measured at its estimated amount, using the expected cash flow technique.

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.

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 table below presents the June 30, 2009, balances for the "No Commitment" debt of the state's financing authorities (expressed in thousands):

Financing Authorities	Principal Balance
Washington State Housing Finance Commission	\$ 3,937,808
Washington Higher Education Facilities Authority	604,567
Washington Health Care Facilities Authority	4,600,000
Washington Economic Development Finance Authority	705,988
Total No Commitment Debt	\$ 9,848,363

Note 9 Fund Balances Reserved for Other Specific Purposes

The nature and purposes of fund balances reserved for other specific purposes as of June 30, 2009, are listed below (expressed in thousands):

Fund Balances	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Totals
Reserved for Other Specific Purposes:					
Long-term receivables	\$ 57,894	\$ 2,785	\$ -	\$ 1,818,567	\$ 1,879,246
Long-term investments	-	106,488	-	960	107,448
Long-term student loans	-	101,340	-	-	101,340
Budget stabilization (Rainy Day)	-	-	-	21,418	21,418
Petty cash	687	9,538	-	796	11,021
Pollution remediation	-	-	-	5,829	5,829
Investments with trustees	682	-	-	515	1,197
Total Reserved for Other Specific Purposes	\$ 59,263	\$ 220,151	\$ -	\$ 1,848,085	\$ 2,127,499

Note 10 Deficit Net Assets

The Risk Management Fund, an internal service fund, had deficit net assets of \$617.7 million at June 30, 2009. The Risk Management Fund is used to account for the claims, torts, and judgments generally arising from automobile and general government operations, and loss adjustment expenses for tort defense. These costs are supported by premium assessments to state agencies that are designed to cover current and future claim losses.

Outstanding and incurred but not reported claims are actuarially determined and accrued, resulting in the deficit net assets.

The Self Insurance Liability Program, initiated in 1990, is intended to provide funds for the payment of all claims and expenses for tort defense.

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.

The following schedule details the changes in net assets for the Risk Management Fund during the fiscal year ended June 30, 2009 (expressed in thousands):

Risk Management Fund	Net Assets (Deficit)
Balance, July 1, 2008	\$ (512,824)
Fiscal Year 2009 activity	<u>(104,924)</u>
Balance, June 30, 2009	<u><u>\$ (617,748)</u></u>

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.

State of Washington

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, 2008, the date of the latest actuarial valuation for all plans:

Number of Participating Members					
Plans Administered by the State	Retirees and Beneficiaries Receiving Benefits	Terminated Members Entitled To But Not Yet Receiving Benefits	Active Plan Members Vested	Active Plan Members Nonvested	Total Members
PERS 1	54,581	2,271	10,831	832	68,515
PERS 2	17,798	22,092	85,185	38,100	163,175
PERS 3	743	2,904	9,196	17,524	30,367
TRS 1	35,879	960	5,978	83	42,900
TRS 2	1,879	2,539	6,264	1,839	12,521
TRS 3	1,392	5,200	27,583	24,777	58,952
SERS 2	2,448	4,397	15,367	3,897	26,109
SERS 3	1,425	4,203	15,433	17,077	38,138
LEOFF 1	8,134	1	420	1	8,556
LEOFF 2	1,134	649	12,700	3,926	18,409
WSPRS 1	831	116	850	1	1,798
WSPRS 2	-	2	53	181	236
PSERS 2	1	-	-	3,981	3,982
JRS	127	1	10	-	138
Judges	13	-	-	-	13
JRA	1	189	11	-	201
VFFRPF	3,575	5,866	4,562	6,280	20,283
Total	129,961	51,390	194,443	118,499	494,293

Following is a summary of the number of government employers participating in state administered retirement plans as of June 30, 2009.

Number of Participating Employers				
Plan	State Agencies	School Districts	Counties/ Municipalities	Other Political Subdivisions
PERS 1	117	233	172	198
PERS 2	177	-	271	484
PERS 3	164	-	203	281
TRS 1	62	274	-	-
TRS 2	21	282	-	-
TRS 3	31	303	-	-
SERS 2	-	298	-	-
SERS 3	1	301	-	-
LEOFF 1	-	-	60	16
LEOFF 2	8	-	217	150
WSPRS 1	1	-	-	-
WSPRS 2	1	-	-	-
PSERS 2	10	-	63	-
JRS	3	-	-	-
Judges	-	-	-	-
JRA	3	-	-	-
VFFRPF	-	-	-	670

Employers can participate in multiple systems and/or plans.

B. PLAN DESCRIPTIONS

Public Employees' Retirement System (PERS)

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

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

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

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

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

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

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

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

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

During Fiscal Year 2009, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in PERS Plan 1 and 2 can elect to withdraw total employee contributions and interest thereon upon separation from PERS-covered employment.

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

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

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

A cost-of-living allowance 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 cost-of-living allowance is granted at age 66 based upon years of service times the COLA amount (indexed to the Seattle Consumer Price Index), capped at 3 percent annually. Plan 1 members may also elect to receive an additional COLA amount (indexed to the Seattle Consumer Price Index), capped at 3 percent annually. To offset the costs of this annual adjustment, the benefit is reduced.

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

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

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

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

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

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

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

If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance 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 cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index) capped at 3 percent annually. PERS members may purchase up to 24 consecutive months of service credit for each period of temporary duty disability.

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

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

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

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

A \$150,000 death benefit is provided to the estate (or duly designated nominee) of a PERS member who dies in the line of service as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally or 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 cost of living adjustments are provided to PERS Plan 1 retirees in July 2009 and new alternative early retirement provisions are 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 average final compensation.

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

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.

The legislature did not make any material changes in PERS benefit provisions for the Fiscal Year ended June 30, 2009.

Teachers' Retirement System (TRS)

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

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

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

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

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

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

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

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

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

During Fiscal Year 2009, 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 cost-of-living allowance is granted at age 66 based upon years of service times the COLA amount, increased by 3 percent annually. Plan 1 retirees will receive the annual COLA adjustment in July if they turn 66 years of age any time in the calendar year in which the COLA is given. Plan 1 members may also elect to receive an additional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

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

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

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

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

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

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

If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance 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 cost of living adjustments 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 average final compensation.

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.

The legislature did not make any material changes in TRS benefit provisions for the Fiscal Year ended June 30, 2009.

School Employees' Retirement System (SERS)

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

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

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

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

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

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

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

SERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the SERS Plan 2 defined benefit plan accrue interest at a rate specified by DRS. During Fiscal Year 2009, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly.

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

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

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

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

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

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

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

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

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

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

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

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

SERS members who apply for early retirement may, at the time of retirement, purchase up to five years of additional service credit. The cost of the additional service credit is the actuarial equivalent value of the resulting increase in the member's benefit.

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

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

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

Portability of retirement benefits allows for SERS members compensation that is reportable in all dual members systems, except in WSPRS, to be included in the calculation of all dual members' benefits, and

removing the “maximum benefit rule” for dual members who have less than 15 years of service in one capped plan and service in one uncapped plan.

The legislature did not make any material changes in SERS benefit provisions for the Fiscal Year ended June 30, 2009.

Law Enforcement Officers’ and Fire Fighters’ Retirement System (LEOFF)

LEOFF was established in 1970 by the Legislature. Membership includes all full-time, fully compensated, local law enforcement officers and firefighters, and as of July 24, 2005, those emergency medical technicians who were given the option and chose LEOFF Plan 2 membership.

LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers who were first included prospectively effective July 27, 2003, being a major exception. LEOFF retirement benefit provisions are established in chapter 41.26 RCW and may be amended only by the state Legislature.

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977, are Plan 2 members.

Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established by Initiative 790 to provide governance of LEOFF Plan 2. The Board’s duties include adopting contribution rates and recommending policy changes to the Legislature for the LEOFF Plan 2 retirement plan.

LEOFF defined benefit retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations. Employee contributions to the LEOFF Plan 1 and 2 defined benefit plans accrue interest at a rate specified by DRS.

During Fiscal Year 2009, 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 cost-of-living allowance 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 cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

LEOFF Plan 2 members may purchase up to five years of additional service credit at retirement. LEOFF Plan 2 members can also purchase service credit for military service that interrupts employment.

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

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is 2 percent of the FAS for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 53, unless the disability is duty-related, and to reflect the choice of a survivor option.

If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53. Plan 2 members may purchase up to 24 consecutive months of service credit for each period of temporary duty disability.

For Emergency Medical Technicians who joined LEOFF Plan 2 as a result of 2003 and 2005 legislation the five year waiting period is waived when they retire due to disability or die.

Members of LEOFF Plan 2 who leave service because of a line of duty disability are allowed to withdraw 150 percent of accumulated member contributions. This withdrawal benefit is not subject to federal income tax.

Alternatively, members of LEOFF Plan 2 who leave service because of a line of duty disability may be eligible to receive a retirement allowance of at least 10 percent of the FAS and 2 percent per year of service beyond five years. The first 10 percent of FAS is not subject to federal income tax.

LEOFF Plan 2 members who are severely disabled in the line of duty and incapable of substantial gainful employment in any capacity in the future, can receive a catastrophic disability benefit from LEOFF Plan 2 equal to 70 percent of their final average salary subject to offsets for workers' compensation and Social Security disability benefits received.

LEOFF Plan 2 retirees may return to work in an eligible position covered by another retirement system, choose membership in that system and suspend their pension benefits, or not choose membership and continue receiving pension benefits without interruption.

Beneficiaries of a LEOFF Plan 2 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death.

This provision applied to any member killed in the course of employment, or after June 10, 2004, if found eligible by the Director of the Department of Labor and Industries.

Beginning in 2011, when state General Fund revenues increase by at least 5 percent over the prior biennium's revenues, the State Treasurer will transfer, subject to legislative appropriation, specific amounts into a Local Public Safety Enhancement Account. Half of this transfer will be proportionately distributed to all jurisdictions with LEOFF Plan 2 members. The other half will be transferred to a LEOFF Retirement System Benefits Improvement Account to fund benefit enhancements for LEOFF Plan 2 members.

Eligible survivors of LEOFF Plan 2 members who are killed in the line of duty are reimbursed for the cost of on-going health care insurance coverage.

A \$150,000 death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 2 member who dies as a result of injuries sustained in the course of employment or dies from occupational disease or duty-related illness such as an infectious disease or cancer resulting from a job-related exposure, or duty related illness if found eligible by the Director of the Department of Labor and Industries.

Portability of retirement benefits allows for LEOFF Plan 2 members compensation that is reportable in all dual members systems, except in WSPRS, to be included in the calculation of all dual members' benefits, and removing the "maximum benefit rule" for dual members who have less than 15 years of service in one capped plan and service in one uncapped plan.

Active LEOFF members can choose whether or not to obtain and pay for Medicare coverage through a "divided referendum" process.

The legislature did not make any material changes in LEOFF benefit provisions for the Fiscal Year ended June 30, 2009.

Washington State Patrol Retirement System (WSPRS)

WSPRS was established by the Legislature in 1947. Any commissioned employee of the Washington State Patrol is eligible to participate. WSPRS benefits are established in chapter 43.43 RCW and may be amended only by the state Legislature.

WSPRS is a single-employer defined benefit retirement system. WSPRS participants who joined the system by December 31, 2002, are Plan 1 members. Those who joined on or after January 1, 2003, are Plan 2 members.

For financial reporting and investment purposes, however, both plans are accounted for in the same pension fund.

WSPRS retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to WSPRS accrue interest at a rate specified by DRS.

During Fiscal Year 2009, 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, 2009.

There is no vesting requirement for active WSPRS members. Inactive WSPRS members are vested after the completion of five years of eligible service. Members are eligible for retirement at the age of 55 with five years of service, or after 25 years of service.

The annual pension is 2 percent of the average final salary (AFS), capped at 75 percent, per year of service. A cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually. The WSPRS mandatory retirement age is 65, but does not apply to the member serving as chief of the Washington State Patrol.

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

WSPRS benefit provisions include death benefits; however, the system provides no disability benefits. Disability benefits may be available from the Washington State Patrol. If disability benefits are received, the member may be eligible to acquire service credit for the period of disability.

A \$150,000 death benefit is provided to the estate (or duly designated nominee) of a WSPRS member who dies as a result of injuries sustained in the course of employment or dies from occupational disease or duty-related illness such as an infectious disease or cancer resulting from a job-related exposure, or duty related illness if found eligible by the Director of the Department of Labor and Industries.

The spouse and dependent children of a WSPRS member who is killed in the course of employment will be reimbursed for any payments of medical premiums to the Washington State Health Care Authority.

For WSPRS Plan 1 members, AFS is based on the average of the two highest-paid service credit years and excludes voluntary overtime.

Death benefits for Plan 1 members on active duty consist of the following: (1) If eligible spouse, 50 percent of the AFS, plus 5 percent of the AFS for each surviving child, with a limitation on the combined allowances of 60 percent of the AFS; or (2) If no eligible spouse, 30 percent of AFS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of AFS.

For WSPRS Plan 2 members, AFS is based on the average of the five consecutive highest-paid service credit years and excludes both voluntary overtime and cash-outs of annual and holiday leave. At retirement, Plan 2 members also have the option of selecting an actuarially reduced benefit in order to provide for post-retirement survivor benefits.

Death benefits for active-duty Plan 2 members consist of the following: (1) If the member is single or has less than ten years of service, the return of the member's accumulated contributions; or (2) If the member is married, has an eligible child, or has completed ten years of service, a reduced benefit allowance reflecting a joint and 100 percent survivor option or 150 percent of the member's accumulated contributions, at the survivor's option. WSPRS Plan 2 members can purchase service credit for military service that interrupts employment.

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

Beneficiaries of a WSPRS Plan 2 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not of normal retirement age at death.

This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Director of the Department of Labor and Industries. The legislature did not make any material changes in WSPRS benefit provisions for the Fiscal Year ended June 30, 2009.

Public Safety Employees' Retirement System (PSERS)

PSERS was created by the 2004 Legislature and became effective July 1, 2006. PSERS pension benefit provisions have been established by chapter 41.37 RCW and may be only amended by the state Legislature.

PSERS is a cost-sharing multiple-employer retirement system comprised of a single defined benefit plan, PSERS Plan 2.

PSERS membership includes:

- Full-time employees of a covered employer on or before July 1, 2006, who met at least one of the PSERS eligibility criteria, and elected membership during the election period of July 1, 2006 to September 30, 2006; and,
- Full-time employees hired on or after July 1, 2006 by a covered employer, that meet at least one of the PSERS eligibility criteria.

A "covered employer" is one that participates in PSERS. Covered employers include:

- State of Washington agencies: Department of Corrections, Parks and Recreation Commission, Gambling Commission, Washington State Patrol, Liquor Control Board, and Department of Natural Resources;
- Washington state counties; and,
- Washington cities except for Seattle, Tacoma and Spokane.

To be eligible for PSERS, an employee must work on a full-time basis and:

- Have completed a certified criminal justice training course with authority to arrest, conduct criminal investigations, enforce the criminal laws of Washington, and carry a firearm as part of the job; or
- Have primary responsibility to ensure the custody and security of incarcerated or probationary individuals; or
- Function as a limited authority Washington peace officer, as defined in RCW 10.93.020; or
- Have primary responsibility to supervise eligible members who meet the above criteria.

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

During Fiscal Year 2009, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in PSERS can elect to withdraw total employee contributions and interest thereon upon separation from PSERS-covered employment.

PSERS benefits are vested after an employee completes five years of eligible service. PSERS members may retire at the age 65 with five years of service, or at the age of 60 with at least ten years of PSERS service credit, with an allowance of 2 percent of the average final compensation (AFC) per year of service.

The AFC is the monthly average of the member's 60 consecutive highest-paid service credit months, excluding any severance pay such as lump-sum payments for deferred sick leave, vacation or annual leave. Plan 2 retirees prior to the age of 60 receive reduced benefits. If retirement is at age 53 or older with at least 20 years of service, a 3 percent per year reduction for each year between the age at retirement and age 60 applies. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

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

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

PSERS provides disability benefits. There is no minimum amount of service credit required for eligibility. Eligibility is based on the member being totally incapacitated for continued employment with a PSERS employer and leaving that employment as a result of the disability. The disability allowance is 2 percent of the average final compensation (AFC) for each year of service.

AFC is based on the member's 60 consecutive highest creditable months of service. Service credit is the total years and months of service credit at the time the member separates from employment. Benefits are actuarially reduced for each year that the member's age is less than 60 (with ten or more service credit years in PSERS), or less than 65 (with fewer than ten service credit years).

PSERS members may purchase up to 24 consecutive months of service credit (up from 12 months) for each period of temporary duty disability.

Beneficiaries of a PSERS member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, if found eligible by the Director of the Department of Labor and Industries.

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

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

The legislature did not make any material changes to PSERS benefit provisions for the Fiscal Year ended June 30, 2009.

Judicial Retirement System (JRS)

JRS was established by the Legislature in 1971. Membership includes judges elected or appointed to the Supreme Court, Court of Appeals, and Superior Courts on or after August 9, 1971. The system was closed to new entrants on July 1, 1988, with new judges joining PERS Plan 2. JRS retirement benefit provisions are established in chapter 2.10 RCW and may be amended only by the state Legislature.

JRS is an agent multiple-employer retirement system comprised of a single defined benefit plan. JRS retirement benefits are financed on a pay-as-you-go basis from a combination of investment earnings, employer contributions, employee contributions, and a special funding situation in which the state pays the remaining contributions.

During Fiscal Year 2009, 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.

There were no material changes in JRS benefit provisions for the Fiscal Year ended June 30, 2009.

Judges' Retirement Fund (Judges)

The Judges' Retirement Fund was created by the Legislature on March 22, 1937 to provide retirement benefits to judges of the Supreme Court, Court of Appeals, or Superior Courts of the state of Washington.

Subsequent legislation required that all judges, first appointed or elected to office on or after August 1, 1971, enter the Judicial Retirement System. Judges' retirement benefit provisions are established in chapter 2.12 RCW and may be amended only by the state Legislature.

The Judges' Retirement Fund is an agent multiple-employer retirement system comprised of a single defined benefit plan. There are currently no active members in this plan.

Retirement benefits were financed on a pay-as-you-go basis from a combination of past employee contributions, past employer contributions, and a special funding situation in which the state paid the remaining contributions. Retirees did not earn interest on their contributions, nor could they elect to withdraw their contributions upon termination.

Judges' members are eligible for retirement at the age of 70 with ten years of service, or at any age with 18 years of service. Members are eligible to receive a partial retirement allowance after 12 years of credited service as a judge. With the exception of a partial retirement allowance, the member receives a benefit equal to one-half of the monthly salary being received as a judge at the time of retirement, or at the end of the term immediately prior to retirement if retirement occurs after the expiration of the member's term in office. A partial retirement allowance is based on the proportion of the member's 12 or more years of service in relation to 18 years of service.

There were no material changes in Judges' benefit provisions for the Fiscal Year ended June 30, 2009.

The Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund (VFFRPF)

The Volunteer Fire Fighters' Relief Act was created by the Legislature in 1935 and the pension portion of the act was added in 1945. Membership in the system requires volunteer firefighter service with a fire department of an electing municipality of Washington State, emergency work as an emergency medical technician with an emergency medical service district, or work as a commissioned reserve law enforcement officer.

Retirement benefits are established in chapter 41.24 RCW and may be amended only by the state Legislature

VFFRPF is a cost-sharing multiple-employer retirement system that provides death and active duty disability benefits to all members, and optional defined benefit pension plan payments. VFFRPF retirement benefits are financed from a combination of investment earnings, member contributions, municipality contributions, and a special funding situation where the state pays the remaining contributions. Since retirement benefits cover volunteer service, benefits are paid based on years of service not salary. Members are vested after ten years of service. VFFRPF members accrue no interest on contributions and may elect to withdraw their contributions upon termination.

After 25 years of active membership, members having reached the age of 65 and who have paid their annual retirement fee for 25 years are entitled to receive a monthly benefit of \$50 plus \$10 per year of service. The maximum monthly benefit is \$300. Reduced pensions are

available for members under the age of 65 or with less than 25 years of service.

Death and active duty disability benefits are provided at no cost to the member. Death benefits in the line of duty consist of a lump sum of \$152,000. Funeral and burial expenses are also paid in a lump sum of \$2,000 for members on active duty. Members receiving disability benefits at the time of death shall be paid \$500.

Members on active duty shall receive disability payments of \$2,550 per month for up to six months; thereafter, payments are reduced. Disabled members receive \$1,275 per month, their spouse \$255, and dependent children \$110.

Effective July 22, 2007, when vocational rehabilitation is likely to enable disabled members to return to employment benefits may be paid for the costs associated with the rehabilitation training.

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.

There were no material changes in VFFRPF benefit provisions for the Fiscal Year ended June 30, 2009.

C. FUNDING POLICIES

With the exception of LEOFF Plan 2, The Legislature provided for minimum contribution rates for all retirement plans (Chapter 365, Laws of 2006 and Chapter 300, Laws of 2007). The LEOFF 2 Board provided for minimum contribution rates for the LEOFF Plan 2. These minimum rates will go into effect beginning with the 2009-11 biennium.

The table at the end of this section provides the required contribution rates for all plans (expressed as a percentage of current year covered payroll) at the close of Fiscal Year 2009.

Public Employees' Retirement System (PERS)

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials.

The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level

established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion.

The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age.

As a result of the implementation of the Judicial Benefit Multiplier (JBM) Program in January 2007, a second tier of employer and employee rates were developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program.

The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

Teachers' Retirement System (TRS)

Each biennium the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates.

Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state elected officials.

The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature.

Under TRS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion.

The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age.

The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.32 and 41.45 RCW.

As a result of the implementation of the Judicial Benefit Multiplier (JBM) Program in January 2007, a second tier of employee rates were developed to fund, along with investment earnings, the increased retirement benefits of those judges that participate in the program.

The required employer contribution rate for a TRS employer of Supreme Court Justices, Court of Appeals Judges and Superior Court Judges equals the TRS contribution rate. The required member contribution rate of TRS 1 Supreme Court Justices, Court of Appeals Judges and Superior Court Judges is the TRS 1 rate of 6 percent plus 3.76 percent of pay. These higher rates, along with investment earnings, are intended to fund the increased retirement benefits of those judges that choose to participate in the JBM program.

School Employees' Retirement System (SERS)

Each biennium the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 employer contribution rates. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under SERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age.

The methods used to determine the contribution requirements are established under state statute in chapters 41.35 and 41.45 RCW.

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)

Beginning July 1, 2000, Plan 1 employers and employees contribute 0 percent as long as the plan remains fully funded. Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plan. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF 2 Board. All employers are required to contribute at the level required by state statute.

The Legislature, by means of a special funding arrangement, appropriated money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 1 and Plan 2 in accordance with the requirements of the Pension Funding Council and the LEOFF 2 Board.

However, this special funding situation is not mandated by the State Constitution and this funding requirement could be returned to the employers by a change of statute. For Fiscal Year 2009, the state contributed \$51.1 million to LEOFF Plan 2.

Washington State Patrol Retirement System (WSPRS)

Each biennium, the state Pension Funding Council adopts the employee and the state contribution rates. The employee and the state contribution rates are developed by the Office of the State Actuary to fully fund the plan.

State statute also requires employees to contribute at a rate of at least 2 percent. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 43.43 and 41.45 RCW.

Public Safety Employees' Retirement System (PSERS)

Each biennium the state Pension Funding Council adopts Plan 2 employers and employee contribution rates. The employer and employee contribution rates for Plan 2 are developed by the Office of the State Actuary to fully fund Plan 2. All employers are required to contribute at the level established by the Legislature. The methods used to determine the contribution requirements are established under state statute in chapters 41.37 and 41.45 RCW.

Judicial Retirement System (JRS)

Contributions made are based on rates set in chapter 2.10 RCW. By statute, employees are required to contribute 7.5 percent with an equal amount contributed by the state. In addition, the state guarantees the solvency of the JRS on a pay-as-you-go basis. Each biennium, the Legislature, through biennial appropriations from the state General Fund, contributes amounts sufficient to

meet benefit payment requirements. For Fiscal Year 2009, the state contributed \$ 10.2 million.

Judges' Retirement Fund (Judges)

Contributions made are based on rates set in chapter 2.12 RCW. By statute, employees are required to contribute 6.5 percent with an equal amount contributed by the state. In addition, the state guarantees the solvency of the Judges' Retirement Fund on a pay-as-you-go basis. As of June 30, 2008, there are no active members remaining in the Judges Retirement Fund and member contributions are no longer collected. Each biennium, the Legislature, through biennial appropriations from the state General Fund, contributes amounts sufficient to meet benefit payment requirements. For Fiscal Year 2009, however, no appropriations or contributions were made.

The Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund (VFFRPF)

The retirement provisions of VFFRPF is funded through member contributions of \$30 per year, employer contributions of \$30 per year, and 40 percent of the Fire Insurance Premium Tax, as per chapter 41.24 RCW. VFFRPF members earn no interest on contributions and may elect to withdraw their contributions upon termination.

Administrative expenses are funded through fire insurance premium taxes and are maintained in a separate fund. Amounts not needed for administrative expenses are transferred to VFFRPF.

State of Washington

Required contribution rates (expressed as a percentage of current year covered payroll) for all retirement plans at the close of Fiscal Year 2009 were as follows:

Actual Contribution Rates	Employer			Employee		
	Plan 1	Plan 2	Plan 3	Plan 1	Plan 2	Plan 3
<u>PERS</u>						
Members Not Participating in JBM						
State agencies*	8.31%	8.31%	8.31%**	6.00%	5.45%	***
Local governmental units*	8.31%	8.31%	8.31%**	6.00%	5.45%	***
State gov't electe d officials*	12.39%	8.31%	8.31%**	7.50%	5.45%	***
Members Participating in JBM						
State agencies*	10.81%	10.81%	10.81%**	9.76%	11.13%	7.50%****
Local governmental units*	8.31%	8.31%	8.31%**	12.26%	13.63%	7.50%****
<u>TRS</u>						
Members Not Participating in JBM						
State agencies*	8.46%	8.46%	8.46%**	6.00%	4.26%	***
Local governmental units*	8.46%	8.46%	8.46%**	6.00%	4.26%	***
State gov't electe d officials*	8.46%	8.46%	8.46%**	7.50%	4.26%	***
Members Participating in JBM						
State agencies*	8.46%	n/a	n/a	12.26%	n/a	n/a
<u>SERS</u>						
State agencies*	n/a	7.54%	7.54%**	n/a	4.68%	***
Local governmental units*	n/a	7.54%	7.54%**	n/a	4.68%	***
<u>LEOF</u>						
Ports and univers ities*	n/a	8.99%	n/a	n/a	8.83%	n/a
Local governmental units*	0.16%	5.46%	n/a	0.16%	8.83%	n/a
State of Washington	n/a	3.53%	n/a	n/a	n/a	n/a
<u>WSPRS</u>						
State agencies*	7.86%	7.86%	n/a	6.65%	6.65%	n/a
<u>PSERS</u>						
State agencies*	n/a	9.43%	n/a	n/a	6.57%	n/a
Local governmental units*	n/a	9.43%	n/a	n/a	6.57%	n/a

* Includes and administrative expense rate of 0.16%.

** Plan 3 defined benefit portion only.

*** Variable from 5% to 15% based on rate selected by the member.

**** Minimum Rate.

D. EMPLOYER CONTRIBUTIONS REQUIRED AND PAID

The following table presents the state of Washington's required contributions in millions of dollars to cost-sharing plans in accordance with the funding policy. All contributions required by the funding method were paid.

	2009	2008	2007
PERS Plan 1	\$169.0	\$115.5	\$59.9
PERS Plan 2/3	217.6	159.6	118.3
TRS Plan 1	8.0	4.3	2.1
TRS Plan 2/3	0.8	0.5	0.6
SERS Plan 2/3	0.0	0.0	0.0
PSERS Plan 2	7.7	5.9	2.8
LEOFF Plan 1	0.0	0.0	0.0
LEOFF Plan 2	52.0	45.9	38.6
VFFRPF	5.2	5.0	6.0

There are no long-term contracts for contributions for any of the retirement plans administered by the state.

E. FUNDED STATUS AND FUNDING PROGRESS

The funded status of each plan as of June 30, 2008, 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	\$ 9,853.0	\$ 13,901.0	\$ 4,048.0	71%	\$ 638.0	634%
PERS Plan 2/3*	16,693.0	16,508.0	(185.0)	101%	7,869.0	0%
TRS Plan 1	8,262.0	10,754.0	2,492.0	77%	432.0	577%
TRS Plan 2/3*	5,681.0	5,264.0	(417.0)	108%	3,621.0	0%
SERS Plan 2/3*	2,303.0	2,207.0	(96.0)	104%	1,379.0	0%
LEOFF Plan 1	5,592.0	4,368.0	(1,224.0)	128%	37.0	0%
LEOFF Plan 2*	5,053.0	3,998.0	(1,055.0)	126%	1,345.0	0%
WSPRS 1/2*	870.0	745.0	(125.0)	117%	79.0	0%
PSERS 2*	39.0	33.0	(6.0)	118%	200.0	0%
JRS	1.0	91.5	90.5	1%	1.3	6,962%
Judges	3.6	3.5	(0.1)	103%	N/A	N/A
VFFRPF	161.0	153.0	(8.0)	105%	N/A	N/A

N/A indicates data not applicable

* These plans use the aggregate actuarial cost method which does not identify or separately amortize unfunded actuarial liabilities. For this reason, the information shown above has been prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress of these plans.

Source: Washington State Office of the State Actuary

The Schedules of Funding Progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs (Actuarial Accrued Liability) for benefits. Additional information for the state's defined benefit plans as of the latest valuation date is presented on the following page.

Defined Benefit Pension Plans Administered by the State

For the Fiscal Year Ended June 30, 2009

The information was determined as part of the actuarial valuations at the dates indicated below. Additional information as of the latest valuation follows.

	PERS Plan 1	PERS Plan 2/3	TRS Plan 1	TRS Plan 2/3
Valuation date	6/30/2008	6/30/2008	6/30/2008	6/30/2008
Actuarial cost method	Entry Age Normal ¹	Aggregate ³	Entry Age Normal ¹	Aggregate ³
Amortization method				
Funding	Level % ⁵	N/A	Level % ⁵	N/A
GASB	Level \$	N/A	Level \$	N/A
Remaining amortization period (closed)	7/01/2008 - 6/30/2024	N/A	7/01/2008 - 6/30/2024	N/A
Asset valuation method	8-year Graded Smoothed Fair Value ⁹			
Actuarial assumptions				
Investment rate of return	8.00%	8.00%	8.00%	8.00%
Projected salary increases				
Salary inflation at 4.5%, plus the merit increases described below ⁶ :				
Initial salary merit (grades down to 0%)	6.1%	6.1%	5.8%	5.8%
Merit period (years of service)	17 yrs	17 yrs	26 yrs	26 yrs
Includes inflation at	N/A	3.50%	N/A	3.50%
Cost of living adjustments	Uniform COLA ⁷	CPI Increase, Maximum 3%	Uniform COLA ⁷	CPI Increase, Maximum 3%

N/A indicates data not applicable.

¹ Based on a variation of the Entry Age Normal (EAN) cost method

² Based on a variation of the Frozen Initial Liability (FIL) cost method.

³ The aggregate cost method does not identify or separately amortize unfunded actuarial liabilities.

⁴ Pay-As-You-Go basis for funding.

⁵ Level percent of payroll, including system growth.

⁶ LEOFF Plan 2 assumes 4.5% of salary inflation

⁷ The Uniform COLA

Generally, all retirees over age 66 receive an increase in their monthly benefit at least once a year.

The Uniform COLA amount is calculated as the last unrounded Uniform COLA amount increased by 3%, rounded to the nearest penny.

These are some historical monthly COLA amounts per year of service

Date	Uniform COLA
7/1/2002	\$1.14
7/1/2003	\$1.18
7/1/2004	\$1.21
7/1/2005	\$1.25
7/1/2006	\$1.29
7/1/2007	\$1.33
7/1/2008	\$1.73
7/1/2009	\$1.83

State of Washington

SERS Plan 2/3	LEOFF Plan 1	LEOFF Plan 2	PSERS Plan 2	VFFRPF ⁸
6/30/2008	6/30/2008	6/30/2008	6/30/2008	6/30/2008
Aggregate ³	Frozen Initial Liability ²	Aggregate ³	Aggregate ³	Entry Age ⁴
N/A	Level % ⁵	N/A	N/A	Level \$
N/A	Level \$	N/A	N/A	Level \$
N/A	7/01/2008 - 6/30/2024	N/A	N/A	15-year Rolling
8-year Graded Smoothed Fair Value ⁹	8-year Smoothed Fair Value ⁹			
8.00%	8.00%	8.00%	8.00%	7.00%
6.9%	11.0%	11.0%	6.1%	N/A
17 yrs	21 yrs	21 yrs	17 yrs	N/A
3.50%	3.50%	3.50%	3.50%	N/A
CPI Increase, Maximum 3%	CPI Increase	CPI Increase, Maximum 3%	CPI Increase, Maximum 3%	None

⁸ VFFRPF uses the Entry Funding Method for pensions, and the Pay-As-You-Go Method for the relief costs.

⁹ Asset Valuation Method (8 year smoothed fair value): The actuarial value of assets is calculated under an adjusted market value method by starting with the market value of assets. For subsequent years the actuarial value of assets is determined by adjusting the market value of assets to reflect the difference between the actual investment return and the expected investment return during each of the last 8 years or, if fewer, the completed years since adoption, at the following rates per year (annual recognition). We set the VFFRPF Annual Gain/Loss around their 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%			

The actuarial value of assets is subject to a 30% market value corridor, so it will lie between 70% and 130% of the market value of assets.

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	\$ 5.0	\$ 21.2	\$ -
Interest on NPO	(1.0)	5.9	(0.1)
Adjustment to annual required contribution	<u>1.6</u>	<u>(17.3)</u>	<u>0.3</u>
Annual pension cost	5.6	9.8	0.2
Less: Contributions made	<u>6.4</u>	<u>10.2</u>	<u>-</u>
Increase (decrease) in NPO	(0.8)	(0.5)	0.2
NPO at beginning of year	<u>(12.7)</u>	<u>74.8</u>	<u>(1.5)</u>
NPO at end of year	<u>\$ (13.5)</u>	<u>\$ 74.3</u>	<u>\$ (1.3)</u>
Actuarial assumptions:			
Valuation date	6/30/08	6/30/08	6/30/08
Actuarial cost method	Aggregate*	Entry age	Entry age
Amortization method	n/a	Level \$	Level \$
Remaining amortization Period (closed)	n/a	12/31/08	12/31/08
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 cost-of-living adjustments	3.5%	3.5%	3.5%
	CPI	3.0%	none
	increase, max. 3%		

* 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.

*** Totals may not tie due to rounding.

G. THREE YEAR HISTORICAL TREND INFORMATION

The following table presents three-year trend information in millions for the plans listed:

	2009	2008	2007
WSPRS			
Annual pension cost	\$ 5.0	\$ 7.5	\$ 5.3
% of APC contributed	127.4	89.2	61.8
NPO	\$(13.4)	\$(12.7)	\$(14.1)
JRS			
Annual pension cost	\$ 9.8	\$ 12.2	\$ 13.9
% of APC contributed	105.1	79.5	69.1
NPO	\$ 74.3	\$ 74.8	\$ 72.3
Judges			
Annual pension cost	\$ 0.2	\$ 0.5	\$ 0.5
% of APC contributed	0.0	0.0	60.0
NPO	\$ (1.3)	\$ (1.5)	\$ (2.0)

There are no long-term contracts for contributions for any of the retirement plans administered by the state.

H. CHANGES IN ACTUARIAL ASSUMPTIONS AND METHODS

The salary growth economic assumption for all retirement plans (except the LEOFF 2 assumption remains at 4.50 percent) was decreased by the state legislature from 4.025 percent to 4.00 percent. Joint and survivor reduction factors and early retirement factors were updated to reflect new factors adopted by DRS.

Salary growth assumptions for TRS have been modified to reflect the increases established by the legislature in Chapter 75 Laws of 2008.

Portability provisions are now modeled using actual salary and service from other systems instead of using an estimated increase factor.

I. CHANGES IN BENEFIT PROVISIONS

Pension funding legislation was adopted in the 2009 legislative session (Chapter 561, Laws of 2009) which delayed the implementation of contribution rate floors for several retirement plans. The contribution rate floors were supposed to take effect in the 2009-2011 biennium.

This legislation modified the PERS 1 and TRS 1 funding policy. PERS 1 now amortizes the UAAL over a rolling 10 year period using all PERS, SERS and PSERS payroll, including projected system growth.

TRS 1 amortizes the UAAL over a rolling 10 year period using all TRS payroll, including projected system growth.

TRS and PERS Plan 1 will have contribution rate ceilings, effective 2009-2015. After 2015 PERS 1 will have a minimum UAAL rate of 5.25 percent and TRS 1 will have a minimum UAAL rate of 8.00 percent.

J. DEFINED CONTRIBUTION PLANS

Public Employees' Retirement System Plan 3 (PERS 3)

The Public Employees' Retirement System (PERS) Plan 3 is a combination defined benefit/defined contribution plan administered by the state through the Department of Retirement Systems (DRS).

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

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

PERS participants who joined the system on or after March 1, 2002, for state and higher education employees, or September 1, 2002, for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3.

The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. Refer to section B of this note for PERS plan descriptions.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance the defined contribution component. As established by chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 to 15 percent of salaries based on member choice. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are solely dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions as authorized by the Employee Retirement Benefits Board. Any expenses incurred in conjunction with self-directed investments are to be paid by members. Absent a member's self-direction, PERS Plan 3 investments are made in the same portfolio as that of the PERS 2/3 defined benefit plan.

For Fiscal Year 2009, employee contributions required and made were \$90.8 million, and plan refunds paid out were \$40.2 million.

Teachers' Retirement System Plan 3 (TRS 3)

The Teachers' Retirement System (TRS) Plan 3 is a combination defined benefit/defined contribution plan administered by the state through the Department of Retirement Systems (DRS).

Eligibility for membership requires service as a certificated public school employee working in an instructional, administrative or supervisory capacity. TRS participants who joined on or after October 1, 1977, and by June 30, 1996, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. TRS participants joining the system on or after July 1, 1996, and those who exercised their transfer option, are members of TRS Plan 3. Refer to section B of this note for TRS plan descriptions.

TRS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance the defined contribution component. As established by chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 to 15 percent of salaries based on member choice. There are currently no requirements for employer contributions to the defined contribution component of TRS Plan 3.

TRS Plan 3 defined contribution retirement benefits are solely dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions as authorized by the Employee Retirement Benefits Board. Any expenses incurred in conjunction with self-directed investments are to be paid by members. Absent a member's self-direction, TRS Plan 3 investments are made in the same portfolio as that of the TRS 2/3 defined benefit plan.

For Fiscal Year 2009, employee contributions required and made were \$247.9 million and plan refunds paid out were \$76.2 million.

School Employees' Retirement System Plan 3 (SERS 3)

The School Employees' Retirement System (SERS) Plan 3 is a combination defined benefit/defined contribution plan administered by the state through the Department of Retirement Systems (DRS).

Eligible employees include classified employees of school districts and educational service districts who joined PERS Plan 2 on or after October 1, 1977, and by August 31, 2000, and were transferred to SERS Plan 2 on September 1, 2000.

Members transferred from PERS Plan 2 to SERS Plan 2 may exercise an option to transfer their membership to SERS Plan 3. SERS participants joining the system on or after September 1, 2000, and before July 1, 2007, are also members of SERS Plan 3. SERS members hired on or after July 1, 2007 have 90 days to choose between SERS Plan 2 and SERS Plan 3. Individuals who fail to make a choice will default to SERS Plan 3. Refer to section B of this note for SERS plan descriptions.

SERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance the defined contribution component. As established by chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 to 15 percent of salaries based on member choice. There are currently no requirements for employer contributions to the defined contribution component of SERS Plan 3.

SERS Plan 3 defined contribution retirement benefits are solely dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions as authorized by the Employee Retirement Benefits Board. Any expenses incurred in conjunction with self-directed investments are to be paid by members. Absent a member's self-direction, SERS Plan 3 investments are made in the same portfolio as that of the SERS 2/3 defined benefit plan.

For Fiscal Year 2009, employee contributions required and made were \$59.4 million and plan refunds paid out were \$42.0 million.

Judicial Retirement Account (JRA)

The Judicial Retirement Account Plan was established by the Legislature in 1988 to provide supplemental retirement benefits. It is a defined contribution plan administered by the state Administrative Office of the Courts, under the direction of the Board for Judicial Administration.

Membership includes judges elected or appointed to the Supreme Court, Court of Appeals, and Superior Courts, and who are members of PERS for their services as a judge. Vesting is full and immediate. There are three participating employers in JRA.

Member contributions equal 2.5 percent of covered salary and the state, as employer, matches this amount. Contributions are collected by the Administrative Office of the Courts. The employer and employee obligations to contribute are established per chapter 2.14 RCW. Plan provisions and contribution requirements are established in state statute and may be amended only by the State Legislature.

Beginning January 1, 2007 through December 31, 2007 any judicial members of the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS) eligible to participate in JRA were able to make a one-time irrevocable election to discontinue future contributions to JRA, in lieu of prospective contributions to the Judicial Benefit Multiplier Program (JBM).

Beginning January 1, 2007 any newly elected or appointed Supreme Court justice, Court of Appeals judge or Superior Court judge is no longer able to participate in JRA and is enrolled in the Judicial Benefit Multiplier Program (enacted in 2006). As of June 30, 2008, 189 JRA member judges have elected to enroll in JBM.

Current-year covered payroll for JRA employees was \$2.5 million for the Fiscal Year ended June 30, 2009. For Fiscal Year 2009, the contribution requirement for JRA was \$84 thousand. Actual employer and employee contributions were \$42 and \$42 thousand respectively. Plan benefits paid out for Fiscal Year 2009 totaled \$0.5 million.

A JRA member who separates from judicial service for any reason is entitled to receive a lump-sum distribution of the accumulated contributions. The administrator of JRA may adopt rules establishing other payment options. If a member dies, the amount of accumulated contributions standing to the member's credit at the time of the member's death shall be paid to the member's estate, or such person or persons, trust or organization as the member has nominated by written designation.

The Administrator of JRA has entered an agreement with DRS for accounting and reporting services, and the Washington State Investment Board (SIB) for investment services. DRS is responsible for all record keeping, accounting, and reporting of member accounts. As of April 2006, DRS also became responsible for collection of JRA contributions.

The SIB has the full power to establish investment policy, develop participant investment options, and manage the investment funds from the JRA plan, consistent with the provisions of RCW 2.14.080 and RCW 43.84.150.

Higher Education Retirement Plans

The Higher Education Retirement Plans are privately administered defined contribution plans with a supplemental plan component. As authorized by RCW 28B.10, the plans cover higher education faculty and other positions as designated by each institution. The state and regional universities, the state college, and the state community and technical colleges each participate in a plan.

Contributions to the plans are invested in annuity contracts or mutual fund accounts offered by one or more fund sponsors. Benefits from fund sponsors are available upon separation or retirement at the member's option. Employees have, at all times, a 100 percent vested interest in their accumulations.

RCW 28B.10.400 et. seq. assigns the authority to establish and amend benefit provisions to: the board of regents of the state universities, the boards of trustees of the regional universities and the state college, and the state board for community colleges.

Employee contribution rates, based on age, range from 5 to 10 percent of salary. The employers match the employee contributions. The employer and employee obligations to contribute are established per chapter 28B.10 RCW.

For Fiscal Year 2009, covered payroll was \$1.8 billion. Employer and employee contributions were \$154.3 and \$154.2 million respectively, for a total of \$308.5 million. These contribution amounts represent approximately 8 percent each of covered payroll for employers and employees.

The plans have a supplemental payment component which guarantees a minimum retirement benefit based upon a one-time calculation at each employee's retirement date. Institutions make direct payments to qualifying retirees when the retirement benefits provided by the fund sponsors do not meet the benefit goals. The supplemental component is financed on a pay-as-you-go basis.

An actuarial valuation of the supplemental component of the Higher Education Retirement plans was done at the end of Fiscal Year 2009. The previous valuation was performed in 2007.

The Unfunded Actuarial Accrued Liability (UAAL) calculated as of June 30, 2009 and 2004 was \$313.9 million and \$120.2 million, respectively, and is amortized over a 14.5-year period.

The Annual Required Contribution (ARC) of \$43.1 million consists of amortization of the UAL (\$25.4 million) and normal cost (or current cost) (\$16.7 million).

The UAL and ARC were established using the entry age normal cost method.

The actuarial assumptions included an investment rate of return of 6 to 8 percent and projected salary increases ranging from 2 to 4 percent.

Approximately \$1.8 billion and \$1.4 billion of payroll were covered under these plans during 2009 and 2007, respectively.

The following table reflects the activity in the Net Pension Obligation for the years ended June 30 (expressed in millions):

	2009	2008	2007
Annual required contribution	\$43.1	\$16.6	\$16.6
Payments to beneficiaries	(1.9)	(1.9)	(1.9)
Increase (decrease) in NPO	41.2	14.6	14.7
NPO at beginning of year	38.6	24.0	9.3
NPO at end of year	<u>\$79.8</u>	<u>\$38.6</u>	<u>\$24.0</u>

K. PLAN NET ASSETS AND CHANGES IN PLAN NET ASSETS

The Combining Statement of Plan Net Assets that follows presents the principal components of receivables, investments, and liabilities. The Combining Statement of Changes in Plan Net Assets presents the additions and deductions to plan net assets.

Combining Statement of Plan Net Assets Pension and Other Employee Benefit Funds

June 30, 2009

(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	\$ 7,629	\$ 15,561	\$ 196	\$ 6,775	\$ 11,634	\$ 3,640
Receivables:						
Employer accounts receivable	5,124	53,474	4,269	4,472	25,254	21,925
Member accounts receivable (net of allowance)	709	149	-	360	16	-
Due from other funds	10	13	-	7	9	-
Due from other pension and other employee benefit funds	1,816	58	3,741	857	-	160
Interest and dividends	21,361	39,814	1,891	17,703	13,437	5,750
Investment trades pending	142,927	272,902	6,330	118,398	109,207	19,246
Total Receivables	171,947	366,410	16,231	141,797	147,923	47,081
Investments, Noncurrent:						
Public equity	2,574,372	4,801,514	735,203	2,132,559	1,620,394	2,040,671
Fixed income	1,734,625	3,235,286	153,640	1,436,930	1,091,830	467,148
Private equity	1,661,815	3,099,486	147,191	1,376,615	1,046,001	447,539
Real estate	1,248,501	2,328,604	110,583	1,034,233	785,847	336,230
Security lending	464,174	865,741	41,113	384,513	292,166	125,006
Liquidity	246,766	484,588	26,414	250,099	154,713	76,563
Tangible assets	84,192	157,027	7,457	69,743	52,993	22,673
Reverse repurchase agreements	609	218	18	457	439	93
Total Investments, Noncurrent	8,015,054	14,972,464	1,221,619	6,685,149	5,044,383	3,515,923
Total Assets	8,194,630	15,354,435	1,238,046	6,833,721	5,203,940	3,566,644
LIABILITIES						
Obligations under security lending agreements	464,174	865,741	41,114	384,513	292,166	125,006
Obligations under reverse repurchase agreements	609	218	18	457	439	93
Accrued liabilities	164,313	304,873	8,430	136,647	121,039	22,838
Due to other funds	60	676	-	54	379	-
Due to other pension and other employee benefit funds	58	5,340	-	-	1,012	-
Unearned revenues	194	319	-	181	-	-
Total Liabilities	629,408	1,177,167	49,562	521,852	415,035	147,937
NET ASSETS						
Net assets held in trust for:						
Pension Benefits (Schedule of Funding Progress by Plan begins on Page 153)	7,565,222	14,177,268	1,188,484	6,311,869	4,788,905	3,418,707
Deferred compensation participants	-	-	-	-	-	-
Total Net Assets	\$ 7,565,222	\$ 14,177,268	\$ 1,188,484	\$ 6,311,869	\$ 4,788,905	\$ 3,418,707

Combining Statement of Plan Net Assets Pension and Other Employee Benefit Funds

June 30, 2009

(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	\$ 5,282	\$ 859	\$ 4,490	\$ 4,980	\$ 1,394	\$ 466
Receivables:						
Employer accounts receivable	9,863	5,233	322	14,456	501	1,832
Member accounts receivable (net of allowance)	11	-	40	25	-	-
Due from other funds	5	-	3	5	1	1
Due from other pension and other employee benefit funds	238	60	75	4	3	-
Interest and dividends	5,449	1,867	12,309	12,088	1,971	144
Investment trades pending	42,730	6,248	82,388	80,928	13,190	963
Total Receivables	58,296	13,408	95,137	107,506	15,666	2,940
Investments, Noncurrent:						
Public equity	657,098	475,329	1,483,978	1,457,668	237,581	17,351
Fixed income	442,756	151,675	999,913	982,184	160,083	11,691
Private equity	424,171	145,309	957,942	940,958	153,363	11,201
Real estate	318,674	109,168	719,689	706,929	115,220	8,415
Security lending	118,479	40,587	267,570	262,826	42,837	3,129
Liquidity	63,822	24,293	136,593	150,701	22,209	4,267
Tangible assets	21,490	7,362	48,532	47,671	7,770	567
Reverse repurchase agreements	152	72	216	84	65	24
Total Investments, Noncurrent	2,046,642	953,795	4,614,433	4,549,021	739,128	56,645
Total Assets	2,110,220	968,062	4,714,060	4,661,507	756,188	60,051
LIABILITIES						
Obligations under security lending agreements	118,479	40,587	267,570	262,826	42,837	3,129
Obligations under reverse repurchase agreements	152	72	216	84	65	24
Accrued liabilities	47,403	8,713	91,521	89,603	14,788	1,065
Due to other funds	140	-	5	151	6	20
Due to other pension and other employee benefit funds	233	238	-	75	-	56
Unearned revenues	1	-	-	69	-	-
Total Liabilities	166,408	49,610	359,312	352,808	57,696	4,294
NET ASSETS						
Net assets held in trust for:						
Pension Benefits (Schedule of Funding Progress by Plan begins on Page 153)	1,943,812	918,452	4,354,748	4,308,699	698,492	55,757
Deferred compensation participants	-	-	-	-	-	-
Total Net Assets	\$ 1,943,812	\$ 918,452	\$ 4,354,748	\$ 4,308,699	\$ 698,492	\$ 55,757

Combining Statement of Plan Net Assets Pension and Other Employee Benefit Funds

June 30, 2009

(expressed in thousands)

concluded

	JRS	JRA	Judges	VFFRPF	Deferred Compensation	Total
ASSETS						
Cash and pooled investments	\$ 379	\$ 8	\$ 3,245	\$ 37,481	\$ 1,224	\$ 105,243
Receivables:						
Employer accounts receivable	9	-	-	-	-	146,734
Member accounts receivable (net of allowance)	-	-	-	-	1,514	2,824
Due from other funds	1	-	7	205	1	268
Due from other pension and other employee benefit funds	-	-	-	-	-	7,012
Interest and dividends	-	-	-	264	-	134,048
Investment trades pending	-	-	-	2,431	-	897,888
Total Receivables	10	-	7	2,900	1,515	1,188,774
Investments, Noncurrent:						
Public equity	-	10,749	-	31,900	2,165,467	20,441,834
Fixed income	-	-	-	21,495	-	10,889,256
Private equity	-	-	-	20,592	-	10,432,183
Real estate	-	-	-	15,471	-	7,837,564
Security lending	-	-	-	5,752	-	2,913,893
Liquidity	1,464	-	25	6,394	9	1,648,920
Tangible assets	-	-	-	1,043	-	528,520
Reverse repurchase agreements	30	-	185	2,350	70	5,082
Total Investments, Noncurrent	1,494	10,749	210	104,997	2,165,546	54,697,252
Total Assets	1,883	10,757	3,462	145,378	2,168,285	55,991,269
LIABILITIES						
Obligations under security lending agreements	-	-	-	5,752	-	2,913,894
Obligations under reverse repurchase agreements	30	-	185	2,350	70	5,082
Accrued liabilities	31	-	3	1,980	75	1,013,322
Due to other funds	-	-	-	214	1	1,706
Due to other pension and other employee benefit funds	-	-	-	-	-	7,012
Unearned revenues	-	-	-	-	-	764
Total Liabilities	61	-	188	10,296	146	3,941,780
NET ASSETS						
Net assets held in trust for:						
Pension Benefits (Schedule of Funding Progress by Plan begins on Page 153)	1,822	10,757	3,274	135,082	-	49,881,350
Deferred compensation participants	-	-	-	-	2,168,139	2,168,139
Total Net Assets	\$ 1,822	\$ 10,757	\$ 3,274	\$ 135,082	\$ 2,168,139	\$ 52,049,489

**Combining Statement of Changes in Plan Net Assets
Pension and Other Employee Benefit Funds**

For the Fiscal Year Ended June 30, 2009

(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	\$ 325,247	\$ 439,744	\$ -	\$ 178,850	\$ 160,793	\$ -
Members	44,474	374,347	90,808	27,471	24,005	247,891
State	-	-	-	-	-	-
Participants	-	-	-	-	-	-
Total Contributions	369,721	814,091	90,808	206,321	184,798	247,891
Investment Income:						
Net appreciation (depreciation) in fair value	(2,498,410)	(4,273,967)	(289,652)	(2,083,575)	(1,456,842)	(896,820)
Interest and dividends	175,772	308,265	16,743	146,574	105,085	47,184
Less: investment expenses	(50,799)	(93,058)	(5,040)	(42,134)	(31,366)	(14,994)
Net investment income (loss)	(2,373,437)	(4,058,760)	(277,949)	(1,979,135)	(1,383,123)	(864,630)
Transfers from other pension plans	1	721	2,095	27	547	971
Other additions	-	-	-	-	-	-
Total Additions	(2,003,715)	(3,243,948)	(185,046)	(1,772,787)	(1,197,778)	(615,768)
DEDUCTIONS						
Pension benefits	1,070,929	207,320	51	850,263	44,794	128
Pension refunds	5,071	26,443	40,202	1,260	2,189	76,166
Transfers to other pension plans	285	5,388	429	-	810	550
Administrative expenses	574	726	-	75	327	-
Distributions to participants	-	-	-	-	-	-
Total Deductions	1,076,859	239,877	40,682	851,598	48,120	76,844
Net Increase (Decrease)	(3,080,574)	(3,483,825)	(225,728)	(2,624,385)	(1,245,898)	(692,612)
Net Assets - Beginning	10,645,796	17,661,093	1,414,212	8,936,254	6,034,803	4,111,319
Net Assets - Ending	\$ 7,565,222	\$ 14,177,268	\$ 1,188,484	\$ 6,311,869	\$ 4,788,905	\$ 3,418,707

Combining Statement of Changes in Plan Net Assets Pension and Other Employee Benefit Funds

For the Fiscal Year Ended June 30, 2009

(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	\$ 63,526	\$ -	\$ 216	\$ 77,849	\$ 6,371	\$ 14,509
Members	26,263	59,423	501	130,386	5,630	14,557
State	-	-	-	51,137	-	-
Participants	-	-	-	-	-	-
Total Contributions	89,789	59,423	717	259,372	12,001	29,066
Investment Income:						
Net appreciation (depreciation) in fair value	(589,936)	(241,529)	(1,424,993)	(1,287,494)	(221,804)	(9,986)
Interest and dividends	42,485	15,792	100,185	93,247	15,772	919
Less: investment expenses	(12,738)	(4,678)	(29,133)	(28,943)	(4,650)	(316)
Net investment income (loss)	(560,189)	(230,415)	(1,353,941)	(1,223,190)	(210,682)	(9,383)
Transfers from other pension plans	2,051	455	173	1,218	331	-
Other additions	-	-	-	-	-	-
Total Additions	(468,349)	(170,537)	(1,353,051)	(962,600)	(198,350)	19,683
DEDUCTIONS						
Pension benefits	28,307	62	327,033	36,615	34,522	5
Pension refunds	2,125	42,041	193	7,223	210	466
Transfers to other pension plans	448	520	-	160	-	-
Administrative expenses	84	-	138	111	1	12
Distributions to participants	-	-	-	-	-	-
Total Deductions	30,964	42,623	327,364	44,109	34,733	483
Net Increase (Decrease)	(499,313)	(213,160)	(1,680,415)	(1,006,709)	(233,083)	19,200
Net Assets - Beginning	2,443,125	1,131,612	6,035,163	5,315,408	931,575	36,557
Net Assets - Ending	\$ 1,943,812	\$ 918,452	\$ 4,354,748	\$ 4,308,699	\$ 698,492	\$ 55,757

Combining Statement of Changes in Plan Net Assets Pension and Other Employee Benefit Funds

For the Fiscal Year Ended June 30, 2009

(expressed in thousands)

concluded

	JRS	JRA	Judges	VFFRPF	Deferred Compensation	Total
ADDITIONS						
Contributions:						
Employers	\$ 105	\$ 42	\$ -	\$ 996	\$ -	\$ 1,268,248
Members	105	42	-	109	-	1,046,012
State	10,200	-	-	5,227	-	66,564
Participants	-	-	-	-	184,544	184,544
Total Contributions	10,410	84	-	6,332	184,544	2,565,368
Investment Income:						
Net appreciation (depreciation) in fair value	(12)	(2,156)	(106)	(30,832)	(392,285)	(15,700,399)
Interest and dividends	62	260	248	3,449	50,405	1,122,447
Less: investment expenses	(2)	(14)	(1)	(185)	(2,764)	(320,815)
Net investment income (loss)	48	(1,910)	141	(27,568)	(344,644)	(14,898,767)
Transfers from other pension plans	-	-	-	-	-	8,590
Other additions	-	12	-	1	690	703
Total Additions	10,458	(1,814)	141	(21,235)	(159,410)	(12,324,106)
DEDUCTIONS						
Pension benefits	9,583	461	500	10,020	-	2,620,593
Pension refunds	6	-	-	15	-	203,610
Transfers to other pension plans	-	-	-	-	-	8,590
Administrative expenses	-	-	-	23	-	2,071
Distributions to participants	-	-	-	-	106,645	106,645
Total Deductions	9,589	461	500	10,058	106,645	2,941,509
Net Increase (Decrease)	869	(2,275)	(359)	(31,293)	(266,055)	(15,265,615)
Net Assets - Beginning	953	13,032	3,633	166,375	2,434,194	67,315,104
Net Assets - Ending	\$ 1,822	\$ 10,757	\$ 3,274	\$ 135,082	\$ 2,168,139	\$ 52,049,489

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), 56 of the state's K-12 schools and educational service districts (ESDs) and 205 political subdivisions and tribal governments. Additionally, the PEBB plan is available to the retirees of the remaining 245 K-12 schools and ESDs. As of June 2009, membership in the PEBB plan consisted of the following:

	Active		Total
	Employees	Retirees ¹	
State	112,043	25,458	137,501
K-12 schools and ESDs ²	2,222	26,715	28,937
Political subdivisions	11,586	1,017	12,603
Total	125,851	53,190	179,041

¹Retirees include retired employees, surviving spouses, and terminated members entitled to a benefit.

²In Fiscal Year 2009, there were 101,295 full-time equivalent active employees in the 245 K-12 schools and ESDs that elected to limit participation in PEBB only to their retirees.

For Fiscal Year 2009, the estimated monthly cost for PEBB benefits for active employees (average across all plans and tiers) is as follows:

Required Premium ³	
Medical	\$730
Dental	73
Life	5
Long-term disability	2
Total	\$810
Employer contribution	\$728
Employee contribution	82
Total	\$810

³Per 2009 Index Rate Model 4.3.

The relationship between the PEBB OPEB plan and its member employers and their employees and retirees is not formalized in a contract or plan document. Rather, the benefits are provided in accordance with a substantive plan. A substantive plan is one in which the plan terms are understood by the employers and plan members. This understanding is based on communications between the HCA, employers and plan members and the historical pattern of practice with regard to the sharing of benefit costs.

The PEBB retiree OPEB plan is available to employees who elect to continue coverage and pay the administratively established premiums at the time they retire under the provisions of the retirement system to which they belong. Retirees' access to PEBB plans depends on the retirement eligibility of their respective retirement system. PEBB members are covered in the following retirement systems: PERS, PSERS, TRS, SERS, WSPRS, and Higher Education.

Per RCW 41.05.022, retirees who are not yet eligible for Medicare benefits may continue participation in the state's Non-Medicare community-rated health insurance risk pool on a self-pay basis. Retirees in the Non-Medicare risk pool receive an implicit subsidy. The implicit subsidy exists because retired members pay a premium based on a claims experience for active employees and other Non-Medicare retirees. The subsidy is valued using the difference between the age-based claims costs and the premium. In Calendar Year 2008, the average weighted implicit subsidy was valued at \$253 per member per month, and in Calendar Year 2009, the average weighted implicit subsidy is projected to be \$272 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 2008, the explicit subsidy was \$164 per member per month, and in Calendar Year 2009, 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 2008. The explicit subsidy is also \$5 per member per month in Calendar Year 2009.

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 2009, the cost of the subsidies was approximately 6.6 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 2009, the amount actually contributed to the plan, and changes in the state's net OPEB obligation (NOO) (expressed in thousands):

Annual required contribution	\$331,688
Interest on NOO	11,063
Amortization of NOO	(8,377)
Annual OPEB cost	334,374
Contributions made	(86,678)
Increase in NOO	247,696
NOO beginning of year	245,855
NOO end of year	\$493,551

The state's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for Fiscal Year 2009 was as follows (expressed in thousands):

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/09	\$334,374	25.92%	\$493,551
6/30/08	313,970	21.69%	245,855

Funded Status and Funding Progress

The funded status of the plan as of June 30, 2009, was as follows (expressed in thousands):

Actuarial accrued liability (AAL)	\$4,014,270
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	\$4,014,270
Funded ratio (actuarial value of plan assets/AAL)	0.00%
Covered payroll (active plan members)	\$5,170,126
UAAL as a percentage of covered payroll	77.64%

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, 2008
Actuarial cost method	Projected Unit Credit (PUC)
Amortization method	Closed, level percentage of projected payroll amortization method
Remaining amortization period	30 years
Asset valuation method	n/a - no assets
Actuarial assumptions:	
Investment rate of return	4.5%
Projected salary increases	4.5%
Health care inflation rate	8.5% initial rate, 5% ultimate rate in 2016
Inflation rate	3.5%

The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents the results of the OPEB valuation for the fiscal years ending June 30, 2009 and June 30, 2008. Looking forward, the schedule will provide additional 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.

Note 13

Commitments and Contingencies

A. CONSTRUCTION AND OTHER COMMITMENTS

Outstanding commitments related to state infrastructure and facility construction, improvement, and/or renovation totaled \$7.8 billion at June 30, 2009.

B. SUMMARY OF SIGNIFICANT LITIGATION

Pending Litigation

The state and its agencies are parties to numerous routine legal proceedings that normally occur in governmental operations. At any given point, there may be numerous lawsuits involving the implementation of specific state programs that could significantly impact expenditures and potentially have future budgetary impact.

The state is the defendant in a number of cases seeking damages in excess of \$63 million involving claims of inadequate funding for care of the disabled and elderly. The state is also defending a number of cases alleging inadequacies and inequities in K-12 funding. 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.

The Washington State Department of Transportation (WSDOT) is a defendant in a number of lawsuits related to environmental clean-up and habitat restoration/enhancement associated with highway construction projects and storm water discharge from state highways. While estimates are not available for all lawsuits, claims for damages exceed \$15 million. If the efforts of the plaintiffs are successful, the financial impact could be significant and would need to be addressed in future budgets.

The state is the defendant in numerous lawsuits by employees accusing the state of various infractions of law or contract. These suits claim back pay and damages in excess of \$15 million. The state is also defending complaints by the United States Department of Labor claiming the state violated the Fair Labor Standards Act. Total monetary damages sought in these actions are approximately \$65 million. Additionally, the state is being sued as a result of the legislative repeal of the gain sharing provision associated with select state pension plans. No estimate of damage is currently available.

The state is contesting these lawsuits and the outcomes are uncertain at this time.

Tobacco Settlement

In November 1998, Washington joined 45 other states in a Master Settlement Agreement (MSA) with the nation's largest tobacco manufacturers to provide restitution for monies spent under health care programs for the treatment of smoking-related illnesses.

Washington's share of the settlement was approximately \$125 million in Fiscal Year 2009 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, which is subject to the same offsets, reductions, and adjustments as are applicable to the base payment. The 2009 strategic contribution payment was approximately \$49.6 million.

Additionally, in 2009, the state received a payment of approximately \$11.1 million which reflected an additional one-time payment received from participating manufacturers related to four prior years.

In 2006, 2007, and 2008, determinations were made under a process established by the MSA that disadvantages experienced as a result of participating in the MSA were a significant factor contributing to the market share loss by manufacturers.

These determinations related to sales data for the years 2003, 2004, and 2005. Washington faces a potential "nonparticipating manufacturer adjustment" (NPM) of between \$0 and \$130 million for the year 2003, \$0 and \$137 million for the year 2004, and \$0 and \$131 million for the year 2005.

Washington and 37 other states each filed court actions seeking a declaration that they had diligently enforced their escrow statutes. In the Consent Decree, the King County Superior Court retained jurisdiction to enforce and interpret the MSA as to Washington.

The participating manufacturers oppose having the diligent enforcement issue decided by numerous state courts. They believe the issue is governed by an arbitration clause in the MSA that they claim requires a panel of arbitrators to decide, in a single national proceeding, whether individual states diligently enforced their own statutes.

The King County Superior Court heard Washington's motion and, in late September 2006, entered an order compelling arbitration and dismissing the state's action.

Washington's appeal was dismissed and the trial court's order compelling arbitration is now final. With the exception of Montana, all states will participate in a single national arbitration of the NPM Adjustment dispute.

The dispute will be presented to a three member panel of retired Article III judges. The panel is expected to be in place by January 2010, and the arbitration is likely to be convened in the summer or fall of 2010.

The arbitration will comprise some presentations made by the states collectively, but each state will also have to 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. Decisions on individual states should be expected in early 2011.

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 2009 the state had guaranteed 211 school districts' voter-approved general obligation debt with a total outstanding principal of \$7.8 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 COP's 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, 2009, outstanding certificates of participation notes totaled \$83 million for 178 local governments participating in LOCAL. The state estimates that LOCAL program liability, if any, will be immaterial to its overall financial condition.

Office Building Lease

The 2009 Legislature authorized the state to lease-develop an office building in Olympia, Washington. On June 29, 2009, the state entered into a ground lease and a lease agreement with FYI Properties (FYI), a Washington nonprofit corporation. The agreements call for FYI to design and construct an office building and to finance it with tax-exempt obligations that meet the requirements of Revenue Ruling 63-20 and Revenue Procedure 82-26 issued by the Internal Revenue Service. The state is required to make monthly payments that equal the required debt service on the bonds upon substantial completion of the project estimated to be September 2011. Additional amounts may also be due per the terms of the lease agreement. The lease agreements provide the state with options to purchase the building during the term of the lease and transfer ownership of the building to the state at the end of the lease. The office building will be occupied starting in fiscal year 2012.

Note 14

Subsequent Events

A. BOND ISSUES

In July 2009, the state issued \$386.4 million in various general obligation refunding bonds. The state also issued:

- \$298.8 million in various purpose general obligation bonds to fund various state capital projects, including state, institutions of higher education, and public school facilities; multimodal transportation projects; state and local water supply projects; and conservation and outdoor recreation projects.
- \$401.4 million to provide funds for construction of county and city arterials within urban areas, state and local highway improvements, and other selected transportation projects or improvements.
- \$64.9 million in taxable bonds to fund certain taxable projects including: low-income housing projects, and local government and economic development infrastructure projects.

In July 2009, the City of Aberdeen refunded \$11.1 million in revenue bonds, which were used to provide water and sewer utilities to the Stafford Creek Corrections Center. The state recorded an obligation for these bonds because the Department of Corrections entered into an agreement with the City of Aberdeen to pay the debt service on them. The bonds are classified as revenue bonds because they do not constitute a general obligation or pledge of the full faith and credit of the State of Washington.

In October 2009, the state refunded \$215.5 million in various purpose general obligation bonds and \$121.2 million in motor vehicle fuel tax bonds. The state also issued:

- \$230 million in various purpose general obligation bonds to fund various state capital projects including construction and renovation of state buildings and state and local water supply improvements.
- \$503.4 million in Build America Bonds to provide funds for state and local highway improvements and selected transportation projects and improvements.

In October 2009, Washington State University issued \$38.4 million in revenue refunding bonds. In December 2009, Washington State University issued \$111.7 million in revenue bonds to fund various capital construction projects.

In December 2009, the University of Washington issued \$77.7 million in revenue bonds to fund construction and renovation of various University facilities.

B. CERTIFICATES OF PARTICIPATION

In August 2009, the state issued \$55.4 million in Certificates of Participation to fund the acquisition or construction of certain real property for the benefit of the State Board for Community and Technical Colleges.

In October 2009, the state refunded \$33.1 million in Certificates of Participation.

In November 2009, the state issued \$9.8 million in Certificates of Participation for various state and local government equipment purchases.

RSI
Required Supplementary Information

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BUDGETARY INFORMATION
Budgetary Comparison Schedule

Budgetary Comparison Schedule				
General Fund				
For the Biennium Ended June 30, 2009				
<i>(expressed in thousands)</i>				
	General Fund			
	Original Budget 2007-09 Biennium *	Final Budget 2007-09 Biennium	Actual 2007-09 Biennium	Variance with Final Budget
Budgetary fund balance, July 1	\$ 780,510	\$ 780,510	\$ 780,510	\$ -
Resources				
Taxes	29,144,057	27,349,367	27,035,493	(313,874)
Licenses, permits, and fees	181,346	184,296	192,582	8,286
Other contracts and grants	288,705	343,136	332,601	(10,535)
Timber sales	6,657	4,567	4,134	(433)
Federal grants-in-aid	12,347,165	13,755,268	13,165,809	(589,459)
Charges for services	123,032	116,395	111,607	(4,788)
Interest income	143,544	162,512	167,476	4,964
Miscellaneous revenue	126,270	169,796	133,687	(36,109)
Escheated property	93,433	146,684	129,705	(16,979)
Transfers from other funds	395,196	1,236,777	1,023,154	(213,623)
Total Resources	43,629,915	44,249,308	43,076,758	(1,172,550)
Charges To Appropriations				
General government	2,982,113	3,171,402	3,055,423	115,979
Human services	21,186,368	21,595,812	21,406,046	189,766
Natural resources and recreation	704,224	712,446	656,985	55,461
Transportation	86,584	81,624	80,861	763
Education	17,229,757	17,651,737	17,567,736	84,001
Capital outlays	216,104	217,599	87,095	130,504
Transfers to other funds	548,457	381,150	168,375	212,775
Total Charges To Appropriations	42,953,607	43,811,770	43,022,521	789,249
Excess Available For Appropriation				
Over (Under) Charges To Appropriations	676,308	437,538	54,237	(383,301)
Reconciling Items				
Changes in reserves (net)	-	-	146,569	146,569
Entity adjustments (net)	-	-	(11,496)	(11,496)
Total Reconciling Items	-	-	135,073	135,073
Budgetary fund balance, June 30	\$ 676,308	\$ 437,538	\$ 189,310	\$ (248,228)
* Amounts changed due to reclassification.				

BUDGETARY INFORMATION**Budgetary Comparison Schedule – Budget to GAAP Reconciliation**

Budgetary Comparison Schedule - Budget to GAAP Reconciliation	
General Fund	
For the Biennium Ended June 30, 2009 (expressed in thousands)	
	<u>General Fund</u>
Sources/Inflows of Resources	
Actual amounts (budgetary basis) "Total Resources" from the Budgetary Comparison Schedule	\$ 43,076,758
Differences - budget to GAAP:	
The following items are inflows of budgetary resources but are not revenue for financial reporting purposes:	
Transfers from other funds	(1,023,154)
Budgetary fund balance at the beginning of the biennium	(780,510)
The following items are not inflows of budgetary resources but are revenue for financial reporting purposes:	
Noncash commodities and electronic food stamp benefits	1,536,352
Unanticipated receipts	125,195
Noncash revenues	36,090
Revenues collected for other governments	65,296
Biennium total revenues	43,036,028
Fiscal Year 2008 total revenues	(21,448,550)
Total Revenues (GAAP Basis) as Reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	\$ 21,587,478
Uses/Outflows of Resources	
Actual amounts (budgetary basis) "Total Charges to Appropriations" from the Budgetary Comparison Schedule.	\$ 43,022,521
Differences - budget to GAAP:	
Budgeted expenditure transfers are recorded as expenditures in the budget statement but are recorded as other financing sources (uses) for financial reporting purposes.	
	(2,191,560)
The following items are outflows of budgetary resources but are not expenditures for financial reporting purposes.	
Transfers to other funds	(168,375)
Loan disbursements	3,440
The following items are not outflows of budgetary resources but are recorded as current expenditures for financial reporting purposes.	
Noncash commodities and electronic food stamp benefits	1,583,939
Expenditures related to unanticipated receipts	125,195
Capital lease acquisitions	39,131
Distributions to other governments	65,296
Biennium total expenditures	42,479,588
Fiscal Year 2008 total expenditures	(20,300,290)
Total Expenditures (GAAP Basis) as Reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	\$ 22,179,298

BUDGETARY INFORMATION

Notes to Required Supplementary Information

GENERAL BUDGETARY POLICIES AND PROCEDURES

The Governor is required to submit a budget to the state Legislature no later than December 20 of the year preceding odd-numbered year sessions of the Legislature.

The budget is a proposal for expenditures in the ensuing biennial period based upon anticipated revenues from the sources and rates existing by law at the time of submission of the budget. The Governor may additionally submit, as an appendix to the budget, a proposal for expenditures in the ensuing biennium from revenue sources derived from proposed changes in existing statutes.

The appropriated budget and any necessary supplemental budgets are legally required to be adopted through the passage of appropriation bills by the Legislature and approved by the Governor. Operating appropriations are generally made at the fund/account and agency level; however, in a few cases, appropriations are made at the fund/account and agency/program level. Operating appropriations cover either the entire biennium or a single fiscal year within the biennium. Capital appropriations are biennial and are generally made at the fund/account, agency, and project level.

The legal level of budgetary control is at the fund/account, agency, and appropriation level, with administrative controls established at lower levels of detail in certain instances. The accompanying budgetary schedules are not presented at the legal level of budgetary control. This is due to the large number of appropriations within individual agencies that would make such a presentation in the accompanying financial schedules extremely cumbersome. Section 2400.121 of the GASB Codification of Governmental Accounting and Financial Reporting Standards provides for the preparation of a separate report in these extreme cases.

For the state of Washington, a separate report has been prepared for the 2007-09 Biennium to illustrate legal budgetary compliance. Appropriated budget versus actual expenditures, and estimated versus actual revenues and other financing sources (uses) for appropriated funds at agency and appropriation level are presented in the Budget-to-Actual Detail Report for governmental funds. A copy of this report is available at the Office of Financial Management, 1110 Capitol Way SE, PO Box 43113, Olympia, Washington 98504-3113.

Legislative appropriations are strict legal limits on expenditures/expenses, and over-expenditures are prohibited. All appropriated and certain nonappropriated funds are further controlled by the executive branch through the allotment process. This process allocates the expenditure/expense plan into monthly allotments by program, source of funds, and object of expenditure. According to statute RCW 43.88.110(2), except under limited circumstances, the original allotments are approved by the Governor and may be revised on a quarterly basis and must be accompanied by an explanation of the reasons for significant changes. Because allotments are not the strict legal limit on expenditures/expenses, the budgetary schedules presented as required supplementary information (RSI) are shown on an appropriation versus actual comparison rather than an allotment versus actual comparison.

Proprietary funds typically earn revenues and incur expenses (i.e., depreciation or budgeted asset purchases) not covered by the allotment process. Budget estimates are generally made outside the allotment process according to prepared business plans. These proprietary fund business plan estimates are adjusted only at the beginning of each fiscal year.

Additional fiscal control is exercised through various means. OFM is authorized to make expenditure/expense allotments based on availability of unanticipated receipts, mainly federal government grant increases made during a fiscal year. State law does not preclude the over-expenditure of allotments, although RCW 43.88.110(3) requires that the Legislature be provided an explanation of major variances.

Operating encumbrances lapse at the end of the applicable appropriation. Capital outlay encumbrances lapse at the end of the biennium unless reappropriated by the Legislature in the ensuing biennium. Encumbrances outstanding against continuing appropriations at fiscal yearend are reported as reservations of fund balance.

Budgetary Reporting vs. GAAP Reporting

Governmental funds are budgeted materially in conformance with GAAP. However, the presentation in the accompanying budgetary schedules is different in certain respects from the corresponding Statements of Revenues, Expenditures, and Changes in Fund Balance (governmental operating statement). In the accompanying budgetary schedules, budget and actual expenditures are reported only for appropriated activities. Expenditures are classified based on whether the appropriation is from the operating or capital budget. Expenditures funded by operating budget appropriations are reported as current expenditures classified by the function of the agency receiving the appropriation. Expenditures funded by capital budget appropriations are reported as capital outlays.

However, in the governmental operating statements, all governmental funds are included and expenditures are classified according to what was actually purchased. Capital outlays are fixed asset acquisitions such as land, buildings, and equipment. Debt service expenditures are principal and interest payments. Current expenditures are all other governmental fund expenditures classified based on the function of the agency making the expenditures.

Additionally, certain governmental activities are excluded from the budgetary schedules because they are not appropriated. These activities include activities designated as nonappropriated by the Legislature, such as the Higher Education Special Revenue Fund, Higher Education Endowment Fund, Tobacco Settlement Securitization Bond Debt Service Fund, federal surplus food commodities, electronic food stamp benefits, capital

leases, note proceeds, and resources collected and distributed to other governments.

Further, certain expenditures are appropriated as operating transfers. These transfers are reported as operating transfers on the budgetary schedules and as expenditures on the governmental operating statements. The factors contributing to the differences between the Budgetary Comparison Schedule and the Statement of Revenues, Expenditures, and Changes in Fund Balance are noted in the previous Budget to GAAP reconciliation.

Budgetary Fund Balance includes the following as reported on the Governmental Funds Balance Sheet: Unreserved, undesignated fund balance; and Reserved for encumbrances.

PENSION PLAN INFORMATION
Schedules of Funding Progress

continued

Schedule of Funding Progress Public Employees' Retirement System - Plan 1 Valuation Years 2008 through 2003 <i>(dollars in millions)</i>						
	2008	2007	2006	2005	2004	2003
Actuarial valuation date	6/30/2008	6/30/2007	9/30/2006	9/30/2005	9/30/2004	9/30/2003
Actuarial value of plan assets	\$ 9,853	\$ 9,715	\$ 9,591	\$ 9,707	\$ 9,928	\$ 10,227
Actuarial accrued liability	13,901	13,740	13,129	13,704	12,855	12,692
Unfunded actuarial liability	4,048	4,025	3,538	3,997	2,927	2,465
Percentage funded	71%	71%	73%	71%	77%	81%
Covered payroll	638	676	725	786	863	945
Unfunded actuarial liability as a percentage of covered payroll	634%	595%	488%	509%	339%	261%

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

Schedule of Funding Progress Public Employees' Retirement System - Plan 2/3 Valuation Years 2008 through 2003 <i>(dollars in millions)</i>						
	2008	2007	2006	2005	2004	2003
Actuarial valuation date	6/30/2008	6/30/2007	N/A	N/A	N/A	N/A
Actuarial value of plan assets	\$ 16,693	\$ 14,888	N/A	N/A	N/A	N/A
Actuarial accrued liability	16,508	14,661	N/A	N/A	N/A	N/A
Unfunded actuarial liability	(185)	(227)	N/A	N/A	N/A	N/A
Percentage funded	101%	102%	N/A	N/A	N/A	N/A
Covered payroll	7,869	7,157	N/A	N/A	N/A	N/A
Unfunded actuarial liability as a percentage of covered payroll	0%	0%	N/A	N/A	N/A	N/A

PERS Plan 2/3 uses the aggregate actuarial cost method. Effective for reporting year 2007, this Schedule of Funding Progress is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress information of this plan as required by GASB Statement No. 50.

N/A indicates data not available.

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

PENSION PLAN INFORMATION
Schedules of Funding Progress

continued

Schedule of Funding Progress Teachers' Retirement System - Plan 1 Valuation Years 2008 through 2003 (dollars in millions)						
	2008	2007	2006	2005	2004	2003
Actuarial valuation date	6/30/2008	6/30/2007	9/30/2006	9/30/2005	9/30/2004	9/30/2003
Actuarial value of plan assets	\$ 8,262	\$ 8,302	\$ 8,275	\$ 8,450	\$ 8,728	\$ 9,086
Actuarial accrued liability	10,754	10,826	10,359	10,894	10,401	10,325
Unfunded actuarial liability	2,492	2,524	2,084	2,444	1,673	1,239
Percentage funded	77%	77%	80%	78%	84%	88%
Covered payroll	432	426	478	546	616	692
Unfunded actuarial liability as a percentage of covered payroll	577%	592%	436%	448%	272%	179%

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

Schedule of Funding Progress Teachers' Retirement System - Plan 2/3 Valuation Years 2008 through 2003 (dollars in millions)						
	2008	2007	2006	2005	2004	2003
Actuarial valuation date	6/30/2008	6/30/2007	N/A	N/A	N/A	N/A
Actuarial value of plan assets	\$ 5,681	\$ 5,277	N/A	N/A	N/A	N/A
Actuarial accrued liability	5,264	4,682	N/A	N/A	N/A	N/A
Unfunded actuarial liability	(417)	(595)	N/A	N/A	N/A	N/A
Percentage funded	108%	113%	N/A	N/A	N/A	N/A
Covered payroll	3,621	3,318	N/A	N/A	N/A	N/A
Unfunded actuarial liability as a percentage of covered payroll	0%	0%	N/A	N/A	N/A	N/A

TRS Plan 2/3 uses the aggregate actuarial cost method. Effective for reporting year 2007, this Schedule of Funding Progress is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress information of this plan as required by GASB Statement No. 50.

N/A indicates data not available.

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

PENSION PLAN INFORMATION
Schedules of Funding Progress

continued

Schedule of Funding Progress School Employees' Retirement System - Plan 2/3 Valuation Years 2008 through 2003 (dollars in millions)						
	2008	2007	2006	2005	2004	2003
Actuarial valuation date	6/30/2008	6/30/2007	N/A	N/A	N/A	N/A
Actuarial value of plan assets	\$ 2,303	\$ 2,133	N/A	N/A	N/A	N/A
Actuarial accrued liability	2,207	1,998	N/A	N/A	N/A	N/A
Unfunded actuarial liability	(96)	(135)	N/A	N/A	N/A	N/A
Percentage funded	104%	107%	N/A	N/A	N/A	N/A
Covered payroll	1,379	1,283	N/A	N/A	N/A	N/A
Unfunded actuarial liability as a percentage of covered payroll	0%	0%	N/A	N/A	N/A	N/A

SERS Plan 2/3 uses the aggregate actuarial cost method. Effective for reporting year 2007, this Schedule of Funding Progress is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress information of this plan as required by GASB Statement No. 50.

N/A indicates data not available.

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

Schedule of Funding Progress Law Enforcement Officers' and Fire Fighters' Retirement System - Plan 1 Valuation Years 2008 through 2003 (dollars in millions)						
	2008	2007	2006	2005	2004	2003
Actuarial valuation date	6/30/2008	6/30/2007	9/30/2006	9/30/2005	9/30/2004	9/30/2003
Actuarial value of plan assets	\$ 5,592	\$ 5,298	\$ 5,018	\$ 4,800	\$ 4,666	\$ 4,803
Actuarial accrued liability	4,368	4,340	4,309	4,243	4,266	4,275
Unfunded (assets in excess of) actuarial liability	(1,224)	(958)	(709)	(557)	(400)	(528)
Percentage funded	128%	122%	116%	113%	109%	112%
Covered payroll	37	43	48	56	64	71
Unfunded actuarial liability as a percentage of covered payroll	0%	0%	N/A	N/A	N/A	N/A

N/A indicates data not available.

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

PENSION PLAN INFORMATION
Schedules of Funding Progress

continued

Schedule of Funding Progress Law Enforcement Officers' and Fire Fighters' Retirement System - Plan 2 Valuation Years 2008 through 2003 (dollars in millions)						
	2008	2007	2006	2005	2004	2003
Actuarial valuation date	6/30/2008	6/30/2007	N/A	N/A	N/A	N/A
Actuarial value of plan assets	\$ 5,053	\$ 4,360	N/A	N/A	N/A	N/A
Actuarial accrued liability	3,998	3,626	N/A	N/A	N/A	N/A
Unfunded (assets in excess of) actuarial liability	(1,055)	(734)	N/A	N/A	N/A	N/A
Percentage funded	126%	120%	N/A	N/A	N/A	N/A
Covered payroll	1,345	1,234	N/A	N/A	N/A	N/A
Unfunded actuarial liability as a percentage of covered payroll	0%	0%	N/A	N/A	N/A	N/A

LEOFF Plan 2 uses the aggregate actuarial cost method. Effective for reporting year 2007, this Schedule of Funding Progress is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress information of this plan as required by GASB Statement No. 50.

N/A indicates data not available.

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

Schedule of Funding Progress Washington State Patrol Retirement System - Plan 1/2 Valuation Years 2008 through 2003 (dollars in millions)						
	2008	2007	2006	2005	2004	2003
Actuarial valuation date	6/30/2008	6/30/2007	N/A	N/A	N/A	N/A
Actuarial value of plan assets	\$ 870	\$ 800	N/A	N/A	N/A	N/A
Actuarial accrued liability	745	702	N/A	N/A	N/A	N/A
Unfunded actuarial liability	(125)	(98)	N/A	N/A	N/A	N/A
Percentage funded	117%	114%	N/A	N/A	N/A	N/A
Covered payroll	79	72	N/A	N/A	N/A	N/A
Unfunded actuarial liability as a percentage of covered payroll	0%	0%	N/A	N/A	N/A	N/A

WSPRS Plan 1/2 uses the aggregate actuarial cost method. Effective for reporting year 2007, this Schedule of Funding Progress is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress information of this plan as required by GASB Statement No. 50.

N/A indicates data not available.

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

PENSION PLAN INFORMATION
Schedules of Funding Progress

continued

Schedule of Funding Progress Public Safety Employees' Retirement System - Plan 2 Valuation Years 2008 through 2003 (dollars in millions)						
	2008	2007	2006	2005	2004	2003
Actuarial valuation date	6/30/2008	6/30/2007	N/A	N/A	N/A	N/A
Actuarial value of plan assets	\$ 39	\$ 14	N/A	N/A	N/A	N/A
Actuarial accrued liability	33	12	N/A	N/A	N/A	N/A
Unfunded actuarial liability	(6)	(2)	N/A	N/A	N/A	N/A
Percentage funded	118%	117%	N/A	N/A	N/A	N/A
Covered payroll	200	134	N/A	N/A	N/A	N/A
Unfunded actuarial liability as a percentage of covered payroll	0%	0%	N/A	N/A	N/A	N/A

PSERS Plan 2 uses the aggregate actuarial cost method. Effective for reporting year 2007, this Schedule of Funding Progress is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress information of this plan as required by GASB Statement No. 50.

N/A indicates data not available.

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

Schedule of Funding Progress Judicial Retirement System Valuation Years 2008 through 2003 (dollars in millions)						
	2008	2007	2006	2005	2004	2003
Actuarial valuation date	6/30/2008	6/30/2007	9/30/2006	9/30/2005	9/30/2004	9/30/2003
Actuarial value of plan assets	\$ 1	\$ 1	\$ 0.3	\$ 2	\$ 4	\$ 6
Actuarial accrued liability	92	85	88	89	89	91
Unfunded actuarial liability	91	84	88	87	85	85
Percentage funded	1%	1%	0%	2%	4%	7%
Covered payroll	1.3	1.3	1.4	1.7	2.4	2.6
Unfunded actuarial liability as a percentage of covered payroll	7000%	6462%	6286%	5118%	3542%	3269%

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

PENSION PLAN INFORMATION
Schedules of Funding Progress

concluded

Schedule of Funding Progress Judges' Retirement Fund Valuation Years 2008 through 2003 <i>(dollars in millions)</i>						
	2008	2007	2006	2005	2004	2003
Actuarial valuation date	6/30/2008	6/30/2007	9/30/2006	9/30/2005	9/30/2004	9/30/2003
Actuarial value of plan assets	\$ 3.6	\$ 4.0	\$ 4.1	\$ 4.2	\$ 4.4	\$ 4.5
Actuarial accrued liability	3.5	3.9	4.0	4.5	4.7	5.2
Unfunded (assets in excess of)						
actuarial liability	(0.1)	(0.1)	(0.1)	0.3	0.3	0.7
Percentage funded	103%	103%	103%	93%	94%	87%
Covered payroll	-	-	-	-	-	-
Unfunded actuarial liability as a						
percentage of covered payroll	N/A	N/A	N/A	N/A	N/A	N/A
N/A indicates data not available.						
Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.						

Schedule of Funding Progress Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund Valuation Years 2008 through 2003 <i>(dollars in millions)</i>						
	2008	2007	2006	2005	2004	2003
Actuarial valuation date	6/30/2008	6/30/2007	12/31/2006	12/31/2005	12/31/2004	12/31/2003
Actuarial value of plan assets	\$ 161	\$ 151	\$ 140	\$ 127	\$ 120	\$ 120
Actuarial accrued liability	153	136	142	140	115	112
Unfunded (assets in excess of)						
actuarial liability	(8)	(15)	2	13	(5)	(8)
Percentage funded	105%	111%	99%	91%	104%	107%
Covered payroll	N/A	N/A	N/A	N/A	N/A	N/A
Unfunded actuarial liability as a						
percentage of covered payroll	N/A	N/A	N/A	N/A	N/A	N/A
* Pension plan liability only - excludes relief benefits.						
**Covered Payroll is not presented because it is not applicable since this is a volunteer organization.						
N/A indicates data not available.						
Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.						

PENSION PLAN INFORMATION**Schedules of Contributions from Employers and Other Contributing Entities (cont'd)**

Schedules of Contributions from Employers and Other Contributing Entities						
For the Fiscal Years Ended June 30, 2009 through 2004 (dollars in millions)						
	2009	2008	2007	2006	2005	2004
PUBLIC EMPLOYEES' RETIREMENT PLAN SYSTEM - PLAN 1						
Employers' annual required contribution	\$ 620.2	\$ 453.1	\$ 397.3	\$ 438.5	\$ 340.3	\$ 295.1
Employers' actual contribution	325.2	221.8	118.7	29.6	22.4	22.8
Percentage contributed	52%	49%	30%	7%	7%	8%
PUBLIC EMPLOYEES' RETIREMENT PLAN SYSTEM - PLAN 2/3						
Employers' annual required contribution	\$ 369.7	\$ 363.3	\$ 331.3	\$ 307.6	\$ 227.7	\$ 192.6
Employers' actual contribution	439.7	318.7	242.5	149.6	74.7	69.4
Percentage contributed	119%	88%	73%	49%	33%	36%
TEACHERS' RETIREMENT SYSTEM - PLAN 1						
Employers' annual required contribution	\$ 391.0	\$ 294.7	\$ 249.8	\$ 287.5	\$ 224.3	\$ 185.7
Employers' actual contribution	178.9	113.1	60.5	15.1	8.8	11.4
Percentage contributed	46%	38%	24%	5%	4%	6%
TEACHERS' RETIREMENT SYSTEM - PLAN 2/3						
Employers' annual required contribution	\$ 186.9	\$ 208.9	\$ 167.7	\$ 166.4	\$ 117.4	\$ 96.2
Employers' actual contribution	160.8	109.5	102.2	75.4	33.8	29.9
Percentage contributed	86%	52%	61%	45%	29%	31%
SCHOOL EMPLOYEES' RETIREMENT SYSTEM - PLAN 2/3						
Employers' annual required contribution	\$ 71.5	\$ 75.8	\$ 71.5	\$ 81.4	\$ 64.0	\$ 52.3
Employers' actual contribution	63.5	52.1	45.9	30.4	10.2	9.1
Percentage contributed	89%	69%	64%	37%	16%	17%
<p>The Annual Required Contribution (ARC) changes each year with the experience of the plans. Factors influencing the experience include changes in funding methods, assumptions, plan provisions, and economic and demographic gains and losses. The methods used to derive the ARC for this accounting disclosure are different from that used to derive the actual contributions required by law. These differences include the use of different actuarial valuations (actual contributions may be based on an earlier valuation), and different actuarial cost methods. For these reasons the actual contributions will not match the Annual Required Contributions.</p>						
<p>Source: Washington State Office of the State Actuary</p>						

PENSION PLAN INFORMATION

Schedules of Contributions from Employers and Other Contributing Entities (cont'd)

Schedules of Contributions from Employers and Other Contributing Entities						
For the Fiscal Years Ended June 30, 2009 through 2004 (dollars in millions)						
	2009	2008	2007	2006	2005	2004
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	100%	N/A	N/A	N/A
State annual required contribution	-	-	-	-	-	-
State actual contribution	-	-	-	-	-	-
Percentage contributed	N/A	N/A	N/A	N/A	N/A	N/A
LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS' RETIREMENT SYSTEM - PLAN 2						
Employers' annual required contribution*	\$ 105.3	\$ 61.3	\$ 56.9	\$ 60.8	\$ 48.5	\$ 41.5
Employers' actual contribution	77.8	73.4	58.2	48.5	32.8	30.8
Percentage contributed	74%	120%	102%	80%	68%	74%
State annual required contribution*	42.1	40.8	38.0	40.5	32.3	27.7
State actual contribution	51.1	45.9	37.9	31.7	21.3	20.2
Percentage contributed	N/A	N/A	100%	78%	66%	73%
WASHINGTON STATE PATROL RETIREMENT SYSTEM						
Employers' annual required contribution	\$ 5.0	\$ 6.8	\$ 5.3	\$ 6.1	\$ 3.4	\$ 2.6
Employers' actual contribution	6.4	6.1	3.3	3.1	-	-
Percentage contributed	128%	90%	62%	51%	0%	0%
N/A indicates data not available.						
*The Annual Required Contribution (ARC) for the LEOFF Plan 2 presented is the Office of the State Actuary's recommended figure; the LEOFF Plan 2 board has proposed a higher ARC of \$113.5 Million.						
The Annual Required Contribution (ARC) changes each year with the experience of the plans. Factors influencing the experience include changes in funding methods, assumptions, plan provisions, and economic and demographic gains and losses. The methods used to derive the ARC for this accounting disclosure are different from that used to derive the actual contributions required by law. These differences include the use of different actuarial valuations (actual contributions may be based on an earlier valuation), and different actuarial cost methods. For these reasons the actual contributions will not match the Annual Required Contributions.						
Source: Washington State Office of the State Actuary						

PENSION PLAN INFORMATION

Schedules of Contributions from Employers and Other Contributing Entities (concl'd)

Schedules of Contributions from Employers and Other Contributing Entities For the Fiscal Years Ended June 30, 2009 through 2004 (dollars in millions)						
	2009	2008	2007	2006	2005	2004
PUBLIC SAFETY EMPLOYEES' RETIREMENT PLAN SYSTEM - PLAN 2						
Employers' annual required contribution	\$ 14.3	\$ 12.4	\$ 7.1	\$ -	\$ -	\$ -
Employers' actual contribution	14.5	11.7	6.6	-	-	-
Percentage contributed	101%	94%	93%	N/A	N/A	N/A
JUDICIAL RETIREMENT SYSTEM						
Employers' annual required contribution	\$ 21.2	\$ 26.6	\$ 37.3	\$ 27.7	\$ 21.7	\$ 18.5
Employers' actual contribution	10.2	9.6	9.6	6.7	6.2	6.2
Percentage contributed	48%	36%	26%	24%	29%	34%
JUDGES' RETIREMENT FUND						
Employers' annual required contribution	\$ -	\$ -	\$ -	\$ 0.1	\$ 0.1	\$ 0.2
Employers' actual contribution	-	-	0.3	0.3	0.5	0.5
Percentage contributed	N/A	N/A	N/A	300%	500%	250%
VOLUNTEER FIRE FIGHTERS' AND RESERVE OFFICERS' RELIEF AND PENSION FUND						
Employers' annual required contribution	\$ 1.1	\$ 1.0	\$ 1.0	\$ 1.0	\$ 0.7	\$ 0.8
Employers' actual contribution	1.0	1.0	1.0	1.0	0.7	0.8
Percentage contributed	91%	100%	100%	100%	100%	100%
State annual required contribution	1.4	0.9	2.0	3.6	1.8	1.5
State actual contribution	5.2	5.0	6.0	4.6	4.4	4.4
Percentage contributed	371%	556%	300%	128%	244%	293%
N/A indicates data not available.						
The Annual Required Contribution (ARC) changes each year with the experience of the plans. Factors influencing the experience include changes in funding methods, assumptions, plan provisions, and economic and demographic gains and losses. The methods used to derive the ARC for this accounting disclosure are different from that used to derive the actual contributions required by law. These differences include the use of different actuarial valuations (actual contributions may be based on an earlier valuation), and different actuarial cost methods. For these reasons the actual contributions will not match the Annual Required Contributions.						
Source: Washington State Office of the State Actuary						

OTHER POSTEMPLOYMENT BENEFITS INFORMATION
Schedule of Funding Progress

Schedule of Funding Progress Other Postemployment Benefits Valuation Years 2008 through 2006 <i>(dollars in millions)</i>			
	2008	2007	2006
Actuarial valuation date	1/1/2008	1/1/2007	N/A
Actuarial value of plan assets	\$ -	\$ -	N/A
Actuarial accrued liability (AAL)*	4,014	3,800	N/A
Unfunded actuarial accrued liability (UAAL)	4,014	3,800	N/A
Funded ratio	0%	0%	N/A
Covered payroll	5,170	5,427	N/A
UAAL as a percentage of covered payroll	77.64%	70.01%	N/A
* Based on projected unit credit actuarial cost method.			
N/A indicates data not available.			
<i>Source: Washington State Office of the State Actuary</i>			

**INFORMATION ABOUT
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 as well as state managed airports follows.

Pavement Condition

The Washington State Department of Transportation (WSDOT) owns and maintains 20,392 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 1,907 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

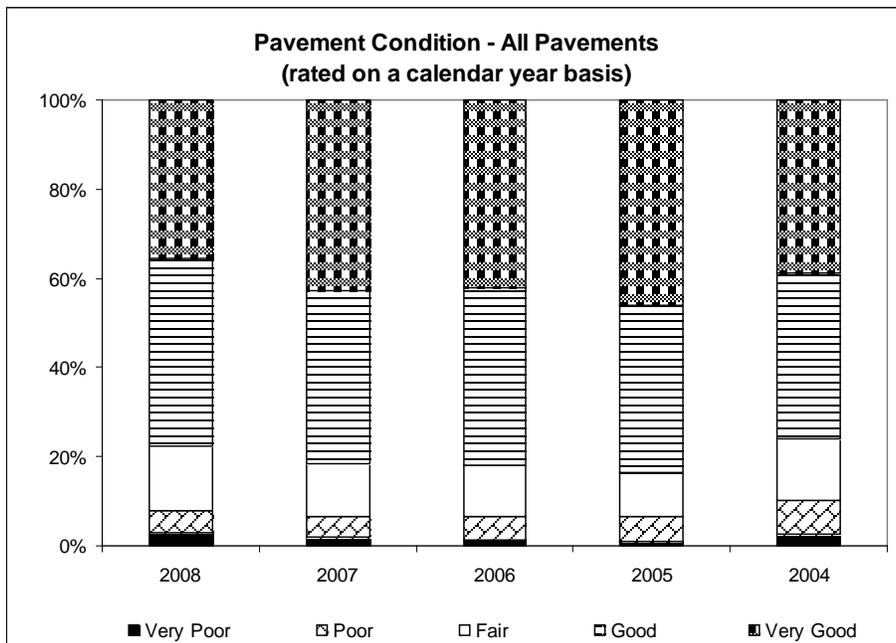
has been determined to occur at a PSC range between 40 and 60, or when triggers for roughness or rutting are met.

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 the 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 found that state highways were within the prescribed parameters with only 8 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 millimeters: a pavement with more than 12 millimeters 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	< 4
Good	80 – 60	95 – 170	4 – 8
Fair	60 – 40	170 – 220	8 – 12
Poor	40 – 20	220 – 320	12 – 16
Very Poor	0 – 20	> 320	> 16

Since 1999, WSDOT has used an 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. This change has also resulted in a more detailed classification and recording of various distresses that are rated.

In 2008, WSDOT rated pavement condition on 17,488 of the 20,392 lane miles of highway. The following chart shows recent pavement condition ratings for the State Highway System, using the combination of the three indices described on the preceding page.

Percentage of Pavement Lane Miles in Fair or Better Condition*					
	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Statewide - Chip seals	95%	91%	91%	91%	86%
Statewide - Asphalt	92%	94%	94%	95%	92%
Statewide - Concrete	87%	93%	93%	91%	85%
Statewide - All Pavements	92%	93%	94%	93%	90%

Percentage of Pavement Lane Miles in Poor or Very Poor Condition*					
	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Statewide - Chip seals	5%	9%	9%	9%	14%
Statewide - Asphalt	8%	6%	6%	5%	8%
Statewide - Concrete	13%	7%	7%	9%	15%
Statewide - All Pavements	8%	7%	6%	7%	10%

*Assessments are typically physically conducted in the summer and fall of each year, and processed during the winter and spring, with final results released in July. Years indicated are when the physical assessment was conducted.

Note: The All Pavements percentages are calculated from total lane miles inspected and not a statistical average of the three pavement type percentages. IRI or rutting is not used for sections identified as under construction in rating distress.

More information about pavement management at WSDOT may be obtained at:
<http://www.wsdot.wa.gov/biz/mats/pavement/>.

Bridge Condition

During Fiscal Year 2009 there were 3,161 state-owned vehicular structures over 20 feet in length with a total area of 45,995,993 square feet. In addition to bridges, the 3,161 structures include 90 culverts and 56 ferry terminal structures. (While ferry terminals are included in a depreciable asset category, they are included here with bridge condition information since they are evaluated by the WSDOT Bridge Office on a periodic basis.)

There was a net increase of 21 bridge structures added in Fiscal Year 2009 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.

The fiscal year increase of two ferry terminal structures reflects a change in inventory detail which separated structures that were previously reported as one structure.

Information related to public bridges is maintained in the Washington State Bridge Inventory System (WSBIS). This system is used to develop preservation strategies and comprehensive recommendations for maintenance and construction, and for reporting to the FHWA.

WSDOT’s policy is to maintain 95 percent of its bridges at a structural condition of at least fair, meaning that all primary structural elements are sound.

Three categories of condition were established in relation to the FHWA criteria as follows:

Category	National Bridge Inventory Code	Description
Good	6, 7, or 8	A range from no problems noted to some minor deterioration of structural elements.
Fair	5	All primary structural elements are sound but may have deficiencies such as minor section loss, deterioration, cracking, spalling or scour.
Poor	4 or less	Advanced deficiencies such as section loss, deterioration, cracking, spalling, scour or seriously affected primary structural components.

Note: Bridges rated in poor condition may be restricted for the weight and type of traffic allowed.

The most recent assessments over the last two years found that state-owned bridges were within the prescribed parameters with 97.5 percent having a condition rating of fair or better and only 2.5 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 879 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 370 bridges. Of those, 230 are completely retrofitted, 140 are partially retrofitted. There are 30 bridges currently under contract to be retrofitted.

The following condition rating data is based on the structural sufficiency standards established in the FHWA “Recording and Coding Guide for the Structural Inventory and Appraisal of the Nation’s Bridges.”

This structural rating relates to the evaluation of bridge superstructure, deck, substructure, structural adequacy and waterway adequacy.

The following charts show the most recent condition rating of Washington State bridges:

Percentage of Bridges in Fair or Better Condition					
<u>Bridge Type</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Reinforced concrete (1,286 bridges in FY 2009)	98.0%	98.0%	98.3%	98.6%	98.6%
Prestressed concrete (1,352 bridges in FY 2009)	99.0%	98.9%	99.3%	99.3%	99.5%
Steel (363 bridges* in FY 2009)	95.0%	93.9%	94.7%	94.1%	94.3%
Timber (82 bridges in FY 2009)	80.4%	71.7%	66.3%	68.1%	69.2%
Statewide - All bridges (3,083 out of 3,161 bridges in FY 2009)	97.5%	97.0%	97.4%	97.5%	97.6%

Percentage of Bridges in Poor Condition					
<u>Bridge Type</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Reinforced concrete (26 bridges in FY 2009)	2.0%	2.0%	1.7%	1.4%	1.4%
Prestressed concrete (14 bridges in FY 2009)	1.0%	1.1%	0.7%	0.7%	0.5%
Steel (19 bridges* in FY 2009)	5.0%	6.1%	5.3%	5.9%	5.7%
Timber (19 bridges in FY 2009)	19.6%	28.3%	33.7%	31.9%	30.8%
Statewide - All bridges (78 out of 3,161 bridges in FY 2009)	2.5%	3.0%	2.6%	2.5%	2.4%

*The steel bridge ratings for Fiscal Year 2009 include 53 ferry terminal structures rated as fair or better and three ferry terminal structures rated as poor.

Note: Bridges rated as poor may have structural deficiencies that restricted the weight and type of traffic allowed. WSDOT currently has 11 posted bridges and 140 restricted bridges. Posted bridges have signs posted which inform of legal weight limits. Restricted bridges are those where overweight permits will not be issued for travel by overweight vehicles. This is a decrease of three posted bridges in 2009 as compared to 2008. The number of restricted bridges decreased by 12.

Refer to <http://www.wsdot.wa.gov/commercialVehicle/Restrictions/> for more information on overweight restrictions. Any bridges determined to be unsafe are closed to traffic.

Additional information regarding the WSDOT's bridge inspection program may be obtained at: <http://www.wsdot.wa.gov/eesc/bridge/index.cfm>.

Safety Rest Area Condition

The WSDOT owns, operates, and maintains 47 developed safety rest area (SRA) facilities, an increase of one SRA which was added in 2009. Within these facilities, the Department manages the following assets: 94 buildings, 692 acres, 29 on-site public drinking water systems, 36 on-site sewage pre-treatment/treatment systems, and 20 recreational vehicle sanitary disposal facilities.

WSDOT performs SRA building and site condition assessments in odd-numbered calendar years, to determine the facility deficiencies. This biennial process, which began in 2003, helps prioritize renovation and replacement projects. Sites and buildings are divided into functional components that are assessed with a numerical rating of 1 to 5 based on guideline criteria (1 meets current standards, 5 is poor).

In addition, a weighting multiplier is applied based on the criticality of the individual component. For instance, a safety deficiency adds a weighting multiplier of ten while a department image deficiency has a weighting multiplier of two. The combined total building and site ratings are used to determine each facility’s overall condition, and fall into one of five categories.

WSDOT SRA condition assessment rating parameters are not based on other state or national guidelines for safety rest areas. The model used is based on the capital facility program software already in use, with minor modifications to the rating parameters to better match the unique needs of SRA facilities. The SRA program goal is to have no more than 5 percent of the facilities rated poor.

The following charts show the most recent condition rating of Washington State safety rest areas:

Category	2007*	2005	2003
Percentage of facilities in fair or good condition	95.2%	95.2%	95.3%
Percentage of facilities in poor condition	4.8%	4.8%	4.7%

*2007 percentages are based on 42 inspected SRA sites.

Category	Description	Number of Safety Rest Areas in Category		
		2007	2005	2003
Good Condition	Facility is new construction and/or meets current standards.	8	11	11
Fair-High Condition	Facility meets current standards and/or is in adequate condition with minimal component deficiencies.	6	2	4
Fair-Mid Condition	Facility is functional, and in adequate condition with minor component deficiencies.	6	9	20
Fair-Low Condition	Facility has multiple system deficiencies.	20	18	6
Poor	Facility is at or beyond its service life, with multiple major deficiencies.	2	2	2
No Condition Assessment Data	Facilities were constructed or added to inventory after 2007 (Iron Goat, Dusty, Price Creek, Travelers Rest, Dodge Jct.)	5	0	0
Total		47	42	43*

*Spokane River SRA was closed in 2004.

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 WSDOT owns. The airports are used primarily for access to small communities and emergency purposes such as fire fighting, search and rescue, and medical evacuation (one airport is used only for helicopter and search and rescue operations). The airports are also used for recreational flying activities. Most are located near or adjacent to state highways and their runways range in character from paved, to gravel or turf.

Three airports are in operational condition 12 months of the year, and the remaining 14 are operational from June to October each year. Opening and closing dates may vary depending on weather conditions. In accordance with WSDOT policy, maintenance is performed on each airport annually and inspections occur a minimum of three times per year. The use of state airports by all persons is solely at the risk of the user. Since these airports are maintained principally for emergency use, the state does not warrant the conditions at any state airport to be suitable for any other use.

The definitions below represent the classification category for state managed airports within the Washington Aviation System Plan (WASP):

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.
Limited rural essential helicopter only	An airport with a landing pad only capable of accommodating rotorcraft.

The following chart shows the most recent condition rating of Washington State managed airports:

Washington Aviation System Plan (1)					
<u>Airport Classification</u>	<u>WSDOT Aviation Owned</u>	<u>WSDOT Aviation Managed</u>			
Local Airports (2)	2	-			
Rural Essential Airports (3)	-	-			
Paved runway	-	1			
Turf runway	5	3			
Gravel runway	-	4			
Sand	-	1			
Helicopter only	1	-			
Total Airports	8	9			
			<u>2009</u>	<u>2008</u>	<u>2007</u>
Percentage of airports acceptable for general recreational use or better			94%	88%	88%
Percentage of airports not acceptable for general recreational use or better			6%	12%	12%

- (1) Eight airports are owned by WSDOT and nine are managed by WSDOT under various use/operating agreements.
- (2) Local airports are acceptable for general use and serve small to medium sized communities.
- (3) Rural essential airports are acceptable for general recreation use and typically serve recreation communities and remote back country locations.

For more information about the airports which are acceptable for general recreational use or better, refer to WSDOT's website at: <http://www.wsdot.wa.gov/aviation/Airports/>.

INFORMATION ABOUT INFRASTRUCTURE ASSETS REPORTED USING THE MODIFIED APPROACH

Comparison of Planned-to-Actual Preservation and Maintenance

For the Fiscal Years Ended June 30, 2009 through 2005
(expressed in thousands)

	2009			2008		
	Planned	Actual	Variance	Planned	Actual	Variance
PAVEMENT						
Preservation	\$ 125,246	\$ 109,279	\$ 15,967	\$ 118,886	\$ 130,375	\$ (11,489)
Maintenance	19,651	19,170	481	18,329	16,994	1,335
Total	\$ 144,897	\$ 128,449	\$ 16,448	\$ 137,215	\$ 147,369	\$ (10,154)
BRIDGES						
Preservation	\$ 63,436	\$ 16,586	\$ 46,850	\$ 11,260	\$ 23,407	\$ (12,147)
Maintenance	13,365	13,406	(41)	12,427	12,601	(174)
Total	\$ 76,801	\$ 29,992	\$ 46,809	\$ 23,687	\$ 36,008	\$ (12,321)
REST AREAS						
Preservation	\$ 199	\$ 193	\$ 6	\$ 77	\$ 77	\$ -
Maintenance	5,808	5,631	177	5,590	5,778	(188)
Total	\$ 6,007	\$ 5,824	\$ 183	\$ 5,667	\$ 5,855	\$ (188)
AIRPORTS						
Preservation & maintenance	\$ 146	\$ 168	\$ (22)	\$ 146	\$ 134	\$ 12

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, vegetation control, etc.

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/>.

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 agency's legal authorization but indicates that more expenditure activity occurred than was initially planned. Actual expenditures may vary from the budgeted or planned amounts for a variety of reasons which include, but are not limited to, management's decision to accelerate or defer preservation or maintenance activity or reduce planned activity in response to economic forecasts.

State of Washington

2007			2006			2005		
Planned	Actual	Variance	Planned	Actual	Variance	Planned	Actual	Variance
\$ 111,195	\$ 99,416	\$ 11,779	\$ 108,409	\$ 130,340	\$ (21,931)	\$ 118,055	\$ 122,868	\$ (4,813)
19,152	16,255	2,897	19,219	18,586	633	20,657	18,715	1,942
<u>\$ 130,347</u>	<u>\$ 115,671</u>	<u>\$ 14,676</u>	<u>\$ 127,628</u>	<u>\$ 148,926</u>	<u>\$ (21,298)</u>	<u>\$ 138,712</u>	<u>\$ 141,583</u>	<u>\$ (2,871)</u>
\$ 21,055	\$ 20,138	\$ 917	\$ 8,434	\$ 20,338	\$ (11,904)	\$ 16,768	\$ 14,332	\$ 2,436
11,553	11,051	502	11,552	11,820	(268)	11,159	11,151	8
<u>\$ 32,608</u>	<u>\$ 31,189</u>	<u>\$,1419</u>	<u>\$ 19,986</u>	<u>\$ 32,158</u>	<u>\$ (12,172)</u>	<u>\$ 27,927</u>	<u>\$ 25,483</u>	<u>\$ 2,444</u>
\$ 188	\$ 173	\$ 15	\$ 188	\$ 129	\$ 59	\$ 381	\$ 333	\$ 48
5,056	5,359	(303)	5,021	5,187	(166)	4,268	5,527	(1,259)
<u>\$ 5,244</u>	<u>\$ 5,532</u>	<u>\$ (288)</u>	<u>\$ 5,209</u>	<u>\$ 5,316</u>	<u>\$ (107)</u>	<u>\$ 4,649</u>	<u>\$ 5,860</u>	<u>\$ (1,211)</u>
<u>\$ 83</u>	<u>\$ 200</u>	<u>\$ (117)</u>	<u>\$ 83</u>	<u>\$ 67</u>	<u>\$ 16</u>	<u>\$ 108</u>	<u>\$ 129</u>	<u>\$ (21)</u>

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APPENDIX E
BOOK-ENTRY TRANSFER SYSTEM

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BOOK-ENTRY TRANSFER SYSTEM

The following information has been provided by DTC. The state makes no representation 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).

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully 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 of the Bonds in the principal amount of such maturity and will be deposited with DTC.

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 Standard & Poor's highest rating: AAA. 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 and www.dtc.org.

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.

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.

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.

Redemption notices will be sent to DTC. If less than all of the Bonds 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.

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).

Redemption proceeds, distribution and dividend 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 (nor its nominee), the Bond Registrar or the state, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions and dividend payments to Cede & Co. (or any other nominee as may be requested by an authorized representative of DTC) is 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.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Bond Registrar or the state. Under such circumstances, in the event that a successor securities depository is not obtained, new certificates are required to be printed and delivered.

To the extent permitted by law, the state may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

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.