OFFICIAL STATEMENT DATED SEPTEMBER 12, 2007

NEW ISSUE, BOOK-ENTRY ONLY

STATE OF WASHINGTON

Ratings:
Fitch: AA
Moody's: Aa1
Standard & Poor's: AA
Insured Bonds* Ratings:
Fitch: AAA
Moody's: Aaa
Standard & Poor's: AAA

$512,905,000
Various Purpose General Obligation Bonds, Series 2008A

$387,000,000
Motor Vehicle Fuel Tax General Obligation Bonds, Series 2008B

$70,000,000
General Obligation Bonds, Series 2008T (Taxable)

Dated: Date of Initial Delivery (Expected September 26, 2007) **Due: July 1, as shown herein**

The Series 2008A Bonds, the Series 2008B Bonds and the Series 2008T Bonds (collectively, the "Bonds") are general obligations of the State of Washington (the "state") to which the state has pledged its full faith, credit and taxing power. The Series 2008B Bonds are first payable from state excise taxes on motor vehicle and special fuels.

Interest on the Bonds is payable semiannually on each January 1 and July 1, beginning January 1, 2008. The principal of the Series 2008A Bonds is payable on its respective stated maturities on each July 1, beginning July 1, 2013, through and including July 1, 2032, as set forth on page i hereof. The principal of the Series 2008B Bonds is payable on its respective stated maturities on each July 1, beginning July 1, 2008, through and including July 1, 2032, as set forth on page ii hereof. The principal of the Series 2008T Bonds is payable on its respective stated maturities on each July 1, beginning July 1, 2008, through and including July 1, 2013, as set forth on page iii hereof. The Series 2008A Bonds and the Series 2008B Bonds may be subject to redemption prior to maturity at the times and prices set forth herein under "The Bonds—Redemption Provisions." The Series 2008T Bonds are not subject to redemption prior to maturity.

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), 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."

Payment of the principal of and interest on the Insured Bonds* when due will be insured by municipal bond insurance policies to be issued by Ambac Assurance Corporation, Financial Security Assurance Inc., and MBIA Insurance Corporation simultaneously with the delivery of the Insured Bonds.

Ambac FSA mbia

In the opinion of Bond Counsel to the state, under existing federal law and assuming compliance with applicable requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issue date of the Series 2008A Bonds and the Series 2008B Bonds (the "Tax-Exempt Bonds"), interest on the Tax-Exempt Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals. However, while interest on the Tax-Exempt Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the Tax-Exempt Bonds received by corporations is taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the Tax-Exempt Bonds received by certain S corporations may be subject to tax, and interest on the Tax-Exempt Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. Receipt of interest on the Tax-Exempt Bonds may have other federal tax consequences for certain taxpayers. Interest on the Series 2008T Bonds is not excluded from gross income for federal income tax purposes. See "Tax Exemption of the Series 2008A Bonds and the Series 2008B Bonds" and "Certain Other Federal Tax Consequences" under "Tax and Legal Information" herein.

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 September 26, 2007.

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* See "Bond Insurance—The Insured Bonds" for a description of the Insured Bonds.

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, 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.

Ambac Assurance makes no representation regarding the Ambac-Insured 2008B Bonds (see "Bond Insurance—The Insured Bonds") or the advisability of investing in the Ambac-Insured 2008B Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under the heading "Bond Insurance—Ambac Assurance Corporation" and in Appendix F—Ambac Bond Insurance Policy Specimen."

Other than with respect to information concerning Financial Security Assurance Inc. ("Financial Security") contained under the heading "Bond Insurance—Financial Security Assurance Inc." and Appendix G—FSA Bond Insurance Policy Specimen" herein, none of the information in this Official Statement has been supplied or verified by Financial Security and Financial Security makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the FSA-Insured Series 2008B Bonds (see "Bond Insurance—The Insured Bonds"); or (iii) the tax exempt status of the interest on the FSA-Insured Series 2008B Bonds.

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Policy and MBIA set forth under the heading "Bond Insurance—MBIA" and Appendix H—MBIA Bond Insurance Policy Specimen." Additionally, MBIA makes no representation regarding the MBIA-Insured 2008B Bonds, as defined under "Bond Insurance—The Insured Bonds," or the advisability of investing in the MBIA-Insured 2008B Bonds.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER(S) MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT LEVELS ABOVE 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" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. 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 if or when its expectations or events, conditions or circumstances on which such statements are based occur.

MATURITY SCHEDULE

STATE OF WASHINGTON

$512,905,000
Various Purpose General Obligation Bonds, Series 2008A[1]

Due July 1	Principal Amounts	Interest Rates	Yields	Prices	CUSIP
2013	$ 11,080,000	5.000%	3.600%	107.223%	93974BM82
2014	16,225,000	5.000	3.620	108.208	93974BM90
2015	17,045,000	5.000	3.660	108.979	93974BN24
2016	17,925,000	5.000	3.720	109.492	93974BN32
2017	18,850,000	5.000	3.790	109.792	93974BN40
2018	19,820,000[2]	5.000	3.880	109.024	93974BN57
2019	20,830,000[2]	5.000	3.960	108.348	93974BN65
2020	21,905,000[2]	5.000	4.020	107.843	93974BN73
2021	23,035,000[2]	5.000	4.070	107.425	93974BN81
2022	24,205,000[2]	5.000	4.120	107.009	93974BN99
2023	25,450,000[2]	5.000	4.170	106.595	93974BP22
2024	26,745,000[2]	5.000	4.210	106.265	93974BP30
2025	28,125,000[2]	5.000	4.250	105.936	93974BP48
2026	29,565,000[2]	5.000	4.300	105.526	93974BP55
2027	31,085,000[2]	5.000	4.330	105.282	93974BP63
2028	32,675,000[2]	5.000	4.340	105.200	93974BP71
2029	34,350,000[2]	5.000	4.370	104.957	93974BP89
2030	36,110,000[2]	5.000	4.420	104.552	93974BP97
2031	37,965,000[2]	5.000	4.440	104.391	93974BQ21
2032	39,915,000[2]	5.000	4.450	104.310	93974BQ39
Total	$ 512,905,000				

(1) Authorized by Chapter 3, Laws of 2003, 1st. Sp. Sess.; Chapter 18, Laws of 2003, 1st Sp. Sess.; Chapter 487, Laws of 2005; Chapter 167, Laws of 2006; Chapter 521, Laws of 2007; Chapter 39.42 RCW; and Resolution No. 1055.

(2) Priced to the July 1, 2017, par call date.

MATURITY SCHEDULE

STATE OF WASHINGTON

$387,000,000
Motor Vehicle Fuel Tax General Obligation Bonds, Series 2008B[1]

SERIAL BONDS

Due July 1	Principal Amounts	Interest Rates	Yields	Prices	CUSIP
2008	$ 7,720,000	4.000%	3.569%	100.317%	93974BJ29
2009	8,115,000	4.000	3.500	100.843	93974BJ37
2010	8,530,000	5.000	3.500	103.913	93974BJ45
2011	11,720,000	5.000	3.530	105.133	93974BJ52
2012	9,430,000	5.000	3.550	106.298	93974BJ60
2013	10,135,000	5.000	3.570	107.384	93974BJ78
2014	10,420,000	5.000	3.600	108.333	93974BJ86
2015	11,385,000	5.000	3.650	109.050	93974BJ94
2016[3]	12,225,000	5.000	3.690	109.727	93974BK27
2017[3]	12,105,000	5.000	3.760	110.049	93974BK35
2018[4]	13,245,000[2]	5.000	3.840	109.365	93974BK43
2019[4]	13,920,000[2]	5.000	3.920	108.685	93974BK50
2020[4]	14,065,000[2]	5.000	3.980	108.179	93974BK68
2021[4]	14,790,000[2]	5.000	4.030	107.759	93974BK76
2022[4]	16,195,000[2]	5.000	4.080	107.342	93974BK84
2023[4]	17,075,000[2]	5.000	4.130	106.926	93974BK92
2024[3]	17,960,000[2]	5.000	4.170	106.595	93974BL26
2025[3]	18,860,000[2]	5.000	4.210	106.265	93974BL34
2026	19,975,000[2]	5.000	4.300	105.526	93974BL42
2027	20,880,000[2]	5.000	4.330	105.282	93974BL59
2028	21,970,000[2]	5.000	4.360	105.038	93974BL67
2029[5]	23,065,000[2]	5.000	4.330	105.282	93974BL75
2030[5]	23,195,000[2]	5.000	4.360	105.038	93974BL83
Subtotal	$ 336,980,000				

SERIES 2008B TERM BOND

Due July 1	Principal Amounts	Interest Rates	Yields	Prices	CUSIP
2032[5]	$ 50,020,000	5.000%	4.400%	104.714%	93974BL91
TOTAL	$ 387,000,000				

(1) Authorized by Chapter 431, Laws of 1993 (RCW 47.10.812); Chapter 321, Laws of 1998 (Referendum 49) (RCW 47.10.843); Chapter 147, Laws of 2003 (RCW 47.10.861); Chapter 315, Laws of 2005 (RCW 47.10.873);Chapter 39.42 RCW; and Resolution No. 1056.

(2) Priced to the July 1, 2017, par call date.

(3) Insured by Financial Security Assurance Inc. See "Bond Insurance."

(4) Insured by Ambac Assurance. See "Bond Insurance."

(5) Insured by MBIA. See "Bond Insurance."

MATURITY SCHEDULE

STATE OF WASHINGTON

$70,000,000
General Obligation Bonds, Series 2008T (Taxable)*

Due July 1	Principal Amounts	Interest Rates	Yields	Prices	CUSIP
2008	$ 11,720,000	5.000%	5.050%	99.955%	93974BM25
2009	12,385,000	5.000	4.650	100.579	93974BM33
2010	13,090,000	5.000	4.680	100.813	93974BM41
2011	13,835,000	5.000	4.740	100.879	93974BM58
2012	14,620,000	5.000	4.810	100.792	93974BM66
2013	4,350,000	5.000	4.830	100.839	93974BM74
Total	$ 70,000,000				

* Authorized by Chapter 487, Laws of 2005; Chapter 521, Laws of 2007; Chapter 39.42 RCW; and Resolution No. 1057.

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The information set forth in this summary is qualified by the entire Official Statement. A full review of the entire Official Statement should be made by potential investors.

SUMMARY DESCRIPTION OF THE BONDS

Issuer:	State of Washington (the "state").
Offering:	The Various Purpose General Obligation Bonds, Series 2008A (the "Series 2008A Bonds"), the Motor Vehicle Fuel Tax General Obligation Bonds, Series 2008B (the "Series 2008B Bonds"), and the General Obligation Bonds, Series 2008T (Taxable) (the "Series 2008T Bonds" and together with the Series 2008A Bonds and the Series 2008B Bonds, the "Bonds"), are dated the date of their initial delivery.
Interest Payments:	Interest on the Bonds is payable semiannually on each January 1 and July 1, beginning January 1, 2008.
Principal Payments or Mandatory Redemption:	The principal of the Series 2008A Bonds is payable at maturity on each July 1, beginning July 1, 2013, through and including July 1, 2032. The principal of the Series 2008B Bonds is payable at maturity on each July 1, beginning July 1, 2008, through and including July 1, 2032. The Series 2008B Term Bonds are subject to mandatory redemption beginning July 1, 2031. The principal of the Series 2008T Bonds is payable at maturity on each July 1, beginning July 1, 2008, through and including July 1, 2013.
Optional Redemption:	The state may redeem any of the Series 2008A Bonds and the Series 2008B Bonds maturing on or after July 1, 2018, as a whole or in part on any date on or after July 1, 2017 (with the maturities to be redeemed to be selected by the state and randomly within a maturity in such manner as the Bond Registrar shall determine), at par plus accrued interest to the date fixed for redemption. The Series 2008T Bonds are not subject to optional redemption.
Form of Bonds:	The Bonds will be issued in fully registered, book-entry only form, in the denomination of $5,000 each, or any integral multiple thereof within a single maturity.
Bond Registrar:	The fiscal agency of the state (currently, The Bank of New York) will act as paying agent, authenticating agent, transfer agent, and registrar for the Bonds. Payments of principal of and interest on the Bonds will be paid by the state to the Bond Registrar, which in turn will remit such payments to DTC. DTC will remit payments to beneficial owners in accordance with the operational arrangements then in effect at DTC.
Security:	The Bonds are general obligations of the state, and the full faith, credit and taxing power of the state are pledged irrevocably to the payment of the Bonds. The Series 2008B Bonds are first payable from state excise taxes on motor vehicle and special fuels.
Purpose:	The Series 2008A Bonds are being issued to provide funds to pay and reimburse the state for various capital project expenditures, state buildings and facilities for institutions of higher education expenditures, and state programs for Hood Canal aquatic rehabilitation, Columbia River Basin water supply

development, farmland preservation and riparian protection, and to pay for the costs of issuance of the Series 2008A Bonds.

The Series 2008B Bonds are being issued to provide funds to pay and reimburse state expenditures for construction and improvement of state and local transportation projects in urban areas, construction of state and local highway improvements, construction of selected transportation 2003 projects or improvements, and construction of 2005 transportation partnership projects or improvements, and to pay the costs of issuance of the Series 2008B Bonds.

The Series 2008T Bonds are being issued to provide funds to pay the state for certain taxable projects and purposes, and to pay the costs of issuance of the Series 2008T Bonds.

Legal Opinion: The Bonds are offered when, as and if issued, subject to approval of tax exemption (except with respect to the Series 2008T Bonds) and legality by Foster Pepper PLLC, Seattle, Washington, Bond Counsel to the state, and certain other conditions.

Bond Ratings: The Bonds have been rated by Moody's Investors Service, Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., and Fitch.

Continuing Disclosure: The state has entered into an undertaking for the benefit of the owners of the Bonds to provide certain financial information and operating data to certain information repositories annually and to provide notice to each of those repositories or to the Municipal Securities Rulemaking Board and to a state information depository for the state, if one is created, of certain events pursuant to the requirements of Section (b)(5)(i) of Securities and Exchange Commission Rule 15c2-12 (the "Rule"). See "Continuing Disclosure Undertaking" in the Official Statement.

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STATE FINANCE COMMITTEE
OF THE
STATE OF WASHINGTON

MICHAEL J. MURPHY.....State Treasurer and Chairman

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

BRAD OWEN ..... Lieutenant Governor and Member

Richard A. Patrick .....Deputy State Treasurer

BOND COUNSEL TO THE STATE

Foster Pepper PLLC
Seattle, Washington

FINANCIAL ADVISORS TO THE STATE

Seattle-Northwest Securities Corporation
Seattle, Washington

Montague DeRose and Associates, LLC
Walnut Creek, California

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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 or linked herein, in determining whether to purchase the Bonds. Information appearing on any such website is not incorporated by reference in this statement.

CONTACT INFORMATION

State of Washington	Office of the State Treasurer Legislative Building Second Floor, Room 230 416 Sid Snyder Avenue SW Olympia, Washington 98504-0200 Phone: (360) 902-9000
Bond Registrar and Paying Agent	The Bank of New York 101 Barclay Street, 21st Floor New York, New York 10286 Phone: (800) 438-5473
Bond Counsel	Foster Pepper PLLC 1111 Third Avenue, Suite 3400 Seattle, Washington 98101 Phone: (206) 447-4400
Financial Advisors	Seattle-Northwest Securities Corporation 1420 Fifth Avenue, Suite 4300 Seattle, Washington 98101 Phone: (206) 628-2882 Montague DeRose & Associates, LLC 3093 Citrus Circle, Suite 165 Walnut Creek, California 94598 Phone: (925) 256-9797

OFFICIAL STATEMENT

STATE OF WASHINGTON

$512,905,000
Various Purpose General Obligation Bonds, Series 2008A

$387,000,000
Motor Vehicle Fuel Tax General Obligation Bonds, Series 2008B

$70,000,000
General Obligation Bonds, Series 2008T (Taxable)

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.

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 should be made to said audited financial statements and other financial reports, and their accompanying notes, for more complete information. Copies thereof are available for inspection at the Office of the State Treasurer upon request. Any statements involving estimates, projections or forecasts are to be construed as such, rather than statements of facts or representations that such estimates, projections or forecasts will be realized.

Reference is made to Resolutions Nos. 1055, 1056 and 1057 (the "Bond Resolutions") of the State Finance Committee (the "Committee"), authorizing the issuance of the Bonds, respectively (as defined below), for the definitions of capitalized terms not otherwise defined herein.

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 $512,905,000 principal amount State of Washington Various Purpose General Obligation Bonds, Series 2008A (the "Series 2008A Bonds"), are being issued pursuant to Chapter 3, Laws of 2003, 1st. Sp. Sess.; Chapter 18, Laws of 2003, 1st Sp. Sess.; Chapter 487, Laws of 2005; Chapter 167, Laws of 2006; Chapter 521, Laws of 2007; Chapter 39.42 RCW; and Resolution No. 1055 of the Committee to provide funds to pay and reimburse the state for various capital project expenditures, state buildings and facilities for institutions of higher education expenditures, and state programs for Hood Canal aquatic

rehabilitation, Columbia River Basin water supply development, farmland preservation and riparian protection, and to pay for the costs of issuance of the Series 2008A Bonds.

The $387,000,000 principal amount State of Washington Motor Vehicle Fuel Tax General Obligation Bonds, Series 2008B (the "Series 2008B Bonds"), are being issued pursuant to Chapter 431, Laws of 1993 (RCW 47.10.812); Chapter 321, Laws of 1998 (Referendum 49) (RCW 47.10.843); Chapter 147, Laws of 2003 (RCW 47.10.861); Chapter 315, Laws of 2005 (RCW 47.10.873); Chapter 39.42 RCW; and Resolution No. 1056 of the Committee to provide funds to pay and reimburse state expenditures for construction and improvement of state and local transportation projects in urban areas, construction of state and local highway improvements, construction of selected transportation 2003 projects or improvements, and construction of 2005 transportation partnership projects or improvements, and to pay the costs of issuance of the Series 2008B Bonds.

The $70,000,000 principal amount State of Washington General Obligation Bonds, Series 2008T (the "Series 2008T Bonds"), are being issued pursuant to Chapter 487, Laws of 2005; Chapter 521, Laws of 2007; Chapter 39.42 RCW; and Resolution No. 1057 of the Committee to provide funds to pay the state for certain taxable projects and purposes, and to pay the costs of issuance of the Series 2008T Bonds.

The Series 2008A Bonds, the Series 2008B Bonds and the Series 2008T Bonds are referred to herein collectively as 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 will be calculated on the basis of a 360-day year and twelve 30-day months, and will be payable semiannually on each January 1 and July 1, beginning January 1, 2008, at the rates shown on pages i, ii and iii hereof.

Principal of the Series 2008A Bonds is payable on each July 1, beginning July 1, 2013, through and including July 1, 2032, in the amounts shown on page i hereof. The principal of the Series 2008B Bonds is payable on each July 1, beginning July 1, 2008, through and including July 1, 2032. The principal of the Series 2008T Bonds is payable on each July 1, beginning July 1, 2008, through and including July 1, 2013.

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 to act as the fiscal agent for the State of Washington for a term that began February 1, 2007, and will continue to January 31, 2011. Under the terms of the current fiscal agency contract, The Bank of New York 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 Bonds."

Redemption Provisions

Optional Redemption. The state may redeem any of the Series 2008A Bonds or Series 2008B Bonds maturing on or after July 1, 2018, as a whole or in part on any date on or after July 1, 2017 (with the maturities to be redeemed to be selected by the state and randomly within a maturity in such manner as the Bond Registrar shall determine), at par plus accrued interest to the date fixed for redemption.

The Series 2008T Bonds are not subject to optional redemption.

Mandatory Redemption. The state will redeem the Series 2008B Term Bond randomly in the manner determined by the Bond Registrar at par plus accrued interest on July 1 in the years and amounts set forth below.

YEAR	AMOUNT
2031	$ 24,385,000
2032*	25,635,000
Total	$ 50,020,000

* Maturity

The Series 2008A Bonds and the Series 2008T 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 applicable Series of the Bonds to be redeemed at the address appearing on the bond register maintained by the Bond Registrar; *provided, however*, as long as the applicable Series of 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 applicable Series of the Bonds.

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 Master Assignment of Payments 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:

	2008A	2008B	2008T	Total
Sources				
Par Amount of Bonds	$ 512,905,000	$ 387,000,000	$ 70,000,000	$ 969,905,000
Net Original Issue Premium	32,594,201	24,218,036	446,753	57,258,991
Total Sources	$ 545,499,201	$ 411,218,036	$ 70,446,753	$1,027,163,991
Uses				
Deposit to Project Funds	$ 544,326,458	$ 409,630,747	$ 70,349,624	$1,024,306,829
Costs of Issuance[1]	183,395	138,376	25,029	346,800
Underwriting Spread	989,349	1,448,913 [2]	72,100	2,510,362
Total Uses	$ 545,499,201	$ 411,218,036	$ 70,446,753	$1,027,163,991

(1) Includes fees for services of the rating agencies, financial advisor and bond counsel, and other costs.

(2) Includes bond insurance premium on the Series 2008B Bonds, which is paid by the Series 2008A and B Underwriter.

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.

Pledge of Excise Tax on Motor Vehicle and Special Fuels

General. The principal of and interest on the Series 2008B Bonds are first payable from the proceeds of the state excise taxes on motor vehicle and special fuels imposed by chapters 82.36 and 82.38 RCW and required to be deposited in the motor vehicle fund. In the legislation authorizing the issuance of the Series 2008B Bonds, the State Legislature has agreed to continue to impose those excise taxes on motor vehicle and special fuels in amounts sufficient to pay when due principal of and interest on the Series 2008B Bonds.

There are other general obligation bonds authorized by the State Legislature that are secured by a charge on the state excise taxes on motor vehicle and special fuels equal in rank to the charge on those taxes securing the Series 2008B Bonds. See Appendix C—Bonds Outstanding.

Annual Set-Aside of Excise Taxes. At least one year before each interest or principal and interest date on the Bonds, the Committee will estimate the percentage of excise taxes received on motor vehicle and special fuels which are required to be set aside monthly in the highway bond retirement fund to pay maturing installments of debt service on the Series 2008B Bonds. In any month, if it appears that the available funds are insufficient to meet debt service requirements, the Committee will make the necessary adjustments to its percentage estimate to ensure that payment of principal of and interest on the Series 2008B Bonds will be made when due.

FUTURE SALES OF OBLIGATIONS

The state currently anticipates that it will authorize and issue approximately $520 million various purpose general obligation bonds and approximately $500 million motor vehicle fuel tax general obligation bonds in the spring of 2008, and approximately $640 million various purpose general obligation bonds and $500 million motor vehicle fuel tax general obligation bonds in the summer of 2008.

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. The most recent release of data occurred on June 14, 2007. A press release summarizing the results of the June 14, 2007, economic results and forecasts is available on the state's website (*www.erfc.wa.gov)*. The next forecast will be released on or about September 14, 2007. Copies of the report and subsequent reports are available from the Office of Economic and Revenue Forecast Council, P.O. Box 40912, Olympia, Washington 98504-0912. See Appendix A—General and Economic Information—Revenues, Expenditures and Fiscal Controls—State Economic and Revenue Forecasting Process.

CERTAIN STATEMENTS INCLUDED OR INCORPORATED BY REFERENCE IN THIS OFFICIAL STATEMENT, INCLUDING BUT NOT LIMITED TO APPENDIX A, CONSTITUTE "FORWARD LOOKING STATEMENTS" WITHIN THE MEANING OF THE UNITED STATES PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995, SECTION 21E OF THE UNITED STATES SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, AND SECTION 27A OF THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED. 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 IF OR WHEN ITS EXPECTATIONS OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED OCCUR.

LITIGATION

Except as otherwise disclosed below, there is no litigation now pending against the state to the knowledge of the Deputy State Treasurer based on an inquiry with the Attorney General's Office in any way restraining or enjoining the sale, issuance or delivery of the Bonds, or in any manner effecting 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 monies 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 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 a portion of damages for certain 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. In *Allen* v. *Western State Hospital,* for instance, the Washington Protection and Advocacy System filed a class action lawsuit on behalf of patients with developmental disabilities at Western State Hospital, alleging that the state programs are inadequate and the state failed to provide community-based services when appropriate. The case was stayed pursuant to an agreement of

the parties to allow the Department of Social and Health Services (DSHS) to implement a work plan. The parties reached a partial settlement agreement wherein the court approved on February 15, 2006. The parties met with U.S. Magistrate Judge Kelley Arnold on November 29, 2006, to mediate issues concerning census management at Western State Hospital. Additionally, settlement discussions regarding community-based services for class members resulted in an agreement that is being finalized at this time. A similar lawsuit, *Marr* v. *Eastern State Hospital,* was filed on behalf of patients at Eastern State Hospital. This case has also been stayed pursuant to an agreement of the parties to allow DSHS to make improvements at Eastern State Hospital. A court ordered monitoring report in the *Marr* case was completed in November 2006 which found that Eastern State Hospital was not in substantial compliance with the agreement in several areas. The stay has been continued through June 2007 to allow time for negotiation of a final settlement agreement.
In the case of *Braam v. State*, a class action pending in Whatcom County Superior Court, the plaintiff class filed a damage claim on behalf of all foster children that was satisfied from the state's Self Insured Liability Account. The injunctive relief portion of the case, involving the placement of foster children, was tried and appealed. On appeal, a new trial was ordered. As part of a pretrial mediated settlement, the state agreed to supplement its child welfare program and agreed to address improvement and oversight of the state's foster care system as suggested by a court appointed panel. In September 2006, the panel released a monitoring report that found the state out of compliance with previously identified action steps. The state provided a revised compliance plan to the court on November 31, 2006, and, to date, the court has declined to entertain a new enforcement action. Based on projections made at the time of the original trial court order in 2004, the estimated additional program costs to implement all requested reforms could cost the state as much as $55 million.

In *Pierce County, et al.* v. *DSHS,* plaintiffs seek damages and injunctive relief in a challenge to the state's mental health treatment system. Plaintiffs assert that the state agency and the state legislature have failed in their duty to provide care for the mentally ill and developmentally disabled. Following a two-week trial in November 2005, the court ruled in favor of the plaintiffs. The state appealed this case to Division II of the Washington State Court of Appeals and briefing will be completed in May. It is anticipated that oral argument will be held this fall unless the Court transfers this case to the Supreme Court.

Also, *Arc, et al.* v. *Quasim* and *Boyle* v. *Braddock* are two actions filed on behalf of persons with developmental disabilities that are seeking access to Medicaid-funded services. Both actions were denied class certification, dismissed at the trial court level, and appealed to the United States Court of Appeals in the Ninth Circuit. The Ninth Circuit affirmed the orders denying class certifications, but held that Arc had representational standing to pursue the claims. The appellate court also affirmed the trial court's ruling that upheld the cap on enrollment in the Medicaid waiver, but remanded for trial on Plaintiffs' claim that the state, by offering institutional care but not community-based care, violates the Americans with Disabilities Act. A final settlement was reached which acknowledges that funds were previously requested and expended for individuals with developmental disabilities pursuant to the parties' previous settlement agreement in 2001. The current settlement is further based on the Governor's requested levels of funding for the next biennium for specific program enhancements, as well as her best efforts to secure those levels of funding. The settlement includes $64,000 in attorney fees and provisions for the dismissal of all claims. The parties in Boyle also reached a settlement agreement. In January 2007, an initial attorney fee payment of $25,000 was made, with the settlement agreement requiring payment of $350,000 in total. DSHS continues to provide documents and information to plaintiffs as required by the settlement, with quarterly meetings soon to commence.

Another social and health services case is *Gasper/Myers v. DSHS.* This case involves the proper formula for determining the number of hours of in-home care to which Medicaid recipients are entitled to if the recipient lives in the same home as his/her caregiver. The trial court found the current department rule in this regard to be invalid but the court of appeals modified the trial court's ruling. This case has been appealed to the Washington Supreme Court and oral argument was heard on November 9, 2006. Because of how this case was framed by the Washington Court of Appeals, the estimated potential financial impact of this case has been revised. If the Supreme Court declines to modify the Court of Appeals

ruling, the eventual additional cost to the state could be as much as $15 million per year.

Another DSHS case may have a significant fiscal impact depending on how the Washington courts rule. In *Paopao v. DSHS* a Medicaid recipient is seeking relief based on the U.S. Supreme Court decision in *Ahlborn v. Arkansas*. In that case the U.S. Supreme Court interpreted federal Medicaid law to mean states may assert Medicaid liens upon only the portion of a judgment or settlement from a liable third-party which represents compensation for past medical expenses. This U.S. Supreme Court case is directly contrary to an earlier Washington Supreme Court case on the same issue, *Wilson v. DSHS.* In accordance with the ruling in *Wilson* the Department had been asserting a lien on the entire settlement, regardless of the amount designated for medical expenses. Tens of millions of dollars in Medicaid expenditures lien were recovered prior to the *Ahlborn* decision. The plaintiff in this case claims that the Washington recovered Medicaid settlements in excess of what would be recoverable post-*Ahlborn.* In order to prevail plaintiff will have to achieve some retroactive application of *Ahlborn* ruling. Washington case law suggests that courts may have, in different circumstances, some authority to retroactively disturb other types of settlements. The trial court dismissed plaintiff's argument but the case is now before the Washington Court of Appeals.

Over the past ten years, the state has reported that recurring litigation is challenging the state's business and occupation tax structure. This litigation represents the claims of corporate taxpayers for business and occupation tax refunds for periods from 1980 to the present. In the most recent round of this litigation, the United States Supreme Court denied *certiorari* review of an April 1999 decision by the State Supreme Court. *WR. Grace & Co. - Conn. and Chrysler Motors Corporation* v. *State of Washington, Department of Rev., and Buffelen Woodworking Co., et al.* v. *State of Washington, Department of Rev.* The State Supreme Court denied claims for a refund except to the extent that taxpayers could demonstrate entitlement to credits against their state tax liability measured by gross receipt of taxes paid to other taxing jurisdictions outside of the state. The taxpayers continue to use other refund claims to try to re-present the issue to the United States Supreme Court. Significant refund awards are considered remote.
Another revenue related case is *Sprint-Spectrum LP v. Department of Revenue.* The primary issue in this appeal is whether the Department of Revenue erred by assessing retail sales tax on the sales of network telephone services to residential customers. Sprint-Spectrum seeks a refund from the Department of Revenue of $5.6 million, plus statutory interest.

In *Estate of Hemphill,* several thousand estates in Washington sought refunds from the Department of Revenue of estate taxes previously paid. The plaintiffs asserted that the June 2001 changes to the federal Internal Revenue Code which phase out the federal credit allowed to state death taxes must be read consistently with Initiative 402, which enacted the state's pick-up estate tax in 1981. The estates sought refunds and a declaration that the state estate tax will be completely phased out in January 2005. The Superior Court granted summary judgment in favor of the Department. The court held that the state law was not amended by the June 2001 federal legislation because the state law incorporates by reference in the provisions of the IRS code that existed prior to the June 2001 legislation. The case was appealed directly to the Washington State Supreme Court, which issued its opinion on February 3, 2005, reversing the superior court and granting all of the relief requested by plaintiffs. The state now faces refunds of approximately $152 million and an approximately $278 million loss of tax revenue through fiscal year 2007, absent legislation to reinstate the tax. If the estate tax revenues are lost and the State Legislature does not reinstate the tax, it would have to reprioritize program expenditures in the budget process.

In *United States Tobacco Sales & Marketing Co., Inc. v. Department of Revenue,* trial was held in Thurston County and judgment was entered regarding the correct valuation of tobacco product samples for purposes of the Other Tobacco Products (OTP) tax. The state appealed the trial court's valuation formula and the court of appeals reversed and remanded the case. The Washington State Supreme Court accepted the case and oral argument was heard on September 19, 2006. A decision is anticipated sometime in 2007. U.S. Tobacco seeks approximately $6 million in refunds. Should the trial court's

original valuation methodology be ultimately embraced, approximately $87 million in OPT tax refunds could be ordered.

In a class action against the Department of Personnel, *WPEA* v. *State,* employees in "common classes" in general government agencies and higher education institutions seek back pay and current adjustments to rectify salary differentials between each set of common classes. The salary differentials amount to approximately $10 million per year, beginning in 1996. Plaintiffs' claims, which are based on equal protection violations, were rejected by the Superior Court. The Court of Appeals reversed and held that the salary differentials constitute an equal protection violation. A petition for discretionary review is pending in the Washington Supreme Court, but the parties have a settlement in principle that was conditioned upon an appropriation from the Legislature that was done in the 2006 supplemental operating budget, appropriating $22,502,000.00 for retrospective pay and the first year of a 5-year phase of prospective salary equalization. The trial court granted final approval on October 20, 2006, and no appeal was taken. The settlement is being implemented and no further significant financial exposure is anticipated.

In January 2001, Washington Treaty Tribes and the United States renewed a lawsuit in federal district court against the state raising the issue of whether the Indian Treaties include a right of environmental protection for salmon habitat. This matter is referred to as Phase II of *U.S. v. Washington.* The case involves the specific question of whether the Treaties "right of taking fish" imposes a duty to ensure that roadway culverts do not reduce the number of salmon available for harvest. The Washington State Department of Transportation, the agency with the greatest exposure in the case, currently has estimated that the cost of fixing the existing fish passage barriers will be at least several hundred million dollars over the next 20 years. However, many of these projects and the related expenditures are expected to be carried out by the state whether or not plaintiffs are successful in this matter. Accordingly, it cannot be predicted whether a settlement or any judgment would require a different amount or schedule of expenditures than have already been estimated and expected to be spent by the state. Cross-motions for summary judgment were argued February 1, 2007, and trial is currently set for September 2007. At the court's invitation, the parties have not met to talk about settlement.

A ruling is expected soon from the Washington Supreme Court in the case of *Washington State Farm Bureau Federation, et. al. v. Gregoire*. In this lawsuit plaintiffs challenged the validity of revenue measures enacted by the 2005 Legislature, including sales and use tax on extended warranties, cigarettes, and liquor, and a tax on the transfer of decedents estates. The trial court ruled that the measure raised revenue for expenditure in excess of the general fund expenditure limit, and held the measure invalid for failure to comply with the voter approval requirement of Initiative 601. The trial court also concluded that curative legislation adopted in 2006 to clarify the expenditure limit could not be given effect

Finally, a new lawsuit has emerged against the Department of Retirement Systems that may prove significant. A group of plaintiffs including the Washington Education Association, Washington Public Employees' Association, and the Washington Federation of State Employees have filed lawsuits suit in King County Superior Court against the Department of Retirement Systems and the State of Washington. Each lawsuit challenges the legislature's 2007 repeal of the previously promulgated legislative "gainsharing" plan. Gainsharing allows for certain state investment surpluses to be returned to certain participating retirement system members.

There are two issues arising from the lawsuit as currently asserted, first, whether gainsharing is a contractual right which cannot be repealed by the legislature and whether the State is estopped from denying gainsharing to those members who chose the particular retirement plan that provided for the gainsharing benefit.

This lawsuit could have a fiscal impact on the state but might also raise secondary questions regarding other retirement systems legislation because the 2007 Washington Legislature enacted early retirement

legislation along with the gainsharing repeal legislation which provides that all new benefits provided in lieu of gainsharing will be ineffective if a court sustains a challenge to gainsharing repeal legislation. Attorneys representing the state cannot predict how the court will rule on the issues in this lawsuit and the State of Washington is unable to determine at this time what impact if any this lawsuit might have on future retirement systems planning, administration, or legislation.

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.

Initiative 747

On June 13, 2006, the Superior Court for King County issued a ruling in the case of *Washington Citizen Action of Washington et. al. v. State of Washington,* holding that the property tax levy lid established by Initiative 747 ("I-747") is unconstitutional. The State of Washington appealed this decision to the Washington State Supreme Court. Should the ruling be upheld, the lid on property tax revenues collected by the state and local governments would revert to its pre-2001 level of six percent or the rate of inflation, as opposed to the one percent lid established under I-747. The state cannot predict whether the Superior Court decision invalidating the initiative will be upheld or, if upheld, whether the Legislature would re-enact the one percent limit rather than permitting a return to the higher limits in effect prior to Initiative 747.

Future Initiative Legislation

Other tax and fee initiative measures may be filed, but it cannot be predicted whether any such initiative might gain sufficient signatures to qualify for submission to the State Legislature and/or the voters or, if submitted, would ultimately be approved.

Initiative 960. For example, state-wide Initiative 960, which has qualified for the November 2007 general election ballot, would, among other things, if approved by the voters, require the state Office of Financial Management to prepare and publicize cost projections relating to any legislative bill proposing any increase in taxes or fees for each year and describing the expected revenue source during the ten-year period following the tax or fee increase. These cost projections would have to be prepared, updated and publicized upon introduction of the bill, when the bill is scheduled for a public hearing, and when the bill is approved by any legislative committee, by the house of representatives or by the senate. This and other provisions of Initiative 960, if approved by the voters, could result in time-consuming activities that could affect the operations of the state legislative process in Washington.

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. Forms of the opinion of such firm with respect to each Series of the Bonds are attached hereto as Appendix B. The opinions of Bond Counsel are given based on factual representations made to Bond Counsel, and under existing law, as of the date of initial delivery of the Bonds, and Bond Counsel assumes no obligation to revise or supplement its

opinions to reflect any facts or circumstances that may thereafter come to its attention, or any changes in law that may thereafter occur. The opinions of Bond Counsel are an expression of its professional judgment on the matters expressly addressed in its opinions and do not constitute a guarantee of result. Bond Counsel will be compensated only upon the issuance and sale of the Bonds.

Tax Exemption of the Series 2008A Bonds and Series 2008B Bonds

Exclusion from Gross Income. In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the Code that must be satisfied subsequent to the issue date of the, interest on the Series 2008A Bonds and the Series 2008B Bonds (together, the "Tax-Exempt Bonds") will be excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals.

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

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

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

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

Foreign Branch Profits Tax. Interest on the Tax-Exempt Bonds may be subject to the foreign branch profits tax imposed by Section 884 of the Code when the Tax-Exempt 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 Tax-Exempt 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 Tax-Exempt Bonds. Depending on all the facts and circumstances and the type of audit involved, it is possible that commencement of an audit of the Tax-Exempt Bonds could adversely affect the market value and liquidity of the Tax-Exempt Bonds until the audit is concluded, regardless of its ultimate outcome.

Original Issue Premium. All of the Series 2008A Bonds, all of the Series 2008B Bonds, and the Series 2008T Bonds maturing on July 1 in the years 2009 through and including 2013 (together, the "Premium Bonds"), have been sold at prices reflecting original issue premium. An amount equal to the excess of the purchase price of a Premium Bond over its stated redemption price at maturity constitutes premium on such Premium Bond. A purchaser of a Premium Bond must amortize any premium over such Premium Bond's term using constant yield principles, based on the purchaser's yield to maturity. The amount of amortizable premium allocable to an interest accrual period for a Premium Bond will offset a like amount of qualified stated interest on such Premium Bond allocable to that accrual period, and may affect the calculation of alternative minimum tax liability described above. As premium is amortized, the purchaser's basis in such Premium Bond is reduced by a corresponding amount, resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed. Purchasers of the Premium Bonds, whether at the time of initial issuance or subsequent thereto, should consult with their own tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to state and local tax consequences of owning the Premium Bonds.

Original Issue Discount. The Series 2008T Bonds maturing on July 1, 2008 (the "Discount Bonds"), have been sold at prices reflecting original issue discount. Under existing law, the original issue discount in the selling price of each Discount Bond, to the extent properly allocable to each owner of such Discount Bond, is excluded from gross income for federal income tax purposes with respect to such owner. The original issue discount is the excess of the stated redemption price at maturity of such Discount Bond over the initial offering price to the public, excluding underwriters and other intermediaries, at which price a substantial amount of the Discount Bonds of such maturity were sold.

Under Section 1288 of the Code, original issue discount on tax-exempt bonds accrues on a compound basis. The amount of original issue discount that accrues to an owner of a Discount Bond during any accrual period generally equals (i) the issue price of such Discount Bond plus the amount of original issue discount accrued in all prior accrual periods, multiplied by (ii) the yield to maturity of such Discount Bond (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period), less (iii) any interest payable on such Discount Bond during such accrual period. The amount of original issue discount so accrued in a particular accrual period will be considered to be received ratably on each day of the accrual period, will be excluded from gross income federal income tax purposes, and will increase the owner's tax basis in such Discount Bond. Any gain realized by an owner from a sale, exchange, payment or redemption of a Discount Bond will be treated as gain from the sale or exchange of such Discount Bond.

The portion of original issue discount that accrues in each year to an owner of a Discount Bond may result in certain collateral federal income tax consequences. The accrual of such portion of the original issue discount will be included in the calculation of alternative minimum tax liability as described above, and may result in an alternative minimum tax liability even though the owner of such Discount Bond will not receive a corresponding cash payment until a later year.

Owners who purchase Discount Bonds in the initial public offering but at a price different from the first offering price at which a substantial amount of those Discount Bonds were sold to the public, or who do not purchase Discount Bonds in the initial public offering, should consult their own tax advisors with respect to the tax consequences of the ownership of such Discount Bonds. Owners of Discount Bonds

who sell or otherwise dispose of such Discount Bonds prior to maturity should consult their own tax advisors with respect to the amount of original issue discount accrued over the period such Discount Bonds have been held and the amount of taxable gain or loss to be recognized upon that sale or other disposition of Discount Bonds. Owners of Discount Bonds also should consult their own tax advisors with respect to state and local tax consequences of owning such Discount Bonds.

Certain Other Federal Tax Consequences

Series 2008A Bonds and Series 2008B Bonds Not "Qualified Tax-Exempt Obligations" for Financial Institutions. Section 265 of the Code provides that 100 percent of any interest expense incurred by banks and other financial institutions for interest allocable to tax-exempt obligations acquired after August 7, 1986, will be disallowed as a tax deduction. However, if the tax-exempt obligations are obligations other than private activity bonds, are issued by a governmental unit that, together with all entities subordinate to it, does not reasonably anticipate issuing more than $10,000,000 of tax-exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) in the current calendar year, and are designated by the governmental unit as "qualified tax-exempt obligations," only 20 percent of any interest expense deduction allocable to those obligations will be disallowed.

The state is a governmental unit that, together with its subordinate entities, reasonably anticipates issuing more than $10,000,000 of tax-exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) during the current calendar year and has not designated the Tax-Exempt Bonds as "qualified tax-exempt obligations" for purposes of the 80 percent financial institution interest expense deduction. Therefore, no interest expense of a financial institution allocable to the Tax-Exempt Bonds is deductible for federal income tax purposes.

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

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

Other Possible Federal Tax Consequences. Receipt of interest on the Tax-Exempt Bonds may have other federal tax consequences for certain taxpayers as to which prospective purchasers of the Tax-Exempt Bonds should consult their own tax advisors.

No Tax Exemption for Series 2008T Bonds

Interest on the Series 2008T Bonds is not excluded from gross income for federal income taxation. Prospective purchasers of the Series 2008T Bonds should consult their own tax advisors regarding federal tax consequences of owning Series 2008T Bonds.

CONTINUING DISCLOSURE UNDERTAKING

In accordance with paragraph (b)(5) of Securities and Exchange Commission (the "SEC") Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended (the "Rule"), the State Treasurer, on behalf of the Committee, has agreed in the Bond Resolutions 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, 2008, for the fiscal year ended June 30, 2007, the state will provide or cause to be provided to each then existing nationally recognized municipal securities information repository ("NRMSIR") and to the state information depository for the

State of Washington, if one is created ("SID"), 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, including official statements of debt issues of the state, or of any related entity, that have been submitted to each of the NRMSIRs and the SID, if any, or to the SEC. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board (the "MSRB"). The state will identify clearly each document so included by reference.

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, in a timely manner, to each NRMSIR or to the MSRB and to the SID, if any, 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 SID, if any, and to each NRMSIR or to the MSRB, timely 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 Tax-Exempt Bonds;

(vii) modifications to rights of holders 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 each then existing NRMSIR and the SID, if any, 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 each NRMSIR or the MSRB and the SID, if any, 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. The Undertaking inures to the benefit of the State Treasurer and any holder of the Bonds, and does not inure to the benefit of or create any rights in any other person.

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.

BOND INSURANCE

The Insured Bonds

The Series 2008B Bonds maturing on July 1 in the years 2018 through and including 2023 have been insured by Ambac Assurance Corporation (the "Ambac-Insured 2008B Bonds"). The Series 2008B Bonds maturing on July 1 in the years 2024 and 2025 have been insured by Financial Security Assurance Inc. (the "FSA-Insured 2008B Bonds"). The Series 2008B Bonds maturing on July 1 in the years 2029 and 2030 and the Series 2008B Term Bonds maturing on July 1, 2032, have been insured by MBIA Insurance Corporation (the "MBIA-Insured 2008B Bonds").

Together, the Ambac-Insured 2008B Bonds, the FSA-Insured 2008B Bonds, and the MBIA-Insured 2008B Bonds are referred to as the "Insured Bonds."

Ambac Assurance Corporation

Ambac Assurance Corporation has supplied the following information for inclusion in this Official Statement. No representation is made by the state or the Series 2008A and B Underwriter (as defined below under "Underwriters of the Bonds") as to the accuracy or completeness of this information.

Payment Pursuant to Financial Guaranty Insurance Policy. Ambac Assurance Corporation ("Ambac Assurance") has made a commitment to issue a financial guaranty insurance policy (the "Financial Guaranty Insurance Policy") relating to the Ambac-Insured 2008B Bonds, effective as of the date of issuance of the Ambac-Insured 2008B Bonds. Under the terms of the Financial Guaranty Insurance Policy, Ambac Assurance will pay to The Bank of New York, in New York, New York, or any successor thereto (the "Insurance Trustee"), that portion of the principal of and interest on the Ambac-Insured 2008B Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and/or interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Bond Registrar. The insurance will extend for the term of the Ambac-Insured 2008B Bonds and, once issued, cannot be canceled by Ambac Assurance.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Ambac-Insured 2008B Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Ambac-Insured 2008B Bonds, Ambac Assurance will remain obligated to pay the principal of and interest on outstanding Ambac-Insured 2008B Bonds on the originally scheduled interest and principal payment dates, including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Ambac-Insured 2008B Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration, except to the extent that Ambac Assurance elects, in its sole discretion, to pay all or a portion of the accelerated principal and interest accrued thereon to the date of acceleration (to the extent unpaid by the Obligor). Upon payment of all such accelerated principal and interest accrued to the acceleration date, Ambac Assurance's obligations under the Financial Guaranty Insurance Policy shall be fully discharged.

In the event the Bond Registrar has notice that any payment of principal of or interest on an Ambac-Insured 2008B Bond that has become Due for Payment and that is made to a holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, non-appealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does **not** insure any risk other than Nonpayment (as set forth in the Financial Guaranty Insurance Policy). Specifically, the Financial Guaranty Insurance Policy does **not** cover:

(i) payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity;

(ii) payment of any redemption, prepayment or acceleration premium; and

(iii) nonpayment of principal or interest caused by the insolvency or negligence of the Trustee, Paying Agent or Bond Registrar, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of the Ambac-Insured 2008B Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Ambac-Insured 2008B Bonds to be registered in

the name of Ambac Assurance to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of holder entitlement to interest payments and an appropriate assignment of the holder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the Ambac-Insured 2008B Bond, appurtenant coupon, if any, or right to payment of the principal of or interest on such Ambac-Insured 2008B Bond and will be fully subrogated to the surrendering holder's rights to payment.

Ambac Assurance Corporation. Ambac Assurance is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin, and is licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately $10,391,000,000 (unaudited) and statutory capital of approximately $6,730,000,000 (unaudited) as of June 30, 2007. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., Moody's Investors Service, Inc. and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in the Financial Guaranty Insurance Policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor.

Ambac Assurance makes no representation regarding the Ambac-Insured 2008B Bonds or the advisability of investing in the Ambac-Insured 2008B Bonds and makes no representation regarding, nor has it participated in the preparation of, this Official Statement other than the information supplied by Ambac Assurance and presented under this heading.

Available Information. The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at *http://www.sec.gov* that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices is One State Street Plaza, 19th Floor, New York, New York 10004, and its telephone number is (212) 668-0340.

Incorporation of Certain Documents by Reference. The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

(i) The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006 and filed on March 1, 2007;

(ii) The Company's Current Report on Form 8-K dated and filed on April 25, 2007;

(iii) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2007 and filed on May 10, 2007;

(iv) The Company's Current Report on Form 8-K dated and filed on July 25, 2007;

(v) The Company's Current Report on Form 8-K dated and filed on August 3, 2007; and

(vi) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2007 and filed on August 9, 2007.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "Available Information."

Financial Security Assurance Inc.

Financial Security Assurance Inc. has supplied the following information for inclusion in this Official Statement. No representation is made by the state or the Series 2008A and B Underwriter as to the accuracy or completeness of this information.

Bond Insurance Policy. Concurrently with the issuance of the FSA-Insured 2008B Bonds, Financial Security Assurance Inc. ("Financial Security") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Financial Security Assurance Inc. Financial Security is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation, and of Dexia Credit Local, a direct wholly-owned subsidiary of Dexia, S.A. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance, banking and asset management in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At June 30, 2007, Financial Security's combined policyholders' surplus and contingency reserves were approximately $2,642,612,000 and its total net unearned premium reserve was approximately $2,116,401,000 in accordance with statutory accounting principles. At June 30, 2007, Financial Security's consolidated shareholder's equity was approximately $2,686,026,000 and its total net unearned premium reserve was approximately $1,655,217,000 in accordance with generally accepted accounting principles.

The consolidated financial statements of Financial Security included in, or as exhibits to, the annual and quarterly reports filed after December 31, 2005 by Holdings with the Securities and Exchange Commission are hereby incorporated by reference into this Official Statement. All financial statements of Financial Security included in, or as exhibits to, documents filed by Holdings pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 after the date of this Official Statement and before the termination of the offering of the FSA-Insured 2008B Bonds shall be deemed incorporated by reference into this Official Statement. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

The Policy does not protect investors against changes in market value of the FSA-Insured 2008B Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the FSA-Insured 2008B Bonds or the advisability of investing in the FSA-Insured 2008B Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the Issuer the information presented under this caption for inclusion in the Official Statement.

MBIA Insurance Corporation

The following information has been furnished by MBIA Insurance Corporation ("MBIA") for use in this Official Statement. Reference is made to Appendix H for a specimen of MBIA's policy (the "Policy"). MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Policy and MBIA set forth under this heading. Additionally, MBIA makes no representation regarding the MBIA-Insured 2008B Bonds, as defined above, or the advisability of investing in the MBIA-Insured 2008B Bonds.

The MBIA Insurance Corporation Insurance Policy. The MBIA Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the state to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the MBIA-Insured 2008B Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the MBIA Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless MBIA elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any Owner of the MBIA-Insured 2008B Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law (a "Preference").

MBIA's Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any MBIA-Insured 2008B Bonds. MBIA's Policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of MBIA-Insured 2008B Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA's Policy also does not insure against nonpayment of principal of or interest on the MBIA-Insured 2008B Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the MBIA-Insured 2008B Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Paying Agent or any owner of an MBIA-Insured 2008B Bond the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such MBIA-Insured 2008B Bonds or presentment of such other proof of ownership of the MBIA-Insured 2008B Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the MBIA-Insured 2008B Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the MBIA-Insured 2008B Bonds in any legal proceeding related to payment of insured amounts on the MBIA-Insured 2008B Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Paying Agent payment of the insured amounts due on such MBIA-Insured 2008B Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

MBIA Insurance Corporation. MBIA Insurance Corporation ("MBIA") is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the

Virgin Islands of the United States and the Territory of Guam. MBIA, either directly or through subsidiaries, is licensed to do business in the Republic of France, the United Kingdom and the Kingdom of Spain and is subject to regulation under the laws of those jurisdictions. In February 2007, MBIA Corp. incorporated a new subsidiary, MBIA México, S.A. de C.V. ("MBIA Mexico"), through which it intends to write financial guarantee insurance in Mexico beginning in 2007.

The principal executive offices of MBIA are located at 113 King Street, Armonk, New York 10504 and the main telephone number at that address is (914) 273-4545.

Regulation. As a financial guaranty insurance company licensed to do business in the State of New York, MBIA is subject to the New York Insurance Law which, among other things, prescribes minimum capital requirements and contingency reserves against liabilities for MBIA, limits the classes and concentrations of investments that are made by MBIA and requires the approval of policy rates and forms that are employed by MBIA. State law also regulates the amount of both the aggregate and individual risks that may be insured by MBIA, the payment of dividends by MBIA, changes in control with respect to MBIA and transactions among MBIA and its affiliates.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Strength Ratings of MBIA. Moody's Investors Service, Inc. rates the financial strength of MBIA "Aaa."

Standard & Poor's, a division of The McGraw-Hill Companies, Inc., rates the financial strength of MBIA "AAA."

Fitch Ratings rates the financial strength of MBIA "AAA."

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the MBIA-Insured 2008B Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the MBIA-Insured 2008B Bonds. MBIA does not guaranty the market price of the MBIA-Insured 2008B Bonds nor does it guaranty that the ratings on the MBIA-Insured 2008B Bonds will not be revised or withdrawn.

MBIA Financial Information. As of December 31, 2006, MBIA had admitted assets of $10.9 billion (audited), total liabilities of $6.9 billion (audited), and total capital and surplus of $4.0 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of June 30, 2007, MBIA had admitted assets of $10.8 billion (unaudited), total liabilities of $6.8 billion (unaudited), and total capital and surplus of $4.0 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

For further information concerning MBIA, see the consolidated financial statements of MBIA and its subsidiaries as of December 31, 2006 and December 31, 2005 and for each of the three years in the period ended December 31, 2006, prepared in accordance with generally accepted accounting principles, included in the Annual Report on Form 10-K of the Company for the year ended December 31, 2006 and the consolidated financial statements of MBIA and its subsidiaries as of June 30, 2007 and for the six month periods ended June 30, 2007 and June 30, 2006 included in the Quarterly Report on Form 10-Q of the Company for the quarter ended June 30, 2007, which are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

Copies of the statutory financial statements filed by MBIA with the State of New York Insurance Department are available over the Internet at the Company's web site at *http://www.mbia.com* and at no cost, upon request to MBIA at its principal executive offices.

Incorporation of Certain Documents by Reference. The following documents filed by the Company with the Securities and Exchange Commission (the "SEC") are incorporated by reference into this Official Statement:

(i) The Company's Annual Report on Form 10-K for the year ended December 31, 2006; and

(ii) The Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007.

Any documents, including any financial statements of MBIA and its subsidiaries that are included therein or attached as exhibits thereto, filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of the Company's most recent Quarterly Report on Form 10-Q or Annual Report on Form 10-K, and prior to the termination of the offering of the MBIA-Insured 2008B Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof from the respective dates of filing such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the Company's SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2006, and (2) the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2007 and June 30, 2007) are available (i) over the Internet at the SEC's web site at *http://www.sec.gov*; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at *http://www.mbia.com*; and (iv) at no cost, upon request to MBIA at its principal executive offices.

OTHER BOND INFORMATION

Bond Ratings

The Bonds have been rated "AA," "Aa1" and "AA" by Fitch, Moody's Investors Service Inc. ("Moody's") and Standard & Poor's Ratings Group, a division of The McGraw-Hill Companies, Inc. ("S&P"), respectively. The Insured Bonds have been rated "AAA," "Aaa" and "AAA" by Fitch, Moody's and S&P, respectively. The state furnished certain information and materials to the rating agencies regarding the Bonds and the state. Generally, rating agencies base their ratings on the information and materials furnished to them and on their own investigations, studies and assumptions. Such ratings will reflect only the respective views of such rating agencies and are not a recommendation to buy, sell or hold the Bonds. An explanation of the significance of such ratings may be obtained from any of the rating agencies furnishing the same.

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

Financial Advisors

Seattle-Northwest Securities Corporation and Montague DeRose and Associates, LLC 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.

The payment of compensation to Seattle-Northwest Securities Corporation as financial advisor is contingent upon the successful delivery of the Bonds to, and full payment for the Bonds by, the successful bidders. Montague DeRose and Associates, LLC is paid on a retainer basis as financial advisor and its compensation is not contingent upon the successful delivery of the Bonds.

Underwriters of the Bonds

The Series 2008A Bonds and the Series 2008B Bonds are being purchased by JP Morgan (the "Series 2008A and B Underwriter"). The Series 2008A Bonds are being purchased at a price of $544,509,852.59, and will be reoffered at a price of $545,499,201.20, as reflected by the prices and yields set forth on page i of this Official Statement.

The Series 2008B Bonds are being purchased at a price of $409,769,123.27, and will be reoffered at a price of $411,218,036.45, as reflected by the prices or yields set forth on page ii of this Official Statement.

The Series 2008T Bonds are being purchased by Citigroup Global Markets (the "Series 2008T Underwriter" and together with the Series 2008A and B Underwriter, the "Underwriters") at a price of $70,374,653.40, and will be reoffered at a price of $70,446,753.40, as reflected by the prices or yields set forth on page iii of this Official Statement.

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

Delivery of Bonds

It is expected that the Bond closing will take place in Seattle, Washington, on or about September 26, 2007. The Bonds will be delivered through the facilities of DTC in New York, New York, or to the Bond Registrar on behalf of DTC by Fast Automated Securities Transfer.

Official Statement

The purpose of this Official Statement is to supply information to prospective buyers of interests in the Bonds. Quotations and summaries and explanations of the Bonds and documents contained in this Official Statement do not purport to be complete, and reference is made to such documents for full and complete statements of their provisions.

Excerpts from the state's 2006 Comprehensive Annual Financial Report (the "CAFR") are attached as Appendix D. Copies of the state's entire 2006 CAFR are available on the Office of Financial Management's website at *http://www.ofm.wa.gov/cafr/default.asp* or upon request from the Office of the State Treasurer.

Michael J. Murphy, the State Treasurer and Chairman, has reviewed and approved this Official Statement on behalf of the state pursuant to the Bond Resolutions of the Committee.

STATE OF WASHINGTON

By: /s/

State Treasurer and Chairman,
State Finance Committee

Dated: September 12, 2007

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.

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.

For an assessment of the current economic and budgetary outlook of the state, see "Outlook for the 2003-05 and 2005-07 Biennia." For certain economic and demographic information with respect to the state, see "Economic Information."

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, EXPENDITURES AND FISCAL CONTROLS

Revenues

The state's tax revenues are comprised primarily of excise and *ad valorem* taxes. 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.

Excise Taxes. Certain select sales and gross receipts taxes accounted for approximately 54.96 percent of total state revenues for the fiscal year ending June 30, 2006.

The retail sales tax and its companion use tax represent the largest source of state tax revenue, accounting for 47.92 percent of total collections. 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.

Business and occupation tax collections represented approximately 16.39 percent of total state taxes for the fiscal year ending June 30, 2006. The business and occupation tax is applied to gross receipts of all business activities conducted within the state. Business and occupation tax rates include a principal rate of 0.484 percent of gross income for most manufacturing and wholesaling businesses. Retail firms pay 0.471 percent, and services pay 1.5 percent.

The motor vehicle fuel tax represented approximately 6.64 percent of all state taxes for Fiscal Year 2006. The tax rate on December 31, 2006, was 34 cents per gallon.

Property Taxes. 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 2005, assessed value averaged 89.8 percent of fair market value.

The state property tax levy represented approximately 10.51 percent of all state tax revenues for Fiscal Year 2006. The state property tax levy is limited to the lesser of 101 percent or 100 percent plus the percentage change in inflation (as measured by the Implicit Price Deflator for Personal Consumption (the "IPD")) of the dollar amount of property taxes levied in the highest of the three most recent years plus an additional dollar 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 2005 was $2.580 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.

Income Tax. The State Constitution, as interpreted by the State Supreme Court, prohibits the imposition of a graduated tax on net income.

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. Almost 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.

State Expenditure and Revenue Limitation—Initiative 601. Initiative 601, passed by the voters in November 1993, places limits on state taxation and General Fund-State government expenditures and sets forth a series of guidelines for limiting revenue and expenditure increases and stabilizing long-range budget planning.

Under Initiative 601, the state generally is prohibited from increasing expenditures from the General Fund-State during any fiscal year by more than the fiscal growth factor, which is calculated annually and is defined as the average of the sum of inflation and population change for each of the three prior fiscal years. The inflation index used for the computation of the fiscal growth factor is the IPD, which is determined from the same data used to establish the U.S. gross national product. This growth factor is used to determine a state spending limit for programs and expenditures supported by the General Fund-State. The spending limit became operational on July 1, 1995, based on the population and inflation growth factor determined in November 1994, which is based upon data accumulated for Fiscal Years 1992, 1993 and 1994. Annual adjustments to the expenditure limit are made by the Expenditure Limit Committee ("ELC"), which is comprised of members from the Office of Financial Management ("OFM"), legislative fiscal committees and the Office of the Attorney General. The annual adjustment to the limit is based on the

previous year's actual General Fund-State expenditure and changes in population and inflation growth. The fiscal growth factors for the 1997-99 Biennium were 4.05 percent for Fiscal Year 1998 and 4.18 percent for Fiscal Year 1999. The fiscal growth factors for the 1999-01 Biennium were 3.32 percent for Fiscal Year 2000 and 2.87 percent for Fiscal Year 2001. The fiscal growth factors for the 2001-03 Biennium were 2.79 percent for Fiscal Year 2002 and 3.29 percent for Fiscal Year 2003. However, statutory changes to the expenditure limit adopted in the 2000 Legislative Session make it possible for the effective rate of increase in expenditures to be higher than the fiscal growth factors (Engrossed House Bill 3169 ("EHB 3169")). The fiscal growth factors for the 2003-05 Biennium were 3.2 percent for Fiscal Year 2004 and 3.02 percent for Fiscal Year 2005. The fiscal growth factors for the 2005-07 Biennium are 2.82 percent for Fiscal Year 2006 and 3.38 percent for Fiscal Year 2007.

Initiative 601 also directs the ELC to make downward adjustments in the expenditure limit for costs of any state program or function that is shifted from the General Fund-State to another funding source, or for moneys that are transferred from the General Fund-State to another fund or account. In the event costs of a federal, state or local government program are transferred to or from the state by court order or legislative enactment, under the Initiative the expenditure limit may be increased or decreased accordingly by the ELC. Restrictions are placed on the addition or transfer of functions to local governments unless there is reimbursement.

The statutory changes to the expenditure limit adopted in the 2000 Legislative Session (EHB 3169) now allow the spending limit to be increased when revenues from another fund or account are transferred to the General Fund-State. As a result of this change, growth in General Fund-State expenditures can exceed the Initiative 601 fiscal growth factors to the extent that surplus revenues in other accounts are available for transfer to the General Fund-State.

Initiative 601 in its original form also limited revenue increases. It required that any action by the Legislature to raise state revenues be taken only if approved by a two-thirds vote of both houses of the Legislature. In the 2002 Legislative Session, a change to this provision was adopted (as a part of the Supplemental Budget Bill) which allows revenues to be increased with a simple majority vote. This provision applied to actions taken through June 30, 2003.

Initiative 601 abolished the Budget Stabilization Account and created two new reserve funds (the Emergency Reserve Fund and the Education Construction Fund) for depositing revenues in excess of the spending limit. Initiative 728, adopted by voters in November 2000, added a third fund, the Student Achievement Fund, which captures a portion of revenues in excess of the spending limit. Ending balances in the Budget Stabilization Account were transferred to the General Fund-State ($100 million) and the Pension Reserve Account ($25 million) in the fiscal year ending June 1996.

Initiative 601 in its original form allowed the Legislature to access and appropriate money from the Emergency Reserve Fund ("ERF") based on a two-thirds majority. A measure adopted in the 2002 Legislative Session temporarily allows access to money in the ERF based on a simple majority. EHB 3169, adopted in the 2000 Legislative Session, provides the Office of the State Treasurer with the authority to transfer monies between the General Fund-State and the ERF at the conclusion of each fiscal year, to ensure that revenues deposited in the ERF for that year are exactly equal to the amount of revenues collected in excess of the expenditure limit for that year. During the 2003 special session, the Legislature authorized the transfer of the ERF balance to the General Fund-State in Fiscal Year 2004.

Most of Initiative 601, including the General Fund-State expenditure limit, became effective July 1, 1995. Two provisions of the initiative became effective on December 1, 1993: the requirement for supermajority legislative approval of fee increases beyond the fiscal year growth factor, and a restriction on new taxes being imposed without voter approval. At the beginning of Fiscal Year 1996 (July 1, 1995), the requirement for voter approval for new tax measures expired. Taxes now can be enacted with a two-thirds majority of

both houses of the Legislature if resulting General Fund-State expenditures do not exceed the spending limit. Voter approval still would be required to exceed the spending limit. However, the Supplemental Budget Bill passed in the 2002 Legislative Session allows revenue increases to occur based on a simple majority vote for any action taken through June 30, 2003.

Finally, EHB 3169 changes the threshold for spillover of money from the Emergency Reserve Fund to the Education Construction Fund from five percent of biennial revenues to five percent of annual revenues and gives the State Treasurer the authority to make the appropriate end-of-year reconciliations between the funds.

In the 2005 legislative session, the I-601 statute was again changed to allow revenue increases to be passed with a simple majority for funding the 2005-07 Biennial Budget. SSB 6078 changes the calculation of the I-601 expenditure limit, beginning with the 2007-09 Biennium, basing it on average growth in state personal income for the prior ten fiscal years. In addition, the new calculation is based not just on the state General Fund, but also "related" accounts, defined as the Health Services Account, Violence Reduction and Drug Enforcement Account, Public Safety and Education Account ("PSEA"), the Equal Justice subaccount of the PSEA, Water Quality Account, and Student Achievement Account. Fiscal growth factors under this new calculation for the 2007-09 Biennium are currently 5.53 percent for Fiscal Year 2008, and 5.38 percent for Fiscal Year 2009, as calculated by the November 2006 Expenditure Limit Committee.

The 2007 Legislature passed ESSB 5311 and SJR 8206 to create a new Budget Stabilization Account (also referred to as the Rainy Day Account). This legislation requires that a constitutional amendment be put before the voters in November 2007. If adopted, the existing Emergency Reserve Fund will be abolished, and the Budget Stabilization Account will receive one percent of the general state revenues each year. Moneys 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 the Legislature.

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.

Expenditures

Expenditures of general state revenues are made pursuant to constitutional and statutory mandates. Most general state revenue is deposited in the General Fund-State. For a breakdown of expenditures by function, see the table titled "Washington State Expenditures" below.

State Funding of Basic Education. The state's expenditures for public schools are mandated by the state constitutional requirement for support of the common schools. In 1976, Seattle School District No. 1 brought suit against the state to require the state, under the State Constitution, to make "ample provision for common schools." The decision, upheld by the State Supreme Court in 1978, required the state to ensure that each public school district would receive the funds needed to provide a basic education. The Court ordered the Legislature to decide the level of program funding and the funding mechanism.

The Legislature has passed four major pieces of legislation to further ensure stability and predictability for school funding.

(i) *The Basic Education Act* was passed in 1977, before the Supreme Court ruling, and describes course offerings, teacher contract hours, and core student/staff ratios. The Supreme Court recognized the passage of this Act in its opinion, but specifically declined to comment upon its adequacy.

(ii) *The Levy Lid Act*, also passed in 1977 and last amended in 1992, addresses property tax issues affecting basic education funding by limiting local property tax levies and providing for the gradual equalization of levy capacity per student throughout the state.

(iii) In 1981, legislation limiting local compensation increases to those authorized by the state was passed. Since personnel costs comprise over 80 percent of the public school budget, this legislation provides state financial decision-makers with an important cost containment tool.

(iv) *The School Financial Improvement Act* amended the Levy Lid Act in 1987. The amended act provided for state assistance to equalize tax rates for local levies, established a state-wide salary allocation schedule with mandated minimum salaries for teachers and required school districts to maintain minimum teacher/student ratios.

Social and Health Services. The Department of Social and Health Services ("DSHS") is the primary human service agency in the state; its expenditures account for the second largest category of state budget expenditures. DSHS provides services that are essential for the physical safety, security and survival of individuals and families, including 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 (Title XIX of the Social Security Act). The Medical Assistance budget has grown significantly in recent years. Growth in the number of eligible recipient groups, such as pregnant women and children, and growth in other eligible populations, such as disabled people, has resulted in increased expenditures. Rising health care costs and requirements to provide higher payments to hospitals also have added to the increase in this budget.

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

DSHS also provides other social service programs. It is 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, including two prerelease facilities and 15 work-training release facilities. The rapid growth in inmate population (the primary cost driver) is, in part, the result of various crime initiatives enacted in the state. These include the Omnibus Drug Act of 1989, the Community Protection Act of 1990, Initiative 593—"Three Strikes and You're Out," approved by Washington voters in November 1993, and the Violence Prevention Act of 1994. Over the past several years, the Department of Corrections has constructed nearly 4,000 new prison beds. Even with the additional prison beds, the Department of Corrections continues to have

overcrowding issues, and relies on renting prison beds from out-of-state. As of the end of March 2007, approximately 947 inmates have been transported to out-of-state prisons. In addition, the state rents 965 beds from local jurisdictions in Washington. The last major construction of a new facility was the Stafford Creek Corrections Center, a 1,936-bed, multi-custody facility that opened in April 2000 near Aberdeen, approximately 50 miles west of Olympia. During the 2007-09 Biennium, the Department of Corrections expects to complete construction and open over 2,500 new beds, including an additional 868 close custody and intensive management beds at the Washington Penitentiary in Walla Walla and to complete the construction of a new 2,048-bed prison expansion at the Coyote Ridge Correctional Center. The 2007 Legislature funded the construction of 476 new beds, which are scheduled to be operational by the 2009-11 Biennium.

Budgeting, Accounting and Fiscal Controls

Budgeting. The state operates on a July 1 to June 30 fiscal year and on a biennial budget basis, the constitutionally prescribed period. Formulation of the state's operating budget is initiated by OFM, the Governor's budget agency, with the distribution of instructions to all state agencies establishing guidelines and information requirements. Development of agency budgets begins approximately nine months prior to the regular legislative sessions, which convene in odd-numbered years. Formal budget requests are forwarded by each agency to the Director of the OFM in the summer. The budget requests are revised and evaluated by the Director of the OFM and his or her staff, and alternative methods of delivering services are examined and evaluated. Following this evaluation, recommended budget levels are prepared for the Governor by the Director of the OFM. These recommendations, based on the priorities of the administration, are the result of an examination of the relative merits of each program, projections of caseload, enrollment and population statistics, an assessment of the state's overall priorities, and the availability of revenue. The Expenditure Limit Committee, staffed by Senate Ways and Means, House Appropriations, and OFM have the responsibility for calculation and adoption of the expenditure limit each November.

Budget tables and statistics provided by the OFM for inclusion in this Official Statement are based on generally accepted accounting principles ("GAAP"). GAAP provides that the recognition and inclusion of revenues occur 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 erode the state's cash balance, the Legislature enacted laws which limited the expenditure of funds to the amount of revenue actually received or money on deposit over the course of the biennium. These limitations do not apply to the state's general obligation bonds.

The Governor reviews the OFM's operating budget recommendations and accepts or modifies them. Following final decisions by the Governor the budget document is published as the Governor's budget and presented to the Legislature for consideration in December of even-numbered years. The formal budget presentation to the Legislature is delivered by the Governor the following January during the first week of the legislative session. This presentation outlines the administration's primary goals and offers recommendations for the adoption of the budget to achieve those objectives.

Subsequent to the introduction of revenue and expenditure measures that embody the Governor's proposed operating budget, the Legislature engages in extensive budget deliberations and committee hearings. Legislative authorizations of long-term debt also are considered to finance a portion of the capital budget. Upon adoption of revenue and expenditure legislation 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 and append in writing the reasons therefor.

During a biennium, supplemental budget requests may be submitted to the Legislature during either the regular annual session or any extraordinary session, subject to the approval of the Governor.

Accounting. The state's accounting records are maintained in conformance with GAAP, as promulgated by the Governmental Accounting Standards Board ("GASB"). GAAP accounting is mandated by RCW 43.88.037. The state's Comprehensive Annual Financial Report ("CAFR") is accounted on a GAAP basis. 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 CAFR, including its 2006 CAFR. The state's fiscal 2006 CAFR contains Annual Financial Statements prepared in accordance with GAAP as promulgated by GASB (the "2006 Annual Financial Statements"), a copy of which has been filed with each nationally recognized municipal securities information repository ("NRMSIR"). Excerpts from the state's 2006 CAFR are attached as Appendix D. Copies of the state's entire 2006 CAFR are available on the OFM's website at *http://www.ofm.wa.gov/accounting/financial.htm* or upon request from the Office of the State Treasurer.

The Government Finance Officers Association of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the state for its CAFR for each of the Fiscal Years 1987 through 2005. To be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report, the content of which conforms to program standards. Such reports must satisfy both GAAP and applicable legal requirements.

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 the 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.

The 2007-09 Biennium begins July 1, 2007. State law requires a balanced biennial budget. If at any time during the fiscal period the Governor projects a cash deficit because disbursements will exceed the aggregate of estimated receipts plus beginning cash surplus, the Governor is required to make across-the-board reductions in allotments in order to prevent a 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. Across-the-board reductions occur only in those funds estimated to have a cash deficit. For example, if the General Fund-State were projected to have a deficit, the portion of an agency's budget provided by the General Fund-State would be subject to reduction. Across-the-board reductions are placed in reserve status until needed to avert a budget deficit; if the deficit does not materialize, the across-the-board reductions are returned to the agencies.

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 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.

State Investment Programs

The State Treasurer's Office is responsible for the investment management of the state's operating funds totaling approximately $2 billion to $4 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 $5 billion fund that invests money on behalf of more than 400 cities, counties, special municipal 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 January 2001, 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, *inter alia*, the practices, procedures and restrictions applicable to the investment of funds and specifically denominates 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 chapter 43.250 RCW, 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. The LGIP is a conservatively managed, highly liquid pool comparable to a SEC Rule 2a-7 money market fund, restricted to investments with maturities of 397 days or less. The average life generally ranges from 30 to 60 days.

The LGIP adheres 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.

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. The purpose of this feature of debt management policy is to coordinate state debt and investment practices through asset liability management, which is defined as the management of the exposure to interest rate risk through active management of certain financial elements of the state's balance sheet. Coordinating the management of state debt and state investment is expected to reduce the volatility and the impact of interest rate changes in the General Fund-State.

Historically, state debt has been issued in long-term, fixed-rate form, while state investments have been made on a short-term basis. The issuance of some variable rate debt is intended to provide a closer match of interest expense to interest income.

State Economic and Revenue Forecasting Process

To assist in its financial planning, the state prepares quarterly economic forecasts derived from national econometric models. The Legislature, through enactment of Chapter 138, Laws of 1984 (RCW

82.01.130), established the Office of Forecast Council (the "Forecast Council") in the Department of Revenue, and in 1990, the Legislature established the Forecast Council as an independent body. The Forecast Council consists 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 revenue forecast for the state. The Forecast Council law requires a review of financial performance eight times during the biennium and requires action if changing economic conditions affect the budget. This "early warning" system gives policy makers time to reduce expenditures or raise taxes during economic downturns and provides the option of increasing financial reserves or dealing with emergent spending needs in periods of economic growth.

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 groundwork for these quarterly forecasts is undertaken in conjunction with the results of monthly state revenue collections, using a formally created economic and revenue forecast workgroup. This group consists of lead staff members representing the Department of Revenue and the OFM, as well as staff representatives of the legislative fiscal committees.

The quarterly forecast process starts with a preliminary review of the Forecast Council's findings by the workgroup. At approximately the same time, the Governor's Council of Economic Advisors is convened to provide a view of the state and national economy from outside state government. These views and cumulative and recent revenue performance are taken into account in the preparation of forecast scenarios. The Forecast Council meets to consider the economic outlook and, after a two-week interval, considers the revenue forecast and pessimistic and optimistic projections.

The state forecast by the Forecast Council that is discussed and analyzed in this Appendix A is the state forecast that was released on June 14, 2007. This forecast is the basis for the projections described under "Summary of Recent and Projected Operating Results" and "Outlook for the 2005-07 and 2007-09 Biennia." The next forecast will be released on or about September 14, 2007. Copies of the report and subsequent reports may be obtained from the Office of Economic and Revenue Forecast Council (*www.erfc.wa.gov)*.

SUMMARY OF RECENT AND PROJECTED OPERATING RESULTS

The following tables display projected revenues and expenditures for the 2005-07 and 2007-09 Biennia. Revenues for the 2005-07 and 2007-09 Biennia are based on the March 2007 forecast. Expenditures for the 2005-07 Biennium are based on the 2005-07 Operating Budget passed by the Legislature in April 2005 and signed by the Governor on May 17, 2005, the 2006 Supplemental Budget passed by the Legislature on March 8, 2006, and signed by the Governor on March 31, 2006, and the 2007 Supplemental Budget passed by the Legislature in April 2007 and signed by the Governor on May 15, 2007. Expenditures for the 2007-09 Biennium are based on the 2007-09 Operating Budget passed by the Legislature in April 2007 and signed by the Governor on May 15, 2007. The outlook for the 2005-07 and 2007-09 Biennia immediately follows the tables.

WASHINGTON STATE REVENUE
MODIFIED ACCRUAL BASIS
(in Millions)

	2005-07 Biennium Estimate (1)	2007-09 Biennium Estimate (1)
Beginning General Fund-State Balance	$ 870	$ 786
GENERAL FUND-STATE REVENUE		
Retail Sales and Use Taxes	$ 15,151	$ 16,821
Real Estate Excise	1,993	1,734
Business and Occupation	5,046	5,511
Property Tax	2,788	3,013
Other Taxes	2,266	2,340
Subtotal Tax Revenue	**$ 27,244**	**$ 29,419**
Other Nontax Revenue	$ 450	439
Other Financing	11	(54)
Transfers from Other Funds/Other Adjustments	205	43
Prior Period Adjustments	(7)	0
Spillover Transfer to Emergency Reserve Account	(222)	0
Transfer to Budget Stabilization Account	0	(134)
TOTAL GENERAL FUND-STATE REVENUE (2)	**$ 28,551**	**$ 30,499**
Federal Revenue	$ 11,565	$ 12,378
Private/Local Revenue	368	403
TOTAL GENERAL FUND-STATE REVENUE	**$ 40,484**	**$ 43,280**

(1) Based on the June 2007 General Fund-State Revenue Forecast and changes in the 2007 legislative session.
(2) Including balance from previous biennium.

Note: Totals may not add due to rounding.

Source: Office of Financial Management

WASHINGTON STATE EXPENDITURES
MODIFIED ACCRUAL BASIS
(in Millions)

GENERAL FUND-STATE EXPENDITURES	2005-07 Biennium Estimate [1]	2007-09 Biennium Estimate [2]
Education		
Public Schools	$ 11,047	$ 12,092
Higher Education	2,950	3,290
Other Education	78	184
Total Education	**$ 14,075**	**15,566**
Human Services		
Department of Social and Health Services	$ 7,991	$ 8,994
Department of Corrections	1,449	1,736
Other Human Services	188	230
Total Human Services	**$ 9,628**	**$ 10,960**
Natural Resources and Recreation	$ 423	$ 447
Governmental Operations	471	528
Other Expenditures [3]		
Debt Service	$ 1,374	$ 1,547
Other Expenditures	1,794	575
Total Other Expenditures	**$ 3,168**	**$ 2,122**
TOTAL GENERAL FUND-STATE EXPENDITURES	**$ 27,765**	**$ 29,623**
Federal	$ 11,565	$ 12,378
Private/Local	368	403
TOTAL GENERAL FUND-STATE EXPENDITURES	**$ 39,698**	**$ 42,404**
Ending General Fund-State Balance	**$ 786**	**$ 876**
Emergency Reserve Account Projected Balance	**$ 227**	**$ 0**
Budget Stabilization Account	**$ 0**	**$ 361**
TOTAL RESERVES	**$ 1,013**	**$ 1,237**

(1) Based on the 2005-07 Budget as amended by the 2006 and 2007 Supplemental Budgets that were passed by the Legislature and signed by the Governor.

(2) Based on the 2007-09 Budget as passed by the Legislature and signed by the Governor.

(3) Includes legislative, judicial and transportation agencies, as well as Debt Service and Retirement Contributions to LEOFF and Judges and Judicial Retirement System.

Note: Totals may not add due to rounding.

Source: Office of Financial Management

OUTLOOK FOR THE 2005-07 AND 2007-09 BIENNIA

U.S. Economic Forecast

The June 2007 economic and revenue forecast incorporated the advance Gross Domestic Product ("GDP") estimate for the first quarter of 2007. According to the advance estimate, real GDP growth slowed to just 1.3 percent in the first quarter of 2007 from a revised 2.5 percent in the fourth quarter. The growth rate of final sales was only slightly stronger at 1.6 percent. What little growth there was in the first quarter was more than accounted for by consumer spending, which rose at a 3.8 percent rate. Fixed investment declined at a 4.7 percent rate as a result of a 17.0 percent decline in residential fixed investment. The foreign sector was also a drag on growth in the first quarter, due to a 1.2 percent decline in exports and a 2.3 percent increase in imports. Government purchases rose at a slight 0.9 percent rate in the first quarter.

Payroll employment growth remained steady at 1.5 percent in the first quarter, while the unemployment rate edged up to 4.50 percent from 4.47 percent in the fourth quarter. The Consumer Price Index rose 3.8 percent in the first quarter following a 2.1 percent decline in the fourth quarter. The rebound in inflation was due to energy prices, which jumped 16.0 percent in the first quarter following a 34.7 percent decline in the fourth quarter. Core inflation, which excludes food and energy, rose from 1.9 percent to 2.3 percent. Housing starts continued to plunge in the first quarter, falling at a 19.9 percent rate to 1.474 million units. The mortgage rate declined to 6.22 percent in the first quarter from 6.25 percent in the fourth quarter. As expected, the Federal Reserve left its target for the federal funds rate unchanged at 5.25 percent in March and May.

First-quarter GDP growth of just 1.3 percent raises the question of whether the economy has downshifted again, increasing the risk that it could tumble into recession. The first quarter is expected to prove to be the trough for economic growth. As the year progresses, a gradual improvement in growth is anticipated as the housing drag diminishes, along with some easing in inflation pressures. In the first-quarter details, a big drag from housing and a further downward adjustment in inventory accumulation were not surprising. But there was an upside surprise for business equipment spending (which was soft, but did not decline as feared) and a downside surprise for exports (which fell). Consumer spending rose a robust 3.8 percent, preventing GDP growth from dipping even further. Although the consumer will not be so supportive in the second quarter, second-quarter GDP growth is expected to improve to 2.2 percent. Housing will be a big drag again, but both business equipment spending and exports are expected to improve, while inventories should be roughly neutral.

Annual GDP growth improved to 3.3 percent in 2006 from 3.2 percent in 2005. The forecast expects growth to slow down to 2.1 percent this year, improving to 2.8 percent in 2008 and 3.3 percent in 2009. Nonfarm payroll employment growth improved to 1.9 percent in 2006 from 1.7 percent in 2005. Slower growth is expected for the next three years. Employment is expected to grow 1.3 percent this year and 1.1 percent next year before recovering to 1.5 percent in 2009. The unemployment rate also improved in 2006, declining to 4.63 percent from 5.07 percent in 2005. The forecast expects the unemployment rate to rise slightly to 4.66 percent in 2007 and 4.86 percent in 2008, dipping to 4.67 percent in 2009 as stronger growth resumes. Inflation, as measured by the implicit price deflator for personal consumption expenditures, eased slightly to 2.7 percent in 2006 from 2.9 percent in 2005. Rising energy costs continue to boost overall inflation. Core inflation, which excludes food and energy, increased slightly from 2.1 percent to 2.2 percent. Energy costs will be neutral in 2007 and will help restrain inflation in 2008 and 2009. The overall implicit price deflator is expected to rise 2.1 percent in 2007, 2.1 percent in 2008, and 2.2 percent in 2009.

Washington State Economic Forecast

The state's employment growth rate improved to 2.7 percent in the first quarter of 2007 from 2.6 percent in the fourth quarter of 2006. Manufacturing employment rose at a 2.5 percent rate in the first quarter, led by aerospace employment, which rose at a 6.4 percent rate. Manufacturing employment other than aerospace rose at a modest 1.1 percent rate. First quarter employment growth was strong in most private nonmanufacturing sectors as well. Information employment increased at a 7.9 percent rate mainly as a result of an 8.0 percent increase in software employment. Information other than software employment was also quite strong in the first quarter, rising at a 7.7 percent annual rate. Construction employment continued to grow rapidly in the first quarter, rising at a 7.0 percent annual rate. Leisure and hospitality employment grew 4.1 percent, trade, transportation and utilities employment grew 3.6 percent, professional and business services employment grew 3.2 percent, and financial activities employment and education and health services employment each grew 2.6 percent. "Other services" employment increased at a 0.3 percent rate, and natural resources (logging) and mining employment declined at a 0.1 percent rate. In the public sector, federal government employment fell at a 2.3 percent rate, while state and local government employment declined at a 0.9 percent rate.

The state's personal income in the fourth quarter of 2006 was $1.279 billion (0.5 percent) higher than the estimate made in March. Total wages were $1.075 billion (0.8 percent) higher than expected in March. Software wages were $0.079 billion (1.4 percent) higher than expected, and non-software wages were $0.996 billion (0.8 percent) higher. Nonwage personal income was $0.203 billion (0.2 percent) above the March estimate for the fourth quarter. The forecast assumes that income growth jumped to 9.9 percent in the first quarter of 2007 from 1.3 percent in the fourth quarter of 2006. The improvement in growth was primarily due to software bonuses and stock awards in the third quarter, which artificially held down growth in the fourth quarter. Excluding software wages, personal income growth improved to 10.8 percent in the first quarter from 7.0 percent in the fourth quarter. The forecast assumes that wage and salary disbursements rose at a 9.7 percent rate and that income from sources other than wages grew at a 10.2 percent rate.

The number of housing units authorized by building permit jumped 17,400 in the first quarter of 2007 to 59,500 from 42,100 in the fourth quarter of 2006. Single-family permits increased only 2,500 to 32,700, but multi-family permits increased by 14,900 to 26,900. The second quarter of 2007 got off to a weaker start. April housing units authorized by building permit totaled 39,200, of which 30,900 were single-family and 8,200 were multi-family.

The forecast also reflects Seattle consumer price data through April 2007. After trailing the national average during 2002, 2003 and 2004, December-December Seattle core inflation (excluding food and energy) edged ahead of the national average in 2005, rising 2.3 percent compared to 2.2 percent. Core inflation in Seattle increased well ahead of the national average in 2006, rising 3.7 percent compared to 2.6 percent for the U.S. city average. Strong regional inflation continued in early 2007. Core Seattle prices rose at a 4.4 percent rate during the first four months of 2007 compared to 2.2 percent for the U.S., while the Seattle all-items Consumer Price Index ("CPI") rose at a 5.1 percent annual rate compared to the national rate of 4.8 percent.

The new state forecast generally reflects the slower near term growth in the U.S. forecast. The exception is the construction sector. The national forecast shows an even more severe downturn than assumed in the March forecast, while the Washington forecast continues to expect a slowing, but without a significant decline. The very strong housing activity in the first quarter followed a very weak fourth quarter. The underlying trend is expected to be close to 50,000 units with higher multi-family activity offsetting much of the decline in the single-family market. The forecast assumes that continued growth in nonresidential construction will also offset some of the residential weakness. The software employment forecast has been reduced mainly as a result of a downward revision to the historical data. Nevertheless, software employment is still expected to rise 8,700 from the fourth quarter of 2006 to the

fourth quarter of 2009. The Washington aerospace employment forecast is virtually unchanged since March. As of April, the aerospace sector has added 16,600 jobs since the trough in May 2004. The forecast expects another 3,400 new aerospace jobs by mid-2008, when employment is expected to level off at 80,900. This is still 32,200 (28.5 percent) lower than the previous peak in June 1998.

Propelled by continued strength in construction, aerospace and software, state nonfarm payroll employment growth increased to 2.9 percent in 2006 from 2.8 percent in 2005. Growth in these key industries is expected to slow during the next three years, and the state will also be affected by the slow-down in the national economy. The forecast calls for employment growth rates of 2.1 percent in 2007 and 2.0 percent per year in 2008 and 2009. Washington personal income growth jumped to 7.2 percent in 2006 from 2.9 percent in 2005. The weak growth in 2005 was largely due to Microsoft's special dividend in November 2004, which temporarily boosted Washington personal income by nearly three percentage points. Without the special dividend in 2004, personal income growth in 2005 would have been 5.6 percent. Income growth is expected to remain strong, slowing only slightly to 7.0 percent in 2007, 6.6 percent in 2008, and 6.8 percent in 2009. After four years of uninterrupted growth, the number of housing units authorized by building permit fell 3,000 in 2006 to 50,000. Higher mortgage rates are expected to depress the single-family market during the next three years. Largely offsetting this will be strong population growth, which should boost multi-family activity. The forecast expects total housing permits to increase to 51,200 in 2007 due to a jump in multi-family permits before declining to 48,900 in 2008 and 48,100 in 2009. Inflation, as measured by the Seattle CPI, jumped to 3.7 percent in 2006 from 2.8 percent in 2005. Core inflation (excluding food and energy) was more moderate but also jumped to 3.3 percent in 2006 from 1.8 percent in 2005. Energy costs are not expected to play a major role in 2007, and declining energy costs in 2008 and 2009 should help lower overall inflation in those years. The slowdown in the overall economy should also help restrain core inflation. As a result, inflation should decline to 3.6 percent, 2.4 percent, and 2.5 percent in 2007, 2008 and 2009.

Alternative Economic Forecasts

The Washington State Economic and Revenue Forecast Council also provided an optimistic forecast and a pessimistic forecast in March 2007.

Optimistic Forecast. Renewed strength in productivity growth provides the key assumption distinguishing the optimistic scenario from the baseline forecast. Rapid productivity gains are the main reason why economic growth and employment gains are higher and inflation and budget deficits are lower than in the baseline. It is also one reason why the dollar is stronger. Productivity gains, combined with the stronger currency, help to contain inflation. Faster growth in supply also makes the Federal Reserve's job easier. Business fixed investment is more robust in the optimistic scenario. Residential investment is also stronger in the optimistic scenario, with housing bouncing back more forcefully in 2008 and maintaining a higher level throughout the forecast period. Foreign economic growth is also stronger, boosting U.S. exports and strengthening domestic manufacturing. Finally, the optimistic scenario assumes that energy prices are lower than in the baseline. Under these assumptions, the economic outlook is much brighter. The current slowdown proves temporary, as real GDP growth rebounds to 4.1 percent by the third quarter of 2007, compared with only 2.4 percent in the baseline. For the state, the optimistic forecast assumes aerospace employment continues to grow through 2009 rather than leveling off in mid-2008 as in the baseline. Software employment also grows faster in the optimistic forecast. The state's wages grow faster than in the baseline, and the strong regional economy raises Seattle CPI inflation above the baseline forecast in the optimistic scenario in spite of stronger productivity growth. The initial level of state personal income is higher in the optimistic scenario and population growth is stronger. Finally, construction employment continues to rise in the optimistic scenario rather than leveling off as in the baseline. By the end of the 2007-09 Biennium, state nonagricultural employment is higher by 66,400 jobs than in the baseline forecast and personal income is $13.4 billion higher. The optimistic scenario generated $97 million (0.4 percent) more revenue in the

current biennium and $1,392 million (4.7 percent) more revenue in the next biennium than did the baseline forecast.

Pessimistic Forecast. After a quarter-century of declining inflation, signs of reacceleration are emerging. Soaring oil prices, a sliding dollar, and tightening labor markets may have produced the conditions for a serious pickup of inflation. The pessimistic alternative assumes that there is less spare capacity than thought. Rapid technological advances and high oil prices may have rendered obsolete much of the idled capacity that theoretically remains on the books. It assumes that the dollar weakens quickly, as foreign investors take fright at the spiraling U.S. trade deficit. Interest rates rise as foreign investors diversify away from the dollar, and the federal deficit widens relative to the baseline. The falling dollar adds to the upward pressure on inflation. In the pessimistic scenario, core inflation accelerates, and the Federal Reserve responds by tightening. This simulation also has a deeper housing downturn than the baseline, and capital spending is also weaker. Between the higher interest rates and persistently high energy prices, consumer confidence suffers. Consumers rein in their discretionary spending and the U.S. economy slows. At the same time hiring falters, causing the unemployment rate to climb. Debt-burdened consumers retrench further. The economy nearly sinks into recession, falling well below its potential, with GDP growth at just 1.3 percent for all of 2007. At the state level, aerospace employment growth is much slower in 2007 than in the baseline forecast and begins to decline again in 2008. Data revisions show that the initial level of state personal income is lower than was assumed in the baseline. Population growth is also slower in this scenario. Construction employment begins to decline in the second quarter of 2007 rather than just leveling off as in the baseline. Due to the relatively weak local economy, Seattle inflation is about the same as in the baseline forecast in spite of the higher national inflation rate. The weak economy also depresses Washington wage growth below the rate of growth in the baseline forecast. By the end of the 2007-09 Biennium, the state's nonagricultural employment is 95,000 lower than in the baseline forecast, and personal income is $12.4 billion lower. The pessimistic scenario produced $97 million (0.4 percent) less revenue this biennium and $1,470 million (4.9 percent) less revenue next biennium than did the baseline forecast.

Budgetary Outlook

For the 2005-07 Biennium, General Fund-State revenues are projected to be $27.7 billion, a 15.5 percent increase from the 2003-05 Biennium, plus a carry-forward of $870 million. This figure includes $354 million of new or revised revenue sources passed by the 2005 Legislature, including an increase to the liquor liter tax, the extension of sales tax to warranties, an adjustment to the high-tech business and occupations tax credit, and a number of other small changes. Also included is $206 million in shift of revenue from other funds into the General Fund.

The operating budget for the 2005-07 Biennium contains an overall expenditure level of $27.76 billion for General Fund-State, which is an increase of $4.1 billion or 17.3 percent over the 2003-05 Biennium. This expenditure level is within the $27.78 billion expenditure limit imposed by Initiative 601, as adjusted by changes made in the 2007 Supplemental Budget.

In the 2005-07 Biennium, 50 percent of the General Fund-State budget will go to support public schools and higher education. Most of the public school funding covers the increased cost of teacher and staff health benefits for increases in K-12 enrollment. The higher education funding provided for at least 7,900 student enrollment increases in public two- and four-year colleges and universities, and increases in need grants.

The spending for human service delivery systems provided by DSHS makes up approximately 29 percent of the state budget. The largest DSHS program is the Medical Assistance Program, which, at $3.0 billion, comprised 38 percent of the 2005-07 DSHS budget.

The 2005-07 Biennial Budget contains compensation increases for K-12 teachers and state employees, including general salary increases, partial salary survey implementation, pension rate increases, and health benefit rate increases. The general increases are the first in four years for state employees and K-12 teachers. The 2005-07 Biennium also marks the effective date of collective bargaining and wider union representation among classified employees of state government.

For the 2007-09 Biennium, General Fund-State revenues are projected to be $29.8 billion, a 7.6 percent increase from the 2005-07 Biennium, plus a carry-forward of $786 million. This figure includes $9.8 million of budget-driven revenue from adding more Sunday liquor sales, and Department of Revenue for the Streamlined Sales Tax bill that requires purchases made on the Internet to include sales tax, passed by the 2007 Legislature. Also included is $32 million in a shift of revenue from other funds into the General Fund. Revenues are reduced by $29 million for legislation with revenue impacts, as well as the first annual transfer to the new Budget Stabilization Account (also known as the Rainy Day Account), if approved by the voters in November 2007.

The operating budget for the 2007-09 Biennium contains an overall expenditure level of $29.6 billion for General Fund-State, which is an increase of $1.9 billion or 6.7 percent over the 2005-07 Biennium.

In the 2007-09 Biennium, 52 percent of the General Fund-State budget will go to support 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 and salaries. The higher education funding provided for more than 9,700 student enrollment increases in public two- and four-year colleges and universities, and increases in need grants.

The spending for human service delivery systems provided by DSHS makes up approximately 30 percent of the state budget. Washington's WorkFirst program has helped more than 173,000 people get off and stay off welfare since the program began in 1997. Welfare caseloads have dropped by 40 percent and the percentage of the state's population on welfare is at the lowest point in more than 30 years. Most program participants who go to work earn more than $9 an hour. The largest DSHS program is the Medical Assistance Program, which, at $3.3 billion, comprises 36 percent of the 2007-09 DSHS budget.

The 2007-09 Biennial Budget contains compensation increases for K-12 teachers and state employees, including general salary increases, partial salary survey implementation, a new step increase for employees who have been at the top of their pay range for at least one year, a pension rate decrease as the result of eliminating gainsharing and replacing it with more affordable benefits, and health benefit rate increases.

The following tables provide the General Fund-State budget for the 2005-07 and 2007-09 Biennia.

2005-07 BIENNIUM
GENERAL FUND-STATE BUDGET
(Modified Accrual Basis)
(in Millions)

Beginning Fund Balance	$ 870
Revenue	
June 2005 Forecast	$ 25,031
September 2005 Forecast	645
November 2005 Forecast	305
2005 Legislative Changes	354
February 2006 Forecast	107
June 2006 Forecast	518
September 2006 Forecast	350
November 2006 Forecast	49
March 2007 Forecast	144
June 2007 Forecast	195
Spillover to the Emergency Reserve Fund	(222)
2006 Session Legislative Changes	7
Changes in Reserves and Other Adjustments	198
Total Sources	**$ 28,551**
Total Expenditures	**$ 27,765**
Ending General Fund-State Balance	**$ 786**
Emergency Reserve Fund Account Balance	**227**
Total Reserves	**$ 1,013**

Note: Totals may not add due to rounding.

Source: Office of Financial Management

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

Beginning Fund Balance	$ 786
Revenue	
November 2006	29,533
March 2007 Update	(18)
June 2007 Update	331
2007 Session Legislative Changes	(19)
Smokeless Tobacco Settlement	(23)
Changes in Reserves and Other Adjustments	43
Rainy Day Account (Budget Stabilization Account)	(134)
Total Sources	**$ 30,499**
Total Expenditures	**$ 29,623**
Ending General Fund-State Balance	**$ 876**
Budget Stabilization Account	**361**
Total Reserves	**$ 1,237**

Note: Totals may not add due to rounding.

Source: Office of Financial Management

State Transportation Budget

The Legislature passed the state transportation budget for the 2005-07 Biennium on April 24, 2005, and the Governor signed the bill on May 9, 2005. The 2006 supplemental transportation budget was passed on March 8, 2006, and signed by the Governor on March 31, 2006. The 2007 supplemental transportation budget was passed on April 2,1 2007, and signed by the Governor on May 15, 2007. The total $5.5 billion budget contains $3.4 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 Legislature passed the state transportation budget for the 2007-09 Biennium on April 21, 2007, and the Governor signed the bill on May 15, 2007. The total $7.6 billion budget includes $4.6 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 $860 million for the SR 520 project and creates a $1 billion reserve from which either SR 520 or the Alaskan Way Viaduct can draw. The Regional Transportation Investment District, tolling and other funding mechanisms will be used to fund the remainder of the project costs.

CAPITAL BUDGET AND STATE DEBT

State Capital Budget

The state's 2005-07 biennial capital budget adopted by the Legislature provided for $3.56 billion expenditures in new projects. Of this total, $1.69 billion in expenditures are to be funded from the sale of general obligation bonds that are subject to the state's statutory debt limit.

The 2005-07 biennial capital budget provides for $925 million for higher education projects, $656 million for K-12 education, $902 million for natural resource projects, and $306 million for state correctional facilities. Other capital funds are divided across the remaining state governmental functions.

The state's 2007-09 biennial capital budget adopted by the Legislature provided for $4.3 billion expenditures in new projects. Of this total, $2.1 billion in expenditures are to be funded from the sale of general obligation bonds that are subject to the state's statutory debt limit.

The 2007-09 biennial capital budget provides for $1.066 billion for higher education projects, $964 million for K-12 education, and $1.036 million for natural resource projects ($202 million specifically for Puget Sound). Other capital funds are divided across the remaining state governmental functions.

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 both constitutional and statutory limitations; see "General Obligation Debt Limitations" 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, but is subject to statutory limitations; see "General Obligation Debt Limitations" 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.

General Obligation Debt Limitations. 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 constitutional and statutory restrictions. The limitations in both cases are imposed by prohibiting 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 a specified percentage of the arithmetic mean of general state revenues for the preceding three fiscal years. These are limitations on the incurrence of new debt and are not limitations on 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 from each and every source whatsoever, 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. For purposes of the statutory debt limitation, "general state revenues" also includes (i) the state lottery revenues, and (ii) revenues deposited in the state general fund and the student achievement fund that are derived from property taxes levied by the state for the support of common schools.

The constitutional and statutory limitations, which are overlapping, are summarized as follows:

(i) *The Constitutional Limitation*. Under Article VIII, Section 1 of the State Constitution, new general obligation debt may not be issued if the new debt would cause 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 preceding three fiscal years. Excluded from the calculation are the following types of general obligation debt:

(a) 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;

(b) debt which has been refunded;

(c) debt issued after approval of both houses of the Legislature and a majority of those voting in a general or special election;

(d) debt issued to meet temporary deficiencies in the State Treasury (described in "General Obligation Debt Authority" above);

(e) debt issued in the form of bond anticipation notes;

(f) debt issued to fund or refund debt of the State Building Authority (no longer in existence);

(g) debt issued to pay "current expenses of [S]tate government;"

(h) debt payable solely from the revenues of particular public improvements (revenue debt of the state), and

(i) any state guarantee of voter-approved general obligation debt of school districts in the state.

(ii) *The Statutory Limitation*. Under chapter 39.42 RCW, new general obligation debt may not be issued if the new debt would cause maximum annual debt service on all thereafter outstanding general obligation debt to exceed seven percent (as contrasted with the nine percent limitation in the State Constitution) of the arithmetic mean of general state revenues for the preceding three fiscal years.

The percentage limitation and the general obligation debt excluded from calculation of the limitation under this state statute have changed from time to time. The types of general obligation debt currently excluded from the calculation are the same as those excluded from the calculation under the constitutional limitation with the following exceptions:

(a) general obligation debt issued after approval of both houses of the Legislature and a majority of the voters, which is included rather than excluded as described above under "The Constitutional Limitation;"

(b) general obligation debt issued prior to July 1, 1993, pursuant to statute which requires that the State Treasury be reimbursed for the full debt service on such debt from money other than general state revenues or from special excise taxes imposed under chapter 67.40 RCW ("reimbursement bonds");

(c) general obligation debt issued after July 1, 1993, pursuant to statute which requires that the State Treasury be reimbursed for the full debt service on such debt from (1) moneys outside the State Treasury (except for higher education operation fees); (2) higher education building fees; (3) indirect cost recovered from federal grants and contracts; and (4) University of Washington hospital patient fees;

(d) general obligation debt issued to finance certain improvements to the state capitol east plaza garage pursuant to RCW 43.99Q.070;

(e) general obligation debt issued to finance the rehabilitation of the state legislative building to the extent such debt is paid from the capitol building construction account pursuant to RCW 43.99Q.140(2)(b); and

(f) general obligation debt issued to finance transportation projects pursuant to Chapter 147, Laws of 2003, section 7.

Current General Obligation Debt Capacity. By applying the statutory and constitutional limitations 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 September 26, 2007, preliminary, subject to change):

	Statutory (7 Percent)*	Constitutional (9 Percent)*
Estimated arithmetic mean of general state revenues for fiscal years ending June 30, 2005, 2006, and 2007 (1)	$ 13,456,969,671	$ 11,436,925,057
Debt service limitation (7% or 9% of above) (maximum annual debt service on general obligation debt to be outstanding may not exceed this sum)	$ 941,987,877	$ 1,029,323,255
Maximum annual debt service on outstanding general obligation debt (9/26/2007)	$ 746,594,895	$ 825,222,413
Uncommitted portion of debt service limitation (9/26/2007)	$ 195,392,982	$ 204,100,842
Remaining state general obligation principal debt capacity after sale of current and projected issues (assuming a 25-year amortization and an interest rate of 6.00% on future issues) (2)	$ 2,497,778,077	$ 2,609,093,757

(1) The arithmetic means of general state revenues for recent previous three-year fiscal periods are shown below. Source: "Certification of the Debt Limitation of the State of Washington" for fiscal years 1999 through 2007.

	Arithmetic Means of General State Revenues	
Fiscal Years Ending	Statutory	Constitutional
June 30 1996, 1997, and 1998	$ 7,559,859,280	$ 7,559,859,280
June 30 1997, 1998, and 1999	$ 7,918,308,401	$ 7,918,308,401
June 30 1998, 1999, and 2000	$ 8,305,755,187	$ 8,305,755,187
June 30 1999, 2000, and 2001	$ 8,655,884,795	$ 8,655,884,795
June 30 2000, 2001, and 2002	$ 8,885,895,256	$ 8,822,063,105
June 30 2001, 2002, and 2003	$ 9,129,881,312	$ 8,879,131,084
June 30 2002, 2003, and 2004	$ 9,932,495,849	$ 8,961,757,450
June 30 2003, 2004, and 2005	$ 11,047,175,165	$ 9,323,397,971
June 30 2004, 2005, and 2006	$ 12,458,927,671	$ 10,314,780,406

(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.

Use of Short-Term General Obligation Debt Authority (Certificates of Indebtedness and Bond Anticipation Notes). Chapter 39.42 RCW and the respective bond acts 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 and statutory debt limitations. The state has no bond anticipation notes currently outstanding.

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 constitutional and statutory debt limitations. The state has no certificates of indebtedness currently outstanding and does not anticipate any external short-term borrowing during the current biennium.

Motor Vehicle Fuel Tax Obligations

As of September 26, 2007, there will be outstanding $3,698,571,634 motor vehicle fuel tax bonds secured by a pledge of, and first payable from, excise taxes levied against motor vehicle and special fuels. Additionally, these bonds are secured by the full faith, credit and taxing power of the state. Such bonds are not subject to the constitutional or statutory debt limitation.

Motor Vehicle Fuel Tax Rates. Chapter 49, Laws of 1983, 1st Ex. Sess., established a motor vehicle fuel tax at a fixed cents-per-gallon rate. Effective April 1, 1990, the fuel tax was raised to 22 cents per gallon from 18 cents. Effective April 1, 1991, the fuel tax was raised to 23 cents per gallon. Effective July 1, 2003, the fuel tax was raised to 28 cents per gallon. The Legislature enacted Engrossed Substitute Senate Bill 6103, Chapter 314, Laws of 2005 (ESSB 6103) during its 2005 regular session. Among other things, ESSB 6103 provides for incremental increases in the tax rate on motor vehicle fuels and special fuels that total nine and a half cents per gallon over a period of four years. The initial increase in the tax rate for motor vehicle fuels and special fuels of three cents per gallon (from 28 cents per gallon to 31 cents per gallon) became effective on July 1, 2005. The tax rate for both types of fuels increased an additional three cents per gallon on July 1, 2006, and an additional two cents per gallon on July 1, 2007. The tax rate is scheduled to increase one and one-half cents per gallon on July 1, 2008.

The net tax amounts (after payment of refunds and administrative expenses) accruing from the increases in tax rates enacted by ESSB 6103 for motor vehicle and special fuels are to be distributed to certain local governments and to the state. The state is to receive 83.3334 percent of the net tax amounts from each of the tax rate increases effective on July 1, 2005, and July 1, 2006, and 100 percent of the net tax amounts from the tax rate increases effective on July 1, 2007, and July 1, 2008. The net tax amounts distributable to the state are to be deposited in the Transportation Partnership Account in the Motor Vehicle Fund. Amounts deposited in the Transportation Partnership Account must be used only for projects or improvements identified as 2005 transportation partnership projects or improvements in the omnibus transportation appropriations act, Chapter 313, Laws of 2005, including any principal and interest on bonds authorized for those projects or improvements.

Revenue Available for Debt Service. The following table presents the state's motor vehicle fuel excise tax collection experience at various rates per gallon, including a revenue projection based upon the tax rate of 36 cents per gallon tax effective July 1, 2007, and the allocations of excise tax pledged for bond principal and interest payments.

	Revenue Pledge	**County-City Allocation(1)**	**State Allocation (2)**
July 1, 1991 – June 30, 1992	$610,681,244	$81,153,690	$305,143,075
July 1, 1992 – June 30, 1993	596,015,283	79,888,937	297,161,376
July 1, 1993 – June 30, 1994	614,890,069	82,418,884	306,571,969
July 1, 1994 – June 30, 1995	615,525,077	82,503,999	306,888,571
July 1, 1995 – June 30, 1996	655,427,980	87,887,898	327,133,159
July 1, 1996 – June 30, 1997	672,095,589	89,661,476	336,186,110
July 1, 1997 – June 30, 1998	688,474,782	91,846,557	344,379,077
July 1, 1998 – June 30, 1999	712,559,355	95,059,580	356,426,320
July 1, 1999 – June 30, 2000	721,684,773	96,276,797	365,130,833
July 1, 2000 – June 30, 2001	723,945,995	96,578,457	366,272,623
July 1, 2001 – June 30, 2002	720,305,001	96,092,728	364,429,773
July 1, 2002 – June 30, 2003	732,805,981	97,760,429	370,749,618
July 1, 2003 – June 30, 2004	888,237,589	99,866,758	512,808,590
July 1, 2004 – June 30, 2005	911,683,662	99,265,533	538,209,753
July 1, 2005 – June 30, 2006 (3)	1,002,731,346	100,413,860	611,792,224
July 1, 2006 – June 30, 2007 (3)	1,107,091,064	100,960,199	697,263,142

(1) Allocation of excise tax revenues first used for payment of debt service for county-city urban program (RCW 47.26.404, 47.26.4252, 47.26.4254, and 47.26.505).

(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) Department of Transportation forecast (July 2007).

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 imposed by chapters 82.36 and 82.38 RCW (formerly by chapters 82.36 and 82.40 RCW). 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 scheme 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 scheme 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.

Sources of Repayment

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.

The following table presents general state revenues (statutory) for fiscal years since 2000:

GENERAL STATE REVENUES
STATUTORY
(in Millions)

Fiscal Year	General State Revenues
2006	$ 13,632.785
2005	12,286.381
2004	11,457.616
2003	9,397.528
2002	8,942.343
2001	9,049.773
2000	8,655.570

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.

For 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.

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, concurrent 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 September 26, 2007, the state's general obligation bonds and general obligation bonds secured by motor vehicle fuel tax revenue.

General Obligation Bonds.....	$ 8,695,644,410
Motor Vehicle Fuel Tax General Obligation.....	3,698,571,634
	$ 12,394,216,044

An additional $3,275,358,029 principal amount of general obligation bonds and $7,678,663,366 principal amount of motor vehicle fuel tax general obligation bonds will be authorized but unissued as of September 26, 2007. Issuance of additional general obligation bonds is subject to constitutional and statutory debt limitations. By statute, additional general obligation bonds (with certain exceptions) may not be issued if, after giving effect thereto, maximum annual debt service would exceed seven percent of the three-year average of general state revenues. State motor vehicle fuel tax general obligation bonds and certain other bonds are not subject to that limitation.

The maximum annual debt service on all outstanding general obligation bonds is covered 15.77 times by general state revenues of $13.633 billion for the fiscal year ending June 30, 2006. Coverage of the projected annual debt service on all outstanding motor vehicle fuel tax general obligation bonds is 3.66 times based upon estimated gasoline tax revenues of $1,100.104 million for the fiscal year ending June 30, 2007.

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 (Combined — General State Revenues and Components, Motor Vehicle Fuel Tax, and Other Revenues)

TOTAL BONDS OUTSTANDING AND SEPTEMBER 26, 2007 BOND OFFERING

Fiscal Year Ending June 30th	Outstanding 9/26/2007 (1) Principal	Outstanding 9/26/2007 (1) Interest (4)	September 26, 2007 Bond Offering (2) Principal	September 26, 2007 Bond Offering (2) Interest	Total (3,5)
2008	$ 308,086,960	$ 289,475,369	$ -	$ 12,755,571	$ 610,317,899
2009	550,865,442	532,706,501	19,440,000	47,889,500	1,150,901,443
2010	535,542,538	510,978,499	20,500,000	46,970,175	1,113,991,213
2011	518,033,541	488,323,093	21,620,000	45,957,750	1,073,934,383
2012	507,388,890	468,365,411	25,555,000	44,778,375	1,046,087,676
2013	533,523,288	441,597,437	24,050,000	43,538,250	1,042,708,975
2014	559,326,540	414,906,218	25,565,000	42,297,875	1,042,095,633
2015	586,904,557	398,619,941	26,645,000	40,992,625	1,053,162,123
2016	604,744,481	387,881,231	28,430,000	39,615,750	1,060,671,462
2017	606,774,784	383,850,687	30,150,000	38,151,250	1,058,926,721
2018	586,853,144	355,473,794	30,955,000	36,623,625	1,009,905,563
2019	570,623,200	333,031,469	33,065,000	35,023,125	971,742,793
2020	555,456,495	313,391,762	34,750,000	33,327,750	936,926,007
2021	513,590,193	262,039,251	35,970,000	31,559,750	843,159,194
2022	499,917,106	219,321,679	37,825,000	29,714,875	786,778,660
2023	483,502,167	198,457,649	40,400,000	27,759,250	750,119,066
2024	473,904,322	179,994,694	42,525,000	25,686,125	722,110,141
2025	441,994,917	160,581,630	44,705,000	23,505,375	670,786,923
2026	419,490,654	141,097,719	46,985,000	21,213,125	628,786,498
2027	381,628,610	122,693,813	49,540,000	18,800,000	572,662,423
2028	331,681,468	108,061,862	51,965,000	16,262,375	507,970,705
2029	307,196,913	95,127,112	54,645,000	13,597,125	470,566,150
2030	253,235,835	82,286,165	57,415,000	10,795,625	403,732,625
2031	169,225,000	12,067,950	59,305,000	7,877,625	248,475,575
2032	107,835,000	4,579,375	62,350,000	4,836,250	179,600,625
2033	16,985,000	382,163	65,550,000	1,638,750	84,555,913
	$ 11,424,311,044	$ 6,905,292,473	$ 969,905,000	$ 741,167,871	$ 20,040,676,388

Note: Totals may not add due to rounding.

	Principal	Interest
(1) **Outstanding Bonds by Revenue Pledge**		
(a) General State Revenues	$ 8,112,739,410	$ 4,542,948,767
(b) Motor Vehicle Fuel Tax	3,311,571,634	2,362,343,706
Total Bonds Outstanding	$ 11,424,311,044	$ 6,905,292,473
(2) **September 26, 2007 Bond Offering**		
(a) Series 2008A, dated 9/26/2007	$ 512,905,000	$ 435,821,872
(b) Series 2008B, dated 9/26/2007	387,000,000	294,657,388
(c) Series 2008T, dated 9/26/2007	70,000,000	10,688,611
Total September 26, 2007 Offering	$ 969,905,000	$ 741,167,871
(3) **Total Bonds Outstanding Following September 26, 2007 Offering**	$ 12,394,216,044	$ 7,646,460,343

(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]

	6/30/2003	6/30/2004	6/30/2005	6/30/2006	6/30/2007	9/26/2007 [2]
Outstanding						
General State Revenues and Components						
General State Revenues	$ 6,827,099,728	$ 7,215,204,278	$ 7,575,311,302	$ 7,702,642,072	$ 8,304,968,946	$ 8,695,644,410
Retail Sales Tax Revenue	445,000	- - - - - -	- - - - - -	- - - - - -	- - - - - -	- - - - - -
Subtotal	$ 6,827,544,728	$ 7,215,204,278	$ 7,575,311,302	$ 7,702,642,072	$ 8,304,968,946	$ 8,695,644,410
Motor Vehicle Fuel Tax Revenue	$ 1,720,296,935	$ 2,113,536,136	$ 2,404,758,801	$ 2,881,445,657	$ 3,368,311,634	$ 3,698,571,634
Total - Outstanding	$ 8,547,841,664	$ 9,328,740,413	$ 9,980,070,103	$ 10,584,087,730	$ 11,673,280,580	$ 12,394,216,044
Annual Debt Service Requirements						
Fiscal Year	$ 836,219,533	$ 827,723,419	$ 896,463,314	$ 939,827,748	$ 1,013,402,558	$ 1,107,204,085
Authorized -- Unissued						
General State Revenues	$ 2,033,548,029	$ 2,446,723,029	$ 3,165,528,029	$ 2,909,033,029	$ 3,858,263,029	$ 3,275,358,029
Motor Vehicle Fuel Tax Revenue	1,514,793,065	3,655,958,864	3,087,256,199	7,540,254,343	6,945,663,366	7,678,663,366
Total - Unissued	$ 3,548,341,094	$ 6,102,681,893	$ 6,252,784,228	$ 10,449,287,372	$ 10,803,926,395	$ 10,954,021,395
Issued (New Money and Refunding)						
Fiscal Year	$ 1,528,646,935	$ 1,624,334,200	$ 1,523,297,666	$ 1,558,261,856	$ 2,452,060,976	$ 969,905,000

(1) No limited obligation debt is outstanding or authorized.
(2) Includes current Bond offering dated September 26, 2007.

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
2008	$846,240,287	$260,963,798	$557,056,495	$550,147,590	$1,107,204,085
2009	864,014,957	286,886,486	570,305,442	580,596,001	1,150,901,443
2010	831,672,202	282,319,011	556,042,538	557,948,674	1,113,991,213
2011	796,833,551	277,100,832	539,653,541	534,280,843	1,073,934,383
2012	773,031,346	273,056,330	532,943,890	513,143,786	1,046,087,676
2013	767,360,833	275,348,142	557,573,288	485,135,687	1,042,708,975
2014	757,979,406	284,116,227	584,891,540	457,204,093	1,042,095,633
2015	770,218,706	282,943,418	613,549,557	439,612,566	1,053,162,123
2016	769,143,710	291,527,752	633,174,481	427,496,981	1,060,671,462
2017	758,421,836	300,504,885	636,924,784	422,001,937	1,058,926,721
2018	712,526,281	297,379,282	617,808,144	392,097,419	1,009,905,563
2019	672,312,216	299,430,578	603,688,200	368,054,594	971,742,793
2020	639,155,992	297,770,015	590,206,495	346,719,512	936,926,007
2021	556,779,794	286,379,400	549,560,193	293,599,001	843,159,194
2022	500,828,025	285,950,635	537,742,106	249,036,554	786,778,660
2023	475,740,588	274,378,479	523,902,167	226,216,899	750,119,066
2024	449,756,413	272,353,729	516,429,322	205,680,819	722,110,141
2025	399,542,700	271,244,223	486,699,917	184,087,005	670,786,923
2026	359,925,525	268,860,973	466,475,654	162,310,844	628,786,498
2027	317,501,163	255,161,260	431,168,610	141,493,813	572,662,423
2028	275,117,575	232,853,130	383,646,468	124,324,237	507,970,705
2029	248,885,800	221,680,350	361,841,913	108,724,237	470,566,150
2030	200,378,750	203,353,875	310,650,835	93,081,790	403,732,625
2031	149,708,475	98,767,100	228,530,000	19,945,575	248,475,575
2032	112,710,675	66,889,950	170,185,000	9,415,625	179,600,625
2033	58,280,038	26,275,875	82,535,000	2,020,913	84,555,913
Total	$14,064,066,842	$6,473,495,732	$12,643,185,580	$7,894,376,994	$20,537,562,574

(1) Includes current Bond offering dated September 26, 2007.

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)
2003	$ 1,460.84	4.39%	0.41%	1.58%
2004	1,570.16	4.46%	0.41%	1.65%
2005	1,636.63	4.59%	0.42%	1.64%
2006*	1,706.27	4.54%	0.42%	1.54%
2007*	1,905.78	4.84%	0.45%	1.75%

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)
2003	6,098.30	$ 202,942	$ 827,723	$ 563,600,366	$ 8,908,653
2004	6,167.80	216,921	896,463	585,655,515	9,684,449
2005	6,256.40	223,232	939,828	625,111,698	10,239,381
2006*	6,375.60	239,396	1,013,403	707,348,409	10,878,525
2007*	6,503.50	256,150	1,150,901	707,348,409	12,394,216

(1) Population -- Office of the Forecast Council, "Washington Economic and Revenue Forecast June 2007," Table A5.1.

(2) Personal Income -- Office of the Forecast Council, "Washington Economic and Revenue Forecast June 2007," 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 2002 through 2005 -- Department of Revenue, "Property Tax Statistics 2006," 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 September 26, 2007.

* Estimate.

State Bonded Debt by Source of Payments

General Obligation		
Payable from General State Revenues	$7,693,606,302 (1)	
First Payable from Other Sources	4,700,609,742 (2)	
Limited Obligation	0	$12,394,216,044

	General Obligation Debt		
	Payable From General State Revenues	First Payable from Other Sources	Total State Bonded Debt
Debt to True Market Value.....	1.09%	0.66%	1.75%
Per Capita Debt.....	$1,182.99	$722.78	$1,905.78

(1) Outstanding bonds as of September 26, 2007.

(2) Certain state general obligation bonds are payable first from sources other than general state revenues ($1,002,038,108 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

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 while 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. GAAP formerly required those liabilities be recorded as long-term debt and allowed expected employer and employee contributions to be shown as an asset. GASB now requires the Supplemental Cost of Living Benefit to be characterized as an obligation of the Workers' Compensation Fund, a special enterprise fund, but does not permit employer and employee future contributions to be shown as an offsetting asset. This accounting change has no impact on the fund's liability to pay supplemental cost of living benefits, nor does it affect its ability to make those payments. 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.

Certificates of Participation/Financing Contracts

The following table displays outstanding state certificates of participation/financing contracts as of July 31, 2007.

CERTIFICATES OF PARTICIPATION/FINANCING CONTRACTS

	Outstanding	2007-2009 Debt Service Requirement	Final Maturity
WA COP WSU, CTC, GA, Franklin County, 2007A	$ 16,000,000	$ 2,509,813	2027
Big Bend, Clark, Spokane, SPSC, Walla Walla CCs, 2004A	11,460,000	2,512,235	2024
The Evergreen State College, Childcare Center, 2003	350,000	708,865	2008
Master Installment Program -- RE, 1993	2,210,000	1,185,740	2016
St Board for Community and Tech Colleges, COP Series 2006C	9,395,000	1,742,688	2026
DOC, 2005, Tumwater and Airway Heights	8,680,000	1,364,790	2025
DOE Refunding, 2003B	25,715,000	2,280,975	2016
UW, Sandpoint Phase 2B, 2001D	2,930,000	552,665	2022
Highline Community College, RE-2003F	10,895,000	1,829,388	2023
UW, McCarty-Lander, 2001C	3,110,000	1,190,556	2013
Quarterly Pooled Financings; since 2004	110,192,274	52,929,093	2020
LOCAL Real Property	3,757,775	1,298,562	2017
South Puget Sound Community College,1999	3,630,000	897,574	2020
Equipment Series, Competitive; since 1997	24,883,428	15,048,509	2015
GA, Yakima Building Project, 1999B	6,335,000	1,453,125	2019
UW, Sand Point Bldg 5 Phase IIC, 2002E	2,320,000	399,783	2023
CWU, Edmonds, 2002D	4,415,000	777,255	2023
Whatcom, Columbia Basin and Yakima CC, 2000A	3,805,000	948,305	2020
GA, Olympia Capitol Court and Federal Building, 1999A	8,285,000	1,458,631	2022
Pierce College, 1998 - Steilacoom Classroom Building	190,000	198,655	2008
Tacoma, Peninsula, Green River and Whatcom CCs, 2001A	3,610,000	927,909	2017
UW, Sand Point Bldg 29, 2002A	3,995,000	745,830	2022
GA Cherberg Bldg Rehabilitation, COP, Series 2006D	7,760,000	1,178,538	2026
Veterans Affairs, 2001	2,785,000	744,629	2016
DOL, WSP, Vancouver and Union Gap Project, Series 1998	5,050,000	1,113,400	2018
WA Liquor Control Board Warehouse Expansion 2006I	16,525,000	5,778,798	2014
DOT Acquisitions, CCs and Adams Cnty COP, Series 2005D	14,815,000	3,033,945	2025
WSU - 2006A Refunding of 1996A Consolidated Info Cntr	6,090,000	1,473,375	2018
Washington State Convention and Trade Center	155,560,000	27,568,490	2018
DOE Refunding, 2001	26,190,000	12,070,050	2012
Edmonds CC - Music Building, 2000C	3,045,000	713,589	2018
WA CTC (Shoreline) COP, Series 2006G	14,795,000	2,353,575	2026
GA, Isabella Bush Record Center, 2002	3,310,000	576,798	2023
Whatcom Community College, 1997 - Child Care Center	485,000	163,420	2013
Washington State Patrol, 1997 - Port Angeles Office	260,000	119,148	2012
WA COP-CTC (Edmonds, Pierce) and Parks (Camas), Series 2007C	16,600,000	1,309,679	2027
Bellingham Technical College Classroom Additions, 1998	95,000	99,485	2008
UW, Husky Den, 2001B	4,985,000	954,294	2022
UW, Sandpoint Phase 2, 2001A	1,270,000	247,898	2021
DOC, 1998 Kennewick Work Release Facility and Monroe Dairy	724,303	771,047	2009
Bellevue Community College, RE-2003C	13,660,000	2,304,155	2023
CTC & Pend Oreille FD 3 COP, Series 2006F	15,495,000	2,441,048	2026
Bellevue, Spokane Falls, Shoreline and Edmonds CCs, 2001B	3,455,000	1,557,290	2015
LOCAL Real Property B - Taxable	190,000	68,675	2016
Columbia Basin CC, 2004F	7,600,000	1,497,535	2020
UW, Sandpoint Bldgs 5 and 29, RE-2003E	3,840,000	619,815	2024
UW, 1999, Sandpoint and Primate Center	7,510,000	2,215,280	2021
Dept. of Personnel Human Resources Systems, 2004D	30,665,000	8,249,578	2016
SOS, Records Center EWU, 2002	9,830,000	2,257,595	2018
GA, Kelso Building and Land, 2000	3,010,000	922,398	2015
DOC, 2001 Workrelease Facility- Spokane Brownstone	2,395,000	473,083	2021
Bates Technical College-Communications Center, 2000B	3,030,000	641,021	2020
GA, Tacoma Co-location Project, 1996	11,605,000	2,720,843	2020
	$ 658,792,780	$ 179,199,413	

The 1989 Legislature authorized 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.

Other Contingencies

The following table displays other contingencies as of July 31, 2007.

	Outstanding	2005-2007 Debt Service Requirement	Final Maturity
Tumwater Office Properties Lease Revenue Bonds, 2004	$ 56,805,000	$ 6,796,076	2028

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 $12,896 per unemployed worker. The maximum and minimum weekly benefit amounts payable are defined as percentages of the state's average weekly wage in covered employment. The maximum is now $496; the minimum is $112.

Legislative changes in 1984 improved the revenue-generating capacity of the unemployment insurance financing provisions. Collections under prior law could only meet the average annual benefit costs of the state's benefit provisions, and the reserve fund level (fund balance as a percent of total wages) could increase only during periods of low unemployment. The experience rating system enacted in 1984 set 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. The highest tax schedule was in effect when the reserve fund level was below one percent of total wages,. Growth in the trust fund triggered tax schedules with lower yields. Growth in the trust fund triggered tax schedules with lower yields. Due to a higher-than-necessary reserved fund level the Legislature added a lower tax schedule in 1993 and lower trust fund controls in 1995.

Changes in benefit and financing provisions were enacted by the Legislature in 2003, 2005 and 2006. The changes place limits on the maximum weekly benefit amount and reduce the computed benefit amounts for some claimants. Most new financing provisions took place in 2005; some will take effect in 2007. The Employment Security Department is in the process of analyzing the impact of changes in the financing provisions.

UNEMPLOYMENT COMPENSATION FUND
(Dollars in Millions)

	Beginning Balance	Receipts	Disbursements	June 30 Balance*	
				Dollars	Percent**
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	1.58
FY 2005	1,243	1,562	702	2,103	2.63

* As of September 30 beginning FY 2000.
** As a percent of total wages for the preceding calendar year.

STATE RETIREMENT SYSTEMS

Overview

Washington State public pensions include nine systems:

(i) Public Employees' Retirement System ("PERS"),

(ii) Teachers' Retirement System ("TRS"),

(iii) School Employees' Retirement System ("SERS"),

(iv) Public Safety Employees' Retirement System ("PSERS"),

(v) Law Enforcement Officers' and Fire Fighters' Retirement System ("LEOFF"),

(vi) Washington State Patrol Retirement System ("WSPRS"),

(vii) Judicial Retirement System ("JRS"),

(viii) Judges' Retirement Fund ("Judges"), and

(ix) Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Act ("VFF").

Four of the state systems (PERS, TRS, SERS, and LEOFF) include more than one plan. Contribution rates differ for the plans within each of these systems. Members entering before October 1, 1977, are covered under Plan 1; members entering on and after October 1, 1977, are covered under Plan 2. Plan 3 members do not make contributions to the Defined Benefit portion of the plan. SERS Plan 2/3 is composed of school employees hired on or after October 1, 1977, who would have been included in PERS Plan 2 before the creation of SERS in the year 2000. School employees hired before October 1, 1977, remain in PERS Plan 1. A portion of the employer contribution for Plan 2/3 employees of PERS, TRS, and SERS is contributed to the respective Plan 1 for purposes of amortizing the Plan 1 Unfunded Actuarial Accrued Liability ("UAAL," defined below under "Actuarial Assumptions").

PSERS has just one plan. PSERS employers also contribute to the PERS 1 UAAL.

WSPRS consists of two plans. Plan 1 closed to new membership on December 31, 2002, but all members pay the same contribution rates to help fund the system.

JRS and Judges each contain one plan, and each is funded on a pay-as-you-go basis. VFF also has just one pension plan.

With the exception of the Plans 3 in PERS, TRS, and SERS, the retirement plans are defined benefit plans, providing monthly cash payments in accordance with a specific schedule. The benefit amount may be determined by a combination of service and/or salary. The Plans 3 in PERS, TRS, and SERS are combination defined benefit/defined contribution plans. The defined benefit portions of these plans are fully funded by the employers.

State Contribution Levels

The State of Washington contributes to these systems to varying degrees. The following table contains current contribution ratios, or "splits," between the state and local government employers. The state's share is further split by fund: General Fund – state (GF-s), and all other funds (Non-GF-s). These splits are used internally by the Office of the State Actuary to model approximate allocation of costs for employers by fund or type of employer.

CONTRIBUTION SPLITS

System	GF-State(%)	Non-GF-State(%)	Local Government(%)
PERS	15.0	24.5	60.5
TRS	67.5	0.0	32.5
SERS	40.6	0.0	59.4
PSERS	44.8	1.0	54.2
LEOFF	100.0	0.0	0.0
WSPRS	9.7	90.3	0.0

The following table shows the ***total state contribution*** by fiscal year for all systems combined. Contribution tables in the Individual Retirement Systems section report state contribution levels by year for each respective system.

STATE CONTRIBUTIONS
(ALL SYSTEMS COMBINED)
(Dollars in thousands)

Fiscal Year Ending June 30	Contributions
2001	$ 406,000
2002	198,800
2003	118,300
2004	127,600
2005	133,200
2006	255,300

Plan Administration

The Department of Retirement Systems ("DRS") administers all of the above systems, with the exception of VFF, which is administered by the State Board for Volunteer Fire Fighters and Reserve Officers. The Legislature is the legislative body with respect to laws regarding system creation and administration.

The Office of the State Actuary ("OSA"), which is overseen by the State Actuary Appointment Committee and the Executive Committee of the Select Committee on Pension Policy, performs all actuarial services for DRS, including all studies required by law. The tables included hereunder have been reviewed by the State Actuary and are subject to revision in the future.

The Pension Funding Council ("PFC"), which was created under RCW 41.45.100, has several functions with respect to the activities of OSA. 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 assumptions used by OSA in its actuarial valuations. The PFC reviews and adopts changes to demographic assumptions developed by OSA, also used in the valuations. Additionally, the PFC adopts contribution rates (see definition 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.

Actuarial Assumptions

At least once every six years, the State Actuary is required to perform studies in which the demographic assumptions used in each system are evaluated in light of actual experience. A study of the demographic assumptions was last performed for the 1995-2000 period. As a result of the 1995-2000 experience study, significant changes were made in assumptions and in the asset valuation method. The results shown in this section reflect those assumptions. The next experience study, covering the years 2001-2006, is expected to be underway in the latter part of 2007. The results will be audited, finalized, and adopted sometime in the fall of 2008.

As previously mentioned, the PFC reviews and adopts changes to the long-term economic assumptions used by OSA in its actuarial valuations. The major economic assumptions used, developed and last adopted by the PFC in the year 2001, are as follows:

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

(ii) General salary increases: 4.5 percent per *annum*;

(iii) Rate of Consumer Price Index increase: 3.5 percent (where applicable).

A new law passed during the 2007 Legislative Session (Chapter 280, Laws of 2007) calls for the PFC to review economic assumptions every two years, beginning in the fall of 2007.

The Actuarial Valuation Report provides information on the following:

(i) *Contribution Rates.* These are rates of contribution developed based upon the September 30, 2005, Actuarial Valuation Report ("AVR"), expressed as a percentage of the active members' compensation. The 2006 AVR will be published in the autumn of 2007. The next contribution rate-setting valuation, with an effective date of June 30, 2007, under current law, will be published in the fall of 2008.

(ii) *Unfunded Actuarial Present Value of Credited Projected Benefits.* This is the amount by which liabilities exceed assets. Liabilities are calculated under the Projected Unit Credit ("PUC") cost

method. Benefits are projected to retirement, including future salary increases, but based only on service earned to date.

(iii) *Funding Ratio.* The Funding Ratio is assets divided by liabilities. Liabilities are calculated under the PUC Method.

(iv) *Unfunded Actuarial Accrued Liability (UAAL).* This is a portion of the unfunded actuarial present value of fully projected benefits. The significance of this item is in developing the contribution rates for the Plans 1. Contributions toward the UAAL have been developed as a level percentage of expected future payrolls. The pertinent statute, Chapter 41.45 RCW, requires the existing UAAL in the Plans 1, as well as future gains or losses, and benefit increases to be fully funded by June 30, 2024.

Funded Status

The following table displays funding measures for PERS, TRS, SERS, LEOFF, and WSPRS. The table shows a standard form funded status, using the present value of credited projected benefits to gauge liabilities. The assets have been measured under the actuarial asset value method. Contribution rates are developed using a different liability measure, the present value of fully projected benefits. ***Assets from one plan may not be used to fund benefits for another plan.***

As shown in the table, assumptions changed in 1989, 1994, 1997, 2000, 2001, and 2005. Assumption changes can be either demographic or economic in nature. They may come about as a result of changes adopted by the PFC. Laws passed by the Legislature can also have an impact on assumptions used by the OSA. For example, if a law were passed lowering the normal retirement age for a specific plan or group of plans, retirement rates would need to be changed to reflect the cost of this new legislation.

HISTORICAL FUNDED RATIOS
(Dollars in millions)

	PERS		TRS		SERS	LEOFF		WSPRS
	Plan 1	**Plan 2/3**	**Plan 1**	**Plan 2/3**	**Plan 2/3**	**Plan 1**	**Plan 2**	
Credited Projected Liability	$ 13,146	$ 9,663	$ 10,550	$ 3,280	$ 1,433	$ 4,223	$ 2,932	$ 614
Valuation Assets	9,707	12,274	8,450	4,411	1,747	4,800	3,329	694
Unfunded Liability	$ 3,439	$ (2,611)	$ 2,100	$ (1,131)	$ (314)	$ (577)	$ (397)	$ (80)
Funded Ratio (%)								
2005*	**74**	**127**	**80**	**134**	**122**	**114**	**114**	**113**
2004	81	134	88	153	137	109	117	118
2003	82	142	89	155	138	112	125	123
2002	92	158	98	182	169	119	137	135
2001*	97	179	100	197	197	129	154	147
2000*	98	190	100	196	170	136	161	152
1999	93	189	93	188	N/A	125	154	159
1998	86	191	86	185	N/A	117	160	147
1997	83	187	82	181	N/A	108	155	140
1996	73	157	70	144	N/A	89	130	128
1995	68	150	65	136	N/A	80	126	119
1994*	67	142	65	130	N/A	68	124	110
1993	70	142	62	126	N/A	68	127	110
1992	67	139	59	127	N/A	65	128	108
1991	67	149	59	131	N/A	66	154	106
1990	66	154	60	140	N/A	65	153	105
1989*	65	162	58	144	N/A	65	158	103
1988	66	165	59	143	N/A	66	153	102
1987	71	175	58	135	N/A	69	157	95
1986	63	162	50	125	N/A	57	142	87

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

* Assumptions changed.

Individual Retirement Systems

PERS Overview. PERS is a cost-sharing multiple-employer retirement system, containing three separate plans for members: Plans 1 and 2 are defined benefit plans, and Plan 3 is a combination defined benefit/defined contribution plan. As of September 30, 2005, the date of the last actuarial valuation, PERS included 246,754 active and inactive members, with 68,609 receiving benefits.

Defined benefits paid to PERS members are funded through a combination of employee and employer/state contributions and investment earnings. Detailed schedules of contributions and disbursements, and funding progress are included in Appendix D—Excerpts from the 2006 Audited General Purpose Financial Statements.

Employee contributions to the plan earn accrued interest at a rate determined by the director of DRS. During the last valuation year, the DRS specified rate was 5.5 percent. This 5.5 percent rate is different from the economic rate of return assumption used by OSA in its actuarial valuations. It is the interest rate paid by DRS on member contributions should a member elect to withdraw his or her membership instead of collecting a future retirement benefit. The following table shows the state's contributions to PERS for the last several fiscal years.

STATE CONTRIBUTIONS TO PERS
(Dollars in thousands)

Fiscal Year Ending June 30	Contributions
2001	$ 152,200
2002	61,600
2003	47,300
2004	45,900
2005	48,000
2006	88,000

Between 2001 and 2005, the state's contribution to PERS declined. With the unusually favorable performance of investments in the late 1990s, the funding levels of the pension plans improved, allowing contribution rates to fall. In addition, the Legislature suspended payments on the Plan 1 UAAL from 2003 to 2005 and again from 2005 to 2007. Legislation passed in 2006 provided for UAAL payments to resume on a phased-in schedule beginning in the 2006-2007 fiscal year. By statute, the Plan 1 UAAL must be fully amortized by June 30, 2024.

(i) *PERS 1.* As of September 30, 2005, the date of the last actuarial valuation, PERS 1 had 73,590 active and inactive members, with 54,795 receiving benefits.

(ii) *PERS 2/3.* As of September 30, 2005, the date of the last actuarial valuation, PERS 2/3 had 173,164 active and inactive members, with 13,814 receiving benefits.

SERS Overview. 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 September 30, 2005, the date of the last actuarial valuation, SERS included 58,045 active and inactive members, with 2,131 receiving benefits.

Defined benefits paid to SERS members are funded through a combination of employee/employer contributions and investment earnings. Detailed schedules of contributions and disbursements, and funding progress are included in Appendix D—Excerpts from the 2006 Audited General Purpose Financial Statements.

Employee contributions to the plan earn accrued interest at a rate determined by the director of DRS. During the last valuation year, the DRS specified rate was 5.5 percent. This 5.5 percent rate is different from the economic rate of return assumption used by OSA in its actuarial valuations. It is the interest rate paid by DRS on member contributions should a member elect to withdraw his or her membership instead of collecting a future retirement benefit. The following table shows the state's contribution to SERS for the last several fiscal years.

STATE CONTRIBUTIONS TO SERS
(Dollars in thousands)

Fiscal Year Ending June 30	Contributions
2001	$ 10,600
2002	6,000
2003	6,200
2004	9,100
2005	10,200
2006	30,400

The contribution levels in the table above vary from year to year due to changing contribution rates, which are tied to several factors, including benefit structure and investment performance. SERS employers also help to amortize the PERS 1 plan UAAL.

TRS Overview. 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. As of September 30, 2005, the date of the last actuarial valuation, TRS included 111,613 active and inactive members, with 37,321 receiving benefits.

Defined benefits paid to TRS members are funded through a combination of employee/employer contributions and investment earnings. Detailed schedules of contributions and disbursements, and funding progress are included in Appendix D—Excerpts from the 2006 Audited General Purpose Financial Statements.

Employee contributions to the plan earn accrued interest at a rate determined by the director of DRS. During the last valuation year, the DRS specified rate was 5.5 percent. This 5.5 percent rate is different from the economic rate of return assumption used by OSA in its actuarial valuations. It is the interest rate paid by DRS on member contributions should a member elect to withdraw his or her membership instead of collecting a future retirement benefit. The following table shows the state's contribution to TRS for the last several fiscal years.

STATE CONTRIBUTIONS TO TRS
(Dollars in thousands)

Fiscal Year Ending June 30	Contributions
2001	$ 210,900
2002	105,800
2003	38,600
2004	41,300
2005	42,600
2006	90,500

Between 2001 and 2005, the state's contribution to TRS declined. With the unusually favorable performance of investments in the late 1990s, the funding levels of the pension plans improved, causing contribution rates to fall. Also, the Legislature suspended payments on the Plan 1 UAAL from 2003 to 2005, and again from 2005 to 2007. Legislation passed in 2006 provided for UAAL payments to resume on a phased-in schedule beginning in the 2006-2007 fiscal year. By statute, the Plan 1 UAAL must be fully amortized by June 30, 2024.

(i) *TRS 1.* As of September 30, 2005, the date of the last actuarial valuation, TRS 1 had 45,184 members, with 35,264 receiving benefits.

(ii) *TRS 2/3.* As of September 30, 2005, the date of the last actuarial valuation, TRS 2/3 had 66,429 members, with 2,057 receiving benefits.

LEOFF Overview. LEOFF is a cost-sharing multiple-employer retirement system encompassing two separate defined benefit plans. As of September 30, 2005, the date of the last actuarial valuation, LEOFF included 25,191 active and inactive members, with 8,723 receiving benefits.

Defined benefits paid to LEOFF members are funded through a combination of employee/employer contributions, investment earnings, and a special funding situation in which the state pays through state

legislative appropriations. Detailed schedules of contributions and disbursements, and funding progress are included in Appendix D—Excerpts from the 2006 Audited General Purpose Financial Statements.

Employee contributions to the plan earn accrued interest at a rate determined by the director of DRS. During the last valuation year, the DRS specified rate was 5.5 percent. This 5.5 percent rate is different from the economic rate of return assumption used by OSA in its actuarial valuations. It is the interest rate paid by DRS on member contributions should a member elect to withdraw his or her membership instead of collecting a future retirement benefit. The following table shows the state's contribution to LEOFF for the last several fiscal years.

STATE CONTRIBUTIONS TO LEOFF
(Dollars in thousands)

Ending June 30	Contributions
2001	$ 20,900
2002	15,600
2003	16,400
2004	20,200
2005	21,300
2006	31,700

The contribution levels in the table vary due to changing contribution rates, which are tied to several factors, including benefit structure and investment performance. Contributions to LEOFF Plan 1 were not made by employees, as the plan is over-funded. LEOFF 1 employers pay only a 0.18 percent administrative expense rate to DRS as long as the plan is over-funded (0.16 percent beginning September 1, 2007).

(i) *LEOFF 1.* As of September 30, 2005, the date of the last actuarial valuation, LEOFF 1 had 8,879 active and inactive members, with 8,149 receiving benefits.

(ii) *LEOFF 2.* As of September 30, 2005, the date of the last actuarial valuation, LEOFF 2 had 16,312 active and inactive members, with 574 receiving benefits.

WSPRS Overview. WSPRS is a single-employer defined benefit retirement system, comprised of two plans. As of September 30, 2005, the date of the last actuarial valuation, WSPRS included 1,916 active and inactive members, with 792 receiving benefits.

Defined benefits paid to WSPRS members are funded through a combination of employee/employer contributions and investment earnings. Detailed schedules of contributions and disbursements, and funding progress are included in Appendix D—Excerpts from the 2006 Audited General Purpose Financial Statements.

Employee contributions to the plan earn accrued interest at a rate determined by the director of DRS. During the last valuation year, the DRS specified rate was 5.5 percent. This 5.5 percent rate is different from the economic rate of return assumption used by OSA in its actuarial valuations. It is the interest rate paid by DRS on member contributions should a member elect to withdraw his or her membership instead of collecting a future retirement benefit. The following table shows the state's contribution to WSPRS for the last several fiscal years.

STATE CONTRIBUTION TO WSPRS
(Dollars in thousands)

Ending June 30	Contributions
2001	$ 0
2002	0
2003	0
2004	0
2005	0
2006	3,100

Note: When WSPRS is fully funded, the state's contribution rate is zero.

PSERS Overview. PSERS is a relatively new plan, created in 2004 with an effective date of July 1, 2006, and is a multi-employer defined benefit plan. Defined benefits paid to PSERS members are funded through a combination of employee/employer contributions and investment earnings. As of November 2, 2006, PSERS contained an estimated 2,058 members, with 61 different employers. A large majority of PSERS members transferred from other plans, with only 216 of its 2,058 being new hires.

The first PSERS actuarial valuation will be published in September 2007 with an effective date of September 30, 2006. PSERS employers also help to amortize the PERS 1 plan UAAL.

JRS Overview. JRS is an agent multiple-employer retirement system with a single defined benefit plan. Retirement benefits in JRS are financed on a pay-as-you-go basis, through a mixture of investment earnings, employee/employer contributions, and a special funding situation where the state pays any remaining contributions. Detailed schedules of contributions and disbursements, and funding progress are included in Appendix D—Excerpts from the 2006 Audited General Purpose Financial Statements.

Members of JRS include judges elected or appointed to the Supreme Court, Court of Appeals, and Superior Courts. As of the last valuation date, JRS had 146 active and inactive members, with 131 receiving benefits. The following table shows the state's contribution to JRS for the last several fiscal years.

STATE CONTRIBUTION TO JRS
(Dollars in thousands)

Ending June 30	Contributions
2001	$ 7,300
2002	6,200
2003	6,200
2004	6,200
2005	6,200
2006	6,700

Judges Overview. The Judges' Retirement Fund is an agent multiple-employer retirement system with a single defined benefit plan. Retirement benefits are financed on a pay-as-you-go basis through a combination of past employee/employer contributions, as well as a special funding situation where the state contributes to the plan. Detailed schedules of contributions and disbursements, and funding progress are included in Appendix D—Excerpts from the 2006 Audited General Purpose Financial Statements.

As of September 30, 2005, the date of the last actuarial valuation, Judges was comprised of 16 members, all of whom were receiving benefits. The following table shows the state's contribution to Judges for the last several fiscal years.

STATE CONTRIBUTION TO JUDGES
(Dollars in thousands)

Ending June 30	Contributions
2001	$ 800
2002	300
2003	300
2004	500
2005	500
2006	300

VFF. The Volunteer Fire Fighters' and Reserve Officers' pension fund was created as a way to encourage members to stay active longer, and to keep officers participating in training, duty shifts, and responses. Detailed schedules of contributions and disbursements, and funding progress are included in Appendix D—Excerpts from the 2006 Audited General Purpose Financial Statements.

Membership as of December 31, 2005, included 20,667 active and inactive members, with 3,235 retirees and survivors receiving benefits. The following table shows the state's contribution to VFF for the last several fiscal years.

STATE CONTRIBUTION TO VFF
(Dollars in thousands)

Ending June 30	Contributions
2001	$ 3,300
2002	3,300
2003	3,300
2004	4,400
2005	4,400
2006	4,600

Shown below are Contribution rates for the Volunteer Fire Fighters' fund.

CONTRIBUTION RATES FOR VFF

	2004	Previous Method 8% Interest 2005	New Method 8% Interest 2005	New Method 7% Interest 2005
Per Person Contribution Rates Valuation				
Pension Rate				
Employee	$ 30	$ 30	$ 30	$ 30
Employer	30	30	30	30
State	61	61	7	30
Normal Cost Rate	$121	$ 121	$ 67	$ 90
State UAAL (Surplus) Rate	$ (45)	$ (81)	$ (23)	$131
Pension Rate	$ 76	$ 40	$ 44	$221
Relief Rate				
Employer*	$ 10	$ 30	$ 30	$ 30
State	90	89	89	89
Relief Rate	$100	$ 119	$ 119	$119
Operating Expenses				
Administration and Expenses	$ 22	$ 23	$ 23	$ 23

* The employer fee for the Relief Plan was increased from $10 to $30 effective July 24, 2005.

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	106,073	119,280	89
K-12	2,206	117,718	2
Political Subdivision	10,970	11,649	94
Total Active Members	119,249	248,647	48
Inactive Members			
State	25,060	25,060	100
K-12	25,752	25,752	100
Political Subdivision	807	807	100
Total Inactive Members	51,619	51,619	100
Total	170,868	300,266	57

* Percentage of eligible members currently participating in PEBB.

Source: Washington State 2007 OPEB Report

2007 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 STATE 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*	51,056	87,001

* Preliminary

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 will first be subject to the GASB 45 requirements for financial reporting for the fiscal year ending June 30, 2008.

On August 6, 2007, the state issued its *2007 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 Projected Unit Credit ("PUC") method, an amortization period of 30 years, and an expected long-term yield of 4.50 percent. The table below shows the GASB 45 liabilities as of January 1, 2007.

GASB 45 KEY RESULTS
(Dollars in Thousands)

	State	K-12	Political Subdivisions	Total
Actuarial Accrued Liability(1)	$ 3,799,530	$ 3,355,826	$ 339,972	$ 7,495,328
Annual Required Contribution(2)	313,970	286,923	33,799	634,692
Annual OPEB Cost(3)	313,970	286,923	33,799	634,692
Net OPEB Obligation(4)(5)	245,855	228,570	31,258	505,682

(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 30-year amortization 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.

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 *2007 Other Post-Employment Benefits Actuarial Valuation Report*, including a sensitivity analysis, can be found at the state's actuarial website at *www.osa.leg.wa.gov/Whats_New/Whats_new.htm.*

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. The state is the home of approximately 1,000 advanced technology firms, including Microsoft Corporation. The state's leading export industries are aerospace, forest products, agriculture, and food processing.

Population Characteristics

COMPONENTS OF POPULATION CHANGE
STATE OF WASHINGTON
1993-2003
(Population Numbers in Thousands)

		Components of Change from Previous Period								
		Population Change		Births		Deaths		Natural	Net Migration	
April 1	Population	Number	Percent	Number	Rate	Number	Rate	Increase	Number	Rate
1996	5,567.8	97.7	1.8	77.0	14.0	41.2	7.5	35.9	61.8	11.2
1997	5,663.8	96.0	1.7	78.0	13.9	42.6	7.6	35.4	60.6	10.8
1998	5,750.0	86.3	1.5	78.8	13.8	41.6	7.3	37.3	49.0	8.5
1999	5,830.8	80.8	1.4	79.8	13.8	43.1	7.5	36.6	44.2	7.6
2000	5,894.1	63.3	1.1	79.9	13.6	43.7	7.5	36.1	27.2	4.6
2001	5,974.9	80.8	1.4	80.7	13.6	43.9	7.4	36.8	44.0	7.4
2002	6,041.7	66.8	1.1	79.3	13.2	44.9	7.5	34.4	32.4	5.4
2003	6,098.3	56.6	0.9	79.1	13.0	44.7	7.4	34.3	22.3	3.7
2004	6,167.8	69.5	1.1	81.0	13.2	46.0	7.5	34.9	34.6	5.6
2005	6,256.4	88.6	1.4	81.8	13.2	45.6	7.3	36.2	52.4	8.4
2006	6,375.6	119.2	1.9	82.9	13.1	46.2	7.3	36.7	82.5	13.1
2007*	6,488.0	112.4	1.8	85.4	13.3	47.6	7.4	37.8	74.6	11.3

* Revenue forecast as of June 2007

Source: Office of Financial Management, available at www.ofm.wa.gov/databook/contents.htm#population

DISTRIBUTION OF POPULATION BY AGE
(Population Numbers in Thousands)

	Washington State					
Age	1990	Percent of Total	2000	Percent of Total	2006	Percent of Total
under 5	374,357	7.7	394,306	6.7	412,272	6.5
5-19	1,031,290	21.2	1,288,713	21.9	1,317,974	20.7
20-24	352,530	7.2	390,185	6.6	461,598	7.2
25-34	855,519	17.6	841,130	14.3	847,773	13.3
35-44	800,915	16.5	975,087	16.5	942,602	14.8
45-54	499,706	10.3	845,972	14.4	966,963	15.2
55-64	380,971	7.8	496,580	8.4	699,763	11.0
65 and over	571,404	11.7	662,148	11.2	726,655	11.4

Source: Office of Financial Management, available at www.ofm.wa.gov/databook/contents.htm#population, and the U.S. Bureau of Census, available at www.census.gov/statab/www/

Income Characteristics

The following table provides a comparison of personal income for the state and the nation for the last ten years.

PERSONAL INCOME COMPARISON
WASHINGTON AND U.S.
1998-2007
(Dollars in Billions)

	Current Dollars[1]				2000 Chained Dollars[2]			
	Washington		United States		Washington		United States	
Year	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
1998	163.8	9.1	7,423.0	7.3	170.6	8.1	7,734.4	6.4
1999	175.5	7.2	7,802.4	5.1	179.9	5.4	7,997.1	3.4
2000	187.9	3.0	8,429.7	8.0	187.9	4.4	8,430.1	5.4
2001	193.5	2.0	8,724.1	3.5	189.5	0.9	8,545.4	1.4
2002	197.5	2.8	8,881.9	1.8	190.7	0.6	8,578.4	0.4
2003	202.9	6.9	9,163.6	3.2	192.2	0.8	8,678.4	1.2
2004	216.9	2.9	9,731.4	6.2	200.2	4.2	8,980.2	3.5
2005	223.2	7.2	10,239.2	5.2	200.2	0.0	9,184.4	2.3
2006	239.4	7.0	10,883.4	6.3	209.0	4.4	9,501.2	3.4
2007[3]	256.1	6.6	11,506.1	5.7	219.0	4.8	9,836.9	3.5

(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 June 2007.

(4) Percent change; annual rate.

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

Employment Characteristics

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

	2003	2004	2005	2006	2007[2]
Resident Civilian Labor Force	3,149.2	3,208.9	3,270.5	3,326.5	3,394.5
Unemployment	233.2	200.6	180.5	166.2	163.7
Unemployment Rate (Percent)	7.4	6.3	5.5	5.0	4.8
Total Employment	2,916.0	3,008.4	3,090.0	3,160.4	3,230.9
Nonagricultural Wage and Salary Workers Employed in Washington					
Nonfarm	2,657.4	2,700.9	2,776.9	2,858.5	2,919.6
Durable Manufacturing	183.7	182.4	191.5	203.6	209.5
Aerospace	65.3	61.5	65.6	73.2	78.1
Computer	23.4	22.1	22.2	22.4	22.6
Nondurable Manufacturing	83.3	81.3	81.1	81.7	80.1
Natural	8.6	9.1	9.0	8.7	8.6
Construction	156.2	164.2	177.3	195.1	203.0
Trade, Transportation, Communication, Utilities	509.8	518.4	530.4	542.5	554.8
Information	92.3	92.8	94.7	98.4	102.4
Software	37.4	39.3	41.3	44.7	47.7
Financial	151.9	151.8	154.5	156.3	156.7
Professional	290.3	301.6	316.0	329.6	342.2
Education	312.9	319.7	329.3	337.2	346.2
Leisure	248.9	255.6	263.5	271.7	278.8
Other Service	98.9	100.3	102.7	104.0	105.6
Government	520.7	523.7	526.8	529.7	531.7

(1) Averages of monthly data.

(2) Revenue forecast as of June 2007; unemployment rate as of June 2007 equals 4.8 percent.

Source: Washington State Office of the Forecast Council

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

	State		United States	
	1997	**2007[2]**	**1997**	**2007[2]**
Manufacturing				
Nondurable Manufacturing				
Food and Kindred	1.6	1.1	1.3	1.1
Pulp and Paper	0.6	0.4	0.5	0.3
Other	1.8	1.2	3.7	2.3
Subtotal	3.9	2.7	5.5	3.7
Durable Manufacturing				
Lumber and Wood	0.9	0.7	0.5	0.4
Primary Metals	0.5	0.2	0.5	0.3
Fabricated Metals	0.8	0.7	1.4	1.1
Machinery	0.6	0.5	1.2	0.9
Computers	1.3	0.8	1.5	1.0
Transportation Equipment	4.7	3.1	1.7	1.2
Other	1.3	1.2	2.0	1.5
Subtotal	10.0	7.2	8.7	6.5
Total Manufacturing	13.9	9.9	14.2	10.2
Nonmanufacturing				
Natural Products	0.4	0.3	0.5	0.5
Construction	5.5	7.0	4.7	5.5
Trade, Transportation, Communication, Utilities	19.5	19.0	20.1	19.2
Information	2.9	3.5	2.5	2.2
Financial	5.1	5.4	5.8	6.1
Professional	10.4	11.7	11.7	13.0
Education	10.7	11.9	11.5	13.3
Leisure	9.3	9.6	9.0	9.8
Other	4.1	3.6	3.9	4.0
Government	18.2	18.2	16.0	16.1
Total Nonmanufacturing	86.1	90.1	85.8	89.8
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 June 2007.

(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

2000-2007

(Employment Numbers in Thousands)

	Civilian Labor Force		Number of Unemployed		Unemployment Rate		Wash. Unemployment as Percent of U.S.
Year	Wash.	U.S.	Wash.	U.S.	Wash.(%)	U.S.(%)	Rate(%)
2000	3,050	142,610	151	5,710	5.0	4.0	125.1
2001	3,053	143,925	189	6,986	6.2	4.7	130.6
2002	3,111	145,125	228	8,644	7.3	5.8	126.9
2003	3,159	146,501	234	8,771	7.4	6.0	123.6
2004	3,224	147,384	202	8,142	6.3	5.5	113.1
2005	3,292	149,296	182	7,581	5.5	5.1	109.1
2006	3,340	151,413	165	6,994	4.9	4.6	106.7
2007*	3,407	153,717	178	7,246	5.2	4.7	110.6

* Revenue forecast as of June 2007.

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

Companies. The following two tables provide information on the top companies headquartered in the state, ranked by revenues. The Boeing Company, headquartered in Chicago, Illinois, is the largest employer in the state, with revenues in 2006 of $54.8 billion, and was ranked number 28 in the Fortune 500 for 2006.

WASHINGTON'S TWENTY-FIVE LARGEST PUBLIC COMPANIES, RANKED BY 2005 REVENUES (in Millions)

		Net Revenues			Net Revenues
1.	Costco Wholesale Corp.	$ 52,935	14.	Nextel Partners Inc.	$ 1,801
2.	Microsoft Corp.	39,788	15.	Plum Creek Timber Co. Inc.	1,576
3.	Weyerhaeuser	22,629	16.	Potlatch Corp.	1,496
4.	Washington Mutual	21,667	17.	Avista Corp.	1,359
5.	Paccar Inc.	14,057	18.	Labor Ready Inc.	1,236
6.	Amazon.com Inc.	8,490	19.	Longview Fibre Co.	898
7.	Nordstrom Inc.	7,722	20.	Intermec (formerly Unova Inc.)	875
8.	Starbucks Corp.	6,369	21.	Esterline Technology Corp.	835
9.	Safeco Corp.	6,351	22.	Getty Images Inc.	733
10.	Expeditors International Inc.	3,901	23.	The Nautilus Group Inc.	631
11.	Alaska Air Group Inc.	2,975	24.	Zones Inc.	631
12.	Puget Sound Energy	2,573	25.	Itron Inc.	552
13.	Expedia	2,119			

Source: Puget Sound Business Journal, 2007 Book of Lists

WASHINGTON COMPANIES IN FORTUNE 500 IN 2006
(Dollars in Millions)

Company	Rank	Revenues	Headquarters/ Location
Costco Wholesale	32	$ 60,151.2	Issaquah
Microsoft	49	44,282.0	Redmond
Washington Mutual	81	26,561.0	Seattle
Weyerhaeuser	105	22,250.0	Federal Way
Paccar	141	16,454.1	Bellevue
Amazon.com	237	10,711.0	Seattle
Nordstrom	286	8,560.7	Seattle
Starbucks	310	7,786.9	Seattle
Safeco	363	6,289.9	Seattle
Expeditors International	477	4,626.0	Seattle
Alaska Air Group	596	3,344.4	Seattle
Puget Energy	647	3,044.3	Bellevue
Plum Creek Timber	973	1,627.0	Seattle
Potlatch	982	1,607.8	Spokane

Source: Fortune Magazine Fortune 500, July 2007

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 1996-2005*
(Dollars in Billions)

Fiscal Year	Washington	% Change	United States	% Change
1996	62.8	1.4	2,515.8	5.3%
1997	66.7	6.3	2,652.1	5.4
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

* 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 rank 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 15 major/national, three regional/commuter and ten foreign flag carriers. In addition, 16 all-cargo carriers have scheduled cargo service at Sea-Tac. Sea-Tac is the 23rd busiest airport in the nation for aircraft operations and the 20th busiest cargo airport.

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, although total employment within the company dropped from 238,600 to 160,600 and employment within the State dropped from 103,420 to 57,000 between February 1998 and June 2003. In September 2001, the company relocated its corporate headquarters to Chicago, Illinois, a move that affected approximately one-half of the 1,000 people who worked in the Seattle location.

The following table shows the record of sales and earnings reported by Boeing for the last five years:

BOEING SALES AND EARNINGS

Year	Sales (Billions) [1]	Earnings (Millions)
2002	$ 53.8	$ 492[2]
2003	50.3	718[3]
2004	52.5	1,872
2005	53.6	2,572
2006	61.5	2,215

(1) Includes firm orders; excludes options, orders without signed contracts, and orders from firms that have filed for bankruptcy.

(2) Restated to show cumulative effect of accounting change.

(3) Decrease in total earnings in 2003 due primarily to decreases in commercial airplanes and launch and orbital systems divisions earnings.

Source: The Boeing Company

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 ranks fourth among all states in the percentage of its work force employed in technology-related industries and ranks third among the largest software development centers. 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. Microsoft's fiscal year 2004 revenues were $36.8 billion, compared to $32.2 billion in fiscal year 2003.

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 local salmon runs as endangered 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
2000-2007

Year	State	US[1]
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	2,073,250
2006	50,033	1,817,167
2007[2]	51,215	1,407,716

(1) Actual housing starts prior to current year.
(2) Revenue forecast as of June 2007.

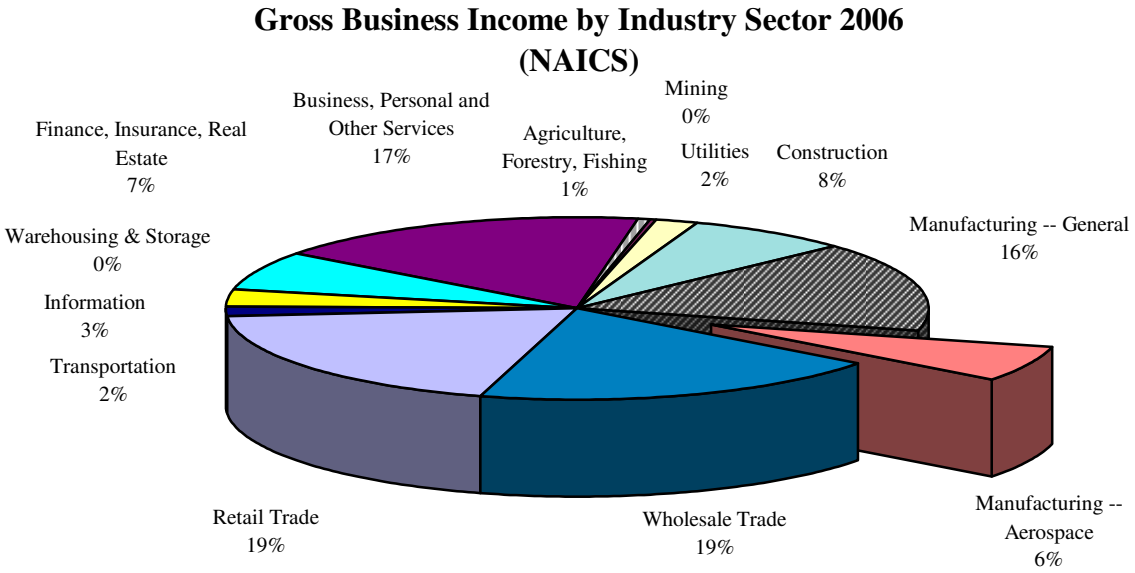
Source: Washington State Office of the Forecast Council and the Department of Commerce

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 2006.



Source: Department of Revenue, "Quarterly Business Review Calendar Year 2006", Table 1.

APPENDIX B

PROPOSED FORMS 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"):

$512,905,000
STATE OF WASHINGTON
VARIOUS PURPOSE GENERAL OBLIGATION BONDS, SERIES 2008A
DATED SEPTEMBER 26, 2007

The Bonds are issued pursuant to Ch. 3, Laws of 2003, 1st Sp. Sess.; Ch. 18, Laws of 2003, 1st Sp. Sess.; Ch. 487, Laws of 2005; Ch. 167, Laws of 2006; Ch. 521, Laws of 2007, of the State (collectively, the "Bond Act"), RCW 39.42 RCW, Resolutions Nos. 1055 and 1058 of the State Finance Committee of the State adopted on June 5, 2007, and September 12, 2007, 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 continuing 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 an item of tax preference for purposes of the alternative minimum tax applicable to individuals; however, while interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by corporations is to be taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by certain S corporations may be subject to tax, and interest on the Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. We express no opinion regarding any other federal, state or local tax consequences of receipt of interest on the Bonds.

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

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

State of Washington
[Date]

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,

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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"):

$387,000,000
STATE OF WASHINGTON
MOTOR VEHICLE FUEL TAX
GENERAL OBLIGATION BONDS, SERIES 2008B
DATED SEPTEMBER 26, 2007

The Bonds are issued pursuant to Ch. 431, Laws of 1993 (RCW 47.10.812); Ch. 321, Laws of 1998 (Referendum 49) (RCW 47.10.843); Ch. 147, Laws of 2003 (RCW 47.10.861); and Ch. 315, Laws of 2005 (RCW 47.10.873), of the State (collectively, the "Bond Act"), Ch. 39.42 RCW, Resolutions Nos. 1056 and 1059 of the State Finance Committee of the State adopted on June 5, 2007, and September 12, 2007, 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 Transportation 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 continuing 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. The Bonds are first payable from state excise taxes on motor vehicle and special fuels and are secured by liens and charges on such taxes as set forth in the Bonds. The State has covenanted that it will continue to levy such taxes in amounts sufficient to pay when due the principal of and interest on the Bonds.

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

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

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

State of Washington
[Date]

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,

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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"):

$70,000,000
STATE OF WASHINGTON
GENERAL OBLIGATION BONDS, SERIES 2008T (TAXABLE)
DATED SEPTEMBER 26, 2007

The Bonds are issued pursuant to Ch. 487, Laws of 2005, and Ch. 521, Laws of 2007, of the State (the "Bond Act"), Ch. 39.42 RCW, Resolutions Nos. 1057 and 1060 of the State Finance Committee of the State adopted on June 5, 2007, and September 12, 2007, 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 pay expenditures from the State Taxable Building Construction Account, as specified in the Bond Act. 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.

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 unconditionally pledged its full faith, credit and taxing power to pay principal of and interest on the Bonds.

The State Finance Committee, in the Bond Resolution, has declared its intention that the interest on the Bonds be includable in gross income for federal tax purposes. We express no opinion regarding any federal tax consequences of receipt of interest on the Bonds.

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
September 26, 2007

Subject to Statutory Debt Limitation

Chapter and Laws	Bonds Authorized	Issued [1]	Bonds Outstanding [1]	Unissued
Ch. 138 -- Laws of 1965 (R-92C)	$ 195,985,500	$ 195,985,500	$ 6,060,000	$ -
Ch. 138 -- Laws of 1965 (R-93A)	86,305,000	86,305,000	24,745,000	-
Ch. 138 -- Laws of 1965 (R-93B)	172,305,000	172,305,000	49,105,000	-
Ch. 138 -- Laws of 1965 (R-99A)	67,980,000	67,980,000	40,455,000	-
Ch. 138 -- Laws of 1965 (R-2000A)	73,795,000	73,795,000	9,965,000	-
Ch. 138 -- Laws of 1965 (R-2001A)	351,595,000	351,595,000	79,390,000	-
Ch. 138 -- Laws of 1965 (R-2001T)	12,050,000	12,050,000	1,445,000	-
Ch. 138 -- Laws of 1965 (R-2003A)	563,780,000	563,780,000	456,110,000	-
Ch. 138 -- Laws of 1965 (R-2003C)	57,775,000	57,775,000	40,915,000	-
Ch. 138 -- Laws of 1965 (R-2004A)	118,590,000	118,590,000	104,170,000	-
Ch. 138 -- Laws of 1965 (R-2004C)	116,625,000	116,625,000	109,035,000	-
Ch. 138 -- Laws of 1965 (R-2005A)	340,175,000	340,175,000	329,450,000	-
Ch. 138 -- Laws of 1965 (R-2006A)	382,100,000	382,100,000	374,895,000	-
Ch. 138 -- Laws of 1965 (R-2007A)	284,090,000	284,090,000	278,935,000	-
Ch. 138 -- Laws of 1965 (R-2007C)	340,820,000	340,820,000	340,820,000	-
Ch. 125 -- Laws of 1988	18,887,360	18,887,360	885,920	-
Ch. 14 -- Laws of 1989, 1st Ex. Sess., as amended	616,360,000	595,295,569	252,583,135	21,064,431
Ch. 31 -- Laws of 1991, 1st Sp. Sess., as amended	379,680,000	368,100,000	138,955,000	11,580,000
Ch. 12 -- Laws of 1993, 1st Sp. Sess	429,137,000	420,544,716	183,775,583	8,592,284
Ch. 17 -- Laws of 1995, 2nd Sp. Sess., as amended	469,325,000	440,821,667	202,676,665	28,503,333
Ch. 456 -- Laws of 1997, Regular Sess	592,565,000	568,380,000	375,770,000	24,185,000
Ch. 380 -- Laws of 1999, Regular Sess	786,750,000	748,367,000	642,132,000	38,383,000
Ch. 9 -- Laws of 2001, 2nd Sp. Sess	905,575,000	853,308,000	744,373,000	52,267,000
Ch. 240 -- Laws of 2002, Regular Sess	89,700,000	83,375,000	80,755,000	6,325,000
Ch. 3 -- Laws of 2003, 1st Sp. Sess	1,212,000,000	1,123,620,000	1,061,045,000	88,380,000
Ch. 18 -- Laws of 2003, 1st Sp. Sess	772,500,000	490,010,000	481,450,000	282,490,000
Ch. 487 -- Laws of 2005, Regular Sess	1,434,000,000	1,010,040,000	991,450,000	423,960,000
Ch. 167 -- Laws of 2006, Regular Sess	273,595,000	33,725,000	33,725,000	239,870,000
Ch. 521 -- Laws of 2007, Regular Sess	1,972,000,000	268,420,000	268,420,000	1,703,580,000
Subtotal	$ 13,116,044,860	$ 10,186,864,812	$ 7,703,491,302	$ 2,929,180,048

(1) Includes current Bond offering dated September 26, 2007.

Excluded From Statutory Debt Limitation

Chapter and Laws	Bonds Authorized	Issued	Bonds Outstanding	Unissued
Ch. 138 -- Laws of 1965 (211-1985A-X2).....	$ 3,330,000	$ 3,330,000	$ -	-
Ch. 138 -- Laws of 1965 (212-AK).....	2,142,000	2,142,000	-	-
Ch. 138 -- Laws of 1965 (659-AQ-A).....	7,590,000	7,590,000	-	-
Ch. 138 -- Laws of 1965 (665-AQ-B).....	13,680,000	13,680,000	-	-
Ch. 138 -- Laws of 1965 (666-AT).....	9,490,000	9,490,000	-	-
Ch. 138 -- Laws of 1965 (196-BC).....	6,478,500	6,478,500	-	-
Ch. 138 -- Laws of 1965 (661-BK).....	7,689,000	7,689,000	695,000	-
Ch. 138 -- Laws of 1965 (213-W).....	5,540,000	5,540,000	-	-
Ch. 138 -- Laws of 1965 (R-93A-Ex).....	119,750,000	119,750,000	9,500,000	-
Ch. 138 -- Laws of 1965 (R-93B-Ex).....	58,645,000	58,645,000	42,045,000	-
Ch. 138 -- Laws of 1965 (R-97A Ex).....	25,026,467	25,026,467	25,026,467	-
Ch. 138 -- Laws of 1965 (R-99A Ex).....	25,140,000	25,140,000	14,485,000	-
Ch. 138 -- Laws of 1965 (R-2000A).....	6,775,000	6,775,000	915,000	-
Ch. 138 -- Laws of 1965 (R-2001A).....	54,045,000	54,045,000	19,525,000	-
Ch. 138 -- Laws of 1965 (R-2003A).....	42,095,000	42,095,000	32,880,000	-
Ch. 138 -- Laws of 1965 (R-2003C).....	19,185,000	19,185,000	13,420,000	-
Ch. 138 -- Laws of 1965 (R-2004A).....	5,550,000	5,550,000	4,745,000	-
Ch. 138 -- Laws of 1965 (R-2004C).....	2,390,000	2,390,000	2,235,000	
Ch. 138 -- Laws of 1965 (R-2005A).....	3,425,000	3,425,000	3,190,000	-
Ch. 138 -- Laws of 1965 (R-2006A).....	79,070,000	79,070,000	78,370,000	-
Ch. 138 -- Laws of 1965 (R-2007A).....	36,960,000	36,960,000	36,305,000	-
Ch. 138 -- Laws of 1965 (R-2007C).....	35,990,000	35,990,000	35,990,000	-
Ch. 34 -- Laws of 1982 as amended.....	21,697,181	21,697,181	5,722,924	-
Ch. 14 -- Laws of 1989, 1st Ex. Sess., as amended.....	47,170,000	32,405,000	13,315,000	14,765,000
Ch. 15 -- Laws of 1990, 1st Ex. Sess.....	10,000,000	10,000,000	1,122,808	-
Ch. 31 -- Laws of 1991, 1st Sp. Sess., as amended.....	245,000,000	240,987,302	112,556,192	4,012,698
Ch. 17 -- Laws of 1995, 2nd Sp. Sess., as amended.....	10,310,000	9,420,000	7,425,000	890,000
Ch. 220 -- Laws of 1997, Regular Sess.....	300,000,000	294,944,718	255,384,718	5,055,282
Ch. 456 -- Laws of 1997, Regular Sess.....	45,670,000	43,635,000	34,515,000	2,035,000
Ch. 380 -- Laws of 1999, Regular Sess.....	113,610,000	94,945,000	79,645,000	18,665,000
Ch. 9 -- Laws of 2001, 2nd Sp. Sess.....	128,435,000	121,295,000	109,995,000	7,140,000
Ch. 147 -- Laws of 2003, Regular Sess.....	349,500,000	55,885,000	53,145,000	293,615,000
Subtotal.....	$ 1,841,378,148	$ 1,495,200,167	$ 992,153,108	$ 346,177,981
Total.....	$ 14,957,423,008	$ 11,682,064,979	$ 8,695,644,410	$ 3,275,358,029

BOND AUTHORIZATION AND OUTSTANDING DEBT
MOTOR VEHICLE FUEL TAX REVENUE
September 26, 2007

Chapter and Laws	Bonds Authorized	Issued [1]	Bonds Outstanding [1]	Unissued
Ch. 138 -- Laws of 1965 (432-Ferry Vessels)	$ 14,720,000	$ 14,720,000	$ -	-
Ch. 138 -- Laws of 1965 (430-Highways)	70,270,000	70,270,000	-	-
Ch. 138 -- Laws of 1965 (431-UAB)	36,105,000	36,105,000	860,000	-
Ch. 138 -- Laws of 1965 (R-93C)	104,075,000	104,075,000	8,530,000	-
Ch. 138 -- Laws of 1965 (R-2000B)	18,740,000	18,740,000	2,480,000	-
Ch. 138 -- Laws of 1965 (R-2001B)	119,640,000	119,640,000	28,005,000	-
Ch. 138 -- Laws of 1965 (R-2003B)	70,325,000	70,325,000	56,505,000	-
Ch. 138 -- Laws of 1965 (R-2004B)	57,045,000	57,045,000	50,130,000	-
Ch. 138 -- Laws of 1965 (R-2004D)	156,475,000	156,475,000	149,155,000	-
Ch. 138 -- Laws of 1965 (R-2005B)	95,800,000	95,800,000	93,450,000	-
Ch. 138 -- Laws of 1965 (R-2007B)	63,810,000	63,810,000	62,670,000	-
Ch. 138 -- Laws of 1965 (R-2007D)	73,030,000	73,030,000	73,030,000	-
Ch. 7 -- Laws of 1967, Ex. Sess. (Sections 13-23) as amended by Ch 11, Laws of 1993	11,125,000	11,125,000	5,950,000	-
Ch. 83 -- Laws of 1967, 1st Ex. Sess.	103,890,000	53,890,000	-	50,000,000
Ch. 180 -- Laws of 1979, 1st Ex. Sess.	28,480,000	28,480,000	2,400,000	-
Ch. 315 -- Laws of 1981	36,860,000	36,860,000	7,775,000	-
Ch. 316 -- Laws of 1981	148,375,000	148,375,000	6,605,000	-
Ch. 293 -- Laws of 1990	15,000,000	13,400,000	7,810,000	1,600,000
Ch. 158 -- Laws of 1992	54,895,000	54,895,000	5,475,000	-
Ch. 431 -- Laws of 1993, as amended	427,630,000	162,630,000	91,445,000	265,000,000
Ch. 432 -- Laws of 1993	82,515,000	7,320,000	1,585,000	75,195,000
Ch. 440 -- Laws of 1993	66,055,000	58,545,000	44,915,000	7,510,000
Ch. 15 -- Laws of 1995, 2nd Sp. Sess.	13,815,000	7,605,000	3,395,000	6,210,000
Ch. 321 -- Laws of 1998	1,900,000,000	1,582,851,634	1,489,791,634	317,148,366
Ch. 147 -- Laws of 2003	3,200,000,000	1,279,000,000	1,243,405,000	1,921,000,000
Ch. 315 -- Laws of 2005	5,300,000,000	265,000,000	263,205,000	5,035,000,000
Total	$ 12,268,675,000	$ 4,590,011,634	$ 3,698,571,634	$ 7,678,663,366
Grand Total	$ 27,226,098,008	$ 16,272,076,613	$ 12,394,216,044	$ 10,954,021,395

(1) Includes current Bond offering dated September 26, 2007.

APPENDIX D

EXCERPTS FROM 2006 AUDITED GENERAL PURPOSE FINANCIAL STATEMENTS

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Washington State Auditor
Brian Sonntag

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

December 18, 2006

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, 2006, 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 reflect total assets and revenues or additions of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component units and remaining fund information as follows:

Opinion Unit	Percent of Total Assets	Percent of Total Revenues/Additions
Governmental Activities	14.5%	8.6%
Business-Type Activities	75.3%	43.8%
Higher Education Special Revenue Fund	59.6%	51.8%
Higher Education Endowment Fund	97.2%	94.9%
Higher Education Student Services Fund	68.3%	82.1%
Workers' Compensation Fund	100%	100%
Aggregate Discretely Presented Component Units and Remaining Fund Information	89.5%	71.1%

Those financial statements were audited by other auditors whose reports 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 upon the reports of other auditors.

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FAX (360) 753-0646 • http://www.sao.wa.gov

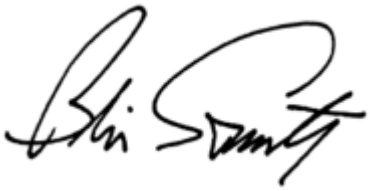
We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining,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

In our opinion, based on our audit and the report 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, 2006, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the required supplementary information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, 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 combining and individual fund statements and schedules listed in the table of contents are for purposes of additional analysis, and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, 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. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.



BRIAN SONNTAG, CGFM

STATE AUDITOR

Basic Financial Statements

Government-wide Financial Statements

State of Washington
Statement of Net Assets
June 30, 2006
(expressed in thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
ASSETS				
Cash and pooled investments	$ 5,477,855	$ 5,106,230	$ 10,584,085	$ 43,201
Taxes receivable (net of allowance)	2,833,106	4,994	2,838,100	-
Other receivables (net of allowance)	870,801	1,292,125	2,162,926	4,519
Internal balances (net)	32,204	(32,204)	-	-
Due from other governments	2,755,085	59,880	2,814,965	-
Inventories	91,137	82,343	173,480	-
Investments, noncurrent	3,338,092	11,636,772	14,974,864	25,645
Other assets	138,905	145,913	284,818	24,399
Capital assets (Note 6):				
Non-depreciable assets	16,623,090	230,544	16,853,634	38,532
Depreciable assets, net of depreciation	7,550,906	1,356,647	8,907,553	396,198
Total capital assets, net of depreciation	24,173,996	1,587,191	25,761,187	434,730
Total Assets	$ 39,711,181	$ 19,883,244	$ 59,594,425	$ 532,494
LIABILITIES				
Accounts payable	$ 999,444	$ 125,068	$ 1,124,512	$ 2,522
Contracts and retainage payable	89,891	29,240	119,131	5,221
Accrued liabilities	451,540	242,698	694,238	132
Obligations under security lending agreements	742,929	1,505,197	2,248,126	-
Due to other governments	589,253	16,313	605,566	-
Unearned revenue	637,272	43,715	680,987	898
Long-term liabilities (Note 7):				
Due within one year	849,569	1,916,020	2,765,589	-
Due in more than one year	12,190,023	18,368,606	30,558,629	37,987
Total Liabilities	16,549,921	22,246,857	38,796,778	46,760
NET ASSETS				
Invested in capital assets, net of related debt	15,434,256	604,298	16,038,554	391,534
Restricted for:				
Unemployment compensation	-	3,164,354	3,164,354	-
Other purposes	1,538,739	-	1,538,739	25,325
Capital projects	199,257	-	199,257	-
Expendable permanent fund principal	1,342,704	-	1,342,704	-
Nonexpendable permanent endowments	1,262,314	-	1,262,314	-
Unrestricted (deficit)	3,383,990	(6,132,265)	(2,748,275)	68,875
Total Net Assets	$ 23,161,260	$ (2,363,613)	$ 20,797,647	$ 485,734

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

State of Washington
Statement of Activities
For the Fiscal Year Ended June 30, 2006
(expressed in thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General government	$ 1,320,051	$ 513,084	$ 307,201	$ 6,395
Education--elementary and secondary (K-12)	6,642,230	13,134	749,035	-
Education--higher education	4,804,145	1,281,377	1,734,907	15,747
Human services	10,081,654	233,735	5,265,580	193
Adult corrections	748,946	6,431	2,427	927
Natural resources and recreation	777,233	390,372	138,410	28,997
Transportation	1,526,306	786,726	62,500	558,128
Interest on long-term debt	532,887	-	-	-
Total governmental activities	26,433,452	3,224,859	8,260,060	610,387
Business-type Activities:				
Workers' compensation	2,266,899	1,790,413	7,606	-
Unemployment compensation	736,214	1,410,756	42,803	-
Higher education student services	1,254,052	1,265,822	4,648	94
Health insurance programs	1,244,052	1,341,428	-	-
Other	1,042,151	1,102,389	5	-
Total business-type activities	6,543,368	6,910,808	55,062	94
Total Primary Government	$ 32,976,820	$ 10,135,667	$ 8,315,122	$ 610,481
Total Component Units	$ 28,713	$ 13,039	$ 490	$ 700

General revenues:
- Taxes - sales and use taxes
- Taxes - business and occupation taxes
- 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

Extraordinary loss (asset impairment)

Transfers

Change in net assets

Net assets -- restated beginning

Net assets -- ending

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

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
$ (493,371)	$ -	$ (493,371)	
(5,880,061)	-	(5,880,061)	
(1,772,114)	-	(1,772,114)	
(4,582,146)	-	(4,582,146)	
(739,161)	-	(739,161)	
(219,454)	-	(219,454)	
(118,952)	-	(118,952)	
(532,887)	-	(532,887)	
(14,338,146)	-	(14,338,146)	
-	(468,880)	(468,880)	
-	717,345	717,345	
-	16,512	16,512	
-	97,376	97,376	
-	60,243	60,243	
-	422,596	422,596	
(14,338,146)	422,596	(13,915,550)	
			$ (14,484)
7,428,938	-	7,428,938	-
2,483,767	-	2,483,767	-
1,629,563	-	1,629,563	-
1,030,003	-	1,030,003	-
1,067,318	48,783	1,116,101	-
1,859,760	50,914	1,910,674	-
474,791	147,412	622,203	2,627
15,974,140	247,109	16,221,249	2,627
1,635,994	669,705	2,305,699	(11,857)
131,153	-	131,153	-
(84,248)	-	(84,248)	-
251,937	(251,937)	-	-
1,934,836	417,768	2,352,604	(11,857)
21,226,424	(2,781,381)	18,445,043	497,591
$ 23,161,260	$ (2,363,613)	$ 20,797,647	$ 485,734

Fund Financial Statements

GOVERNMENTAL FUNDS
Balance Sheet
June 30, 2006
(expressed in thousands)

	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	**Total**
Assets:					
Cash and pooled investments	$ 803,128	$ 336,569	$ 420,018	$ 3,633,037	$ 5,192,752
Investments	-	728,482	2,407,174	217,325	3,352,981
Taxes receivable (net of allowance)	2,717,932	4,273	-	110,901	2,833,106
Other receivables (net of allowance)	223,256	235,083	30,905	511,300	1,000,544
Due from other funds	292,989	132,502	469	280,802	706,762
Due from other governments	745,214	112,560	-	1,773,194	2,630,968
Inventories	21,177	11,404	-	37,054	69,635
Total Assets	$ 4,803,696	$ 1,560,873	$ 2,858,566	$ 6,563,613	$ 15,786,748
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	$ 697,786	$ 46,578	$ 5	$ 220,160	$ 964,529
Contracts and retainages payable	18,847	1,395	2,783	66,199	89,224
Accrued liabilities	159,441	137,934	9,252	78,552	385,179
Obligations under security lending agreements	126,374	89,243	389,358	137,686	742,661
Due to other funds	267,698	53,360	3,427	307,060	631,545
Due to other governments	415,114	13,308	-	122,347	550,769
Deferred revenues	1,226,761	155,906	13,765	590,617	1,987,049
Claims and judgments payable	14,870	-	-	10,610	25,480
Total Liabilities	2,926,891	497,724	418,590	1,533,231	5,376,436
Fund Balances:					
Reserved for:					
Encumbrances	129,439	187,625	-	458,214	775,278
Inventories	16,360	11,404	-	37,054	64,818
Permanent funds	-	-	2,439,976	165,042	2,605,018
Other specific purposes	85,049	253,727	-	1,508,303	1,847,079
Unreserved, designated for, reported in:					
Working capital	1,076,631	-	-	-	1,076,631
Higher education	-	155,679	-	-	155,679
Special revenue funds	-	-	-	229	229
Debt service funds	-	-	-	206,228	206,228
Unreserved, undesignated	569,326	454,714	-	-	1,024,040
Unreserved, undesignated reported in:					
Special revenue funds	-	-	-	2,585,037	2,585,037
Capital project funds	-	-	-	70,275	70,275
Total Fund Balances	1,876,805	1,063,149	2,439,976	5,030,382	10,410,312
Total Liabilities and Fund Balances	$ 4,803,696	$ 1,560,873	$ 2,858,566	$ 6,563,613	$ 15,786,748

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

State of Washington
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2006
(expressed in thousands)

Total fund balances for governmental funds		$ 10,410,312
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	$ 16,598,513	
Depreciable assets, net of depreciation	7,148,697	
Total capital assets		23,747,210
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.		1,355,421
Accrued current interest on general obligation bonds		(217,685)
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.		(51,963)
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 notes payable	(11,239,466)	
Accrued interest on bonds	(236,962)	
Claims and judgments	(31,622)	
Other obligations	(573,985)	
Total long-term liabilities		(12,082,035)
Net assets of governmental activities		$ 23,161,260

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

GOVERNMENTAL FUNDS
Statement of Revenues, Expenditures, and Changes in Fund Balances

For the Fiscal Year Ended June 30, 2006
(expressed in thousands)

	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	**Total**
Revenues:					
Retail sales and use taxes	$ 7,356,848	$ -	$ -	$ 72,090	$ 7,428,938
Business and occupation taxes	2,411,887	-	-	71,880	2,483,767
Property taxes	1,384,359	-	-	245,204	1,629,563
Excise taxes	977,087	-	-	90,231	1,067,318
Motor vehicle and fuel taxes	-	-	-	1,030,003	1,030,003
Other taxes	1,034,949	119,844	-	707,978	1,862,771
Licenses, permits, and fees	84,935	533	-	702,654	788,122
Timber sales	2,823	-	15,106	158,513	176,442
Other contracts and grants	112,780	608,383	-	17,681	738,844
Federal grants-in-aid	6,113,438	1,059,808	-	922,076	8,095,322
Charges for services	51,070	1,189,184	-	473,142	1,713,396
Investment income (loss)	72,873	68,482	243,842	89,594	474,791
Miscellaneous revenue	54,889	96,272	1,458	370,713	523,332
Escheated property	61,911	-	-	-	61,911
Contribution and donations	-	-	131,153	-	131,153
Total Revenues	19,719,849	3,142,506	391,559	4,951,759	28,205,673
Expenditures:					
Current:					
General government	602,302	-	-	387,232	989,534
Human services	9,808,558	-	-	968,689	10,777,247
Natural resources and recreation	291,501	-	-	437,615	729,116
Transportation	41,688	813	-	1,446,276	1,488,777
Education	7,407,243	3,047,190	60	648,241	11,102,734
Intergovernmental	28,427	-	-	330,770	359,197
Capital outlays	55,666	107,772	-	1,546,629	1,710,067
Debt service:					
Principal	15,022	19,385	-	465,175	499,582
Interest	1,245	10,030	-	497,278	508,553
Total Expenditures	18,251,652	3,185,190	60	6,727,905	28,164,807
Excess of Revenues Over (Under) Expenditures	1,468,197	(42,684)	391,499	(1,776,146)	40,866
Other Financing Sources (Uses):					
Bonds issued	-	-	-	1,097,092	1,097,092
Refunding bonds issued	-	-	-	461,170	461,170
Payment to refunded bond escrow agent	-	-	-	(499,778)	(499,778)
Other debt issued	17,200	17,179	-	9,922	44,301
Bond issue premium	-	-	-	103,568	103,568
Capital lease acquisitions	51	64	-	-	115
Transfers in	247,894	363,633	1,281	2,699,037	3,311,845
Transfers (out)	(1,825,256)	(268,128)	(111,012)	(863,145)	(3,067,541)
Total Other Financing Sources (Uses)	(1,560,111)	112,748	(109,731)	3,007,866	1,450,772
Net change in fund balances	(91,914)	70,064	281,768	1,231,720	1,491,638
Fund Balances - Beginning, as restated	1,968,719	993,085	2,158,208	3,798,662	8,918,674
Fund Balances - Ending	$ 1,876,805	$ 1,063,149	$ 2,439,976	$ 5,030,382	$ 10,410,312

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

State of Washington

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

For the Fiscal Year Ended June 30, 2006
(expressed in thousands)

Net change in fund balances--total governmental funds	$ 1,491,638
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. This is the amount by which capital outlays exceeded depreciation in the current period.	1,110,279
Bond proceeds provide current financial resources to governmental funds, however, issuing debt increases long-term liabilities in the statement of net assets. Also, repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(756,473)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of the internal service funds is reported with governmental activities.	5,663
Because some revenues will not be collected for several months after the state's fiscal year end, they are not considered "available" revenues in the governmental funds. Deferred revenues decreased by this amount this year.	(519)
An extraordinary loss, as noted in the Capital Asset note (note 6) to the financial statements, is reported at the government wide level but not at the fund level.	84,248
Change in net assets of governmental activities	$ 1,934,836

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

PROPRIETARY FUNDS
Statement of Fund Net Assets

June 30, 2006
(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
Assets						
Current Assets:						
Cash and pooled investments	$ 33,220	$ 2,695,886	$ 357,741	$ 444,063	$ 3,530,910	$ 267,822
Investments	1,224,241	-	3,644	347,435	1,575,320	737
Taxes receivable (net of allowance)	-	-	-	4,994	4,994	-
Other receivables (net of allowance)	665,442	475,243	119,093	32,347	1,292,125	7,010
Due from other funds	22,973	2,530	34,606	38,923	99,032	69,490
Due from other governments	906	9,471	24,067	21,962	56,406	6,959
Inventories	169	-	33,796	48,378	82,343	21,503
Prepaid expenses	6	-	16,780	931	17,717	2,150
Total Current Assets	1,946,957	3,183,130	589,727	939,033	6,658,847	375,671
Noncurrent Assets:						
Investments, noncurrent	10,170,473	-	312,448	1,153,851	11,636,772	1,656
Other noncurrent assets	-	-	-	128,196	128,196	-
Capital Assets:						
Land	3,240	-	9,904	79,072	92,216	3,827
Buildings	62,441	-	1,232,370	401,421	1,696,232	118,391
Other improvements	1,020	-	39,143	13,563	53,726	18,244
Furnishings, equipment, and collections	51,581	-	282,253	62,995	396,829	653,844
Infrastructure	-	-	33,198	-	33,198	-
Accumulated depreciation	(53,393)	-	(647,109)	(122,836)	(823,338)	(388,266)
Construction in progress	4,955	-	126,272	7,101	138,328	20,749
Total Noncurrent Assets	10,240,317	-	1,388,479	1,723,363	13,352,159	428,445
Total Assets	$ 12,187,274	$ 3,183,130	$ 1,978,206	$ 2,662,396	$ 20,011,006	$ 804,116
Liabilities						
Current Liabilities:						
Accounts payable	$ 7,623	$ -	$ 67,438	$ 50,007	$ 125,068	$ 34,915
Contracts and retainages payable	3,756	-	5,725	19,759	29,240	602
Accrued liabilities	168,871	3,238	55,956	120,459	348,524	21,318
Obligations under security lending agreements	1,224,241	-	-	280,956	1,505,197	270
Bonds and notes payable	3,241	-	27,292	47,153	77,686	10,427
Due to other funds	27,143	1,161	38,897	60,877	128,078	35,413
Due to other governments	-	14,377	11	1,609	15,997	29
Unearned revenues	12,888	-	30,495	332	43,715	5,646
Claims and judgments payable	1,659,287	-	-	73,221	1,732,508	81,245
Total Current Liabilities	3,107,050	18,776	225,814	654,373	4,006,013	189,865
Noncurrent Liabilities:						
Claims and judgments payable	16,095,814	-	-	2,916	16,098,730	489,806
Bonds and notes payable	33,591	-	823,171	256,237	1,112,999	149,926
Other long-term liabilities	11,588	-	9,429	1,135,860	1,156,877	26,482
Total Noncurrent Liabilities	16,140,993	-	832,600	1,395,013	18,368,606	666,214
Total Liabilities	19,248,043	18,776	1,058,414	2,049,386	22,374,619	856,079
Net Assets:						
Invested in capital assets, net of related debt	33,011	-	407,853	163,434	604,298	266,435
Restricted for:						
Unemployment compensation	-	3,164,354	-	-	3,164,354	-
Unrestricted	(7,093,780)	-	511,939	449,576	(6,132,265)	(318,398)
Total Net Assets (Deficit)	$ (7,060,769)	$ 3,164,354	$ 919,792	$ 613,010	$ (2,363,613)	$ (51,963)

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

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

For the Fiscal Year Ended June 30, 2006
(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	$ -	$ -	$ 122,284	$ 529,235	$ 651,519	$ 129,464
Less: Cost of goods sold	-	-	77,397	361,885	439,282	112,246
Gross profit	-	-	44,887	167,350	212,237	17,218
Charges for services	20	-	1,045,438	67,799	1,113,257	569,259
Premiums and assessments	1,729,501	1,397,639	-	1,340,753	4,467,893	83,824
Federal aid for unemployment insurance benefits	-	42,803	-	-	42,803	-
Lottery ticket proceeds	-	-	-	477,885	477,885	-
Miscellaneous revenue	60,898	13,117	85,314	7,438	166,767	39,927
Total Operating Revenues	1,790,419	1,453,559	1,175,639	2,061,225	6,480,842	710,228
Operating Expenses:						
Salaries and wages	116,951	-	484,168	82,428	683,547	254,672
Employee benefits	33,411	-	92,830	26,337	152,578	65,750
Personal services	2,945	-	13,115	20,500	36,560	20,006
Goods and services	64,227	-	453,829	113,211	631,267	271,943
Travel	3,477	-	16,070	2,041	21,588	4,160
Premiums and claims	1,998,393	736,214	702	1,230,993	3,966,302	36,751
Lottery prize payments	-	-	-	291,773	291,773	-
Depreciation and amortization	25,551	-	67,096	16,200	108,847	59,983
Miscellaneous expenses	19,882	-	10,679	60,623	91,184	906
Total Operating Expenses	2,264,837	736,214	1,138,489	1,844,106	5,983,646	714,171
Operating Income (Loss)	(474,418)	717,345	37,150	217,119	497,196	(3,943)
Nonoperating Revenues (Expenses):						
Earnings (loss) on investments	(32,486)	106,141	19,018	54,739	147,412	4,209
Interest expense	(2,062)	-	(38,166)	(44,601)	(84,829)	(4,752)
Distributions to other governments	-	-	-	(35,611)	(35,611)	-
Other revenue (expenses)	7,600	-	17,434	120,409	145,443	177
Total Nonoperating Revenues (Expenses)	(26,948)	106,141	(1,714)	94,936	172,415	(366)
Income (Loss) Before Contributions and Transfers	(501,366)	823,486	35,436	312,055	669,611	(4,309)
Capital contributions	-	-	94	-	94	2,338
Transfers in	288,987	-	142,834	52,685	484,506	33,360
Transfers (out)	(290,310)	-	(146,436)	(299,697)	(736,443)	(25,727)
Net Contributions and Transfers	(1,323)	-	(3,508)	(247,012)	(251,843)	9,971
Change in Net Assets	(502,689)	823,486	31,928	65,043	417,768	5,662
Net Assets (Deficit) - Beginning, as restated	(6,558,080)	2,340,868	887,864	547,967	(2,781,381)	(57,625)
Net Assets (Deficit) - Ending	$ (7,060,769)	$ 3,164,354	$ 919,792	$ 613,010	$ (2,363,613)	$ (51,963)

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

PROPRIETARY FUNDS
Statement of Cash Flows

Continued

For the Fiscal Year Ended June 30, 2006
(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
Cash Flows from Operating Activities:						
Receipts from customers	$ 1,660,352	$ 1,436,088	$ 1,184,605	$ 2,394,680	$ 6,675,725	$ 786,568
Payments to suppliers	(1,565,539)	(734,185)	(563,737)	(2,006,772)	(4,870,233)	(403,948)
Payments to employees	(149,775)	-	(574,359)	(108,177)	(832,311)	(315,319)
Other receipts (payments)	60,898	55,294	85,314	7,437	208,943	39,886
Net Cash Provided (Used) by Operating Activities	5,936	757,197	131,823	287,168	1,182,124	107,187
Cash Flows from Noncapital Financing Activities:						
Transfers in	288,987	-	142,834	52,685	484,506	33,360
Transfers out	(290,310)	-	(146,436)	(299,697)	(736,443)	(25,727)
Operating grants and donations received	7,579	-	3,529	5	11,113	723
Taxes and license fees collected	5	-	-	120,323	120,328	12
Distributions to other governments	-	-	-	(35,611)	(35,611)	-
Other noncapital financing sources	-	-	-	(29)	(29)	-
Net Cash Provided (Used) by Noncapital Financing Activities	6,261	-	(73)	(162,324)	(156,136)	8,368
Cash Flows from Capital and Related Financing Activities:						
Interest paid	(2,062)	-	(33,312)	(12,031)	(47,405)	(4,761)
Principal payments on long-term capital financing	(3,054)	-	(38,687)	(20,951)	(62,692)	(9,969)
Proceeds from long-term capital financing	-	-	238,145	2,938	241,083	25,107
Proceeds from sale of capital assets	29	-	16,308	1,378	17,715	9,629
Acquisitions of capital assets	(8,118)	-	(145,412)	(22,421)	(175,951)	(87,741)
Net Cash or Pooled Investments Provided by (Used in) Capital and Related Financing Activities	(13,205)	-	37,042	(51,087)	(27,250)	(67,735)
Cash Flows from Investing Activities:						
Receipt of interest	580,466	106,141	18,512	31,098	736,217	4,564
Proceeds from sale of investment securities	4,657,665	-	40,704	386,686	5,085,055	46,217
Purchases of investment securities	(5,225,493)	-	(202,384)	(451,426)	(5,879,303)	(2,043)
Net Cash Provided by (Used in) Investing Activities	12,638	106,141	(143,168)	(33,642)	(58,031)	48,738
Net Increase (Decrease) in Cash and Pooled Investments	11,630	863,338	25,624	40,115	940,707	96,558
Cash and Pooled Investments, July 1	21,590	1,832,548	332,117	403,948	2,590,203	171,264
Cash and Pooled Investments, June 30	$ 33,220	$ 2,695,886	$ 357,741	$ 444,063	$ 3,530,910	$ 267,822
Cash Flows from Operating Activities:						
Operating Income (Loss)	$ (474,418)	$ 717,345	$ 37,150	$ 217,119	$ 497,196	$ (3,943)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operations:						
Depreciation	25,551	-	67,096	16,200	108,847	59,983
Change in Assets: Decrease (Increase)						
Receivables (net of allowance)	(48,781)	37,823	16,747	(20,845)	(15,056)	898
Inventories	12	-	(2,498)	(2,263)	(4,749)	(1,351)
Prepaid expenses	23	-	3,982	(393)	3,612	(886)
Change in Liabilities: Increase (Decrease)						
Payables	503,549	2,029	9,346	77,350	592,274	52,486
Net Cash or Cash Equivalents Provided by (Used in) Operating Activities	$ 5,936	$ 757,197	$ 131,823	$ 287,168	$ 1,182,124	$ 107,187

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

PROPRIETARY FUNDS
Statement of Cash Flows

Concluded

For the Fiscal Year Ended June 30, 2006
(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
Noncash Investing, Capital and Financing Activities:						
Contributions of capital assets	$ -	$ -	$ 94	$ -	$ 94	$ 2,338
Acquisition of capital assets through capital leases	-	-	-	-	-	56,805
Amortization of long-term lotto prize liability	-	-	-	28,345	28,345	-
Increase (decrease) in fair value of investments	(612,727)	-	(232)	21,721	(591,238)	2
Refunding bonds issued	-	-	1,440	-	1,440	-
Refunded bonds redeemed	-	-	(1,410)	-	(1,410)	-
Amortization of debt premium (issue costs/discount)	-	-	4,409	-	4,409	-
Accretion of interest on zero coupon bonds	-	-	-	3,388	3,388	-

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

FIDUCIARY FUNDS
Statement of Fiduciary Net Assets

June 30, 2006
(expressed in thousands)

	Private-Purpose Trust	Local Government Investment Pool	Pension and Other Employee Benefit Plans	Agency Funds
Assets:				
Cash and pooled investments	$ 12,005	$ 3,866,222	$ 47,216	$ 272,339
Investments	-	1,193,284	-	-
Other receivables (net of allowance)	4,970	13,046	387,360	256,161
Due from other funds	-	-	31,664	39,907
Due from other governments	-	-	68,283	23,081
Total Current Assets	16,975	5,072,552	534,523	591,488
Noncurrent Assets:				
Investments, noncurrent	93,578	49,989	63,608,369	11,085
Other noncurrent assets	-	-	-	52,924
Capital Assets:				
Furnishings, equipment, and collections	86	-	-	-
Accumulated depreciation	(84)	-	-	-
Total Noncurrent Assets	93,580	49,989	63,608,369	64,009
Total Assets	$ 110,555	$ 5,122,541	$ 64,142,892	$ 655,497
Liabilities:				
Accounts payable	$ 3,982	$ -	$ -	$ 17,299
Contracts and retainages payable	-	-	-	14,481
Accrued liabilities	123	378	204,835	295,097
Obligations under security lending agreements	-	44,790	5,673,783	11,227
Due to other funds	53,569	41	33,499	64,710
Due to other governments	-	-	-	199,759
Unearned revenues	-	-	725	-
Other long-term liabilities	-	-	-	52,924
Total Liabilities	57,674	45,209	5,912,842	$ 655,497
Net Assets:				
Net assets held in trust for:				
Pension benefits	-	-	56,042,868	
Deferred compensation participants	-	-	2,187,182	
Local government pool participants	-	5,077,332	-	
Individuals, organizations & other governments	52,881	-	-	
Total Net Assets	$ 52,881	$ 5,077,332	$ 58,230,050	

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

FIDUCIARY FUNDS
Statement of Changes in Fiduciary Net Assets

For the Fiscal Year Ended June 30, 2006
(expressed in thousands)

	Private-Purpose Trust	Local Government Investment Pool	Pension and Other Employee Benefit Plans
Additions:			
Contributions:			
Employers	$ -	$ -	$ 353,529
Members	-	-	639,094
State	-	-	43,187
Pool participants	-	11,984,431	168,000
Total Contributions	-	11,984,431	1,203,810
Investment Income:			
Net appreciation (depreciation) in fair value	-	-	6,681,558
Interest and dividends	-	197,892	1,760,301
Less: Investment expenses	-	-	(253,012)
Net Investment Income	-	197,892	8,188,847
Other additions:			
Escheated property	32,115	-	-
Transfers from other pension plans	-	-	5,512
Other contracts, grants and miscellaneous	221	1	1,547
Total other additions	32,336	1	7,059
Total Additions	32,336	12,182,324	9,399,716
Deductions:			
Pension benefits	-	-	2,202,693
Pension refunds	-	-	148,595
Transfers to other pension plans	-	-	5,512
Administrative expenses	2,932	6,253	1,462
Distributions to pool participants	-	11,862,940	109,318
Payments to or on behalf of individuals, organizations and other governments in accordance with trust agreements	21,807	-	-
Total Deductions	24,739	11,869,193	2,467,580
Net Increase (Decrease)	7,597	313,131	6,932,136
Net Assets - Beginning, as restated	45,284	4,764,201	51,297,914
Net Assets - Ending	$ 52,881	$ 5,077,332	$ 58,230,050

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

COMPONENT UNITS
Statement of Fund Net Assets
June 30, 2006
(expressed in thousands)

	Public Stadium	Nonmajor Component Units	**Total**
Assets			
Current Assets:			
Cash and pooled investments	$ 6,028	$ 4,187	$ 10,215
Investments	-	32,986	32,986
Other receivables (net of allowance)	2,730	1,789	4,519
Prepaid expenses	34	405	439
Total Current Assets	8,792	39,367	48,159
Noncurrent Assets:			
Investments, noncurrent	24,725	920	25,645
Other noncurrent assets	-	23,960	23,960
Capital Assets:			
Land	34,677	-	34,677
Buildings	451,445	-	451,445
Furnishings and equipment	25,118	1,193	26,311
Accumulated depreciation	(80,609)	(949)	(81,558)
Construction in Progress	3,855		3,855
Total Noncurrent Assets	459,211	25,124	484,335
Total Assets	$ 468,003	$ 64,491	$ 532,494
Liabilities			
Current Liabilities:			
Accounts payable	$ 313	$ 2,209	$ 2,522
Contracts and retainages payable	5,221	-	5,221
Accrued liabilities	56	76	132
Unearned revenues	76	822	898
Total Current Liabilities	5,666	3,107	8,773
Noncurrent Liabilities:			
Other long-term liabilities	37,987	-	37,987
Total Noncurrent Liabilities	37,987	-	37,987
Total Liabilities	43,653	3,107	46,760
Net Assets:			
Invested in capital assets, net of related debt	391,290	244	391,534
Restricted for deferred sales tax	24,725	-	24,725
Restricted for other purposes	-	600	600
Unrestricted	8,335	60,540	68,875
Total Net Assets (Deficit)	$ 424,350	$ 61,384	$ 485,734

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

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

For the Fiscal Year Ended June 30, 2006
(expressed in thousands)

	Public Stadium	Nonmajor Component Units	**Total**
Operating Revenues:			
Charges for services	$ 893	$ 12,146	$ 13,039
Total Operating Revenues	893	12,146	13,039
Operating Expenses:			
Salaries and wages	351	4,248	4,599
Employee benefits	54	1,158	1,212
Personal services	134	682	816
Goods and services	223	2,453	2,676
Travel	8	20	28
Depreciation and amortization	18,475	101	18,576
Miscellaneous expenses	-	9	9
Total Operating Expenses	19,245	8,671	27,916
Operating Income (Loss)	(18,352)	3,475	(14,877)
Nonoperating Revenues (Expenses):			
Earnings (loss) on investments	1,850	777	2,627
Interest expense	-	(307)	(307)
Operating grants and contributions	-	490	490
Distributions of operating grants	-	(490)	(490)
Total Nonoperating Revenues (Expenses)	1,850	470	2,320
Income (Loss) Before Contributions and Transfers	(16,502)	3,945	(12,557)
Capital grants and contributions	700	-	700
Total Contributions and Transfers	700	-	700
Change in Net Assets	(15,802)	3,945	(11,857)
Net Assets - Restated Beginning	440,152	57,439	497,591
Net Assets - Ending	$ 424,350	$ 61,384	$ 485,734

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

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2006

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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 seven 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 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 nine of the aforementioned retirement systems are included in the primary government's financial statements.

BLENDED COMPONENT UNIT - 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 entity is 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 to issue bonds to securitize a portion of the state's future tobacco settlement revenue in order to generate funds for increased costs of health care, long-term care, and other programs of the state.

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

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 $434 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
401 Second Avenue South, Suite 520
Seattle, WA 98104-0280

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 health insurance and 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 602 accounts that are combined into 58 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 health insurance program; 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, 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 Funds** are 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 collected and investment earnings. 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 considererd 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 twelve 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 recognized when the related liability is incurred. Exceptions to the general modified accrual expenditure recognition criteria include unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which 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 a flow of 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. As a result, the cash balances of funds with surplus pooled balances are not reduced for these investments. For reporting purposes, pooled cash is stated at fair value or amortized cost, which approximates fair value. For the purposes of the Statement of Cash Flows, the state considers cash and 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, to be cash equivalents.

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 valued based on appraisals or independent advisors. 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.

3. Inventories

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 $4.8 million in federally donated consumable inventories, which are offset by deferred revenues because they do not constitute an "available" resource until consumed.

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;
- 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 proprietary and trust funds, net interest costs (if material) incurred during the period of construction are capitalized.

Art collections, library reserve collections, and museum and historical collections, that are considered inexhaustible in that their value does not diminish over time, are not capitalized by the state 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 capital assets retired from service, or disposed of, 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 also 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 annual leave at a variable rate based on years of service. In general, accrued annual leave cannot exceed 30 days 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 60 days 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 leave 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 is comprised of three components – invested in capital assets, net of related debt; restricted; and unrestricted.

E. Other Information

1. General Budgetary Policies and Procedures

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 presented as Required Supplementary Information (RSI) 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 2005-2007 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 Report CAF1054 for governmental funds. A copy of this report is available at the Office of Financial Management, 6639 Capitol Boulevard, PO Box 43113, Olympia, Washington 98504-3113. For additional budgetary information, refer to the notes to RSI.

2. 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, disability, and pension payments to qualifying individuals sustaining work-related injuries. 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 cost-of-living adjustments (COLA) 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.

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 four years following the plan year based on 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 settled, and of claims that have been incurred but not reported (IBNR). 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 settlements, 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 risk management 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 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 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 four fiscal years. Otherwise, the risk management 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 risk management liability program in proportion to the 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.

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 eligible retirees, former employees, and employees who are temporarily not in pay status. For additional information, refer to Note 12.

The state secures commercial insurance for certain coverage offered, but self-insures the risk of loss for the Uniform Medical Plan. The Uniform Medical Plan enrolled 52 percent of the eligible subscribers in Fiscal Year 2006. 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.

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. State law permits the governing boards of the institutions to appropriate for expenditure as much of the net appreciation, realized and unrealized, in the fair value of the assets of an endowment fund as is deemed prudent under the facts and circumstances prevailing at the time.

Generally, the institutions use a 5 percent spending rate policy for authorizing and spending investment income.

The net appreciation available for authorization for expenditure by governing boards totaled $138.3 million and is reported in the nonexpendable portion of the reserve for permanent funds.

Note 2 - Accounting and Reporting Changes

Fund equity at July 1, 2005, has been restated as follows (expressed in thousands):

	Fund equity at June 30, 2005, as previously reported	Fund Reclassification	Prior Period Adjustment	Fund equity as restated, July 1, 2005
Governmental Funds:				
General	$ 1,925,176	$ -	$ 43,543	$ 1,968,719
Higher Education Special Revenue	993,085	-	-	993,085
Higher Education Endowment	2,357,200	-	(198,992)	2,158,208
Nonmajor Governmental	3,798,215	447	-	3,798,662
Proprietary Funds:				
Enterprise Funds:				
Workers' Compensation	(6,558,080)	-	-	(6,558,080)
Unemployment Compensation	2,340,868	-	-	2,340,868
Higher Education Student Services	887,864	-	-	887,864
Nonmajor Enterprise	547,997	-	(30)	547,967
Internal Service Funds	(51,759)	-	(5,866)	(57,625)
Fiduciary Funds:				
Private Purpose Trust	2,275	(447)	43,456	45,284
Local Government Investment Pool	4,764,201	-	-	4,764,201
Pension and Other Employee Benefit Plans	51,297,914	-	-	51,297,914
Component Units:				
Public Stadium	437,810	-	2,342	440,152
Nonmajor Component Units	57,439	-	-	57,439

Reporting Changes

Effective for Fiscal Year 2006 reporting, the state implemented two new accounting standards issued by the Governmental Accounting Standards Board (GASB):

Statement No. 46, *Net Assets Restricted by Enabling Legislation—an amendment of GASB Statement No. 34*, and

Statement No. 47, *Accounting for Termination Benefits*.

Fund Reclassification – During Fiscal Year 2006, it was determined that activity of a certain Nonmajor Governmental Fund was incorrectly being reported within the Private Purpose Trust Fund. As a result, beginning fund balances were restated to effect proper fund classification as a Special Revenue Fund.

Prior Period Adjustment – The Department of Revenue recorded prior period adjustments to both the General Fund and the Other Private-Purpose Trust Fund to correct the accounting associated with escheat resources.

Washington State University recorded a prior period adjustment in the Higher Education Endowment Fund to correctly account for its foundation.

The Department of Veterans Affairs recorded a prior period adjustment to correct an error in a Nonmajor Enterprise Fund.

The Department of Personnel recorded a prior period adjustment in the Internal Service Funds to properly account for the capitalization of the Human Resource Management System.

The Public Stadium recorded a prior period adjustment to properly accrue prior year capital contributions.

Governmental Capital Assets – The Department of Natural Resources recorded an adjustment to governmental capital assets to correct a prior period overstatement to infrastructure and related accumulated depreciation of $406 million and $46 million, respectively.

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, 2006, $2.3 billion of the state's deposits with financial institutions were either insured or collateralized, with the remaining $34.1 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

The Washington State Investment Board (WSIB) has been authorized by statute as having the investment management responsibility for the pension trust funds. The WSIB manages pension fund assets to maximize return at a prudent level of risk (RCW 43.33A.110). WSIB establishes asset allocation targets that must be considered at all times when making investment decisions.

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 and real estate. The CTF's performance benchmark objective is to exceed the return of a policy benchmark consisting of public market indices weighted according to asset allocation targets. The asset allocation for the CTF is formally reviewed every three to four years.

The public markets equity portion of the retirement fund includes strategies in the U.S., developed international and emerging markets. Since the U.S. equity markets are generally efficient, the domestic equity portfolio is almost entirely (77 percent) passively managed with the rest in an enhanced index strategy. Over time, the domestic equity portfolio should track the return of a broad U.S. market benchmark, the Dow Jones Wilshire 5000 Index. Non-U.S. markets are generally less efficient than the U.S. market: therefore, more active management will be included in the approach taken with international markets. The weightings of the elements of the developed markets and emerging markets of the non-U.S. equity program is similar to the weightings of the MSCI All Country World ex. U.S. Index which serves as the benchmark for the WSIB's entire non-U.S. program.

The fixed income investments of the pension trust funds are actively managed to exceed the return of the Lehman Universal Index, with volatility similar to or less than the index. The portfolio constraints are that no corporate fixed income issue shall exceed 3 percent of cost at the time of purchase or 6 percent of market value thereafter of the fund, and no high yield issues shall exceed 1 percent of cost or 2 percent of market value of the fund. Permissible fixed income market segments include: U.S. Treasuries and government agencies, Treasury Inflation Protection Securities, investment-grade credit bonds, high yield bonds, publicly traded mortgage-backed securities, commercial mortgage-backed securities, privately-placed mortgages, private placements of corporate debt, asset-backed securities, convertible securities, non-dollar bonds, real estate mortgages and Washington State Housing Finance Commission taxable municipal bonds up to a total of $25 million with a maximum of $10 million per year.

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

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

2. SECURITIES LENDING

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

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

Securities were loaned and collateralized by the WSIB's agent with cash and U.S. government securities (exclusive of mortgage backed securities and letters of credit), and irrevocable letters of credit. When the loaned securities were denominated in United States dollars, were securities whose primary trading market was located in the United States or were sovereign debt issued by foreign governments, the collateral requirement was 102 percent of the market value of the securities loaned. When the loaned securities were not denominated in United States dollars or were securities whose primary trading market was not located in the United States, the collateral requirement was 105 percent of the market value of the loaned securities. The collateral held and market value of securities on loan at June 30, 2006 were $5.7 billion and $5.6 billion respectively.

During Fiscal Year 2006, securities lending transactions could be terminated on demand by either the WSIB or the borrower. The average term of overall loans was 32 days.

Cash collateral was invested by the WSIB's agents in securities issued or guaranteed by the U.S. government, the WSIB's short-term investment pool (average weighted maturity of 312 days) or term loans. Because the securities lending agreements were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. Non-cash collateral could not be pledged or sold absent borrower default. There are no restrictions on the amount of securities that can be lent.

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

During Fiscal Year 2006, 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 2006 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. The pension fixed income investments are actively managed to exceed the return of the Lehman Universal Index, with volatility as measured by duration to be similar to or less than the index. Pension trust funds are invested in 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 pension fund investments by type and provides information about the interest rate risks associated with the pension trust funds investments as of June 30, 2006. 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, 2006
(expressed in thousands)

		Maturity				
Investment Type	**Fair Value**	Less than 1 year	1-5 years	6-10 years	More than 10 years	**Credit Rating**
Asset Backed Securities	$ 16,103	$ -	$ 1,717	$ -	$ 14,386	Aaa
Mortgages:						
Collateralized Mortgage Obligations	1,395,845	23,960	338,970	774,824	258,091	Multiple
Pass Throughs	2,437,152	709	1,485,033	876,328	75,082	Multiple
Non-Standard Mortgages	5,066	-	1,377	2,541	1,148	Multiple
Commercial Mortgage Backed Securities	495,134	-	248,261	246,874	-	Multiple
Corporate Bonds - Domestic	4,582,392	295,398	1,493,788	1,940,581	852,625	Multiple
Government Securities - Domestic:						
US Government Treasuries	1,126,654	11,004	176,924	422,218	516,508	Aaa
Treasury Inflation Protected Securities	2,426,499	541,914	1,071,869	812,716		Aaa
Government Securities - Foreign	89,704	-	59,218	30,486	-	Multiple
Variable Rate Notes	660,496	157,333	102,425	16,365	384,374	Multiple
	$ 13,235,045	$ 1,030,318	$ 4,979,582	$ 5,122,933	$ 2,102,214	
Corporate Stock - Domestic	1,185,908					
Corporate Stock - Foreign	8,024,644					
Commingled Index Funds - Domestic	10,956,354					
Commingled Index Funds - Foreign	4,235,629					
Money Market Funds	1,254,841					
Private Equity	9,028,773					
Real Estate	5,656,672					
Currencies	109,412					
Securities Lending Collateral Balances	5,669,883					
Defined Contribution Plans Assets:						
Short-Horizon	41,542					
Mid-Horizon	139,559					
Long-Horizon	139,216					
Mutual Funds:						
Domestic Equity Passive	1,248,890					
Non-US Passive Developed	250,807					
Domestic Equity Active	1,053,674					
Non-US Active Developed	96,316					
Washington State Bond Fund	263,471					
Savings Pool	702,339					
Money Market Mutual Funds	310,997					
Total	$ 63,603,972					

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, 2006
(expressed in thousands)

	Investment Type							
Moody's Equivalent Credit Rating	Corporate Bonds - Domestic	Variable Rate Notes	Collateralized Mortgage Obligations	Pass Throughs	Non-Standard Mortgages	Government Securities - Foreign	Commercial Mortgage Backed Securities	**Total**
Aaa	$ 527,729	$ 343,293	$ 1,353,258	$ 2,342,296	$ 2,675	$ 33,470	$ 470,927	$ 5,073,648
Aa1	171,514	-	-	-	-	-	-	171,514
Aa2	174,992	34,293	-	-	-	-	-	209,285
Aa3	605,010	92,078	-	-	-	-	-	697,088
A1	632,564	6,229	-	-	-	-	-	638,793
A2	269,996	58,550	-	-	-	-	-	328,546
A3	312,156	28,783	-	-	-	-	-	340,939
Baa1	517,062	11,345	-	-	-	-	-	528,407
Baa2	640,728	35,852	-	-	-	-	-	676,580
Baa3	248,120	7,862	-	-	-	-	-	255,982
NR	482,521	42,211	42,587	19,773	2,390	56,234	24,207	669,923
Total	$ 4,582,392	$ 660,496	$ 1,395,845	$ 2,362,069	$ 5,065	$ 89,704	$ 495,134	$ 9,590,705

4. CREDIT RISK

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The WSIB investment policy mitigates credit risk by limiting holdings of below investment grade fixed income securities. Rated debt investments of the pension trust funds as of June 30, 2006, 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 market value thereafter of the fund, and no high yield issues shall exceed 1 percent of cost or 2 percent of market value of the fund. There was no concentration of credit risk exceeding these policy guidelines as of June 30, 2006.

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of failure of the custodian, the WSIB would not be able to recover its investment securities or collateral securities that are in the possession of the custodian. The WSIB has no formal policy regarding custodial credit risk. However, as all of the pension fund system assets are registered and held in the state of Washington's name, they are not subject to custodial credit risk.

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 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. The pension trust funds also had $4.2 billion invested in an international commingled equity index fund. As such, these currency denominations are not presented in the following schedule.

Pension Trust Funds
Foreign Currency Risk
June 30, 2006
(expressed in thousands)

Foreign Currency Denomination	Investment Type: Short Term	Fixed Income	Equity	Private Equity	Real Estate	Total
Australia-Dollar	$ 6,784	$ -	$ 313,514	$ -	$ -	$ 320,298
Austria-Schilling	-	-	71,120	-	-	71,120
Belgium-Franc	-	-	46,266	-	-	46,266
Brazil-Real	208	89,704	44,203	-	-	134,115
Britain-Pound	14,181	-	1,350,898	75,951	69,516	1,510,546
Canada-Dollar	146	-	287,915	-	15,966	304,027
Chinese-Yuan	-	-	-	-	13,566	13,566
Denmark-Krone	947	-	29,210	-	-	30,157
E.M.U.-Euro	28,527	-	92,099	767,541	326,012	1,214,179
Finland-Markka	-	-	80,399	-	-	80,399
France-Franc	-	-	765,508	-	-	765,508
Germany-Mark	-	-	600,719	-	-	600,719
Greece-Drachma	-	-	46,487	-	-	46,487
Hong Kong-Dollar	4,934	-	184,985	-	16,936	206,855
Hungary-Forint	-	-	9,083	-	-	9,083
Indonesia-Rupiah	75	-	2,078	-	-	2,153
Ireland-Punt	-	-	14,428	-	-	14,428
Italy-Lira	-	-	297,959	-	-	297,959
Japan-Yen	32,821	-	1,647,251	-	182,880	1,862,952
Lithuania-Litas	5	-	132	-	-	137
Luxembourg-Franc	-	-	3,182	-	-	3,182
Malaysia-Ringgit	-	-	6,444	-	-	6,444
Mexico-Peso	-	-	23,805	-	-	23,805
Netherland-Guilder	-	-	423,075	-	-	423,075
New Zealand-Dollar	30	-	13,631	-	-	13,661
Norway-Krone	12,671	-	149,271	-	-	161,942
Pakistan-Rupee	-	-	12,690	-	-	12,690
Philippines-Peso	15	-	1,257	-	-	1,272
Poland-Zloty	16	-	48,456	-	-	48,472
Portugal-Escudo	-	-	9,577	-	-	9,577
Singapore-Dollar	468	-	75,926	8,650	-	85,044
South Africa-Rand	-	-	33,733	-	-	33,733
South Korea-Won	69	-	51,955	-	9,941	61,965
Spain-Peseta	-	-	344,396	-	-	344,396
Sweden-Krona	5,773	-	188,885	57,257	-	251,915
Switzerland-Franc	1,780	-	453,230	-	-	455,010
Thailand-Baht	-	-	1,871	-	226	2,097
Turkey-Lira	-	-	22,410	-	-	22,410
Total	$ 109,450	$ 89,704	$ 7,748,048	$ 909,399	$ 635,043	$ 9,491,644

6. DERIVATIVES

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

Consistent with the WSIB authority to invest in derivatives, international active equity managers may make limited investments in financial futures, forward contracts or other derivative securities to manage exposure to currency rate risk and equitize excess cash holdings. No such derivative securities were held as of June 30, 2006. 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, 2006, the only derivative securities held directly by WSIB were collateralized mortgage obligations (CMOs) of $1.4 billion.

7. REVERSE REPURCHASE AGREEMENTS

State law permits WSIB to enter into reverse repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The market value of the securities underlying reverse repurchase agreements normally exceeds the cash received, providing the dealers margin against a decline in market value of the securities. If the dealers default on their obligations to resell these securities to the state or provide securities or cash of equal value, WSIB would suffer an economic loss equal to the difference between the market value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. There were no reverse repurchase agreements during the year and there were no liabilities outstanding as of June 30, 2006.

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 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, RCW 42.52, 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 include:

- U.S. Equities.
- International Equities.
- U.S. Treasuries and Government Agencies.
- Credit Bonds.
- Mortgage-Backed Securities rated BBB- or higher by Standard & Poor's and Baa3 or higher by Moody's Investor's Service (Moody's).
- Asset-Backed Securities rated BBB- or higher by Standard & Poor's and Baa3 or higher by Moody's.
- Commercial Mortgage-Backed Securities rated BBB- or higher by Standard & Poor's and Baa3 or higher by Moody's.
- Investment Grade Non-U.S. Dollar Bonds.

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

- Asset allocation between equity and fixed income investments must fall within prescribed limits and are to be reviewed every three to four years or sooner if there are significant changes in funding levels or the liability durations.

- No corporate fixed income issue cost shall exceed 3 percent of the fund's market value at the time of purchase, nor shall its market value exceed 6 percent of the fund's market value at any time.
- Allocation of equity investments between U.S. and International must fall within prescribed limits. The benchmark and structure for U.S. equities is the broad U.S. stock market as defined by the Dow Jones-Wilshire 5000. The benchmark and structure for international equities is the Morgan Stanley Capital Indexes Europe, Australia, Far East (MSCI EAFE) index. Both portfolios are 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 prescribed ranges. 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 (rated BB+ or below by Standard & Poor's or rated Ba1 or below by Moody's) 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 State Street Bank and Trust (SSB) to act as agent for the WSIB in securities lending transactions. As SSB is the custodian bank for the WSIB, it is counterparty to securities lending transactions.

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

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

Securities were loaned and collateralized by the WSIB's agent with cash and U.S. government securities (exclusive of mortgage backed securities and letters of credit), and irrevocable letters of credit. When the loaned securities were denominated in United States dollars, were securities whose primary trading market was located in the United States or were sovereign debt issued by foreign governments, the collateral requirement was 102 percent of the market value of the securities loaned. When the loaned securities were not denominated in United States dollars or were securities whose primary trading market was not located in the United States, the collateral requirement was 105 percent of the market value of the loaned securities. The collateral held and market value of securities on loan at June 30, 2006 was $1.2 billion and $1.2 billion respectively.

During Fiscal Year 2006, securities lending transactions could be terminated on demand by either the WSIB or the borrower. The average term of overall loans was 32 days.

Cash collateral was invested by the WSIB's agents in securities issued or guaranteed by the U.S. government, the WSIB's short-term investment pool (average weighted maturity of 312 days) or term loans. Because the securities lending agreements were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. Non-cash collateral could not be pledged or sold absent borrower default. There are no restrictions on the amount of securities that can be lent.

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

During Fiscal Year 2006, 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 2006 resulting from a default by either the borrowers or the securities lending.

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. The workers' compensation fixed income investments are actively managed to exceed the return of the Lehman Aggregate Index, with volatility as measured by duration to be similar to or less than the index. As of June 30, 2006, the durations of the various fixed income classes were within the duration targets of the Lehman Aggregate 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, 2006. 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, 2006
(expressed in thousands)

		Maturity				
Investment Type	**Fair Value**	Less than 1 year	1-5 years	6-10 years	More than 10 years	**Credit Rating**
Asset Backed Securities	$ 5,162	$ -	$ 5,162	$ -	$ -	Aaa
Mortgages:						
Collateralized Mortgage Obligations	1,612,418	7,578	230,737	294,589	1,079,514	Multiple
Pass Throughs	2,744	244	2,492	8	-	Aaa
Non-Standard Mortgages	28,356	12,902	13,574	-	1,880	Multiple
Commercial Mortgage Backed Securities	633,660	5,513	369,677	258,470	-	Multiple
Corporate Bonds - Domestic	4,455,071	256,743	1,021,374	1,023,649	2,153,305	Multiple
Government Securities-Domestic:						
US Government Treasuries	1,077,209	19,682	73,769	85,823	897,935	Aaa
US Government Agencies	210,062	-	-	-	210,062	Aaa
Variable Rate Notes	62,784	62,784	-	-	-	Multiple
	8,087,466	$ 365,446	$ 1,716,785	$ 1,662,539	$ 4,342,696	
Commingled Index Funds-Domestic	1,584,407					
Commingled Index Funds-Foreign	321,622					
Money Market Funds	176,990					
Securities Lending Collateral Balances	1,223,900					
Total	$ 11,394,385					

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, 2006
(expressed in thousands)

Moody's Equivalent Credit Rating	Investment Type: Corporate Bonds - Domestic	Variable Rate Notes	Collateralized Mortgage Obligations	Non-Standard Mortgages	Commercial Mortgage Backed Securities	Total
Aaa	$ 420,927	$ -	$ 1,542,972	$ 26,733	$ 586,052	$ 420,927
Aa1	131,418	-	-	-	-	131,418
Aa2	111,824	-	-	-	-	111,824
Aa3	509,083	20,053	-	-	-	529,136
A1	589,182	34,998	-	-	-	624,180
A2	465,974	-	-	-	-	465,974
A3	523,906	-	-	-	-	523,906
Baa1	559,517	-	-	-	-	559,517
Baa2	806,528	7,733	-	-	-	814,261
Baa3	234,391	-	-	-	-	234,391
NR	102,321	-	69,446	1,622	47,608	102,321
Total	$ 4,455,071	$ 62,784	$ 1,612,418	$ 28,355	$ 633,660	$ 4,517,855

4. CREDIT RISK

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The WSIB investment policy mitigates credit risk by limiting holdings of below investment grade fixed income securities. The rated debt investments of the workers' compensation funds as of June 30, 2006, 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 market value at the time of purchase, nor shall its market value exceed 6 percent of the fund's market value at any time. There was no concentration of credit risk as of June 30, 2006.

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of failure of the custodian, the WSIB would not be able to recover its investment securities or collateral securities that are in the possession of the custodian. The WSIB has no formal policy regarding custodial credit risk. However, as all of the workers' compensation fund assets are registered and held in the state of Washington's name, they are not subject to custodial credit risk.

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 $321.6 million invested in an international commingled equity index fund. As such, no currency denomination is presented.

6. DERIVATIVES

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

Consistent with the WSIB authority to invest in derivatives, international active equity managers may make limited investments in financial futures, forward contracts or other derivative securities to manage exposure to currency rate risk and equitize excess cash holdings. No such derivative securities were held as of June 30, 2006. 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, 2006, the only derivative securities held directly by WSIB were collateralized mortgage obligations (CMOs) of $1.6 billion.

7. REVERSE REPURCHASE AGREEMENTS

State law permits WSIB to enter into reverse repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The market value of the securities underlying reverse repurchase agreements normally exceeds the cash received, providing the dealers margin against a decline in market value of the securities. If the dealers default on their obligations to resell these securities to the state or provide securities or cash of equal value, WSIB would suffer an economic loss equal to the difference between the market value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. There were no reverse repurchase agreements during Fiscal Year 2006 and there were no liabilities outstanding as of June 30, 2006.

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 OST is responsible for establishing the investment policy for the pool. It is reviewed annually 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.

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 (RCW 39.58, 39.59, 43.84.080 and 43.250). Eligible investments include:

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

- Certificates of deposit with financial institutions qualified by the Washington Public Deposit Protection Commission.
- Obligations of the state of Washington or its political 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 2006, 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. At June 30, 2006, all LGIP securities on loan were collateralized by cash and other securities and are classified in the following schedule of custodial credit risk according to the category for the collateral received on the securities lent. On June 30, 2006, the average life of both the loans and the investment of cash received as collateral was three days.

3. INTEREST RATE RISK

Interest rate risk is the risk that changes in interest rates of debt instruments will adversely affect the fair value of an investment. The LGIP policy places a 90-day maximum on the weighted average maturity. Further, the maximum maturity of any security may not exceed 397 days, except securities utilized in repurchase agreements and U.S. Agency floating or variable rate notes with reset dates less than a 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, 2006, the LGIP had a weighted average maturity of 38 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, 2006.

Local Government Investment Pool (LGIP)
June 30, 2006
(expressed in thousands)

		Maturity	
Investment Type	**Fair Value**	Less than 1 year	1-5 years
U.S. Agency Obligations	$ 1,115,036	$ 1,065,047	$ 49,989
U.S. Government Obligations	19,919	19,919	-
Certificates of Deposit	862,506	862,506	-
Repurchase Agreements	3,280,925	3,280,925	-
Securities Lending Collateral	44,790	44,790	-
Total	$ 5,323,176	$ 5,273,187	$ 49,989

4. CREDIT RISK

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. All securities held as collateral were rated AAA. The market value of securities held for collateral 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.

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.

Repurchase agreements are collateralized at 102 percent. The collateral is priced daily and held by the LGIP's custodian in the state's name. Collateral for mortgage-backed repurchase agreements with a maturity date longer than seven days will be priced at 105 percent of fair value, plus accrued interest. Collateralized Mortgage Obligations (CMO) used as collateral for 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.

During the Fiscal Year 2006, the LGIP did not enter into any reverse repurchase agreements and there were no obligations under reverse repurchase agreements outstanding at year-end.

E. Investments – Higher Education Special Revenue and Endowment Funds

1. SUMMARY OF INVESTMENT POLICIES

The investments of the University of Washington represent 75 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, advise 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, 2006, the Invested Funds Pool totaled $727.2 million. The fund also owns units in the Consolidated Endowment Fund valued at $376.4 million on June 30, 2006. By University policy, departments with qualifying funds in the Invested Funds Pool receive one of four rates of return based on the realized yield of the portfolio. Long-term deposits received 3.2 percent for Fiscal Year 2006. Operating and plant fund balances of self-sustaining units received 2.9 percent. Royalty accounts received 1.0 percent and gift accounts received 3.0 percent. 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 subscribe to or dispose of 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. The CEF income distribution is 5 percent of the average fair value of the CEF for the previous three years. State law allows for the spending of appreciation in the CEF.

The University records its permanent endowments at the lower of original value or current market value in the Restricted Nonexpendable Net Assets category. Of the total of approximately $969 million permanent endowment funds (at market value) as of June 30, 2006, the aggregate amount of the deficiencies for all funds for which the fair value of the assets is less than the original gifts is $89,000.

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 $53.5 million at June 30, 2006. Income received from these trusts was $2.7 million for the year ended June 30, 2006.

2. SECURITIES LENDING

The University's investment policies permit it to lend its securities to broker dealers and other entities. The University's custodian lends securities for collateral in the form of cash or other securities, with the simultaneous agreement to return the collateral for the same securities in the future. U.S. securities are loaned and secured by collateral valued at 102 percent of the fair value of the securities plus any accrued interest. Non-U.S. securities are loaned and secured by collateral valued at 105 percent of the fair value of the securities plus any accrued interest. At year-end, the University had no credit risk exposure to borrowers because the amounts the University owes the borrowers exceed the amounts the borrowers owe the University.

The contract with the custodian requires it to indemnify the University if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the University for income distributions by the securities' issuers while the securities are on loan.

Either the University or the borrower can terminate all securities loans on demand, although the average term of overall loans is 125 days. Cash collateral is invested in a short-term investment pool that had an average weighted maturity of 39 days as of June 30, 2006. The relationship between the maturities of the investment pool and the University's loans is affected by the maturities of the securities loaned by other entities that use the custodian's pool. The University cannot determine the maturities of these loaned securities. The University cannot sell or pledge non-cash collateral unless the borrower defaults. Non-cash collateral at June 30, 2006, was $27.3 million.

Securities on loan at June 30, 2006, totaled $342.6 million, and are presented by investment type in the following schedule. The securities lending program resulted in net revenues of $.7 million for the year ended June 30, 2006.

The following schedule presents the fair value of the University of Washington's investments by type at June 30, 2006.

University of Washington
June 30, 2006
(expressed in thousands)

Investment Type		Fair Value
Cash Equivalents	$	128,840
Cash Equivalents-Loaned		13,991
Domestic Fixed Income		800,297
Domestic Fixed Income-Loaned		236,298
Foreign Fixed Income		61,482
Domestic Equity		420,928
Domestic Equity-Loaned		55,301
Foreign Equity		487,140
Foreign Equity-Loaned		37,046
Non-Marketable Alternatives		259,542
Marketable Alternatives		245,795
Real Estate		37,236
Miscellaneous		4,986
Total Investments		2,788,882
Collateral from Securities Lending - Cash		321,498
Total	$	3,110,380

3. 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 the 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 Macaulay duration. Macaulay duration is the basic 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 / bond price. Modified duration is calculated using the following formula: Macaulay duration / (1 + yield-to-maturity/ 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.

Approximately $245.5 million of additional domestic fixed income securities (including Loaned) and $31.7 million of additional foreign fixed income securities, which in total makeup 10 percent of the University's investments, are not included in the duration figures below. These investments, some of which are managed by the University and others by the University's affiliates, are not invested under the same investment strategy or with the same custodian as those detailed in the following schedule.

University of Washington
Interest Rate Risk
Duration as of June 30, 2006
(expressed in thousands, modified duration in years)

	Consolidated Endowment Fund		Invested Funds Pool	
	Asset Value	Duration	Asset Value	Duration
Domestic Fixed Income				
Asset Backed	$ 8,770	1.82	$ 150,926	1.11
Cash Equivalents (Short-term Money Market)	8,901	0.05	19,100	0.06
Corporate Bonds	10,311	5.35	12,627	1.95
Government & Agencies	44,390	5.08	291,358	2.95
Mortgage Related	31,106	3.69	213,571	2.44
Subtotal	103,478	3.98	687,582	2.29
Foreign Fixed Income				
International Fixed	29,115	6	715	4
Total	$ 132,593	4.36	$ 688,297	2.29

4. CREDIT RISK

The University investment policies limit investments to investment grade assets. The Investment Policy for the University's operating funds reflects a higher level of credit risk/loss sensitivity and requires each manager to maintain a specific average AA rating as issued by a nationally recognized rating organization. Additionally, the investment policy requires the operating funds to have 50 percent of the assets invested 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.

5. 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's investment strategy within the Invested Funds Pool is to hedge exposure to foreign currency. Within this pool, the University enters into foreign currency forward contracts, futures contracts, and options to hedge the foreign currency exposure.

At June 30, 2006, the University had net outstanding forward commitments to sell foreign currency with a total fair value of $29 million, which equals 1.0 percent of the total portfolio.

As part of the investment strategy, the University does not hedge foreign currency exposure within the equity portion of the Consolidated Endowment Fund.

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

University of Washington
Consolidated Endowment Fund
Foreign Currency Risk
June 30, 2006
(expressed in thousands)

Foreign Currency	Market Value
Euro	$ 204,776
British - Pound	104,274
Japan - Yen	146,998
Switzerland - Franc	26,192
Canadian - Dollar	23,950
Other (less than 3% each)	168,109
Total	$ 674,299

6. DERIVATIVES
The University's investments include certain derivative instruments and structured notes that derive their value from a security, asset, or index. Such investments are governed by the University's Investment Policies and Guidelines, which effectively constrain their use by establishing (a) duration parameters which limit price sensitivity to interest rate fluctuations (market risk), (b) minimum quality ratings at both the security and portfolio level, and (c) a market index as a performance benchmark.

7. REVERSE REPURCHASE AGREEMENTS - None

F. Investments – Office of the State Treasurer (OST) Cash Management Account

1. SUMMARY OF INVESTMENT POLICIES
The 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 (RCW 39.58, 39.59, 43.84.080 and 43.250). 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).
- Certificates of deposit 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, 2006, securities on loan approximated $244 million. All OST securities on loan were collateralized by cash and other securities and are classified in the schedule of custodial credit risk according to the category for the collateral received on the securities lent. On June 30, 2006, the average life of both the loans and the investment of cash received as collateral was three days.

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 2006, the OST had no credit risk exposure to borrowers because the amounts owed to the borrowers exceeded the amounts the borrowers owed the OST. There were no violations of legal or contractual provisions or any losses resulting from a default of a borrower or lending agent during the fiscal year.

3. INTEREST RATE RISK

Interest rate risk is the risk that changes in interest rates will adversely affect the value of the investment. The Treasury/Trust investments are separated into two main portfolios. The OST's investment policy limits the weighted average maturity of its investments, according to the objectives of each portfolio.

The following schedule presents the fair value of the OST's investments by type at June 30, 2006.

Office of the State Treasurer (OST)
Cash Management Account
June 30, 2006
(expressed in thousands)

		Maturity		
Investment Type	**Fair Value**	Less than 1 year	1-5 years	6-10 years
U.S. Government Obligations	$ 102,355	$ 56,486	$ 45,869	$ -
U.S. Agency Obligations	2,575,030	1,530,071	995,848	49,111
Certificates of Deposit	957,262	957,262	-	-
Repurchase Agreements	821,000	821,000	-	-
Securities Lending Collateral	250,240	250,240	-	-
Total	$ 4,705,887	$ 3,615,059	$ 1,041,717	$ 49,111

4. CREDIT RISK

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 certificates of deposit with qualified public depositories.

Custodial Credit Risk - The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of 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 2006, 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 (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.

During the Fiscal Year 2006, the OST did not enter into any reverse repurchase agreements and there were no obligations under reverse repurchase agreements outstanding at year-end.

Note 4 - Receivables and Deferred/Unearned Revenues

A. Governmental Funds

Taxes Receivable

Taxes receivable at June 30, 2006, consisted of the following (expressed in thousands):

Taxes Receivable	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
Property	$ 876,924	$ -	$ -	$ 634	$ 877,558
Sales	1,351,411	4,273	-	11,703	1,367,387
Business and occupation	417,168	-	-	-	417,168
Estate	7,791	-	-	-	7,791
Fuel	-	-	-	90,711	90,711
Other	95,339	-	-	7,988	103,327
Subtotals	2,748,633	4,273	-	111,036	2,863,942
Less: Allowance for uncollectible receivables	30,701	-	-	135	30,836
Total Taxes Receivable	$ 2,717,932	$ 4,273	$ -	$ 110,901	$ 2,833,106

Other Receivables

Other receivables at June 30, 2006, consisted of the following (expressed in thousands):

Other Receivables	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	**Total**
Public assistance (1)	$ 1,167,360	$ -	$ -	$ -	$ 1,167,360
Accounts receivable	18,429	98,486	1,747	56,355	175,017
Interest	-	8,719	8,159	6,302	23,180
Loans (2)	5,149	123,480	-	267,199	395,828
Long-term contracts (3)	1,215	-	13,865	111,293	126,373
Miscellaneous	5,857	23,245	7,208	95,580	131,890
Subtotals	1,198,010	253,930	30,979	536,729	2,019,648
Less: Allowance for uncollectible receivables (1)	974,754	18,847	74	25,429	1,019,104
Total Other Receivables	$ 223,256	$ 235,083	$ 30,905	$ 511,300	$ 1,000,544

Note: (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 $102 million in the Higher Education Special Revenue Fund for student loans and $259 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, 2006, consisted of the following (expressed in thousands):

Deferred Revenues	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
Property taxes	$ 857,611	$ -	$ -	$ 225	$ 857,836
Other taxes	296,723	-	-	75	296,798
Timber sales	-	-	13,584	98,420	112,004
Charges for services	17,611	148,866	181	33,350	200,008
Donable goods	165	-	-	-	165
Miscellaneous	54,651	7,040	-	458,547	520,238
Total Deferred Revenues	$ 1,226,761	$ 155,906	$ 13,765	$ 590,617	$ 1,987,049

B. Proprietary Funds

Taxes Receivable

Taxes receivable at June 30, 2006, consisted of $5 million in liquor taxes reported in Nonmajor Enterprise Funds.

Other Receivables

Other receivables at June 30, 2006, consisted of the following (expressed in thousands):

	Business-Type Activities Enterprise Funds					Governmental Activities
Other Receivables	Workers' Compensation	Unemployment Compensation	Higher Education Student Services	Nonmajor Enterprise Funds	Total	Internal Service Funds
Accounts receivable	$ 109,488	$ -	$ 183,440	$ 26,046	$ 318,974	$ 3,003
Interest	101,468	-	1,247	4,903	107,618	26
Loans	-	-	5	-	5	-
Miscellaneous	551,709	589,908	2,681	1,493	1,145,791	4,243
Subtotals	762,665	589,908	187,373	32,442	1,572,388	7,272
Less: Allowance for uncollectible receivables	97,223	114,665	68,280	95	280,263	262
Total Other Receivables	$ 665,442	$ 475,243	$ 119,093	$ 32,347	$ 1,292,125	$ 7,010

Unearned Revenues

Unearned revenues at June 30, 2006, consisted of the following (expressed in thousands):

	Business-Type Activities Enterprise Funds					Governmental Activities
Unearned Revenues	Workers' Compensation	Unemployment Compensation	Higher Education Student Services	Nonmajor Enterprise Funds	**Total**	Internal Service Funds
Charges for services	$ 5	$ -	$ 30,154	$ 328	$ 30,487	$ 2,783
Miscellaneous	12,883	-	341	4	13,228	2,863
Total Unearned Revenues	$ 12,888	$ -	$ 30,495	$ 332	$ 43,715	$ 5,646

C. Fiduciary Funds

Other Receivables

Other receivables at June 30, 2006, consisted of the following (expressed in thousands):

Other Receivables	Private-Purpose Trust	Local Government Investment Pool	Pension and Other Employee Benefit Plans	Agency Funds
Accounts receivable	$ -	$ -	$ 3,001	$ 12,047
Interest	-	13,046	166,015	32,246
Loans	-	-	-	13
Miscellaneous	4,970	-	218,426	212,458
Subtotals	4,970	13,046	387,442	256,764
Less: Allowance for uncollectible receivables	-	-	82	603
Total Other Receivables	$ 4,970	$ 13,046	$ 387,360	$ 256,161

Unearned Revenues

Unearned revenues at June 30, 2006, consisted of $.7 million for service credit restorations reported in Pension and Other Employee Benefit Plans Funds.

Note 5 - Interfund Balances and Transfers

A. Interfund Balances

The following balances at June 30, 2006, represent due from and due to balances among all funds and state agencies (expressed in thousands):

	Due From						
Due To	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Workers' Compensation	Unemployment Compensation	Higher Education Student Services
General	$ 76,060	$ 8,873	$ -	$ 120,121	$ 431	$ -	$ 12
Higher Educ. Special Revenue	25,843	18,321	60	8,337	205	-	32,846
Higher Education Endowment	-	-	-	467	-	-	-
Nonmajor Governmental Funds	121,663	707	3,367	130,119	69	1,161	33
Workers' Compensation	40	-	-	16	22,724	-	4
Unemployment Compensation	901	919	-	413	31	-	-
Higher Educ. Student Services	246	19,209	-	6,300	108	-	5,988
Nonmajor Enterprise Funds	7,045	148	-	2,026	4	-	-
Internal Service Funds	20,399	667	-	20,835	3,290	-	11
Fiduciary Funds	15,501	4,516	-	18,426	281	-	3
Totals	$ 267,698	$ 53,360	$ 3,427	$ 307,060	$ 27,143	$ 1,161	$ 38,897

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. A long-term receivable is recorded in the General Fund for the long-term portion of escheat resources due from Other Private-Purpose Trust Funds.

Nonmajor Enterprise Funds	Internal Service Funds	Fiduciary Funds	**Totals**
$ 10,318	$ 971	$ 76,203	$ 292,989
6,212	16,874	23,804	132,502
-	-	2	469
5,610	2,561	15,512	280,802
101	42	46	22,973
12	46	208	2,530
1	61	2,693	34,606
28,861	100	739	38,923
9,442	14,728	118	69,490
320	30	32,494	71,571
$ 60,877	$ 35,413	$ 151,819	$ 946,855

B. Interfund Transfers

Interfund transfers as reported in the financial statements reflect transfers between agencies and accounts reported within the same fund.

Net transfers between funds for the year ended June 30, 2006, consisted of the following (expressed in thousands):

	Transferred To						
Transferred From	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Workers' Compensation	Higher Education Student Services	Nonmajor Enterprise Funds
General	$ 3,361	$ 156,274	$ -	$ 1,657,254	$ -	$ -	$ -
Higher Educ. Special Revenue	-	84,010	117	164,101	-	18,777	-
Higher Education Endowment	-	82,327	-	28,678	-	7	-
Nonmajor Governmental Funds	136,604	18,616	1,164	706,057	-	203	328
Workers' Compensation	-	-	-	1,323	288,987	-	-
Higher Educ. Student Services	-	21,352	-	1,188	-	123,833	-
Nonmajor Enterprise Funds	106,929	-	-	140,411	-	-	52,357
Internal Service Funds	1,000	1,054	-	25	-	14	-
Totals	$ 247,894	$ 363,633	$ 1,281	$ 2,699,037	$ 288,987	$ 142,834	$ 52,685

Additionally, there were transfers of $5.5 million within the state's Pension trust funds. The transfers from Pension trust funds were into other Pension trust funds.

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.

In Fiscal Year 2006, the state transferred $825 million from the General Fund to non-major governmental funds in order to provide for the fiscal stability of health services, education, and pension funding obligations in future years.

Internal Service Funds	**Totals**
$ 8,367	$ 1,825,256
1,123	268,128
-	111,012
173	863,145
-	290,310
63	146,436
-	299,697
23,634	25,727
$ 33,360	$ 3,829,711

Note 6 - Capital Assets

A. Governmental Capital Assets

The following is a summary of governmental capital asset activity for the year ended June 30, 2006 (expressed in thousands):

Capital Assets	Balances July 1, 2005	Additions	Deletions	Balances June 30, 2006
Capital assets, not being depreciated:				
Land	$ 1,207,326	39,916	(8,901)	$ 1,238,341
Transportation Infrastructure	13,338,709	958,283	(84,248)	14,212,744
Construction in Progress*	1,245,530	467,448	(649,206)	1,063,772
Art Collections, Library Reserves, and Museum and Historical Collections	100,337	7,896	-	108,233
Total capital assets, not being depreciated	15,891,902			16,623,090
Capital assets, being depreciated:				
Buildings	7,098,597	752,561	(25,988)	7,825,170
Accumulated depreciation	(2,361,459)	(226,673)	9,761	(2,578,371)
Net buildings	4,737,138			5,246,799
Furnishings, equipment, and collections	3,292,370	313,301	(180,732)	3,424,939
Accumulated depreciation	(1,939,493)	(212,920)	89,720	(2,062,693)
Net furnishings, equipment and collections	1,352,877			1,362,246
Other improvements	893,048	50,722	(5,448)	938,322
Accumulated depreciation	(314,676)	(43,597)	4,943	(353,330)
Net other improvements	578,372			584,992
Infrastructure (other)*	509,453	28,919	(391)	537,981
Accumulated depreciation*	(167,024)	(14,088)	-	(181,112)
Net infrastructure (other)	342,429			356,869
Total capital assets, being depreciated, net	7,010,816			7,550,906
Governmental activities capital assets, net	$ 22,902,718			$ 24,173,996

*Beginning balances have been restated to reflect prior period error corrections.

The Department of Transportation incurred an impairment loss of $84 million related to construction stoppage on the Port Angeles graving dock project. This impairment is reported on the government-wide Statement of Activities as an extraordinary item.

B. Business-type Capital Assets

The following is a summary of business-type capital asset activity for the year ended June 30, 2006, (expressed in thousands):

Capital Assets	Balances July 1, 2005	Additions	Deletions	Balances June 30, 2006
Capital assets, not being depreciated:				
Land	$ 86,893	5,288	-	$ 92,181
Construction in Progress	84,321	92,581	(38,574)	138,328
Art Collections	35	-	-	35
Total capital assets, not being depreciated	171,249			230,544
Capital assets, being depreciated:				
Buildings	1,638,714	63,175	(5,657)	1,696,232
Accumulated depreciation	(472,702)	(42,962)	2,859	(512,805)
Net buildings	1,166,012			1,183,427
Furnishings, equipment, and collections	364,672	43,180	(11,023)	396,829
Accumulated depreciation	(230,015)	(61,309)	9,696	(281,628)
Net furnishings, equipment, and collections	134,657			115,201
Other Improvements	45,113	10,618	(2,005)	53,726
Accumulated depreciation	(14,219)	(3,424)	525	(17,118)
Net other improvements	30,894			36,608
Infrastructure (other)	32,957	248	(7)	33,198
Accumulated depreciation	(10,635)	(1,152)	-	(11,787)
Net infrastructure (other)	22,322			21,411
Total capital assets, being depreciated, net	1,353,885			1,356,647
Business-type activities capital assets, net	$ 1,525,134			$ 1,587,191

C. Depreciation

Depreciation expense for the year ended June 30, 2006, was charged to functions of the primary government as follows (expressed in thousands):

	Amount
Governmental Activities:	
General Government	$ 46,198
Education - Elementary and Secondary (K-12)	2,149
Education - Higher Education	272,342
Human Services	29,094
Adult Corrections	28,910
Natural Resources and Recreation	46,561
Transportation	72,024
Total Depreciation Expense - Governmental Activities	$ 497,278 *
Business-Type Activities:	
Workers' Compensation	$ 25,551
Unemployment Compensation	-
Higher Education Student Services	67,096
Health Insurance Programs	161
Other	16,039
Total Depreciation Expense - Business-Type Activities	$ 108,847

*Includes $60 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, 2006, are as follows (expressed in thousands):

D. Construction in Progress

Agency/Project Commitments	Construction In Progress June 30, 2006	Remaining Project Commitments
Department of General Administration:		
Legislative and other buildings rehab., repairs & expansion, and other projects	$ 263,474	$ 22,796
Liquor Control Board:		
Distribution Center expansion project	2,937	14,063
Department of Labor and Industries:		
Workers' compensation customer and agency information systems	4,955	10,540
Military Department:		
Spokane Readiness Center and other projects	12,429	153
Department of Social and Health Services:		
State hospital & juvenile rehab construction & renovations, and other projects	115,745	31,898
Department of Corrections:		
Correctional centers construction, improvements, and other projects	99,639	597,680
Department of Transportation:		
State highway office and maintenance facilities, and ferry vessels and terminals	215,464	131,185
Transportation infrastructure	-	1,392,090
Parks and Recreation Commission:		
State park facilities projects	4,556	1,518
Department of Fish and Wildlife:		
Hatchery renovations, Spokane office building, and other projects	8,317	19,810
Higher Education Facilities:		
University of Washington	100,166	285,948
Washington State University	65,632	430,016
Eastern Washington University	3,284	2,261
Central Washington University	82,829	9,135
The Evergreen State College	20,417	2,090
Western Washington University	33,133	12,839
Community and Technical Colleges	157,632	238,154
Other Agencies Miscellaneous Projects	11,491	6,256
Total Construction in Progress	$ 1,202,100	$ 3,208,432

Note 7 – Long-Term Liabilities

A. Bonds Payable

Bonds payable at June 30, 2006, 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); (2) appropriations already made by the legislature; or (3) 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 2006 was $8.8 billion, under the constitutional limitation. This computation excludes specific bond issues and types, which are not secured by general state revenues. Based on the debt limitation calculation, the debt service requirements as of June 30, 2006, did not exceed the authorized debt service limitation.

Authorized but unissued
The state had a total of $10.4 billion in bonds authorized but unissued as of June 30, 2006, for the purpose of public building and schools construction and renovation, higher education purposes, and highways construction and improvement.

Interest rates
Interest rates on fixed rate general obligation bonds ranged from 2.4 to 7.75 percent. Variable rate demand obligations (VRDO) of $222.3 million as of June 30, 2006, are remarketed on a weekly basis. Interest rates on revenue bonds range from 2.0 to 7.4 percent.

DEBT SERVICE REQUIREMENTS TO MATURITY
General obligation bonds have been authorized and issued primarily to provide funds for:

- Acquisition and construction of capital facilities for public and common schools, higher education, public and mental health, corrections, natural resource conservation;
- Construction and improvements of highways, roads, bridges, ferries, and other transit improvements;
- Assistance to municipalities for construction of water and sewage treatment facilities and corrections facilities; and
- Refunding of general obligation bonds outstanding.

Outstanding general obligations bonds are presented in the Washington State Treasurer's Annual Report for 2006. 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.

Total debt service requirements to maturity for general obligation bonds, as of June 30, 2006, are as follows (expressed in thousands):

	Governmental Activities		Business-Type Activities		Totals	
General Obligation Bonds	Principal	Interest	Principal	Interest	Principal	Interest
By Fiscal Year:						
2007	$ 482,088	$ 499,065	$ 19,150	$ 4,436	$ 501,238	$ 503,501
2008	498,486	477,869	20,655	3,333	519,141	481,202
2009	506,415	455,551	11,335	4,877	517,750	460,428
2010	491,856	435,865	8,987	4,455	500,843	440,320
2011	473,333	415,214	8,281	4,106	481,614	419,320
2012-2016	2,545,328	1,776,778	32,638	18,931	2,577,966	1,795,709
2017-2021	2,535,586	1,340,687	19,398	45,656	2,554,984	1,386,343
2022-2026	1,959,159	702,982	-	-	1,959,159	702,982
2027-2031	971,392	318,271	-	-	971,392	318,271
2032-2036	-	-	-	-	-	-
Total Debt Service Requirements	$ 10,463,643	$ 6,422,282	$ 120,444	$ 85,794	$ 10,584,087	$ 6,508,076

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. These bonds pledge income derived from acquired or constructed assets for retirement of the debt and payment of the related interest.

The state's colleges and universities issue revenue bonds for the purpose of housing, dining, parking, and student facilities construction. These bonds are reported within governmental and business-type activities as applicable.

Additionally, governmental activities include revenue bonds outstanding at June 30, 2006 of $497.5 million issued by the Tobacco Settlement Authority (TSA), which is a blended component unit of the state. 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, and undistributed TSA bond proceeds. These bonds do not constitute either a legal or moral obligation of the state, nor does the state pledge its full faith, credit or taxing power for payment of these bonds.

Total debt service requirements for revenue bonds to maturity as of June 30, 2006, are as follows (expressed in thousands):

	Governmental Activities		Business-Type Activities		Totals	
Revenue Bonds	Principal	Interest	Principal	Interest	Principal	Interest
By Fiscal Year:						
2007	$ -	$ 34,268	$ 16,466	$ 38,572	$ 16,466	$ 72,840
2008	13,270	34,223	17,430	38,549	30,700	72,772
2009	12,750	33,582	19,780	37,767	32,530	71,349
2010	12,400	32,955	21,996	36,823	34,396	69,778
2011	16,175	32,343	23,393	35,785	39,568	68,128
2012-2016	93,010	147,587	132,230	160,953	225,240	308,540
2017-2021	101,700	116,944	177,094	127,091	278,794	244,035
2022-2026	113,340	82,885	143,325	88,562	256,665	171,447
2027-2031	174,355	41,377	130,872	50,031	305,227	91,408
2032-2036	21,230	1,714	110,962	19,572	132,192	21,286
Total Debt Service Requirements	$ 558,230	$ 557,878	$ 793,548	$ 633,705	$ 1,351,778	$ 1,191,583

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 has been removed from the government-wide statement of net assets.

CURRENT YEAR DEFEASANCES
Governmental Activities:
On July 26, 2005, the state issued $461.2 million of Various Purpose General Obligation Refunding Bonds (series R-2006A) with an average interest rate of 4.99 percent to refund $478.8 million of Various Purpose General Obligation Bonds from several series with an average interest rate of 5.28 percent. The refunding resulted in a $53.2 million gross debt service savings over the next 20 years and a net present value savings of $35.8 million.

On August 17, 2005, the state issued $3.8 million Refunding Certificates of Participation (series 2005D) with an average interest rate of 3.5 percent to refund $3.7 million Certificates of Participation (series 1996A) with an average interest rate of 6.02 percent. The refunding resulted in a $400.8 thousand gross debt service savings over the next 11 years and a net present value savings of $277.8 thousand.

On January 18, 2006, the state issued $6.4 million Refunding Certificates of Participation (series 2006A) with an average interest rate of 5.05 percent to refund $6.2 million Certificates of Participation (series 1996) with an average interest rate of 7.73 percent. The refunding resulted in a $1.1 million gross debt service savings over the next 12 years and a net present value savings of $726 thousand.

On March 21, 2006, the state issued $2.6 million Refunding Certificates of Participation (series 2006C) with an average interest rate of 3.94 percent to refund $2.6 million Certificates of Participation (series 1995) with an average interest rate of 6.01 percent. The refunding resulted in a $239 thousand gross debt service savings over the next 9 years and a net present value savings of $224.5 thousand.

Business-Type Activities:
On March 14, 2006, The Evergreen State College issued $7.6 million in Housing System Revenue and Refunding Bonds, $1.4 million of which was used to refund $1.4 million of Housing Series 1994 Revenue Bonds. The new bonds have an average coupon rate of 3.8 percent, the old refunded bonds had an average interest rate of 6.1 percent. The refunding extended the final maturity and resulted in a gross loss of $185 thousand, and a net present value savings of $40 thousand.

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.

General Obligation Bond Debt:
On June 30, 2006, $536.6 million of general obligation bonded debt outstanding is considered defeased.

Revenue Bond Debt:
On June 30, 2006, $87.4 million of revenue bonded debt outstanding is considered defeased.

B. Certificates of Participation

Current state law authorizes the state to enter into long-term financing contracts for the acquisition of real or personal property and for the issuance of certificates of participation in the contracts. These certificates of participation do not fall under the general obligation debt limitations and are generally payable only from annual appropriations by the Legislature. Other specific provisions could also affect the state's obligation under certain agreements. The certificates of participation are recorded for financial reporting purposes if the possibility of the state not meeting the terms of the agreements is considered remote.

Total debt service requirements for certificates of participation to maturity as of June 30, 2006, are as follows (expressed in thousands):

	Governmental Activities		Business-Type Activities		Totals	
Certificates of Participation	Principal	Interest	Principal	Interest	Principal	Interest
By Fiscal Year:						
2007	$ 35,864	$ 19,669	$ 37,330	$ 14,780	$ 73,194	$ 34,449
2008	28,360	12,658	16,745	9,748	45,105	22,406
2009	30,129	11,595	19,740	9,070	49,869	20,665
2010	27,198	10,404	18,326	8,243	45,524	18,647
2011	26,092	9,263	18,427	7,432	44,519	16,695
2012-2016	139,721	28,701	88,291	23,683	228,012	52,384
2017-2021	35,830	6,186	31,447	5,435	67,277	11,621
2022-2026	10,086	921	8,864	810	18,950	1,731
2027-2031	-	-	-	-	-	-
2032-2036	-	-	-	-	-	-
Total Debt Service Requirements	$ 333,280	$ 99,397	$ 239,170	$ 79,201	$ 572,450	$ 178,598

C. Claims and Judgments

Claims and judgments are materially related to three activities: workers' compensation, risk management, and health insurance. Workers' compensation and health insurance are business-type activities, and risk management is a governmental activity. 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 1E.

Workers' Compensation

Changes in the balances of workers' compensation claims liabilities during Fiscal Years 2005 and 2006 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
FY 2005	$ 16,591,098	2,289,923	(1,602,126)	$ 17,278,895
FY 2006	$ 17,278,895	2,131,407	(1,655,201)	$ 17,755,101

At June 30, 2006, $31.0 billion of unpaid claims and claim adjustment expenses are presented at their net present and settlement value of $17.8 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 that is net of third party recoveries.

The claims and claim adjustment liabilities of $17.8 billion, as of June 30, 2006, include $9.0 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 $8.8 billion are fully funded by long-term investments, net of obligations under securities lending agreements.

Risk Management

Changes in the balances of risk management claims liabilities during Fiscal Years 2005 and 2006 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
FY 2005	$ 513,331	34,857	(23,130)	(16,945)	$ 508,113
FY 2006	$ 508,113	72,512	(36,750)	(16,677)	$ 527,198

Risk Management reports claims and judgment 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 claims 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. Claims 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 property and casualty matters. As of June 30, 2006, outstanding and actuarially determined claims against the state and its public authorities including actuarially projected defense costs were $527.2 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 claims. At June 30, 2006, the Risk Management Fund held $115.7 million in cash and pooled investments designated for payment of these claims under the state's Self Insurance Liability Program.

Health Insurance

Changes in the balances of Health Insurance claim liabilities during Fiscal Years 2005 and 2006 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
FY 2005	$ 66,879	524,106	(512,556)	$ 78,429
FY 2006	$ 78,429	599,782	(606,765)	$ 71,446

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, 2006, health insurance claims liabilities totaling $71.4 million are fully funded with cash and investments, net of obligations under securities lending agreements.

D. Leases

The state leases land, office facilities, office and computer equipment, and other assets under a variety of agreements. Although lease terms vary, most leases are subject to appropriation from the state Legislature to continue the obligation. If the possibility of receiving no funding from the Legislature is remote, leases are considered noncancelable for financial reporting purposes. Leases that represent acquisitions are classified as capital leases, and the related assets and liabilities are recorded in the financial records at the inception of the lease. Other leases are classified as operating leases with the lease payments recorded as expenditures or expenses during the life of the lease. Certain operating leases are renewable for specified periods. In most cases, management expects that the leases will be renewed or replaced by other leases. .

Leased land, buildings and equipment under capital leases as of June 30, 2006, include the following (expressed in thousands):

	Governmental Activities	Business-Type Activities
Land (non-depreciable)	$ 4,356	$ -
Buildings	68,616	1,759
Equipment	27,737	24,969
Less: Accumulated Depreciation	(28,635)	(14,068)
Totals	$ 72,074	$ 12,660

The following schedule presents future minimum payments for capital and operating leases as of June 30, 2006, (expressed in thousands):

	Capital Leases		Operating Leases	
Capital and Operating Leases	Governmental Activities	Business-Type Activities	Governmental Activities	Business-Type Activities
By Fiscal Year:				
2007	$ 8,100	$ 5,546	$ 91,824	$ 24,727
2008	7,208	5,175	81,289	23,223
2009	7,007	5,049	74,715	22,428
2010	6,389	2,834	66,242	22,363
2011	7,955	1,160	54,595	22,558
2012-2016	21,252	1,925	180,287	23,626
2017-2021	24,206	1,925	93,966	20,566
2022-2026	27,324	433	72,722	21,594
2027-2031	11,280	-	69,021	22,674
2032-2036	-	-	69,232	23,808
Total Future Minimum Payments	120,721	24,047	853,893	227,567
Less: Executory costs and interest costs	46,334	3,329	-	-
Net Present Value of future minimum lease payments	$ 74,387	$ 20,718	$ 853,893	$ 227,567

The total operating lease rental expense for Fiscal Year 2006 was $124.9 million.

Tumwater Office Building Capital Lease

The 2001 Legislature authorized the state to lease-develop an office building in Tumwater, Washington. In 2003, the state entered into a ground lease and a lease agreement with Tumwater Office Properties (TOP), a Washington nonprofit corporation. The agreements called for TOP to design and construct an office building and finance it with tax-exempt obligations that met the requirements of Revenue Ruling 63-20 and Revenue Procedure 82-26 issued by the Internal Revenue Service. The state is required to make monthly payments to TOP to service the bonds. 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. Ownership of the building transfers to the state at the end of the lease.

Upon completion of the construction of the office building in Fiscal Year 2006, the state occupied it and recorded a capital lease in the amount of $56,805,000. Lease payments of $302,327 were made during the year.

E. Long-Term Liability Activity

Long-term liability activity for the Fiscal Year 2006 (expressed in thousands) was as follows:

Governmental Activities:	Beginning Balance July 1, 2005	Additions	Reductions	Ending Balance June 30, 2006	Amounts Due Within One Year
Long-term Debt:					
GO Bonds Payable -					
General obligation (GO) bonds	$ 9,096,680	1,503,260	924,555	$ 9,675,385	$ 467,070
GO - zero coupon bonds (principal)	744,991	55,002	11,735	788,258	15,018
Subtotal - GO Bonds payable	9,841,671	1,558,262	936,290	10,463,643	482,088
Accreted Interest - GO - zero coupon bonds	201,058	33,238	-	234,296	-
Revenue Bonds Payable	563,575	-	5,345	558,230	-
Less: Deferred amounts for issuance discounts	(11,997)	-	(690)	(11,307)	-
Less: Unamortized bond issuance costs	(2,021)	-	(116)	(1,905)	-
Total Bonds Payable	10,592,286	1,591,500	940,829	11,242,957	482,088
Other Liabilities -					
Certificates of participation	314,518	60,532	41,770	333,280	35,864
Claims and judgments	600,586	58,658	31,091	628,153	110,490
Installment contracts	111	4,057	111	4,057	-
Leases	23,509	57,422	6,544	74,387	4,668
Compensated absences	438,248	291,728	264,206	465,770	50,492
Unfunded pension obligations	67,225	16,756	6,700	77,281	-
Other	106,391	262,362	155,046	213,707	165,967
Total Other Liabilities	1,550,588	751,515	505,468	1,796,635	367,481
Total	$ 12,142,874	2,343,015	1,446,297	$ 13,039,592	$ 849,569

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 53 percent by the General Fund, 24 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.

Business-Type Activities	Beginning Balance July 1, 2005	Additions	Reductions	Ending Balance June 30, 2006	Amounts Due Within One Year
Long-term Debt:					
GO Bonds Payable					
General obligation (GO) bonds	$ 109,140	-	17,955	$ 91,185	$ 19,150
GO - zero coupon bonds (principal)	29,259	-	-	29,259	-
Subtotal - GO Bonds payable	138,399	-	17,955	120,444	19,150
Accreted Interest - GO - zero coupon bonds	23,836	3,287	-	27,123	-
Revenue Bonds Payable	585,233	223,857	15,542	793,548	16,466
Less: Deferred amounts on refunding	(9,408)	(115)	(598)	(8,925)	-
Plus: Unamortized amounts issuance premiums	3,715	1,339	23	5,031	-
Less: Deferred amounts for issuance discounts	(1,847)	(40)	(113)	(1,774)	-
Less: Unamortized bond issuance costs	(2,050)	(1,121)	(125)	(3,046)	-
Total Bonds Payable	737,878	227,207	32,684	932,401	35,616
Other liabilities -					
Certificates of participation	250,647	6,388	17,865	239,170	37,330
Less: Deferred amounts for issuance discounts	(1,757)	153	-	(1,604)	-
Claims and judgments	17,361,266	2,734,191	2,264,219	17,831,238	1,732,508
Lottery prize annuities payable	460,760	96,604	135,517	421,847	65,402
Tuition benefits payable	601,289	191,103	24,092	768,300	-
Leases	20,688	4,943	4,913	20,718	4,740
Compensated absences	45,315	24,573	21,934	47,954	19,432
Other	19,433	107,693	102,523	24,602	20,992
Total Other Liabilities	18,757,641	3,165,648	2,571,063	19,352,225	1,880,404
Total	$ 19,495,519	3,392,855	2,603,747	$ 20,284,626	$ 1,916,020

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 balances for the "No Commitment" debt of the state's financing authorities (expressed in thousands):

Financing Authorities	Principal Balance
Washington State Housing Finance Commission	$ 2,709,098
Washington Higher Education Facilities Authority	444,408
Washington Health Care Facilities Authority	3,221,000
Washington Economic Development Finance Authority	519,537
Total No Commitment Debt	$ 6,894,043

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, 2006, 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 student loans	$ -	$ 94,757	$ -	$ -	$ 94,757
Investments with trustees	629	-	-	475	1,104
Long-term receivables	83,764	433	-	1,459,127	1,543,324
Long-term investments	-	153,312	-	47,866	201,178
Petty cash	656	5,225	-	835	6,716
Total Reserved for Other Specific Purposes	$ 85,049	$ 253,727	$ -	$ 1,508,303	$ 1,847,079

Note 10 - Deficit Net Assets

At June 30, 2006, there were two proprietary funds with deficit net assets.

The Workers' Compensation Fund, an enterprise fund, had deficit net assets of $7.1 billion at June 30, 2006. The fund is used to account for the workers' compensation program, which provides time-loss, medical, disability, and pension payments to qualifying individuals sustaining work-related injuries. 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 cost-of-living adjustments (COLA) 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.

The following schedule details the changes in total net assets for the Workers' Compensation Fund during the fiscal year ended June 30, 2006 (expressed in thousands):

Workers' Compensation Fund	Net Assets (Deficit)
Balance, July 1, 2005	$ (6,558,080)
Fiscal Year 2006 activity	(502,689)
Balance, June 30, 2006	$ (7,060,769)

The Risk Management Fund, an internal service fund, had deficit net assets of $414.0 million at June 30, 2006. 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 loss adjustment 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, 2006 (expressed in thousands):

Risk Management Fund	Net Assets (Deficit)
Balance, July 1, 2005	$ (430,805)
Fiscal Year 2006 activity	16,848
Balance, June 30, 2006	$ (413,957)

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 12 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 seven retirement systems comprising 11 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

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, and LEOFF systems and plans was funded by an employer rate of .19 percent of employee salaries. Administration of the WSPRS, 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.

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 a Higher Education Retirement Plan, privately administered defined contribution plans.

Plan descriptions, funding policies, and a table of employer contributions required and paid for defined benefit plans follow at Notes 11.B through D respectively. For information related to defined contribution plans, refer to Note 11.I. Details on plan net assets and changes in plan net assets of pension plans administered by the state are presented at Note 11.J.

Note 10 - Deficit Net Assets

At June 30, 2006, there were two proprietary funds with deficit net assets.

The Workers' Compensation Fund, an enterprise fund, had deficit net assets of $7.1 billion at June 30, 2006. The fund is used to account for the workers' compensation program, which provides time-loss, medical, disability, and pension payments to qualifying individuals sustaining work-related injuries. 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 cost-of-living adjustments (COLA) 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.

The following schedule details the changes in total net assets for the Workers' Compensation Fund during the fiscal year ended June 30, 2006 (expressed in thousands):

Workers' Compensation Fund	Net Assets (Deficit)
Balance, July 1, 2005	$ (6,558,080)
Fiscal Year 2006 activity	(502,689)
Balance, June 30, 2006	$ (7,060,769)

The Risk Management Fund, an internal service fund, had deficit net assets of $414.0 million at June 30, 2006. 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 loss adjustment 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, 2006 (expressed in thousands):

Risk Management Fund	Net Assets (Deficit)
Balance, July 1, 2005	$ (430,805)
Fiscal Year 2006 activity	16,848
Balance, June 30, 2006	$ (413,957)

B. Plan Descriptions

Public Employees' Retirement System (PERS)

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.

PERS is comprised of three separate plans for reporting purposes: 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. Therefore, Plan 2/3 is considered to be a single plan for reporting purposes.

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 2006, 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.

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 50 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in state statute and may be amended only by the state Legislature.

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.

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 (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

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 10 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 I of this note for a description of the defined contribution component of PERS Plan 3.

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

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.

In addition, 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, if found eligible by the Department of Labor and Industries.

Legislation passed in recent sessions effective in Fiscal Year 2006:

Effective July 24, 2005, PERS Plan 2 and Plan 3 members can purchase service credit for military service that interrupted employment, if they are disabled while on active duty and cannot return to employment, or are killed on active duty (Chapter 64, Laws of 2005).

Effective July 24, 2005, PERS members can purchase up to 24 months (previously 12 months) of service credit lost because of an on-the-job injury (Chapter 363, Laws of 2005).

Effective June 7, 2006, PERS Plan 3 members may be vested either after 10 years of service or after five years of service, as long as 12 consecutive months of service were accrued after attainment of age 44 (Chapter 33, Laws of 2006).

There were no other material changes in PERS benefit provisions for the Fiscal Year ended June 30, 2006.

Legislation passed in recent sessions effective in years subsequent to Fiscal Year 2006:

The Public Safety Employees' Retirement System (PSERS) Plan 2 was created in Chapter 242, Laws of 2004. It first opens to membership on July 1, 2006. PSERS is a cost-sharing multiple-employer retirement system. Membership requirements are defined in RCW 41.37. Qualified members of PERS 2/3 may join PSERS prospectively if they make the election to join between July 1 and September 30, 2006. If they do so, they will become inactive in PERS and their past service credit will remain in PERS. All qualifying employees who are first employed after July 1, 2006, will automatically become members of PSERS.

PERS pension benefit provisions are established by chapter 41.40 and 41.34 RCW.

Teachers' Retirement System (TRS)

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 is comprised of three separate plans for reporting purposes: 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. Therefore, Plan 2/3 is considered to be a single plan for reporting purposes.

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 2006, 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 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 state statute and may be amended only by the state Legislature.

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.

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 10 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 I of this note for a description of the defined contribution component of TRS Plan 3.

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 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.

In addition, 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, if found eligible by the Department of Labor and Industries.

Legislation passed in recent sessions effective in Fiscal Year 2006:

Effective July 24, 2005, TRS Plan 1 members who are employed less than full time as psychologists, social workers, nurses, physical therapists, occupational therapists, speech language pathologists or audiologists can annualize their salaries when calculating their average final compensation (Chapter 23, Laws of 2005).

Effective July 24, 2005, TRS Plan 2 and Plan 3 members can purchase service credit for military service that interrupted employment, if they are disabled while on active duty and cannot return to employment, or are killed on active duty (Chapter 64, Laws of 2005).

Effective June 7, 2006, TRS Plan 3 members may be vested either after 10 years of service or after five years of service, as long as 12 consecutive months of service were accrued after attainment of age 44 (Chapter 33, Laws of 2006).

There were no other material changes in TRS benefit provisions for the Fiscal Year ended June 30, 2006.

TRS pension benefit provisions are established by chapters 41.32 and 41.34 RCW.

School Employees' Retirement System (SERS)

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 is comprised of two separate plans for reporting purposes: 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. Therefore, Plan 2/3 is considered to be a single plan for reporting purposes.

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 2006, 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.

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 state statute and may be amended only by the State Legislature.

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, allows SERS Plan 3 members to be vested either after 10 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. 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 I of this note for a description of the defined contribution component of SERS Plan 3.

SERS 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.

In addition, 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, if found eligible by the Department of Labor and Industries.

Legislation passed in recent sessions effective in Fiscal Year 2006:

Effective July 24, 2005, SERS Plan 2 and Plan 3 members can purchase service credit for military service that interrupted employment, if they are disabled while on active duty and cannot return to employment, or are killed on active duty (Chapter 64, Laws of 2005).

Effective June 7, 2006, allows SERS Plan 3 members to be vested either after 10 years of service or after five years of service, as long as 12 consecutive months of service were accrued after attainment of age 44 (Chapter 33, Laws of 2006).

There were no other material changes in SERS benefit provisions for the Fiscal Year ended June 30, 2006.

SERS pension benefit provisions are established by chapter 41.35 and 41.34 RCW.

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)

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.

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 2006, 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 was established in 1970 by the Legislature. Membership includes all full-time, fully compensated, local law enforcement officers and firefighters. 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 state statute and may be amended only by the state Legislature. 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 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 10 years of service. If membership was established in LEOFF after February 18, 1974, the service retirement benefit is capped at 60 percent of FAS. A cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index).

LEOFF Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 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 retirements prior to the age of 53 are reduced 3 percent for each year that the benefit commences prior to age 53. 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.

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. In addition, a duty death benefit of $150,000 is provided to Plan 1 and Plan 2 members.

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 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, and to reflect the choice of a survivor option.

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 can receive a retirement allowance, not actuarially reduced, of at least 10 percent of FAS. If the unreduced 2 percent per year of service disability benefit results in a greater benefit than the minimum 10 percent, the member receives the greater benefit. The first 10 percent of the line-duty disability benefit is not subject to federal income tax. The line-duty disability benefit applies to all LEOFF Plan 2 members disabled in the line of duty on or after January 1, 2001.

Legislation passed in recent sessions effective in Fiscal Year 2006:

Effective July 24, 2005, LEOFF Plan 1 retirees can designate a spouse from a post-retirement marriage as a beneficiary, even if an ex-spouse is receiving a portion of the retiree's benefit under a court-approved property settlement (Chapter 67, Laws of 2005).

Effective July 24, 2005, the spouse of a LEOFF Plan 1 retiree who receives a portion of the retiree's monthly pension under a court-ordered property settlement, can continue receiving that portion after the retiree dies (Chapter 62, Laws of 2005).

Effective July 24, 2005, 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 (Chapter 372, Laws of 2005).

Effective July 24, 2005, LEOFF Plan 2 members can purchase credit for military service that interrupted employment, if they are disabled while on active duty and cannot return to employment, or are killed while on active duty (Chapter 64, Laws of 2005).

Effective July 24, 2005, current members of PERS who are emergency medical technicians can elect to become members of LEOFF Plan 2 (Chapter 459, Laws of 2005).

Effective March 14, 2006, Plan 2 members who are catastrophically disabled in the line-of-duty may receive a benefit equal to seventy percent of their average final salary, subject to offsets for other sources of disability income (Chapter 39, Laws of 2006).

Effective June 7, 2006, Plan 2 survivors may receive reimbursement for payment of continuing health care premiums (Chapter 345, Laws of 2006).

Effective June 7, 2006, the $150,000 line-of-duty death benefit is extended to those members who die of a duty-related illness (Chapter 351, Laws of 2006).

There were no other material changes in LEOFF benefit provisions for the Fiscal Year ended June 30, 2006.

LEOFF pension benefit provisions are established by chapter 41.26 RCW.

Washington State Patrol Retirement System (WSPRS)

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 2006, the DRS-established rate on employee contributions was 5.5 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 was established by the Legislature in 1947. Any commissioned employee of the Washington State Patrol is eligible to participate. WSPRS benefits are established in state statute and may be amended only by the state Legislature.

WSPRS retirement benefits are vested after an employee completes 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.

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. In addition, a duty death benefit of $150,000 is provided to all WSPRS members.

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 10 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 10 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.

Beneficiaries of a WSPRS Plan 2 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 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.

Legislation passed in the 2006 session, effective June 7, 2006, states that benefits for surviving spouses of disabled state troopers will be based on the current salaries of members of the same rank the member held at the time of disablement (Chapter 94, Laws of 2006).

There were no other material changes in WSPRS benefit provisions for the Fiscal Year ended June 30, 2006.

WSPRS pension benefit provisions are established by chapter 43.43 RCW.

Judicial Retirement System (JRS)

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 2006, 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 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 state statute and may be amended only by 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 as follows:

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 10 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 10 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, 2006.

JRS pension benefit provisions are established by chapter 2.10 RCW.

Judges' Retirement Fund (Judges)

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.

The Judges' Retirement Fund was created by the Legislature on March 22, 1937, pursuant to RCW 2.12, 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 9, 1971, enter the Judicial Retirement System. Judges' retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

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, 2006.

Judges' pension benefit provisions are established by chapter 2.12 RCW.

The Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund (VFFRPF)

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. VFFRPF members accrue no interest on contributions and may elect to withdraw their contributions upon termination.

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 state statute and may be amended only by the state Legislature. Since retirement benefits cover volunteer service, benefits are paid based on years of service not salary. Members are vested after ten years of service.

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. Benefit provisions for VFFRPF are established under the authority of chapter 41.24 RCW.

Effective July 1, 2001, the disability income benefits and the maximum survivor benefits under the Relief Plan are increased for increases in the CPI.

There were no material changes in VFFRPF benefit provisions for the Fiscal Year ended June 30, 2006.

C. Funding Policies

Contributions towards the amortization of the PERS 1 and TRS 1 unfunded actuarial accrued liability (UAAL) were suspended for the 2003-2005 and 2005-2007 biennia. Legislation during the 2006 session provided for resumption of UAAL payments beginning September 1, 2006 for TRS and SERS, and January 1, 2007 for PERS.

The estimated value of future gain-sharing benefits is included in the liabilities for accounting disclosure purposes. However, the actual contribution rates for PERS, TRS, and SERS at the close of the Fiscal Year 2006 were adopted by the legislature and did not include the value of gain-sharing benefits.

The Legislature provided for minimum contribution rates (Chapter 365 Laws of 2006). These minimum rates will go into effect beginning with the 2009-11 biennium.

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. There are no employer contributions to PERS Plan 3 defined contribution. Employees who participate in the defined contribution portion of PERS Plan 3 contribute to the defined contribution plan instead of the defined benefit portion of PERS Plan 3. The employee chooses from six rate options provided in statute ranging from 5 to 15 percent, two of the options are graduated rates dependent on the employee's age. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates.

The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

Required contribution rates (expressed as a percentage of current year covered payroll) at the close of Fiscal Year 2006 were as follows:

PERS Actual Contribution Rates

	Plan 1	Plan 2	Plan 3
Employer Rates:			
State agencies*	2.44%	2.44%	2.44%**
Local governmental units*	2.44%	2.44%	2.44%**
State gov't elected officials*	3.57%	2.44%	2.44%**
Employee Rates:			
State agencies	6.00%	2.25%	***
Local governmental units	6.00%	2.25%	***
State gov't elected officials	7.50%	2.25%	***

*The employer rates include an administrative expense rate of 0.19 percent
**Plan 3 defined benefit portion only.
***Variable from 5% to 15% based on rate selected by the member.

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. There are no employer contributions to TRS Plan 3 defined contribution. Employees who participate in the defined contribution portion of TRS Plan 3 contribute to the defined contribution plan instead of the defined benefit portion of TRS Plan 3. The employee chooses from six rate options provided in statute ranging from 5 to 15 percent, two of the options are graduated rates dependent on the employee's age. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates.

The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.32 and 41.45 RCW.

Required contribution rates (expressed as a percentage of current-year covered payroll) at the close of Fiscal Year 2006 were as follows:

TRS Actual Contribution Rates

	Plan 1	Plan 2	Plan 3
Employer Rates *	2.92%	2.92%	2.92%**
Employee Rates:			
State agencies	6.00%	2.48%	***
Local governmental units	6.00%	2.48%	***
State gov't elected officials	7.50%	2.48%	***

*The employer rates include an administrative expense rate of 0.19 percent.
** Plan 3 defined benefit portion only.
*** Variable from 5% to 15% based on rate selected by the member.

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. There are no employer contributions to SERS Plan 3 defined contribution. Employees who participate in the defined contribution portion of SERS Plan 3 contribute to the defined contribution plan instead of the defined benefit portion of SERS Plan 3. The employee chooses from six rate options provided in statute ranging from 5 to 15 percent, two of the options are graduated rates dependent on the employee's age. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates.

The methods used to determine the contribution requirements are established under state statute in chapters 41.35 and 41.45 RCW.

Required contribution rates (expressed as a percentage of current year covered payroll) at the close of Fiscal Year 2006 were as follows:

SERS Actual Contribution Rates

	Plan 2	Plan 3
Employer Rates:		
State agencies*	2.94%	2.94% **
Local governmental units*	2.94%	2.94% **
Employee Rates:		
State agencies	2.75%	***
Local governmental units	2.75%	***

*The employer rates include an administrative expense rate of 0.19 percent.
**Plan 3 defined benefit portion only.
***Variable from 5% to 15% based on rate selected by the member.

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)

Beginning July 1, 2000, Plan 1 employers and employees contribute zero 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.

Required contribution rates (expressed as a percentage of current year covered payroll) at the close of Fiscal Year 2006 were as follows:

LEOFF Actual Contribution Rates

	Plan 1	Plan 2
Employer Rates:		
Ports and Universities*	NA	7.18%
Local governmental units* (cities, counties, fire districts, etc)	0.19%	4.39%
Employee Rates:		
Ports and Universities	NA	6.99%
Local governmental units (cities, counties, fire districts, etc)	NA	6.99%
State of Washington	NA	2.79%

*The employer rates include an administrative expense rate of 0.19 percent.

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 2006, the state contributed $31.7 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.

Required contribution rates (expressed as a percentage of current year covered payroll) at the close of Fiscal Year 2006 were as follows:

WSPRS Actual Contribution Rates

	Plan 1	Plan 2
Employer rate	4.70%	4.70%
Employee rate	4.51%	4.51%

*The employer rates include an administrative expense rate of 0.19 percent

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 2006, the state contributed $6.6 million.

Judges' Retirement Fund (Judges)

Contributions made are based on rates set in chapter 2.12 RCW. By statute, employees are required to contribute 6.5 percent with an equal amount contributed by the state. In addition, the state guarantees the solvency of the Judges' Retirement Fund on a pay-as-you-go basis. As of June 30, 2006, 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 2006, the state contributed $0.3 million.

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. The death and disability provisions of VFFRPF are funded by an employer contribution rate, which as of July 24, 2005 increased from $10 to $30 per member (Chapter 37, Laws of 2005).

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.

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.

	2006	2005	2004
PERS Plan 1	$15.0	$11.3	$11.5
PERS Plan 2/3	73.1	36.7	34.3
TRS Plan 1	0.5	0.3	0.3
TRS Plan 2/3	0.5	0.2	0.2
SERS Plan 2/3	0.0	0.0	0.0
LEOFF Plan 1	0.0	0.0	0.0
LEOFF Plan 2	32.2	21.6	20.5
VFFRPF	4.6	4.4	4.4

There are no long-term contracts for contributions for any of the retirement plans administered by the state.

E. 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 (amounts in millions);

	WSPRS	JRS	Judges
Annual Pension Cost and Net Pension Obligation:			
Annual required contribution	$ 6.1	$27.7	$ 0.1
Interest on NPO	(1.6)	4.9	(0.2)
Adjustment to annual required contribution	2.6	(19.3)	0.8
Annual pension cost	7.1	13.3	0.7
Less contributions made	3.1	6.7	0.3
Increase (decrease) in NPO	4.0	6.6	0.4
NPO at beginning of year	(20.2)	61.4	(2.6)
NPO at end of year	$(16.2)	$68.0	$(2.2)

Actuarial Assumptions:			
Valuation date	9/30/05	9/30/05	9/30/05
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
Actuarial assumptions:			
Investment rate of return	8%	8%	8%
Projected salary increases	4.5%**	4.5%	4.5%
Includes inflation at	3.5%	3.5%	3.5%
Cost-of-living adjustments	CPI increase, maximum 3%	3.00%	none

* The aggregate cost method does not identify or separately amortize unfunded actuarial liabilities.

** WSPRS also assumes a 6 percent salary merit increase for a merit period of 20 years.

F. Three Year Historical Trend Information

The following table presents three-year trend information in millions for the plans listed:

	2006	2005	2004
WSPRS			
Annual Pension Cost	$7.1	$4.4	$3.8
% of APC contributed	44.0	0.0	0.0
NPO	$(16.2)	$(20.2)	$(24.6)
JRS			
Annual Pension Cost	$13.3	$12.1	$11.8
% of APC contributed	50.5	50.8	52.5
NPO	$68.0	$61.4	$55.5
Judges			
Annual Pension Cost	$0.7	$0.5	$0.6
% of APC contributed	42.9	100.0	83.3
NPO	$(2.2)	$(2.6)	$(2.6)

There are no long-term contracts for contributions for any of the retirement plans administered by the state.

G. Changes in Actuarial Assumptions and Methods

Pension funding legislation was adopted during the 2005 legislative session (Chapter 370, Laws of 2005), which creates a short-term change in funding policy. The policy is to adopt annual contribution rates over a four-year "phase-in" period from 2005-09, to suspend payments on the Plan 1 Unfunded Actuarial Accrued Liability (UAAL) in PERS and TRS during the 2005-07

biennium, and to delay recognition of the cost of future gain-sharing benefits until the 2007-09 biennium.

Legislation enacted during the 2006 session called for a resumption of Plan 1 UAAL contributions, also on a phase-in basis, on September 1, 2006 for TRS and SERS employers, and on January 1, 2007 for PERS employers.

New valuation software was used to produce the 2005 actuarial valuation results. As part of the new implementation, the present value of future salaries is calculated differently to produce the normal cost contribution rate.

The estimated value of future gain-sharing benefits is included in the liabilities for accounting disclosure purposes, as well as for funding purposes.

The demographic assumptions for LEOFF Plan 2 were modified for a disability benefit enhancement.

PERS Plan 1 and TRS Plan 1 retirement rates were increased slightly to reflect the increased cost for the post-retirement employment program offered to those members.

Mortality rates for PERS, TRS, SERS, LEOFF, and WSP now recognize a trend toward increased longevity over time. The Retirement Plan (RP)-2000 continues to serve as the base mortality table. In addition, generational mortality improvements are projected using 50 percent of Scale AA, published by the Society of Actuaries. The estimated value of this assumption change is included in the liabilities for accounting disclosure purposes, but not for funding purposes.

H. Changes in Benefit Provisions

The 2006 legislative session provided the following changes in benefit provisions.

Judges in PERS may increase their benefit multiplier. Member pays all increased costs for this benefit enhancement (Chapter 189, Laws of 2006).

The PERS and TRS Plan 1 $1,000 minimum benefit already afforded to annuitants with at least 25 years of service who have been retired at least 20 years was extended to those annuitants with at least 20 years of service who have been retired at least 25 years. This minimum benefit is also increased by 3 percent annually (Chapter 244, Laws of 2006).

PERS, TRS, and SERS 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 (Chapter 33, Laws of 2006).

Members of TRS Plans 2 and 3 may purchase up to seven years of service credit for educational service earned outside the state of Washington (Chapter 257, Laws of 2006).

The thirty-year service cap has been removed for those LEOFF Plan 1 members hired on or after February 19, 1974 (Chapter 350, Laws of 2006).

The $150,000 line-of-duty death benefit is extended to those LEOFF Plan 2 members who die of a duty-related illness (Chapter 351, Laws of 2006).

LEOFF Plan 2 members who are catastrophically disabled in the line-of-duty may receive a benefit equal to 70 percent of their average final salary, subject to offsets for other sources of disability income (Chapter 39, Laws of 2006).

LEOFF Plan 2 survivors may receive reimbursement for payment of health care premiums (Chapter 34,5 Laws of 2006).

Benefits for surviving spouses of disabled WSP members will be based on the current salaries of members of the same rank the member held at the time of disablement (Chapter 94, Laws of 2006).

I. 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 a defined contribution component. As established by RCW 41.40, 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 caused 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 2006, employee contributions required and made were $64.8 million, and plan refunds paid out were $35.5 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 a defined contribution component. As established by RCW 41.34, 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 caused 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 2006, employee contributions required and made were $195.9 million and plan refunds paid out were $41.9 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, are also members of 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 a defined contribution component. As established by RCW 41.35, 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 caused 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 2006, employee contributions required and made were $49.8 million and plan refunds paid out were $24.9 million.

Judicial Retirement Account (JRA)

The Judicial Retirement Account Plan was established by the Legislature in 1988 to provide supplemental retirement benefits. It is a defined contribution plan administered by the state Administrative Office of the Courts, under the direction of the Board for Judicial Administration. Membership includes judges elected or appointed to the Supreme Court, Court of Appeals, and Superior Courts, and who are members of the 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.

Current-year covered payroll for JRA employees was $25.4 million for the Fiscal Year ended June 30, 2006. For Fiscal Year 2006, the contribution requirement for JRA was $1.3million. Actual employer and employee contributions were $635 thousand each, for a total of $1.3 million. Plan benefits paid out for Fiscal Year 2006 totaled $207 thousand.

A JRA member who separates from judicial service for any reason is entitled to receive a lump-sum distribution of the accumulated contributions. The administrator of JRA may adopt rules establishing other payment options. If a member dies, the amount of accumulated contributions standing to the member's credit at the time of the member's death shall be paid to the member's estate, or such person or persons, trust or organization as the member has nominated by written designation.

The Administrator of JRA has entered an agreement with DRS for accounting and reporting services, and the Washington State Investment Board (SIB) for investment services. DRS is responsible for all record keeping, accounting, and reporting of member accounts. 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 28.B.10.400 et. seq. assigns the authority to establish and amend benefit provisions to: the board of regents of the state universities, the boards of trustees of the regional universities and the state college, and the state board for community colleges.

Employee contribution rates, based on age, range from 5 to 10 percent of salary. The employers match the employee contributions. The employer and employee obligations to contribute are established per chapter 28B.10 RCW. For Fiscal Year 2006, covered payroll was $1.4 billion. Employer and employee contributions were $114.7 million each, for a total of $229.4 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 evaluation of the supplemental component of the Higher Education Retirement plans was done at the end of Fiscal Year 2004. The previous evaluation was performed in 1999. The Unfunded Actuarial Accrued Liability (UAAL) calculated as of June 30, 2004 and 1999 was $48.1 million and $26.2 million, respectively, and is amortized over a 19.5-year period. The Annual Required Contribution (ARC) of $5.1 million consists of amortization of the UAL ($2.8 million) and normal cost (or current cost) ($2.1 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 $1.1 billion and $573.9 million of payroll were covered under these plans during 2004 and 1999, respectively.

The following table reflects the activity in the Net Pension Obligation for the years ended June 30 (in millions):

	2006	2005	2004
Annual required contribution	$ 5.1	$ 5.1	$ 5.1
Payments to beneficiaries	(1.6)	(2.1)	(2.3)
Increase (decrease) in NPO	3.5	3.0	2.8
NPO at beginning of year	5.8	2.8	0.0
NPO at end of year	$ 9.3	$ 5.8	$ 2.8

J. 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, 2006

(expressed in thousands)

	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	SERS Plan 2/3 Defined Benefit
Assets:							
Cash and pooled investments	$ 371	$ 5,835	$ 158	$ 765	$ 4,072	$ 2,917	$ 1,466
Receivables:							
Interest and dividends	31,747	43,643	1,907	26,849	15,445	5,548	6,240
Due from other funds	15	207	6,431	14	3,434	15,034	817
Due from other governments	4,476	16,256	3,039	3,743	7,139	16,778	3,797
Other (net of allowance)	42,212	57,711	2,518	35,461	20,367	7,314	8,223
Total Receivables	78,450	117,817	13,895	66,067	46,385	44,674	19,077
Investments, Noncurrent:							
Asset backed securities	3,066	4,247	186	2,596	1,500	541	605
Certificates of deposit	77,257	107,010	4,696	65,401	37,785	13,619	15,250
Commercial paper	67,537	93,546	4,105	57,172	33,031	11,906	13,332
Corporate bonds	837,426	1,159,926	50,905	708,911	409,573	147,626	165,306
Corporate stock	1,430,527	1,981,435	86,957	1,210,992	699,649	252,181	282,382
Currencies	20,834	28,858	1,266	17,637	10,190	3,673	4,113
Govt securities - domestic	11,815	16,366	718	10,002	5,779	2,082	2,333
Govt securities - foreign	17,082	23,660	1,038	14,460	8,354	3,011	3,372
Investments on loan	1,059,162	1,467,054	64,383	896,618	518,020	186,715	209,076
Mortgages	789,270	1,093,225	47,977	668,145	386,020	139,137	155,799
Mutual funds	2,892,877	4,006,950	647,167	2,448,924	1,414,863	1,860,857	571,047
Private equity	1,719,271	2,381,377	104,509	1,455,424	840,870	303,083	339,380
Real estate	1,077,151	1,491,971	65,477	911,847	526,819	189,886	212,627
Repurchase agreements	300,300	415,612	18,221	254,190	146,997	52,841	59,299
Short term investments	992,929	1,384,403	57,958	841,353	501,048	173,841	203,703
Other noncurrent investments	-	-	-	-	-	-	-
Total Investments, Noncurrent	11,296,504	15,655,640	1,155,563	9,563,672	5,540,498	3,340,999	2,237,624
Total Assets	$ 11,375,325	$ 15,779,292	$ 1,169,616	$ 9,630,504	$ 5,590,955	$ 3,388,590	$ 2,258,167
Liabilities:							
Obligations under security lending agreements	$ 1,080,221	$ 1,496,145	$ 65,373	$ 914,422	$ 528,918	$ 189,856	$ 213,585
Accrued liabilities	42,890	51,158	2,198	36,371	18,071	6,384	7,329
Due to other funds	173	7,356	158	111	15,482	3,403	5,782
Deferred revenues	126	210	-	294	76	-	2
Total Liabilities	1,123,410	1,554,869	67,729	951,198	562,547	199,643	226,698
Net Assets							
Net Assets Held in Trust for:							
Pension Benefits (Schedule of funding progress by plan begins on page 138)	10,251,915	14,224,423	1,101,887	8,679,306	5,028,408	3,188,947	2,031,469
Deferred Compensation Participants	-	-	-	-	-	-	-
Total Net Assets	$ 10,251,915	$ 14,224,423	$ 1,101,887	$ 8,679,306	$ 5,028,408	$ 3,188,947	$ 2,031,469

SERS Plan 3 Defined Contribution	LEOFF Plan 1	LEOFF Plan 2	WSPRS Plan 1/2	JRS	JRA	Judges	VFFRPF	Deferred Compensation	**Total**
$ 703	$ 383	$ 560	$ 304	$ 27	$ 7	$ 4,083	$ 25,041	$ 524	$ 47,216
1,925	17,174	12,644	2,517	2	-	-	371	-	166,012
5,584	22	12	2	1	-	14	76	1	31,664
4,316	-	8,466	264	9	-	-	-	-	68,283
2,538	22,629	16,709	3,318	-	-	3	490	1,855	221,348
14,363	39,825	37,831	6,101	12	-	17	937	1,856	487,307
188	1,664	1,229	244	-	-	-	37	-	16,103
4,737	41,932	30,962	6,156	-	-	-	912	-	405,717
4,141	36,656	27,067	5,381	-	-	-	796	-	354,670
51,344	454,521	335,617	66,725	-	-	-	9,873	-	4,397,753
87,708	776,432	573,315	113,981	-	-	-	16,869	-	7,512,428
1,277	11,308	8,350	1,660	-	-	-	246	-	109,412
725	6,413	4,735	940	-	-	-	141	-	62,049
1,047	9,271	6,846	1,361	-	-	-	202	-	89,704
64,940	574,871	424,482	84,392	-	-	-	12,490	-	5,562,203
48,392	428,385	316,317	62,887	-	-	-	9,305	-	4,144,859
400,522	1,570,138	1,159,384	230,499	-	11,596	-	34,109	1,488,913	18,737,846
105,412	933,152	689,035	136,988	-	-	-	20,272	-	9,028,773
66,043	584,635	431,692	85,825	-	-	-	12,699	-	5,656,672
18,378	162,882	120,188	23,919	10	-	227	4,921	29	1,578,014
58,710	537,233	408,192	79,717	-	-	-	11,635	-	5,250,722
-	-	-	-	-	5,524	-	-	695,920	701,444
913,564	6,129,493	4,537,411	900,675	10	17,120	227	134,507	2,184,862	63,608,369
$ 928,630	$ 6,169,701	$ 4,575,802	$ 907,080	$ 49	$ 17,127	$ 4,327	$ 160,485	$ 2,187,242	$ 64,142,892
$ 65,865	$ 586,193	$ 432,759	$ 86,063	$ 11	$ -	$ 227	$ 14,117	$ 28	$ 5,673,783
2,215	20,062	14,577	3,074	37	-	4	434	31	204,835
810	10	188	8	-	-	-	17	1	33,499
-	-	17	-	-	-	-	-	-	725
68,890	606,265	447,541	89,145	48	-	231	14,568	60	5,912,842
859,740	5,563,436	4,128,261	817,935	1	17,127	4,096	145,917	-	56,042,868
-	-	-	-	-	-	-	-	2,187,182	2,187,182
$ 859,740	$ 5,563,436	$ 4,128,261	$ 817,935	$ 1	$ 17,127	$ 4,096	$ 145,917	$ 2,187,182	$ 58,230,050

The methods used to determine the contribution requirements are established under state statute in chapters 41.35 and 41.45 RCW.

Required contribution rates (expressed as a percentage of current year covered payroll) at the close of Fiscal Year 2006 were as follows:

SERS Actual Contribution Rates

	Plan 2	Plan 3
Employer Rates:		
State agencies*	2.94%	2.94% **
Local governmental units*	2.94%	2.94% **
Employee Rates:		
State agencies	2.75%	***
Local governmental units	2.75%	***

*The employer rates include an administrative expense rate of 0.19 percent.
**Plan 3 defined benefit portion only.
***Variable from 5% to 15% based on rate selected by the member.

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)

Beginning July 1, 2000, Plan 1 employers and employees contribute zero 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.

Required contribution rates (expressed as a percentage of current year covered payroll) at the close of Fiscal Year 2006 were as follows:

LEOFF Actual Contribution Rates

	Plan 1	Plan 2
Employer Rates:		
Ports and Universities*	NA	7.18%
Local governmental units* (cities, counties, fire districts, etc)	0.19%	4.39%
Employee Rates:		
Ports and Universities	NA	6.99%
Local governmental units (cities, counties, fire districts, etc)	NA	6.99%
State of Washington	NA	2.79%

*The employer rates include an administrative expense rate of 0.19 percent.

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 2006, the state contributed $31.7 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.

Required contribution rates (expressed as a percentage of current year covered payroll) at the close of Fiscal Year 2006 were as follows:

WSPRS Actual Contribution Rates

	Plan 1	Plan 2
Employer rate	4.70%	4.70%
Employee rate	4.51%	4.51%

*The employer rates include an administrative expense rate of 0.19 percent

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 2006, the state contributed $6.6 million.

Judges' Retirement Fund (Judges)

Contributions made are based on rates set in chapter 2.12 RCW. By statute, employees are required to contribute 6.5 percent with an equal amount contributed by the state. In addition, the state guarantees the solvency of the Judges' Retirement Fund on a pay-as-you-go basis. As of June 30, 2006, 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 2006, the state contributed $0.3 million.

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

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. There are no employer contributions to PERS Plan 3 defined contribution. Employees who participate in the defined contribution portion of PERS Plan 3 contribute to the defined contribution plan instead of the defined benefit portion of PERS Plan 3. The employee chooses from six rate options provided in statute ranging from 5 to 15 percent, two of the options are graduated rates dependent on the employee's age. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates.

The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

Required contribution rates (expressed as a percentage of current year covered payroll) at the close of Fiscal Year 2006 were as follows:

PERS Actual Contribution Rates

	Plan 1	Plan 2	Plan 3
Employer Rates:			
State agencies*	2.44%	2.44%	2.44%**
Local governmental units*	2.44%	2.44%	2.44%**
State gov't elected officials*	3.57%	2.44%	2.44%**
Employee Rates:			
State agencies	6.00%	2.25%	***
Local governmental units	6.00%	2.25%	***
State gov't elected officials	7.50%	2.25%	***

*The employer rates include an administrative expense rate of 0.19 percent
**Plan 3 defined benefit portion only.
***Variable from 5% to 15% based on rate selected by the member.

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. There are no employer contributions to TRS Plan 3 defined contribution. Employees who participate in the defined contribution portion of TRS Plan 3 contribute to the defined contribution plan instead of the defined benefit portion of TRS Plan 3. The employee chooses from six rate options provided in statute ranging from 5 to 15 percent, two of the options are graduated rates dependent on the employee's age. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates.

The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.32 and 41.45 RCW.

Required contribution rates (expressed as a percentage of current-year covered payroll) at the close of Fiscal Year 2006 were as follows:

TRS Actual Contribution Rates

	Plan 1	Plan 2	Plan 3
Employer Rates *	2.92%	2.92%	2.92%**
Employee Rates:			
State agencies	6.00%	2.48%	***
Local governmental units	6.00%	2.48%	***
State gov't elected officials	7.50%	2.48%	***

*The employer rates include an administrative expense rate of 0.19 percent.
** Plan 3 defined benefit portion only.
*** Variable from 5% to 15% based on rate selected by the member.

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. There are no employer contributions to SERS Plan 3 defined contribution. Employees who participate in the defined contribution portion of SERS Plan 3 contribute to the defined contribution plan instead of the defined benefit portion of SERS Plan 3. The employee chooses from six rate options provided in statute ranging from 5 to 15 percent, two of the options are graduated rates dependent on the employee's age. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates.

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.

The Judges' Retirement Fund was created by the Legislature on March 22, 1937, pursuant to RCW 2.12, 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 9, 1971, enter the Judicial Retirement System. Judges' retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

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, 2006.

Judges' pension benefit provisions are established by chapter 2.12 RCW.

The Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund (VFFRPF)

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. VFFRPF members accrue no interest on contributions and may elect to withdraw their contributions upon termination.

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 state statute and may be amended only by the state Legislature. Since retirement benefits cover volunteer service, benefits are paid based on years of service not salary. Members are vested after ten years of service.

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. Benefit provisions for VFFRPF are established under the authority of chapter 41.24 RCW.

Effective July 1, 2001, the disability income benefits and the maximum survivor benefits under the Relief Plan are increased for increases in the CPI.

There were no material changes in VFFRPF benefit provisions for the Fiscal Year ended June 30, 2006.

C. Funding Policies

Contributions towards the amortization of the PERS 1 and TRS 1 unfunded actuarial accrued liability (UAAL) were suspended for the 2003-2005 and 2005-2007 biennia. Legislation during the 2006 session provided for resumption of UAAL payments beginning September 1, 2006 for TRS and SERS, and January 1, 2007 for PERS.

The estimated value of future gain-sharing benefits is included in the liabilities for accounting disclosure purposes. However, the actual contribution rates for PERS, TRS, and SERS at the close of the Fiscal Year 2006 were adopted by the legislature and did not include the value of gain-sharing benefits.

The Legislature provided for minimum contribution rates (Chapter 365 Laws of 2006). These minimum rates will go into effect beginning with the 2009-11 biennium.

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. The death and disability provisions of VFFRPF are funded by an employer contribution rate, which as of July 24, 2005 increased from $10 to $30 per member (Chapter 37, Laws of 2005).

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.

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.

	2006	2005	2004
PERS Plan 1	$15.0	$11.3	$11.5
PERS Plan 2/3	73.1	36.7	34.3
TRS Plan 1	0.5	0.3	0.3
TRS Plan 2/3	0.5	0.2	0.2
SERS Plan 2/3	0.0	0.0	0.0
LEOFF Plan 1	0.0	0.0	0.0
LEOFF Plan 2	32.2	21.6	20.5
VFFRPF	4.6	4.4	4.4

There are no long-term contracts for contributions for any of the retirement plans administered by the state.

E. 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 (amounts in millions);

	WSPRS	JRS	Judges
Annual Pension Cost and Net Pension Obligation:			
Annual required contribution	$ 6.1	$27.7	$ 0.1
Interest on NPO	(1.6)	4.9	(0.2)
Adjustment to annual required contribution	2.6	(19.3)	0.8
Annual pension cost	7.1	13.3	0.7
Less contributions made	3.1	6.7	0.3
Increase (decrease) in NPO	4.0	6.6	0.4
NPO at beginning of year	(20.2)	61.4	(2.6)
NPO at end of year	$(16.2)	$68.0	$(2.2)

Actuarial Assumptions:			
Valuation date	9/30/05	9/30/05	9/30/05
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
Actuarial assumptions:			
Investment rate of return	8%	8%	8%
Projected salary increases	4.5%**	4.5%	4.5%
Includes inflation at	3.5%	3.5%	3.5%
Cost-of-living adjustments	CPI increase, maximum 3%	3.00%	none

* The aggregate cost method does not identify or separately amortize unfunded actuarial liabilities.

** WSPRS also assumes a 6 percent salary merit increase for a merit period of 20 years.

F. Three Year Historical Trend Information

The following table presents three-year trend information in millions for the plans listed:

	2006	2005	2004
WSPRS			
Annual Pension Cost	$7.1	$4.4	$3.8
% of APC contributed	44.0	0.0	0.0
NPO	$(16.2)	$(20.2)	$(24.6)
JRS			
Annual Pension Cost	$13.3	$12.1	$11.8
% of APC contributed	50.5	50.8	52.5
NPO	$68.0	$61.4	$55.5
Judges			
Annual Pension Cost	$0.7	$0.5	$0.6
% of APC contributed	42.9	100.0	83.3
NPO	$(2.2)	$(2.6)	$(2.6)

There are no long-term contracts for contributions for any of the retirement plans administered by the state.

G. Changes in Actuarial Assumptions and Methods

Pension funding legislation was adopted during the 2005 legislative session (Chapter 370, Laws of 2005), which creates a short-term change in funding policy. The policy is to adopt annual contribution rates over a four-year "phase-in" period from 2005-09, to suspend payments on the Plan 1 Unfunded Actuarial Accrued Liability (UAAL) in PERS and TRS during the 2005-07

recovery statutes, Department of Labor and Industries regulations and collective bargaining agreements, to seek additional compensation for the work performed during shift overlap periods. The plaintiffs prevailed at summary judgment. Appeals and oral argument will occur this winter. Plaintiffs claim approximately $8 million in damages and our estimate of damages is approximately $2 million.

Moore v HCA and State of Washington. This class action claims the state has misclassified employees to deny health benefits. This is a follow on case to *Mader v State* where similar claims were made for part-time community college instructors. *Moore* impacts any state agency that employed seasonal, part-time or on-call workers. The suit is pending in King County seeking compensatory damages, declaratory and injunctive relief and attorney fees and costs. Although difficult to predict at this time without more documentation, damages could exceed $15 million.

Washington Public Employees Association v. State; and, Shroll v. State. A consolidated class action suit brought on behalf of state employees in "common classes," general government agencies and higher education institutions under the jurisdiction of the Personnel Resources Board. Plaintiffs seek back pay and prospective wage adjustments to rectify alleged discrepancies between the highest and lowest salaries within the common class. Plaintiffs prevailed in the State Court of Appeals and the State has sought Supreme Court review. The state agreed to a settlement in principal in time for the 2006 Legislature to appropriate $21 million needed for the retrospective payments and $1 million for the first year of the prospective five year phase in plan. On October 20, 2006, the court approved the settlement. Retrospective payment was made to the third party administrator in November 2006.

Revenue

There is a recurring volume of lawsuits seeking refunds of taxes paid to the state. All are not reported here.

United States Tobacco Sales & Marketing Co., Inc. v. Department of Revenue. This appeal involves the valuation of tobacco product samples for purposes of the Other Tobacco Products (OTP) tax. Following a trial, the Thurston County Superior Court entered judgment largely in the taxpayer's favor. The Department appealed. Division II of the Court of Appeals reversed and remanded for a new trial, concluding that substantial evidence did not support the trial court's findings of fact. The Washington Supreme Court accepted the taxpayer's petition for discretionary review and heard oral argument on September 19, 2006. U.S. Tobacco is seeking approximately $6 million in refunds in this appeal and in administrative refund appeals pending before the Department Appeals Division. Moreover, other tobacco manufacturers have filed for administrative refunds with the Department. In total, approximately $87 million in OTP taxes is at risk in 51 appeals pending before the Appeals Division.

Washington State Farm Bureau Federation, et al. v. Gregoire. Plaintiffs in this action challenged the validity of revenue measures enacted by the 2005 Legislature, including sales and use tax on extended warranties, cigarettes and liquor, and a tax on the transfer of decedents' estates. The trial court ruled that the measure raised revenue for expenditure in excess of the general fund expenditure limit, and held the measure invalid for failure to comply with the voter approval requirement of Initiative 601. The trial court also concluded that curative legislation adopted in 2006 to clarify the expenditure limit could not be given effect. The State appealed. Plaintiffs cross appealed from the trial court's denial of their motion to compel discovery with regard to a series of emails from the Legislature and Office of Financial Management, which the trial court concluded were protected by the legislative and executive privileges. The Washington Supreme Court heard oral argument on November 28, 2006.

Education

School Districts' Alliance for Adequate Funding of Special Education, et al. v. State of Washington, et al. Plaintiffs challenge the Legislature's method and adequacy of funding for special education based on a flat, per capita rate per eligible student and the limitation of excess funding to 12.7 percent of the total district student population. Trial is completed, and a decision will be issued in the near future. Additional costs resulting from a ruling in plaintiffs' favor could be as much as $360 million per biennium.

General Government

ASARCO Bankruptcy. ASARCO filed for Chapter 11 bankruptcy on September 9, 2005. ASARCO's smelter operation in Tacoma/Ruston is a Superfund site under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA). The "Groundwater/Sediments Unit" of the Superfund site includes about 110 acres of state-owned aquatic land. The primary contaminants of aquatic lands are arsenic and copper. Under CERCLA, the State is also a Potentially Responsible Party (PRP) because it owns the contaminated property and the State could be responsible for much of the cost of clean up if ASARCO evades liability through bankruptcy. The U.S. Environmental Protection Agency (EPA) currently estimates the cost of clean up for the entire site at $22 million. The clean up of state-owned aquatic lands is estimated at $11 million.

The methods used to determine the contribution requirements are established under state statute in chapters 41.35 and 41.45 RCW.

Required contribution rates (expressed as a percentage of current year covered payroll) at the close of Fiscal Year 2006 were as follows:

SERS Actual Contribution Rates

	Plan 2	Plan 3
Employer Rates:		
State agencies*	2.94%	2.94% **
Local governmental units*	2.94%	2.94% **
Employee Rates:		
State agencies	2.75%	***
Local governmental units	2.75%	***

*The employer rates include an administrative expense rate of 0.19 percent.
**Plan 3 defined benefit portion only.
***Variable from 5% to 15% based on rate selected by the member.

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)

Beginning July 1, 2000, Plan 1 employers and employees contribute zero 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.

Required contribution rates (expressed as a percentage of current year covered payroll) at the close of Fiscal Year 2006 were as follows:

LEOFF Actual Contribution Rates

	Plan 1	Plan 2
Employer Rates:		
Ports and Universities*	NA	7.18%
Local governmental units* (cities, counties, fire districts, etc)	0.19%	4.39%
Employee Rates:		
Ports and Universities	NA	6.99%
Local governmental units (cities, counties, fire districts, etc)	NA	6.99%
State of Washington	NA	2.79%

*The employer rates include an administrative expense rate of 0.19 percent.

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 2006, the state contributed $31.7 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.

Required contribution rates (expressed as a percentage of current year covered payroll) at the close of Fiscal Year 2006 were as follows:

WSPRS Actual Contribution Rates

	Plan 1	Plan 2
Employer rate	4.70%	4.70%
Employee rate	4.51%	4.51%

*The employer rates include an administrative expense rate of 0.19 percent

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 2006, the state contributed $6.6 million.

Judges' Retirement Fund (Judges)

Contributions made are based on rates set in chapter 2.12 RCW. By statute, employees are required to contribute 6.5 percent with an equal amount contributed by the state. In addition, the state guarantees the solvency of the Judges' Retirement Fund on a pay-as-you-go basis. As of June 30, 2006, 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 2006, the state contributed $0.3 million.

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

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. There are no employer contributions to PERS Plan 3 defined contribution. Employees who participate in the defined contribution portion of PERS Plan 3 contribute to the defined contribution plan instead of the defined benefit portion of PERS Plan 3. The employee chooses from six rate options provided in statute ranging from 5 to 15 percent, two of the options are graduated rates dependent on the employee's age. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates.

The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

Required contribution rates (expressed as a percentage of current year covered payroll) at the close of Fiscal Year 2006 were as follows:

PERS Actual Contribution Rates

	Plan 1	Plan 2	Plan 3
Employer Rates:			
State agencies*	2.44%	2.44%	2.44%**
Local governmental units*	2.44%	2.44%	2.44%**
State gov't elected officials*	3.57%	2.44%	2.44%**
Employee Rates:			
State agencies	6.00%	2.25%	***
Local governmental units	6.00%	2.25%	***
State gov't elected officials	7.50%	2.25%	***

*The employer rates include an administrative expense rate of 0.19 percent
**Plan 3 defined benefit portion only.
***Variable from 5% to 15% based on rate selected by the member.

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. There are no employer contributions to TRS Plan 3 defined contribution. Employees who participate in the defined contribution portion of TRS Plan 3 contribute to the defined contribution plan instead of the defined benefit portion of TRS Plan 3. The employee chooses from six rate options provided in statute ranging from 5 to 15 percent, two of the options are graduated rates dependent on the employee's age. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates.

The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.32 and 41.45 RCW.

Required contribution rates (expressed as a percentage of current-year covered payroll) at the close of Fiscal Year 2006 were as follows:

TRS Actual Contribution Rates

	Plan 1	Plan 2	Plan 3
Employer Rates *	2.92%	2.92%	2.92%**
Employee Rates:			
State agencies	6.00%	2.48%	***
Local governmental units	6.00%	2.48%	***
State gov't elected officials	7.50%	2.48%	***

*The employer rates include an administrative expense rate of 0.19 percent.
** Plan 3 defined benefit portion only.
*** Variable from 5% to 15% based on rate selected by the member.

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. There are no employer contributions to SERS Plan 3 defined contribution. Employees who participate in the defined contribution portion of SERS Plan 3 contribute to the defined contribution plan instead of the defined benefit portion of SERS Plan 3. The employee chooses from six rate options provided in statute ranging from 5 to 15 percent, two of the options are graduated rates dependent on the employee's age. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates.

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.

The Judges' Retirement Fund was created by the Legislature on March 22, 1937, pursuant to RCW 2.12, 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 9, 1971, enter the Judicial Retirement System. Judges' retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

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, 2006.

Judges' pension benefit provisions are established by chapter 2.12 RCW.

The Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund (VFFRPF)

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. VFFRPF members accrue no interest on contributions and may elect to withdraw their contributions upon termination.

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 state statute and may be amended only by the state Legislature. Since retirement benefits cover volunteer service, benefits are paid based on years of service not salary. Members are vested after ten years of service.

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. Benefit provisions for VFFRPF are established under the authority of chapter 41.24 RCW.

Effective July 1, 2001, the disability income benefits and the maximum survivor benefits under the Relief Plan are increased for increases in the CPI.

There were no material changes in VFFRPF benefit provisions for the Fiscal Year ended June 30, 2006.

C. Funding Policies

Contributions towards the amortization of the PERS 1 and TRS 1 unfunded actuarial accrued liability (UAAL) were suspended for the 2003-2005 and 2005-2007 biennia. Legislation during the 2006 session provided for resumption of UAAL payments beginning September 1, 2006 for TRS and SERS, and January 1, 2007 for PERS.

The estimated value of future gain-sharing benefits is included in the liabilities for accounting disclosure purposes. However, the actual contribution rates for PERS, TRS, and SERS at the close of the Fiscal Year 2006 were adopted by the legislature and did not include the value of gain-sharing benefits.

The Legislature provided for minimum contribution rates (Chapter 365 Laws of 2006). These minimum rates will go into effect beginning with the 2009-11 biennium.

credit for the period of disability. In addition, a duty death benefit of $150,000 is provided to all WSPRS members.

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 10 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 10 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.

Beneficiaries of a WSPRS Plan 2 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 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.

Legislation passed in the 2006 session, effective June 7, 2006, states that benefits for surviving spouses of disabled state troopers will be based on the current salaries of members of the same rank the member held at the time of disablement (Chapter 94, Laws of 2006).

There were no other material changes in WSPRS benefit provisions for the Fiscal Year ended June 30, 2006.

WSPRS pension benefit provisions are established by chapter 43.43 RCW.

Judicial Retirement System (JRS)

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 2006, 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 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 state statute and may be amended only by 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 as follows:

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 10 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 10 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, 2006.

JRS pension benefit provisions are established by chapter 2.10 RCW.

Judges' Retirement Fund (Judges)

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

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, and to reflect the choice of a survivor option.

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 can receive a retirement allowance, not actuarially reduced, of at least 10 percent of FAS. If the unreduced 2 percent per year of service disability benefit results in a greater benefit than the minimum 10 percent, the member receives the greater benefit. The first 10 percent of the line-duty disability benefit is not subject to federal income tax. The line-duty disability benefit applies to all LEOFF Plan 2 members disabled in the line of duty on or after January 1, 2001.

Legislation passed in recent sessions effective in Fiscal Year 2006:

Effective July 24, 2005, LEOFF Plan 1 retirees can designate a spouse from a post-retirement marriage as a beneficiary, even if an ex-spouse is receiving a portion of the retiree's benefit under a court-approved property settlement (Chapter 67, Laws of 2005).

Effective July 24, 2005, the spouse of a LEOFF Plan 1 retiree who receives a portion of the retiree's monthly pension under a court-ordered property settlement, can continue receiving that portion after the retiree dies (Chapter 62, Laws of 2005).

Effective July 24, 2005, 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 (Chapter 372, Laws of 2005).

Effective July 24, 2005, LEOFF Plan 2 members can purchase credit for military service that interrupted employment, if they are disabled while on active duty and cannot return to employment, or are killed while on active duty (Chapter 64, Laws of 2005).

Effective July 24, 2005, current members of PERS who are emergency medical technicians can elect to become members of LEOFF Plan 2 (Chapter 459, Laws of 2005).

Effective March 14, 2006, Plan 2 members who are catastrophically disabled in the line-of-duty may receive a benefit equal to seventy percent of their average final salary, subject to offsets for other sources of disability income (Chapter 39, Laws of 2006).

Effective June 7, 2006, Plan 2 survivors may receive reimbursement for payment of continuing health care premiums (Chapter 345, Laws of 2006).

Effective June 7, 2006, the $150,000 line-of-duty death benefit is extended to those members who die of a duty-related illness (Chapter 351, Laws of 2006).

There were no other material changes in LEOFF benefit provisions for the Fiscal Year ended June 30, 2006.

LEOFF pension benefit provisions are established by chapter 41.26 RCW.

Washington State Patrol Retirement System (WSPRS)

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 2006, the DRS-established rate on employee contributions was 5.5 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 was established by the Legislature in 1947. Any commissioned employee of the Washington State Patrol is eligible to participate. WSPRS benefits are established in state statute and may be amended only by the state Legislature.

WSPRS retirement benefits are vested after an employee completes 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.

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

who dies in the line of service as a result of injuries sustained in the course of employment, if found eligible by the Department of Labor and Industries.

Legislation passed in recent sessions effective in Fiscal Year 2006:

Effective July 24, 2005, SERS Plan 2 and Plan 3 members can purchase service credit for military service that interrupted employment, if they are disabled while on active duty and cannot return to employment, or are killed on active duty (Chapter 64, Laws of 2005).

Effective June 7, 2006, allows SERS Plan 3 members to be vested either after 10 years of service or after five years of service, as long as 12 consecutive months of service were accrued after attainment of age 44 (Chapter 33, Laws of 2006).

There were no other material changes in SERS benefit provisions for the Fiscal Year ended June 30, 2006.

SERS pension benefit provisions are established by chapter 41.35 and 41.34 RCW.

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)

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.

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 2006, 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 was established in 1970 by the Legislature. Membership includes all full-time, fully compensated, local law enforcement officers and firefighters. 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 state statute and may be amended only by the state Legislature. 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 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 10 years of service. If membership was established in LEOFF after February 18, 1974, the service retirement benefit is capped at 60 percent of FAS. A cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index).

LEOFF Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 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 retirements prior to the age of 53 are reduced 3 percent for each year that the benefit commences prior to age 53. 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.

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. In addition, a duty death benefit of $150,000 is provided to Plan 1 and Plan 2 members.

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.

Budgetary Information

Budgetary Comparison Schedule

Budget to GAAP Reconciliation

General Fund

For the Fiscal Year Ended June 30, 2006
(expressed in thousands)

	General Fund
Sources/inflows of resources	
Actual amounts (budgetary basis) "Total Resources" from the Budgetary Comparison Schedule	$ 20,116,351
Differences - budget to GAAP:	
The following items are inflows of budgetary resources but are not revenue for financial reporting purposes:	
Transfers from other funds	(244,783)
Budgetary fund balance at the beginning of the year	(869,659)
The following items are not inflows of budgetary resources but are revenue for financial reporting purposes:	
Noncash commodities and electronic food stamp benefits	658,779
Unanticipated receipts	16,320
Noncash revenues	12,917
Revenues collected for other governments	29,924
Total revenues (GAAP basis) as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	$ 19,719,849

Uses/outflows of resources	
Actual amounts (budgetary basis) "Total Charges to Appropriations" from the Budgetary Comparison Schedule.	$ 19,354,922
Differences - budget to GAAP:	
Budgeted expenditure transfers are recorded as expenditures in the budget statement but are recorded as other financing source (use) for financial reporting purposes.	(1,699,493)
The following items are outflows of budgetary resources but are not expenditures for financial reporting purposes.	
Transfers to other funds	(122,652)
Loan disbursements	(3,400)
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	658,779
Expenditures related to unanticipated receipts	16,320
Capital lease acquisitions	17,252
Distributions to other governments	29,924
Total expenditures (GAAP basis) as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	$ 18,251,652

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 2005-07 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 Report CAF1054 for governmental funds. A copy of this report is available at the Office of Financial Management, 6639 Capitol Boulevard, PO Box 43113, Olympia, Washington 98504-3113.

Legislative appropriations are strict legal limits on expenditures/expenses, and overexpenditures are prohibited. All appropriated and certain nonappropriated funds are further controlled by the executive branch through the allotment process. This process allocates the expenditure/expense plan into monthly allotments by program, source of funds, and object of expenditure. According to statute RCW 43.88.110(2), except under limited circumstances, the original allotments are approved by the Governor and may be revised on a quarterly basis and must be accompanied by an explanation of the reasons for significant changes. Because allotments are not the strict legal limit on expenditures/expenses, the budgetary schedules presented as required supplementary information (RSI) are shown on an appropriation versus actual comparison rather than an allotment versus actual comparison.

Proprietary funds typically earn revenues and incur expenses (i.e., depreciation or budgeted asset purchases) not covered by the allotment process. Budget estimates are generally made outside the allotment process according to prepared business plans. These proprietary fund business plan estimates are adjusted only at the beginning of each fiscal year.

Additional fiscal control is exercised through various means. OFM is authorized to make expenditure/expense allotments based on availability of unanticipated receipts, mainly federal government grant increases made during a fiscal year. State law does not preclude the over expenditure of allotments, although RCW 43.88.110(3) requires that the Legislature be provided an explanation of major variances.

Operating encumbrances lapse at the end of the applicable appropriation. Capital outlay encumbrances lapse at the end of the biennium unless reappropriated by the Legislature in the ensuing biennium. Encumbrances outstanding against continuing appropriations at fiscal year end are reported as reservations of fund balance.

Budgetary Reporting versus 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

Public Employees' Retirement System - Plan 1

Schedule of Funding Progress

Valuation Years 2005 through 2000 (dollars in millions)

	2005	2004	2003	2002	2001	2000
Actuarial Valuation Date	9/30/2005	9/30/2004	9/30/2003	9/30/2002	9/30/2001	12/31/2000
Actuarial Value of Plan Assets	$ 9,707	$ 9,928	$ 10,227	$ 10,757	$ 10,990	$ 11,111
Actuarial Accrued Liability	13,704	12,855	12,692	12,560	12,088	11,695
Unfunded Actuarial Liability	3,997	2,927	2,465	1,803	1,098	584
Percentage Funded	71%	77%	81%	86%	91%	95%
Covered Payroll	786	863	945	1,023	1,085	1,132
Unfunded Actuarial Liability as a Percentage of Covered Payroll	509%	339%	261%	176%	101%	52%

Source: Washington State Office of the State Actuary

Teachers' Retirement System - Plan 1

Schedule of Funding Progress

Valuation Years 2005 through 2000 (dollars in millions)

	2005	2004	2003	2002	2001	2000
Actuarial Valuation Date	9/30/2005	9/30/2004	9/30/2003	9/30/2002	9/30/2001	6/30/2000
Actuarial Value of Plan Assets	$ 8,450	$ 8,728	$ 9,086	$ 9,365	$ 9,342	$ 9,372
Actuarial Accrued Liability	10,894	10,401	10,325	10,235	9,895	9,566
Unfunded Actuarial Liability	2,444	1,673	1,239	869	553	194
Percentage Funded	78%	84%	88%	91%	94%	98%
Covered Payroll	546	616	692	741	800	957
Unfunded Actuarial Liability as a Percentage of Covered Payroll	448%	272%	179%	117%	69%	20%

Source: Washington State Office of the State Actuary

Pension Plan Information

Law Enforcement Officers' and Fire Fighters' Retirement System- Plan 1

Schedule of Funding Progress

Valuation Years 2005 through 2000 (dollars in millions)

	2005	2004	2003	2002	2001	2000
Actuarial Valuation Date	9/30/2005	9/30/2004	9/30/2003	9/30/2002	9/30/2001	12/31/2000
Actuarial Value of Plan Assets	$ 4,800	$ 4,666	$ 4,803	$ 5,095	$ 5,369	$ 5,440
Actuarial Accrued Liability	4,243	4,266	4,275	4,259	4,153	4,002
Unfunded (Assets in Excess of)						
Actuarial Liability	(557)	(400)	(528)	(836)	(1,216)	(1,438)
Percentage Funded	113%	109%	112%	120%	129%	136%
Covered Payroll	56	64	71	80	87	95
Unfunded Actuarial Liability as a						
Percentage of Covered Payroll	N/A	N/A	N/A	N/A	N/A	N/A

Source: Washington State Office of the State Actuary

Judicial Retirement System

Schedule of Funding Progress

Valuation Years 2005 through 2000 (dollars in millions)

	2005	2004	2003	2002	2001	2000
Actuarial Valuation Date	9/30/2005	9/30/2004	9/30/2003	9/30/2002	9/30/2001	12/31/2000
Actuarial Value of Plan Assets	$ 2	$ 4	$ 6	$ 8	$ 10	$ 10
Actuarial Accrued Liability	89	89	91	92	92	93
Unfunded Actuarial Liability	87	85	85	84	82	83
Percentage Funded	2%	4%	7%	9%	11%	11%
Covered Payroll	1.7	2.4	2.6	3.0	3.0	4.0
Unfunded Actuarial Liability as a						
Percentage of Covered Payroll	5118%	3542%	3269%	2800%	2733%	2075%

Source: Washington State Office of the State Actuary

Pension Plan Information

Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund

Schedule of Funding Progress

Valuation Years 2005 through 2000 (dollars in millions)

	2005	2004	2003	2002	2001	2000
Actuarial Valuation Date	12/31/2005	12/31/2004	12/31/2003	12/31/2002	12/31/2001	12/31/2000
Actuarial Value of Plan Assets	$ 127	$ 120	$ 120	$ 124	$ 129	$ 126
Actuarial Accrued Liability*	140	115	112	110	99	96
Unfunded (Assets in Excess of)						
Actuarial Liability	13	(5)	(8)	(14)	(30)	(30)
Percentage Funded	91%	104%	107%	113%	130%	131%
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.

Source: Washington State Office of the State Actuary

Judges' Retirement Fund

Schedule of Funding Progress

Valuation Years 2005 through 2000 (dollars in millions)

	2005	2004	2003	2002	2001	2000
Actuarial Valuation Date	9/30/2005	9/30/2004	9/30/2003	9/30/2002	9/30/2001	12/31/2000
Actuarial Value of Plan Assets	$ 4.2	$ 4.4	$ 4.5	$ 4.7	$ 4.9	$ 4.7
Actuarial Accrued Liability	4.5	4.7	5.2	5.5	6.0	6.1
Unfunded Actuarial Liability	0.3	0.3	0.7	0.8	1.1	1.4
Percentage Funded	93%	94%	87%	85%	82%	77%
Covered Payroll	0.0	0.0	0.0	0.1	0.1	0.1
Unfunded Actuarial Liability as a						
Percentage of Covered Payroll	N/A	N/A	N/A	800%	1100%	1400%

Source: Washington State Office of the State Actuary

Pension Plan Information

Schedules of Contributions from Employers and Other Contributing Entities

For the Fiscal Years Ended June 30, 2006 through 2001
(expressed in millions)

	2006	2005	2004	2003	2002	2001
Public Employees' Retirement Plan System - Plan 1						
Employers' Annual Required Contribution	$ 438.5	$ 340.3	$ 295.1	$ 228.9	$ 164.3	$ 118.8
Employers' Actual Contribution	29.6	22.4	22.8	56.6	68.6	181.7
Percentage Contributed	7%	7%	8%	25%	42%	153%
Public Employees' Retirement Plan System - Plan 2/3						
Employers' Annual Required Contribution	$ 307.6	$ 227.7	$ 192.6	$ 141.7	$ 72.0	$ 55.6
Employers' Actual Contribution	149.6	74.7	69.4	38.2	51.0	115.0
Percentage Contributed	49%	33%	36%	27%	71%	207%
Teachers' Retirement System - Plan 1						
Employers' Annual Required Contribution	$ 287.5	$ 224.3	$ 185.7	$ 153.4	$ 119.8	$ 90.6
Employers' Actual Contribution	15.1	8.8	11.4	20.4	59.5	141.3
Percentage Contributed	5%	4%	6%	13%	50%	156%
Teachers' Retirement System - Plan 2/3						
Employers' Annual Required Contribution	$ 166.4	$ 117.4	$ 96.2	$ 79.5	$ 66.7	$ 40.4
Employers' Actual Contribution	75.4	33.8	29.9	18.2	46.4	69.6
Percentage Contributed	45%	29%	31%	23%	70%	172%
School Employees' Retirement System - Plan 2/3						
Employers' Annual Required Contribution	$ 81.4	$ 64.0	$ 52.3	$ 44.2	$ 19.5	$ 6.7
Employers' Actual Contribution	30.4	10.2	9.1	6.2	11.3	19.9
Percentage Contributed	37%	16%	17%	14%	58%	297%

Source: Washington State Office of the State Actuary

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.

Pension Plan Information

Schedules of Contributions from Employers and Other Contributing Entities

For the Fiscal Years Ended June 30, 2006 through 2001
(expressed in millions)

	2006	2005	2004	2003	2002	2001
Law Enforcement Officers' and Fire Fighters' Retirement System - Plan 1						
Employers' Annual Required Contribution	$ -	$ -	$ -	$ -	$ -	$ -
Employers' Actual Contribution	0.1	-	-	0.1	0.1	0.1
Percentage Contributed	N/A	N/A	N/A	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	$ 60.8	$ 48.5	$ 41.5	$ 34.1	$ 26.2	$ 20.3
Employers' Actual Contribution	48.5	32.8	30.8	25.6	24.0	31.5
Percentage Contributed	80%	68%	74%	75%	92%	155%
State Annual Required Contribution	40.5	32.3	27.7	22.7	17.5	13.5
State Actual Contribution	31.7	21.3	20.2	16.4	15.6	20.9
Percentage Contributed	78%	66%	73%	72%	89%	155%
Washington State Patrol Retirement System						
Employers' Annual Required Contribution	$ 6.1	$ 3.4	$ 2.6	$ -	$ -	$ -
Employers' Actual Contribution	3.1	-	-	-	-	-
Percentage Contributed	51%	0%	0%	N/A	N/A	N/A

N/A indicates data not available.

Source: Washington State Office of the State Actuary

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.

Pension Plan Information

Schedules of Contributions from Employers and Other Contributing Entities

For the Fiscal Years Ended June 30, 2006 through 2001
(expressed in millions)

	2006	2005	2004	2003	2002	2001
Judicial Retirement System						
Employers' Annual Required Contribution	$ 27.7	$ 21.7	$ 18.5	$ 16.2	$ 14.2	$ 13.3
Employers' Actual Contribution	6.7	6.2	6.2	6.2	6.2	7.3
Percentage Contributed	24%	29%	34%	38%	44%	55%
Judges' Retirement Fund						
Employers' Annual Required Contribution	$ 0.1	$ 0.1	$ 0.2	$ 0.1	$ 0.2	$ 0.2
Employers' Actual Contribution	0.3	0.5	0.5	0.3	0.3	0.8
Percentage Contributed	300%	500%	250%	300%	150%	400%
Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund						
Employers' Annual Required Contribution	$ 1.0	$ 0.7	$ 0.8	$ 0.8	$ 0.8	$ 0.7
Employers' Actual Contribution	1.0	0.7	0.8	0.8	0.8	0.7
Percentage Contributed	100%	100%	100%	100%	100%	100%
State Annual Required Contribution	3.6	1.8	1.5	0.7	-	-
State Actual Contribution	4.6	4.4	4.4	3.3	3.3	3.3
Percentage Contributed	128%	244%	293%	471%	N/A	N/A

N/A indicates data not available.

Source: Washington State Office of the State Actuary

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.

Pension Plan Information

Notes to the Required Supplementary Information
Defined Benefit Pension Plans

For the Fiscal Year Ended June 30, 2006

The information presented in the required supplementary schedules 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	9/30/2005	9/30/2005	9/30/2005	9/30/2005
Actuarial Cost Method	frozen initial liability[1]	aggregate[2]	frozen initial liability[1]	aggregate[2]
Amortization Method				
Funding	level %[3]	n/a	level %[3]	n/a
GASB	level $	n/a	level $	n/a
Remaining amortization period (closed)	7/1/07-6/30/24	n/a	9/1/07-6/30/24	n/a
Asset valuation method	8-year graded smoothed fair value[4]	8-year graded smoothed fair value[4]	8-year graded smoothed fair value[4]	8-year graded smoothed fair value[4]
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:				
initial salary merit (grades down to 0%)	6.1%	6.1%	6.2%	6.2%
merit period (years of service)	17 yrs	17 yrs	17 yrs	17 yrs
Includes inflation at		3.50%		3.50%
Cost of living adjustments	Uniform COLA[5] Gainsharing COLA[5]	CPI increase, maximum 3%	Uniform COLA[5] Gainsharing COLA[5]	CPI increase, maximum 3%

N/A indicates data not applicable.

1 Based on a variation of the Frozen Initial Liability (FIL) cost method.

2 The aggregate cost method does not identify or separately amortize unfunded actuarial liabilities.

3 Level percent of payroll, including system growth.

4 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):

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.

SERS Plan 2/3	LEOFF Plan 1	LEOFF Plan 2	VFFRPF
9/30/2005	9/30/2005	9/30/2005	12/31/2005
aggregate[2]	frozen initial liability[1]	aggregate[2]	entry age
n/a	level %[3]	n/a	level $
n/a	level $	n/a	level $
n/a	7/1/07-6/30/24	n/a	12/31/2017
8-year graded smoothed fair value[4]	8-year graded smoothed fair value[4]	8-year graded smoothed fair value[4]	4-year smoothed fair value
8.00%	8.00%	8.00%	8.00%
7.0% 17 yrs	11.7% 21 yrs	11.7% 21 yrs	n/a
3.50% CPI increase, maximum 3%	3.50% CPI increase	3.50% CPI increase, maximum 3%	n/a none

5 The Uniform COLA and Gainsharing COLA

Generally, all retirees over age 66 receive an increase in their monthly benefit at least once a year. The Gainsharing COLA is added every even-numbered year if certain extraordinary investment gains are achieved. The Uniform COLA amount is calculated as the last Uniform COLA amount plus any Gainsharing COLA amount, all increased by 3%.

Date	Prior Uniform COLA	+ Gainsharing COLA	X 1.03	= Uniform COLA
7/1/2002	$1.11	0.00		$1.14
7/1/2003	$1.14	0.00		$1.18
7/1/2004	$1.18	0.00		$1.21
7/1/2005	$1.21	0.00		$1.25
7/1/2006	$1.25	0.00		$1.29

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 the state's emergency airfields follows.

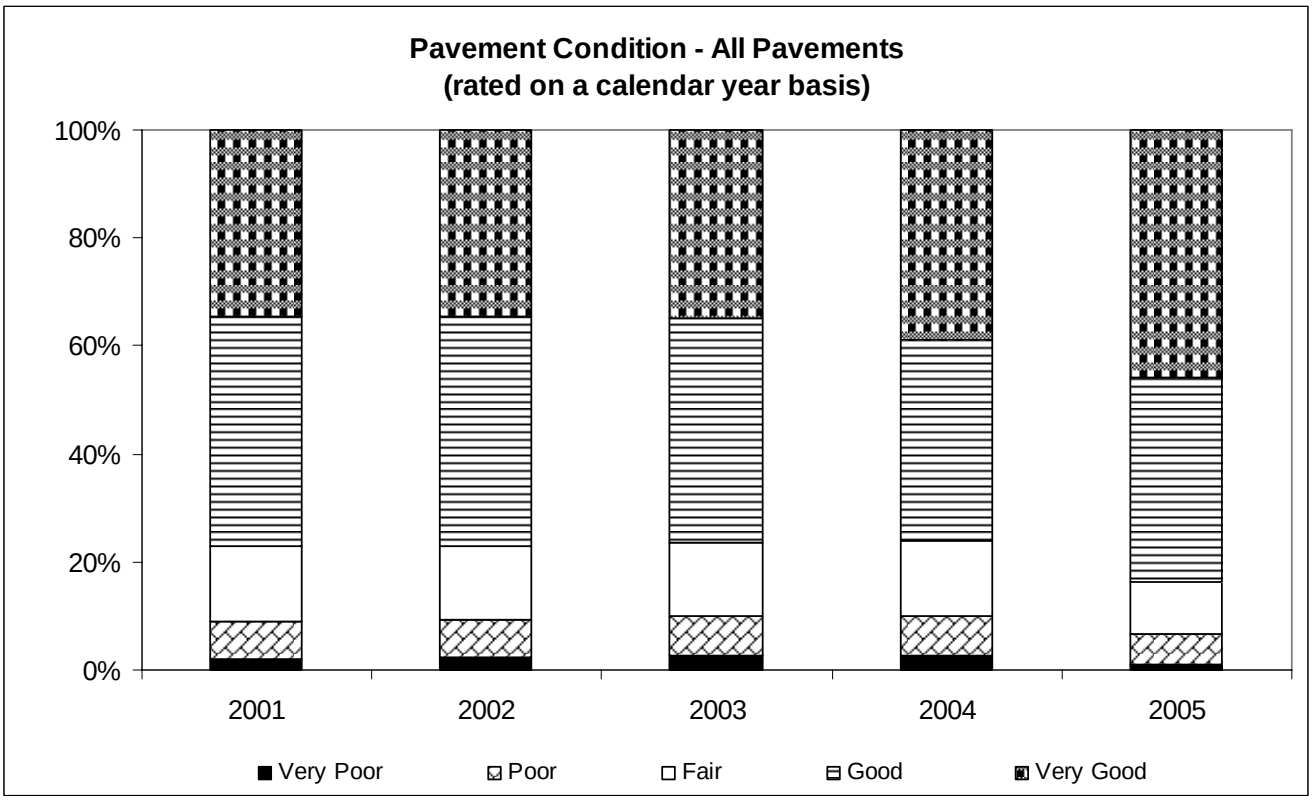
Pavement Condition

The Washington State Department of Transportation (WSDOT) owns and maintains 20,099 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 1,736 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 percentage of pavements in poor or very poor condition has remained fairly stable at 9 to 10 percent with a slight improvement to 7 percent in 2005. 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.



The Department of Transportation 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 seven 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% 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% 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% of wheel track length having "hairline" alligator cracking will have a PSC of 50.
Poor	20 - 40	Structural deterioration. Example: Flexible pavement with 25% 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% 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 measures 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.

Pavement condition surveys are generally conducted in the fall of each year and analyzed during the winter and spring, with the previous year's results available in July each year. In 2005, WSDOT rated pavement condition on 17,779 of the 20,099 lane miles of highway. The chart on the following page shows recent pavement condition ratings for the State Highway System, using the combination of the three indices described above.

Percentage of Pavement in Fair or Better Condition

	2005*	2004*	2003*	2002*	2001*
Statewide - Chip Seals	91	86	86	89	89
Statewide - Asphalt	95	92	91	91	92
Statewide - Concrete	91	85	93	92	92
Statewide - All Pavements	93	90	90	91	91

Percentage of Pavement in Poor or Very Poor Condition

	2005*	2004*	2003*	2002*	2001*
Statewide - Chip Seals	9	14	14	11	11
Statewide - Asphalt	5	8	9	9	8
Statewide - Concrete	9	15	7	8	8
Statewide - All Pavements	7	10	10	9	9

* Calendar year data. Assessments are typically made 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 done in the summer and fall.

Note: The All Pavements percentages are calculated from total database averages, not a statistical average of the three pavement type percentages. Numbers are rounded to full percentage points. IRI or rutting is not used for sections identified as under construction in rating distress.

More information about pavement management at the Department of Transportation may be obtained at:
http://www.wsdot.wa.gov/biz/mats/pavement/

Bridge Condition

During Fiscal Year 2006 there were 3,088 state-owned vehicular structures over 20 feet in length with a total area of 43,933,923 square feet. In addition to bridges, the 3,088 structures include 84 culverts and 31 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). All bridges are inspected on a two to four year interval, with no more than 10 percent of the bridges inspected less than every three years. Divers inspect underwater bridge components at least once every five years in accordance with Federal Highway Administration requirements. 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. 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 Federal Highway Administration (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. The most recent assessment 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 had no closed bridges at June 30, 2006.

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 920 bridges that have been classified as needing retrofitting. From 1991 to the end of June 2006, WSDOT has fully or partially retrofitted 358 bridges. Of those, 195 are completely retrofitted, 163 are partially retrofitted. There are also 15 bridges under contract to be retrofitted.

The following condition rating data is based on the structural sufficiency standards established in the FHWA "Recording and Coding Guide for the Structural Inventory and Appraisal of the Nation's Bridges." This structural rating relates to the evaluation of bridge superstructure, deck, substructure, structural adequacy and waterway adequacy. Three categories of condition were established in relation to the FHWA criteria as follows:

Category	National Bridge Inventory Code	Description
Good	6, 7, or 8	A range from no problems noted to some minor deterioration of structural elements.
Fair	5	All primary structural elements are sound but may have deficiencies such as minor section loss, deterioration, cracking, spalling or scour.
Poor	4 or less	Advanced deficiencies such as section loss, deterioration, cracking, spalling, scour or seriously affected primary structural components.

Note: Bridges rated in poor condition may be restricted for the weight and type of traffic allowed.

Condition Rating of Washington State Department of Transportation's Bridges

Percentage of Bridges in Fair or Better Condition					
Bridge Type	**2006**	**2005**	**2004**	**2003**	**2002**
Reinforced Concrete (1,298 bridges in FY 2006)	98.6	98.6	98	98	97
Prestressed Concrete (1,299 bridges in FY2006)	99.4	99.5	99.5	99.5	99.5
Steel (351 bridges* in FY 2006)	94.1	94.3	93	93	92
Timber (62 bridges in FY 2006)	68.1	69.2	70	69	70
Statewide - All Bridges (3,010 out of 3,088 bridges in FY 2006)	97.5	97.6	97.4	97	96.7

Percentage of Bridges in Poor Condition					
Bridge Type	**2006**	**2005**	**2004**	**2003**	**2002**
Reinforced Concrete (18 bridges in FY 2006)	1.4	1.4	2	2	3
Prestressed Concrete (9 bridges in FY 2006)	0.7	0.5	0.5	0.5	0.5
Steel (22 bridges* in FY 2006)	5.9	5.7	6.5	7	8
Timber (29 bridges in FY 2006)	31.9	30.8	30	31	30
Statewide - All Bridges (78 out of 3,088 bridges in FY 2006)	2.5	2.4	2.6	3	3.3

*****The steel bridge ratings for FY2006 include 28 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 13 posted bridges and 141 restricted bridges. Posted bridges have signs posted which inform of legal weight limits. Restricted bridges are those where overweight permits will not be issued for travel by overweight vehicles. Refer to http://www.wsdot.wa.gov/commercialvehicle/bridgelist.cfm. for more information. Any bridges determined to be unsafe are closed to traffic. WSDOT had no closed bridges as of June 30, 2006.

Additional information regarding the Department of Transportation's bridge inspection program may be obtained at:
http://www.wsdot.wa.gov/eesc/bridge/index.cfm

Safety Rest Area Condition

The Washington State Department of Transportation (WSDOT) owns, operates, and maintains 42 developed safety rest area (SRA) facilities. Within these facilities, the department manages the following assets: 83 buildings, 566 acres, 29 on-site public drinking water systems, 36 on-site sewage pre-treatment/treatment systems, and 19 recreational vehicle sanitary disposal facilities.

In 2005 WSDOT performed the second round of SRA building and site condition assessments 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 10 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.

	2003	2005
Percentage of facilities in Fair or Good condition	95	95
Percentage of facilities in Poor condition	5	5

Category	Definition	Number of Safety Rest Areas in Category
Good Condition	Facility is new construction and/or meets current standards.	11
Fair-High Condition	Facility meets current standards and/or is in adequate condition with minimal component deficiencies.	2
Fair-Mid Condition	Facility is functional, and in adequate condition with minor component deficiencies.	9
Fair-Low Condition	Facility has multiple system deficiencies.	18
Poor	Facility is at or beyond its service life, with multiple major deficiencies.	2

Emergency Air Field Condition

The Washington State Department of Transportation (WSDOT), through its Aviation Division is authorized by RCW 47.68.100 to acquire and maintain airports.

Under this authority, WSDOT owns eight emergency airfields and leases several others. Most of the airfields are located near or adjacent to state highways and range in character from paved to gravel or turf. The primary purpose for the airports is to provide emergency facilities in remote locations. They serve as landing sites for medical evacuations, forest firefighting operations, and search and rescue. In addition, they allow access to local communities and recreation areas. Two airfields are in operational condition 12 months of the year, with five operational from June to October each year. One is only available for emergency search and rescue use. In accordance with WSDOT policy, maintenance is done on each airfield annually to keep it at its existing condition of use. Each airfield is inspected a minimum of three times per year.

The definitions below form the rating criteria for the current airfield condition ratings that follow.

Category	Definition
General Use Community Airport	An airport with a paved runway capable of handling aircraft with a maximum gross certificated takeoff weight of 12,500 pounds.
Limited Use Community Airport	An airport with an unpaved runway capable of handling aircraft with a maximum gross certificated takeoff weight of 12,500 pounds.
General Recreational Use Airport	An airport with a turf (unpaved) runway near access to recreational opportunities with capacity for aircraft less than 12,500 pounds.
Limited Search and Rescue Forward Operating Location	An airport with a landing pad only capable of accommodating rotorcraft.

Condition Rating of Washington State Emergency Airfields

	Number of Airports
Owned airports:	
Acceptable for general use as a community airport	1
Acceptable for limited use as a community airport	1
Acceptable for general recreation use	5
Limited search and rescue forward operating location	1
Total owned airports	8

	2006	2005	2004	2003	2002
Percentage of airports acceptable for general recreational use or better	88	88	88	88	88
Percentage of airports not acceptable for general recreational use or better	12	12	12	12	12

Note: One airport is open only as a limited search and rescue operating location and is expected to remain in that status. For pictures of specific airfields, refer to the Department of Transportation's website at:

http://www.wsdot.wa.gov/Aviation/airports/

Information about Infrastructure Assets Reported Using the Modified Approach

Comparison of Budgeted-to-Actual Preservation and Maintenance

For the Fiscal Years Ended June 30, 2002 through 2006
(expressed in thousands)

	2002			2003		
Highway System						
Pavement	Budget	Actual	Variance	Budget	Actual	Variance
Preservation	$ 134,810	$ 127,946	$ 6,864	$ 119,160	$ 123,883	$ (4,723)
Maintenance	23,746	19,485	4,261	22,796	24,123	(1,327)
Total	$ 158,556	$ 147,431	$ 11,125	$ 141,956	$ 148,006	$ (6,050)
Bridges						
Preservation	$ 24,270	$ 16,307	$ 7,963	$ 22,460	$ 23,988	$ (1,528)
Maintenance	11,430	11,012	418	11,222	12,853	(1,631)
Total	$ 35,700	$ 27,319	$ 8,381	$ 33,682	$ 36,841	$ (3,159)
Rest Areas						
Preservation	$ 155	$ 122	$ 33	$ 390	$ 386	$ 4
Maintenance	4,744	4,462	282	4,744	4,688	56
Total	$ 4,899	$ 4,584	$ 315	$ 5,134	$ 5,074	$ 60
Emergency Air Fields						
Preservation & Maint.	$ 70	$ 64	$ 6	$ 70	$ 58	$ 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.

In 1996 WSDOT embarked on an initiative to use 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 affects of those choices in communicating with the legislature and other stakeholders. The MAP measures and communicates the outcomes of 34 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/mgmt/accountability.htm.

Notes: Numbers for the Pavement and Bridges budget amounts are calculated based on biennial plans as shown in the WSDOT *Monthly Financial* Report for subprograms P1 (Roadway Preservation), P2 (Structures Preservation), and M2 (Roadway, Bridge & Tunnel Maintenance). For FY 2006, the annual budget was calculated as half the biennial amount. The Preservation budgeted and actual amounts were adjusted for capitalized infrastructure and equipment in FY 2006.

The Emergency Airfields (program F3, State Airport Construction and Maintenance) budget amount came from the same sources as for pavements and bridges described above but is only one-fourth of the biennial total because the budget is split evenly between state owned and leased airports.

2004			2005			2006		
Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance
$ 116,902	$ 107,229	$ 9,673	$ 118,055	$ 122,868	$ (4,813)	$ 108,409	$ 130,340	$ (21,931)
21,254	18,064	3,190	20,657	18,715	1,942	19,219	18,586	633
$ 138,156	$ 125,293	$ 12,863	$ 138,712	$ 141,583	$ (2,871)	$ 127,628	$ 148,926	$ (21,298)
$ 30,637	$ 24,780	$ 5,857	$ 16,768	$ 14,332	$ 2,436	$ 52,507	$ 20,338	$ 32,169
11,292	11,267	25	11,159	11,151	8	11,552	11,820	(268)
$ 41,929	$ 36,047	$ 5,882	$ 27,927	$ 25,483	$ 2,444	$ 64,059	$ 32,158	$ 31,901
$ 331	$ 222	$ 109	$ 381	$ 333	$ 48	$ 188	$ 129	$ 59
4,268	4,833	(565)	4,268	5,527	(1,259)	5,021	5,187	(166)
$ 4,599	$ 5,055	$ (456)	$ 4,649	$ 5,860	$ (1,211)	$ 5,209	$ 5,316	$ (107)
$ 70	$ 71	$ (1)	$ 108	$ 129	$ (21)	$ 83	$ 67	$ 16

The Rest Areas Maintenance budget is based on the biennial plan as shown in the WSDOT *Monthly Financial Report* for subprogram M2 under maintenance group "Rest Area Maintenance". For FY 2006, the annual budget was calculated as half the biennial amount. The Preservation budget is part of the P3 subprogram and consists of programmed rest area preservation projects of a non-capitalized nature. For Fiscal Years 2002 through 2005, the budget amounts are based on biennial plans as shown in the WSDOT *Monthly Financial Report* for subprogram P3 (Other Preservation), the annual budgets were calculated as half of the biennial amount times the percentage if non-capitalized rest area costs to the total costs in subprogram P3. Fiscal Year 2006's budget amount was provided by the rest area program manager.

Note 10 - Deficit Net Assets

At June 30, 2006, there were two proprietary funds with deficit net assets.

The Workers' Compensation Fund, an enterprise fund, had deficit net assets of $7.1 billion at June 30, 2006. The fund is used to account for the workers' compensation program, which provides time-loss, medical, disability, and pension payments to qualifying individuals sustaining work-related injuries. 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 cost-of-living adjustments (COLA) 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.

The following schedule details the changes in total net assets for the Workers' Compensation Fund during the fiscal year ended June 30, 2006 (expressed in thousands):

Workers' Compensation Fund	Net Assets (Deficit)
Balance, July 1, 2005	$ (6,558,080)
Fiscal Year 2006 activity	(502,689)
Balance, June 30, 2006	$ (7,060,769)

The Risk Management Fund, an internal service fund, had deficit net assets of $414.0 million at June 30, 2006. 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 loss adjustment 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, 2006 (expressed in thousands):

Risk Management Fund	Net Assets (Deficit)
Balance, July 1, 2005	$ (430,805)
Fiscal Year 2006 activity	16,848
Balance, June 30, 2006	$ (413,957)

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 2.2 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, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. 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, in Authorized Denominations, 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 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.

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.

APPENDIX F

AMBAC BOND INSURANCE POLICY SPECIMEN

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Ambac

Financial Guaranty Insurance Policy

Ambac Assurance Corporation
One State Street Plaza, 15th Floor
New York, New York 10004
Telephone: (212) 668-0340

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

President

AMBAC ASSURANCE CORPORATION
CORPORATE
SEAL
WISCONSIN

Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Authorized Officer of Insurance Trustee

Form No.: 2B-0012 (1/01)

SPECIMEN

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APPENDIX G

FSA BOND INSURANCE POLICY SPECIMEN

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FINANCIAL SECURITY ASSURANCE®

MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No.: -N

BONDS:

Effective Date:

Premium: $

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment

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made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By _____

By _____
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
31 West 52nd Street, New York, N.Y. 10019
(212) 826-0100

Form 500NY (5/90)

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APPENDIX H

MBIA BOND INSURANCE POLICY SPECIMEN

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FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless the Insurer elects, in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

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President

Attest:

Assistant Secretary

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