OFFICIAL STATEMENT DATED JANUARY 7, 2009

NEW ISSUE, BOOK-ENTRY ONLY

STATE OF WASHINGTON

Ratings:
Fitch: AA
Moody's: Aa1
Standard & Poor's: AA+

$270,000,000
Various Purpose General Obligation Bonds, Series 2009C

$130,000,000
Motor Vehicle Fuel Tax General Obligation Bonds, Series 2009D

Dated: Date of Initial Delivery (Expected January 22, 2009) **Due: February 1, as shown herein**

The Series 2009C Bonds and the Series 2009D Bonds (together, 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 2009D Bonds are first payable from state excise taxes on motor vehicle and special fuels.

Interest on the Bonds is payable semiannually on each February 1 and August 1, beginning August 1, 2009. The principal of the Bonds is payable on its stated maturities on each February 1 in the years 2010 through and including 2034, as set forth on pages i and ii hereof. The Bonds are subject to redemption prior to maturity at the times and prices set forth herein under "The Bonds—Redemption Provisions."

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

In the opinion of Bond Counsel 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 Bonds, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals. 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 taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by certain S corporations may be subject to tax, and interest on the Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. Receipt of interest on the Bonds may have other federal tax consequences for certain taxpayers. See "Tax Exemption of the 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 January 22, 2009.

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.

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

Certain statements included or incorporated by reference in this Official Statement, including but not limited to Appendix A, constitute "forward looking statements" 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
$270,000,000
Various Purpose General Obligation Bonds, Series 2009C[1]

Due February 1	Principal Amounts	Interest Rates	Yields	Prices	CUSIP
2010	$ 5,565,000	2.500%	0.720%	101.814%	93974CDM9
2011	6,130,000	4.000	1.750	104.456	93974CDN7
2012	6,375,000	4.000	2.000	105.841	93974CDP2
2013	6,630,000	5.000	2.200	110.728	93974CDQ0
2014	6,895,000	5.000	2.420	112.137	93974CDR8
2015	7,175,000	5.000	2.600	113.303	93974CDS6
2016	7,460,000	5.000	2.800	113.941	93974CDT4
2017	7,835,000	5.000	3.010	114.092	93974CDU1
2018	8,225,000	4.000	3.260	105.744	93974CDV9
2019	8,635,000	4.000	3.490	104.282	93974CDW7
2020	9,070,000[2]	5.000	3.780	110.100	93974CDX5
2021	9,520,000[2]	5.000	4.030	107.933	93974CDY3
2022	10,020,000[2]	5.000	4.190	106.574	93974CDZ0
2023	10,545,000[2]	5.000	4.340	105.317	93974CEA4
2024	11,100,000[2]	5.000	4.450	104.407	93974CEB2
2025	11,685,000[2]	5.000	4.550	103.589	93974CEC0
2026	12,295,000[2]	5.000	4.630	102.939	93974CED8
2027	12,945,000[2]	5.000	4.730	102.134	93974CEE6
2028	13,625,000[2]	5.000	4.800	101.575	93974CEF3
2029	14,340,000[2]	5.000	4.860	101.099	93974CEG1
2030	15,090,000[2]	5.000	4.900	100.783	93974CEH9
2031	15,885,000[2]	5.000	4.940	100.468	93974CEJ5
2032	16,715,000[2]	5.000	4.980	100.154	93974CEK2
2033	17,635,000	5.000	5.010	99.859	93974CEL0
2034	18,605,000	5.000	5.030	99.574	93974CEM8
Total	$ 270,000,000				

(1) Authorized by Chapter 14, Laws of 1989, 1st Ex. Sess., Chapter 15, Laws of 1990, 1st Ex. Sess., Chapter 147, Laws of 2003; Chapter 18, Laws of 2003, 1st Sp. Sess.; Chapter 167, Laws of 2006; Chapter 521, Laws of 2007; Chapter 179, Laws of 2008; Chapter 39.42 RCW; and Resolution No. 1075.

(2) Priced to the February 1, 2019, par call date.

MATURITY SCHEDULE

STATE OF WASHINGTON
$130,000,000
Motor Vehicle Fuel Tax General Obligation Bonds, Series 2009D[1]

Due February 1	Principal Amounts	Interest Rates	Yields	Prices	CUSIP
2010	$ 2,680,000	2.500%	0.720%	101.814%	93974CEP1
2011	2,950,000	4.000	1.800	104.355	93974CEQ9
2012	3,070,000	5.000	2.020	108.701	93974CER7
2013	3,195,000	5.000	2.220	110.647	93974CES5
2014	3,320,000	5.000	2.440	112.037	93974CET3
2015	3,455,000	5.000	2.630	113.125	93974CEU0
2016	3,590,000	5.000	2.820	113.804	93974CEV8
2017	3,770,000	5.000	3.030	113.939	93974CEW6
2018	3,960,000	4.000	3.260	105.744	93974CEX4
2019	4,160,000	4.000	3.490	104.282	93974CEY2
2020	4,365,000[2]	5.000	3.780	110.100	93974CEZ9
2021	4,585,000[2]	5.000	4.030	107.933	93974CFA3
2022	4,825,000[2]	5.000	4.190	106.574	93974CFB1
2023	5,080,000[2]	5.000	4.380	104.985	93974CFC9
2024	5,345,000[2]	5.000	4.490	104.079	93974CFD7
2025	5,625,000[2]	5.000	4.590	103.263	93974CFE5
2026	5,920,000[2]	5.000	4.670	102.616	93974CFF2
2027	6,230,000[2]	5.000	4.740	102.054	93974CFG0
2028	6,560,000[2]	5.000	4.810	101.495	93974CFH8
2029	6,905,000[2]	5.000	4.870	101.020	93974CFJ4
2030	7,265,000[2]	5.000	4.910	100.704	93974CFK1
2031	7,645,000[2]	5.000	4.950	100.389	93974CFL9
2032	8,050,000[2]	5.000	4.990	100.076	93974CFM7
2033	8,490,000	5.000	5.020	99.721	93974CFN5
2034	8,960,000	5.000	5.040	99.433	93974CFP0
Total	$ 130,000,000				

(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. 1076.

(2) Priced to the February 1, 2019, par call date.

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 2009C (the "Series 2009C Bonds"), and the Motor Vehicle Fuel Tax General Obligation Bonds, Series 2009D (the "Series 2009D Bonds" and together, the "Bonds"), are dated the date of their initial delivery.
Interest Payments:	Interest on the Bonds is payable semiannually on each February 1 and August 1, beginning August 1, 2009.
Principal Payments:	The principal of the Bonds is payable at maturity on each February 1 in the years 2010 through and including 2034.
Optional Redemption:	The state may redeem any of the Bonds maturing on or after February 1, 2020, as a whole or in part on any date on or after February 1, 2019 (with the maturities to be redeemed to be selected by the state and randomly within a maturity in such manner as the Bond Registrar shall determine), at par plus accrued interest to the date fixed for redemption. The state may declare, subject to market conditions, that either Series of the Bonds will not be subject to optional redemption. The state will notify bidders through the News Services before the sale of the Bonds if it so declares.
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 Mellon) 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 2009D Bonds are first payable from state excise taxes on motor vehicle and special fuels.
Purpose:	The Series 2009C Bonds are being issued to provide funds to pay and reimburse state expenditures for various state capital projects, state buildings and facilities for institutions of higher education, multimodal transportation projects, flood hazard mitigation, public school skill centers facilities, and the rehabilitation of Puget Sound, and to pay for the costs of issuance of the Series 2009C Bonds. The Series 2009D Bonds are being issued to provide funds to pay and reimburse state expenditures for construction and improvement of state and local highways, construction of selected transportation 2003 projects or improvements, and construction of selected 2005 transportation partnership

projects or improvements, and to pay the costs of issuance of the Series 2009D Bonds.

Legal Opinion:	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.
Bond Ratings:	The Bonds have been rated "AA," "Aa1" and "AA+" by Fitch, Moody's Investors Service, and Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., respectively.
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

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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.

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OFFICIAL STATEMENT

STATE OF WASHINGTON

$270,000,000
Various Purpose General Obligation Bonds, Series 2009C

$130,000,000
Motor Vehicle Fuel Tax General Obligation Bonds, Series 2009D

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. 1075 and 1076 (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 $270,000,000 principal amount State of Washington Various Purpose General Obligation Bonds, Series 2009C (the "Series 2009C Bonds"), are being issued pursuant to Chapter 14, Laws of 1989, 1st Ex. Sess., Chapter 15, Laws of 1990, 1st Ex. Sess., Chapter 147, Laws of 2003; Chapter 18, Laws of 2003, 1st Sp. Sess.; Chapter 167, Laws of 2006; Chapter 521, Laws of 2007; Chapter 179, Laws of 2008; Chapter 39.42 RCW; and Resolution No. 1075 of the Committee to provide funds to pay and reimburse state expenditures for various state capital projects, state buildings and facilities for institutions of higher education, multimodal transportation projects, flood hazard mitigation, public school skill centers facilities, and the rehabilitation of Puget Sound, and to pay for the costs of issuance of the Series 2009C Bonds.

The $130,000,000 principal amount State of Washington Motor Vehicle Fuel Tax General Obligation Bonds, Series 2009D (the "Series 2009D 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. 1076 of the Committee to provide funds to pay and reimburse state expenditures for construction and improvement of state and local highways, construction of selected transportation 2003 projects or improvements, and construction of selected 2005 transportation partnership projects or improvements, and to pay the costs of issuance of the Series 2009D Bonds.

The Series 2009C Bonds and the Series 2009D 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 February 1 and August 1, beginning August 1, 2009, at the rates shown on pages i and ii hereof.

Principal of the Bonds is payable on each February 1 in the years 2010 through and including 2034, in the amounts shown on pages i and ii hereof.

Pursuant to authority granted in chapter 43.80 RCW, the Committee appoints one or more fiscal agents for the state with the authority to act as paying agent, transfer agent, authenticating agent, and bond registrar for all obligations issued by the state and its political subdivisions. The fiscal agent appointed by the Committee from time to time is herein referred to as the Fiscal Agent or the Bond Registrar. The Committee is currently under contract with The Bank of New York Mellon to act as the fiscal agent for the State 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 Mellon will authenticate the Bonds for delivery to DTC and will remit payments received from the state as principal and interest to DTC. See "Book-Entry Bonds."

Redemption Provisions

Optional Redemption. The state may redeem any of the Bonds maturing on or after February 1, 2020, as a whole or in part on any date on or after February 1, 2019 (with the maturities to be redeemed to be selected by the state and randomly within a maturity in such manner as the Bond Registrar shall determine), at par plus accrued interest to the date fixed for redemption.

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

Notice of Redemption. Notice of redemption shall be given by the Bond Registrar not less than 30 nor more than 60 days prior to the date fixed for redemption by first-class mail, postage prepaid, to the registered owners of the 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:

	2009C	2009D	Total
Sources			
Par Amount of Bonds	$ 270,000,000	$ 130,000,000	$ 400,000,000
Net Original Issue Premium	11,158,507	5,304,574	16,463,082
Total Sources	$ 281,158,507	$ 135,304,574	$ 416,463,082
Uses			
Deposit to Project Funds	$ 280,619,975	$ 135,092,310	$ 415,712,285
Costs of Issuance (2)	171,788	82,712	254,500
Underwriting Spread	366,745	129,552	496,297
Total Uses	$ 281,158,507	$ 135,304,574	$ 416,463,082

(1) Totals may not add due to rounding.

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

SECURITY FOR THE BONDS

Pledge of Full Faith and Credit

The Bonds are general obligations of the state, and the full faith, credit and taxing power of the state are pledged irrevocably to the payment of the Bonds.

Pledge of Excise Tax on Motor Vehicle and Special Fuels

General. The principal of and interest on the Series 2009D 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 2009D 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 2009D 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 2009D 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 2009D 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 2009D Bonds will be made when due.

FUTURE SALES OF OBLIGATIONS

Pursuant to the Bond Resolutions, the Committee has authorized the sale of approximately $581 million various purpose general obligation bonds and approximately $283 motor vehicle fuel tax general obligation bonds. It is expected that following the January 7, 2008, sale of the Series 2009C Bonds and the Series 2009D Bonds, the remainder of such authorized bonds will be sold in one or more sales before the end of June 2009. In the second half of 2009, the state expects to authorize and sell approximately $610 million various purpose general obligation bonds and approximately $860 motor vehicle fuel tax general obligation bonds in one or more sales.

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 November 19, 2008. A press release summarizing the results of the November 19, 2008, economic results and forecasts is available on the state's website (*www.erfc.wa.gov)*. The next forecast is expected to be released on or about March 19, 2009. 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, depending on the outcome of the litigation or the terms of a settlement agreement, impact expenditures to one degree or another. There are risk management funds reserved by the state for these claims and insurance is available to pay all or a portion of most damages for most types of claims. There has been a trend in recent years of higher jury verdicts on certain types of damage claims. The collective impact of these claims, however, is not likely to have a material impact on state revenues or expenditures.

In addition to the regular sort of damages claims, there are currently a number of lawsuits challenging the management and administration of state programs. Some lawsuits seek an expansion of program social services for certain constituents. The potential impact of this litigation is the most difficult to predict. Conceivably, a court could order the restructuring or expansion of certain entitlement programs that would result in a major restructuring of state budgeting and expenditures. No such ruling has yet to occur nor is such a court ruling currently anticipated. Most of these cases involve programs administered by the Department of Social and Health Services. These cases are not called out specifically in this disclosure because it is not possible to quantify with exactitude what the fiscal impact of such claims could ultimately be, and it is not possible to know ahead of time what state or federal legislative responses could be taken to mitigate such impacts.

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

In *McCleary v. State of Washington,* a matter currently before the King County Superior Court, petitioners are asking the Court to find that the State of Washington is not meeting its constitutional mandate pertaining to the provision of public education because all children are not achieving successful education outcomes. The parties are engaged in extensive pre-trial motions and elaborate discovery of data related to education funding and statistics. The Court has set a trial schedule that currently sets March 2, 2009, as a commencement of trial date. It is uncertain whether this matter will actually go to trial or merely be determined by dispositive motion or settlement.

In *Jane Doe 1 and Jane Doe 2 v. Clarke,* female inmate class action plaintiffs allege that the State Department of Corrections failed to properly investigate and prevent alleged sexual assaults and alleged sexual misconduct by state prison guards. Certain plaintiffs have also filed individual tort claims against named defendant guards. No trial date has been set in this matter.

Chao v. Washington Department of Corrections, is a U.S. Department of Labor lawsuit filed in U.S. District Court seeking back overtime wages on behalf of approximately 870 community corrections employees statewide. The Department of Corrections has estimated the maximum potential liability for back wages if all issues were construed in plaintiff's favor to be as much as $15 million. It is unlikely that such an outcome could occur, given the complexity of the issues in dispute. Trial has been scheduled in U.S. District Court for September 14, 2009.

In a matter being pursued by various Native American Tribes against the state in federal court, *United States v. State of Washington,* the plaintiffs allege that state-owned culverts associated with hundreds of state roads and other public property have acted as blocks to migrating fish passages, allegedly harming the tribes' ability to fully exploit their rights to benefit from the unhindered propagation of certain fish species. The parties have been engaged in extensive settlement negotiations and conferences over the past few years. No immediate settlement is in sight and the federal court may set a trial date in the near future.

In the matter of *Skagit County, Skagit County Public Hospital District No. 304, aka Untied General Hospital, and Mt. Baker School Dist. No. 507 v. State Department of Natural Resources*, plaintiffs challenge the constitutionality of legislation setting up the Lake Whatcom Landscape plan and claim the Department's approval of the proposed plan violates certain state constitutional trust provisions related to benefits of certain state lands held in trust for specific beneficiaries. While the constitutional, trust, and land management issues in this litigation are extremely complex, plaintiffs essentially seek significant compensation for the trust monies spent on non-trust purposes, reduction in the value of the trust assets, and compensation for all lost revenue to the trust beneficiaries. A tentative, and partial, settlement has been arrived at but is contingent on certain actions of the 2009 State Legislature. The state expects the State Legislature to appropriate certain, non-significant, funds that will allow this matter to reach final settlement.

The matter of *Probst v. DRS*, involves a class action lawsuit challenging the methodology through which the State Department of Retirement Systems credits interest on the individual accounts of certain categories of retirement systems. These policies affect both those system members who withdraw funds from individual retirement accounts under the state's Public Employees' Retirement Systems ("PERS") Plans 1 and 2, and any person transferring their accounts to PERS Plan 3. Because of the significant amounts involved in these transactions, a comprehensive ruling against the state in this matter could have a potentially significant fiscal impact. Settlement negotiations are ongoing and no trial date has been set in this matter.

In *WPEA and UFCW Local 365 v. DRS,* a King County Court is being asked to overturn the State Legislature's repeal of certain "gain sharing" benefits for various retirement system plans based on alleged constitutional impairment of contracts and equitable and promissory estoppel theories. No trial date has been set. If plaintiffs were to prevail on all issues before the court, there could be a significant fiscal impact potentially requiring the State Legislature to pursue statutory changes to these programs.

In a revenue collection matter entitled *Conoco Phillips Company v. State*, taxpayer-plaintiff alleges that gasohol does not meet the statutory definition of a taxable refined hazardous substance because it is not derived from refining crude oil and is not a principal product or intended by-product of oil refining. The state holds that certain disputed taxes nonetheless apply to these products because the taxes are intended to apply to all such gasoline fuel products. A comprehensive ruling in plaintiff's favor could have not only an immediate mildly significant fiscal impact, but could also affect future revenue collection activities related to similar products.

Two matters involving the Department of Social and Health Services that could result in a potentially significant quantifiable judgment are the matters of *Tamas v. DSHS,* and *The Matter of the Tyler Estate*. The first lawsuit involves two young sisters who allege that the Department failed to protect them from their predatory foster father. The second involves young foster children who died while under the care of foster parents who allegedly inflicted severe abuse on the children. While it is impossible to predict tort damages in such cases, judgments in similar cases have reached into the tens of millions of dollars. Trial was scheduled and then stricken pending further summary judgment arguments.

In the matter of *Pacificorp and Puget Sound Energy v. State*, plaintiffs seek approximately $12 million in recovery costs incurred under the Model Toxic Control Act in relation to the cleanup of the Thea Foss Waterway in Tacoma. The parties continue to pursue cross motions for Summary Judgment and no trial date has yet been set.

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

Finally, the matter of *Federal Way School District No. 210, et.al. v. State of Washington*, involves a comprehensive challenge to the state's public school funding formula. Washington law directs a state-wide salary allocation schedule to apportion funds for each of the three classes of state employees (teacher, classified staff, and administrative staff) specified in the ratios for biennial appropriations. Currently school districts receive disparate amounts of state funding per employee based on multiple variables. Plaintiffs challenge, among other things this variable allocation scheme. The trial court ruled in plaintiff's favor. This case is currently before the Washington Supreme Court.

Again, the lawsuits addressed above are not likely to have any material impact on state revenues or expenditures; there are risk management funds reserved by the state for these claims and insurance is available to pay all or a portion of most damages for most types of claims. These particular matters are set forth in the interest of full disclosure.

INITIATIVE AND REFERENDUM

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

TAX AND LEGAL INFORMATION

Approval of Counsel

Legal matters incident to the authorization, issuance and sale of the Bonds by the state are subject to the approving legal opinion of Foster Pepper PLLC, Bond Counsel to the state. 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 Bonds

Exclusion from Gross Income. In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the Code that must be satisfied subsequent to the issue date of the Bonds, interest on the Bonds 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 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 proceeds of the Bonds and the facilities financed or refinanced with proceeds of the Bonds, limitations on investing gross proceeds of the Bonds in higher yielding investments in certain circumstances, and the requirement to comply with the arbitrage rebate requirement to the extent applicable to the Bonds. The state has covenanted in the applicable Bond Resolutions to comply with those requirements, but if the state fails to comply with those requirements, interest on the Bonds could become taxable retroactive to the date of issuance of the Bonds.

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

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

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

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

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

Original Issue Premium. The Bonds of both Series maturing on February 1 in the years 2010 through and including 2032 (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 Bonds of both Series maturing on February 1 in the years 2033 and 2034 (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

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 Bonds as "qualified tax-exempt obligations" for purposes of the 80 percent financial institution interest expense deduction. Therefore, no interest expense of a financial institution allocable to the Bonds is deductible for federal income tax purposes.

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

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

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

CONTINUING DISCLOSURE UNDERTAKING

In accordance with paragraph (b)(5) of Securities and Exchange Commission (the "SEC") Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended (the "Rule"), the State Treasurer, on behalf of the Committee, has agreed in the Bond 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, 2009, for the fiscal year ended June 30, 2008, 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 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.

OTHER BOND INFORMATION

Bond Ratings

The Bonds have been rated "AA," "Aa1" and "AA+" by Fitch, Moody's Investors Service Inc. and Standard & Poor's Ratings Group, a division of The McGraw-Hill Companies, Inc., respectively. 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 this 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.

Underwriter of the Bonds

Both Series of the Bonds are being purchased by J.P. Morgan Securities Inc. (the "Underwriter"). The Series 2009C Bonds are being purchased at a price of $280,791,762.79, and will be reoffered at a price of $281,158,507.30, as reflected by the prices and yields set forth on page i of this Official Statement.

The Series 2009D Bonds are being purchased at a price of $135,175,022.15, and will be reoffered at a price of $135,304,574.30, as reflected by the prices or yields set forth on page ii of this Official Statement.

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

Delivery of Bonds

It is expected that the Bond closing will take place in Seattle, Washington, on or about January 22, 2009. 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 2008 Comprehensive Annual Financial Report (the "CAFR") are attached as Appendix D. Copies of the state's entire 2008 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: January 7, 2009

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APPENDIX A

GENERAL AND ECONOMIC INFORMATION

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INTRODUCTION

State Overview

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

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

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

State Government

Under the State Constitution, the legislative authority of the state is vested in the Legislature, consisting of a 49-member Senate and a 98-member House of Representatives. General elections are held on the first Tuesday in November in each even-numbered year. Members of the Senate serve four-year terms, with one seat in each legislative district open in each general election. Members of the House of Representatives serve two-year terms, with every seat open in each general election. The Legislature convenes annual regular sessions of 105 days (January to April) in odd-numbered years and 60 days (January to March) in even-numbered years. The Governor may call an unlimited number of special sessions, each of which is limited to 30 days.

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

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

State Finance Committee

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

REVENUES AND EXPENDITURES

The following tables display state general fund revenues and expenditures for the past four biennia.

GENERAL FUND REVENUES
Modified Accrual Basis
(millions)

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

* Includes balance from previous biennium.

Note: Totals may not add due to rounding.

Source: Office of Financial Management

GENERAL FUND EXPENDITURES
Modified Accrual Basis
(millions)

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

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

Note: Totals may not add due to rounding.

Source: Office of Financial Management

Revenues

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

Excise Taxes. The retail sales tax and its companion use tax represent the largest source of state tax revenue. The retail sales and use tax is applied to a broad base of tangible personal property and selected services purchased by consumers, including construction (labor and materials), some machinery and supplies used by businesses, services and repair of real and personal property, and other transactions not taxed in many other states. Among the various items not subject to this tax are most personal services, motor vehicle fuel, food for off-premises consumption, trade-ins, manufacturing machinery, and purchases for resale. The current state retail sales and use tax rate is 6.5 percent and was last increased in 1983. Local taxing jurisdictions are also authorized to impose retail sales and use taxes, and the total rate imposed in the state ranges from 7.0 percent to 9.5 percent.

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

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

Property Tax. The state's property tax is levied against the true and fair value of property as determined by the Department of Revenue. The property tax for local taxing districts is levied against the assessed value as determined by county assessors. For property taxes payable in 2007, assessed value averaged 86 percent of fair market value. By constitutional provision, the aggregate of all regular (nonvoted) tax levies upon real and personal property by the state and local taxing districts may not exceed one percent of the true and fair value of such property. Excess levies are subject to voter approval.

By statute, the state property tax levy is limited to the lesser of 101 percent or 100 percent plus the percentage change in inflation of the dollar amount of property taxes levied in the highest of the three most recent years, plus an additional amount calculated by multiplying the increase in assessed value resulting from new construction and improvements by the property tax rate for the preceding year. The state levy rate for taxes due in 2007 was $1.81 per $1,000 of true and fair property value.

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

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

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

Tax Collection. Four state agencies are responsible for administering the major state taxes: the Department of Revenue, the Department of Licensing, the Liquor Control Board, and the Office of the Insurance Commissioner. The State Treasurer receives the revenues from the collecting agencies and deposits and distributes the funds as required by law. Nearly all state agencies collect some form of revenue. For state budget purposes, however, the definition of tax generally excludes such revenue sources as license fees, liquor profits, lottery receipts, charges for service such as tuition, federal grants and revenue sharing, and proceeds of bond issues.

Expenditures

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

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

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

The largest expenditure within DSHS is the Medical Assistance program. Through this program, necessary medical care is made available to recipients of cash assistance programs, beneficiaries of Supplemental Security Income and other eligible people with low incomes who do not qualify for income assistance. In addition to support from the General Fund-State, funding is received from the federal government for those people and services covered under Medicaid. The Medical Assistance budget has grown significantly in recent years. Growth in the number of eligible recipient groups, such as pregnant women and children, growth in other eligible populations, such as disabled people, rising health care costs and requirements to provide higher payments to hospitals have all resulted in increased expenditures.

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

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

Corrections. The Department of Corrections operates 15 correctional institutions and 15 work-training release facilities. The rapid growth in inmate population is in part attributable to the enactment of various crime-reduction legislation, including Initiative 593 ("Three Strikes and You're Out") approved by voters in 1993. Despite the addition of nearly 4,000 new prison beds in recent years, the Department of Corrections continues to experience overcrowding. During the 2007-09 Biennium, the Department of Corrections expects to complete over 2,500 new prison beds.

Revenue and Expenditure Limitations

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

Initiative 960, approved by the voters in 2007, requires that tax increases be approved by a two-thirds majority of each house of the Legislature, and if they are not subject to a referendum vote of the people, must be submitted to the ballot for an advisory vote. Initiative 960 also provides for the notification of interested parties when the Legislature proposes or otherwise takes action upon measures that increase taxes or fees and requires the Office of Financial Management ("OFM"), the Governor's budget agency, to provide ten-year estimates of the increased revenues and costs of such measures. Finally, Initiative 960 prohibits any fee from being imposed or increased without prior legislative approval. The constitutionality of Initiative 960 is under review by the State Supreme Court.

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

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

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

Initiative 601 also requires 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 money that is 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, the expenditure limit may be increased or decreased accordingly. Restrictions are placed on the addition or transfer of functions to local governments unless costs are reimbursed.

BUDGETING AND ACCOUNTING

Budget Process

The state operates on a July 1 to June 30 fiscal year and is required under the State Constitution to budget on a biennial basis. State law requires that the Governor submit a balanced budget to the Legislature. The operating budget, capital budget and transportation budget are prepared separately.

The Governor reviews OFM's operating budget recommendations and accepts or modifies them. The Governor's budget is presented to the Legislature for consideration in December of even-numbered years.

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

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

Operating Budget

Formulation of the state's operating budget is initiated by OFM 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 legislative sessions that convene in odd-numbered years. Formal budget requests are forwarded by each agency to the Director of OFM in late summer. The budget requests are revised and evaluated by the Director and staff of OFM, 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 OFM. State revenues and expenditures are limited by statute. See "Revenues and Expenditures—Revenue and Expenditure Limitations." Under state law, the Governor's budget offered to the Legislature must include estimates of all anticipated revenues and all proposed operating expenditures, and the total of beginning undesignated fund balance and estimated revenues less working capital and other reserves shall equal or exceed the total of proposed applicable expenditures.

Fiscal Controls

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

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

If at any time during the fiscal period (the fiscal year or fiscal biennium for which an appropriation is made in a budget act) the Governor projects a cash deficit because disbursements will exceed the

aggregate of estimated receipts plus beginning cash surplus, the Governor is required to make across-the-board reductions in allotments in order to prevent the cash deficit, thereby reducing expenditures of appropriated funds, unless the Legislature has directed the liquidation of the cash deficit over one or more fiscal periods. Across-the-board reductions are made 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 to avert a budget deficit; if the deficit does not materialize, the across-the-board reductions are returned to the agencies.

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

Economic and Revenue Forecasting

To assist in its financial planning, the state prepares quarterly economic forecasts derived from national econometric models. The Economic and Revenue Forecast Council (the "Forecast Council") is an independent state agency consisting of six members, two appointed by the Governor and two appointed from each of the political caucuses of the Senate and House of Representatives. The Forecast Council approves the official economic revenue forecast for the state and reviews financial performance eight times during the biennium. The development of state budgets and any necessary budgetary actions of the Governor during a fiscal period are required to be based upon the official economic and revenue forecasts of the Forecast Council.

In mid-February (or March in odd-numbered years), June, September, and November, subject to the approval of the Forecast Council, the forecast supervisor uses forecasts of the U.S. economy to prepare an official state economic and revenue forecast and two unofficial forecasts, one based upon optimistic economic and revenue assumptions and one based upon pessimistic economic and revenue assumptions.

The most recent state forecast by the Forecast Council was released on November 19, 2008 and is summarized below. The next forecast is expected to be released on or about March 19, 2009. Copies may be obtained from the Office of Economic and Revenue Forecast Council *(www.erfc.wa.gov)*.

Transportation Forecasting

The Office of Financial Management carries out its forecast responsibilities for transportation revenues through the Transportation Revenue Forecast Council. The Forecast Council was formed as an ad hoc group in 1976. It has since evolved into a formal body that meets to review and adopt quarterly forecasts prepared by the technical staffs of the Department of Licensing, Department of Transportation and the Office of Forecast Council. The revenue forecasts agreed upon by the Transportation Revenue Forecast Council members become the official estimated revenues under RCW 43.88.020(20) for transportation-related funds.

Current Economic Forecast

Washington nonfarm payroll employment fell at a 0.5 percent annual rate in the third quarter of 2008, following a 0.7 percent decline in the second quarter. (Though the Boeing machinists strike began in September, it did not affect reported employment in the third quarter.) Manufacturing employment fell at a 1.5 percent rate in the second quarter, in spite of a 5.1 percent increase in aerospace employment. Manufacturing employment other than aerospace declined at a 4.1 percent rate. Construction employment declined at a 9.4 percent rate in the third quarter, following an 8.4 percent decline in the second quarter. Residential building and related special trades employment fell at a 10.9 percent rate, and heavy and civil engineering fell at a 16.0 percent rate. For the first time in this cycle, nonresidential

building and related special trades employment also fell in the third quarter, declining at a 5.9 percent rate. Natural resources (logging) and mining employment, while small, fell at a 7.9 percent rate in the third quarter, due mainly to a 9.9 percent decline in logging employment. Among the private services-producing sectors, education and health services employment remained strong, with a 4.3 percent growth rate. Information employment grew at a 2.8 percent rate, due to a 13.5 percent jump in software employment. Information employment other than software declined at a 6.3 percent rate. Employment in "other services", declined at a modest 0.3 percent rate in the third quarter, as did leisure and hospitality (down 0.7 percent) and trade, transportation, and utilities (down 0.8 percent). Professional and business services employment declined at a 2.5 percent rate, due mostly to an 11.9 percent drop in employment services, and financial activities employment fell at a 2.6 percent rate. In the public sector, state and local government employment rose at a 2.5 percent rate in the third quarter, and federal government employment increased at a 1.3 percent rate.

Washington's personal income in the second quarter of 2008 was $0.3 billion (0.1 percent) lower than the estimate made in September. This relatively small revision to total personal income masks a large, $3.2 billion (2.1 percent) reduction in the estimate for wage and salary disbursements. The current software wage estimate is $0.2 billion (3.1 percent) lower than expected in September. Second quarter wages in sectors other than software wages were $3.0 billion (2.0 percent) lower than expected in the September forecast. Non-wage personal income in the second quarter was $2.8 billion (2.3 percent) above the September forecast. The large upward revision to non-wage income is the result of the annual revision to the national income and product accounts. In particular, the estimate for dividends, interest, and rent was increased substantially to reflect newly available IRS data for 2006. The forecast assumes that personal income growth improved to 4.6 percent in the third quarter of 2008, in spite of a reduction in income related to the stimulus package, most of which was received in the second quarter. The forecast assumes that wage and salary disbursements grew at an 8.6 percent rate in the third quarter, bouncing back from a 4.7 percent decline in the second quarter. The strong growth was largely due to software stock awards and bonuses in the third quarter. Wages outside of the software sector rose at a 3.2 percent rate, up from -3.2 percent in the first quarter. The forecast assumes that income from sources other than wages declined at a 0.1 percent rate in the third quarter, after a 9.3 percent jump in the second quarter. Again, the swing in nonwage income growth was driven by the stimulus package.

The forecast also incorporates Seattle consumer price data through August 2008. After trailing the national average during 2002, 2003, and 2004, December-December Seattle inflation moved ahead of the national average in 2005, 2006, and 2007. Seattle inflation during the first eight months of this year averaged 4.5 percent, compared to the U.S. rate of 5.1 percent, and core inflation in Seattle averaged 3.2 percent versus 2.5 percent for the U.S. city average. The stronger core inflation in Seattle compared to the U.S. city average during the last few years is mostly due to shelter costs, in particular, rent and owners' equivalent rent.

The number of housing units authorized by building permit fell in the third quarter of 2008 to 26,500 from 31,700 in the second quarter. Single-family permits fell to 16,700 units from 18,300 in the prior quarter, while multi-family permits fell to 9,800 from 13,400.

The weaker national outlook since September is reflected in the state forecast. Recently available employment, wage, and housing data all indicate the state's economy is weaker than assumed in September. This forecast assumes that the housing sector will not show any significant improvement until the second half of 2009. It also assumes that construction employment will decline by about 24,800 (11.9 percent) from its peak in the fourth quarter of 2007 through the first quarter of 2010. This is larger than the 12,500 peak-to-trough decline expected in the September forecast. The software employment forecast is also weaker than the September assumption. Software employment is expected to rise just 600 (1.2 percent) from the fourth quarter of 2008 to the fourth quarter of 2009, compared to 2,600 (5.0 percent) in the September forecast. Software employment growth during 2010 and 2011 is now expected to average 2,400 (4.4 percent) per year, compared to 2,900 (5.4 percent) per year in the

September forecast. The Washington aerospace forecast incorporates the impact of the Boeing strike on both wages and employment. Aerospace employment is expected to continue to rise through the end of 2008, reaching 86,200 in December, which is 900 lower than assumed in September. The forecast assumes no further changes in aerospace employment through 2011.

Propelled by continued strength in construction, aerospace, and software, Washington nonfarm payroll employment grew 2.5 percent in 2007, following a 3.0 percent increase in 2006. But construction employment peaked in 2007 and is expected to decline in 2009, 2010, and 2011. Aerospace employment growth has already slowed and is expected to level off, beginning in early 2009. The forecast also expects much slower growth in the software sector. The national recession is expected to produce job losses in a wide range of industries, including manufacturing other than aerospace, financial services, trade, and business services (especially temporary help services). The forecast calls for employment to grow 0.9 percent this year and to decline 0.7 percent in 2009. Employment growth is expected to improve to 0.7 percent and 1.8 percent in 2010 and 2011 as the national economy recovers from the recession. Washington personal income growth slowed from 8.5 percent in 2006 to a still strong 8.0 percent in 2007. Income growth is expected to slow to 4.0 percent in 2008 and 3.0 percent in 2009, before recovering to 3.3 percent and 5.1 percent in 2010 and 2011, respectively. After four years of uninterrupted growth, the number of housing units authorized by building permit fell 3,000 in 2006 to 50,000 and another 2,600 in 2007 to 47,400. Tighter lending standards, plunging consumer confidence, and mounting job losses are expected to depress the single-family market despite lower mortgage interest rates, but continued net migration into Washington should support multi-family activity. The forecast expects total housing permits to decline to 29,100 in 2008 and 28,900 in 2009 before recovering to 36,900 in 2010 and 41,800 in 2011. Inflation, as measured by the Seattle CPI, increased to 3.9 percent in 2007 from 3.7 percent in 2006. Core inflation (excluding food and energy) was slightly more moderate but also increased to 3.5 percent in 2007 from 3.3 percent in 2006. Energy costs will add to inflation again in 2008, raising headline inflation to 4.1 percent compared to core inflation of 3.4 percent. Declining energy costs in 2009 should produce the first decline (-0.5 percent) in the Seattle CPI since 1949. Positive inflation is expected to resume in 2010 and 2011 as the economy recovers and energy prices move up again. The forecast expects 2.9 percent per year growth in the Seattle CPI in 2010 and 2011.

Alternative Economic Forecasts

The Washington State Economic and Revenue Forecast Council also adopted an optimistic forecast and a pessimistic forecast in November 2008.

Optimistic Forecast. In the optimistic scenario, the rapid response of the FOMC to the crisis in the financial markets, coupled with the Treasury's "rescue" plan and help from central banks abroad, help the United States avert a severe downturn. In addition, the standard optimistic scenario assumption of stronger total factor productivity growth is also in place. With credit again flowing late this year, business fixed investment recovers by 2010 and grows 4.8 percent after suffering only a modest 6.7 percent contraction in 2009. This compares with a steeper 11.0 percent decline during 2009 in the baseline forecast and a modest 0.5 percent dip during 2010. The downturn in residential investment is also less severe in the optimistic scenario, with housing starts beginning to recover during the second quarter of 2009 and averaging 862,000 units for that year, compared with a much weaker baseline of 715,000 units. The optimistic scenario also assumes faster growth in the rest of the world, and a dollar that is initially weaker than the baseline. Finally, the forecast assumes slightly higher energy prices in the near term due to stronger global demand, but lower prices in the longer term due to a more optimistic assumption about supply. These assumptions produce a much brighter economic outlook compared to the dismal pictures painted by the baseline and pessimistic scenarios. Real GDP manages a milder one percent drop in the fourth quarter and opens a wider growth gap over the next few quarters, as the recession does not "feed" on itself as badly as it does in the baseline. The unemployment rate never rises above the low-seven percent range and falls back to the mid-five percent range by late 2013. For Washington, the optimistic forecast assumes aerospace employment growth remains positive through 2011, rather than leveling off as

in the baseline. Software employment also grows faster in the optimistic forecast. Washington'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 Washington personal income is higher in the optimistic scenario and population growth is stronger. Finally, construction employment declines much less during 2009 and recovers more sharply in 2010 and 2011 than in the baseline. By the end of the 2009-11 Biennium, Washington nonagricultural employment is higher by 130,400 jobs than in the baseline forecast, and Washington personal income is $26.6 billion higher. The optimistic scenario generates $320 million (1.1 percent) more revenue in the 2007-09 Biennium and $2,283 million (7.6 percent) more revenue in the 2009-11 Biennium than does the baseline forecast.

Pessimistic Forecast. The pessimistic scenario assumes that the financial crisis worsens, sending the economy into a tailspin. Credit markets remain clogged, both domestically and across the world. Without access to credit, domestic spending contracts and the housing market falls into an even deeper hole. Oil prices are lower in the short run because world demand is falling. As a result, bottom-line inflation is lower. Core inflation is also lower because demand is so weak. The low inflation readings give the FOMC leeway to bring interest rates down to zero percent by early next year. With the economy in recession, the FOMC keeps the federal funds rate at zero throughout 2009. Housing starts drop to 915,000 units in 2008 (compared with 927,000 in the baseline) and 666,000 in 2009 (compared with 715,000 in the baseline). The median price of existing homes falls nearly 15 percent below the baseline in 2010. Home sales are also much lower. The weakness in housing undermines consumer confidence. This, along with the drop in wealth associated with falling home prices and a slowdown in job growth, causes consumers to retrench sharply. Capital spending is also weaker, as firms respond to a bleaker outlook by scuttling long-term projects. Business fixed investment drops over eight straight quarters. Foreign economic growth is lower, which cuts into export growth. In this scenario, real GDP contracts 2.4 percent in 2009 and rebounds only 0.3 percent in 2010 (compared with a 1.0 percent drop and a 1.7 percent gain, respectively, in the baseline). Employment drops for ten straight quarters (the economy loses 4.8 million jobs) and real GDP drops for six quarters. Unlike the previous two recessions in 1991 and 2001, this one takes a heavy toll. Peak to trough, real GDP drops 3.3 percent, which is worse than the losses during the 1973-75 and 1981-82 recessions. At the state level, aerospace employment declines through 2011 rather than remaining constant as in the baseline and software employment declines through 2010 rather than continuing to grow as in the baseline. Data revisions show that the initial level of Washington personal income is lower than was assumed in the baseline. Population growth is also slower in this scenario and construction employment falls much more rapidly than in the baseline through 2009 and continues to decline in 2010 and 2011, rather than recovering as in the baseline. Due to the relatively weak local economy, Seattle inflation is lower than in the baseline forecast. The weak economy also depresses Washington wage growth below the rate of growth in the baseline forecast. By the end of the 2009-11 Biennium, Washington nonagricultural employment is 114,200 lower than in the baseline forecast and Washington personal income is $23.9 billion lower. The pessimistic scenario produces $308 million (1.1 percent) less revenue in 2007-09 and $1,929 million (6.4 percent) less in 2009-11 than does the baseline forecast.

Current Operating Budget

The following tables provide the final operating budget for the 2005-2007 Biennium and the estimated operating budget for the 2007-2009 Biennium.

GENERAL FUND REVENUES
Modified Accrual Basis
(millions)

	2005-2007 Final	2007-2009 Estimate
Beginning General Fund-State Balance	$ 870	$ 781
General Fund-State Revenue		
Retail Sales and Use Taxes	$ 15,203	$ 16,013
Real Estate Excise Tax	2,002	1,175
Business and Occupation Tax	5,048	5,593
Property Tax	2,826	3,022
Other Taxes	2,081	2,174
Subtotal Tax Revenue	$ 27,160	$ 27,977
Other Nontax Revenue	$ 641	$ 679
Other Financing	(29)	(29)
Transfers from Other Funds/Other Adjustments	192	147
Spillover Transfer to Emergency Reserve Account	(198)	0
Transfer to Budget Stabilization Account	0	(129)
Total General Fund-State Revenue*	$ 28,545	$ 29,426
Federal Revenue	$ 11,565	$ 12,252
Private/Local Revenue	368	439
Total	$ 40,478	$ 42,117

GENERAL FUND EXPENDITURES
Modified Accrual Basis
(millions)

	2005-2007 Final	2007-09 Estimate
Education		
Public Schools	$ 11,047	$ 12,196
Higher Education	2,950	3,254
Other Education	78	188
Total Education	$ 14,075	$ 15,638
Human Services		
Department of Social and Health Services	$ 7,991	$ 9,056
Department of Corrections	1,449	1,715
Other Human Services	188	237
Total Human Services	$ 9,628	$ 11,008
Natural Resources and Recreation	$ 423	$ 454
Government Operations	471	553
Other Expenditures*		
Debt Service	$ 1,374	$ 1,576
Other Expenditures	1,794	609
Total Other Expenditures	$ 3,168	$ 2,185
Total General Fund-State Expenditures	$ 27,765	$ 29,838
Federal	$ 11,565	$ 12,252
Private/Local	368	439
Total	$ 39,698	$ 42,529
Ending General Fund-State Balance	$ 781	$ (413)
Emergency Reserve Account Projected Balance	293	0
Budget Stabilization Account	0	436
Total Reserves	$ 1,074	$ 23

For the 2005-07 Biennium, General Fund-State revenues are projected to be $27.8 billion, a 18.7 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 $205 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 $28.6 billion, a 3.1 percent increase from the 2005-07 Biennium, plus a carry-forward of $781 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 $147 million in a shift of revenue from other funds into the General Fund, plus other adjustments. Revenues are reduced by $12 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), which was approved by the voters in November 2007.

The operating budget for the 2007-09 Biennium contains an overall expenditure level of $29.8 billion for General Fund-State, which is an increase of $2.1 billion or 7.5 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 31 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 FORECAST ADJUSTMENTS
(Modified Accrual Basis)
(in Millions)

Beginning Fund Balance	$ 870
Revenue Forecasts	
June 2005	$ 25,031
September 2005	645
November 2005	305
2005 Legislative Changes	354
February 2006	107
June 2006	518
September 2006	350
November 2006	49
March 2007	144
June 2007	195
September 2007	69
November 2007	(2)
Spillover to Emergency Reserve Fund	(289)
2006 Legislative Changes	7
Changes in Reserves and Other Adjustments	193
Total Sources	$ 28,546
Total Expenditures	$ 27,765
Ending General Fund-State Balance	$ 781
Emergency Reserve Fund Account Balance	293
Total Reserves	$ 1,074

Note: Totals may not add due to rounding.

Source: Office of Financial Management

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

Beginning Fund Balance	$	781
Revenue Updates		
November 2006	$	29,533
March 2007		(18)
June 2007		331
September 2007		213
November 2007		(130)
February 2008		(423)
June 2008		(50)
September 2008		(167)
November 2008		(503)
2007 Session Legislative Changes		(19)
2008 Session Legislative Changes		(11)
Smokeless Tobacco Settlement		(23)
Rainy Day Account (Budget Stabilization)		(129)
Changes in Reserves and Other Adjustments		40
Total Sources	$	29,425
Total Expenditures	$	29,838
Ending General Fund-State Balance	$	(413)
Budget Stabilization Account		436
Total Reserves	$	23

Note: Totals may not add due to rounding.

Source: Office of Financial Management

Governor's Proposed 2009 Supplemental Operating Budget and 2009-11 Biennial Operating Budget

The Governor's proposed 2009 supplemental operating budget and the proposed operating budget for the 2009-11 Biennium released in December 2008 (the "Governor's 2009-11 proposed budgets") address an approximately $5.7 billion shortfall in revenues forecasted to occur during the remainder of the 2007-09 Biennium and in the 2009-11 Biennium. This revenue shortfall is expected as a result of predicted significant declines in revenue and increases in the cost of providing services such as basic education and medical assistance, and higher caseloads. The Governor's 2009-11 proposed budgets address this estimated revenue shortfall by proposing substantial reductions in state expenditures in the areas of natural resources, health care and human services, higher education, early learning, public safety and K-12 education (other than basic education). The Governor's 2009-11 proposed budgets do not reduce expenditures for items the state is required to provide, including basic education, federally mandated Medicaid, pensions and debt service. The Governor's 2009-11 proposed budgets do not include any proposed tax increases. The Governor's proposed 2009-11 budgets are subject to change based upon review, revision and approval by the Legislature during the 2009 legislative session.

Capital Budget

The following table provides the final capital budget for the 2005-2007 Biennium and the estimated capital budget for the 2007-2009 Biennium.

CAPITAL BUDGET
(Modified Accrual Basis)
(in Millions)

	2005-2007 Final	2007-09 Estimate
Education		
Public Schools	$ 938	$ 1,254
Higher Education	1,465	1,539
Other Education	16	45
Total Education	$ 2,419	$ 2,838
Human Services		
Department of Social and Health Services	$ 53	$ 100
Other Human Services	571	503
Total Human Services	$ 624	$ 603
Natural Resources and Recreation	$ 1,406	$ 1,721
General Government	1,189	1,902
Transportation	21	16
Total Capital Budget Expenditures	$ 5,659	$ 7,080

Source: *Office of Financial Management*

The state's 2005-07 biennial capital budget adopted by the Legislature provided for $3.56 billion expenditures in new projects, with the balance in reappropriations. 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 $1.465 billion for higher education projects, $938 million for K-12 education, $1,406 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, and the balance is for reappropriations. 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.

In the 2007-09 capital budget, $1.539 billion is provided for higher education projects, $1.254 million for K-12 education, and $1.721 million for natural resource projects ($202 million specifically for Puget Sound). Other capital funds are divided across the remaining state governmental functions.

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 22, 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.

Accounting and Auditing

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

The Government Finance Officers Association of the United States and Canada has awarded a Certificate of Achievement for Excellence in Financial Reporting to the state for its CAFR for each of the Fiscal Years 1987 through 2006.

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

The state's fiscal 2007 CAFR contains annual financial statements prepared in accordance with GAAP as promulgated by GASB (the "2007 Annual Financial Statements"), a copy of which has been filed with each nationally recognized municipal securities information repository ("NRMSIR"). Excerpts from the state's 2007 CAFR are attached as Appendix D. Copies of the state's entire 2007 CAFR are available on the OFM's website at *http://www.ofm.wa.gov/cafr/2007/default.asp* or upon request from the Office of the State Treasurer.

INVESTMENTS

The State Treasurer's Office is responsible for the investment management of the state's operating funds totaling approximately $3 billion to $6 billion from time to time through its Treasurer's Cash Management Account (the "CMA"). The Treasurer also is responsible for administering the Washington State Local Government Investment Pool (the "LGIP"), an approximately $6 billion fund that invests money on behalf of more than 400 cities, counties, special purpose districts, and higher education institutions.

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

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

In its management of the CMA pursuant to the Investment Policy adopted by the State Treasurer in 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, among other things, 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 state law, is a voluntary pool that provides its participants the opportunity to take advantage of the economies of scale inherent in pooling. It also is intended to offer participants increased safety of principal and the ability to achieve a higher investment yield than otherwise would be available to them. The LGIP is a conservatively managed, highly liquid pool comparable to a 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.

WASHINGTON STATE TREASURER PORTFOLIOS
AVERAGE DAILY BALANCES BY SECURITY CLASS

	November 2008		Dec 2007-Nov 2008	
CMA				
Agency	$ 3,327,633	77.47%	$ 3,800,356	72.35%
Treasury	12,191	0.28%	62,554	1.19%
Repurchase Agreements	0	0.00%	498,303	9.49%
Bank Deposits	955,593	22.25%	891,284	16.97%
Commercial Paper	0	0.00%	0	0.00%
	$ 4,295,417	100.00%	$ 5,252,498	100.00%
Weighted Average Maturity:	679 days			
LGIP				
Agency	$ 5,865,224	79.69%	$ 5,291,039	77.28%
Treasury	31,398	0.43%	15,583	0.23%
Repurchase Agreements	0	0.00%	523,508	7.65%
Bank Deposits	1,463,348	19.88%	1,016,025	14.84%
Commercial Paper	0	0.00%	0	0.00%
	$ 7,359,970	100.00%	$ 6,846,155	100.00%
Weighted Average Maturity:	65 days			

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. Most of the state's debt has been issued in long-term, fixed-rate form, while state investments are made in short-term instruments.

INDEBTEDNESS

Debt Issuance Policy

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

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

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

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

General Obligation Debt

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

(i) by the affirmative vote of 60 percent of both houses of the Legislature, without voter consent (in which case the amount of such debt is generally but not always subject to 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 overlap, are summarized as follows:

(i) *Constitutional Limitation.* Under 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 state 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) *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 RCW 47.10.867.

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 January 22, 2009):

	Statutory (7 Percent)	Constitutional (9 Percent)
Estimated arithmetic mean of general state revenues for fiscal years ending June 30, 2006, 2007, and 2008 (1)	$ 14,422,101,490	$ 12,605,844,962
Debt service limitation (7% or 9% of above) (maximum annual debt service on general obligation debt to be outstanding may not exceed this sum)	$ 1,009,547,104	$ 1,134,526,047
Maximum annual debt service on outstanding general obligation debt (1/22/2009)	$ 811,790,469	$ 901,375,167
Uncommitted portion of debt service limitation (1/22/2009)	$ 197,756,635	$ 233,150,879
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)	$ 2,527,993,496	$ 2,980,450,726

(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 2008.

	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
June 30 2005, 2006, and 2007	$ 13,544,721,596	$ 11,526,125,727

(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.

Use of Short-Term General Obligation Debt Authority (Certificates of Indebtedness and Bond Anticipation Notes). Chapter 39.42 RCW and the respective bond statutes of the state delegate to the Committee the authority to issue, in the name of the state, temporary notes in anticipation of the sale of bonds. Pursuant to statutory authority and resolution of the Committee, such notes are general obligations of the state. Principal of and interest on such notes are excluded from the constitutional 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 January 22, 2009, there will be outstanding $4,259,491,391 motor vehicle fuel tax bonds secured by a pledge of, and first payable from, excise taxes levied against motor vehicle and special fuels. These bonds

are also secured by the full faith, credit and taxing power of the state, but are not subject to the constitutional or statutory debt limitation.

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

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

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

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

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

Fiscal Year	Revenue Pledge	County-City Allocation (1)	State Allocation (2)
1999	$ 712,559,355	$ 95,059,580	$ 356,426,320
2000	721,684,773	96,276,797	365,130,833
2001	723,945,995	96,578,457	366,272,623
2002	720,305,001	96,092,728	364,429,773
2003	732,805,981	97,760,429	370,749,618
2004	888,237,589	99,866,758	512,808,590
2005	911,683,662	99,265,533	538,209,753
2006	1,002,731,346	100,413,860	611,459,003
2007	1,107,091,064	100,960,199	698,188,782
2008 Est. (3)	1,168,113,704	99,972,410	758,534,609
2009 Est. (3)	1,208,412,930	99,000,925	802,586,460

(1) Allocation of excise tax revenues first used for payment of debt service for county-city urban program.

(2) Allocation of excise tax revenues first used for payment of debt service for ferry vessels, State Route 90 and the state highway bonds.

(3) Department of Transportation forecast (November 2008).

Revenue Pledge and Distribution Percentages. Each legislative act authorizing the issuance and sale of motor vehicle fuel tax bonds provides that the principal of and interest on such bonds are secured by a pledge of the excise taxes levied on motor vehicle and special fuels. That pledge constitutes a charge against the revenues from such motor vehicle and special fuels excise taxes equal to the charge of any other general obligation bonds of the state that have been and may hereafter be authorized that also pledge motor vehicle and special fuels excise taxes for their payment. By statutory provision the Legislature has covenanted to continue to levy that excise tax in amounts sufficient to pay, when due, the principal and interest on all of those bonds issued under the respective legislative authorizations. All motor vehicle fuel tax general obligation bonds of the state are further secured by a pledge of the full faith, credit and taxing power of the state. The act authorizing the issuance of refunding bonds requires, as to bonds to be refunded that are secured by motor vehicle fuel taxes, that the refunding bonds be secured by the same taxes in addition to the pledge of the state's full faith and credit and taxing power.

The Legislature has established a statutory 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.

Appropriation Process

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

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

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

Some general obligation bond statutes provide that the General Fund-State will be reimbursed from discrete revenues which are not considered general state revenues. For example, tuition fees charged by institutions of higher education must reimburse the General Fund-State for payment of debt service for a number of higher education construction bonds. Other similar reimbursement requirements apply to hospital patient fees (for University of Washington Hospital Construction Bonds) and lease-rental proceeds (for Washington State University Research Center Bonds). All of these required reimbursements have been made to date.

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

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 January 22, 2009, the state's general obligation bonds and general obligation bonds secured by motor vehicle fuel tax revenue.

General Obligation Bonds.....	$ 9,439,189,833
Motor Vehicle Fuel Tax General Obligation.....	4,259,491,391
	$ 13,698,681,224

An additional $2,046,023,029 principal amount of general obligation bonds and $6,913,663,366 principal amount of motor vehicle fuel tax general obligation bonds will be authorized but unissued as of January 22, 2009.

The maximum annual debt service on all outstanding general obligation bonds of $928,526,555 was 16.07% of general state revenues of $14.918 billion for the fiscal year ending June 30, 2008. Coverage of the projected annual debt service on all outstanding motor vehicle fuel tax general obligation bonds is 3.39 times based upon estimated motor vehicle fuel tax revenues of $1.200 billion for the fiscal year ending June 30, 2009.

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 JANUARY 22, 2009, BOND OFFERING

Fiscal Year Ending June 30th	Outstanding 1/22/2009 (1) Principal	Outstanding 1/22/2009 (1) Interest (4)	January 22, 2009, Bond Offering (2) Principal	January 22, 2009, Bond Offering (2) Interest	Total (3)
2009	$ 60,337,581	$ 30,035,814	$ -	$ -	$ 90,373,395
2010	594,417,538	642,339,034	8,245,000	19,874,263	1,264,875,836
2011	579,763,541	617,014,765	9,080,000	19,183,400	1,225,041,706
2012	574,918,890	594,163,483	9,445,000	18,820,200	1,197,347,573
2013	601,553,288	564,376,697	9,825,000	18,411,700	1,194,166,685
2014	631,006,540	534,501,698	10,215,000	17,920,450	1,193,643,688
2015	661,839,557	514,640,191	10,630,000	17,409,700	1,204,519,448
2016	683,689,481	500,094,981	11,050,000	16,878,200	1,211,712,662
2017	689,764,784	492,050,187	11,605,000	16,325,700	1,209,745,671
2018	673,058,144	459,478,794	12,185,000	15,745,450	1,160,467,388
2019	661,448,200	432,647,844	12,795,000	15,258,050	1,122,149,093
2020	650,766,495	408,394,137	13,435,000	14,746,250	1,087,341,882
2021	613,175,193	352,210,126	14,105,000	14,074,500	993,564,819
2022	604,587,106	304,429,679	14,845,000	13,369,250	937,231,035
2023	594,117,167	278,228,774	15,625,000	12,627,000	900,597,941
2024	590,194,322	254,140,694	16,445,000	11,845,750	872,625,766
2025	564,199,917	228,815,380	17,310,000	11,023,500	821,348,798
2026	547,900,654	203,118,719	18,215,000	10,158,000	779,392,373
2027	516,708,610	178,182,688	19,175,000	9,247,250	723,313,548
2028	473,516,468	156,685,612	20,185,000	8,288,500	658,675,580
2029	456,271,913	136,539,237	21,245,000	7,279,250	621,335,400
2030	409,835,835	116,119,915	22,355,000	6,217,000	554,527,750
2031	332,740,000	37,965,950	23,530,000	5,099,250	399,335,200
2032	279,665,000	22,164,125	24,765,000	3,922,750	330,516,875
2033	197,555,000	9,230,913	26,125,000	2,684,500	235,595,413
2034	55,650,000	1,391,250	27,565,000	1,378,250	85,984,500
	$ 13,298,681,224	$ 8,068,960,687	$ 400,000,000	$ 307,788,113	$ 22,075,430,024

Note: Totals may not add due to rounding.

	Principal	Interest
(1) **Outstanding Bonds by Revenue Pledge**		
(a) General State Revenues	$ 9,169,189,833	$ 5,164,828,463
(b) Motor Vehicle Fuel Tax	4,129,491,391	2,904,132,224
Total Bonds Outstanding	$ 13,298,681,224	$ 8,068,960,687
(2) **January 22, 2009, Bond Offering**		
(a) Series 2009C, dated 1/22/2009	$ 270,000,000	$ 207,694,956
(b) Series 2009D, dated 1/22/2009	130,000,000	100,093,158
Total January 22, 2008 Offering	$ 400,000,000	$ 307,788,113
(3) **Total Bonds Outstanding Following January 22, 2009, Offering**	$ 13,698,681,224	$ 8,376,748,800

(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]

	6/30/2004	6/30/2005	6/30/2006	6/30/2007	6/30/2008	1/22/2009 [2]
Outstanding						
General State Revenues and Components	$ 7,215,204,278	$ 7,575,311,302	$ 7,702,642,072	$ 8,304,968,946	$ 9,003,114,410	$ 9,439,189,833
Motor Vehicle Fuel Tax Revenue	2,113,536,136	2,404,758,801	2,881,445,657	3,368,311,634	4,004,259,674	4,259,491,391
Total - Outstanding	$ 9,328,740,413	$ 9,980,070,103	$ 10,584,087,730	$ 11,673,280,580	$ 13,007,374,085	$ 13,698,681,224
Annual Debt Service Requirements						
Fiscal Year	$ 827,723,419	$ 896,463,314	$ 939,827,748	$ 1,013,402,558	$ 1,104,194,376	$ 1,229,729,975
Authorized -- Unissued						
General State Revenues	$ 2,446,723,029	$ 3,165,528,029	$ 2,909,033,029	$ 3,858,263,029	$ 2,879,113,029	$ 2,046,023,029
Motor Vehicle Fuel Tax Revenue	3,655,958,864	3,087,256,199	7,540,254,343	6,945,663,366	7,303,663,366	6,913,663,366
Total - Unissued	$ 6,102,681,893	$ 6,252,784,228	$ 10,449,287,372	$ 10,803,926,395	$ 10,182,776,395	$ 8,959,686,395
Issued (New Money and Refunding)						
Fiscal Year	$ 1,624,334,200	$ 1,523,297,666	$ 1,558,261,856	$ 2,452,060,976	$ 1,891,150,000	$ 1,223,090,000

(1) No limited obligation debt ais outstanding or authorized.
(2) Includes current Bond offering dated January 22, 2009.

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
2009	$911,038,653	$318,691,323	$592,120,442	$637,609,533	$1,229,729,975
2010	928,526,555	336,349,281	602,662,538	662,213,297	1,264,875,836
2011	893,846,361	331,195,345	588,843,541	636,198,165	1,225,041,706
2012	870,163,756	327,183,817	584,363,890	612,983,683	1,197,347,573
2013	864,693,806	329,472,880	611,378,288	582,788,397	1,194,166,685
2014	855,431,786	338,211,902	641,221,540	552,422,148	1,193,643,688
2015	867,584,481	336,934,968	672,469,557	532,049,891	1,204,519,448
2016	866,303,360	345,409,302	694,739,481	516,973,181	1,211,712,662
2017	855,427,111	354,318,560	701,369,784	508,375,887	1,209,745,671
2018	809,354,431	351,112,957	685,243,144	475,224,244	1,160,467,388
2019	769,034,616	353,114,478	674,243,200	447,905,894	1,122,149,093
2020	735,888,492	351,453,390	664,201,495	423,140,387	1,087,341,882
2021	653,497,294	340,067,525	627,280,193	366,284,626	993,564,819
2022	597,580,025	339,651,010	619,432,106	317,798,929	937,231,035
2023	572,503,213	328,094,729	609,742,167	290,855,774	900,597,941
2024	546,550,038	326,075,729	606,639,322	265,986,444	872,625,766
2025	496,370,200	324,978,598	581,509,917	239,838,880	821,348,798
2026	456,777,400	322,614,973	566,115,654	213,276,719	779,392,373
2027	414,390,788	308,922,760	535,883,610	187,429,938	723,313,548
2028	372,034,700	286,640,880	493,701,468	164,974,112	658,675,580
2029	345,852,425	275,482,975	477,516,913	143,818,487	621,335,400
2030	297,362,250	257,165,500	432,190,835	122,336,915	554,527,750
2031	246,733,225	152,601,975	356,270,000	43,065,200	399,335,200
2032	209,775,300	120,741,575	304,430,000	26,086,875	330,516,875
2033	155,428,288	80,167,125	223,680,000	11,915,413	235,595,413
2034	58,582,625	27,401,875	83,215,000	2,769,500	85,984,500
Total	$15,650,731,176	$7,564,055,428	$14,230,464,085	$8,984,322,520	$23,214,786,605

(1) Includes current Bond offering dated January 22, 2009.

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)
2005		$ 1,636.63	4.52%	0.41%	1.64%
2006		1,706.27	4.42%	0.41%	1.54%
2007		1,907.66	4.66%	0.42%	1.47%
2008	*	2,053.11	4.90%	0.45%	1.39%
2009	*	2,048.16	4.81%	0.44%	1.41%

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)
2005		6,256.40	$ 226,577	$ 939,828	$ 625,111,698	$ 10,239,381
2006		6,375.60	245,930	1,013,403	707,348,409	10,878,525
2007		6,488.00	265,609	1,104,194	844,113,769	12,376,911
2008	*	6,587.60	276,189	1,229,730	973,042,989	13,525,096
2009	*	6,688.30	284,514	1,264,876	973,042,989	13,698,681

(1) Population -- Office of the Forecast Council, "Washington Economic and Revenue Forecast November 2008," Table A5.1.

(2) Personal Income -- Office of the Forecast Council, "Washington Economic and Revenue Forecast November 2008," 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 2004 through 2007 -- Department of Revenue, "Property Tax Statistics 2008," Table 25. Under current law, business inventories are exempt from any property tax.

(5) State Debt -- Reported by the Office of State Treasurer for December 31 each year. Outstanding as of January 22, 2009.

* Estimate.

State Bonded Debt by Source of Payments

General Obligation		
Payable from General State Revenues	$8,463,471,574 (1)	
First Payable from Other Sources	5,235,209,650 (2)	
Limited Obligation	0	$13,698,681,224

	General Obligation Debt		
	Payable From General State Revenues	First Payable from Other Sources	Total State Bonded Debt
Debt to True Market Value	0.87%	0.54%	1.41%
Per Capita Debt	$1,265.41	$782.74	$2,048.16

(1) Outstanding bonds as of January 22, 2009.

(2) Certain state general obligation bonds are payable first from sources other than general state revenues ($975,718,259 from tuition fees, patient fees, admissions taxes, parking taxes, certain King County sales and use taxes, or hotel and motel taxes) and are additionally full faith and credit obligations of the state.

OTHER OBLIGATIONS

Certificates of Participation/Financing Contracts

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

The Committee is charged with oversight of financing contracts entered into by the state and related policy guidelines (RCW 39.94.040). At the start of each biennium, the Office of the State Treasurer, as staff to the Committee, reports on prior usage of financing contracts and presents a proposed financing plan for the upcoming biennium. In addition, the Committee is required from time to time to establish an aggregate principal amount payable for financing contracts entered into by the state. At its May 15, 2007 meeting, the Committee (i) approved a proposed finance plan totaling $427,311,000 plus financing expenses and required reserves (not including the Department of Information Services' Wheeler block project) for Financing Contracts that may be entered into by the state during the 2007-2009 Biennium, and a threshold of $20,000,000 for financings requiring individual approval by the Committee, and (ii) established for the 2007-2009 Biennium a maximum aggregate principal amount payable of $1,180,000,000 under financing contracts. In addition, the Committee approved the issuance of any refinancing contract that meets the Committee's Debt Issuance Policy's savings threshold.

The following table displays outstanding state certificates of participation/financing contracts as of November 30, 2008.

CERTIFICATES OF PARTICIPATION/FINANCING CONTRACTS

	Outstanding	2007-2009 Debt Service Requirement	Final Maturity
DOC, 1998, Kennewick Work Release Facility and Monroe Dairy	$ 370,984	$ 771,047	2009
DOE Refunding, 2001	21,430,000	12,070,050	2012
Washington State Patrol, 1997 - Port Angeles Office	215,000	119,148	2012
Whatcom Community College, 1997 - Child Care Center	365,000	163,420	2013
UW, McCarty-Lander, 2001C	2,645,000	1,190,556	2013
WA Liquor Control Board Warehouse Expansion 2006I	14,485,000	5,778,798	2014
GA, Kelso Building and Land, 2000	2,700,000	922,398	2015
Equipment Series, Competitive; since 1997	18,129,823	15,004,922	2015
Bellevue, Spokane Falls, Shoreline and Edmonds CCs, 2001B	2,815,000	1,557,290	2015
Veterans Affairs, 2001	2,525,000	744,629	2016
Master Installment Program -- RE, 1993	1,390,000	1,185,740	2016
LOCAL Real Property B - Taxable	170,000	68,675	2016
DOE Refunding, 2003B	25,715,000	2,280,975	2016
Dept. of Personnel Human Resources Systems, 2004D	27,730,000	8,249,578	2016
LOCAL Real Property	3,260,623	1,298,562	2017
Tacoma, Peninsula, Green River and Whatcom CCs, 2001A	3,315,000	927,909	2017
DOL, WSP, Vancouver and Union Gap Project, Series 1998	4,395,000	1,113,400	2018
Washington State Convention and Trade Center	149,810,000	27,568,490	2018
Edmonds CC - Music Building, 2000C	2,840,000	713,589	2018
SOS, Records Center EWU, 2002	9,100,000	2,257,595	2018
WSU - 2006A Refunding of 1996A Consolidated Info Cntr	5,660,000	1,473,375	2018
GA, Yakima Building Project, 1999B	5,940,000	1,453,125	2019
Whatcom, Columbia Basin and Yakima CC, 2000A	3,525,000	948,305	2020
Columbia Basin CC, 2004F	7,125,000	1,497,535	2020
GA, Tacoma Co-location Project, 1996	10,070,000	2,720,843	2020
South Puget Sound Community College, 1999	3,355,000	897,574	2020
Bates Technical College-Communications Center, 2000B	2,865,000	641,021	2020
Quarterly Pooled Financings; since 2004	143,734,657	66,484,733	2020
DOC, 2001 Workrelease Facility- Spokane Brownstone	2,270,000	473,083	2021
UW, 1999, Sandpoint and Primate Center	6,830,000	2,215,280	2021
UW, Sandpoint Phase 2, 2001A	1,205,000	247,898	2021
UW, Husky Den, 2001B	4,750,000	954,294	2022
UW, Sandpoint Phase 2B, 2001D	2,790,000	552,665	2022
UW, Sandpoint Bldg 29, 2002A	3,805,000	745,830	2022
GA, Olympia Capitol Court and Federal Building, 1999A	7,950,000	1,458,631	2022
GA, Isabella Bush Record Center, 2002	3,165,000	576,798	2023
UW, Sandpoint Bldg 5 Phase IIC 2002E	2,215,000	399,783	2023
Bellevue Community College, RE-2003C	13,000,000	2,304,155	2023
Highline Community College, RE-2003F	10,355,000	1,829,388	2023
CWU, Edmonds, 2002D	4,215,000	777,255	2023
Big Bend, Clark, Spokane, SPSC, Walla Wall CCs, 2004A	10,595,000	2,512,235	2024
UW, Sandpoint Bldgs 5 and 29, RE-2003E	3,670,000	619,815	2024
DOT Acquisitions, CCs and Adams Cnty COP, Series 2005D	13,845,000	3,033,945	2025
DOC, 2005B, Tumwater and Airway Heights	8,330,000	1,364,790	2025
GA Cherberg Bldg Rehabilitation, COP Series 2006D	7,480,000	1,178,538	2026
St Board for Community and Tech Colleges, COP Series 2006C	8,845,000	1,742,688	2026
WA CTC (Shoreline), COP Series 2006G	14,255,000	2,353,575	2026
CTC and Pend Oreille FD 3 COP Series 2006F	14,940,000	2,441,048	2026
WA COP-CTC(Edmonds, Pierce) and Parks (Camas), Series 2007C	16,365,000	1,309,679	2027
WA COP WSU, CTC, GA, Franklin Cnty, 2007A	15,350,000	2,509,813	2027
COP-CTC (Tacoma and Columbia), Mason County & port Royal Slop	18,205,000	1,455,934	2028
Pooled State and Local Real Estate, 2008B	29,025,000	604,857	2028
	$ 699,136,088	$ 193,765,253	

In 1998, the Legislature authorized the state to enter into financing contracts on behalf of certain local government agencies for the acquisition of real and personal property. Pursuant to that authorization, the State Treasurer established the state's Local Capital Asset Lending Program under which certain local government agencies with taxing power may enter into financing contracts with the state for the acquisition of real and personal property. The obligations of local agencies under financing contracts with the state are general obligations to which the local agencies pledge their full faith and credit to make required payments. Local agency payments received by the state are used to make payments on master financing contracts of the state. The state incurs a contingent obligation to make payments on behalf of a local agency in the event a local agency fails to make its required payment. This contingent payment obligation of the state is subject to appropriation by the Legislature and executive order reduction by the Governor.

Other Contingencies

The following table displays other contingencies as of December 31, 2008.

	Outstanding	2005-2007 Debt Service Requirement	Final Maturity
Tumwater Office Properties Lease Revenue Bonds, 2004	$55,685,000	$6,796,076	2028

School Bond Guarantee Program

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

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

As of October 27, 2008, the aggregate total principal amount outstanding on 439 voter-approved bonds guaranteed by the program is $7.582 billion. The bonds were issued by 192 school districts.

Workers' Compensation Program

The Workers' Compensation Program insures approximately 70 percent of the work force in the state, excluding self-insured employers and their employees, against work-related accidents and medical claims. The program has three main components: Accident, Medical Aid and Supplemental Pension. Accident Fund premiums are paid by employers 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. In accordance with GASB, the Supplemental Cost of Living Benefit is characterized as an obligation of the Workers' Compensation Fund, a special enterprise

fund, and employer and employee future contributions are not shown as an offsetting asset. The potential future liability of the fund to pay all claims for Supplemental Cost of Living Benefits for all employees is estimated to be $4.5 billion; however, the state's obligation to its own employees is substantially lower, and the state anticipates contributions from the private sector will be sufficient to satisfy all liabilities for nonpublic employees.

State Unemployment Compensation Fund

Currently, unemployed workers are entitled to up to 26 weeks of regular unemployment insurance benefits, with a maximum state liability of $14,066 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 $541; the minimum is $129.

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

UNEMPLOYMENT COMPENSATION FUND
(Dollars in Millions)

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

(1) As of September 30 beginning in FY 2000.
(2) As a percent of total wages for the preceding calendar year.

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 ("VFFRPF").

Five of the state systems (PERS, TRS, SERS, LEOFF, and WSPRS) 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 or Plan 3. 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. VFFRPF 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. Use of the numbers provided in this table for any other purpose would be inappropriate.

CONTRIBUTION SPLITS

System	GF-State(%)	Non-GF-State(%)	Local Government(%)
PERS	19.9	28.4	51.7
TRS	66.3	0.0	33.7
SERS	44.6	0.0	55.4
PSERS	71.0	7.6	21.4
LEOFF	100.0	0.0	0.0
WSPRS	8.0	92.0	0.0

The following table shows the ***total state contribution*** by fiscal year for all systems combined, and is followed by a table that shows state contribution levels by year for each respective system. Additional detail on the individual systems is provided below under "Individual Retirement Systems."

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
2007	447,300
2008	624,700

STATE CONTRIBUTIONS
(INDIVIDUAL SYSTEMS)
(Dollars in thousands)

Fiscal Year	State Contributions								
Ending June 30	PERS	TRS	SERS	PSERS	LEOFF	WSPRS*	JRS	JUDGES	VFFRPF
2001	$152,200	$210,900	$ 10,600	n/a	$ 20,900	$ 0	$ 7,300	$ 800	$ 3,300
2002	61,600	105,800	6,000	n/a	15,600	0	6,200	300	3,300
2003	47,300	38,600	6,200	n/a	16,400	0	6,200	300	3,300
2004	45,900	41,300	9,100	n/a	20,200	0	6,200	500	4,400
2005	48,000	42,600	10,200	n/a	21,300	0	6,200	500	4,400
2006	88,000	90,500	30,400	n/a	31,700	3,100	6,700	300	4,600
2007	178,200	162,600	45,900	$ 2,800	38,600	3,300	9,600	300	6,000
2008	275,100	222,600	52,100	5,900	46,800	6,100	9,700	0	6,400

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

Plan Administration

The Department of Retirement Systems ("DRS") administers all of the above systems, with the exception of VFFRPF, 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 (as defined below) to be charged each biennium. All assumptions and contribution rates adopted by the PFC are subject to revision by the Legislature.

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

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 2001-2006 period. As a result of the 2001-2006 experience study, significant changes were made in assumptions. The results shown in this section reflect the assumption changes adopted by the PFC and the LEOFF 2 Board.

As previously mentioned, the PFC and the LEOFF 2 Board review and adopt 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 2008, are as follows:

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

(ii) General salary increases: 4.25 percent per *annum* (4.5 percent in LEOFF 2);

(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.

The Actuarial Valuation Report provides information on the following:

(i) *Contribution Rates.* These are rates of contribution developed based upon the June 30, 2007, Actuarial Valuation Report ("AVR"), expressed as a percentage of the active members' compensation. The 2007 AVR was published in September 2008. The next contribution rate-setting valuation, with an effective date of June 30, 2009, under current law, will be published in the summer of 2010.

(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 PUC method 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 following table, assumptions changed in 1989, 1994, 1997, 2000, 2001, 2005, and 2007. Assumption changes can be either demographic or economic in nature. They may come about as a result of changes adopted by the PFC or the LEOFF 2 Board. 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	PSERS	LEOFF		WSPRS
	Plan 1	Plan 2/3	Plan 1	Plan 2/3	Plan 2/3	Plan 2	Plan 1	Plan 2	
Credited Projected Liability	$ 13,705	$ 12,418	$ 10,854	$ 4,048	$ 1,691	$ 11	$ 4,323	$ 3,386	$ 679
Valuation Assets	9,715	14,888	8,302	5,277	2,133	14	5,298	4,360	800
Unfunded Liability	$ 3,990	$ (2,470)	$ 2,552	$ (1,229)	$ (443)	$ (2)	$ (975)	$ (974)	$ (121)
Funded Ratio (%)									
2007*	71	120	76	130	126	120	123	129	118
2006*	74	121	80	133	125	99	117	116	114
2005*	74	127	80	134	122	n/a	114	114	113
2004	81	134	88	153	137	n/a	109	117	118
2003	82	142	89	155	138	n/a	112	125	123
2002	92	158	98	182	169	n/a	119	137	135
2001*	97	179	100	197	197	n/a	129	154	147
2000*	98	190	100	196	170	n/a	136	161	152
1999	93	189	93	188	n/a	n/a	125	154	159
1998	86	191	86	185	n/a	n/a	117	160	147
1997*	83	187	82	181	n/a	n/a	108	155	140
1996	73	157	70	144	n/a	n/a	89	130	128
1995	68	150	65	136	n/a	n/a	80	126	119
1994*	67	142	65	130	n/a	n/a	68	124	110
1993	70	142	62	126	n/a	n/a	68	127	110
1992	67	139	59	127	n/a	n/a	65	128	108
1991	67	149	59	131	n/a	n/a	66	154	106
1990	66	154	60	140	n/a	n/a	65	153	105
1989*	65	162	58	144	n/a	n/a	65	158	103
1988	66	165	59	143	n/a	n/a	66	153	102
1987	71	175	58	135	n/a	n/a	69	157	95
1986	63	162	50	125	n/a	n/a	57	142	87

* Assumptions changed.

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.

Individual Retirement Systems

A detailed discussion of each of the state's individual retirement systems is provided below. Defined benefits paid to PERS, TRS, SERS, LEOFF, and WSPRS 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 2007 Audited General Purpose Financial Statements.

Employee contributions to the PERS, TRS, SERS, LEOFF, and WSPRS plans 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 state's contribution levels vary from year to year due to changing contribution rates, which are tied to several factors, including benefit structure and investment performance. The state's contributions to each retirement system are provided above under "State Contribution Levels."

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 June 30, 2007, the date of the last actuarial valuation, PERS included 184,605 active and terminated-vested members, with 71,244 retirees and survivors receiving benefits.

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 June 30, 2007, the date of the last actuarial valuation, PERS 1 had 15,631 active and terminated-vested members, with 54,686 retirees and survivors receiving benefits.

(ii) *PERS 2/3.* As of June 30, 2007, the date of the last actuarial valuation, PERS 2/3 had 168,974 active and terminated-vested members, with 16,558 retirees and survivors receiving benefits.

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 June 30, 2007, the date of the last actuarial valuation, TRS included 74,367 active and terminated-vested members, with 38,091 survivors and retirees receiving benefits.

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 June 30, 2007, the date of the last actuarial valuation, TRS 1 had 8,367 active and terminated-vested members, with 35,384 retirees and survivors receiving benefits.

(ii) *TRS 2/3.* As of June 30, 2007, the date of the last actuarial valuation, TRS 2/3 had 66,000 active and terminated-vested members, with 2,707 retirees and survivors 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 June 30, 2007, the date of the last actuarial valuation, SERS

included 58,499 active and terminated-vested members, with 3,141 retirees and survivors receiving benefits. SERS employers also help to amortize the PERS 1 plan UAAL.

PSERS Overview. PSERS was created in 2004 with an effective date of July 1, 2006. PSERS 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. PSERS employers also help to amortize the PERS 1 plan UAAL. The first PSERS actuarial valuation was performed as of June 30, 2007. At the valuation date, PSERS had 2,755 active members and no terminated-vested members, retirees, or survivors receiving benefits. PSERS employers also help to amortize the PERS 1 plan UAAL.

LEOFF Overview. LEOFF is a cost-sharing multiple-employer retirement system encompassing two separate defined benefit plans. As of June 30, 2007, the date of the last actuarial valuation, LEOFF included 17,245 active and terminated-vested members, with 9,085 retirees and survivors receiving benefits.

Contributions to LEOFF Plan 1 were not made by employees, as the plan is over-funded. LEOFF 1 employers pay only a 0.16 percent administrative expense rate to DRS as long as the plan is over-funded.

(i) *LEOFF 1.* As of June 30, 2007, the date of the last actuarial valuation, LEOFF 1 had 517 active and terminated-vested members, with 8,161 retirees and survivors receiving benefits.

(ii) *LEOFF 2.* As of June 30, 2007, the date of the last actuarial valuation, LEOFF 2 had 16,728 active and terminated-vested members, with 924 retirees and survivors receiving benefits.

WSPRS Overview. WSPRS is a single-employer defined benefit retirement system, comprised of two plans. As of June 30, 2007, the date of the last actuarial valuation, WSPRS included 1,093 active and terminated-vested members, with 821 retirees and survivors receiving benefits

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 2007 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 12 active and terminated-vested members, with 130 retirees and survivors receiving benefits.

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 2007 Audited General Purpose Financial Statements.

As of June 30, 2007, the date of the last actuarial valuation, Judges was comprised of 15 retirees and survivors receiving benefits.

VFFRPF. The Volunteer Fire Fighters' Relief and 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 2007 Audited General Purpose Financial Statements.

Membership as of June 30, 2007, included 16,706 active and terminated-vested members, with 3,437 retirees and survivors receiving benefits.

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

CONTRIBUTION RATES FOR VFFRPF

	2004	2005	2006	2007
Per Person Contribution Rates Valuation				
Pension Rate				
Employee	$ 30	$ 30	$ 30	$ 30
Employer	30	30	30	30
State	61	30	29	38
Normal Cost Rate	$ 121	$ 90	$ 89	$ 98
State UAAL (Surplus) Rate	$ (45)	$ 131	$ 24	$ (90)
Pension Rate	$ 76	$ 221	$ 113	$ 8
Relief Rate				
Employer*	$ 10	$ 30	$ 30	$ 30
State	90	89	71	106
Relief Rate	$ 100	$ 119	$ 101	$ 136
Operating Expenses				
Administration and Expenses	$ 22	$ 23	$ 28	$ 31

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

* Percentage of eligible members currently participating in PEBB.

Source: Washington State 2008 OPEB Report

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

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

(i) *Explicit Subsidy.* Lowers the monthly premium paid by retired members enrolled in Medicare Parts A and B. The explicit subsidy is determined annually.

(ii) *Implicit Subsidy.* Retired members pay a premium based on a pool that includes claims experience for employees and non-Medicare eligible retirees. The subsidies are valued using the difference between the age-based claims cost and the premium paid by retirees.

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

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

Fiscal Year	Implicit	Explicit
2002	$ 37,055	$ 39,318
2003	41,199	46,860
2004	44,738	55,320
2005	47,021	63,792
2006	49,290	76,343
2007*	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.

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

GASB 45 KEY RESULTS
(Dollars in Thousands)

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

(1) Actuarial Accrued Liability ("AAL"): the amount of subsidies expected to be paid to current retirees and current active members (future retirees) that have already been earned, measured in today's dollars.

(2) Annual Required Contribution ("ARC"): the annual amount required under the actuarial cost method and funding policy for amortizing the unfunded actuarial accrued liability. It is made up of the normal cost (the amount earned in the next year) plus the amortization of the unfunded AAL. The state is using a closed, 30-year amortization as a level percent of payroll method.

(3) Annual OPEB Cost: the ARC plus the amortization of the Net OPEB Obligation. The Annual OPEB Cost is the "expense" for financial reporting.

(4) Net OPEB Obligation ("NOO"): the cumulative difference between the Annual OPEB Cost and the actual employer contributions. The NOO is the "balance sheet liability" for financial reporting.

(5) Estimated as of June 30, 2008.

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

The entire *2008 Other Post-Employment Benefits Actuarial Valuation Report*, including a sensitivity analysis, can be found at the state's actuarial website at *http://osa.leg.wa.gov/Actuarial_Services/Publications/PDF_Docs/Pension_Studies/2008_OPEB_Report.pdf.* .

DEMOGRAPHIC AND ECONOMIC INFORMATION

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

Overview

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

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

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

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

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

Economic Base. The economic base of the state includes manufacturing and service industries as well as agricultural and timber production. Industry sectors exhibiting growth include transportation, communication and utilities employment; finance, insurance and real estate; and services. Boeing, the state's largest private employer, is preeminent in aircraft manufacture and exerts a significant impact on overall state production, employment and labor earnings. The state ranks fourth among 12 leading states in the percentage of its work force employed in technology-related industries and ranks third among the largest software development centers. 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
1996-2007
(Population Numbers in Thousands)

April 1	Population	Population Change Number	Population Change Percent
1996	5,567.8	97.7	1.8
1997	5,663.8	96.0	1.7
1998	5,750.0	86.3	1.5
1999	5,830.8	80.8	1.4
2000	5,894.1	63.3	1.1
2001	5,974.9	80.8	1.4
2002	6,041.7	66.8	1.1
2003	6,098.3	56.6	0.9
2004	6,167.8	69.5	1.1
2005	6,256.4	88.6	1.4
2006	6,375.6	119.2	1.9
2007*	6,488.0	112.4	1.8

* Revenue forecast as of February 2008.

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.
1999-2009
(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
1999	175.5	7.2	7,802.4	5.1	179.9	5.4	7,997.1	3.4
2000	187.9	7.0	8,429.7	8.0	187.9	4.4	8,430.1	5.4
2001	193.5	3.0	8,724.1	3.5	189.5	0.9	8,545.4	1.4
2002	197.5	2.0	8,881.9	1.8	190.7	0.6	8,578.4	0.4
2003	202.9	2.8	9,163.6	3.2	192.2	0.8	8,678.4	1.2
2004	218.4	7.6	9,727.2	6.2	201.5	4.9	8,974.8	3.4
2005	226.6	3.7	10,269.8	5.6	203.1	0.8	9,204.6	2.6
2006	245.9	8.5	10,993.9	7.1	214.5	5.6	9,587.4	4.2
2007	265.6	8.0	11,663.3	6.1	225.8	5.3	9,913.2	3.4
2008[3]	276.2	4.0	12,155.1	4.2	226.9	0.5	9,987.7	0.8
2009[3]	284.5	3.0	12,414.6	2.1	234.0	3.1	10,211.5	2.2

(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 November 2008.

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)

	2004	2005	2006	2007	2008[2]
Resident Civilian Labor Force	3,208.3	3,270.9	3,333.6	3,408.2	3,476.1
Unemployment	200.1	179.8	163.1	154.7	190.5
Unemployment Rate (Percent)	6.2	5.5	4.9	4.5	5.5
Total Employment	3,008.2	3,091.1	3,170.5	3,253.5	3,285.6
Nonagricultural Wage and Salary Workers Employed in Washington					
Nonfarm	2,701.0	2,777.0	2,859.1	2,932.0	2,959.7
Durable Manufacturing	182.4	191.5	204.0	211.7	211.9
Aerospace	61.5	65.6	73.4	80.1	83.0
Computer	22.1	22.2	22.5	22.8	22.9
Nondurable Manufacturing	81.3	81.1	81.9	81.6	79.8
Natural	9.1	9.0	8.7	8.2	7.5
Construction	164.2	177.4	194.9	207.4	199.6
Trade, Transportation, Communication, Utilities	518.4	530.4	541.6	552.9	555.4
Information	92.8	94.7	98.4	102.7	105.9
Software	39.3	41.3	44.7	47.8	51.3
Financial	151.8	154.5	156.2	155.1	152.8
Professional	301.6	316.1	330.5	345.3	350.7
Education	319.7	329.3	337.2	348.0	360.8
Leisure	255.6	263.5	271.7	280.1	283.8
Other Service	100.3	102.7	104.0	105.4	107.7
Government	523.7	526.7	530.0	533.7	543.8

(1) Averages of monthly data.
(2) Revenue forecast as of November 2008.

Source: Washington State Office of the Forecast Council

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

	State		United States	
	1998	**2008[2]**	**1998**	**2008[2]**
Manufacturing				
Nondurable Manufacturing				
Food and Kindred	1.5	1.1	1.2	1.1
Pulp and Paper	0.6	0.4	0.5	0.3
Other	1.7	1.2	3.5	2.2
Subtotal	3.8	2.7	5.3	3.6
Durable Manufacturing				
Lumber and Wood	0.8	0.6	0.5	0.3
Primary Metals	0.5	0.2	0.5	0.3
Fabricated Metals	0.7	0.7	1.4	1.1
Machinery	0.6	0.5	1.2	0.9
Computers	1.3	0.8	1.5	0.9
Transportation Equipment	4.8	3.2	1.7	1.2
Other	1.3	1.2	2.0	1.5
Subtotal	10.1	7.2	8.7	6.2
Total Manufacturing	13.9	9.9	13.9	9.8
Nonmanufacturing				
Natural Products	0.4	0.3	0.5	0.6
Construction	5.5	6.7	4.9	5.2
Trade, Transportation, Communication, Utilities	19.5	18.8	20.0	19.2
Information	3.0	3.6	2.6	2.2
Financial	5.3	5.2	5.9	6.0
Professional	10.5	11.8	12.0	13.0
Education	10.7	12.2	11.5	13.7
Leisure	9.3	9.6	8.9	9.9
Other	4.0	3.6	4.0	4.0
Government	18.0	18.4	15.8	16.3
Total Nonmanufacturing	86.1	90.1	86.1	90.2
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 November 2008.

(3) Numbers may not add due to rounding.

Source: Washington State Office of the Forecast Council

ANNUAL AVERAGE CIVILIAN LABOR FORCE, UNEMPLOYMENT AND UNEMPLOYMENT RATES FOR WASHINGTON AND THE UNITED STATES

2002-2008

(Employment Numbers in Thousands)

	Civilian Labor Force		Number of Unemployed		Unemployment Rate		State Unemployment
Year	State	US	State	US	State (%)	US (%)	as % of US Rate (%)
2002	3,105	145,125	228	8,644	7.3	5.8	126.8
2003	3,146	146,500	233	8,770	7.4	6.0	123.6
2004	3,208	147,383	200	8,141	6.2	5.5	112.6
2005	3,271	149,295	180	7,580	5.5	5.1	108.5
2006	3,334	151,415	163	6,994	4.9	4.6	106.2
2007	3,408	153,129	155	7,079	4.5	4.6	97.8
2008*	3,476	154,393	190	8,769	5.5	5.7	96.4

* Revenue forecast as of November 2008.

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

Companies. The following tables provide information on the top companies headquartered in the state, ranked by revenues and by number of employees in the state. The Boeing Company, headquartered in Chicago, Illinois, is the largest employer in the state, with revenues in 2007 of $66.4 billion.

WASHINGTON'S TWENTY-FIVE LARGEST PUBLIC COMPANIES, RANKED BY 2006 NET REVENUE

(in Millions)

		Net Revenues			Net Revenues
1.	Costco Wholesale Corp.	$ 60,151	14.	Plum Creek Timber Co. Inc.	$ 1,627
2.	Microsoft Corp.	44,282	15.	Potlatch Corp.	1,608
3.	Washington Mutual	26,284	16.	Avista Corp.	1,506
4.	Weyerhaeuser	21,896	17.	Labor Ready Inc.	1,349
5.	Paccar Inc.	16,454	18.	Eddie Bauer Holdings Inc.	1,013
6.	Amazon.com Inc.	10,711	19.	Esterline Technology Corp.	972
7.	Nordstrom Inc.	8,561	20.	Longview Fibre Co.	951
8.	Starbucks Corp.	7,787	21.	Intermec (formerly Unova Inc.)	850
9.	Safeco Corp.	6,290	22.	Getty Images Inc.	807
10.	Expeditors International Inc.	4,626	23.	Nautilus Inc.	680
11.	Alaska Air Group Inc.	3,334	24.	Itron Inc.	644
12.	Puget Energy	2,907	25.	Sterling Financial Corp..	620
13.	Expedia	2,238			

WASHINGTON'S TWENTY-FIVE LARGEST COMPANIES, RANKED BY NUMBER OF EMPLOYEES IN THE STATE

Rank	Company	Number of Employees
1	The Boeing Company	71,353
2	Microsoft	33,053
3	University of Washington	24,443
4	Wal-Mart Stores	16,597
5	Naval Base Kitsap	15,268
6	Providence Health and Services	14,838
7	King County Government	12,678
8	Fred Meyer Stores	11,800
9	City of Seattle	9,798
10	Alaska Air Group	8,030
11	Costco Wholesale Group	7,416
12	Washington State University	7,118
13	Weyerhaeuser Company	7,077
14	Washington Mutual	7,000
15	Group Health Cooperative	5,731
16	Bank of America	5,537
17	Macy's Northwest	5,448
18	Nordstrom	5,437
19	Quality Food Centers	5,400
20	Home Depot	5,200
21	Seattle School District	5,072
22	Fairchild Air Force Base	4,959
23	Naval Air Station Whidbey Island	4,868
24	Safeway	4,735
25	AT&T	4,690

Source: Puget Sound Business Journal,2008 Book of Lists

Annual Retail Sales Activity

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

FISCAL YEAR RETAIL SALES ACTIVITY 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.

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
2001-2008

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	2,072,917
2006	50,033	1,811,917
2007[2]	47,397	1,340,667
2008[2]	29,122	926,923

(1) Actual housing starts prior to current year.
(2) Revenue forecast as of November 2008.

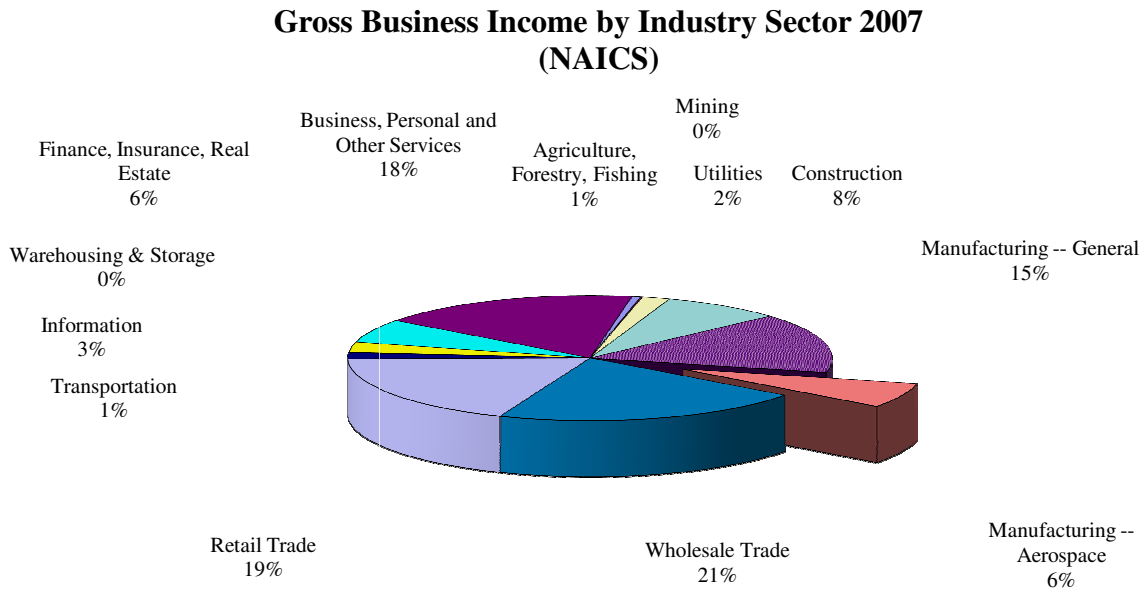
Source: Washington State Office of the Forecast Council and the Department of Commerce

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 2007.



Source: Department of Revenue, "Quarterly Business Review Calendar Year 2007", Table 1.

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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"):

$270,000,000
STATE OF WASHINGTON
VARIOUS PURPOSE GENERAL OBLIGATION BONDS, SERIES 2009C
DATED JANUARY 22, 2009

The Bonds are issued pursuant to Ch. 14, Laws of 1989, 1st Ex. Sess.; Ch. 15, Laws of 1990, 1st Ex. Sess.; Ch. 147, Laws of 2003; Ch. 18, Laws of 2003, 1st Sp. Sess.; Ch. 167, Laws of 2006; Ch. 521, Laws of 2007; and Ch. 179, Laws of 2008, of the State (collectively, the "Bond Act"), Ch. 39.42 RCW, Resolutions Nos. 1075 and 1077 of the State Finance Committee of the State adopted on December 3, 2008, and January 7, 2009, 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 express no opinion herein relating to the accuracy, completeness or sufficiency of the official statement or other offering material related to the Bonds, 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"):

$130,000,000
STATE OF WASHINGTON
MOTOR VEHICLE FUEL TAX
GENERAL OBLIGATION BONDS, SERIES 2009D
DATED JANUARY 22, 2009

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. 1076 and 1078 of the State Finance Committee of the State adopted on December 3, 2008, and January 7, 2008, 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 express no opinion herein relating to the accuracy, completeness or sufficiency of the official statement or other offering material related to the Bonds, 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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APPENDIX C

BONDS OUTSTANDING

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

Subject to Statutory Debt Limitation

Chapter and Laws	Bonds Authorized	Issued [1]	Bonds Outstanding [1]	Unissued
Ch. 138 -- Laws of 1965 (R-93A)	$ 86,305,000	$ 86,305,000	$ 16,475,000	$ -
Ch. 138 -- Laws of 1965 (R-93B)	172,305,000	172,305,000	33,450,000	-
Ch. 138 -- Laws of 1965 (R-99A)	67,980,000	67,980,000	40,455,000	-
Ch. 138 -- Laws of 1965 (R-2001A)	351,595,000	351,595,000	30,375,000	-
Ch. 138 -- Laws of 1965 (R-2001T)	12,050,000	12,050,000	1,265,000	-
Ch. 138 -- Laws of 1965 (R-2003A)	563,780,000	563,780,000	400,195,000	-
Ch. 138 -- Laws of 1965 (R-2003C)	57,775,000	57,775,000	24,580,000	-
Ch. 138 -- Laws of 1965 (R-2004A)	118,590,000	118,590,000	98,170,000	-
Ch. 138 -- Laws of 1965 (R-2004C)	116,625,000	116,625,000	97,330,000	-
Ch. 138 -- Laws of 1965 (R-2005A)	340,175,000	340,175,000	314,885,000	-
Ch. 138 -- Laws of 1965 (R-2006A)	382,100,000	382,100,000	369,620,000	-
Ch. 138 -- Laws of 1965 (R-2007A)	284,090,000	284,090,000	247,875,000	-
Ch. 138 -- Laws of 1965 (R-2007C)	340,820,000	340,820,000	324,160,000	-
Ch. 14 -- Laws of 1989, 1st Ex. Sess., as amended	616,360,000	596,900,569	226,364,378	19,459,431
Ch. 31 -- Laws of 1991, 1st Sp. Sess., as amended	379,680,000	368,100,000	128,470,000	11,580,000
Ch. 12 -- Laws of 1993, 1st Sp. Sess	429,137,000	420,544,716	173,822,266	8,592,284
Ch. 17 -- Laws of 1995, 2nd Sp. Sess., as amended	469,325,000	440,821,667	193,499,930	28,503,333
Ch. 456 -- Laws of 1997, Regular Sess	592,565,000	568,380,000	326,830,000	24,185,000
Ch. 380 -- Laws of 1999, Regular Sess	786,750,000	748,367,000	599,487,000	38,383,000
Ch. 9 -- Laws of 2001, 2nd Sp. Sess	905,575,000	853,308,000	711,513,000	52,267,000
Ch. 240 -- Laws of 2002, Regular Sess	89,700,000	83,375,000	76,010,000	6,325,000
Ch. 3 -- Laws of 2003, 1st Sp. Sess	1,212,000,000	1,123,620,000	1,027,415,000	88,380,000
Ch. 18 -- Laws of 2003, 1st Sp. Sess	772,500,000	670,085,000	646,595,000	102,415,000
Ch. 487 -- Laws of 2005, Regular Sess	1,434,000,000	1,329,815,000	1,270,630,000	104,185,000
Ch. 167 -- Laws of 2006, Regular Sess	273,595,000	71,895,000	70,815,000	201,700,000
Ch. 521 -- Laws of 2007, Regular Sess	1,972,000,000	1,031,285,000	1,017,960,000	940,715,000
Ch. 179 -- Laws of 2008, Regular Sess	50,000,000	3,555,000	3,555,000	46,445,000
Subtotal	$ 12,877,377,000	$ 11,204,241,952	$ 8,471,801,574	$ 1,673,135,048

(1) Includes current Bond offering dated January 22, 2009.

Excluded From Statutory Debt Limitation

Chapter and Laws	Bonds Authorized	Issued [1]	Bonds Outstanding [1]	Unissued
Ch. 138 -- Laws of 1965 (R-93A-Ex).....	$ 119,750,000	$ 119,750,000	$ 5,215,000	-
Ch. 138 -- Laws of 1965 (R-93B-Ex).....	58,645,000	58,645,000	33,855,000	-
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-2001A).....	54,045,000	54,045,000	11,900,000	-
Ch. 138 -- Laws of 1965 (R-2003A).....	42,095,000	42,095,000	28,780,000	-
Ch. 138 -- Laws of 1965 (R-2003C).....	19,185,000	19,185,000	7,975,000	-
Ch. 138 -- Laws of 1965 (R-2004A).....	5,550,000	5,550,000	4,390,000	-
Ch. 138 -- Laws of 1965 (R-2004C).....	2,390,000	2,390,000	1,990,000	
Ch. 138 -- Laws of 1965 (R-2005A).....	3,425,000	3,425,000	2,880,000	-
Ch. 138 -- Laws of 1965 (R-2006A).....	79,070,000	79,070,000	78,315,000	-
Ch. 138 -- Laws of 1965 (R-2007A).....	36,960,000	36,960,000	25,695,000	-
Ch. 138 -- Laws of 1965 (R-2007C).....	35,990,000	35,990,000	35,555,000	-
Ch. 34 -- Laws of 1982 as amended.....	21,697,181	21,697,181	4,412,790	-
Ch. 14 -- Laws of 1989, 1st Ex. Sess., as amended.....	47,170,000	32,405,000	11,820,000	14,765,000
Ch. 15 -- Laws of 1990, 1st Ex. Sess.....	10,000,000	10,000,000	721,593	-
Ch. 31 -- Laws of 1991, 1st Sp. Sess., as amended.....	245,000,000	240,987,302	99,692,691	4,012,698
Ch. 17 -- Laws of 1995, 2nd Sp. Sess., as amended.....	10,310,000	9,420,000	7,125,000	890,000
Ch. 220 -- Laws of 1997, Regular Sess.....	300,000,000	294,944,718	231,779,718	5,055,282
Ch. 456 -- Laws of 1997, Regular Sess.....	45,670,000	43,635,000	32,050,000	2,035,000
Ch. 380 -- Laws of 1999, Regular Sess.....	113,610,000	94,945,000	75,645,000	18,665,000
Ch. 9 -- Laws of 2001, 2nd Sp. Sess.....	128,435,000	121,295,000	104,645,000	7,140,000
Ch. 147 -- Laws of 2003, Regular Sess.....	349,500,000	114,505,000	108,765,000	234,995,000
Ch. 179 -- Laws of 2008, Regular Sess.....	100,000,000	14,670,000	14,670,000	85,330,000
Subtotal.....	$ 1,878,663,648	$ 1,505,775,667	$ 967,388,259	$ 372,887,981
Total.....	$ 14,756,040,648	$ 12,710,017,619	$ 9,439,189,833	$ 2,046,023,029

(1) Includes current Bond offering dated January 22, 2009.

BOND AUTHORIZATION AND OUTSTANDING DEBT
MOTOR VEHICLE FUEL TAX REVENUE
January 22, 2009

Chapter and Laws	Bonds Authorized	Issued [1]	Bonds Outstanding [1]	Unissued
Ch. 138 -- Laws of 1965 (R-93C)	$ 104,075,000	$ 104,075,000	$ 1,605,000	-
Ch. 138 -- Laws of 1965 (R-2001B)	119,640,000	119,640,000	11,890,000	-
Ch. 138 -- Laws of 1965 (R-2003B)	70,325,000	70,325,000	53,005,000	-
Ch. 138 -- Laws of 1965 (R-2004B)	57,045,000	57,045,000	47,240,000	-
Ch. 138 -- Laws of 1965 (R-2004D)	156,475,000	156,475,000	133,075,000	-
Ch. 138 -- Laws of 1965 (R-2005B)	95,800,000	95,800,000	85,785,000	-
Ch. 138 -- Laws of 1965 (R-2007B)	63,810,000	63,810,000	54,330,000	-
Ch. 138 -- Laws of 1965 (R-2007D)	73,030,000	73,030,000	69,710,000	-
Ch. 7 -- Laws of 1967, Ex. Sess. (Sections 13-23) as amended by Ch 11, Laws of 1993	11,125,000	11,125,000	5,625,000	-
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	2,235,000	-
Ch. 315 -- Laws of 1981	36,860,000	36,860,000	7,000,000	-
Ch. 316 -- Laws of 1981	148,375,000	148,375,000	6,150,000	-
Ch. 293 -- Laws of 1990	15,000,000	13,400,000	7,235,000	1,600,000
Ch. 158 -- Laws of 1992	54,895,000	54,895,000	840,000	-
Ch. 431 -- Laws of 1993, as amended	427,630,000	174,175,000	98,310,000	253,455,000
Ch. 432 -- Laws of 1993	82,515,000	7,320,000	1,345,000	75,195,000
Ch. 440 -- Laws of 1993	66,055,000	58,545,000	41,770,000	7,510,000
Ch. 15 -- Laws of 1995, 2nd Sp. Sess.	13,815,000	7,605,000	2,840,000	6,210,000
Ch. 321 -- Laws of 1998	1,900,000,000	1,597,281,634	1,445,451,391	302,718,366
Ch. 147 -- Laws of 2003	3,200,000,000	1,679,915,000	1,594,970,000	1,520,085,000
Ch. 315 -- Laws of 2005	5,300,000,000	603,110,000	589,080,000	4,696,890,000
Total	$ 12,128,840,000	$ 5,215,176,634	$ 4,259,491,391	$ 6,913,663,366

(1) Includes current Bond offering dated January 22, 2009.

Grand Total	$ 26,884,880,648	$ 17,925,194,253	$ 13,698,681,224	$ 8,959,686,395

APPENDIX D

EXCERPTS FROM 2008 AUDITED GENERAL PURPOSE FINANCIAL STATEMENTS

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Washington State Auditor
Brian Sonntag

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

December 17, 2008

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, 2008, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Workers' Compensation Fund of the Department of Labor and Industries, Washington's Lottery, Department of Retirement Systems, Local Government Investment Pool, University of Washington, Western Washington University, and the funds managed by the State Investment Board. Those financial statements represent part or all of the total assets, net assets, and revenues or additions of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component units and remaining fund information as follows:

Opinion Unit	Percent of Total Assets	Percent of Net Assets	Percent of Total Revenues/ Additions
Governmental Activities	15.6%	23.0%	7.7%
Business-Type Activities	73.9%	100%	57.7%
Higher Education Special Revenue Fund	52.4%	43.9%	50.9%
Higher Education Endowment Fund	96.5%	96.6%	80.9%
Higher Education Student Services Fund	68.6%	74.0%	81.3%
Workers' Compensation Fund	100%	100%	100%
Aggregate Discretely Presented Component Units and Remaining Fund Information	90.2%	93.7%	64.5%

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 solely on the reports of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of

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material misstatement. The financial statements of the Workers' Compensation Fund of the Department of Labor and Industries, Washington's Lottery, Department of Retirement Systems, Local Government Investment Pool, University of Washington, Western Washington University, and the funds managed by the State Investment Board were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

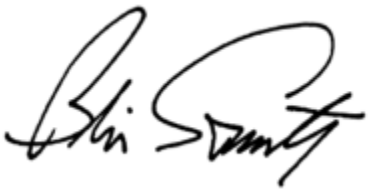
In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component units and remaining fund information of the State of Washington as of June 30, 2008, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2008, on our consideration of the State of Washington's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the State of Washington's basic financial statements. The combining and individual fund financial statements and schedules for non-major funds 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 by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The information identified in the table of contents as the introductory and statistical sections has not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on it.



BRIAN SONNTAG, CGFM

STATE AUDITOR

MD&A
Management's Discussion and Analysis

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MD&A
Management's Discussion & Analysis

As managers of the state of Washington, we offer this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2008. We present this information in conjunction with the information included in our letter of transmittal, which can be found preceding this narrative, and with the state's financial statements, which follow. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- Total assets of the state of Washington exceeded its liabilities by $21.8 billion (reported as net assets). Of this amount, $(5.7) billion was reported as "unrestricted (deficit) net assets." A negative balance indicates that no funds were available for discretionary purposes.
- The state of Washington's governmental funds reported a combined ending fund balance of $12.5 billion, an increase of 3.1 percent compared with the prior year.
- Unreserved fund balance for the General Fund was $677 million, or 3.3 percent of total General Fund expenditures.
- The state's capital assets increased by $2.0 billion while total bond debt increased by $1.5 billion during the current fiscal year.

Overview of the Financial Statements

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

FUND FINANCIAL STATEMENTS

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

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

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

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

Proprietary Funds. The state of Washington maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Internal service funds represent an accounting device used to accumulate and allocate costs internally among the state of Washington's various functions. The state of Washington uses internal service funds to account for general services such as motor pool, central stores, data processing services, risk management, employee health insurance, and printing services. Because internal service funds predominately benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 57-142 of this report.

OTHER REQUIRED INFORMATION

In addition to this discussion and analysis, this report also presents required supplementary information on budgetary comparisons, pension plan and other post-employment benefits, funding progress, and infrastructure assets reported using the modified approach.

Required supplementary information can be found on pages 145-167 of this report.

The combining statements referred to earlier are presented immediately following the required supplementary information.

Combining and individual fund statements and schedules can be found on pages 171-219 of this report.

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

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
ASSETS						
Current and other assets	$ 19,620	$ 17,995	$ 21,665	$ 20,395	$ 41,285	$ 38,390
Capital assets	27,692	25,834	1,995	1,846	29,687	27,680
Total assets	47,312	43,829	23,660	22,241	70,972	66,070
LIABILITIES						
Current and other liabilities	5,201	3,920	2,973	2,441	8,174	6,361
Long-term liabilities outstanding	16,014	14,379	24,971	22,566	40,985	36,945
Total liabilities	21,215	18,299	27,944	25,007	49,159	43,306
NET ASSETS						
Invested in capital assets, net of related debt	17,029	16,189	521	598	17,550	16,787
Restricted	5,524	5,072	4,406	3,892	9,930	8,964
Unrestricted (deficit)	3,544	4,269	(9,211)	(7,256)	(5,667)	(2,987)
Total net assets	$ 26,097	$ 25,530	$ (4,284)	$ (2,766)	$ 21,813	$ 22,764

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. For the state of Washington, total assets exceed liabilities by $21.8 billion at June 30, 2008 as compared to $22.8 billion as reported at June 30, 2007.

The largest portion of the state's net assets (80.5 percent for Fiscal Year 2008 as compared to 73.7 percent for Fiscal Year 2007) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The state of Washington uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

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

A portion of the state of Washington's net assets (45.5 percent for Fiscal Year 2008 as compared to 39.4 percent for Fiscal Year 2007) represents resources that are subject to external restrictions on how they may be used. The remaining balance represents unrestricted (deficit) net assets. The state's overall negative balance is caused by the workers' compensation program that

provides time-loss, medical, disability and pension payments to qualifying individuals who sustain work-related injuries or develop occupational diseases as a result of their required work activities. The main benefit plans of the workers' compensation program are funded on rates that will keep the plans solvent in accordance with recognized actuarial principles.

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

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

STATE OF WASHINGTON

Changes in Net Assets

(in millions of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
REVENUES						
Program revenues:						
Charges for services	$ 3,912	$ 3,618	$ 5,364	$ 5,472	$ 9,276	$ 9,090
Operating grants and contributions	8,725	8,286	42	46	8,767	8,332
Capital grants and contributions	746	745	-	-	746	745
General revenues:						
Taxes	16,894	16,704	115	108	17,009	16,812
Interest and investment earnings	464	818	767	1,316	1,231	2,134
Total Revenues	30,741	30,171	6,288	6,942	37,029	37,113
EXPENSES						
General government	(1,609)	(1,525)	-	-	(1,609)	(1,525)
Education - K-12	(7,476)	(6,871)	-	-	(7,476)	(6,871)
Education - Higher education	(5,710)	(5,244)	-	-	(5,710)	(5,244)
Human services	(11,260)	(10,473)	-	-	(11,260)	(10,473)
Adult corrections	(1,020)	(811)	-	-	(1,020)	(811)
Natural resources and recreation	(931)	(983)	-	-	(931)	(983)
Transportation	(1,894)	(1,588)	-	-	(1,894)	(1,588)
Interest on long-term debt	(643)	(553)	-	-	(643)	(553)
Workers' compensation	-	-	(4,068)	(3,841)	(4,068)	(3,841)
Unemployment compensation	-	-	(791)	(697)	(791)	(697)
Higher education student services	-	-	(1,470)	(1,305)	(1,470)	(1,305)
Other business-type activities	-	-	(1,204)	(1,102)	(1,204)	(1,102)
Total Expenses	(30,543)	(28,048)	(7,533)	(6,945)	(38,076)	(34,993)
Excess (deficiency) of revenues over expenses before contributions to endowments, extraordinary loss, and transfers	198	2,123	(1,245)	(3)	(1,047)	2,120
Contributions to endowments	95	97	-	-	95	97
Transfers	272	204	(272)	(204)	-	-
Increase (decrease) in net assets	565	2,424	(1,517)	(207)	(952)	2,217
Net assets - July 1, as restated*	25,532	23,106	(2,767)	(2,559)	22,765	20,547
Net assets - June 30	$ 26,097	$ 25,530	$ (4,284)	$ (2,766)	$ 21,813	$ 22,764

* Fiscal Year 2008 beginning Net Assets balances were restated to reflect fund type reclassifications.

Governmental Activities. Governmental activities resulted in an increase in the state of Washington's net assets of $565 million. While the results of Fiscal Year 2008 governmental activities were positive overall, the increase was $1.9 million lower than the prior year's increase. A number of factors contributed to the decline:

- Tax revenues increased $189 million in Fiscal Year 2008 as compared to Fiscal Year 2007. While sales and use taxes reported a modest increase of $386 million, excise taxes were down $308 million. The decline in excise taxes reflects the decline in real estate activity both in number of transactions and in the average value per transaction.

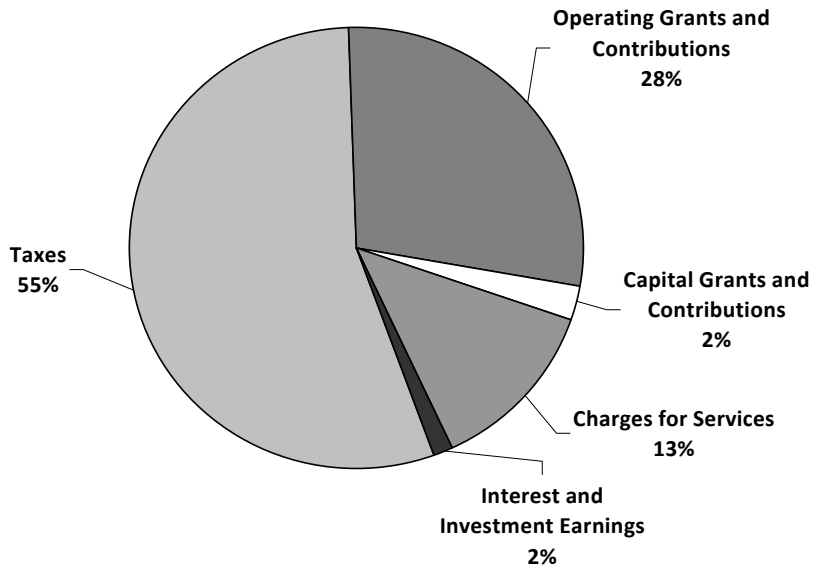
- Growth in expenses outpaced growth in revenues. Consistent with Fiscal Year 2007, the expenses for Human Services and Education comprised 80 percent of the total expenses for governmental activities. Human Services expenses grew by $787 million or 7.5 percent in Fiscal Year 2008 over Fiscal Year 2007. The increase relates to expanded access to health care for an additional 80,000 Washington children and increased levels of services for children and individuals with developmental disabilities. K-12 Education expenses grew by $605 million or 8.8 percent over the prior year. Contributing to the increase in expenses was an increase in K-12 funding of nearly $900 per student in Fiscal Year 2008. Additionally, Higher Education expenses grew by $466 million due to a number of factors including the addition of nearly 10,000 new slots for incoming students.

Business-Type Activities. Business-type activities decreased the state of Washington's net assets by $1.5 billion which included a $2.0 billion loss in the Workers' Compensation Fund. Key factors contributing to the operating results of business-type activities are:

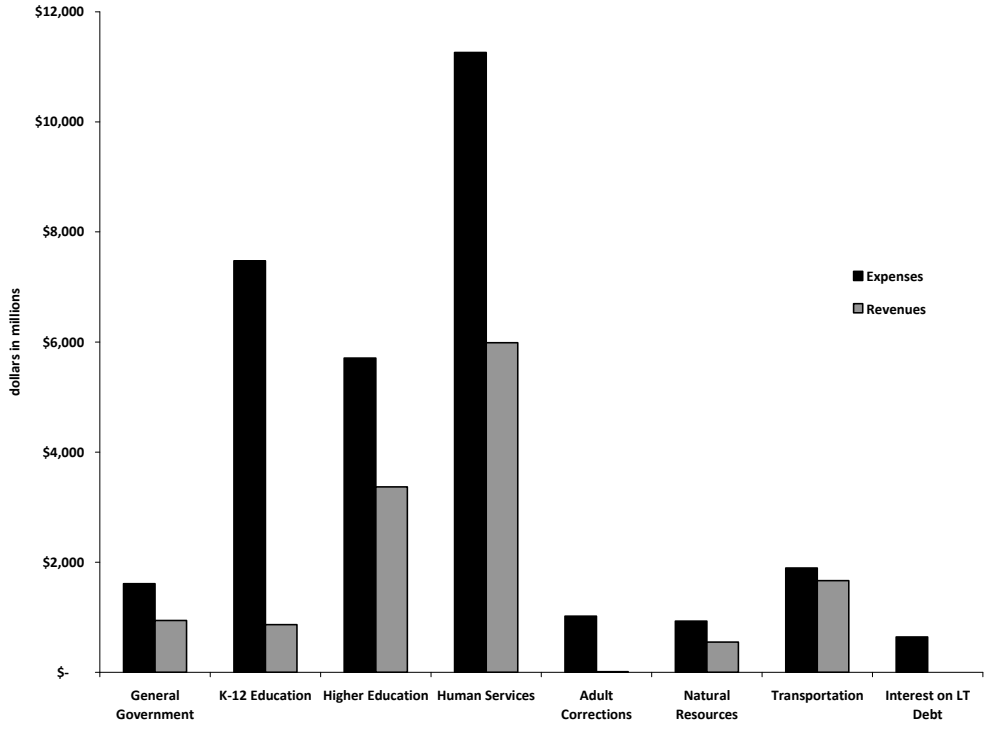
- The loss in the Workers' Compensation Fund in Fiscal Year 2008 was up $855 million over the loss in Fiscal Year 2007. A number of factors contributed to the increased loss including a decrease in premium revenue of $125 million, an increase in claims costs of $142 million, and a decrease in investment income of $514 million.

- While the Unemployment Compensation Fund reported an increase in net assets, the increase was $211 million less than the increase in Fiscal Year 2007. Washington's unemployment insurance program is an experience-based system. Since Washington has had relatively low unemployment in recent years, unemployment premium revenue has been declining. Fiscal Year 2008 premium revenues were $150 million less than Fiscal Year 2007. However, the softening of the state's unemployment rate at the end of Fiscal Year 2008 resulted in an increase in unemployment claims of $93 million compared to the prior year.

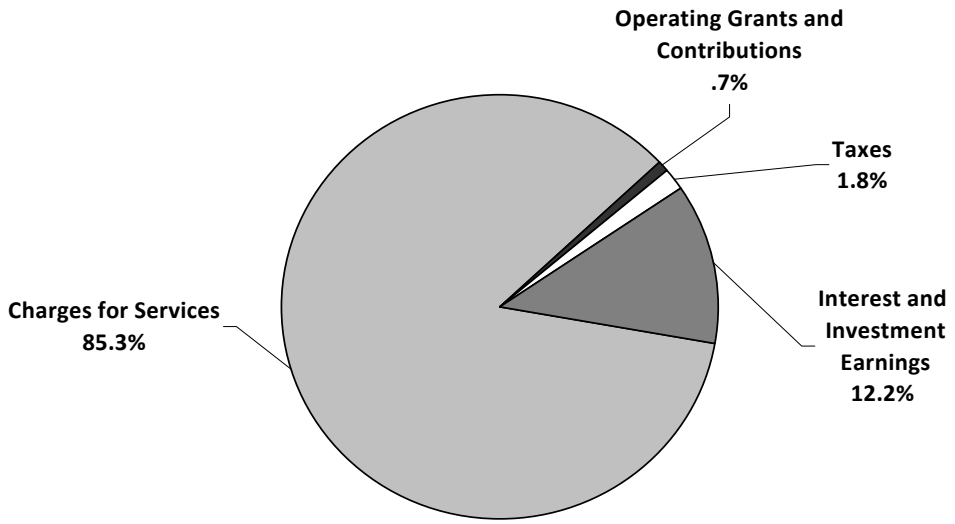
Revenues by Source: Governmental Activities



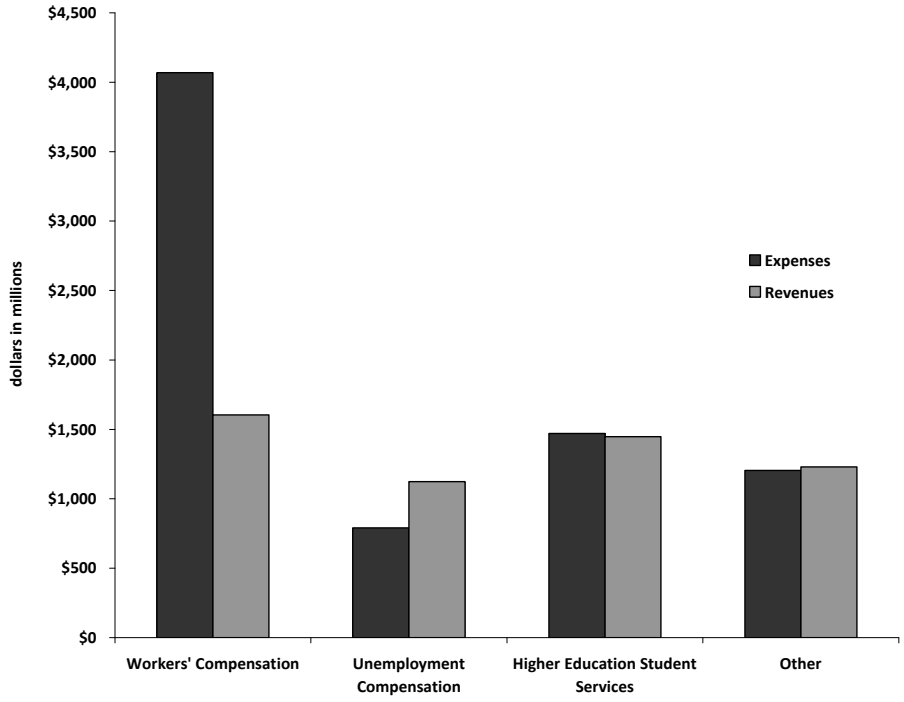
Program Revenues and Expenses: Governmental Activities



Revenues by Source: Business-Type Activities



Program Revenues and Expenses: Business-Type Activities



Financial Analysis of the Government's Funds

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

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

The General Fund is the chief operating fund of the state of Washington. At the end of the fiscal year, total fund balance for the General Fund equaled $1.9 billion. Unreserved fund balance included $1.0 billion designated for working capital purposes. This amount relates to certain accrued revenues and is not considered by management to be available to spend.

The remaining unreserved fund balance of $677 million is undesignated and is considered available to spend. The fund balance of the state of Washington's General Fund increased by $16 million during Fiscal Year 2008.

STATE OF WASHINGTON
General Fund
(in millions of dollars)

	Fiscal Year 2008	Fiscal Year 2007	Difference Increase (Decrease)
REVENUES			
Taxes	$ 14,307	$ 14,097	$ 210
Federal grants	6,557	6,205	352
Investment revenue	123	106	17
Other	462	418	44
Total	21,449	20,826	623
EXPENDITURES			
Human services	10,921	10,191	730
Education	8,235	7,765	470
Other	1,144	1,134	10
Total	20,300	19,090	1,210
Net transfers in (out)	(1,145)	(1,715)	570
Other financing sources	12	5	7
Net increase (decrease) in fund balance	$ 16	$ 26	$ (10)

The moderation of growth in the state's economy is reflected in the modest growth in tax revenue collection. Expenditure growth continues to be concentrated in services and programs most vital to citizens – primarily human services, health care and public education. Overall revenues were up 3.0 percent while expenditures increased at a pace of 6.3 percent when compared to the prior year.

In addition to the General Fund, the state reports the Higher Education Special Revenue and Higher Education Endowment Funds as major governmental funds. The fund balance of the Higher Education Special Revenue Fund increased by $41 million in Fiscal Year 2008 as compared to $448 million in Fiscal Year 2007. The fund balance for the Higher Education Endowment Fund increased by $93 million.

The fund balance for nonmajor governmental funds increased by $227 million. The increase is due in part to other financing sources generated through bonds issued that exceeded capital outlays in Capital Projects Funds.

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

The Workers' Compensation Fund, Unemployment Compensation Fund, and Higher Education Student Services Fund are major proprietary funds. The Workers' Compensation Fund reported a loss of $2.0 billion in Fiscal Year 2008. As noted previously, by state law, the supplemental pension cost-of-living adjustments (COLAs) granted for time-loss and disability payments are funded

on a pay-as-you-go basis. So, while claims are calculated and reported in accordance with recognized actuarial principles, the state is only allowed to collect enough revenue to fund current COLA payments.

The Unemployment Compensation Fund reported a 13 percent increase in unemployment compensation claims as compared to Fiscal Year 2007. This reflects the softening of the state's unemployment rate. Activity for the various nonmajor proprietary funds resulted in a decrease to net assets of $31 million. The largest component of the decrease is the loss of $57 million reported by the state's guaranteed college tuition program which is included in the Other Activities Fund. This loss was primarily caused by a reduction in investment earnings.

General Fund Budgetary Highlights

Differences between the original budget of the General Fund and the final amended budget reflect adjustments related to changes in the state's economy during the fiscal year ended June 30, 2008. While there were no significant increases or decreases to estimates during the year, changes to estimates are summarized as follows:

- Estimated resources decreased by $12 million over the course of the fiscal year. While federal grants-in-aid and other contracts and grants increased by a combined $234 million, taxes, charges for services and transfers reported decreases of $86 million, $59 million and $95 million respectively.
- Appropriated expenditure authority increased by $140 million over the course of the fiscal year. Increases were recorded in general government, human services and education of $123 million, $135 million and $72 million, respectively. The largest decrease was in transfers to other funds of $196 million.

The state did not overspend its legal spending authority for Fiscal Year 2008, the first year of the 2007-09 Biennium. Actual General Fund revenues and expenditures for Fiscal Year 2008 were 49 and 48 percent respectively of final budgeted revenues and appropriations for the 2007-09 Biennium.

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

Capital Assets. The state of Washington's investment in capital assets for its governmental and business-type activities as of June 30, 2008 amounted to $29.7 billion (net of accumulated depreciation). This investment in capital assets includes land, infrastructure, museum and historical collections, buildings and other improvements, furnishings and equipment, as well as construction in progress.

Washington's Fiscal Year 2008 investment in capital assets, net of current year depreciation, was $2.0 billion, including increases to the state's transportation infrastructure of $1.4 billion and buildings of $341 million. The state's construction in progress includes both new construction and major improvements to state infrastructure and facilities including the state highway system, correctional facilities, ferry vessels and terminals, and buildings on the capitol and college and university campuses. Remaining commitments on these construction projects total $3.3 billion.

Additional information on the state of Washington's capital assets can be found in Note 6 beginning on page 92 of this report.

STATE OF WASHINGTON

Capital Assets - Net of Depreciation

(in millions of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	$ 1,051	$ 1,012	$ 136	$ 135	$ 1,187	$ 1,147
Transportation infrastructure and other assets not depreciated	17,021	15,657	-	-	17,021	15,657
Buildings	5,731	5,545	1,492	1,337	7,223	6,882
Furnishings, equipment, and collections	1,392	1,399	135	138	1,527	1,537
Other improvements and infrastructure	1,013	985	58	58	1,071	1,043
Construction in progress	1,484	1,236	174	178	1,658	1,414
Total	$ 27,692	$ 25,834	$ 1,995	$ 1,846	$ 29,687	$ 27,680

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

The condition of these assets, along with the rating scales for pavement, bridges, rest areas, and airfields, and additional detail comparing budget to actual preservation and maintenance spending are available in the Required Supplementary Information beginning on page 159.

The Washington State Department of Transportation (WSDOT) accomplished a net addition of 78 lane miles and 7 bridges in Fiscal Year 2008. Amounts spent during Fiscal Year 2008 to maintain/preserve these infrastructure assets were not significantly different from estimated spending plans according to the biennial budget.

The state highway system and emergency airfields continue to meet established condition levels. No significant changes in condition levels were noted for pavements or bridges.

Detailed information about targeted and actual condition levels for roads, bridges, airfields and rest areas can be found in the Required Supplementary Information section of this report.

The safety of bridge structures is ensured through meticulous inspections and rating of the primary components of bridges by the WSDOT Bridge Preservation Office or local agency staff. The condition of all bridge decks, superstructures and substructures are rated based on these inspections. With the collapse of the I-35W bridge in Minnesota in the summer of 2007, much of the national discussion has focused on bridges being classified as structurally deficient. Structurally deficient means that a bridge requires repair or replacement of a certain component, such as cracked or spalled concrete or the entire bridge itself. If the condition is such that it no longer is able to carry its intended traffic loads, it may be weight restricted. No Washington bridges are rated unsafe for public travel.

Fiscal Year 2009 commitments made for ongoing infrastructure projects that extend beyond Fiscal Year 2008 amount to $1.8 billion representing 657 projects.

Bond Debt. At the end of Fiscal Year 2008, the state of Washington had general obligation bond debt outstanding of $13 billion, an increase of 11.4 percent over Fiscal Year 2007. This debt is secured by a pledge of the full faith and credit of the state. Additionally, the state had authorized $10.2 billion general obligation debt that remains unissued.

The state had revenue debt outstanding at June 30, 2008, of $1.6 billion, an increase of $142 million over Fiscal Year 2007. This increase is related to revenue bonds issued by state colleges and universities. Revenue bond debt is secured by specific sources of revenue.

STATE OF WASHINGTON

Bond Debt

(in millions of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
General obligation (GO) bonds	$ 12,927	$ 11,573	$ 80	$ 101	$ 13,007	$ 11,674
Accreted interest on zero interest rate GO bonds	295	264	34	31	329	295
Revenue bonds	524	608	1,115	889	1,639	1,497
Total	$ 13,746	$ 12,445	$ 1,229	$ 1,021	$ 14,975	$ 13,466

During Fiscal Year 2008, the state issued general obligation debt, totaling $1.9 billion, for various capital and transportation projects. The state ranked 13th in a list of the top 100 state and local issuers ranked by amount financed by municipal issuers in calendar year 2007, according to The Bond Buyer's 2008 Yearbook.

The Washington State Constitution and the Revised Code of Washington limit the amount of general obligation (GO) debt that may be issued. The constraining limit for 2008 is the statutory limit. For the fiscal year ended June 30, 2008, the maximum GO debt authorized by the statutory debt limit was $10.1 billion.

This computation excludes specific bond issues and types that are not secured by general state revenues, such as motor vehicle fuel tax and reimbursable bonds. Of the $13 billion general obligation bond debt outstanding at June 30, 2008, $7.2 billion is subject to the limitation. Based on the debt limitation calculation, the debt service requirements as of June 30, 2008 did not exceed the authorized debt service limitation.

For further information on the debt limit, refer to the Certification of the Debt Limitation of the State of Washington, available from the Office of the State Treasurer or at: http://www.tre.wa.gov/BondDebt/csd-limit_FY2008.pdf.

By statutory provision, the State Finance Committee (SFC) is authorized to supervise and control the issuance of all state bonds, notes, or other evidences of indebtedness. The SFC is composed of the Governor, Lieutenant Governor, and State Treasurer, the latter serving as chairman.

As of June 30, 2008, the state of Washington's general obligation debt was rated Aa1 by Moody's Investor Service, AA+ by Standard & Poor's Rating Group (S & P), and AA by Fitch Ratings.

Additional information on the state's bond debt obligations is presented in Note 7 beginning on page 96 of this report. Additional information on the state's legal debt limit is presented in the statistical section on page 254 of this report.

Conditions with Expected Future Impact

Economic Factors. In the coming year, legislative leaders and management will be facing a number of challenges.

- Much slower economic growth is forecasted as the impacts of the financial crisis and recessionary national and international economics impact Washington. The slowing economy and slumping housing market will continue to have a negative effect on state revenue growth, particularly on retail sales and real estate excise taxes.

- Unemployment rates are expected to increase as non-farm payroll employment in Washington decreases in Fiscal Year 2009 by .04 percent, the first annual decline since 2003.

- Revenue growth is expected to be negatively impacted as economic changes to the tax system, including aerospace industry tax credits, take full effect by the end of the 2007-09 Biennium.

Financial Market Decline. Since June 30, 2008, the financial markets have declined significantly in response to the credit crisis that began with the sub-prime mortgagee collapse. The market turmoil has had a negative impact on the value of the state's investment portfolios. That said, state investors, in general, have long-term prudent investment strategies that incorporate high quality, well diversified investments. Historically, state investment portfolios have performed well over time, weathering market ups and downs.

New Financial Reporting Requirement. The state implemented the provisions of the Governmental Accounting Standards Board's Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* for Fiscal Year 2008 reporting. The other postemployment benefits (OPEB) offered by the state are set each biennium as part of the budget process.

The state is not legally or contractually required to provide the OPEB and is funding them on a pay-as-you-go basis. The state's annual OPEB cost for Fiscal Year 2008 was $314 million and its OPEB contributions were $68 million, resulting in a net OPEB obligation at the end of the year of $246 million. As long as the state continues to offer OPEB and retains the pay-as-you-go funding strategy, the obligation will increase each year.

Rainy Day Fund. In November 2007, Washington State voters ratified Engrossed Substitute Senate Joint Resolution 8206, amending the state's Constitution and establishing the Budget Stabilization Account.

Beginning July 1, 2008, the state is required to transfer into the Budget Stabilization Account an amount equal to 1 percent of general state revenues for the fiscal year. Moneys may be withdrawn and appropriated in very limited circumstances that are detailed in the Constitution.

On July 1, 2008, the balance in the Emergency Reserve Fund of $303 million was transferred to the Budget Stabilization Account. It is estimated that $133 million will be transferred from the General Fund to the Budget Stabilization Account in Fiscal Year 2009 representing 1 percent of the year's general state revenues.

Requests for Information

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

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Basic Financial Statements

Governmental-wide Financial Statements

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Statement of Net Assets

June 30, 2008

(expressed in thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
ASSETS				
Cash and pooled investments	$ 7,849,675	$ 7,377,465	$ 15,227,140	$ 58,554
Taxes receivable (net of allowance)	2,988,925	5,072	2,993,997	-
Other receivables (net of allowance)	1,172,710	1,275,103	2,447,813	1,401
Internal balances (net)	45,620	(45,620)	-	-
Due from other governments	3,266,263	63,601	3,329,864	-
Inventories	97,091	73,510	170,601	-
Investments, noncurrent	4,035,851	12,547,911	16,583,762	22,041
Other assets	163,218	368,232	531,450	42,754
Capital assets (Note 6):				
Non-depreciable assets	19,556,275	309,902	19,866,177	34,767
Depreciable assets, net of depreciation	8,136,149	1,685,445	9,821,594	368,940
Total capital assets, net of depreciation	27,692,424	1,995,347	29,687,771	403,707
Total Assets	$ 47,311,777	$ 23,660,621	$ 70,972,398	$ 528,457
LIABILITIES				
Accounts payable	$ 1,393,881	$ 125,539	$ 1,519,420	$ 13,221
Contracts and retainage payable	156,124	20,087	176,211	2,908
Accrued liabilities	669,816	255,998	925,814	3,826
Obligations under security lending agreements	1,274,148	2,487,403	3,761,551	-
Due to other governments	777,673	28,928	806,601	-
Unearned revenue	929,866	55,199	985,065	2,487
Long-term liabilities (Note 7):				
Due within one year	1,037,879	2,152,083	3,189,962	-
Due in more than one year	14,975,785	22,819,321	37,795,106	34,934
Total Liabilities	21,215,172	27,944,558	49,159,730	57,376
NET ASSETS				
Invested in capital assets, net of related debt	17,028,412	520,998	17,549,410	365,180
Restricted for:				
Unemployment compensation	-	4,406,380	4,406,380	-
Other purposes	1,894,460	-	1,894,460	24,092
Capital projects	442,994	-	442,994	-
Expendable permanent fund principal	1,871,521	-	1,871,521	-
Nonexpendable permanent endowments	1,315,113	-	1,315,113	-
Unrestricted (deficit)	3,544,105	(9,211,315)	(5,667,210)	81,809
Total Net Assets	$ 26,096,605	$ (4,283,937)	$ 21,812,668	$ 471,081

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

Statement of Activities

For the Fiscal Year Ended June 30, 2008

(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	$ 1,609,142	$ 651,364	$ 288,126	$ 2,375
Education - elementary and secondary (K-12)	7,476,060	12,798	853,442	-
Education - higher education	5,709,645	1,718,092	1,636,376	12,568
Human services	11,259,878	250,623	5,735,256	-
Adult corrections	1,019,980	9,459	2,275	-
Natural resources and recreation	931,030	375,669	146,935	23,286
Transportation	1,894,289	894,379	62,981	708,041
Interest on long-term debt	642,914	-	-	-
Total Governmental Activities	30,542,938	3,912,384	8,725,391	746,270
Business-Type Activities:				
Workers' compensation	4,068,599	1,596,174	7,823	-
Unemployment compensation	790,538	1,093,586	30,070	-
Higher education student services	1,470,168	1,443,756	3,909	-
Other	1,203,546	1,230,461	16	-
Total Business-Type Activities	7,532,851	5,363,977	41,818	-
Total Primary Government	$ 38,075,789	$ 9,276,361	$ 8,767,209	$ 746,270
COMPONENT UNITS	$ 29,633	$ 16,055	$ 240	$ 829
Total Component Units	$ 29,633	$ 16,055	$ 240	$ 829

General Revenues:
- Taxes - sales and use
- Taxes - business and occupation
- Taxes - property
- Taxes - motor vehicle and fuel
- Taxes - excise
- Taxes - other
- Interest and investment earnings

Total general revenues

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

Contributions to endowments

Transfers

Change in Net Assets

Net assets - Beginning, as restated

Net assets - Ending

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

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Units
$ (667,277)	$ -	$ (667,277)	
(6,609,820)	-	(6,609,820)	
(2,342,609)	-	(2,342,609)	
(5,273,999)	-	(5,273,999)	
(1,008,246)	-	(1,008,246)	
(385,140)	-	(385,140)	
(228,888)	-	(228,888)	
(642,914)	-	(642,914)	
(17,158,893)	-	(17,158,893)	
-	(2,464,602)	(2,464,602)	
-	333,118	333,118	
-	(22,503)	(22,503)	
-	26,931	26,931	
-	(2,127,056)	(2,127,056)	
(17,158,893)	(2,127,056)	(19,285,949)	
			$ (12,509)
			$ (12,509)
8,341,000	-	8,341,000	-
2,850,548	-	2,850,548	-
1,741,739	-	1,741,739	-
1,169,900	-	1,169,900	-
780,953	61,507	842,460	-
2,009,002	53,278	2,062,280	-
463,899	766,644	1,230,543	6,519
17,357,041	881,429	18,238,470	6,519
198,148	(1,245,627)	(1,047,479)	(5,990)
94,900	-	94,900	-
271,600	(271,600)	-	-
564,648	(1,517,227)	(952,579)	(5,990)
25,531,957	(2,766,710)	22,765,247	477,071
$ 26,096,605	$ (4,283,937)	$ 21,812,668	$ 471,081

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Basic Financial Statements

Fund Financial Statements

Balance Sheet
GOVERNMENTAL FUNDS
June 30, 2008
(expressed in thousands)

	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
ASSETS					
Cash and pooled investments	$ 1,185,063	$ 866,218	$ 689,597	$ 4,442,032	$ 7,182,910
Investments	36,772	806,581	2,903,090	241,263	3,987,706
Taxes receivable (net of allowance)	2,875,042	15,955	-	97,928	2,988,925
Other receivables (net of allowance)	355,105	295,832	41,988	618,372	1,311,297
Due from other funds	132,884	198,713	122	392,107	723,826
Due from other governments	899,570	130,566	-	2,119,069	3,149,205
Inventories	25,649	12,670	-	38,807	77,126
Total Assets	$ 5,510,085	$ 2,326,535	$ 3,634,797	$ 7,949,578	$ 19,420,995
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 878,994	$ 120,379	$ -	$ 335,096	$ 1,334,469
Contracts and retainages payable	29,655	2,824	3,089	102,947	138,515
Accrued liabilities	236,562	129,093	14,202	120,367	500,224
Obligations under security lending agreements	271,091	190,763	584,704	197,926	1,244,484
Due to other funds	274,994	127,300	2,078	334,624	738,996
Due to other governments	550,314	15,632	-	103,924	669,870
Deferred revenues	1,328,819	188,843	19,690	694,194	2,231,546
Claims and judgments payable	20,868	-	-	10,396	31,264
Total Liabilities	3,591,297	774,834	623,763	1,899,474	6,889,368
Fund Balances:					
Reserved for:					
Encumbrances	112,071	184,819	-	911,064	1,207,954
Inventories	19,044	12,670	-	38,807	70,521
Permanent funds	-	-	3,011,034	175,600	3,186,634
Other specific purposes	69,679	192,412	-	2,023,438	2,285,529
Unreserved, designated for, reported in:					
Working capital	1,040,563	-	-	-	1,040,563
Higher education	-	155,679	-	-	155,679
Special revenue funds	-	-	-	220	220
Debt service funds	-	-	-	362,122	362,122
Unreserved, undesignated	677,431	1,006,121	-	-	1,683,552
Unreserved, undesignated reported in:					
Special revenue funds	-	-	-	2,432,112	2,432,112
Capital project funds	-	-	-	106,741	106,741
Total Fund Balances	1,918,788	1,551,701	3,011,034	6,050,104	12,531,627
Total Liabilities and Fund Balances	$ 5,510,085	$ 2,326,535	$ 3,634,797	$ 7,949,578	$ 19,420,995

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

Reconciliation of the Balance Sheet to the Statement of Net Assets
GOVERNMENTAL FUNDS
June 30, 2008
(expressed in thousands)

Total Fund Balances for Governmental Funds		$ 12,531,627
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	$ 19,532,045	
Depreciable assets	13,265,636	
Less: Accumulated depreciation	(5,561,720)	
Total capital assets		27,235,961
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.		1,305,821
Unmatured interest on general obligation bonds is not recognized in the funds until due.		(280,610)
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.		163,558
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
Bonds and other financing contracts payable	$ (13,673,474)	
Accreted interest on bonds	(295,056)	
Compensated absences	(497,558)	
Other postemployment obligations	(221,375)	
Unfunded pension obligation	(113,416)	
Claims and judgments	(28,278)	
Other obligations	(30,595)	
Total long-term liabilities		(14,859,752)
Net Assets of Governmental Activities		$ 26,096,605

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

Statement of Revenues, Expenditures, and Changes in Fund Balances
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2008
(expressed in thousands)

	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
REVENUES					
Retail sales and use taxes	$ 8,256,288	$ -	$ -	$ 84,712	$ 8,341,000
Business and occupation taxes	2,760,425	-	-	90,123	2,850,548
Property taxes	1,494,542	-	-	247,197	1,741,739
Excise taxes	707,272	-	-	73,681	780,953
Motor vehicle and fuel taxes	-	-	-	1,169,900	1,169,900
Other taxes	1,088,561	194,638	-	724,630	2,007,829
Licenses, permits, and fees	97,493	628	-	812,543	910,664
Timber sales	2,847	-	18,995	106,380	128,222
Other contracts and grants	162,238	613,894	-	25,510	801,642
Federal grants-in-aid	6,556,642	1,089,377	-	1,120,954	8,766,973
Charges for services	56,614	1,475,957	1	538,541	2,071,113
Investment income (loss)	123,303	108,416	58,857	173,323	463,899
Miscellaneous revenue	84,881	124,681	8,198	498,133	715,893
Escheated property	57,444	-	-	-	57,444
Contributions and donations	-	-	94,900	-	94,900
Total Revenues	21,448,550	3,607,591	180,951	5,665,627	30,902,719
EXPENDITURES					
Current:					
General government	662,824	-	-	590,857	1,253,681
Human services	10,921,497	-	-	1,193,810	12,115,307
Natural resources and recreation	336,242	-	-	561,162	897,404
Transportation	41,818	1,906	-	1,758,860	1,802,584
Education	8,234,996	3,571,524	413	1,053,428	12,860,361
Intergovernmental	30,697	-	-	348,524	379,221
Capital outlays	56,872	146,291	4,370	2,056,501	2,264,034
Debt service:					
Principal	15,014	10,070	-	561,264	586,348
Interest	330	7,812	2	580,510	588,654
Total Expenditures	20,300,290	3,737,603	4,785	8,704,916	32,747,594
Excess of Revenues Over (Under) Expenditures	1,148,260	(130,012)	176,166	(3,039,289)	(1,844,875)
OTHER FINANCING SOURCES (USES)					
Bonds issued	-	-	-	1,891,150	1,891,150
Payments to refunded bond escrow agents	-	-	-	(58,125)	(58,125)
Other debt issued	12,084	6,154	-	867	19,105
Bond issue premium	-	-	-	123,487	123,487
Capital lease acquisitions	26	69	-	-	95
Transfers in	72,007	291,663	14,357	2,249,697	2,627,724
Transfers (out)	(1,216,749)	(127,062)	(97,145)	(940,546)	(2,381,502)
Total Other Financing Sources (Uses)	(1,132,632)	170,824	(82,788)	3,266,530	2,221,934
Net Change in Fund Balances	15,628	40,812	93,378	227,241	377,059
Fund Balances - Beginning, as restated	1,903,160	1,510,889	2,917,656	5,822,863	12,154,568
Fund Balances - Ending	$ 1,918,788	$ 1,551,701	$ 3,011,034	$ 6,050,104	$ 12,531,627

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

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

For the Fiscal Year Ended June 30, 2008
(expressed in thousands)

Net Change in Fund Balances - Total Governmental Funds		$ 377,059
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital outlays are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:		
Capital outlays	$ 2,309,232	
Less: Depreciation expense	(462,485)	1,846,747
Some revenues in the Statement of Activities do not provide current financial resources, and therefore, are deferred in governmental funds. Also, revenues related to prior periods that became available during the current period are reported in governmental funds but are eliminated in the Statement of Activities. This amount is the net adjustment.		(61,435)
Accrued interest on general obligation bonds is reported as an expense in the Statement of Activities but does not use current financial resources and, therefore, is not recognized in governmental funds.		(54,369)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The change in net assets of the internal service funds is reported with governmental activities.		(8,403)
Bond proceeds and other financing contracts provide current financial resources to governmental funds, while the repayment of the related debt principal consumes those financial resources. These transactions, however, have no effect on net assets. In the current period, these amounts consist of:		
Bonds and other financing contracts issued	$ (1,852,225)	
Principal payments on bonds and other financing contracts	586,348	
Accreted interest on bonds	(30,245)	(1,296,122)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not recognized in governmental funds. Also, some payments related to prior periods are recognized in governmental funds but are eliminated in the Statement of Activities. In the current period, the net adjustments consist of:		
Unfunded pension obligations	$ (16,701)	
Compensated absences	(14,455)	
Claims and judgments	3,963	
Other postemployment obligations	(221,375)	
Other obligations	9,739	(238,829)
Change in Net Assets of Governmental Activities		$ 564,648

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

Statement of Fund Net Assets
PROPRIETARY FUNDS
June 30, 2008
(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	$ 29,716	$ 4,019,881	$ 484,087	$ 294,216	$ 4,827,900	$ 620,253
Investments	2,152,094	-	2,996	394,475	2,549,565	30,075
Taxes receivable (net of allowance)	-	-	-	5,072	5,072	-
Other receivables (net of allowance)	714,033	385,380	135,751	39,939	1,275,103	18,411
Due from other funds	2,279	2,369	38,564	21,011	64,223	183,253
Due from other governments	899	14,777	33,470	3,650	52,796	7,283
Inventories	141	-	39,529	33,840	73,510	19,966
Prepaid expenses	7	-	14,205	350	14,562	4,449
Total Current Assets	2,899,169	4,422,407	748,602	792,553	8,862,731	883,690
Noncurrent Assets:						
Investments, noncurrent	11,019,221	-	176,584	1,352,106	12,547,911	64,582
Other noncurrent assets	131,542	-	53,224	168,904	353,670	129
Capital assets:						
Land and other non-depreciable assets	3,240	-	53,663	79,072	135,975	3,836
Buildings	62,705	-	1,626,261	407,397	2,096,363	123,257
Other improvements	1,638	-	41,453	15,516	58,607	17,923
Furnishings, equipment, and collections	63,057	-	338,787	63,413	465,257	746,364
Infrastructure	-	-	34,909	-	34,909	478
Accumulated depreciation	(67,435)	-	(758,064)	(144,192)	(969,691)	(455,791)
Construction in progress	4,188	-	132,774	36,965	173,927	20,395
Total Noncurrent Assets	11,218,156	-	1,699,591	1,979,181	14,896,928	521,173
Total Assets	14,117,325	4,422,407	2,448,193	2,771,734	23,759,659	1,404,863
LIABILITIES						
Current Liabilities:						
Accounts payable	6,809	-	80,809	37,921	125,539	59,410
Contracts and retainages payable	2,611	-	11,250	53,126	66,987	17,548
Accrued liabilities	157,093	6,072	76,932	131,541	371,638	32,653
Obligations under security lending agreements	2,152,094	-	-	335,309	2,487,403	29,662
Bonds and notes payable	3,625	-	37,405	54,838	95,868	22,094
Due to other funds	7,897	1,006	63,744	32,781	105,428	121,251
Due to other governments	-	8,949	9	13,583	22,541	21
Unearned revenues	20,338	-	34,765	96	55,199	4,141
Claims and judgments payable	1,890,542	-	-	3,130	1,893,672	164,851
Total Current Liabilities	4,241,009	16,027	304,914	662,325	5,224,275	451,631
Noncurrent Liabilities:						
Claims and judgments payable	19,996,606	-	-	4,572	20,001,178	602,359
Bonds and notes payable	25,930	-	1,131,383	254,403	1,411,716	157,097
Other long-term liabilities	19,177	-	28,377	1,358,873	1,406,427	30,218
Total Noncurrent Liabilities	20,041,713	-	1,159,760	1,617,848	22,819,321	789,674
Total Liabilities	24,282,722	16,027	1,464,674	2,280,173	28,043,596	1,241,305
NET ASSETS						
Invested in capital assets, net of related debt	37,838	-	300,996	182,164	520,998	277,271
Restricted for:						
Unemployment compensation	-	4,406,380	-	-	4,406,380	-
Unrestricted	(10,203,235)	-	682,523	309,397	(9,211,315)	(113,713)
Total Net Assets (Deficit)	$ (10,165,397)	$ 4,406,380	$ 983,519	$ 491,561	$ (4,283,937)	$ 163,558

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

Statement of Revenues, Expenses, and Changes in Fund Net Assets
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2008
(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	$ -	$ -	$ 115,182	$ 612,620	$ 727,802	$ 131,529
Less: Cost of goods sold	-	-	84,175	444,059	528,234	105,272
Gross profit	-	-	31,007	168,561	199,568	26,257
Charges for services	110	-	1,223,302	61,828	1,285,240	682,227
Premiums and assessments	1,563,953	1,081,019	-	-	2,644,972	1,182,926
Federal aid for unemployment insurance benefits	-	30,070	-	-	30,070	-
Lottery ticket proceeds	-	-	-	521,103	521,103	-
Miscellaneous revenue	32,150	12,567	100,866	8,655	154,238	46,126
Total Operating Revenues	1,596,213	1,123,656	1,355,175	760,147	4,835,191	1,937,536
OPERATING EXPENSES						
Salaries and wages	133,773	-	546,354	93,458	773,585	293,087
Employee benefits	46,911	-	123,304	36,336	206,551	83,434
Personal services	7,533	-	12,655	26,925	47,113	22,231
Goods and services	72,567	-	548,769	129,462	750,798	342,156
Travel	4,183	-	20,069	3,056	27,308	5,381
Premiums and claims	3,727,966	790,538	1	34	4,518,539	1,175,717
Lottery prize payments	-	-	-	314,923	314,923	-
Depreciation and amortization	10,281	-	67,868	16,201	94,350	68,286
Guaranteed education tuition expense	-	-	-	62,800	62,800	-
Miscellaneous expenses	63,442	-	12,861	288	76,591	828
Total Operating Expenses	4,066,656	790,538	1,331,881	683,483	6,872,558	1,991,120
Operating Income (Loss)	(2,470,443)	333,118	23,294	76,664	(2,037,367)	(53,584)
NONOPERATING REVENUES (EXPENSES)						
Earnings (loss) on investments	486,261	182,237	65,768	32,378	766,644	18,281
Interest expense	(1,942)	-	(54,114)	(37,328)	(93,384)	(8,948)
Distributions to other governments	-	-	-	(38,674)	(38,674)	-
Other revenue (expenses)	7,785	-	8,315	141,054	157,154	5,636
Total Nonoperating Revenues (Expenses)	492,104	182,237	19,969	97,430	791,740	14,969
Income (Loss) Before Contributions and Transfers	(1,978,339)	515,355	43,263	174,094	(1,245,627)	(38,615)
Capital contributions	-	-	-	-	-	4,834
Transfers in	21,453	-	69,544	23,241	114,238	107,894
Transfers (out)	(22,956)	-	(134,142)	(228,740)	(385,838)	(82,516)
Net Contributions and Transfers	(1,503)	-	(64,598)	(205,499)	(271,600)	30,212
Change in Net Assets	(1,979,842)	515,355	(21,335)	(31,405)	(1,517,227)	(8,403)
Net Assets (Deficit) - Beginning, as restated	(8,185,555)	3,891,025	1,004,854	522,966	(2,766,710)	171,961
Net Assets (Deficit) - Ending	$ (10,165,397)	$ 4,406,380	$ 983,519	$ 491,561	$ (4,283,937)	$ 163,558

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

Statement of Cash Flows
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2008
(expressed in thousands)

	Business-Type Activities Enterprise Funds			
	Workers' Compensation	Unemployment Compensation	Higher Education Student Services	Nonmajor Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	$ 1,399,135	$ 1,110,451	$ 1,362,333	$ 1,348,899
Payments to suppliers	(1,768,524)	(791,763)	(677,284)	(1,060,613)
Payments to employees	(174,539)	-	(650,947)	(124,403)
Other receipts (payments)	32,150	40,200	100,866	8,655
Net Cash Provided (Used) by Operating Activities	(511,778)	358,888	134,968	172,538
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers in	21,453	-	69,544	23,241
Transfers out	(22,956)	-	(134,142)	(228,740)
Operating grants and donations received	7,876	-	4,121	11
Taxes and license fees collected	4	-	-	142,218
Distributions to other governments	-	-	-	(38,674)
Other noncapital financing sources	-	-	-	4,464
Net Cash Provided (Used) by Noncapital Financing Activities	6,377	-	(60,477)	(97,480)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Interest paid	(1,389)	-	(52,703)	(10,468)
Principal payments on long-term capital financing	(3,526)	-	(129,558)	(22,574)
Proceeds from long-term capital financing	-	-	223,054	23,220
Proceeds from sale of capital assets	35	-	14,752	1,516
Acquisitions of capital assets	(4,758)	-	(216,846)	(36,398)
Net Cash Provided (Used) by Capital and Related Financing Activities	(9,638)	-	(161,301)	(44,704)
CASH FLOWS FROM INVESTING ACTIVITIES				
Receipt of interest	923,614	182,237	19,849	113,589
Proceeds from sale of investment securities	6,873,370	-	104,600	574,760
Purchases of investment securities	(7,307,097)	-	(14,688)	(732,300)
Net Cash Provided (Used) by Investing Activities	489,887	182,237	109,761	(43,951)
Net Increase (Decrease) in Cash and Pooled Investments	(25,152)	541,125	22,951	(13,597)
Cash and Pooled Investments, July 1	54,868	3,478,756	461,136	307,813
Cash and Pooled Investments, June 30	$ 29,716	$ 4,019,881	$ 484,087	$ 294,216
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating Income (Loss)	$ (2,470,443)	$ 333,118	$ 23,294	$ 76,664
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operations:				
Depreciation	10,281	-	67,868	16,201
Change in Assets: Decrease (Increase)				
Receivables (net of allowance)	(108,875)	26,996	22,916	(21,170)
Inventories	27	-	(4,057)	11,944
Prepaid expenses	23	-	3,304	969
Change in Liabilities: Increase (Decrease)				
Payables	2,057,209	(1,226)	21,643	87,930
Net Cash or Cash Equivalents Provided by (Used in) Operating Activities	$ (511,778)	$ 358,888	$ 134,968	$ 172,538

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

Continued

	Governmental Activities	
	Total	Internal Service Funds
	$ 5,220,818	$ 1,930,873
	(4,298,184)	(1,542,042)
	(949,889)	(374,448)
	181,871	46,110
	154,616	60,493
	114,238	107,894
	(385,838)	(82,516)
	12,008	5,685
	142,222	-
	(38,674)	-
	4,464	(3)
	(151,580)	31,060
	(64,560)	(8,957)
	(155,658)	(26,920)
	246,274	38,134
	16,303	5,320
	(258,002)	(79,957)
	(215,643)	(72,380)
	1,239,289	14,855
	7,552,730	230,726
	(8,054,085)	(228,437)
	737,934	17,144
	525,327	36,317
	4,302,573	583,936
	$ 4,827,900	$ 620,253
	$ (2,037,367)	$ (53,584)
	94,350	68,286
	(80,133)	(65,414)
	7,914	(1,297)
	4,296	(968)
	2,165,556	113,470
	$ 154,616	$ 60,493

Statement of Cash Flows
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2008
(expressed in thousands)

	Business-Type Activities Enterprise Funds			
	Workers' Compensation	Unemployment Compensation	Higher Education Student Services	Nonmajor Enterprise Funds
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES				
Contributions of capital assets	$ -	$ -	$ -	$ -
Amortization of annuity prize liability	-	-	-	22,659
Increase (decrease) in fair value of investments	421,234	-	(1,795)	(79,982)
Refunding bonds issued	-	-	90,975	-
Refunded bonds redeemed	-	-	(91,540)	-
Amortization of debt premium (issue costs/discount)	-	-	361	-
Accretion of interest on zero coupon bonds	-	-	-	(3,825)
Increase in ownership of joint venture	-	-	48,242	-

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

Concluded

Total	Governmental Activities Internal Service Funds
$ -	$ 4,834
22,659	-
339,457	1,020
90,975	-
(91,540)	-
361	-
(3,825)	-
48,242	-

Statement of Fiduciary Net Assets
FIDUCIARY FUNDS
June 30, 2008
(expressed in thousands)

	Private-Purpose Trust	Local Government Investment Pool	Pension and Other Employee Benefit Plans	Agency Funds
ASSETS				
Current Assets:				
Cash and pooled investments	$ 9,031	$ 2,241,849	$ 336,581	$ 281,662
Investments	-	3,446,978	-	-
Receivables, pension and other employee benefit plans:				
Employers	-	-	112,936	-
Members (net of allowance)	-	-	3,056	-
Interest and dividends	-	-	189,361	-
Investment trades pending	-	-	372,817	-
Other receivables, all other funds	-	18,655	-	15,609
Due from other funds	-	-	46,251	2,583
Due from other governments	-	-	-	36,732
Total Current Assets	9,031	5,707,482	1,061,002	336,586
Noncurrent Assets:				
Investments, noncurrent, pension and other employee benefit plans:				
Public equity	-	-	28,622,027	-
Fixed income	-	-	13,626,393	-
Private equity	-	-	13,837,207	-
Real estate	-	-	8,688,560	-
Security lending	-	-	3,979,830	-
Liquidity	-	-	1,612,050	-
Tangible asset	-	-	447,753	-
Other	-	-	422,013	-
Investments, noncurrent, all other funds	23,082	1,024,781	-	54,916
Other noncurrent assets	-	-	-	63,830
Capital assets:				
Furnishings, equipment, and collections	81	-	-	-
Accumulated depreciation	(81)	-	-	-
Total Noncurrent Assets	23,082	1,024,781	71,235,833	118,746
Total Assets	32,113	6,732,263	72,296,835	$ 455,332
LIABILITIES				
Accounts payable	121	-	-	$ 21,487
Contracts and retainages payable	-	-	-	39,466
Accrued liabilities	149	291	961,454	115,001
Obligations under security lending agreements	-	113,595	3,971,818	16,932
Due to other funds	-	46	47,647	6,768
Due to other governments	-	-	-	191,848
Unearned revenues	-	-	812	-
Other long-term liabilities	-	-	-	63,830
Total Liabilities	270	113,932	4,981,731	$ 455,332
NET ASSETS				
Net assets held in trust for:				
Pension benefits	-	-	64,880,910	
Deferred compensation participants	-	-	2,434,194	
Local government pool participants	-	6,618,331	-	
Individuals, organizations & other governments	31,843	-	-	
Total Net Assets	$ 31,843	$ 6,618,331	$ 67,315,104	

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

Statement of Changes in Fiduciary Net Assets
FIDUCIARY FUNDS
For the Fiscal Year Ended June 30, 2008
(expressed in thousands)

	Private-Purpose Trust	Local Government Investment Pool	Pension and Other Employee Benefit Plans
ADDITIONS			
Contributions:			
Employers	$ -	$ -	$ 907,675
Members	-	-	907,231
State	-	-	60,546
Pool participants	-	14,895,563	188,735
Total Contributions	-	14,895,563	2,064,187
Investment Income:			
Net appreciation (depreciation) in fair value	-	-	(2,958,775)
Interest and dividends	-	267,102	2,095,780
Less: Investment expenses	-	-	(246,356)
Net Investment Income	-	267,102	(1,109,351)
Other Additions:			
Escheated property	82,899	-	-
Transfers from other pension plans	-	-	330,005
Other contracts, grants and miscellaneous	43	1	835
Total Other Additions	82,942	1	330,840
Total Additions	82,942	15,162,666	1,285,676
DEDUCTIONS			
Pension benefits	-	-	2,502,419
Pension refunds	-	-	208,482
Transfers to other pension plans	-	-	330,005
Administrative expenses	3,057	3,897	3,797
Distributions to pool participants	-	14,349,674	135,876
Payments to or on behalf of individuals, organizations and other governments in accordance with trust agreements	101,373	-	-
Total Deductions	104,430	14,353,571	3,180,579
Net Increase (Decrease)	(21,488)	809,095	(1,894,903)
Net Assets - Beginning, as restated	53,331	5,809,236	69,210,007
Net Assets - Ending	$ 31,843	$ 6,618,331	$ 67,315,104

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

Statement of Fund Net Assets
COMPONENT UNITS
June 30, 2008
(expressed in thousands)

	Public Stadium	Nonmajor Component Units	Total
ASSETS			
Current Assets:			
Cash and pooled investments	$ 6,543	$ 10,881	$ 17,424
Investments	5,964	35,166	41,130
Other receivables (net of allowance)	583	818	1,401
Prepaid expenses	25	211	236
Total Current Assets	13,115	47,076	60,191
Noncurrent Assets:			
Investments, noncurrent	19,633	2,408	22,041
Other noncurrent assets	-	42,518	42,518
Capital assets:			
Land	34,677	-	34,677
Buildings	459,132	-	459,132
Furnishings and equipment	23,611	1,226	24,837
Accumulated depreciation	(113,999)	(1,030)	(115,029)
Construction in progress	90	-	90
Total Noncurrent Assets	423,144	45,122	468,266
Total Assets	$ 436,259	$ 92,198	$ 528,457
LIABILITIES			
Current Liabilities:			
Accounts payable	$ 283	$ 12,938	$ 13,221
Contracts and retainages payable	2,908	-	2,908
Accrued liabilities	3,761	65	3,826
Unearned revenues	82	2,405	2,487
Total Current Liabilities	7,034	15,408	22,442
Noncurrent Liabilities:			
Other long-term liabilities	34,934	-	34,934
Total Noncurrent Liabilities	34,934	-	34,934
Total Liabilities	41,968	15,408	57,376
NET ASSETS			
Invested in capital assets, net of related debt	364,984	196	365,180
Restricted for deferred sales tax	23,592	-	23,592
Restricted for other purposes	-	500	500
Unrestricted	5,715	76,094	81,809
Total Net Assets (Deficit)	$ 394,291	$ 76,790	$ 471,081

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

Statement of Revenues, Expenses, and Changes in Fund Net Assets
COMPONENT UNITS
For the Fiscal Year Ended June 30, 2008
(expressed in thousands)

	Public Stadium	Nonmajor Component Units	Total
OPERATING REVENUES			
Charges for services	$ 952	$ 15,103	$ 16,055
Total Operating Revenues	952	15,103	16,055
OPERATING EXPENSES			
Salaries and wages	379	4,515	4,894
Employee benefits	66	1,414	1,480
Personal services	160	1,425	1,585
Goods and services	2,526	2,344	4,870
Travel	4	26	30
Depreciation and amortization	16,200	124	16,324
Miscellaneous expenses	-	210	210
Total Operating Expenses	19,335	10,058	29,393
Operating Income (Loss)	(18,383)	5,045	(13,338)
NONOPERATING REVENUES (EXPENSES)			
Earnings (loss) on investments	3,404	3,115	6,519
Operating grants and contributions	-	240	240
Distributions of operating grants	-	(240)	(240)
Total Nonoperating Revenues (Expenses)	3,404	3,115	6,519
Income (Loss) Before Contributions and Transfers	(14,979)	8,160	(6,819)
Capital grants and contributions	829	-	829
Total Contributions and Transfers	829	-	829
Change in Net Assets	(14,150)	8,160	(5,990)
Net Assets - Beginning, as restated	408,441	68,630	477,071
Net Assets - Ending	$ 394,291	$ 76,790	$ 471,081

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

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Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2008

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Note 1
Summary of Significant Accounting Policies

The accompanying financial statements of the state of Washington have been prepared in conformity with generally accepted accounting principles (GAAP). The Office of Financial Management (OFM) is the primary authority for the state's accounting and reporting requirements. OFM has adopted the pronouncements of the Governmental Accounting Standards Board (GASB), which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles nationally. For government-wide and enterprise fund reporting, the state follows only those private-sector standards issued on or before November 30, 1989, unless those pronouncements conflict with or contradict the pronouncements of the GASB. Following is a summary of the significant accounting policies:

A. REPORTING ENTITY

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

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

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

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

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

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

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

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

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

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

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

Tobacco Settlement Authority (TSA): The TSA was created by the Washington State Legislature in March 2002 as a public instrumentality separate and distinct from the state. It is governed by a five-member board appointed by the Governor. It was created 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

Other Blended Component Units: Tumwater Office Properties, The University of Washington Alumni Association, University of Washington Physicians, University of Washington Physicians Network, Community Development Properties C-D, Educational Research Properties, Radford Court Properties, Twenty-Fifth Avenue Properties, TSB Properties, and Washington Biomedical Research Properties I and II are blended component units in the state's financial statements. Financial information for these blended component units may be obtained from their respective administrative offices.

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

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

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

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

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

The Washington State Public Stadium Authority (PSA) was created by the state Legislature to acquire, construct, own, and operate a football/soccer stadium, exhibition center, and parking garage. Construction was completed in 2002. PSA capital assets, net of accumulated depreciation, total $404 million. The state issued general obligation bonds for a portion of the cost of the stadium construction. The total public share of the stadium and exhibition center cost did not exceed $300 million from all state and local government funding sources, as defined in statute.

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

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

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

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-wide Financial Statements

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

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

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

- Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of bonds, notes and other debt that are attributed to the acquisition, construction, or improvement of those assets.

- Restricted net assets result when constraints are placed on net asset use either by external parties or by law through constitutional provision or enabling legislation.

- Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories.

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

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

- Charges to customers for goods and services of the program. A customer is one who directly benefits from the goods or services or is otherwise directly affected by the program, such as a state citizen or taxpayer, or other governments or nongovernmental entities.

- Amounts received from outside entities that are restricted to one or more specific programs. These amounts can be operating or capital in nature.

- Earnings on investments that are restricted to a specific program are also considered program revenues.

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

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

Fund Financial Statements

The state uses 647 accounts that are combined into 54 rollup funds. The state presents separate financial statements for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major individual proprietary funds are reported in separate columns in the fund financial statements, with nonmajor funds being combined into a single column regardless of fund type. Internal service and fiduciary funds are reported by fund type. Major funds include:

Major Governmental Funds:

- **General Fund** is the state's primary operating fund. This fund accounts for all financial resources and transactions not accounted for in other funds.

- **Higher Education Special Revenue Fund** primarily accounts for grants and contracts received for research and other educational purposes. This fund also accounts for charges for services by state institutions of higher education.

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

Major Enterprise Funds:

- **Workers' Compensation Fund** accounts for the workers' compensation program that provides medical, time-loss, and disability benefit payments to qualifying individuals sustaining work-related injuries.

- **Unemployment Compensation Fund** accounts for the unemployment compensation program. It accounts for the deposit of funds, requisitioned from the Federal Unemployment Trust Fund, to provide services to eligible participants within the state and to pay unemployment benefits.

- **Higher Education Student Services Fund** is used by colleges and universities principally for bookstore, cafeteria, parking, student housing, food service, and hospital business enterprise activities.

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

Nonmajor Governmental Funds:

- **Special Revenue Funds** account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments, or for major capital projects) that are legally restricted to expenditures for specific purposes. These include a variety of state programs including public safety and health assistance programs; natural resource and wildlife protection and management programs; the state's transportation programs which include the operation of the state's ferry system and maintenance and preservation of non-interstate highway system; K-12 school construction; and construction and loan programs for local public works projects.

- **Debt Service Funds** account for the accumulation of resources for, and the payment of, principal and interest on the state's bonds issued in support of governmental activities.

- **Capital Projects Funds** account for the acquisition, construction, or improvement of major capital facilities including higher education facilities.

- **Common School Permanent Fund** accounts for the principal derived from the sale of timber. Interest earned is used for the benefit of common schools.

Nonmajor Proprietary Funds:

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

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

The state reports the following fiduciary funds:

- **Pension (and other employee benefit) Trust Funds** are used to report resources that are required to be held in trust by the state for the members and beneficiaries of defined benefit and defined contribution pension plans, and other employee benefit plans.

- **Investment Trust Fund** accounts for the external portion of the Local Government Investment Pool (LGIP), which is reported by the state as the sponsoring government.

- **Private-Purpose Trust Fund** is used to report trust arrangements, other than pension and investment trusts, under which principal and income benefit individuals, private organizations, or other governments such as the administration of unclaimed property.

- **Agency Funds** account for resources held by the state in a custodial capacity for other governments, private organizations or individuals.

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

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

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

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

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

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

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

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

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

All proprietary and trust funds are accounted for using 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, investments are stated at fair value or amortized cost, which approximates

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

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

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

Noncurrent receivables are recorded in the Workers' Compensation Fund representing estimated recoveries from third parties for a certain portion of claims expenses that are recorded as noncurrent claims payable. The accrued recoveries are computed using a variety of actuarial and statistical techniques and are discounted at assumed interest rates to arrive at the recorded value. Disclosures related to the Workers' Compensation Fund activities and claims payable are provided in Notes 1.E.1 and 7.C.

3. Inventories

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

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

For governmental fund financial reporting, inventory balances are also recorded as a reservation of fund balance indicating that they do not constitute "available spendable resources" except for $6.6 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;
- Buildings, building improvements, and leasehold improvements with a cost of $100,000 or more;
- All other capital assets with a unit cost of $5,000 or more.

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

Purchased capital assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Capital asset costs include the purchase price plus those costs necessary to place the asset in its intended location and condition for use. Normal maintenance and repair costs that do not materially add to

the value or extend the life of the state's capital assets are not capitalized.

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

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

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 disposed capital assets are removed from the accounting records.

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

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

All state highway system expenditures that preserve the useful life of the system are expensed in the period incurred. Additions and improvements that increase the capacity or efficiency of the system are capitalized. This approach of reporting condition instead of depreciating the highway system is called the modified approach.

For government-wide financial reporting purposes, capital assets of the state are reported as assets in the applicable governmental or business-type activities column on the Statement of Net Assets. Depreciation expense related to capital assets is reported in the Statement of Activities. Capital assets and the related depreciation expense are also reported in the proprietary fund financial statements.

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

5. Compensated Absences

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

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

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

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

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

6. Long-Term Liabilities

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

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

7. Fund Equity

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

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

E. OTHER INFORMATION

1. Insurance Activities

Workers' Compensation. Title 51 RCW establishes the state of Washington's workers' compensation program. The statute requires all applicable employers to insure payment of benefits for job-related injuries and diseases through the Workers' Compensation Fund or through self-insurance. Direct private insurance is not authorized, although self-insurers are permitted to reinsure up to 80 percent of their obligations through private insurers.

The Workers' Compensation Fund, an enterprise fund, is used to account for the workers' compensation program which provides time-loss, medical, 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 three 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. 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's management believes it is more economical to manage its risks internally and set aside assets for claims settlement in the Risk Management Fund, an internal service fund. A limited amount of commercial insurance is purchased for 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 six 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. Because the state and its employees are the predominant participants in the employee health insurance program, it is accounted for in the Employee Insurance Fund, an internal service fund.

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

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

The state secures commercial insurance for certain coverage offered, but self-insures the risk of loss for the Uniform Medical Plan. The Uniform Medical Plan enrolled 62 percent of the eligible subscribers in Fiscal Year 2008. Claims are paid from premiums collected, and claims adjudication is contracted through a third-party administrator.

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

2. Postemployment Benefits

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

Medical Expense Plan. As disclosed in Note 1.D, at the time of separation from state service due to retirement or death, the state offers a 25 percent buy-out of an employee's accumulated sick leave. Individual state agencies may offer eligible employees a medical expense plan that provides for reimbursement of medical expenses. Instead of cashing out sick leave at retirement, agencies may deposit equivalent funds in a medical expense plan that meets the requirements of the Internal Revenue Code.

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

3. Interfund/Interagency Activities

The state engages in two major categories of interfund/interagency activity: reciprocal and nonreciprocal.

Reciprocal interfund/interagency activity is the internal counterpart to exchange and exchange-like transactions and includes both interfund loans and services provided and used. Nonreciprocal activity is nonexchange in nature and includes both transfers and reimbursements.

4. Donor-restricted Endowments

The state reports endowments in higher education endowment permanent accounts. These accounts are established outside of the state treasury for use by the higher education institutions. 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 $204.8 million and is reported in the nonexpendable portion of the reserve for permanent funds.

Note 2
Accounting and Reporting Changes

Reporting Changes. Effective for Fiscal Year 2008 reporting, the state implemented the following new standards issued by the Governmental Accounting Standards Board (GASB):

Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* GASB Statement No. 45 requires the state to disclose information about the state's other postemployment benefits (OPEB) including plan description, accounting policies, contributions and reserves, and funded status and funding progress (refer to Note 12 and the Required Supplementary Information). Additionally, the state is required to report the annual cost of the OPEB and the outstanding obligations related to OPEB consistent with pension reporting.

Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues.* Statement No. 48 requires the state to present disclosures of the revenues pledged to collateralize debt (refer to Note 7.A).

Statement No. 50, *Pension Disclosures - an amendment of GASB Statements 25 and 27.* Statement No. 50 replicates the reporting requirements for other postemployment benefits by requiring disclosure for pension plans of funded status information (refer to Note 11.E).

Fund Reclassifications. During Fiscal Year 2008, it was determined that a certain Nonmajor Governmental Fund was incorrectly being reported as a nonmajor Special Revenue Fund. To correct this situation, beginning fund balances were restated to effect its proper fund classification as a Higher Education Endowment Permanent Fund.

It was also discovered that the activity of a certain Nonmajor Fiduciary Fund was incorrectly being reported as a Private Purpose Trust Fund. To correct this situation, beginning fund balances were restated to effect its proper fund classification as a nonmajor Special Revenue Fund.

Prior Period Adjustments. The state recorded prior period adjustments in two Nonmajor Enterprise Funds to correct capital asset and compensated absence balances for errors that occurred in prior years. One of the adjustments had an offsetting effect on capital assets and long-term obligations of governmental activities. The state also corrected beginning balances in the Pooled Investment Agency Fund by transferring non-pooled investment related balances to the Other Agency Fund.

Fund equity at July 1, 2007, has been restated as follows (expressed in thousands):

	Fund equity at June 30, 2007, as previously reported	Fund Reclassification	Prior Period Adjustment	Fund equity as restated, July 1, 2007
Governmental Funds:				
General	$ 1,903,160	$ -	$ -	$ 1,903,160
Higher Education Special Revenue	1,510,889	-	-	1,510,889
Higher Education Endowment	2,886,505	31,151	-	2,917,656
Nonmajor Governmental	5,852,765	(29,902)	-	5,822,863
Proprietary Funds:				
Enterprise Funds:				
Workers' Compensation	(8,185,555)	-	-	(8,185,555)
Unemployment Compensation	3,891,025	-	-	3,891,025
Higher Education Student Services	1,004,854	-	-	1,004,854
Nonmajor Enterprise	523,200	-	(234)	522,966
Internal Service Funds	171,961	-	-	171,961
Fiduciary Funds:				
Private Purpose Trust	54,580	(1,249)	-	53,331
Local Government Investment Pool	5,809,236	-	-	5,809,236
Pension and Other Employee Benefit Plans	69,210,007	-	-	69,210,007
Component Units:				
Public Stadium	408,441	-	-	408,441
Nonmajor Component Units	68,630	-	-	68,630

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, 2008, $2.5 billion of the state's deposits with financial institutions were either insured or collateralized, with the remaining $32.4 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). The 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, real estate and tangible assets. The CTF's performance benchmark objective is to exceed the return of a policy benchmark consisting of public market indices weighted according to asset allocation targets. The asset allocation for the CTF is formally reviewed at least every four years.

The 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 75 percent passively managed with the rest in an active enhanced 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 and emerging markets are generally less efficient than the U.S. market; therefore, more active management will be included in the approach taken with these markets. The weightings of the elements of the developed markets and emerging markets of the non-U.S. equity program are 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 portfolio is constrained by policy from investing more than 1 percent of the portfolio's par holdings in any single issuer with a quality rating below investment grade, and from having a duration (the sensitivity of the portfolio's fair value to changes in the level of interest rates) that is more than 20 percent different than the duration of the Lehman Universal Index. In addition, the major sector allocations are limited to the following ranges: U.S Treasuries and government agencies – 10 percent to 45 percent, credit bonds – 10 percent to 60 percent, asset backed securities – 0 percent to 10 percent, commercial mortgage-backed securities – 0 percent to 10 percent, mortgage-backed securities – 5 percent to 45 percent and below investment grade credit bonds – 0 percent to 15 percent.

Pension trust funds can be invested in any appropriate private equity investment opportunity that has the potential for returns superior to traditional investment opportunities and which is not prohibited by the WSIB's policies or by law. These investment types include venture capital investments, corporate finance (including leveraged, management and employee buyouts), distressed, international and mezzanine investments. Private equity investments are made through limited partnership vehicles. 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. In 2007 the WSIB approved the following changes to the asset allocation of the Retirement Funds: A new asset class, tangible assets, was added, the U.S. and international equity portfolio were combined and the targets changed to market weighting, and the private equity and real estate allocations were increased. The tangible asset portfolio invests in sectors such as infrastructure, timber, agriculture, natural resource rights, commodities, or other sectors consistent with the goals of the asset class.

The WSIB's 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. Unfunded Commitments

The WSIB has entered into a number of agreements that commit the Retirement Funds, upon request, to make additional investment purchases up to predetermined amounts. As of June 30, 2008, the Retirement Funds had unfunded commitments of $8.4 billion, $7.7 billion and $137.1 million in private equity, real estate and tangible assets, respectively.

3. Securities Lending

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

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

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

Securities were loaned (consisting of fixed income and equities) and collateralized by the WSIB's agent with cash and U.S. government securities (exclusive of mortgage backed securities and letters of credit), and irrevocable letters of credit. When the loaned securities had collateral denominated in the same currency the collateral requirement was 102 percent of the fair value, including accrued interest, of the securities loaned. All other securities were required to be collateralized at 105 percent of the fair value, including accrued interest, of the loaned securities. The collateral held and fair value of securities on loan at June 30, 2008 were $4.0 billion and $3.9 billion respectively. At year-end, the amounts the WSIB owed the borrowers exceeded the amounts the borrowers owed WSIB, resulting in no credit risk exposure to borrowers.

During Fiscal Year 2008, securities lending transactions could be terminated on demand by either the WSIB or the borrower. The weighted average maturity of overall loans was 21 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 final maturity of 136 days) or term loans. Because the securities lending agreements were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. Non-cash collateral could not be pledged or sold absent borrower default. There are no restrictions on the amount of securities that can be lent.

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

During Fiscal Year 2008, 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 2008 resulting from a default by either the borrowers or the securities lending agents.

4. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. 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, 2008. 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, 2008
(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	$ 8,290	$ -	$ 611	$ -	$ 7,679	Multiple
Mortgages:						
Collateralized mortgage obligations	1,787,756	4,083	586,200	1,082,038	115,435	Aaa
Pass throughs	2,710,005	261	1,706,519	906,172	97,053	Multiple
Commercial mortgage backed securities	566,007	20,829	268,853	275,136	1,189	Multiple
Corporate bonds - domestic	6,765,029	346,569	2,112,167	3,065,125	1,241,168	Multiple
Corporate bonds - foreign	385,893	-	165,153	111,431	109,309	Multiple
Government securities - domestic:						
US government treasuries	78,143	-	26,264	51,879	-	Aaa
Treasury inflation protected securities	1,489,766	-	1,019,000	470,766	-	Aaa
Variable rate notes	520,164	15,119	72,539	24,806	407,700	Multiple
	14,311,053	$ 386,861	$ 5,957,306	$ 5,987,353	$ 1,979,533	
Corporate stock - foreign	8,478,993					
Commingled index funds - domestic	9,445,627					
Commingled index funds - foreign	5,216,260					
Money market funds	1,056,971					
Cash overlay	287,383					
Private equity	13,837,207					
Real estate	8,688,560					
Innovation	555,605					
Tangible assets	447,753					
Currencies	132,867					
Securities lending collateral balances	3,963,758					
Defined contribution plans assets:						
Short-Horizon	74,248					
Mid-Horizon	193,474					
Long-Horizon	194,005					
Mutual funds:						
Domestic equity passive	1,257,938					
Non-US passive developed	914,575					
Domestic equity active	321,081					
Non-US active developed	141,587					
Washington State bond fund	403,561					
Savings pool	825,670					
Money market mutual funds	400,342					
Total	$ 71,148,518					

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, 2008
(expressed in thousands)

	Investment Type						
Moody's Equivalent Credit Rating	**Asset-backed Securities**	**Corporate Bonds - Domestic**	**Corporate Bonds - Foreign**	**Variable Rate Notes**	**Pass Throughs**	**Commercial Mortgage Backed Securities**	**Total**
Aaa	$ 5,245	$ 770,039	$ 145,463	$ 251,716	$ 2,675,301	$ 544,499	$ 4,392,263
Aa1	-	168,073	25,080	-	-	21,508	214,661
Aa2	-	504,221	-	2,641	-	-	506,862
Aa3	-	741,566	-	11,903	-	-	753,469
A1	-	558,004	41,285	8,273	-	-	607,562
A2	-	647,139	-	30,061	-	-	677,200
A3	-	580,517	28,166	7,887	-	-	616,570
Baa1	-	591,619	-	5,958	-	-	597,577
Baa2	-	1,103,673	24,308	18,013	-	-	1,145,994
Baa3 & Lower	3,045	1,097,893	121,540	183,712	34,704	-	1,440,894
NR	-	2,285	51	-	-	-	2,336
Total	$ 8,290	$ 6,765,029	$ 385,893	$ 520,164	$ 2,710,005	$ 566,007	$10,955,388

5. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Rated debt investments of the pension trust funds as of June 30, 2008, were rated by Moody's and/or an equivalent national rating organization.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The WSIB policy states no corporate fixed income issue shall exceed 3 percent of cost at the time of purchase or 6 percent of fair value thereafter of the fund, and no high yield issues shall exceed 1 percent of cost or 2 percent of fair value of the fund. There was no concentration of credit risk exceeding these policy guidelines as of June 30, 2008.

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

6. Foreign Currency Risk

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

The following schedule presents the exposure of pension fund investments to foreign currency risk. The schedule provides information on deposits and investments held in various foreign currencies, which are stated in U.S. dollars. The pension trust funds also had $5.2 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, 2008
(expressed in thousands)

	Investment Type					
Foreign Currency Denomination	**Liquidity**	**Fixed Income**	**Equity**	**Private Equity**	**Real Estate**	**Total**
Australia-Dollar	$ 13,913	$ 109,213	$ 433,233	$ -	$ 39,303	$ 595,662
Brazil-Real	1,469	192,354	100,226	-	-	294,049
Britain-Pound	6,217	-	1,555,625	27,369	58,046	1,647,257
Canada-Dollar	19,686	-	582,542	-	2,009	604,237
China-Renminbi	-	-	-	-	79,976	79,976
Denmark-Krone	694	-	88,039	-	-	88,733
E.M.U.-Euro	43,296	51	2,702,575	1,397,083	748,369	4,891,374
Egypt-Pound	-	-	16,161	-	-	16,161
Hong Kong-Dollar	11,591	-	189,925	-	39,840	241,356
Hungary-Forint	-	-	29,773	-	7,961	37,734
Indonesia-Rupiah	-	-	7,722	-	7,718	15,440
Israel-Shekel	89	-	6,498	-	-	6,587
Japan-Yen	9,361	-	1,499,236	-	518,385	2,026,982
Lithuania-Litas	161	-	-	-	-	161
Malaysia-Ringgit	26	-	8,615	-	-	8,641
Mexico-Peso	31	31,744	10,756	-	3,320	45,851
New Zealand-Dollar	183	-	18,464	-	-	18,647
Norway-Krone	4,005	-	110,929	-	-	114,934
Pakistan-Rupee	58	-	8,584	-	-	8,642
Philippines-Peso	31	-	-	-	-	31
Poland-Zloty	134	-	36,870	-	1,880	38,884
Singapore-Dollar	464	-	133,423	299	(41)	134,145
South Africa-Rand	25	-	36,673	-	-	36,698
South Korea-Won	220	-	39,898	-	219,084	259,202
Sweden-Krona	8,583	-	97,934	46,168	-	152,685
Switzerland-Franc	3,100	-	523,676	-	-	526,776
Taiwan-Dollar	-	-	-	-	(139)	(139)
Thailand-Baht	16	-	4,932	-	(137)	4,811
Turkey-Lira	12	52,531	36,981	-	-	89,524
Total	$ 123,365	$ 385,893	$ 8,279,290	$ 1,470,919	$ 1,725,574	$ 11,985,041

7. Derivatives

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

Consistent with the WSIB authority to invest in derivatives, international and domestic active equity managers may make limited investments in financial futures, forward contracts or other derivative securities to equitize excess cash holdings. At June 30, 2008, the WSIB held swap contracts, consisting of credit default swaps and interest rate swaps. The unrealized loss for the swap contracts amounted to $0.5 million and $1.4 million respectively, at June 30, 2008. The credit default swap contracts are used to mitigate credit risk and the interest rate swap contract is used to mitigate interest rate risk. At June 30, 2008, the WSIB held derivative securities consisting of collateralized mortgage obligations (CMOs) of $1.8 billion.

8. Reverse Repurchase Agreements

State law permits the WSIB to enter into reverse repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The fair value of the securities underlying reverse repurchase agreements normally exceeds the cash received, providing the dealers margin against a decline in fair value of the securities. If the dealers default on their obligations to resell these securities to the state or provide securities or cash of equal value, the WSIB would suffer an economic loss equal to the difference between the fair value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. There were no reverse repurchase agreements during the year and there were no liabilities outstanding as of June 30, 2008.

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

- U.S. Equities.
- International Equities.
- U.S. Treasuries and Government Agencies.
- Credit Bonds.
- Mortgage-Backed Securities rated 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:

- All assets under the management of the WSIB are to be invested to maximize return at a prudent level of risk in accordance with RCW 43.33A.110.

- Asset allocation will be reviewed every three to four years or sooner if there are significant changes in funding levels or the liability durations. Assets will be rebalanced across asset classes when the fair value of the assets falls outside the policy ranges. The timing of any rebalancing will be based on market opportunities, cash flows, and the consideration of transaction costs; therefore, they need not occur immediately.

- No corporate fixed income issue cost shall exceed 3 percent of the fund's fair value at the time of purchase, nor shall its fair value exceed 6 percent of the fund's fair value at any time.

- The benchmark and structure for U.S. equities will be the broad U.S. stock market as defined by the Dow Jones-Wilshire 5000. The benchmark and structure for international equities will be the Morgan Stanley Capital All Country World Ex US Investable Market Index (MSCI ACW Ex US IMI). Both portfolios will be 100 percent passively managed in commingled index funds. The commingled funds may use futures for hedging or establishing a long position.

- The fixed income portfolios' structure varies depending upon the required duration target. The duration targets are reviewed every three years, or sooner, if there are significant changes in the funding levels or the liability durations.

- Sector allocation of fixed income investments must be managed within the following prescribed ranges: U.S. Treasuries and government agencies – 5 percent to 25 percent, credit bonds – 20 percent to 70 percent, asset backed securities – 0 percent to 10 percent, commercial mortgage backed securities – 0 percent to 10 percent and mortgage backed securities – 0 percent to 25 percent. These targets are long-term in nature. Deviations may occur in the short-term as a result of interim market conditions. However, if a range is exceeded the portfolios must be rebalanced as soon as it is practical to the target allocations.

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

2. Securities Lending

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

In accordance with GASB Statement No. 28, the WSIB reports securities lent (the underlying securities) as assets in the statement of net assets. Cash received as collateral on securities lending transactions and investments made with that cash are reported as assets. Securities received as collateral are reported as assets if the WSIB has the ability to pledge or sell them without a borrower default. Liabilities resulting from these transactions are reported in the statement of net assets. Securities lending transactions collateralized by securities that the WSIB does not have the ability to pledge or sell unless the borrower defaults are not reported as assets and liabilities.

Fixed income securities were loaned and collateralized by the WSIB's agent with cash and U.S. government securities (exclusive of mortgage backed securities and letters of credit), and irrevocable letters of credit. When the loaned securities had collateral denominated in the same currency, the collateral requirement was 102 percent of the fair value, including accrued interest, of the securities loaned. was All other securities were required to be collateralized at 105 percent of the fair value, including accrued interest, of the loaned securities. The collateral held and fair value of securities on loan at June 30, 2008 was $2.2 billion and $2.1 billion respectively. At year-end, the amounts the WSIB owed the borrowers exceeded the amounts the borrowers owed the WSIB, resulting in no credit risk exposure to borrowers.

During Fiscal Year 2008, securities lending transactions could be terminated on demand by either the WSIB or the borrower. The average weighted maturity of overall loans was 21 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 final maturity of 136 days) or term loans. Because the securities lending agreements were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. Non-cash collateral could not be pledged or sold absent borrower default. There are no restrictions on the amount of securities that can be lent.

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

During Fiscal Year 2008, 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 2008 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 workers' compensation fixed income investments are actively managed to exceed the return of the Comparable Market Index, with volatility as measured by duration to be similar to or less than the index. As of June 30, 2008, the durations of the various fixed income classes were within the duration targets of the Comparable Market Index.

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

The following schedule presents the workers' compensation fund investments by type and provides information about the interest rate risks associated with the investments as of June 30, 2008. 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, 2008
(expressed in thousands)

		Maturity				
Investment Type	**Fair Value**	**Less than 1 year**	**1-5 years**	**6-10 years**	**More than 10 years**	**Credit Rating**
Mortgages:						
Collateralized mortgage obligations	$ 1,751,792	$ 175	$ 226,682	$ 330,563	$ 1,194,372	Aaa
Pass throughs	1,620	22	1,598	-	-	Aaa
Commercial mortgage backed securities	619,962	25,976	234,718	358,214	1,054	Multiple
Corporate bonds-domestic	5,128,611	138,985	1,447,294	1,469,347	2,072,985	Multiple
Government securities-domestic:						
US government treasuries	422,431	61,506	360,925	-	-	Aaa
Treasury inflation protected securities	1,583,736	-	413,038	648,540	522,158	Aaa
	9,508,152	$ 226,664	$ 2,684,255	$ 2,806,664	$ 3,790,569	
Commingled index funds-domestic	807,227					
Commingled index funds-foreign	527,822					
Money market funds	176,006					
Securities lending collateral balances	2,151,635					
Total	$ 13,170,842					

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, 2008
(expressed in thousands)

Moody's Equivalent Credit Rating	Investment Type: Corporate Bonds - Domestic	Investment Type: Commercial Mortgage Backed Securities	Total
Aaa	$ 564,147	$ 557,966	$ 1,122,113
Aa1	51,286	61,996	113,282
Aa2	256,431	-	256,431
Aa3	666,720	-	666,720
A1	615,433	-	615,433
A2	666,720	-	666,720
A3	615,433	-	615,433
Baa1	461,575	-	461,575
Baa2	820,577	-	820,577
Baa3	410,289	-	410,289
Total	$ 5,128,611	$ 619,962	$ 5,748,573

4. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The rated debt investments of the workers' compensation funds as of June 30, 2008, were rated by Moody's and/or an equivalent national rating organization.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The WSIB policy states that the cost of no corporate fixed income issue shall exceed 3 percent of the fund's fair value at the time of purchase, nor shall its fair value exceed 6 percent of the fund's fair value at any time. There was no concentration of credit risk as of June 30, 2008.

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

5. Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The WSIB does not have a formal policy to limit foreign currency risk. The workers' compensation funds had $527.8 million invested in an international commingled equity index fund. As such, no currency denomination risk is presented.

6. Derivatives

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

Consistent with the WSIB authority to invest in derivatives, international active equity managers may make limited investments in financial futures, forward contracts or other derivative securities to manage exposure to currency rate risk and equitize excess cash holdings. No such derivative securities were held as of June 30, 2008. 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, 2008, the only derivative securities held directly by the WSIB were collateralized mortgage obligations (CMOs) of $1.8 billion.

7. Reverse Repurchase Agreements

State law permits the WSIB to enter into reverse repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The fair value of the securities underlying reverse repurchase agreements normally exceeds the cash received, providing the dealers margin against a decline in fair value of the securities. If the dealers default on their obligations to resell these securities to the state or provide securities or cash of equal value, the WSIB would suffer an economic loss equal to the difference between the fair value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. There were no reverse repurchase agreements during Fiscal Year 2008 and there were no liabilities outstanding as of June 30, 2008.

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

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

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

2. Securities Lending

The LGIP investment policy requires that any securities on loan be made available by the lending agent for next day liquidity at the option of the LGIP. During Fiscal Year 2008, 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, 2008, all LGIP securities on loan were collateralized by cash and other securities and the average life of both the loans and the investment of cash received as collateral was one day.

3. Interest Rate Risk

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

The LGIP policy places a 90-day maximum on the weighted average maturity. Further, the maximum maturity of any security will not exceed 397 days, except securities utilized in repurchase agreements and U.S. Agency floating or variable rate notes may have a maximum maturity of 762 days, provided that they have reset dates within one year and which on any reset date can reasonably be expected to have a market value that approximates its amortized cost. As of June 30, 2008, the LGIP had a weighted average maturity of 39 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, 2008.

Local Government Investment Pool (LGIP)
June 30, 2008
(expressed in thousands)

		Maturity	
Investment Type	**Fair Value**	**Less than 1 year**	**1-5 years**
U.S. agency obligations	$ 5,624,473	$ 4,599,692	$ 1,024,781
Certificates of deposit	1,027,460	1,027,460	-
Repurchase agreements	215,768	215,768	-
Securities lending collateral	113,595	113,595	-
Total	$ 6,981,296	$ 5,956,515	$ 1,024,781

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 the value of the repurchase agreement. Collateralized Mortgage Obligations (CMOs) 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 2008, 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 65 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, 2008, the Invested Funds Pool totaled $868.6 million. The fund also owns units in the Consolidated Endowment Fund valued at $446 million on June 30, 2008. By University policy, departments with qualifying funds in the Invested Funds Pool receive distributions based on their average balances and on the type of balance. Campus depositors received 4.25 percent for Fiscal Year 2008. 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 purchase units in the pool on the basis of a per unit valuation of the CEF at fair value on the last business day of the calendar quarter. Income is distributed based on the number of units held. 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 $1.3 billion permanent endowment funds (at fair value) as of June 30, 2008, the aggregate

amount of the deficiencies for all funds for which the fair value of the assets is less than the original gifts is $3.3 million.

Funds in irrevocable trusts managed by trustees other than the University are not reported in the financial statements. The fair value of these funds was approximately $53.2 million at June 30, 2008. Income received from these trusts was $2 million for the year ended June 30, 2008.

2. Unfunded Commitments

The University enters into contracts with investment managers to fund alternate investments. As of June 30, 2008, the University had unfunded commitments in the amount of $312.2 million.

3. 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 105 days. Cash collateral is invested in a short-term investment pool that had an average weighted maturity of 42 days as of June 30, 2008.

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, 2008, was $13.6 million.

Securities on loan at June 30, 2008, totaled $626 million, and are presented by investment type in the following schedule. The securities lending program resulted in net revenues of $3 million for the year ended June 30, 2008.

The following schedule presents the fair value of the University of Washington's investments by type at June 30, 2008.

University of Washington
June 30, 2008
(expressed in thousands)

Investment Type	Fair Value
Cash equivalents	$ 163,725
Cash equivalents - loaned	77,383
Domestic fixed income	475,958
Domestic fixed income - loaned	465,144
Foreign fixed income	34,117
Domestic equity	561,295
Domestic equity - loaned	59,491
Foreign equity	171,330
Foreign equity - loaned	24,024
Non-marketable alternatives	758,043
Marketable alternatives	497,332
Real estate	8,313
Miscellaneous	5,742
Total investments	3,301,897
Collateral from securities lending - cash	628,279
Total	$ 3,930,176

4. Interest Rate Risk

The University manages interest rate risk through its investment policies and the investment guidelines established with each manager. Each fixed income manager is assigned a maximum boundary for duration as compared to the manager's relevant benchmark index. The goal is to allow ample freedom for the manager to perform, while controlling the interest rate risk in the portfolio.

Modified duration, which estimates the sensitivity of a bond's price to interest rate changes, is based on 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 divided by the bond price. Modified duration is calculated using the following formula:

Macaulay duration divided by (one plus yield-to-maturity divided by the number of coupon payments per year).

The Interest Rate Risk Schedule presents the modified duration of the University's investments for which duration is measured.

Approximately $181.4 million of additional domestic fixed income securities (including loaned) and $3.8 million of additional foreign fixed income securities, which in total makeup 5.6 percent of the University's investments, are not included in the duration figures below.

These investments, which are managed by the University or 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, 2008
(expressed in thousands, modified duration in years)

	Consolidated Endowment Fund		Invested Funds Pool	
	Asset Value	Duration	Asset Value	Duration
Domestic Fixed Income				
Asset backed securities	$ 4,151	2.74	$ 39,457	1.40
Cash equivalents (Short-term money market)	20,996	0.04	135,280	0.01
Corporate bonds	17,585	8.28	7,288	1.95
Government & agencies	53,175	4.39	468,864	3.11
Mortgage related	37,087	4.71	216,936	2.95
Subtotal	132,994	4.26	867,825	2.50
Foreign Fixed Income				
International cash equivalents	82	4.05	-	-
International fixed	29,522	4.04	727	3.03
Total	$ 162,598	4.22	$ 868,552	2.50

5. Credit Risk

The University investment policies limit fixed income exposure to investment grade assets. The investment policy for the University's operating funds cash pool requires each manager to maintain a specific average AA rating as issued by a nationally recognized rating organization. The operating funds liquidity pool requires each manager to maintain an average quality rating of "A" and 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.

6. Foreign Currency Risk

The University's investment policies permit investments in international equity and other asset classes that can include foreign currency exposure.

The University'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, 2008, the University had net outstanding forward commitments to sell foreign currency with a total fair value of $19.1 million, which equals 0.58 percent of the total portfolio.

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, 2008
(expressed in thousands)

Foreign Currency	Market Value
Brazil-Real	$ 19,799
Britain-Pound	49,498
Canada-Dollar	30,936
China-Renminbi	32,173
E.M.U.-Euro	149,730
India-Rupee	22,274
Japan-Yen	58,160
Russia-Ruble	25,986
Taiwan-Dollar	14,849
Other (less than 3% each)	96,520
Total	$ 499,925

7. 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.

8. 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, 2008, securities on loan approximated $507 million. All OST securities on loan were collateralized by cash and other securities and the average life of both the loans and the investment of cash received as collateral was one day.

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 2008, the OST had no credit risk exposure to borrowers because the amounts owed to the borrowers exceeded the amounts the borrowers owed the OST. There were no violations of legal or contractual provisions or any losses resulting from a default of a borrower or lending agent during the fiscal year.

3. Interest Rate Risk

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

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

The following schedule presents the fair value of the OST's investments by type at June 30, 2008.

Office of the State Treasurer (OST)
Cash Management Account
June 30, 2008
(expressed in thousands)

		Maturity		
Investment Type	**Fair Value**	**Less than 1 year**	**1-5 years**	**6-10 years**
U.S. government obligations	$ 153,322	$ -	$ 153,322	$ -
U.S. agency obligations	4,016,808	1,379,601	2,214,883	422,324
Certificates of deposit	858,969	858,969	-	-
Repurchase agreements	730,000	730,000	-	-
Securities lending collateral	518,782	518,782	-	-
Total	$ 6,277,881	$ 3,487,352	$ 2,368,205	$ 422,324

4. Credit Risk

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

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

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. For non-governmental securities, the OST limits its exposure to concentration of credit risk by restricting the amount of investments to no more than 5 percent of the portfolio to any single issuer. During Fiscal Year 2008, 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 2008, 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, 2008, consisted of the following (expressed in thousands):

Taxes Receivable	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
Property	$ 908,574	$ -	$ -	$ 288	$ 908,862
Sales	1,515,413	4,037	-	17,428	1,536,878
Business and occupation	475,041	-	-	-	475,041
Estate	6,242	11,918	-	-	18,160
Fuel	-	-	-	79,860	79,860
Other	4,838	-	-	400	5,238
Subtotals	2,910,108	15,955	-	97,976	3,024,039
Less: Allowance for uncollectible receivables	35,066	-	-	48	35,114
Total Taxes Receivable	$ 2,875,042	$ 15,955	$ -	$ 97,928	$ 2,988,925

Other Receivables

Other receivables at June 30, 2008, consisted of the following (expressed in thousands):

Other Receivables	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
Public assistance (1)	$ 1,097,155	$ -	$ -	$ -	$ 1,097,155
Accounts receivable	21,048	148,902	1,784	81,012	252,746
Interest	26,532	12,610	3,962	19,221	62,325
Loans (2)	3,047	130,867	-	312,998	446,912
Long-term contracts (3)	2,093	-	19,326	123,647	145,066
Miscellaneous	152,165	21,324	16,916	112,886	303,291
Subtotals	1,302,040	313,703	41,988	649,764	2,307,495
Less: Allowance for uncollectible receivables (1)	946,935	17,871	-	31,392	996,198
Total Other Receivables	$ 355,105	$ 295,832	$ 41,988	$ 618,372	$ 1,311,297

Notes:

(1) Public assistance receivables mainly represent amounts owed the state as a part of the Support Enforcement Program at the Department of Social and Health Services for the amounts due from persons required to pay support for individuals currently on state assistance, and have a low realization expectation. Accordingly, the receivable is offset by a large allowance for uncollectible receivables.

(2) Significant long-term portions of loans receivable include $108 million in the Higher Education Special Revenue Fund for student loans and $305 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, 2008, consisted of the following (expressed in thousands):

Deferred Revenues	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
Property taxes	$ 889,373	$ -	$ -	$ 99	$ 889,472
Other taxes	359,518	9,892	-	116	369,526
Timber sales	2,093	-	19,326	123,647	145,066
Charges for services	22,855	170,323	364	49,066	242,608
Donable goods	6,605	-	-	-	6,605
Miscellaneous	48,375	8,628	-	521,266	578,269
Total Deferred Revenues	$ 1,328,819	$ 188,843	$ 19,690	$ 694,194	$ 2,231,546

B. PROPRIETARY FUNDS

Taxes Receivable

Taxes receivable at June 30, 2008, consisted of $5.1 million in liquor taxes reported in Nonmajor Enterprise Funds.

Other Receivables

Other receivables at June 30, 2008, 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	$ 130,305	$ -	$ 209,102	$ 34,283	$ 373,690	$ 5,334
Interest	98,868	-	1,438	4,019	104,325	2,741
Loans	-	-	5	-	5	-
Miscellaneous	602,587	478,182	2,523	1,708	1,085,000	10,531
Subtotals	831,760	478,182	213,068	40,010	1,563,020	18,606
Less: Allowance for uncollectible receivables	117,727	92,802	77,317	71	287,917	195
Total Other Receivables	$ 714,033	$ 385,380	$ 135,751	$ 39,939	$ 1,275,103	$ 18,411

Unearned Revenues

Unearned revenues at June 30, 2008, 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	$ -	$ 34,060	$ 93	$ 34,158	$ 2,504
Other taxes	8,055	-	-	-	8,055	-
Miscellaneous	12,278	-	705	3	12,986	1,637
Total Unearned Revenues	$ 20,338	$ -	$ 34,765	$ 96	$ 55,199	$ 4,141

C. FIDUCIARY FUNDS

Other Receivables

Other receivables at June 30, 2008, consisted of the following (expressed in thousands):

Other Receivables	Local Government Investment Pool	Agency Funds
Accounts receivable	$ -	$ 7,634
Interest	18,655	1,896
Miscellaneous	-	7,024
Subtotals	18,655	16,554
Less: Allowance for uncollectible receivables	-	945
Total Other Receivables	$ 18,655	$ 15,609

Unearned Revenues

Unearned revenues at June 30, 2008, consisted of $.8 million for service credit restorations reported in Pension and Other Employee Benefit Plans Funds.

Note 5
Interfund Balances and Transfers

A. INTERFUND BALANCES

Interfund balances as reported in the financial statements at June 30, 2008, consisted of the following (expressed in thousands):

	Due From				
Due To	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Workers' Compensation
General	$ -	$ 2,062	$ -	$ 79,306	$ 217
Higher Educ. Special Revenue	40,382	-	-	24,655	265
Higher Education Endowment	23	-	-	9	-
Nonmajor Governmental Funds	189,428	2,535	2,078	174,263	2,120
Workers' Compensation	31	-	-	19	-
Unemployment Compensation	783	773	-	479	19
Higher Educ. Student Services	395	17,846	-	19,066	137
Nonmajor Enterprise Funds	6,905	461	-	2,769	710
Internal Service Funds	24,020	85,923	-	21,812	4,051
Fiduciary Funds	13,027	17,700	-	12,246	378
Totals	$ 274,994	$ 127,300	$ 2,078	$ 334,624	$ 7,897

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.

Unemployment Compensation	Higher Education Student Services	Nonmajor Enterprise Funds	Internal Service Funds	Fiduciary Funds	Totals
$ -	$ -	$ 12,265	$ 5,321	$ 33,713	$ 132,884
1	59,721	2,109	71,086	494	198,713
-	-	-	-	90	122
1,002	3	6,534	4,519	9,625	392,107
-	-	98	2,097	34	2,279
-	6	32	52	225	2,369
-	-	-	133	987	38,564
3	9	9,842	300	12	21,011
-	4,001	1,649	37,742	4,055	183,253
-	4	252	1	5,226	48,834
$ 1,006	$ 63,744	$ 32,781	$ 121,251	$ 54,461	$ 1,020,136

B. INTERFUND TRANSFERS

Interfund transfers as reported in the financial statements for the year ended June 30, 2008, consisted of the following (expressed in thousands):

	Transferred To				
Transferred From	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Workers' Compensation
General	$ -	$ 163,397	$ 75	$ 1,033,483	$ -
Higher Educ. Special Revenue	-	-	12,967	44,691	-
Higher Education Endowment	-	66,583	-	30,366	-
Nonmajor Governmental Funds	19,385	21,826	1,315	857,056	15,287
Workers' Compensation	-	-	-	22,956	-
Higher Educ. Student Services	-	38,160	-	95,871	-
Nonmajor Enterprise Funds	52,622	-	-	159,245	-
Internal Service Funds	-	1,697	-	6,029	6,166
Totals	$ 72,007	$ 291,663	$ 14,357	$ 2,249,697	$ 21,453

Additionally, there were transfers of $330 million within the state's 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 2008, there were no significant transfers of a non-routine nature.

Higher Education Student Services	Nonmajor Enterprise Funds	Internal Service Funds	Totals
$ -	$ 6,368	$ 13,426	$ 1,216,749
67,038	-	2,366	127,062
196	-	-	97,145
2,257	-	23,420	940,546
-	-	-	22,956
-	-	111	134,142
-	16,873	-	228,740
53	-	68,571	82,516
$ 69,544	$ 23,241	$ 107,894	$ 2,849,856

Note 6
Capital Assets

Capital assets at June 30, 2008, are reported by the state of Washington within Governmental Activities and Business-Type Activities, as applicable.

A. GOVERNMENTAL CAPITAL ASSETS

The following is a summary of governmental capital asset activity for the year ended June 30, 2008 (expressed in thousands):

Capital Assets	Balances July 1, 2007	Additions	Deletions	Balances June 30, 2008
Capital assets, not being depreciated:				
Land	$ 1,012,060	$ 50,463	$ (11,473)	$ 1,051,050
Transportation infrastructure	15,548,209	1,361,493	-	16,909,702
Construction in progress	1,236,361	771,035	(523,753)	1,483,643
Art collections, library reserves, and museum and historical collections	109,490	2,762	(372)	111,880
Total capital assets, not being depreciated	17,906,120			19,556,275
Capital assets, being depreciated:				
Buildings	8,311,322	440,798	(29,935)	8,722,185
Accumulated depreciation	(2,766,197)	(233,333)	7,950	(2,991,580)
Net buildings	5,545,125			5,730,605
Furnishings, equipment, and collections*	3,611,073	278,775	(213,774)	3,676,074
Accumulated depreciation*	(2,212,296)	(235,266)	163,741	(2,283,821)
Net furnishings, equipment and collections	1,398,777			1,392,253
Other improvements*	1,002,996	111,817	(49,502)	1,065,311
Accumulated depreciation*	(388,435)	(38,715)	1,390	(425,760)
Net other improvements	614,561			639,551
Infrastructure (other)	662,920	27,169	-	690,089
Accumulated depreciation	(292,891)	(23,458)	-	(316,349)
Net infrastructure (other)	370,029			373,740
Total capital assets, being depreciated, net	7,928,492			8,136,149
Governmental Activities Capital Assets, Net	$ 25,834,612			$ 27,692,424

*Beginning balances restated to reflect change in fund reclassification.

B. BUSINESS-TYPE CAPITAL ASSETS

The following is a summary of business-type capital asset activity for the year ended June 30, 2008 (expressed in thousands):

Capital Assets	Balances July 1, 2007	Additions	Deletions	Balances June 30, 2008
Capital assets, not being depreciated:				
Land	$ 135,319	$ 621	$ -	$ 135,940
Construction in progress	177,670	129,772	(133,515)	173,927
Art collections	35	-	-	35
Total capital assets, not being depreciated	313,024			309,902
Capital assets, being depreciated:				
Buildings	1,892,987	206,795	(3,419)	2,096,363
Accumulated depreciation	(556,364)	(48,340)	904	(603,800)
Net buildings	1,336,623			1,492,563
Furnishings, equipment, and collections*	433,226	43,406	(11,375)	465,257
Accumulated depreciation*	(295,688)	(42,464)	7,872	(330,280)
Net furnishings, equipment, and collections	137,538			134,977
Other improvements*	56,266	2,477	(136)	58,607
Accumulated depreciation*	(19,025)	(2,558)	134	(21,449)
Net other improvements	37,241			37,158
Infrastructure (other)	34,247	662	-	34,909
Accumulated depreciation	(13,174)	(988)	-	(14,162)
Net infrastructure (other)	21,073			20,747
Total capital assets, being depreciated, net	1,532,475			1,685,445
Business-Type Activities Capital Assets, Net	$ 1,845,499			$ 1,995,347

*Beginning balances restated to reflect change in fund reclassification and prior period error correction.

C. DEPRECIATION

Depreciation expense for the year ended June 30, 2008, was charged to functions of the primary government as follows (expressed in thousands):

	Amount
Governmental Activities:	
General government	$ 61,106
Education - elementary and secondary (K-12)	3,768
Education - higher education	280,768
Human services	29,852
Adult corrections	30,708
Natural resources and recreation	38,192
Transportation	86,378
Total Depreciation Expense - Governmental Activities*	$ 530,772
Business-Type Activities:	
Workers' compensation	$ 10,281
Unemployment compensation	-
Higher education student services	67,868
Other	16,201
Total Depreciation Expense - Business-Type Activities	$ 94,350

*Includes $68 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, 2008, are as follows (expressed in thousands):

Agency / Project Commitments	Construction In Progress June 30, 2008	Remaining Project Commitments
Office of Financial Management:		
CRMS, CSI, GCLM, and TEMS Projects	$ 2,806	$ 6,855
Department of General Administration:		
Legislative and other buildings rehab., repairs and expansion, and other projects	240,357	144,915
Liquor Control Board:		
Distribution Center expansion project	15,970	135
Washington State Patrol:		
Academy rehab., repairs, and other projects	2,071	2,608
Department of Labor and Industries:		
Claim and account center, express filing, and other projects	5,052	4,132
Military Department:		
Renovation and remodeling of readiness facilities and other projects	2,391	2,002
Department of Social and Health Services:		
State hospital and juvenile rehab construction and renovations, and other projects	126,830	31,735
Department of Corrections:		
Correctional centers construction, improvements, and other projects	359,259	186,488
School for the Blind:		
Physical education building	4,764	4,236
Department of Transportation:		
State highway office and maintenance facilities, and ferry vessels and terminals	161,450	409,367
Transportation infrastructure	-	1,810,725
Parks and Recreation Commission:		
State park facilities projects	9,867	3,114
Department of Fish and Wildlife:		
Hatchery, region office, and wildlife area renovations, and other projects	3,389	9,430
Department of Natural Resources:		
Webster Green House	2,546	14
State Convention and Trade Center:		
MOHAI Property	20,995	37,005
Higher Education Facilities:		
University of Washington	145,449	76,594
Washington State University	205,319	163,788
Eastern Washington University	9,907	6,350
Central Washington University	29,194	34,500
The Evergreen State College	18,528	4,622
Western Washington University	61,232	20,608
Community and Technical Colleges	226,932	345,218
Other Agencies Miscellaneous Projects	3,262	6,045
Total Construction in Progress	$ 1,657,570	$ 3,310,486

Note 7
Long-Term Liabilities

A. BONDS PAYABLE

Bonds payable at June 30, 2008, are reported by the state of Washington within Governmental Activities and Business-Type Activities, as applicable.

The State Constitution and enabling statutes authorize the incurrence of state general obligation debt, to which the state's full faith, credit, and taxing power are pledged, either by the State Legislature or by a body designated by statute (presently the State Finance Committee). Legislative authorization arises from an affirmative vote of 60 percent of both legislative houses without voter consent, or from an affirmative vote of more than 50 percent of both legislative houses and a majority of the voters voting thereon. The State Finance Committee debt authorization does not require voter approval; however, it is limited to providing for: (1) temporary deficiencies in the state treasury (must be discharged within 12 months of the date of incurrence); for appropriations already made by the Legislature; or (2) refunding of outstanding obligations of the state.

Legal Debt Limitation

The State Constitution and current statutes generally limit debt authorized in the preceding procedures. The limitations prohibit the issuance of new debt if it would cause the maximum annual debt service, on all thereafter-outstanding general obligation debt, to exceed a specified percentage of the arithmetic mean of general state revenues for the preceding three fiscal years. These limitations are on the incurrence of new debt, not on the amount of debt service that may be paid by the state in future years.

As certified by the State Treasurer, the maximum debt authorization subject to limitation for Fiscal Year 2008 was $10.1 billion, under the statutory limitation. This computation excludes specific bond issues and types, which are not secured by general state revenues. Of the $13 billion general obligation bond debt outstanding at June 30, 2008, $7.2 billion is subject to the limitation. Based on the debt limitation calculation, the debt service requirements as of June 30, 2008, did not exceed the authorized debt service limitation.

For further information on the debt limit refer to the Certification of the Debt Limitation of the State of Washington available from the Office of the State Treasurer or at: http://tre.wa.gov/BondDebt/csd-limit_FY2008.pdf.

Authorized But Unissued

The state had a total of $10.2 billion in general obligation bonds authorized but unissued as of June 30, 2008, 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 2.84 to 7.75 percent. Variable rate demand obligations (VRDO) of $147.2 million as of June 30, 2008, are remarketed on a weekly basis. Interest rates on revenue bonds range from 2 to 7.38 percent.

Debt Service Requirements to Maturity

General Obligations Bonds

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

- Acquisition and construction of 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 2008. 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, 2008, are as follows (expressed in thousands):

	Governmental Activities		Business-Type Activities		Totals	
General Obligation Bonds	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
By Fiscal Year:						
2009	$ 580,855	$ 617,560	$ 11,265	$ 4,897	$ 592,120	$ 622,457
2010	567,346	597,626	8,912	4,481	576,258	602,107
2011	552,678	573,492	8,196	4,140	560,874	577,632
2012	547,745	551,878	7,484	3,767	555,229	555,645
2013	573,887	523,265	7,081	3,480	580,968	526,745
2014-2018	3,194,091	2,294,691	28,017	33,887	3,222,108	2,328,578
2019-2023	2,969,230	1,612,875	9,114	23,411	2,978,344	1,636,286
2024-2028	2,505,525	922,692	-	-	2,505,525	922,692
2029-2033	1,435,948	276,894	-	-	1,435,948	276,894
Total Debt Service Requirements	$ 12,927,305	$ 7,970,973	$ 80,069	$ 78,063	$ 13,007,374	$ 8,049,036

Revenue Bonds

Revenue bonds are authorized under current state statutes, which provide for the issuance of bonds that are not supported, or not intended to be supported, by the full faith and credit of the state. These bonds pledge income derived from acquired or constructed assets for retirement of the debt and payment of the related interest.

Total debt service requirements for revenue bonds to maturity as of June 30, 2008, are as follows (expressed in thousands):

	Governmental Activities		Business-Type Activities		Totals	
Revenue Bonds	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
By Fiscal Year:						
2009	$ 11,087	$ 32,796	$ 25,565	$ 54,283	$ 36,652	$ 87,079
2010	10,456	32,473	29,416	52,582	39,872	85,055
2011	14,223	31,943	31,128	51,208	45,351	83,151
2012	15,417	31,080	32,631	49,819	48,048	80,899
2013	8,879	30,249	34,493	48,338	43,372	78,587
2014-2018	82,055	138,871	183,496	219,048	265,551	357,919
2019-2023	109,843	111,406	219,346	174,685	329,189	286,091
2024-2028	151,213	70,320	168,750	126,546	319,963	196,866
2029-2033	121,207	18,374	153,663	81,418	274,870	99,792
2034-2038	-	-	236,969	41,852	236,969	41,852
Total Debt Service Requirements	$ 524,380	$ 497,512	$ 1,115,457	$ 899,779	$ 1,639,837	$ 1,397,291

Governmental activities include revenue bonds outstanding at June 30, 2008, of $467.6 million issued by the Tobacco Settlement Authority (TSA), which is a blended component unit of the state. In November 2002, the TSA issued $517 million in bonds and transferred $450 million to the state to be used for increased health care, long-term care, and other programs. These bonds do not constitute either a legal or moral obligation of the state, nor does the state pledge its full faith, credit, or taxing power for payment of these bonds. The bonds are obligations of the TSA and are secured solely by the TSA's right to receive 29.2 percent of the state's tobacco settlement revenues, restricted investments of the TSA, undistributed TSA bond proceeds, and the earnings thereon held under the indenture authorizing the bonds. Total principal and interest remaining on the bonds is $924.2 million, payable through 2032. For the current year, pledged revenue and debt service were $54.5 million and $53.9 million, respectively.

Governmental activities also include revenue bonds outstanding at June 30, 2008, of $56.8 million issued by the Tumwater Office Properties (TOP), which is a blended component unit of the state. The bonds, issued in 2004, are payable solely from the trust estate pledged under the indenture, including rental payments. The bonds were used to construct an office building in Tumwater, Washington which the state occupied beginning in Fiscal Year 2006. The bonds are not a general obligation of the state, nor does the state pledge its full faith, credit, or taxing power for payment of these bonds. Total principal and interest remaining on the bonds is $97.7 million, payable through 2028. For the current year, pledged revenue and debt service were $5.1 million and $3.8 million, respectively.

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 business-type activities.

The University of Washington has issued general revenue bonds that are payable from general revenues, including student tuition and fees, grant indirect cost recovery, sales and services revenue, and investment income. General revenue bonds outstanding as of June 30, 2008, were $890.3 million.

The state's colleges and universities also issue bonds that are secured by a pledge of specific revenues. Total pledged revenues for the state's colleges and universities to repay the principal and interest of revenue bonds as of June 30, 2008, are as follows (expressed in thousands):

Source of Revenue Pledged	Housing and Dining Revenues (Net of Operating Expenses)	Student Facilities Fees and Earnings on Invested Fees	Parking Revenues (Net of Operating Expenses)	Bookstore Revenues **
Current revenue pledged	$ 44,218	$ 32,823	$ 10,110	$ -
Current year debt service	21,616	19,212	2,109	228
Total future revenues pledged *	535,320	541,799	41,852	5,938
Description of debt	Housing and dining bonds, issued in 1996-2008	Student facilities bonds, issued in 1998-2007 and refunding revenue bonds, issued in 2002-2006	Parking system and refunding revenue bonds, issued in 1999-2005	Student union and recreation center bonds issued in 2004
Purpose of debt	Construction and renovation of student housing projects	Construction, renovation and improvements to student activity facilities and sports stadium	Construction of parking garage and improvements	Construct new bookstore as part of new student union and recreation center building
Term of commitment	2013-2038	2019-2038	2024-2030	2034
Percentage of debt service to pledged revenues (current year)	48.9%	58.5%	20.9%	0.0%

* Total future principal and interest payments.

** Construction in-progress.

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

Business-Type Activities

On May 6, 2008, the University of Washington refunded revenue bonds totaling $91.5 million with new bond issuances totaling $91 million. The refunded bonds had average interest rates ranging from 3.77 percent to 5.15 percent, and the new bonds have an average interest rate of 4.52 percent. The refunding decreased the total debt service payments to be made over the next 29.5 years by $1.1 million and resulted in an economic gain of $471 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, 2008, $742.8 million of general obligation bonded debt outstanding is considered defeased.

Revenue Bond Debt

On June 30, 2008, $94.2 million of revenue bonded debt outstanding is considered defeased.

B. CERTIFICATES OF PARTICIPATION

Certificates of participation at June 30, 2008, are reported by the state of Washington within Governmental Activities and Business-Type Activities, as applicable.

Current state law authorizes the state to enter into long-term financing contracts for the acquisition of real or personal property and for the issuance of certificates of participation in the contracts. These certificates of participation do not fall under the general obligation debt limitations and are generally payable only from annual appropriations by the Legislature.

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

Total debt service requirements for certificates of participation to maturity as of June 30, 2008, are as follows (expressed in thousands):

	Governmental Activities		Business-Type Activities		Totals	
Certificates of Participation	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
By Fiscal Year:						
2009	$ 49,792	$ 22,532	$ 53,306	$ 16,007	$ 103,098	$ 38,539
2010	42,708	13,792	24,658	10,076	67,366	23,868
2011	37,541	12,108	23,388	9,042	60,929	21,150
2012	34,012	10,573	22,488	8,033	56,500	18,606
2013	32,679	9,120	22,778	7,029	55,457	16,149
2014-2018	136,006	24,589	73,556	19,520	209,562	44,109
2019-2023	38,611	7,245	31,539	5,938	70,150	13,183
2024-2028	11,534	1,060	9,466	870	21,000	1,930
Total Debt Service Requirements	$ 382,883	$ 101,019	$ 261,179	$ 76,515	$ 644,062	$ 177,534

C. CLAIMS AND JUDGMENTS

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

Workers' Compensation

At June 30, 2008, $36.0 billion of unpaid claims and claim adjustment expenses are presented at their net present and settlement value of $21.9 billion. These claims are discounted at assumed interest rates of 2.5 percent (time loss and medical) to 6.5 percent (pensions) to arrive at a settlement value.

The claims and claim adjustment liabilities of $21.9 billion as of June 30, 2008, include $12.0 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 $9.9 billion are fully funded by long-term investments, net of obligations under securities lending agreements.

Changes in the balances of workers' compensation claims liabilities during Fiscal Years 2007 and 2008 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
2007	$ 17,755,101	3,721,024	(1,729,633)	$ 19,746,492
2008	$ 19,746,492	4,022,871	(1,882,215)	$ 21,887,148

Risk Management

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

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

As of June 30, 2008, outstanding and actuarially determined claims against the state and its agencies including actuarially projected defense costs were $649.8 million for which the state has recorded a liability. The state is restricted by law from accumulating funds in the Self Insurance Liability Program in excess of 50 percent of total outstanding and actuarially determined liabilities.

At June 30, 2008, the Risk Management Fund held $141.8 million in cash and pooled investments designated for payment of these claims under the state's Self Insurance Liability Program.

Changes in the balances of risk management claims liabilities during Fiscal Years 2007 and 2008 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
2007	$ 527,198	102,693	(36,057)	(17,271)	$ 576,563
2008	$ 576,563	137,753	(44,906)	(19,649)	$ 649,761

Health Insurance

The Health Insurance Fund establishes a liability when it becomes probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an actuarially determined amount for claims that have been incurred but not reported. Because actual claims liabilities depend on various complex factors, the process used in computing claims liabilities does not always result in an exact amount. Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

At June 30, 2008, health insurance claims liabilities totaling $69.9 million are fully funded with cash and investments, net of obligations under securities lending agreements.

Changes in the balances of Health Insurance claim liabilities during Fiscal Years 2007 and 2008 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
2007	$ 53,584	503,994	(501,260)	$ 56,318
2008	$ 56,318	604,294	(590,678)	$ 69,934

D. LEASES

Leases at June 30, 2008, are reported by the state of Washington within Governmental Activities and Business-Type Activities, as applicable.

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

Land, buildings and equipment under capital leases as of June 30, 2008, include the following (expressed in thousands):

	Governmental Activities	Business-Type Activities
Land (non-depreciable)	$ 1,918	$ -
Buildings	14,041	1,759
Equipment	33,983	60,760
Less: Accumulated depreciation	(41,146)	(25,260)
Totals	$ 8,796	$ 37,259

The following schedule presents future minimum payments for capital and operating leases as of June 30, 2008 (expressed in thousands):

	Capital Leases		Operating Leases	
Capital and Operating Leases	**Governmental Activities**	**Business-Type Activities**	**Governmental Activities**	**Business-Type Activities**
By Fiscal Year:				
2009	$ 6,534	$ 6,273	$ 97,562	$ 27,314
2010	3,690	4,019	88,079	27,002
2011	2,502	2,538	74,039	26,509
2012	1,349	984	60,085	25,202
2013	1,249	389	53,186	23,155
2014-2018	942	1,925	149,300	23,975
2019-2023	402	1,588	80,162	23,684
2024-2028	-	-	55,483	24,868
2029-2033	-	-	54,947	26,111
2034-2038	-	-	36,541	27,417
Total Future Minimum Payments	16,668	17,716	749,384	255,237
Less: Executory Costs and Interest Costs	(1,444)	(2,314)	-	-
Net Present Value of Future Minimum Lease Payments	$ 15,224	$ 15,402	$ 749,384	$ 255,237

The total operating lease rental expense for Fiscal Year 2008 for governmental activities was $168.1 million, of which $343 thousand was for contingent rentals. The total operating lease rental expense for Fiscal Year 2008 for business-type activities was $53.2 million.

E. LONG-TERM LIABILITY ACTIVITY

Long-term liability activity at June 30, 2008, is reported by the state of Washington within Governmental Activities and Business-Type Activities, as applicable.

Long-term liability activity for governmental activities for the Fiscal Year 2008 (expressed in thousands) is as follows:

Governmental Activities:	Beginning Balance July 1, 2007	Additions	Reductions	Ending Balance June 30, 2008	Amounts Due Within One Year
Long-Term Debt:					
GO Bonds Payable:					
General obligation (GO) bonds	$ 10,783,100	$ 1,891,150	$ 515,085	$ 12,159,165	$ 551,435
GO - zero coupon bonds (principal)	789,421	-	21,281	768,140	29,420
Subtotal - GO bonds payable	11,572,521	1,891,150	536,366	12,927,305	580,855
Accreted interest - GO - zero coupon bonds	264,811	30,245	-	295,056	-
Revenue bonds payable	607,720	-	83,340	524,380	11,087
Less: Deferred amounts for issuance discounts	(10,711)	-	(998)	(9,713)	-
Total Bonds Payable	12,434,341	1,921,395	618,708	13,737,028	591,942
Other Liabilities:					
Certificates of participation	381,950	43,016	42,083	382,883	49,792
Claims and judgments	740,610	960,148	874,005	826,753	201,615
Installment contracts	2,968	-	94	2,874	-
Leases	20,350	1,158	6,284	15,224	5,930
Compensated absences *	516,354	339,549	323,603	532,300	52,822
Unfunded pension obligations	96,715	17,304	603	113,416	-
Other postemployment benefits obligation	-	221,375	-	221,375	-
Other **	188,160	952,858	959,207	181,811	135,778
Total Other Liabilities	1,947,107	2,535,408	2,205,879	2,276,636	445,937
Total	$ 14,381,448	$ 4,456,803	$ 2,824,587	$ 16,013,664	$ 1,037,879

* Beginning balance has been restated to reflect the transfer of residual liability balances upon abolishment of a certain nonmajor enterprise fund.

** Beginning balance has been restated to reflect reclassification.

For Governmental Activities, payments on the certificates of participation are being repaid directly from various governmental funds. The compensated absences liability will be liquidated approximately 52.8 percent by the General Fund, 23.4 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.

Long-term liability activity for business-type activities for the Fiscal Year 2008 (expressed in thousands) is as follows:

Business-Type Activities	Beginning Balance July 1, 2007	Additions	Reductions	Ending Balance June 30, 2008	Amounts Due Within One Year
Long-Term Debt:					
GO Bonds Payable:					
General obligation (GO) bonds	$ 71,500	$ -	$ 20,690	$ 50,810	$ 11,265
GO - zero coupon bonds (principal)	29,259	-	-	29,259	-
Subtotal - GO bonds payable	100,759	-	20,690	80,069	11,265
Accreted interest - GO - zero coupon bonds	30,617	3,712	-	34,329	-
Revenue bonds payable	889,222	293,230	66,995	1,115,457	25,565
Less: Deferred gain/loss on bond refunding	(8,520)	2,183	1,878	(8,215)	-
Plus: Unamortized amounts issuance premiums	4,814	8,308	750	12,372	-
Less: Deferred amounts for issuance discounts	(1,793)	-	(97)	(1,696)	-
Total Bonds Payable	1,015,099	307,433	90,216	1,232,316	36,830
Other Liabilities:					
Certificates of participation	245,572	26,509	10,902	261,179	53,306
Less: Deferred amounts for issuance discounts	(1,460)	147	-	(1,313)	-
Claims and judgments	19,752,945	2,283,767	141,862	21,894,850	1,893,672
Lottery prize annuities payable	388,709	104,846	146,960	346,595	57,923
Tuition benefits payable	930,400	173,600	-	1,104,000	46,900
Leases	21,038	5,607	11,243	15,402	5,732
Compensated absences *	52,133	26,357	23,261	55,229	23,007
Other postemployment benefits obligation	-	24,480	-	24,480	-
Other	165,495	429,323	556,152	38,666	34,713
Total Other Liabilities	21,554,832	3,074,636	890,380	23,739,088	2,115,253
Total	$ 22,569,931	$ 3,382,069	$ 980,596	$ 24,971,404	$ 2,152,083

* Beginning balance has been restated to reflect the abolishment of a certain Nonmajor Enterprise Fund. Residual liability balances are reflected in governmental activities beginning balances.

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, 2008, balances for the "No Commitment" debt of the state's financing authorities (expressed in thousands):

Financing Authorities	Principal Balance
Washington State Housing Finance Commission	$ 3,961,472
Washington Higher Education Facilities Authority	579,164
Washington Health Care Facilities Authority	4,300,000
Washington Economic Development Finance Authority	685,154
Total No Commitment Debt	$ 9,525,790

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, 2008, 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	$ -	$ 100,810	$ -	$ -	$ 100,810
Investments with trustees	679	-	-	513	1,192
Long-term receivables	68,327	1,393	-	1,716,440	1,786,160
Long-term investments	-	82,547	-	2,472	85,019
Emergency reserve	-	-	-	303,216	303,216
Petty cash	673	7,662	-	797	9,132
Total Reserved for Other Specific Purposes	$ 69,679	$ 192,412	$ -	$ 2,023,438	$ 2,285,529

Note 10
Deficit Net Assets

The Risk Management Fund, an internal service fund, had deficit net assets of $512.8 million at June 30, 2008. 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, 2008 (expressed in thousands):

Risk Management Fund	Net Assets (Deficit)
Balance, July 1, 2007	$ (446,871)
Fiscal Year 2008 activity	(65,953)
Balance, June 30, 2008	$ (512,824)

Note 11
Retirement Plans

A. GENERAL

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

Basis of Accounting

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

Investments

Pension plan investments are presented at fair value. Fair values are based on published market prices, quotations from national security exchanges and security pricing services, or by the respective fund managers for securities that are not actively traded. Privately held mortgages are valued at cost, which approximates fair value. Certain pension trust fund investments, including real estate and private equity, are valued based on appraisals or independent advisors. The pension funds have no investments of any commercial or industrial organization whose market value exceeds 5 percent of each plan's net assets. Additional disclosure describing investments is provided in Note 3.

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

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

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

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

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

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

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

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

Plan descriptions, funding policies, a table of employer contributions required and paid for defined benefit plans, schedules of funded status and funding progress, defined benefit pension plans valuations, annual pension cost, and three year trend information follow at Note 11.B through G, respectively. Information related to changes in actuarial assumptions and methods, and changes in benefit provisions are provided in Note 11.H and I. For information related to defined contribution plans, refer to Note 11.J. Details on plan net assets and changes in plan net assets of pension plans and other employee benefit funds administered by the state are presented at Note 11.K.

Membership of each state administered plan consisted of the following at June 30, 2007, the date of the latest actuarial valuation for all plans:

Number of Participating Members

Plans Administered by the State	Retirees and Beneficiaries Receiving Benefits	Terminated Members Entitled To But Not Yet Receiving Benefits	Active Plan Members Vested	Active Plan Members Nonvested	Total Members
PERS 1	54,686	2,656	12,097	878	70,317
PERS 2	15,959	21,343	84,435	36,190	157,927
PERS 3	599	2,584	8,915	15,507	27,605
TRS 1	35,384	2,036	6,239	92	43,751
TRS 2	1,664	2,624	6,403	349	11,040
TRS 3	1,043	4,768	27,352	24,504	57,667
SERS 2	2,026	3,993	16,066	1,701	23,786
SERS 3	1,115	3,681	15,004	18,054	37,854
LEOFF 1	8,161	4	513	-	8,678
LEOFF 2	924	629	12,391	3,708	17,652
WSPRS 1	821	112	881	4	1,818
WSPRS 2	-	1	16	136	153
PSERS 2	-	-	-	2,755	2,755
JRS	130	1	11	-	142
Judges	15	-	-	-	15
JRA	2	198	11	-	211
VFFRPF	3,437	3,211	4,415	6,797	17,860
Total	125,966	47,841	194,749	110,675	479,231

Following is a summary of the number of government employers participating in state administered retirement plans as of June 30, 2008.

Number of Participating Employers

Plan	State Agencies	School Districts	Counties/ Municipalities	Other Political Subdivisions
PERS 1	147	239	173	202
PERS 2	176	-	272	475
PERS 3	162	-	199	265
TRS 1	63	276	-	-
TRS 2	22	277	-	-
TRS 3	30	302	-	-
SERS 2	-	299	-	-
SERS 3	1	303	-	-
LEOFF 1	-	-	71	16
LEOFF 2	7	-	219	148
WSPRS 1	1	-	-	-
WSPRS 2	1	-	-	-
PSERS 2	9	-	62	-
JRS	3	-	-	-
Judges	-	-	-	-
JRA	3	-	-	-
VFFRPF	-	-	-	650

Employers can participate in multiple systems and/or plans.

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. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill with less than five years to live.

PERS is comprised of and reported as three separate plans: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan.

PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and 2 defined benefit plans accrue interest at a rate specified by DRS. During Fiscal Year 2008, 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 52 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. A cost-of-living allowance is granted at age 66 based upon years of service times the COLA amount (indexed to the Seattle Consumer Price Index), capped at 3 percent annually. Plan 1 members may also elect to receive an additional COLA amount (indexed to the Seattle Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

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 ten years of service or after five years of service, as long as 12 consecutive months of service were accrued after attainment of age 44. Plan 3 members are immediately vested in the defined contribution portion of their plan. Vested Plan 3 members are eligible to retire with full benefits at age 65. Plan 3 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. Refer to section J of this note for a description of the defined contribution component of PERS Plan 3.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity payable to the age of 60. The allowance amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any worker's compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60. A member with five years of membership service is eligible for non-duty disability retirement. Prior to the age of 55, the allowance amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. A cost-of-living allowance is granted at age 66 based upon years of service times the COLA amount (indexed to the Seattle Consumer Price Index), capped at 3 percent annually. Plan 1 members may also elect to receive an additional COLA amount (indexed to the Seattle Consumer Price Index), capped at 3 percent annually. To offset the costs of this annual adjustment, the benefit is reduced.

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

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is 2 percent of the AFC for each year of service. For Plan 3 the allowance amount is 1 percent of the AFC for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index) capped at 3 percent annually.

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

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, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of their covered employment, if found eligible by the Department of Labor and Industries.

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

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

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

Beginning January 1, 2007 through December 31, 2007 judicial members of PERS were given the choice to participate in the Judicial Benefit Multiplier (JBM) Program enacted in 2006. Justices or judges in PERS Plans 1 and 2 were able to maker a one-time irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of average final compensation. Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of average final compensation.

Members who chose to participate would:

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

Members who did not choose to participate would:

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

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

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

Legislation passed in recent sessions effective in Fiscal Year 2008:

Effective July 1, 2007, PERS Plan 1 retirees, after being retired one year, will receive the annual COLA adjustment in July if they turn 66 years of age any time in the calendar year in which the COLA is given (Chapter 89, Laws of 2007).

Effective July 22, 2007, the portability of retirement benefits is changed for PERS members, allowing compensation that is reportable in all dual members systems, except in WSPRS, to be included in the calculation of all dual members' benefits, and removing the "maximum benefit rule" for dual members who have less than 15 years of service in one capped plan and service in one uncapped plan (Chapter 207, Laws of 2007).

Effective July 22, 2007, the $150,000 duty-related death benefit is extended to include death from occupational disease or duty-related illness. Also, the refund provided to survivors of PERS Plan 2 members that leave eligible employment after earning ten years of service credit and are subsequently killed in uniformed service to the United States while participating in Operation Enduring Freedom or Persian Gulf, Operation Iraqi Freedom is increased from 100 to 200 percent of the accumulated contributions in the member's account (Chapter 487, Laws of 2007).

Effective July 22, 2007, for judges and justices who are members of PERS, the formula for calculation of the amount at which they may purchase prior judicial service for a higher multiplier at retirement is changed. Any justice or judge who purchased prior service before the passage of this bill may have the cost recalculated with the new formula and have any excess payment returned (Chapter 123, Laws of 2007).

Effective after the January 2008 distribution, gain sharing for PERS Plan 1 and Plan 3 members is discontinued. Additional cost of living adjustments are provided to PERS Plan 1 retirees in July 2009 and new alternative early retirement provisions are created for PERS Plan 2 and Plan 3 members (Chapter 491, Laws of 2007).

Effective June 12, 2008, judges and justices who are members of PERS may purchase prior judicial service credit at a higher multiplier at retirement. During the period of January 1, 2009 – June 30, 2009, active and inactive PERS members who are not then serving at justices or judges, but who have served as such in the past, may request an increase in their benefit multiplier for past periods of judicial service and pay a cost that is the actuarial equivalent of the increase (Chapter 300, Laws of 2008).

There were no other material changes in PERS benefit provisions for the Fiscal Year ended June 30, 2008. 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 members hired on or after July 1, 2007 have 90 days to make an irrevocable choice

to enroll in either plan 2 or Plan 3. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to TRS Plan 3. Notwithstanding, TRS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

TRS is comprised of and reported as three separate plans: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan.

TRS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the TRS Plan 1 and 2 defined benefit plans accrue interest at a rate specified by DRS. During Fiscal Year 2008, 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. A cost-of-living allowance is granted at age 66 based upon years of service times the COLA amount, increased by 3 percent annually. Plan 1 members may also elect to receive an additional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

TRS Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service, with an allowance of 2 percent of the AFC per year of service. (AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Plan 2 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

TRS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the AFC per year of service. (AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Effective June 7, 2006, TRS Plan 3 members may be vested either after ten years of service or after five years of service, as long as 12 consecutive months of service were accrued after attainment of age 44. Plan 3 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. Refer to section J of this note for a description of the defined contribution component of TRS Plan 3.

TRS Plan 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.

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

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

TRS members may purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement, and cannot be used to qualify for any retirement eligibility or benefit reductions based upon years of service. This credit is to be used exclusively to provide the member with a monthly annuity that is paid in addition to the member's retirement allowance. Active TRS Plan 2 and Plan 3 members may also make a one-time purchase of up to seven years of service credit for education experience earned in a state or federal public school outside the state of Washington. Completion of at least five years of service under TRS is required.

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, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of their covered employment, if found eligible by the Department of Labor and Industries.

Beginning January 1, 2007 through December 31, 2007, judicial members of TRS were given the choice to participate in the Judicial Benefit Multiplier (JBM) Program enacted in 2006. Justices or judges in TRS Plan 1 were able to make a one-time irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of average final compensation.

Members who chose to participate would:

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

Members who did not choose to participate would:

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

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

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

Legislation passed in recent sessions effective in Fiscal Year 2008:

Effective July 1, 2007, retirees of TRS Plan 1 will receive the annual COLA adjustment in July if they turn 66 years of age any time in the calendar year in which the COLA is given (Chapter 89, Laws of 2007).

Effective July 22, 2007, TRS members may purchase up to 24 consecutive months of service credit for each period of temporary duty disability (Chapter 49, Laws of 2007).

Effective July 22, 2007, the TRS Plan 1 post-retirement employment program was amended to be more consistent with the PERS Plan 1 program (Chapter 50, Laws of 2007).

Effective July 22, 2007, the portability of retirement benefits is changed for TRS members, allowing compensation that is reportable in all dual members systems, except in WSPRS, to be included in the calculation of all dual members' benefits, and removing

the "maximum benefit rule" for dual members who have less than 15 years of service in one capped plan and service in one uncapped plan (Chapter 207, Laws of 2007).

Effective July 22, 2007, the $150,000 duty-related death benefit is extended to include death from occupational disease or duty-related illness (Chapter 487, Laws of 2007).

Effective July 22, 2007, for judges and justices who are members of TRS, the formula for calculation of the amount at which they may purchase prior judicial service for a higher multiplier at retirement is changed. Any justice or judge who purchased prior service before the passage of this bill may have the cost recalculated with the new formula and have any excess payment returned (Chapter 123, Laws of 2007).

Effective after the January 2008 distribution, gain sharing for TRS Plan 1 and Plan 3 members is discontinued. Additional cost of living adjustments are provided to TRS Plan 1 retirees in July 2009 and new alternative early retirement provisions are created for TRS Plan 2 and Plan 3 members (Chapter 491, Laws of 2007).

Effective June 12, 2008, TRS Plan 2 and Plan 3 members who work for at least five months of a six-month period, from September through August, and earn 630 hours or more within that six-month period now receive six months of service credit (Chapter 204, Laws of 2008).

Effective June 12, 2008, TRS Plan 2 and Plan 3 members need now have only two years of service credit in order to be eligible to purchase up to seven years of service credit for public education experience earned in another state or with the federal government (Chapter 101, Laws of 2008).

Effective June 12, 2008, the definition of "earnable compensation" for TRS members no longer excludes bonuses paid to teachers certified by the National Board of Professional Teaching Standards (Chapter 175, Laws of 2008).

There were no other material changes in TRS benefit provisions for the Fiscal Year ended June 30, 2008. 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 members hired on or after July 1, 2007 have 90 days to make an irrevocable choice to enroll in either Plan 2 or Plan 3. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to SERS Plan 3. Notwithstanding, SERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

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

SERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the SERS Plan 2 defined benefit plan accrue interest at a rate specified by DRS. During Fiscal Year 2008, 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, SERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after 5 years of service if 12 months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by September 1, 2000. Plan 3 members are immediately vested in the defined contribution portion of their plan. Vested Plan 3 members are eligible to retire with full benefits at the age of 65. SERS Plan 3 members who retire prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. Refer to section J of this note for a description of the defined contribution component of SERS Plan 3.

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

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.

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

SERS Plan 2 and Plan 3 members who apply for early retirement may, at the time of retirement, purchase up to five years of additional service credit. The cost of the additional service credit is the actuarial equivalent value of the resulting increase in the member's benefit. SERS members may also purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement, and cannot be used to qualify for any retirement eligibility or benefit reductions based upon years of service. This credit is to be used exclusively to provide the member with a monthly annuity that is paid in addition to the member's retirement allowance.

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, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of their covered employment, if found eligible by the Department of Labor and Industries.

Legislation passed in recent sessions effective in Fiscal Year 2008:

Effective July 22, 2007, SERS members may purchase up to 24 consecutive months of service credits (up from 12 months) for each period of temporary duty disability (Chapter 40, Laws of 2007).

Effective July 22, 2007, the portability of retirement benefits is changed for SERS members, allowing compensation that is reportable in all dual members systems, except in WSPRS, to be included in the calculation of all dual members' benefits, and removing the "maximum benefit rule" for dual members who have less than 15 years of service in one capped plan and service in one uncapped plan (Chapter 207, Laws of 2007).

Effective July 22, 2007, the $150,000 duty-related death benefit is extended to include death from occupational disease or duty-related illness (Chapter 487, Laws of 2007).

Effective after the January 2008 distribution, gain sharing for SERS Plan 3 members is discontinued. New alternative early retirement provisions were created for SERS Plan 2 and Plan 3 members (Chapter 491, Laws of 2007).

Effective June 12, 2008, SERS Plan 2 and Plan 3 members who work for at least five months of a six-month period, from September through August, and earn 630 hours or more within that six-month period now receive six months of service credit (Chapter 204, Laws of 2008).

There were no other material changes in SERS benefit provisions for the Fiscal Year ended June 30, 2008. 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 2008, 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, and as of July 24, 2005, those emergency medical technicians who were given the option and chose LEOFF Plan 2 membership. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers who were first included prospectively effective July 27, 2003, being a major exception.

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 retirement benefit provisions are established in state statute and may be amended only by the state Legislature.

LEOFF Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50.

The benefit per year of service calculated as a percent of final average salary (FAS) is as follows:

Term of Service	Percent of FAS
20+	2.0%
10-19	1.5%
5-9	1.0%

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last ten years of service. A cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index).

LEOFF Plan 1 provides death and disability benefits. Death benefits for Plan 1 members on active duty consist of the following: (1) If eligible spouse, 50 percent of the FAS, plus 5 percent of FAS for each surviving child, with a limitation on the combined allowances of 60 percent of the FAS; or (2) If no eligible spouse, 30 percent of FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of FAS.

The LEOFF Plan 1 disability allowance is 50 percent of the FAS plus 5 percent for each child up to a maximum of 60 percent. Upon recovery from disability before the age of 50, a member is restored to service with full credit for service while disabled. Upon recovery after the age of 50, the benefit continues as the greater of the member's disability allowance or service retirement allowance.

LEOFF Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members may retire at age 50 with 20 years of service, or at the age of 53 with five years of service, with an allowance of 2 percent of the FAS per year of service (FAS is based on the highest consecutive 60 months). Plan 2 members who retire prior to the age of 53 receive reduced benefits. Benefits are actuarially reduced for each year that the benefit commences prior to age 53 and to reflect the choice of a survivor option. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

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

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is 2 percent of the FAS for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 53, unless the disability is duty-related, and to reflect the choice of a survivor option. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53.

Members of LEOFF Plan 2 who leave service because of a line of duty disability are allowed to withdraw 150 percent of accumulated member contributions. This withdrawal benefit is not subject to federal income tax. Alternatively, members of LEOFF Plan 2 who leave service because of a line of duty disability may be eligible to receive a retirement allowance of at least 10 percent of the FAS and 2 percent per year of service beyond 5 years. The first 10 percent of FAS is not subject to federal income tax.

LEOFF Plan 2 members who are severely disabled in the line of duty and incapable of substantial gainful employment in any capacity in the future, can receive a catastrophic disability benefit from LEOFF Plan 2 equal to 70 percent of their final average salary subject to offsets for workers' compensation and Social Security disability benefits received.

LEOFF Plan 2 retirees may return to work in an eligible position covered by another retirement system, choose membership in that system and suspend their pension benefits, or not choose membership and continue receiving pension benefits without interruption.

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

In addition, a $150,000 death benefit is provided to the estate (or duly designated nominee) of a LEOFF member who dies as a result of injuries sustained in the course of employment or dies from occupational disease or duty-related illness such as an infectious disease or cancer resulting from a job-related exposure, if found eligible by the Department of Labor and Industries.

Eligible survivors of LEOFF Plan 2 members who are killed in the line of duty are reimbursed for the cost of on-going health care insurance coverage.

LEOFF Plan 1 members may purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement, and cannot be used to qualify for any retirement eligibility or benefit reductions based upon years of service. This credit is to be used exclusively to provide the member with a monthly annuity that is paid in addition to the member's retirement allowance. LEOFF Plan 2 members may purchase up to five years of additional service credit at retirement.

Legislation passed in recent sessions effective in Fiscal Year 2008:

Effective July 22, 2007, LEOFF Plan 2 members may purchase up to 24 consecutive months of service credit (up from 12 months) for each period of temporary duty disability (Chapter 40, Laws of 2007).

Effective July 22, 2007, the portability of retirement benefits is changed for LEOFF Plan 2 members, the LEOFF Plan 2 system is added to those plans which are able to combine service under portability for indexing purposes, allowing compensation that is reportable in all dual members systems, except in WSPRS, to be included in the calculation of all dual members' benefits, and removing the "maximum benefit rule" for dual members who have less than 15 years of service in one capped plan and service in one uncapped plan (Chapter 207, Laws of 2007).

Effective July 22, 2007, the $150,000 duty-related death benefit is extended to include death from occupational disease or duty-related illness (Chapter 487, Laws 2007).

Effective July 22, 2007, terms of the employer representatives on the LEOFF Plan 2 Board are now staggered, so that no more than one position expires in the same year. Legislative terms are now two years and run from January through December. After January 1, 2008, one member of the Board must be a retired LEOFF Plan 2 participant (Chapter 303, Laws of 2007).

Effective July 22, 2007, an exception is made to the five-year waiting period required before transferring prior PERS service credit for those Emergency Medical Technicians who joined LEOFF Plan 2 as a result of legislation passed in 2003 and 2005 and retire due to disability, or die (Chapter 304, Laws of 2007).

Effective June 12, 2008, active LEOFF members can choose whether or not to obtain and pay for Medicare coverage through a "divided referendum" process (Chapter 142, Laws of 2008).

Beginning in 2011, when state General Fund revenues increase by at least 5 percent over the prior biennium's revenues, the State Treasurer will transfer, subject to legislative appropriation, specific amounts into a Local Public Safety Enhancement Account. Half of this

transfer will be proportionately distributed to all jurisdictions with LEOFF Plan 2 members. The other half will be transferred to a LEOFF Retirement System Benefits Improvement Account to fund benefit enhancements for LEOFF Plan 2 members (Chapter 99, Laws of 2008).

There were no other material changes in LEOFF benefit provisions for the Fiscal Year ended June 30, 2008. 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 2008, the DRS-established rate on employee contributions was 5.364 percent annually, compounded monthly. Employees in WSPRS can elect to withdraw total employee contributions and interest earnings thereon upon separation from WSPRS-covered employment.

WSPRS 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.

There is no vesting requirement for active WSPRS members. Inactive WSPRS members are vested after the completion of five years of eligible service. Members are eligible for retirement at the age of 55 with five years of service, or after 25 years of service. The annual pension is 2 percent of the average final salary (AFS), capped at 75 percent, per year of service. A cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

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 ten years of service, the return of the member's accumulated contributions; or (2) If the member is married, has an eligible child, or has completed ten years of service, a reduced benefit allowance reflecting a joint and 100 percent survivor option or 150 percent of the member's accumulated contributions, at the survivor's option.

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

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

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

Legislation passed in recent sessions effective in Fiscal Year 2008:

Effective July 1, 2007, WSPRS member contribution rates will be no more than 7 percent of pay plus half the cost of any future benefit improvements. Employers will pay the contribution rate required to cover all system costs that are not covered by the member contribution rate. Also a minimum total contribution rate is established for WSPRS, beginning July 1, 2009 (Chapter 300, Laws of 2007).

Effective July 1, 2007, the WSPRS mandatory retirement age is changed from 60 to 65, but does not apply to the member serving as chief of the Washington State Patrol (Chapter 87, Laws of 2007).

Effective July 22, 2007, the $150,000 duty related death benefit is extended to include death from occupational disease or duty-related illness (Chapter 487, Laws of 2007).

Effective July 22, 2007, the spouse and dependent children of a WSPRS member who is killed in the course of employment will be reimbursed for any payments of medical premiums to the Washington State Health Care Authority (Chapter 488, Laws of 2007).

There were no other material changes in WSPRS benefit provisions for the Fiscal Year ended June 30, 2008. WSPRS pension benefit provisions are established by chapter 43.43 RCW.

Public Safety Employees' Retirement System (PSERS)

PSERS is a cost-sharing multiple-employer retirement system comprised of a single defined benefit plan, PSERS Plan 2. PSERS was created by the 2004 Legislature and became effective July 1, 2006.

PSERS Plan 2 membership includes:

- Full-time employees of a covered employer on or before July 1, 2006, who met at least one of the PSERS eligibility criteria, and elected membership during the election period of July 1, 2006 to September 30, 2006; and,
- Full-time employees hired on or after July 1, 2006 by a covered employer, that meet at least one of the PSERS eligibility criteria.

A "covered employer" is one that participates in PSERS. Covered employers include:

- State of Washington agencies: Department of Corrections, Parks and Recreation Commission, Gambling Commission, Washington State Patrol, and Liquor Control Board;
- Washington state counties; and,
- Washington cities except for Seattle, Tacoma and Spokane.

To be eligible for PSERS, an employee must work on a full-time basis and:

- Have completed a certified criminal justice training course with authority to arrest, conduct criminal investigations, enforce the criminal laws of Washington, and carry a firearm as part of the job: or
- Have primary responsibility to ensure the custody and security of incarcerated or probationary individuals; or
- Function as a limited authority Washington peace officer, as defined in RCW 10.93.020; or
- Have primary responsibility to supervise eligible members who meet the above criteria.

PSERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PSERS Plan 2 defined benefit plans accrue interest at a rate specified by DRS. During Fiscal Year 2008, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in PSERS Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from PSERS-covered employment.

PSERS retirement benefit provisions are established in state statute and may be amended only by the state Legislature.

PSERS Plan 2 benefits are vested after an employee completes five years of eligible service. PSERS Plan 2 members may retire at the age 65 with five years of service, or at the age of 60 with at least ten years of PSERS service credit, with an allowance of 2 percent of the average final compensation (AFC) per year of service. The AFC is the monthly average of the member's 60 consecutive highest-paid service credit months, excluding any severance pay such as lump-sum payments for deferred sick leave, vacation or annual leave. Plan 2 retirees prior to the age of 60 receive reduced benefits. If retirement is at age 53 or older with at least 20 years of service, a 3 percent per year reduction for each year between the age at retirement and age 60 applies. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

PSERS Plan 2 members can purchase service credit for military service that interrupts employment. Additionally, PSERS Plan 2 members who become totally incapacitated for continued employment while serving in the uniformed services may apply for interruptive military service credit. Should any such

member die during this active duty, the member's surviving spouse or eligible children may purchase credit on behalf of the deceased member.

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

PSERS Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. Eligibility is based on the member being totally incapacitated for continued employment with a PSERS employer and leaving that employment as a result of the disability. The disability allowance is 2 percent of the average final compensation (AFC) for each year of service. AFC is based on the member's 60 consecutive highest creditable months of service. Service credit is the total years and months of service credit at the time the member separates from employment. Benefits are actuarially reduced for each year that the member's age is less than 60 (with ten or more service credit years in PSERS), or less than 65 (with fewer than ten service credit years).

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

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

Legislation passed in recent sessions effective in Fiscal Year 2008:

Effective July 22, 2007, PSERS members may purchase up to 24 consecutive months of service credit (up from 12 months) for each period of temporary duty disability (Chapter 40, Laws of 2007).

Effective July 22, 2007, the portability of retirement benefits is changed for PSERS Plan 2 members, allowing compensation that is reportable in all dual members systems, except in WSPRS, to be included in the calculation of all dual members' benefits, and removing the "maximum benefit rule" for dual members who have less than 15 years of service in one capped plan and service in one uncapped plan (Chapter 207, Laws of 2007).

Effective July 22, 2007, the $150,000 duty-related death benefit is extended to include death from occupational disease or duty-related illness (Chapter 487, Laws of 2007).

There were no other material changes to PSERS benefit provisions for the Fiscal Year ended June 30, 2008. PSERS pension benefit provisions have been established by chapter 41.37 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 2008, 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 the table below. This benefit is capped at 75 percent of AFC, exclusive of cost of living increases.

Term of Service	Percent of AFC
15+	3.5%
10-14	3.0%

Death and disability benefits are also provided. Eligibility for death benefits while on active duty requires ten or

more years of service. A monthly spousal benefit is provided which is equal to 50 percent of the benefit a member would have received if retired. If the member is retired, the surviving spouse receives the greater of 50 percent of the member's retirement benefit or 25 percent of the AFC. For members with ten or more years of service, a disability benefit of 50 percent of AFC is provided.

There were no material changes in JRS benefit provisions for the Fiscal Year ended June 30, 2008. 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, 2008. 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 Consumer Price Index. There were no material changes in VFFRPF benefit provisions for the Fiscal Year ended June 30, 2008.

C. FUNDING POLICIES

The Legislature provided for minimum contribution rates (Chapter 365, Laws of 2006 and Chapter 300, Laws of 2007). The LEOFF 2 Board also provided for minimum contribution rates. 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. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age.

As a result of the implementation of the Judicial Benefit Multiplier (JBM) Program in January 2007, a second tier of employer and employee rates were developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program. These new higher rates are detailed below.

Required employer contribution rates:

- PERS employer of Supreme Court justices – PERS contribution rate plus 2.5 percent of pay.
- PERS employer of Court of Appeals and Superior Court judges – PERS contribution rate only (member pays the 2.5 percent difference).

Required member contribution rates:

- PERS 1 Supreme Court justices – PERS contribution rate of 6 percent plus 3.76 percent.
- PERS 1 Court of Appeals and Superior Court judges – PERS 1 rate of 6 percent plus 3.76 percent, plus the difference of 2.5 percent from employer listed above.
- PERS 2 Supreme Court justices – 250 percent of the PERS 2 member contribution rate less 2.5 percent of pay.
- PERS 2 Court of Appeals and Superior Court judges – 250 percent of the PERS 2 member contribution rate.
- PERS 3 Supreme Court justices, Court of Appeals and Superior Court judges – variable based on member's selection, subject to a 7.5 percent minimum.

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 2008 were as follows:

PERS Actual Contribution Rates

	Plan 1	Plan 2	Plan 3
Members Not Participating in JBM			
Employer Rates:			
State agencies*	6.13%	6.13%	6.13%**
Local governmental units*	6.13%	6.13%	6.13%**
State gov't elected officials*	9.12%	6.13%	6.13%
Employee Rates:			
State agencies	6.00%	4.15%	***
Local governmental units	6.00%	4.15%	***
State gov't elected officials	7.50%	4.15%	***
Members Participating in JBM:			
Employer Rates:			
State agencies*	8.63%	8.63%	8.63%
Local governmental units*	6.13%	6.13%	6.13%
Employee Rates:			
State agencies	9.76%	7.88%	7.50%****
Local governmental units	12.26%	10.38%	7.50%****

* Includes an administrative expense rate of 0.16%.

** Plan 3 defined benefit portion only.

***Variable from 5% to 15% based on rate selected by the member.

**** Minimum rate.

Teachers' Retirement System (TRS)

Each biennium the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature.

Under TRS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.32 and 41.45 RCW.

As a result of the implementation of the Judicial Benefit Multiplier (JBM) Program in January 2007, a second tier of employee rates were developed to fund, along with investment earnings, the increased retirement benefits of those judges that participate in the program.

The required employer contribution rate for a TRS employer of Supreme Court Justices, Court of Appeals Judges and Superior Court Judges equals the TRS contribution rate. The required member contribution rate of TRS 1 Supreme Court Justices, Court of Appeals Judges and Superior Court Judges is the TRS 1 rate of 6 percent plus 3.76 percent of pay. These higher rates, along with investment earnings, are intended to fund the increased retirement benefits of those judges that choose to participate in the JBM program.

Required contribution rates (expressed as a percentage of current-year covered payroll) at the close of Fiscal Year 2008 were as follows:

TRS Actual Contribution Rates

	Plan 1	Plan 2	Plan 3
Members Not Participating in JBM			
Employer Rates*	5.82%	5.82%	5.82%**
Employee Rates:			
State agencies	6.00%	2.90%	***
Local governmental units	6.00%	2.90%	***
State gov't elected officials	7.50%	2.90%	***
Members Participating in JBM:			
Employer Rates*	5.82%	n/a	n/a
Employee Rates:			
State agencies	9.76%	n/a	n/a

* Includes an administrative expense rate of 0.16%.

** Plan 3 defined benefit portion only.

***Variable from 5% to 15% based on rate selected by the member.

School Employees' Retirement System (SERS)

Each biennium the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 employer contribution rates. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under SERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age.

The methods used to determine the contribution requirements are established under state statute in chapters 41.35 and 41.45 RCW. Required contribution rates (expressed as a percentage of current year covered payroll) at the close of Fiscal Year 2008 were as follows:

SERS Actual Contribution Rates

	Plan 2	Plan 3
Employer Rates:		
State agencies*	5.88%	5.88%**
Local governmental units*	5.88%	5.88%**
Employee Rates:		
State agencies	3.90%	***
Local governmental units	3.90%	***

* Includes an administrative expense rate of 0.16%.

** Plan 3 defined benefit portion only.

***Variable from 5% to 15% based on rate selected by the member.

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

Beginning July 1, 2000, Plan 1 employers and employees contribute 0 percent as long as the plan remains fully funded. Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plan. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF 2 Board. All employers are required to contribute at the level required by state statute.

Required contribution rates (expressed as a percentage of current year covered payroll) at the close of Fiscal Year 2008 were as follows:

LEOFF Actual Contribution Rates

	Plan 1	Plan 2
Employer Rates:		
Ports and Universities*	n/a	8.80%
Local governmental units* (cities, counties, fire districts, etc)	0.16%	5.35%
Employee Rates:		
Ports and Universities	n/a	8.64%
Local governmental units* (cities, counties, fire districts, etc)	n/a	8.64%
State of Washington	n/a	3.45%

* Includes an administrative expense rate of 0.16%.

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 2008, the state contributed $45.9 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 2008 were as follows:

WSPRS Actual Contribution Rates

	Plan 1	Plan 2
Employer Rates*	7.86%	7.86%
Employee Rates	6.65%	6.65%

* Includes an administrative expense rate of 0.16%.

Public Safety Employees' Retirement System (PSERS)

Each biennium the state Pension Funding Council adopts Plan 2 employers and employee contribution rates. The employer and employee contribution rates for Plan 2 are developed by the Office of the State Actuary to fully fund Plan 2. All employers are required to contribute at the level established by the Legislature. The methods used to determine the contribution requirements are established under state statute in chapters 41.37 and 41.45 RCW.

Required contribution rates (expressed as a percentage of current year covered payroll) at the close of Fiscal Year 2008 were as follows:

PSERS Actual Contribution Rates

	Plan 2
Employer Rates:	
State agencies*	8.55%
Local governmental units*	8.55%
Employee Rates:	
State agencies	6.57%
Local governmental units	6.57%

* Includes an administrative expense rate of 0.16%.

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 2008, the state contributed $ 9.6 million.

Judges' Retirement Fund (Judges)

Contributions made are based on rates set in chapter 2.12 RCW. By statute, employees are required to contribute 6.5 percent with an equal amount contributed by the state. In addition, the state guarantees the solvency of the Judges' Retirement Fund on a pay-as-you-go basis. As of June 30, 2008, there are no active members remaining in the Judges Retirement Fund and member contributions are no longer collected. Each biennium, the Legislature, through biennial appropriations from the state General Fund, contributes amounts sufficient to meet benefit payment requirements. For Fiscal Year 2008, however, no appropriations or contributions were made.

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

The retirement provisions of VFFRPF is funded through member contributions of $30 per year, employer contributions of $30 per year, and 40 percent of the Fire Insurance Premium Tax, as per chapter 41.24 RCW. VFFRPF members earn no interest on contributions and may elect to withdraw their contributions upon termination.

Administrative expenses are funded through fire insurance premium taxes and are maintained in a separate fund. Amounts not needed for administrative expenses are transferred to VFFRPF.

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.

	2008	2007	2006
PERS Plan 1	$115.5	$59.9	$15.0
PERS Plan 2/3	159.6	118.3	73.1
TRS Plan 1	4.3	2.1	0.5
TRS Plan 2/3	0.5	0.6	0.5
SERS Plan 2/3	0.0	0.0	0.0
PSERS Plan 2	5.9	2.8	n/a
LEOFF Plan 1	0.0	0.0	0.0
LEOFF Plan 2	45.9	38.6	31.7
VFFRPF	5.0	6.0	4.6

There are no long-term contracts for contributions for any of the retirement plans administered by the state.

E. FUNDED STATUS AND FUNDING PROGRESS

The funded status of each plan as of June 30, 2007, the most recent actuarial valuation date, is as follows (amounts in millions):

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
PERS Plan 1	$ 9,715.0	$ 13,740.0	$ 4,025.0	71%	$ 676.0	595%
PERS Plan 2/3*	14,888.0	14,661.0	(227.0)	102%	7,157.0	0%
TRS Plan 1	8,302.0	10,826.0	2,524.0	77%	426.0	592%
TRS Plan 2/3*	5,277.0	4,682.0	(594.0)	113%	3,318.0	0%
SERS Plan 2/3*	2,133.0	1,998.0	(136.0)	107%	1,283.0	0%
LEOFF Plan 1	5,298.0	4,340.0	(958.0)	122%	43.0	0%
LEOFF Plan 2*	4,360.0	3,626.0	(734.0)	120%	1,234.0	0%
WSPRS 1/2*	800.0	702.0	(98.0)	114%	72.0	0%
PSERS 2*	14.0	12.0	(1.0)	117%	134.0	0%
JRS	1.0	85.0	85.0	1%	1.3	6,538%
Judges	4.0	3.9	(0.1)	103%	N/A	N/A
VFFRPF	151.0	136.0	(15.0)	111%	N/A	N/A

N/A indicates data not applicable

* These plans use the aggregate actuarial cost method which does not identify or separately amortize unfunded actuarial liabilities. For this reason, the information shown above has been prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress of these plans.

Source: Washington State Office of the State Actuary

The Schedules of Funding Progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs (Actuarial Accrued Liability) for benefits.

Additional information for the state's defined benefit plans as of the latest valuation date is presented on the following page.

Defined Benefit Pension Plans Administered by the State

For the Fiscal Year Ended June 30, 2008

The information was determined as part of the actuarial valuations at the dates indicated below. Additional information as of the latest valuation follows.

	PERS Plan 1	PERS Plan 2/3	TRS Plan 1	TRS Plan 2/3
Valuation date	6/30/2007	6/30/2007	6/30/2007	6/30/2007
Actuarial cost method	Frozen Initial Liability[1]	Aggregate[2]	Frozen Initial Liability[1]	Aggregate[2]
Amortization method				
Funding	Level %[4]	N/A	Level %[4]	N/A
GASB	Level $	N/A	Level $	N/A
Remaining amortization period (closed)	7/01/2008 - 6/30/2024	N/A	7/01/2008 - 6/30/2024	N/A
Asset valuation method	8-year Graded Smoothed Fair Value[6]	8-year Graded Smoothed Fair Value[6]	8-year Graded Smoothed Fair Value[6]	8-year Graded Smoothed Fair Value[6]
Actuarial assumptions				
Investment rate of return	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%	5.8%	5.8%
Merit period (years of service)	17 yrs	17 yrs	26 yrs	26 yrs
Includes inflation at	N/A	3.50%	N/A	3.50%
Cost of living adjustments	Uniform COLA[7]	CPI Increase, Maximum 3%	Uniform COLA[7]	CPI Increase, Maximum 3%

N/A indicates data not applicable.

[1] Based on a variation of the Frozen Initial Liability (FIL) cost method.

[2] The aggregate cost method does not identify or separately amortize unfunded actuarial liabilities.

[3] Pay As You Go basis for funding.

[4] Level percent of payroll, including system growth.

[5] LEOFF Plan 2 assumes 4.5% of Salary Inflation

[6] Asset Valuation Method (8 year smoothed fair value): The actuarial value of assets is calculated under an adjusted market value method by starting with the market value of assets. For subsequent years the actuarial value of assets is determined by adjusting the market value of assets to reflect the difference between the actual investment return and the expected investment return during each of the last 8 years or, if fewer, the completed years since adoption, at the following rates per year (annual recognition). We set the VFFRPF Annual Gain/Loss around their 7% expected rate of return instead of 8%.

Annual Gain/Loss			Annual Gain/Loss		
Rate of Return	Smoothing Period	Annual Recognition	Rate of Return	Smoothing Period	Annual Recognition
15% and up	8 years	12.50%	6-7%	2 years	50.00%
14-15%	7 years	14.29%	5-6%	3 years	33.33%
13-14%	6 years	16.67%	4-5%	4 years	25.00%
12-13%	5 years	20.00%	3-4%	5 years	20.00%
11-12%	4 years	25.00%	2-3%	6 years	16.67%
10-11%	3 years	33.33%	1-2%	7 years	14.29%
9-10%	2 years	50.00%	1% and lower	8 years	12.50%
7-9%	1 year	100.00%			

The actuarial value of assets is subject to a 30% market value corridor, so it will lie between 70% and 130% of the market value of assets.

SERS Plan 2/3	LEOFF Plan 1	LEOFF Plan 2	PSERS Plan 2	VFFRPF[8]
6/30/2007	6/30/2007	6/30/2007	6/30/2007	6/30/2007
Aggregate[2]	Frozen Initial Liability[1]	Aggregate[2]	Aggregate[2]	Entry Age[3]
N/A	Level %[4]	N/A	N/A	Level $
N/A	Level $	N/A	N/A	Level $
N/A	7/01/2008 - 6/30/2024	N/A	N/A	15 - Year Rolling
8-Year Graded Smoothed Fair Value[6]	8-Year Graded Smoothed Fair Value[6]	8-Year Graded Smoothed Fair Value[6]	8-Year Graded Smoothed Fair Value[6]	8-Year Smoothed Fair Value[6]
8.00%	8.00%	8.00%	8.00%	7.00%
6.9%	11.0%	11.0%	6.1%	N/A
17 yrs	21 yrs	21 yrs	17 yrs	N/A
3.50%	3.50%	3.50%	3.50%	N/A
CPI Increase, Maximum 3%	CPI Increase	CPI Increase, Maximum 3%	CPI Increase, Maximum 3%	None

[7] The Uniform COLA

Generally, all retirees over age 66 receive an increase in their monthly benefit at least once a year.

The Uniform COLA amount is calculated as the last unrounded Uniform COLA amount increased by 3%, rounded to the nearest penny.

These are some historical monthly COLA amounts per year of service

Date	Uniform COLA
7/1/2002	$1.14
7/1/2003	$1.18
7/1/2004	$1.21
7/1/2005	$1.25
7/1/2006	$1.29
7/1/2007	$1.33
7/1/2008	$1.73

[8] VFFRPF uses the Entry Funding Method for Pensions, and the Pay-As-You-Go Method for the Relief Costs

F. ANNUAL PENSION COST AND OTHER RELATED INFORMATION

Current year annual pension cost, net pension obligation (NPO) and related information for the current year for the state's single employer and agent multiple-employer defined benefit plans are as follows (amounts in millions):

	WSPRS	JRS	Judges
Annual Pension Cost and Net Pension Obligation:			
Annual required contribution	$ 6.8	$ 26.6	$ -
Interest on NPO	(1.1)	4.9	(0.2)
Adjustment to annual required contribution	1.8	(19.3)	0.6
Annual pension cost	7.5	12.2	0.5
Less: Contributions made	6.1	9.6	-
Increase (decrease) in NPO	1.4	2.5	0.5
NPO at beginning of year	(14.1)	72.3	(2.0)
NPO at end of year	$(12.7)	$74.8	$(1.5)
Actuarial assumptions:			
Valuation date	6/30/07	6/30/07	6/30/07
Actuarial cost method	Aggregate*	Entry age	Entry age
Amortization method	n/a	Level $	Level $
Remaining amortization Period (closed)	n/a	12/31/08	12/31/08
Asset valuation method	8 year graded smoothed fair value	Market	Market
Investment rate of return	8%	8%	8%
Projected salary increases	4.25%**	4.5%	N/A
Includes inflation at	3.5%	3.5%	3.5%
cost-of-living adjustments	CPI increase, max. 3%	3.0%	none

* The aggregate cost method does not identify or separately amortize unfunded actuarial accrued liabilities.
** WSPRS also assumes a variable salary merit increase for a merit period of 20 years.

G. THREE YEAR HISTORICAL TREND INFORMATION

The following table presents three-year trend information in millions for the plans listed:

	2008	2007	2006
WSPRS			
Annual pension cost	$ 7.5	$ 5.3	$ 7.1
% of APC contributed	89.2	61.8	44.0
NPO	$(12.7)	$(14.1)	$(16.2)
JRS			
Annual pension cost	$ 12.2	$ 13.9	$ 13.3
% of APC contributed	79.5	69.1	50.5
NPO	$ 74.8	$ 72.3	$ 68.0
Judges			
Annual pension cost	$ 0.5	$ 0.5	$ 0.7
% of APC contributed	0.0	60.0	42.9
NPO	$ (1.5)	$ (2.0)	$ (2.2)

There are no long-term contracts for contributions for any of the retirement plans administered by the state.

H. CHANGES IN ACTUARIAL ASSUMPTIONS AND METHODS

The demographic assumptions were updated as a result of the 2001 – 2006 Experience study. For details refer to the experience study available at: http://osa.leg.wa.gov/Actuarial_Services/Publications/experience_studies.htm.

The salary growth economic assumption for all retirement plans (except LEOFF 2) was decreased by the Pension Funding Council from 4.50 percent to 4.25 percent. The projected mortality tables were modified to recognize the fact that people are living longer.

I. CHANGES IN BENEFIT PROVISIONS

Pension funding legislation was adopted during the 2005 legislative session (Chapter 370, Laws of 2005), which created a short-term change in funding policy. The policy is to adopt annual contribution rates over a four-year "phase-in" period from 2005-2009, 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 adopted during the 2007 legislative session (Chapter 491, Laws of 2007) repealed gain-sharing after the 2008 event. Additional legislation adopted a phase-in period to smooth the Plan 1 UAAL contribution rate increases from 2006-2009 (Chapter 56, Laws of 2006).

Legislation for 2006 and 2007 provided for target funding ratios and contribution rate floors for PERS, TRS, SERS, and WSPRS (Chapter 365, Laws of 2006 and Chapter 300, Laws of 2007). The LEOFF 2 Board in 2006 provided for minimum contribution rates. These changes will become effective July 1, 2009.

J. DEFINED CONTRIBUTION PLANS

Public Employees' Retirement System Plan 3 (PERS 3)

The Public Employees' Retirement System (PERS) Plan 3 is a combination defined benefit/defined contribution plan administered by the state through the Department of Retirement Systems (DRS). Eligible employees include: elected officials; state employees; employees of the Supreme, Appeals, and Superior Courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not in national higher education retirement programs; judges of district and municipal courts; and employees of local governments. PERS participants who joined on or after October 1, 1977, and by either, February 28, 2002, for state and higher education employees, or August 31, 2002, for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants who joined the system on or after March 1, 2002, for state and higher education employees, or September 1, 2002, for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. Refer to section B of this note for PERS plan descriptions.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance the defined contribution component. As established by chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 to 15 percent of salaries based on member choice. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are solely dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions as authorized by the Employee Retirement Benefits Board. Any expenses incurred in conjunction with self-directed investments are to be paid by members. Absent a member's self-

direction, PERS Plan 3 investments are made in the same portfolio as that of the PERS 2/3 defined benefit plan.

For Fiscal Year 2008, employee contributions required and made were $82.7 million, and plan refunds paid out were $38.3 million.

Teachers' Retirement System Plan 3 (TRS 3)

The Teachers' Retirement System (TRS) Plan 3 is a combination defined benefit/defined contribution plan administered by the state through the Department of Retirement Systems (DRS). Eligibility for membership requires service as a certificated public school employee working in an instructional, administrative or supervisory capacity. TRS participants who joined on or after October 1, 1977, and by June 30, 1996, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. TRS participants joining the system on or after July 1, 1996, and those who exercised their transfer option, are members of TRS Plan 3. Refer to section B of this note for TRS plan descriptions.

TRS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance the defined contribution component. As established by chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 to 15 percent of salaries based on member choice. There are currently no requirements for employer contributions to the defined contribution component of TRS Plan 3.

TRS Plan 3 defined contribution retirement benefits are solely dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions as authorized by the Employee Retirement Benefits Board. Any expenses incurred in conjunction with self-directed investments are to be paid by members. Absent a member's self-direction, TRS Plan 3 investments are made in the same portfolio as that of the TRS 2/3 defined benefit plan.

For Fiscal Year 2008, employee contributions required and made were $234.7 million and plan refunds paid out were $84.8 million.

School Employees' Retirement System Plan 3 (SERS 3)

The School Employees' Retirement System (SERS) Plan 3 is a combination defined benefit/defined contribution plan administered by the state through the Department of Retirement Systems (DRS). Eligible employees include classified employees of school districts and educational service districts who joined PERS Plan 2 on or after October 1, 1977, and by August 31, 2000, and were transferred to SERS Plan 2 on September 1, 2000. Members transferred from PERS Plan 2 to SERS Plan 2 may exercise an option to transfer their membership to SERS Plan 3. SERS participants joining the system on or after September 1, 2000, and before July 1, 2007, are also members of SERS Plan 3. SERS members hired on or after July 1, 2007 have 90 days to choose between SERS Plan 2 and SERS Plan 3. Individuals who fail to make a choice will default to SERS Plan 3. Refer to section B of this note for SERS plan descriptions.

SERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance the defined contribution component. As established by chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 to 15 percent of salaries based on member choice. There are currently no requirements for employer contributions to the defined contribution component of SERS Plan 3.

SERS Plan 3 defined contribution retirement benefits are solely dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions as authorized by the Employee Retirement Benefits Board. Any expenses incurred in conjunction with self-directed investments are to be paid by members. Absent a member's self-direction, SERS Plan 3 investments are made in the same portfolio as that of the SERS 2/3 defined benefit plan.

For Fiscal Year 2008, employee contributions required and made were $58.4 million and plan refunds paid out were $39.8 million.

Judicial Retirement Account (JRA)

The Judicial Retirement Account Plan was established by the Legislature in 1988 to provide supplemental retirement benefits. It is a defined contribution plan administered by the state Administrative Office of the Courts, under the direction of the Board for Judicial Administration. Membership includes judges elected or appointed to the Supreme Court, Court of Appeals, and Superior Courts, and who are members of PERS for their services as a judge. Vesting is full and immediate. There are three participating employers in JRA.

Member contributions equal 2.5 percent of covered salary and the state, as employer, matches this amount. Contributions are collected by the Administrative Office of the Courts. The employer and employee obligations to contribute are established per chapter 2.14 RCW. Plan provisions and contribution requirements are established in state statute and may be amended only by the State Legislature.

Beginning January 1, 2007 through December 31, 2007 any judicial members of the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS) eligible to participate in JRA were able to

make a one-time irrevocable election to discontinue future contributions to JRA, in lieu of prospective contributions to the Judicial Benefit Multiplier Program (JBM). Beginning January 1, 2007 any newly elected or appointed Supreme Court justice, Court of Appeals judge or Superior Court judge is no longer able to participate in JRA and is enrolled in the Judicial Benefit Multiplier Program (enacted in 2006). As of June 30, 2008, 189 JRA member judges have elected to enroll in JBM.

Current-year covered payroll for JRA employees was $4.3 million for the Fiscal Year ended June 30, 2008. For Fiscal Year 2008, the contribution requirement for JRA was $140 thousand. Actual employer and employee contributions were $70 and $70 thousand respectively. Plan benefits paid out for Fiscal Year 2008 totaled $6.5 million.

A JRA member who separates from judicial service for any reason is entitled to receive a lump-sum distribution of the accumulated contributions. The administrator of JRA may adopt rules establishing other payment options. If a member dies, the amount of accumulated contributions standing to the member's credit at the time of the member's death shall be paid to the member's estate, or such person or persons, trust or organization as the member has nominated by written designation.

The Administrator of JRA has entered an agreement with DRS for accounting and reporting services, and the Washington State Investment Board (SIB) for investment services. DRS is responsible for all record keeping, accounting, and reporting of member accounts. As of April 2006, DRS also became responsible for collection of JRA contributions. The SIB has the full power to establish investment policy, develop participant investment options, and manage the investment funds from the JRA plan, consistent with the provisions of RCW 2.14.080 and RCW 43.84.150.

Higher Education Retirement Plans

The Higher Education Retirement Plans are privately administered defined contribution plans with a supplemental plan component. As authorized by RCW 28B.10, the plans cover higher education faculty and other positions as designated by each institution. The state and regional universities, the state college, and the state community and technical colleges each participate in a plan. Contributions to the plans are invested in annuity contracts or mutual fund accounts offered by one or more fund sponsors. Benefits from fund sponsors are available upon separation or retirement at the member's option. Employees have at all times a 100 percent vested interest in their accumulations. RCW 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 2008, covered payroll was $1.7 billion. Employer and employee contributions were $141.7 million each, for a total of $141.6 million. These contribution amounts represent approximately 8 percent each of covered payroll for employers and employees.

The plans have a supplemental payment component which guarantees a minimum retirement benefit based upon a one-time calculation at each employee's retirement date. Institutions make direct payments to qualifying retirees when the retirement benefits provided by the fund sponsors do not meet the benefit goals. The supplemental component is financed on a pay-as-you-go basis.

An actuarial valuation of the supplemental component of the Higher Education Retirement plans was done at the end of Fiscal Year 2007. The previous valuation was performed in 2004. The Unfunded Actuarial Accrued Liability (UAAL) calculated as of June 30, 2007 and 2004 was $120.2 million and $48.1 million, respectively, and is amortized over a 16.5-year period. The Annual Required Contribution (ARC) of $16.6 million consists of amortization of the UAL ($8.3 million) and normal cost (or current cost) ($7.8 million). The UAL and ARC were established using the entry age normal cost method. The actuarial assumptions included an investment rate of return of 6 to 8 percent and projected salary increases ranging from 2 to 4 percent. Approximately $1.5 billion and $1.1 billion of payroll were covered under these plans during 2007 and 2004, respectively.

The following table reflects the activity in the Net Pension Obligation for the years ended June 30 (in millions):

	2008	2007	2006
Annual required contribution	$16.6	$16.6	$5.1
Payments to beneficiaries	(1.9)	(1.9)	(1.6)
Increase (decrease) in NPO	14.6	14.7	3.5
NPO at beginning of year	24.0	9.3	5.8
NPO at end of year	$38.6	$24.0	$9.3

K. PLAN NET ASSETS AND CHANGES IN PLAN NET ASSETS

The Combining Statement of Plan Net Assets that follows presents the principal components of receivables, investments, and liabilities. The Combining Statement of Changes in Plan Net Assets presents the additions and deductions to plan net assets.

Combining Statement of Plan Net Assets
Pension and Other Employee Benefit Funds

June 30, 2008
(expressed in thousands)

continued

	PERS Plan 1	PERS Plan 2/3 Defined Benefit	PERS Plan 3 Defined Contribution	TRS Plan 1	TRS Plan 2/3 Defined Benefit	TRS Plan 3 Defined Contribution
ASSETS						
Cash and pooled investments	$ 48,196	$ 84,341	$ 121	$ 40,564	$ 40,943	$ 5,172
Receivables:						
Employer accounts receivable	5,230	39,367	4,004	3,317	13,091	20,452
Member accounts receivable (net of allowance)	586	158	-	359	5	-
Due from other funds	964	-	10,991	725	5,167	19,874
Interest and dividends	32,436	53,472	2,580	27,172	17,939	8,016
Investment trades pending	63,757	108,034	2,545	53,229	43,275	7,903
Total Receivables	102,973	201,031	20,120	84,802	79,477	56,245
Investments, Noncurrent:						
Public equity	4,073,647	7,286,706	326,779	3,400,955	2,302,282	2,513,777
Fixed income	2,331,202	3,856,179	187,004	1,946,245	1,317,513	553,749
Private equity	2,366,373	3,914,357	189,825	1,975,608	1,337,391	562,103
Real estate	1,485,876	2,457,875	119,194	1,240,509	839,765	352,952
Security lending	678,991	1,121,731	54,377	566,783	383,898	161,018
Liquidity	234,117	-	563,869	245,159	144,115	59,259
Tangible assets	76,573	126,663	6,142	63,928	43,276	18,189
Other	95,018	23,650	7,622	79,328	53,701	22,570
Total Investments, Noncurrent	11,341,797	18,787,161	1,454,812	9,518,515	6,421,941	4,243,617
Total Assets	$ 11,492,966	$ 19,072,533	$ 1,475,053	$ 9,643,881	$ 6,542,361	$ 4,305,034
LIABILITIES						
Obligations under security lending agreements	$ 678,991	$ 1,121,987	$ 54,121	$ 566,783	$ 376,862	$ 168,053
Accrued liabilities	167,954	276,723	6,600	140,608	109,696	20,490
Due to other funds	98	12,351	120	65	20,963	5,172
Unearned revenues	127	379	-	171	37	-
Total Liabilities	847,170	1,411,440	60,841	707,627	507,558	193,715
NET ASSETS						
Net assets held in trust for:						
Pension Benefits (Schedule of Funding Progress by Plan begins on Page 149)	10,645,796	17,661,093	1,414,212	8,936,254	6,034,803	4,111,319
Deferred compensation participants	-	-	-	-	-	-
Total Net Assets	$ 10,645,796	$ 17,661,093	$ 1,414,212	$ 8,936,254	$ 6,034,803	$ 4,111,319

Combining Statement of Plan Net Assets
Pension and Other Employee Benefit Funds

June 30, 2008
(expressed in thousands)

continued

	SERS Plan 2/3 Defined Benefit	SERS Plan 3 Defined Contribution	LEOFF Plan 1	LEOFF Plan 2	WSPRS Plan 1/2	PSERS Plan 2
ASSETS						
Cash and pooled investments	$ 16,705	$ 1,501	$ 27,234	$ 24,534	$ 5,080	$ 450
Receivables:						
Employer accounts receivable	5,984	5,030	-	14,466	488	1,498
Member accounts receivable (net of allowance)	4	-	38	25	117	-
Due from other funds	1,513	6,898	4	7	2	1
Interest and dividends	7,396	2,585	18,374	16,064	2,828	101
Investment trades pending	17,125	2,547	36,181	31,674	5,574	194
Total Receivables	32,022	17,060	54,597	62,236	9,009	1,794
Investments, Noncurrent:						
Public equity	929,459	594,022	2,311,730	2,023,728	356,106	12,384
Fixed income	531,896	187,388	1,322,921	1,158,107	203,786	7,087
Private equity	539,920	190,215	1,342,879	1,175,579	206,861	7,194
Real estate	339,023	119,439	843,211	738,161	129,890	4,517
Security lending	155,019	54,488	385,067	336,902	59,384	2,089
Liquidity	65,891	15,981	127,349	128,381	20,163	3,180
Tangible assets	17,471	6,155	43,454	38,040	6,694	233
Other	21,679	7,638	53,921	47,203	8,307	289
Total Investments, Noncurrent	2,600,358	1,175,326	6,430,532	5,646,101	991,191	36,973
Total Assets	$ 2,649,085	$ 1,193,887	$ 6,512,363	$ 5,732,871	$ 1,005,280	$ 39,217
LIABILITIES						
Obligations under security lending agreements	$ 155,337	$ 54,170	$ 385,066	$ 336,902	$ 59,383	$ 2,089
Accrued liabilities	43,460	6,604	92,118	80,348	14,315	495
Due to other funds	7,133	1,501	16	145	7	76
Unearned revenues	30	-	-	68	-	-
Total Liabilities	205,960	62,275	477,200	417,463	73,705	2,660
NET ASSETS						
Net assets held in trust for:						
Pension Benefits (Schedule of Funding Progress by Plan begins on Page 149)	2,443,125	1,131,612	6,035,163	5,315,408	931,575	36,557
Deferred compensation participants	-	-	-	-	-	-
Total Net Assets	$ 2,443,125	$ 1,131,612	$ 6,035,163	$ 5,315,408	$ 931,575	$ 36,557

Combining Statement of Plan Net Assets
Pension and Other Employee Benefit Funds

June 30, 2008
(expressed in thousands)

concluded

	JRS	JRA	Judges	VFFRPF	Deferred Compensation	Total
ASSETS						
Cash and pooled investments	$ 344	$ 8	$ 3,617	$ 36,969	$ 802	$ 336,581
Receivables:						
Employer accounts receivable	9	-	-	-	-	112,936
Member accounts receivable (net of allowance)	-	-	4	-	1,760	3,056
Due from other funds	1	-	10	93	1	46,251
Interest and dividends	4	-	-	394	-	189,361
Investment trades pending	-	-	-	779	-	372,817
Total Receivables	14	-	14	1,266	1,761	724,421
Investments, Noncurrent:						
Public equity	-	13,023	-	45,787	2,431,642	28,622,027
Fixed income	-	-	-	23,316	-	13,626,393
Private equity	-	-	-	28,902	-	13,837,207
Real estate	-	-	-	18,148	-	8,688,560
Security lending	46	1	332	19,626	78	3,979,830
Liquidity	625	-	5	3,955	1	1,612,050
Tangible assets	-	-	-	935	-	447,753
Other	-	-	-	1,087	-	422,013
Total Investments, Noncurrent	671	13,024	337	141,756	2,431,721	71,235,833
Total Assets	$ 1,029	$ 13,032	$ 3,968	$ 179,991	$ 2,434,284	$ 72,296,835
LIABILITIES						
Obligations under security lending agreements	$ 46	$ -	$ 332	$ 11,617	$ 79	$ 3,971,818
Accrued liabilities	30	-	3	1,999	11	961,454
Due to other funds	-	-	-	-	-	47,647
Unearned revenues	-	-	-	-	-	812
Total Liabilities	76	-	335	13,616	90	4,981,731
NET ASSETS						
Net assets held in trust for:						
Pension Benefits (Schedule of Funding Progress by Plan begins on Page 149)	953	13,032	3,633	166,375	-	64,880,910
Deferred compensation participants	-	-	-	-	2,434,194	2,434,194
Total Net Assets	$ 953	$ 13,032	$ 3,633	$ 166,375	$ 2,434,194	$ 67,315,104

Combining Statement of Changes in Plan Net Assets
Pension and Other Employee Benefit Funds

For the Fiscal Year Ended June 30, 2008
(expressed in thousands)

continued

	PERS Plan 1	PERS Plan 2/3 Defined Benefit	PERS Plan 3 Defined Contribution	TRS Plan 1	TRS Plan 2/3 Defined Benefit	TRS Plan 3 Defined Contribution
ADDITIONS						
Contributions:						
Employers	$ 221,787	$ 318,740	$ -	$ 113,088	$ 109,522	$ -
Members	50,949	278,445	82,707	30,794	15,631	234,661
State	-	-	-	-	-	-
Participants	-	-	-	-	-	-
Total Contributions	272,736	597,185	82,707	143,882	125,153	234,661
Investment Income:						
Net appreciation (depreciation) in fair value	(425,711)	(713,629)	(74,910)	(355,165)	(238,142)	(256,969)
Interest and dividends	353,150	554,915	32,613	296,470	186,703	91,247
Less: investment expenses	(42,149)	(66,215)	(3,984)	(35,384)	(22,132)	(11,923)
Net investment income (loss)	(114,710)	(224,929)	(46,281)	(94,079)	(73,571)	(177,645)
Transfers from other pension plans	343	316	68,408	5	339	168,817
Other additions	-	-	-	-	-	-
Total Additions	158,369	372,572	104,834	49,808	51,921	225,833
DEDUCTIONS						
Pension benefits	1,027,934	170,317	22	844,986	36,016	45
Pension refunds	5,573	26,575	38,291	1,000	2,190	84,776
Transfers to other pension plans	62	70,761	262	-	168,770	513
Administrative expenses	530	2,567	-	114	116	-
Distributions to participants	-	-	-	-	-	-
Total Deductions	1,034,099	270,220	38,575	846,100	207,092	85,334
Net Increase (Decrease)	(875,730)	102,352	66,259	(796,292)	(155,171)	140,499
Net Assets - Beginning	11,521,526	17,558,741	1,347,953	9,732,546	6,189,974	3,970,820
Net Assets - Ending	$ 10,645,796	$ 17,661,093	$ 1,414,212	$ 8,936,254	$ 6,034,803	$ 4,111,319

Combining Statement of Changes in Plan Net Assets
Pension and Other Employee Benefit Funds

For the Fiscal Year Ended June 30, 2008
(expressed in thousands)

continued

	SERS Plan 2/3 Defined Benefit	SERS Plan 3 Defined Contribution	LEOFF Plan 1	LEOFF Plan 2	WSPRS Plan 1/2	PSERS Plan 2
ADDITIONS						
Contributions:						
Employers	$ 52,139	$ -	$ 8	$ 73,363	$ 6,064	$ 11,700
Members	20,911	58,381	927	116,441	5,345	11,740
State	-	-	-	45,926	-	-
Participants	-	-	-	-	-	-
Total Contributions	73,050	58,381	935	235,730	11,409	23,440
Investment Income:						
Net appreciation (depreciation) in fair value	(97,536)	(55,130)	(242,251)	(215,478)	(37,472)	(1,435)
Interest and dividends	76,711	30,780	197,810	165,778	30,063	748
Less: investment expenses	(9,135)	(3,620)	(23,676)	(20,615)	(3,594)	(78)
Net investment income (loss)	(29,960)	(27,970)	(68,117)	(70,315)	(11,003)	(765)
Transfers from other pension plans	2,118	89,449	-	117	90	3
Other additions	-	-	-	-	-	-
Total Additions	45,208	119,860	(67,182)	165,532	496	22,678
DEDUCTIONS						
Pension benefits	22,628	8	313,530	27,505	32,963	-
Pension refunds	2,044	39,815	150	7,639	268	152
Transfers to other pension plans	89,448	183	4	-	-	2
Administrative expenses	64	-	174	198	23	11
Distributions to participants	-	-	-	-	-	-
Total Deductions	114,184	40,006	313,858	35,342	33,254	165
Net Increase (Decrease)	(68,976)	79,854	(381,040)	130,190	(32,758)	22,513
Net Assets - Beginning	2,512,101	1,051,758	6,416,203	5,185,218	964,333	14,044
Net Assets - Ending	$ 2,443,125	$ 1,131,612	$ 6,035,163	$ 5,315,408	$ 931,575	$ 36,557

Combining Statement of Changes in Plan Net Assets
Pension and Other Employee Benefit Funds

For the Fiscal Year Ended June 30, 2008
(expressed in thousands)

concluded

	JRS	JRA	Judges	VFFRPF	Deferred Compensation	Total
ADDITIONS						
Contributions:						
Employers	$ 112	$ 70	$ -	$ 1,082	$ -	$ 907,675
Members	112	70	-	117	-	907,231
State	9,600	-	-	5,020	-	60,546
Participants	-	-	-	-	188,735	188,735
Total Contributions	9,824	140	-	6,219	188,735	2,064,187
Investment Income:						
Net appreciation (depreciation) in fair value	1	(1,311)	13	(5,097)	(238,553)	(2,958,775)
Interest and dividends	99	426	171	5,671	72,425	2,095,780
Less: investment expenses	(2)	(20)	(6)	(559)	(3,264)	(246,356)
Net investment income (loss)	98	(905)	178	15	(169,392)	(1,109,351)
Transfers from other pension plans	-	-	-	-	-	330,005
Other additions	-	6	-	-	829	835
Total Additions	9,922	(759)	178	6,234	20,172	1,285,676
DEDUCTIONS						
Pension benefits	9,514	6,540	545	9,866	-	2,502,419
Pension refunds	-	-	-	9	-	208,482
Transfers to other pension plans	-	-	-	-	-	330,005
Administrative expenses	-	-	-	-	-	3,797
Distributions to participants	-	-	-	-	135,876	135,876
Total Deductions	9,514	6,540	545	9,875	135,876	3,180,579
Net Increase (Decrease)	408	(7,299)	(367)	(3,641)	(115,704)	(1,894,903)
Net Assets - Beginning	545	20,331	4,000	170,016	2,549,898	69,210,007
Net Assets - Ending	$ 953	$ 13,032	$ 3,633	$ 166,375	$ 2,434,194	$ 67,315,104

Note 12
Other Postemployment Benefits

Plan Description and Funding Policy

In addition to pension benefits as described in Note 11, the state, through the Health Care Authority (HCA), administers an agent multiple-employer other postemployment benefit plan (OPEB). Per RCW 41.05.065, the Public Employees Benefits Board (PEBB) created within the Health Care Authority, is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage, including establishment of eligibility criteria for both active and retired employees. PEBB programs include medical, dental, life and long-term disability.

Employers participating in the PEBB plan include the state (which includes general government agencies and higher education institutions), 52 of the state's K-12 schools and educational service districts (ESDs) and 200 political subdivisions. Additionally, the PEBB plan is available to the retirees of the remaining 249 K-12 schools and ESDs. As of June 2008, membership in the PEBB plan consisted of the following:

	Active Employees	Retirees[1]	Total
State	111,681	24,963	136,644
K-12 schools and ESDs[2]	2,132	26,013	28,145
Political subdivisions	11,393	900	12,293
Total	125,206	51,876	177,082

[1]Retirees include retired employees, surviving spouses, and terminated members entitled to a benefit.
[2]In Fiscal Year 2008, there were 100,208 full-time equivalent active employees in the 249 K-12 schools and ESDs that elected to limit participation in PEBB only to their retirees.

For Fiscal Year 2008, the estimated monthly cost for PEBB benefits for active employees (average across all plans and tiers) is as follows:

Required Premium[3]	
Medical	$694
Dental	71
Life	5
Long-term disability	2
Total	$772
Employer contribution	$697
Employee contribution	75
Total	$772

[3]Per 2008 Collective Bargaining Model 4.0.

The relationship between the PEBB OPEB plan and its member employers and their employees and retirees is not formalized in a contract or plan document. Rather, the benefits are provided in accordance with a substantive plan. A substantive plan is one in which the plan terms are understood by the employers and plan members. This understanding is based on communications between the HCA, employers and plan members and the historical pattern of practice with regard to the sharing of benefit costs.

The PEBB retiree OPEB plan is available to employees who elect to continue coverage and pay the administratively established premiums at the time they retire under the provisions of the retirement system to which they belong. Retirees' access to PEBB plans depends on the retirement eligibility of their respective retirement system. PEBB members are covered in the following retirement systems: PERS, PSERS, TRS, SERS, WSPRS, and Higher Education.

Per RCW 41.05.022, retirees who are not yet eligible for Medicare benefits may continue participation in the state's Non-Medicare community-rated health insurance risk pool on a self-pay basis. Retirees in the Non-Medicare risk pool receive an implicit subsidy. The implicit subsidy exists because retired members pay a premium based on a claims experience for active employees and other Non-Medicare retirees. The subsidy is valued using the difference between the age-based claims costs and the premium. In Calendar Year 2007, the average weighted implicit subsidy was valued at $250 per member per month, and in Calendar Year 2008, the average weighted implicit subsidy is projected to be $253 per member per month.

Retirees who are enrolled in both Parts A and B of Medicare may participate in the state's Medicare community-rated health insurance risk pool. Medicare retirees receive an explicit subsidy in the form of reduced premiums. Annually, the Health Care Authority administrator recommends an amount for the next calendar year's explicit subsidy for inclusion in the Governor's budget. In Calendar Year 2007, the explicit subsidy was $150 per member per month, and in Calendar Year 2008, the explicit subsidy is $164 per member per month.

Retirees participating in the PEBB life insurance program received an explicit subsidy of $5 per member per month in Calendar Year 2007. The explicit subsidy is also $5 per member per month in Calendar Year 2008.

Administrative costs as well as implicit and explicit subsidies are funded by required contributions from participating employers. The subsidies provide monetary assistance for medical and life insurance benefits.

Contributions are set each biennium as part of the budget process. In Fiscal Year 2008, the cost of the subsidies was approximately 6.8 percent of the cost of benefits for active employees. The benefits are funded on a pay-as-you-go basis.

Each participating employer in the plan is required to disclose additional information with regard to funding policy, the employer's annual OPEB costs and contributions made, the funded status and funding progress of the employers individual plan and actuarial methods and assumptions used.

The PEBB OPEB plan is accounted for as an agency fund on an accrual basis. The plan has no investments or other assets. The PEBB OPEB plan does not issue a publicly available financial report.

For information on the results of an actuarial valuation of the employer provided subsidies associated with the PEBB plan, refer to: http://osa.leg.wa.gov/Actuarial_services/OPEB/OPEB.htm.

Annual OPEB Cost and Net OPEB Obligation

The state's (general government agencies and higher education institutions) annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the state as the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following tables show the components of the state's annual OPEB cost for Fiscal Year 2008, the amount actually contributed to the plan, and changes in the state's net OPEB obligation (NOO) (expressed in thousands):

Annual required contribution	$313,970
Interest on NOO	-
Amortization of NOO	-
Annual OPEB cost	$313,970

NOO beginning of year	$ -
Annual OPEB cost	313,970
Contributions made	(68,115)
NOO end of year	$245,855

The state's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for Fiscal Year 2008 was as follows (expressed in thousands):

Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
$313,970	21.69%	$245,855

Funded Status and Funding Progress

The funded status of the plan as of June 30, 2008, was as follows (expressed in thousands):

Actuarial accrued liability (AAL)	$3,799,530
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$3,799,530

Funded ratio (actuarial value of plan assets/AAL)	0.00%
Covered payroll (active plan members)	$5,427,219
UAAL as a percentage of covered payroll	70.01%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Significant methods and assumptions were as follows:

Actuarial valuation date	January 1, 2007
Actuarial cost method	Projected Unit Credit (PUC)
Amortization method	Closed, level percentage of projected payroll amortization method
Remaining amortization period	30 years
Asset valuation method	n/a - no assets
Actuarial assumptions:	
Investment rate of return	4.5%
Projected salary increases	4.5%
Health care inflation rate	11% initial rate, 5% ultimate rate in 2015
Inflation rate	3.5%

The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents the results of the OPEB valuation for the fiscal year ending June 30, 2008. Looking forward, the schedule will provide additional multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Note 13
Commitments and Contingencies

A. CONSTRUCTION AND OTHER COMMITMENTS

Outstanding commitments related to state infrastructure and facility construction, improvement, and/or renovation totaled $3.3 billion at June 30, 2008.

B. SUMMARY OF SIGNIFICANT LITIGATION

Pending Litigation

The state and its agencies are parties to numerous routine legal proceedings that normally occur in governmental operations. At any given point, there may be numerous lawsuits involving the implementation of specific state programs that could significantly impact expenditures and potentially have future budgetary impact.

The state is the defendant in a number of cases seeking damages in excess of $60 million involving claims of inadequate funding for care of the disabled and elderly. The state is also defending a number of cases alleging inadequacies and inequities in K-12 funding. Adverse rulings in these cases could result in significant future costs.

The Department of Revenue routinely has claims for refunds in various stages of administrative and legal review. Claims for refunds are approximately $117 million.

The Washington State Department of Transportation (WSDOT) is a defendant in a number of lawsuits related to environmental clean-up and habitat restoration/enhancement associated with highway construction projects and storm water discharge from state highways. While estimates are not available for all lawsuits, claims for damages exceed $35 million. If the efforts of the plaintiffs are successful, the financial impact could be significant and would need to be addressed in future budgets. The WSDOT also faces a lawsuit related to the state's procurement of four new ferry boats.

The state is the defendant in numerous lawsuits by employees accusing the state of various infractions of law or contract. These suits claim back pay and damages in excess of $15 million. The state is also defending complaints by the United States Department of Labor claiming the state violated the Fair Labor Standards Act. Total monetary damages sought in these actions are approximately $65 million. Additionally, the state is being sued as a result of the recent legislative repeal of the gain sharing provision associated with select state pension plans. No estimate of damage is currently available.

The state is contesting these lawsuits and the outcomes are uncertain at this time.

Tobacco Settlement

In November 1998, Washington joined 45 other states in a Master Settlement Agreement (MSA) with the nation's largest tobacco manufacturers to provide restitution for monies spent under health care programs for the treatment of smoking-related illnesses. Washington's share of the settlement is expected to be approximately $138 million in Fiscal Year 2008 and is subject to various offsets, reductions, and adjustments. Beginning in 2008, Washington received the first of ten "strategic contribution payments" under the MSA. This payment, which is subject to the same offsets, reductions, and adjustments as are applicable to the base payment, is estimated to be approximately $48-$49 million.

In 2006, 2007, and 2008, determinations were made under a process established by the MSA that disadvantages experienced as a result of participating in the MSA were a significant factor contributing to the market share loss by manufacturers. These determinations related to sales data for the years 2003, 2004, and 2005. Washington faces a potential "NPM adjustment" of between $0 and $130 million for the year 2003, $0 and $137 million for the year 2004, and $0 and $131 million for the year 2005.

Washington and 37 other states each filed court actions seeking a declaration that they had diligently enforced their escrow statutes. In the Consent Decree, the King County Superior Court retained jurisdiction to enforce and interpret the MSA as to Washington. The participating manufacturers oppose having the diligent enforcement issue decided by numerous state courts. They believe the issue is governed by an arbitration clause in the MSA that they claim requires a panel of arbitrators to decide, in a single national proceeding, whether individual states diligently enforced their own statutes.

The King County Superior Court heard Washington's motion and, in late September 2006, entered an order compelling arbitration and dismissing the state's action. Washington's appeal was dismissed and the trial court's order compelling arbitration is now final. The vast majority of states have final orders compelling them to arbitrate. It appears likely that a substantial number of disputes will be resolved through a multistate arbitration. It is uncertain when such arbitration would commence, but a decision on the merits of the disputes is not likely until 2010.

C. FEDERAL ASSISTANCE

The state has received federal financial assistance for specific purposes that are generally subject to review or audit by the grantor agencies. Entitlement to this assistance is generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of assistance for allowable purposes. Any disallowance resulting from a review or audit may become a liability of the state. The state does estimate and recognize a claims and judgments liability for disallowances when determined by the grantor agency or for probable disallowances based on experience pertaining to these grants; however, these recognized liabilities and any unrecognized disallowances are considered immaterial to the state's overall financial condition.

D. ARBITRAGE REBATE

Rebatable arbitrage is defined by the Internal Revenue Service Code Section 148 as earnings on investments purchased from the gross proceeds of a bond issue that are in excess of the amount that would have been earned if the investments were invested at a yield equal to the yield on the bond issue. The rebatable arbitrage must be paid to the federal government. State agencies and universities responsible for investments from bond proceeds carefully monitor their investments to restrict earnings to a yield less than the bond issue, and therefore limit any state arbitrage liability. The state estimates that rebatable arbitrage liability, if any, will be immaterial to its overall financial condition.

E. OTHER COMMITMENTS AND CONTINGENCIES

School Bond Guarantee Program

Washington voters passed a constitutional amendment in November 1999, creating the Washington State School Bond Guarantee Program. The program's purpose is to provide savings to state taxpayers by pledging the full faith and credit of the state of Washington to the full and timely payment of voter-approved school district general obligation bonds in the event a school district is unable to make a payment. The issuing school district remains responsible for the repayment of the bonds, including any payment the state makes under the guarantee.

The State Treasurer introduced the School Bond Guarantee Program in March 2000. At the end of Fiscal Year 2008 the state had guaranteed 199 school districts' voter-approved general obligation debt with a total outstanding principal of $7.3 billion. The state estimates that school bond guarantee liability, if any, will be immaterial to its overall financial condition.

Local Option Capital Asset Lending Program (LOCAL)

On September 1, 1998, the state lease-purchase program was extended to local governments seeking low cost financing of essential equipment. The program allows

local governments to pool their financing requests together with Washington State agencies in Certificates of Participation (COPs). Refer to Note 7.B for the state's COP disclosure. These COP's do not constitute a debt or pledge of the faith and credit of the state, rather local governments pledge their full faith and credit in a general obligation pledge. In the event that any local government fails to make any payment, the state is obligated to withhold an amount sufficient to make such payment from the local government's share, if any, of state revenues or other amounts authorized or required by law to be distributed by the state to such local government, if otherwise legally permissible.

Upon failure of any local government to make a payment, the state is further obligated, to the extent of legally available appropriated funds to make such payment on behalf of such local government. The local government remains obligated to make all COP payments and reimburse the state for any conditional payments.

As of June 30, 2008, outstanding certificates of participation notes totaled $77.7 million for 185 local governments participating in LOCAL. The state estimates that LOCAL program liability, if any, will be immaterial to its overall financial condition.

Note 14
Subsequent Events

A. BOND ISSUES

In July 2008, the state issued $492.5 million in Various Purpose General Obligation Bonds, Series 2009A, $260 million in Motor Vehicle Fuel Tax General Obligation Bonds, Series 2009B, and $70.6 million in General Obligation Taxable Bonds, Series 2009T.

B. CERTIFICATES OF PARTICIPATION

In September 2008, the state issued $11.8 million in Certificates of Participation for various state and local government equipment purchases, Series 2008D.

In December 2008, the state plans to issue $14 million in Certificates of Participation for various state and local government equipment purchases, Series 2008E.

C. FINANCIAL MARKET LOSSES

Subsequent to June 30, 2008, the Washington State Investment Board (WSIB), which manages the state's pension trust, workers' compensation, and certain permanent fund investments, realized investment losses upon the failures of Lehman Brothers Holdings, Inc., Washington Mutual, Inc., and American International Group, Inc. Overall losses of $225 million were realized, allocated 79 percent, 18 percent and 3 percent to pension trust, workers' compensation and permanent funds, respectively. These losses are not reflected in the accompanying financial statements since the losses arose subsequent to June 30, 2008.

Also, subsequent to June 30, 2008, the state sustained other unrealized losses on investments due to turmoil within the capital markets. These losses are deemed temporary in nature and, given that they occurred after June 30, 2008, are not reflected in the accompanying financial statements.

RSI
Required Supplementary Information

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BUDGETARY INFORMATION
Budgetary Comparison Schedule

Budgetary Comparison Schedule
General Fund
For the Fiscal Year Ended June 30, 2008
(expressed in thousands)

	General Fund			
	Original Budget 2007-09 Biennium	Final Budget 2007-09 Biennium	Actual 2007-09 Biennium	Variance with Final Budget
Budgetary fund balance, July 1	$ 780,510	$ 780,510	$ 780,510	$ -
RESOURCES				
Taxes	29,144,057	29,058,120	14,276,390	(14,781,730)
Licenses, permits, and fees	181,346	189,991	97,493	(92,498)
Other contracts and grants	288,705	395,920	162,238	(233,682)
Timber sales	6,657	6,697	2,847	(3,850)
Federal grants-in-aid	12,347,165	12,474,335	5,871,839	(6,602,496)
Charges for services	123,032	63,764	56,614	(7,150)
Interest income	143,544	154,270	113,034	(41,236)
Miscellaneous revenue	126,270	100,384	69,358	(31,026)
Escheated property	-	-	89,727	89,727
Transfers from other funds	512,072	417,434	72,007	(345,427)
Total Resources	43,653,358	43,641,425	21,592,057	(22,049,368)
CHARGES TO APPROPRIATIONS				
General government	2,982,113	3,104,985	1,637,339	1,467,646
Human services	21,186,368	21,321,458	10,276,682	11,044,776
Natural resources and recreation	704,224	714,456	326,277	388,179
Transportation	86,584	80,967	42,609	38,358
Education	17,229,757	17,301,727	8,387,898	8,913,829
Capital outlays	216,104	217,599	41,676	175,923
Transfers to other funds	571,900	375,793	71,421	304,372
Total Charges To Appropriations	42,977,050	43,116,985	20,783,902	22,333,083
Excess Available For Appropriation Over (Under) Charges To Appropriations	676,308	524,440	808,155	283,715
RECONCILING ITEMS				
Changes in reserves (net)	-	-	(10,076)	(10,076)
Entity adjustments (net)	-	-	(8,577)	(8,577)
Total Reconciling Items	-	-	(18,653)	(18,653)
Budgetary fund balance, June 30	$ 676,308	$ 524,440	$ 789,502	$ 265,062

BUDGETARY INFORMATION

Budgetary Comparison Schedule – Budget to GAAP Reconciliation

Budgetary Comparison Schedule - Budget to GAAP Reconciliation
General Fund
For the Fiscal Year Ended June 30, 2008
(expressed in thousands)

	General Fund
SOURCES / INFLOWS OF RESOURCES	
Actual amounts (budgetary basis) "Total Resources" from the Budgetary Comparison Schedule	$ 21,592,057
Differences - budget to GAAP:	
The following items are inflows of budgetary resources but are not revenue for financial reporting purposes:	
Transfers from other funds	(72,007)
Budgetary fund balance at the beginning of the biennium	(780,510)
The following items are not inflows of budgetary resources but are revenue for financial reporting purposes:	
Noncash commodities and electronic food stamp benefits	643,995
Unanticipated receipts	8,823
Noncash revenues	23,706
Revenues collected for other governments	32,486
Total Revenues (GAAP Basis) as Reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	$ 21,448,550
USES / OUTFLOWS OF RESOURCES	
Actual amounts (budgetary basis) "Total Charges to Appropriations" from the Budgetary Comparison Schedule.	$ 20,783,902
Differences - budget to GAAP:	
Budgeted expenditure transfers are recorded as expenditures in the budget statement but are recorded as other financing sources (uses) for financial reporting purposes.	(1,145,328)
The following items are outflows of budgetary resources but are not expenditures for financial reporting purposes.	
Transfers to other funds	(71,421)
Loan disbursements	3,440
The following items are not outflows of budgetary resources but are recorded as current expenditures for financial reporting purposes.	
Noncash commodities and electronic food stamp benefits	676,278
Expenditures related to unanticipated receipts	8,823
Capital lease acquisitions	12,110
Distributions to other governments	32,486
Total Expenditures (GAAP Basis) as Reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	$ 20,300,290

BUDGETARY INFORMATION

Notes to RSI

Required Supplementary Information

GENERAL BUDGETARY POLICIES AND PROCEDURES

The Governor is required to submit a budget to the state Legislature no later than December 20 of the year preceding odd-numbered year sessions of the Legislature. The budget is a proposal for expenditures in the ensuing biennial period based upon anticipated revenues from the sources and rates existing by law at the time of submission of the budget. The Governor may additionally submit, as an appendix to the budget, a proposal for expenditures in the ensuing biennium from revenue sources derived from proposed changes in existing statutes.

The appropriated budget and any necessary supplemental budgets are legally required to be adopted through the passage of appropriation bills by the Legislature and approved by the Governor. Operating appropriations are generally made at the fund/account and agency level; however, in a few cases, appropriations are made at the fund/account and agency/program level. Operating appropriations cover either the entire biennium or a single fiscal year within the biennium. Capital appropriations are biennial and are generally made at the fund/account, agency, and project level.

The legal level of budgetary control is at the fund/account, agency, and appropriation level, with administrative controls established at lower levels of detail in certain instances. The accompanying budgetary schedules are not presented at the legal level of budgetary control. This is due to the large number of appropriations within individual agencies that would make such a presentation in the accompanying financial schedules extremely cumbersome. Section 2400.121 of the GASB Codification of Governmental Accounting and Financial Reporting Standards provides for the preparation of a separate report in these extreme cases. For the state of Washington, a separate report has been prepared for the 2007-09 Biennium to illustrate legal budgetary compliance. Appropriated budget versus actual expenditures, and estimated versus actual revenues and other financing sources (uses) for appropriated funds at agency and appropriation level are presented in 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 over-expenditures are prohibited. All appropriated and certain nonappropriated funds are further controlled by the executive branch through the allotment process. This process allocates the expenditure/expense plan into monthly allotments by program, source of funds, and object of expenditure. According to statute RCW 43.88.110(2), except under limited circumstances, the original allotments are approved by the Governor and may be revised on a quarterly basis and must be accompanied by an explanation of the reasons for significant changes. Because allotments are not the strict legal limit on expenditures/expenses, the budgetary schedules presented as required supplementary information (RSI) are shown on an appropriation versus actual comparison rather than an allotment versus actual comparison.

Proprietary funds typically earn revenues and incur expenses (i.e., depreciation or budgeted asset purchases) not covered by the allotment process. Budget estimates are generally made outside the allotment process according to prepared business plans. These proprietary fund business plan estimates are adjusted only at the beginning of each fiscal year.

Additional fiscal control is exercised through various means. OFM is authorized to make expenditure/expense allotments based on availability of unanticipated receipts, mainly federal government grant increases made during a fiscal year. State law does not preclude the over-expenditure of allotments, although RCW 43.88.110(3) requires that the Legislature be provided an explanation of major variances.

Operating encumbrances lapse at the end of the applicable appropriation. Capital outlay encumbrances lapse at the end of the biennium unless reappropriated by the Legislature in the ensuing biennium. Encumbrances outstanding against continuing appropriations at fiscal year end are reported as reservations of fund balance.

Budgetary Reporting vs. GAAP Reporting

Governmental funds are budgeted materially in conformance with GAAP. However, the presentation in the accompanying budgetary schedules is different in certain respects from the corresponding Statements of Revenues, Expenditures, and Changes in Fund Balance (governmental operating statement). In the accompanying budgetary schedules, budget and actual expenditures are reported only for appropriated activities. Expenditures are classified based on whether the appropriation is from the operating or capital budget. Expenditures funded by operating budget appropriations are reported as current expenditures classified by the function of the agency receiving the appropriation. Expenditures funded by capital budget appropriations are reported as capital outlays.

However, in the governmental operating statements, all governmental funds are included and expenditures are classified according to what was actually purchased. Capital outlays are fixed asset acquisitions such as land, buildings, and equipment. Debt service expenditures are principal and interest payments. Current expenditures are all other governmental fund expenditures classified based on the function of the agency making the expenditures.

Additionally, certain governmental activities are excluded from the budgetary schedules because they are not appropriated. These activities include activities designated as nonappropriated by the Legislature, such as the Higher Education Special Revenue Fund, Higher Education Endowment Fund, Tobacco Settlement Securitization Bond Debt Service Fund, federal surplus food commodities, electronic food stamp benefits, capital leases, note proceeds, and resources collected and distributed to other governments.

Further, certain expenditures are appropriated as operating transfers. These transfers are reported as operating transfers on the budgetary schedules and as expenditures on the governmental operating statements. The factors contributing to the differences between the Budgetary Comparison Schedule and the Statement of Revenues, Expenditures, and Changes in Fund Balance are noted in the previous Budget to GAAP reconciliation.

Budgetary Fund Balance includes the following as reported on the Governmental Funds Balance Sheet: Unreserved, undesignated fund balance; and Reserved for encumbrances.

PENSION PLAN INFORMATION
Schedules of Funding Progress

continued

Schedule of Funding Progress
Public Employees' Retirement System - Plan 1
Valuation Years 2007 through 2002
(dollars in millions)

	2007	2006	2005	2004	2003	2002
Actuarial valuation date	6/30/2007	9/30/2006	9/30/2005	9/30/2004	9/30/2003	9/30/2002
Actuarial value of plan assets	$ 9,715	$ 9,591	$ 9,707	$ 9,928	$ 10,227	$ 10,757
Actuarial accrued liability	13,740	13,129	13,704	12,855	12,692	12,560
Unfunded actuarial liability	4,025	3,538	3,997	2,927	2,465	1,803
Percentage funded	71%	73%	71%	77%	81%	86%
Covered payroll	676	725	786	863	945	1,023
Unfunded actuarial liability as a percentage of covered payroll	595%	488%	509%	339%	261%	176%

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

Schedule of Funding Progress
Public Employees' Retirement System - Plan 2/3
Valuation Years 2007 through 2002
(dollars in millions)

	2007	2006	2005	2004	2003	2002
Actuarial valuation date	6/30/2007	N/A	N/A	N/A	N/A	N/A
Actuarial value of plan assets	$ 14,888	N/A	N/A	N/A	N/A	N/A
Actuarial accrued liability	14,661	N/A	N/A	N/A	N/A	N/A
Unfunded actuarial liability	(227)	N/A	N/A	N/A	N/A	N/A
Percentage funded	102%	N/A	N/A	N/A	N/A	N/A
Covered payroll	7,157	N/A	N/A	N/A	N/A	N/A
Unfunded actuarial liability as a percentage of covered payroll	0%	N/A	N/A	N/A	N/A	N/A

PERS Plan 2/3 uses the aggregate actuarial cost method. Effective for reporting year 2007, this Schedule of Funding Progress is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress information of this plan as required by GASB Statement No. 50.

N/A indicates data not available.

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

PENSION PLAN INFORMATION
Schedules of Funding Progress

continued

Schedule of Funding Progress
Teachers' Retirement System - Plan 1
Valuation Years 2007 through 2002
(dollars in millions)

	2007	2006	2005	2004	2003	2002
Actuarial valuation date	6/30/2007	9/30/2006	9/30/2005	9/30/2004	9/30/2003	9/30/2002
Actuarial value of plan assets	$ 8,302	$ 8,275	$ 8,450	$ 8,728	$ 9,086	$ 9,365
Actuarial accrued liability	10,826	10,359	10,894	10,401	10,325	10,235
Unfunded actuarial liability	2,524	2,084	2,444	1,673	1,239	870
Percentage funded	77%	80%	78%	84%	88%	91%
Covered payroll	426	478	546	616	692	741
Unfunded actuarial liability as a percentage of covered payroll	592%	436%	448%	272%	179%	117%

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

Schedule of Funding Progress
Teachers' Retirement System - Plan 2/3
Valuation Years 2007 through 2002
(dollars in millions)

	2007	2006	2005	2004	2003	2002
Actuarial valuation date	6/30/2007	N/A	N/A	N/A	N/A	N/A
Actuarial value of plan assets	$ 5,277	N/A	N/A	N/A	N/A	N/A
Actuarial accrued liability	4,682	N/A	N/A	N/A	N/A	N/A
Unfunded actuarial liability	(595)	N/A	N/A	N/A	N/A	N/A
Percentage funded	113%	N/A	N/A	N/A	N/A	N/A
Covered payroll	3,318	N/A	N/A	N/A	N/A	N/A
Unfunded actuarial liability as a percentage of covered payroll	0%	N/A	N/A	N/A	N/A	N/A

TRS Plan 2/3 uses the aggregate actuarial cost method. Effective for reporting year 2007, this Schedule of Funding Progress is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress information of this plan as required by GASB Statement No. 50.

N/A indicates data not available.

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

PENSION PLAN INFORMATION
Schedules of Funding Progress

continued

Schedule of Funding Progress
School Employees' Retirement System - Plan 2/3
Valuation Years 2007 through 2002
(dollars in millions)

	2007	2006	2005	2004	2003	2002
Actuarial valuation date	6/30/2007	N/A	N/A	N/A	N/A	N/A
Actuarial value of plan assets	$ 2,133	N/A	N/A	N/A	N/A	N/A
Actuarial accrued liability	1,998	N/A	N/A	N/A	N/A	N/A
Unfunded actuarial liability	(135)	N/A	N/A	N/A	N/A	N/A
Percentage funded	107%	N/A	N/A	N/A	N/A	N/A
Covered payroll	1,283	N/A	N/A	N/A	N/A	N/A
Unfunded actuarial liability as a percentage of covered payroll	0%	N/A	N/A	N/A	N/A	N/A

SERS Plan 2/3 uses the aggregate actuarial cost method. Effective for reporting year 2007, this Schedule of Funding Progress is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress information of this plan as required by GASB Statement No. 50.

N/A indicates data not available.

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

Schedule of Funding Progress
Law Enforcement Officers' and Fire Fighters' Retirement System - Plan 1
Valuation Years 2007 through 2002
(dollars in millions)

	2007	2006	2005	2004	2003	2002
Actuarial valuation date	6/30/2007	9/30/2006	9/30/2005	9/30/2004	9/30/2003	9/30/2002
Actuarial value of plan assets	$ 5,298	$ 5,018	$ 4,800	$ 4,666	$ 4,803	$ 5,095
Actuarial accrued liability	4,340	4,309	4,243	4,266	4,275	4,259
Unfunded (assets in excess of) actuarial liability	(958)	(709)	(557)	(400)	(528)	(836)
Percentage funded	122%	116%	113%	109%	112%	120%
Covered payroll	43	48	56	64	71	80
Unfunded actuarial liability as a percentage of covered payroll	0%	N/A	N/A	N/A	N/A	N/A

N/A indicates data not available.

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

PENSION PLAN INFORMATION
Schedules of Funding Progress

continued

Schedule of Funding Progress
Law Enforcement Officers' and Fire Fighters' Retirement System - Plan 2
Valuation Years 2007 through 2002
(dollars in millions)

	2007	2006	2005	2004	2003	2002
Actuarial valuation date	6/30/2007	N/A	N/A	N/A	N/A	N/A
Actuarial value of plan assets	$ 4,360	N/A	N/A	N/A	N/A	N/A
Actuarial accrued liability	3,626	N/A	N/A	N/A	N/A	N/A
Unfunded (assets in excess of) actuarial liability	(734)	N/A	N/A	N/A	N/A	N/A
Percentage funded	120%	N/A	N/A	N/A	N/A	N/A
Covered payroll	1,234	N/A	N/A	N/A	N/A	N/A
Unfunded actuarial liability as a percentage of covered payroll	0%	N/A	N/A	N/A	N/A	N/A

LEOFF Plan 2 uses the aggregate actuarial cost method. Effective for reporting year 2007, this Schedule of Funding Progress is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress information of this plan as required by GASB Statement No. 50.

N/A indicates data not available.

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

Schedule of Funding Progress
Washington State Patrol Retirement System - Plan 1/2
Valuation Years 2007 through 2002
(dollars in millions)

	2007	2006	2005	2004	2003	2002
Actuarial valuation date	6/30/2007	N/A	N/A	N/A	N/A	N/A
Actuarial value of plan assets	$ 800	N/A	N/A	N/A	N/A	N/A
Actuarial accrued liability	702	N/A	N/A	N/A	N/A	N/A
Unfunded actuarial liability	(98)	N/A	N/A	N/A	N/A	N/A
Percentage funded	114%	N/A	N/A	N/A	N/A	N/A
Covered payroll	72	N/A	N/A	N/A	N/A	N/A
Unfunded actuarial liability as a percentage of covered payroll	0%	N/A	N/A	N/A	N/A	N/A

WSPRS Plan 1/2 uses the aggregate actuarial cost method. Effective for reporting year 2007, this Schedule of Funding Progress is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress information of this plan as required by GASB Statement No. 50.

N/A indicates data not available.

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

PENSION PLAN INFORMATION
Schedules of Funding Progress

continued

Schedule of Funding Progress
Public Safety Employees' Retirement System - Plan 2
Valuation Years 2007 through 2002
(dollars in millions)

	2007	2006	2005	2004	2003	2002
Actuarial valuation date	6/30/2007	N/A	N/A	N/A	N/A	N/A
Actuarial value of plan assets	$ 14	N/A	N/A	N/A	N/A	N/A
Actuarial accrued liability	12	N/A	N/A	N/A	N/A	N/A
Unfunded actuarial liability	(2)	N/A	N/A	N/A	N/A	N/A
Percentage funded	117%	N/A	N/A	N/A	N/A	N/A
Covered payroll	134	N/A	N/A	N/A	N/A	N/A
Unfunded actuarial liability as a percentage of covered payroll	0%	N/A	N/A	N/A	N/A	N/A

PSERS Plan 2 uses the aggregate actuarial cost method. Effective for reporting year 2007, this Schedule of Funding Progress is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress information of this plan as required by GASB Statement No. 50.

N/A indicates data not available.

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

Schedule of Funding Progress
Judicial Retirement System
Valuation Years 2007 through 2002
(dollars in millions)

	2007	2006	2005	2004	2003	2002
Actuarial valuation date	6/30/2007	9/30/2006	9/30/2005	9/30/2004	9/30/2003	9/30/2002
Actuarial value of plan assets	$ 1	$ 0.3	$ 2	$ 4	$ 6	$ 8
Actuarial accrued liability	85	88	89	89	91	92
Unfunded actuarial liability	84	88	87	85	85	84
Percentage funded	1%	0%	2%	4%	7%	9%
Covered payroll	1.3	1.4	1.7	2.4	2.6	3
Unfunded actuarial liability as a percentage of covered payroll	6462%	6286%	5118%	3542%	3269%	2800%

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

PENSION PLAN INFORMATION
Schedules of Funding Progress

concluded

Schedule of Funding Progress
Judges' Retirement Fund
Valuation Years 2007 through 2002
(dollars in millions)

	2007	2006	2005	2004	2003	2002
Actuarial valuation date	6/30/2007	9/30/2006	9/30/2005	9/30/2004	9/30/2003	9/30/2002
Actuarial value of plan assets	$ 4.0	$ 4.1	$ 4.2	$ 4.4	$ 4.5	$ 4.7
Actuarial accrued liability	3.9	4.0	4.5	4.7	5.2	5.5
Unfunded (assets in excess of) actuarial liability	(0.1)	(0.1)	0.3	0.3	0.7	0.8
Percentage funded	103%	103%	93%	94%	87%	85%
Covered payroll	-	-	-	-	-	0.1
Unfunded actuarial liability as a percentage of covered payroll	N/A	N/A	N/A	N/A	N/A	N/A

N/A indicates data not available.

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

Schedule of Funding Progress
Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund
Valuation Years 2007 through 2002
(dollars in millions)

	2007	2006	2005	2004	2003	2002
Actuarial valuation date	6/30/2007	12/31/2006	12/31/2005	12/31/2004	12/31/2003	12/31/2002
Actuarial value of plan assets	$ 151	$ 140	$ 127	$ 120	$ 120	$ 124
Actuarial accrued liability	136	142	140	115	112	110
Unfunded (assets in excess of) actuarial liability	(15)	2	13	(5)	(8)	(14)
Percentage funded	111%	99%	91%	104%	107%	113%
Covered payroll	N/A	N/A	N/A	N/A	N/A	N/A
Unfunded actuarial liability as a percentage of covered payroll	N/A	N/A	N/A	N/A	N/A	N/A

* Pension plan liability only - excludes relief benefits.

**Covered Payroll is not presented because it is not applicable since this is a volunteer organization.

N/A indicates data not available.

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

PENSION PLAN INFORMATION

Schedules of Contributions from Employers and Other Contributing Entities (cont'd)

Schedules of Contributions from Employers and Other Contributing Entities
For the Fiscal Years Ended June 30, 2008 through 2003
(expressed in millions)

	2008	2007	2006	2005	2004	2003
PUBLIC EMPLOYEES' RETIREMENT PLAN SYSTEM - PLAN 1						
Employers' annual required contribution	$ 453.1	$ 397.3	$ 438.5	$ 340.3	$ 295.1	$ 228.9
Employers' actual contribution	221.8	118.7	29.6	22.4	22.8	56.6
Percentage contributed	49%	30%	7%	7%	8%	25%
PUBLIC EMPLOYEES' RETIREMENT PLAN SYSTEM - PLAN 2/3						
Employers' annual required contribution	$ 363.3	$ 331.3	$ 307.6	$ 227.7	$ 192.6	$ 141.7
Employers' actual contribution	318.7	242.5	149.6	74.7	69.4	38.2
Percentage contributed	88%	73%	49%	33%	36%	27%
TEACHERS' RETIREMENT SYSTEM - PLAN 1						
Employers' annual required contribution	$ 294.7	$ 249.8	$ 287.5	$ 224.3	$ 185.7	$ 153.4
Employers' actual contribution	113.1	60.5	15.1	8.8	11.4	20.4
Percentage contributed	38%	24%	5%	4%	6%	13%
TEACHERS' RETIREMENT SYSTEM - PLAN 2/3						
Employers' annual required contribution	$ 208.9	$ 167.7	$ 166.4	$ 117.4	$ 96.2	$ 79.5
Employers' actual contribution	109.5	102.2	75.4	33.8	29.9	18.2
Percentage contributed	52%	61%	45%	29%	31%	23%
SCHOOL EMPLOYEES' RETIREMENT SYSTEM - PLAN 2/3						
Employers' annual required contribution	$ 75.8	$ 71.5	$ 81.4	$ 64.0	$ 52.3	$ 44.2
Employers' actual contribution	52.1	45.9	30.4	10.2	9.1	6.2
Percentage contributed	69%	64%	37%	16%	17%	14%

The Annual Required Contribution (ARC) changes each year with the experience of the plans. Factors influencing the experience include changes in funding methods, assumptions, plan provisions, and economic and demographic gains and losses. The methods used to derive the ARC for this accounting disclosure are different from that used to derive the actual contributions required by law. These differences include the use of different actuarial valuations (actual contributions may be based on an earlier valuation), and different actuarial cost methods. For these reasons the actual contributions will not match the Annual Required Contributions.

Source: Washington State Office of the State Actuary

PENSION PLAN INFORMATION

Schedules of Contributions from Employers and Other Contributing Entities (cont'd)

Schedules of Contributions from Employers and Other Contributing Entities
For the Fiscal Years Ended June 30, 2008 through 2003
(expressed in millions)

	2008	2007	2006	2005	2004	2003
LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS' RETIREMENT SYSTEM - PLAN 1						
Employers' annual required contribution	$ -	$ 0.1	$ -	$ -	$ -	$ -
Employers' actual contribution	-	0.1	0.1	-	-	0.1
Percentage contributed	N/A	100%	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*	$ 61.3	$ 56.9	$ 60.8	$ 48.5	$ 41.5	$ 34.1
Employers' actual contribution	73.4	58.2	48.5	32.8	30.8	25.6
Percentage contributed	120%	102%	80%	68%	74%	75%
State annual required contribution*	40.8	38.0	40.5	32.3	27.7	22.7
State actual contribution	45.9	37.9	31.7	21.3	20.2	16.4
Percentage contributed	N/A	100%	78%	66%	73%	72%
WASHINGTON STATE PATROL RETIREMENT SYSTEM						
Employers' annual required contribution	$ 6.8	$ 5.3	$ 6.1	$ 3.4	$ 2.6	$ -
Employers' actual contribution	6.1	3.3	3.1	-	-	-
Percentage contributed	90%	62%	51%	0%	0%	N/A

N/A indicates data not available.

*The Annual Required Contribution (ARC) for the LEOFF Plan 2 presented is the Office of the State Actuary's recommended figure; the LEOFF Plan 2 board has proposed a higher ARC of $113.5 Million.

The Annual Required Contribution (ARC) changes each year with the experience of the plans. Factors influencing the experience include changes in funding methods, assumptions, plan provisions, and economic and demographic gains and losses. The methods used to derive the ARC for this accounting disclosure are different from that used to derive the actual contributions required by law. These differences include the use of different actuarial valuations (actual contributions may be based on an earlier valuation), and different actuarial cost methods. For these reasons the actual contributions will not match the Annual Required Contributions.

Source: Washington State Office of the State Actuary

PENSION PLAN INFORMATION

Schedules of Contributions from Employers and Other Contributing Entities (concl'd)

Schedules of Contributions from Employers and Other Contributing Entities
For the Fiscal Years Ended June 30, 2008 through 2003
(expressed in millions)

	2008	2007	2006	2005	2004	2003
PUBLIC SAFETY EMPLOYEES' RETIREMENT PLAN SYSTEM - PLAN 2						
Employers' annual required contribution	$ 12.4	$ 7.1	$ -	$ -	$ -	$ -
Employers' actual contribution	11.7	6.6	-	-	-	-
Percentage contributed	94%	93%	N/A	N/A	N/A	N/A
JUDICIAL RETIREMENT SYSTEM						
Employers' annual required contribution	$ 26.6	$ 37.3	$ 27.7	$ 21.7	$ 18.5	$ 16.2
Employers' actual contribution	9.6	9.6	6.7	6.2	6.2	6.2
Percentage contributed	36%	26%	24%	29%	34%	38%
JUDGES' RETIREMENT FUND						
Employers' annual required contribution	$ -	$ -	$ 0.1	$ 0.1	$ 0.2	$ 0.1
Employers' actual contribution	-	0.3	0.3	0.5	0.5	0.3
Percentage contributed	N/A	N/A	300%	500%	250%	300%
VOLUNTEER FIRE FIGHTERS' AND RESERVE OFFICERS' RELIEF AND PENSION FUND						
Employers' annual required contribution	$ 1.0	$ 1.0	$ 1.0	$ 0.7	$ 0.8	$ 0.8
Employers' actual contribution	1.0	1.0	1.0	0.7	0.8	0.8
Percentage contributed	100%	100%	100%	100%	100%	100%
State annual required contribution	0.9	2.0	3.6	1.8	1.5	0.7
State actual contribution	5.0	6.0	4.6	4.4	4.4	3.3
Percentage contributed	556%	300%	128%	244%	293%	471%

N/A indicates data not available.

The Annual Required Contribution (ARC) changes each year with the experience of the plans. Factors influencing the experience include changes in funding methods, assumptions, plan provisions, and economic and demographic gains and losses. The methods used to derive the ARC for this accounting disclosure are different from that used to derive the actual contributions required by law. These differences include the use of different actuarial valuations (actual contributions may be based on an earlier valuation), and different actuarial cost methods. For these reasons the actual contributions will not match the Annual Required Contributions.

Source: Washington State Office of the State Actuary

OTHER POSTEMPLOYMENT BENEFITS INFORMATION
Schedule of Funding Progress

Schedule of Funding Progress
Other Postemployment Benefits
Valuation Years 2007 through 2005
(dollars in millions)

	2007	2006	2005
Actuarial valuation date	1/1/2007	N/A	N/A
Actuarial value of plan assets	$ -	N/A	N/A
Actuarial accrued liability (AAL)*	3,800	N/A	N/A
Unfunded actuarial accrued liability (UAAL)	3,800	N/A	N/A
Funded ratio	0%	N/A	N/A
Covered payroll	5,427	N/A	N/A
UAAL as a percentage of covered payroll	70.01%	N/A	N/A

* Based on projected unit credit actuarial cost method.

N/A indicates data not available.

Source: Washington State Office of the State Actuary

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

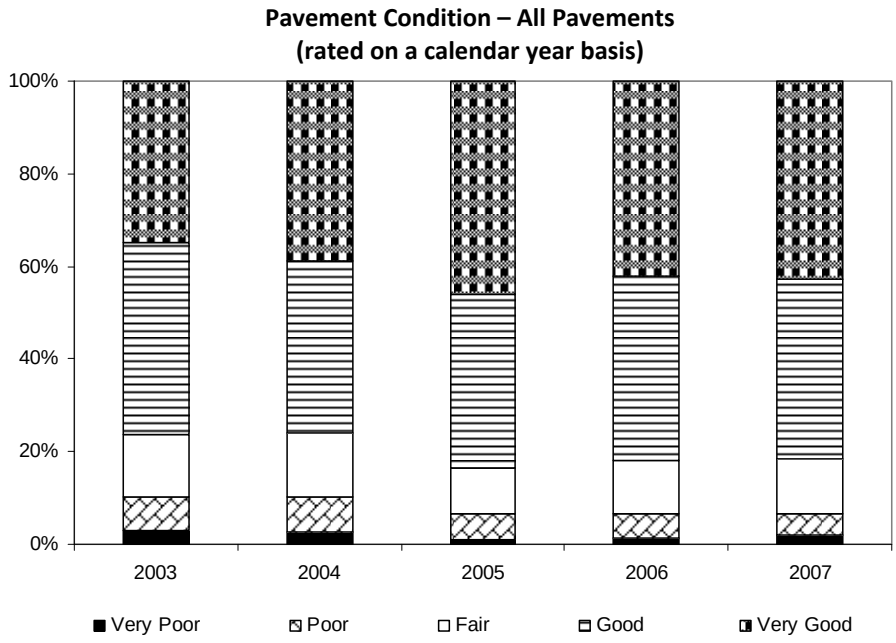
The Washington State Department of Transportation (WSDOT) owns and maintains 20,251 lane miles of highway, including ramps, collectors and special use lanes. Special use lanes include High Occupancy Vehicle (HOV), climbing, chain-up, holding, slow vehicle turnout, two-way turn, weaving/speed change, bicycle, transit, truck climbing shoulder, turn and acceleration lanes. Special use and ramp/collector lane miles make up 1,816 of the total lane miles.

WSDOT has been rating pavement condition since 1969. Pavement rated in good condition is smooth and has few defects. Pavement in poor condition is characterized by cracking, patching, roughness and rutting. Pavement condition is rated using three factors: Pavement Structural Condition (PSC), International Roughness Index (IRI), and Rutting.

In 1993 the Legislature required WSDOT to rehabilitate pavements at the Lowest Life Cycle Cost (LLCC), which has been determined to occur at a PSC range between 40 and 60, or when triggers for roughness or rutting are met. The trend over the last five years has shown that the percent of pavements in poor or very poor condition was fairly stable at 7 percent - 10 percent, with an improvement to 6 percent - 7 percent in 2005 through 2007. WSDOT uses LLCC analysis to manage its pavement preservation program. The principles behind LLCC are basic – if rehabilitation is done too early, pavement life is wasted; if rehabilitation is done too late, very costly repair work may be required, especially if the underlying structure is compromised. WSDOT continually looks for ways to best strike the balance between these two basic principles.

While the goal for pavements is zero miles in 'poor' condition, marginally good pavements may deteriorate into poor condition during the lag time between assessment and actual rehabilitation. As a result, a small percentage of marginally good pavements will move into the 'poor' condition category for any given assessment period.

WSDOT manages state highways targeting the LLCC per the Pavement Management System due date. While the department has a long-term goal of no pavements in poor condition (a pavement condition index less than 40, on a 100 point scale), the current policy is to maintain 90 percent of all highway pavement types at a pavement condition index of 40 or better with no more than 10 percent of its highways at a pavement condition below 40. The most recent assessment found that state highways were within the prescribed parameters with only 7 percent of all pavement types with a pavement condition index below 40.



WSDOT uses the following scale for Pavement Structural Condition (PSC):

Category	PSC Range	Description
Very Good	80 – 100	Little or no distress. Example: Flexible pavement with 5 percent of wheel track length having "hairline" severity alligator cracking will have a PSC of 80.
Good	60 – 80	Early stage deterioration. Example: Flexible pavement with 15 percent of wheel track length having "hairline" alligator cracking will have a PSC of 70.
Fair	40 – 60`	This is the threshold value for rehabilitation. Example: Flexible pavement with 25 percent of wheel track length having "hairline" alligator cracking will have a PSC of 50.
Poor	20 – 40	Structural deterioration. Example: Flexible pavement with 25 percent of wheel track length having "medium (spalled)" severity alligator cracking will have a PSC of 30.
Very Poor	0 – 20	Advanced structural deterioration. Example: Flexible pavement with 40 percent of wheel track length having "medium (spalled)" severity alligator cracking will have a PSC of 10. May require extensive repair and thicker overlays.

The PSC is a measure based on distresses such as cracking and patching, which are related to the pavement's ability to carry loads. Pavements develop structural deficiencies due to truck traffic and cold weather. WSDOT attempts to program rehabilitation for pavement segments when they are projected to reach a PSC of 50. A PSC of 50 can occur due to various amounts and severity of distress. For rigid pavements (such as Portland cement concrete), a PSC of 50 represents 50 percent of the concrete slabs exhibiting joint faulting with a severity of 1/8 to 1/4 inch (faulting is the elevation difference at slab joints and results in a rough ride – particularly in large trucks). Further, a PSC of 50 can also be obtained if 25 percent of concrete slabs exhibit two to three cracks per panel.

The International Roughness Index (IRI) uses a scale in inches per mile. WSDOT considers pavements with a ride performance measure of greater than 220 inches per mile to be in poor condition. For example, new asphalt overlays typically have ride values below 75 inches per mile, which is very smooth.

Rutting is measured in 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. Years indicated are when the physical assessment was done.

In 2007, WSDOT rated pavement condition on 17,323 of the 20,251 lane miles of highway. The following chart shows recent pavement condition ratings for the State Highway System, using the combination of the three indices described on the preceding page.

Percentage of Pavement in Fair or Better Condition					
	2007*	2006*	2005*	2004*	2003*
Statewide - Chip seals	91%	91%	91%	86%	86%
Statewide - Asphalt	94%	94%	95%	92%	91%
Statewide - Concrete	93%	93%	91%	85%	92%
Statewide - All pavements	93%	94%	93%	90%	90%

Percentage of Pavement in Poor or Very Poor Condition					
	2007*	2006*	2005*	2004*	2003*
Statewide - Chip seals	9%	9%	9%	14%	14%
Statewide - Asphalt	6%	6%	5%	8%	9%
Statewide - Concrete	7%	7%	9%	15%	8%
Statewide - All pavements	7%	6%	7%	10%	10%

*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. 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 2008 there were 3,140 state-owned vehicular structures over 20 feet in length with a total area of 45,691,819 square feet. In addition to bridges, the 3,140 structures include 91 culverts and 54 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.) The fiscal year increase of 23 ferry terminal structures reflects a change in inventory detail which separated some structures that were previously reported as one structure. There were 7 bridge structures added in Fiscal Year 2008. All bridges are inspected every two 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 percent having a condition rating of fair or better and only 3 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 one closed bridge at June 30, 2008 where US97 crosses the Columbia River in south central Washington. The bridge deck is undergoing replacement.

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 922 bridges that have been classified as needing retrofitting. WSDOT has fully or partially retrofitted 370 bridges. Of those, 217 are completely retrofitted, 153 are partially retrofitted. Seismic Analysis has determined that 12 bridges do not require a retrofit. There are 19 bridges currently under contract to be retrofitted.

The following condition rating data is based on the structural sufficiency standards established in the FHWA "Recording and Coding Guide for the Structural Inventory and Appraisal of the Nation's Bridges." This structural rating relates to the evaluation of bridge superstructure, deck, substructure, structural adequacy and waterway adequacy. Three categories of condition were established in relation to the FHWA criteria as follows:

Category	National Bridge Inventory Code	Description
Good	6, 7, or 8	A range from no problems noted to some minor deterioration of structural elements.
Fair	5	All primary structural elements are sound but may have deficiencies such as minor section loss, deterioration, cracking, spalling or scour.
Poor	4 or less	Advanced deficiencies such as section loss, deterioration, cracking, spalling, scour or seriously affected primary structural components.

Note: Bridges rated in poor condition may be restricted for the weight and type of traffic allowed.

Condition rating of WSDOT's bridges:

Percentage of Bridges in Fair or Better Condition					
Bridge Type	**2008**	**2007**	**2006**	**2005**	**2004**
Reinforced concrete (1,289 bridges in FY 2008)	98.0%	98.3%	98.6%	98.6%	98.0%
Prestressed concrete (1,325 bridges in FY2008)	98.9%	99.3%	99.3%	99.5%	99.5%
Steel (356 bridges* in FY 2008)	93.9%	94.7%	94.1%	94.3%	93.5%
Timber (76 bridges in FY 2008)	71.7%	66.3%	68.1%	69.2%	70.0%
Statewide - All bridges (3,046 out of 3,140 bridges in FY 2008)	97.0%	97.4%	97.5%	97.6%	97.4%

Percentage of Bridges in Poor Condition					
Bridge Type	**2008**	**2007**	**2006**	**2005**	**2004**
Reinforced concrete (26 bridges in FY 2008)	2.0%	1.7%	1.4%	1.4%	2.0%
Prestressed concrete (15 bridges in FY 2008)	1.1%	0.7%	0.7%	0.5%	0.5%
Steel (23 bridges* in FY 2008)	6.1%	5.3%	5.9%	5.7%	6.5%
Timber (30 bridges in FY 2008)	28.3%	33.7%	31.9%	30.8%	30.0%
Statewide - All bridges (94 out of 3,140 bridges in FY 2008)	3.0%	2.6%	2.5%	2.4%	2.6%

*The steel bridge ratings for Fiscal Year 2008 include 51 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 14 posted bridges and 152 restricted bridges. Posted bridges have signs posted which inform of legal weight limits. Restricted bridges are those where overweight permits will not be issued for travel by overweight vehicles. This is one additional posted bridge in 2008 as compared to 2007. The number of restricted bridges did not change in the last year.

Refer to http://www.wsdot.wa.gov/commercialVehicle/Restrictions/ for more information on overweight restrictions. Any bridges determined to be unsafe are closed to traffic. WSDOT has one closed bridge as of June 30, 2008.

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 WSDOT owns, operates, and maintains 46 developed safety rest area (SRA) facilities, an increase of four sites in Fiscal Year 2008. Within these facilities, the department manages the following assets: 92 buildings, 692 acres, 29 on-site public drinking water systems, 36 on-site sewage pre-treatment/treatment systems, and 19 recreational vehicle sanitary disposal facilities.

In 2007, WSDOT performed the third round of Safety Rest Area 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 ten while a department image deficiency has a weighting multiplier of two. The combined total building and site ratings are used to determine each facility's overall condition, and fall into one of five categories. WSDOT will conduct the next condition assessment in 2009.

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.

Condition rating of Washington State rest areas:

Category	2007	2005	2003
Percentage of facilities in fair or good condition	95.3%	95.2%	95.2%
Percentage of facilities in poor condition	4.7%	4.8%	4.8%

Category	Description	Number of Safety Rest Areas in Category		
		2007	2005	2003
Good Condition	Facility is new construction and/or meets current standards.	8	11	11
Fair-High Condition	Facility meets current standards and/or is in adequate condition with minimal component deficiencies.	6	2	4
Fair-Mid Condition	Facility is functional, and in adequate condition with minor component deficiencies.	6	9	20
Fair-Low Condition	Facility has multiple system deficiencies.	20	18	6
Poor	Facility is at or beyond its service life, with multiple major deficiencies.	2	2	2
	Total	*42	42	43

*Four sites were not included in the condition assessment process for 2007: Iron Goat, Mader, Price Creek, and Traveler's Rest.

Emergency Air Field Condition

The 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					
		2008	2007	2006	2005	2004
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, 2008 through 2004
(expressed in thousands)

	2008			2007		
Highway System						
PAVEMENT	**Budget**	**Actual**	**Variance**	**Budget***	**Actual**	**Variance**
Preservation	$ 118,886	$ 130,375	$ (11,489)	$ 111,195	$ 99,416	$ 11,779
Maintenance	18,329	16,994	1,335	19,152	16,255	2,897
Total	$ 137,215	$ 147,369	$ (10,154)	$ 130,347	$ 115,671	$ 14,676
BRIDGES						
Preservation	$ 11,260	$ 23,407	$ (12,147)	$ 21,055	$ 20,138	$ 917
Maintenance	12,427	12,601	(174)	11,553	11,051	502
Total	$ 23,687	$ 36,008	($ 12,321)	$ 32,608	$ 31,189	$ 1,419
REST AREAS						
Preservation	$ 77	$ 77	$ -	$ 188	$ 173	$ 15
Maintenance	5,590	5,778	(188)	5,056	5,359	(303)
Total	$ 5,667	$ 5,855	$ (188)	$ 5,244	$ 5,532	$ (288)
Emergency Air Fields						
Preservation & maintenance	$ 146	$ 134	$ 12	$ 83	$ 200	$ (117)

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 32 distinct highway maintenance activities. Maintenance results are measured via field condition surveys and reported as Level of Service (LOS) ratings, which range from A to F. LOS targets are defined in terms of the condition of various highway features (i.e. percent of guardrail on the highway system that is damaged) and are set commensurate with the level of funding provided for the WSDOT highway maintenance program. More information about MAP may be obtained at: http://www.wsdot.wa.gov/maintenance/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 Fiscal Year 2008, the annual budget was calculated as half the biennial amount. This results in the biennial budget being distributed 50 percent in each fiscal year in anticipation of an even spending pattern. The spending pattern for subprogram P2, Bridges, was not approximately 50 percent in each year.

2006			2005			2004		
Budget*	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance
$ 108,409	$ 130,340	$ (21,931)	$ 118,055	$ 122,868	$ (4,813)	$ 116,902	$ 107,229	$ 9,673
19,219	18,586	633	20,657	18,715	1,942	21,254	18,064	3,190
$ 127,628	$ 148,926	$ (21,298)	$ 138,712	$ 141,583	$ (2,871)	$ 138,156	$ 125,293	$ 12,863
$ 8,434	$ 20,338	$ (11,904)	$ 16,768	$ 14,332	$ 2,436	$ 30,637	$ 24,780	$ 5,857
11,552	11,820	(268)	11,159	11,151	8	11,292	11,267	25
$ 19,986	$ 32,158	$ (12,172)	$ 27,927	$ 25,483	$ 2,444	$ 41,929	$ 36,047	$ 5,882
$ 188	$ 129	$ 59	$ 381	$ 333	$ 48	$ 331	$ 222	$ 109
5,021	5,187	(166)	4,268	5,527	(1,259)	4,268	4,833	(565)
$ 5,209	$ 5,316	$ (107)	$ 4,649	$ 5,860	$ (1,211)	$ 4,599	$ 5,055	$ (456)
$ 83	$ 67	$ 16	$ 108	$ 129	$ (21)	$ 70	$ 71	$ (1)

*The Bridge Preservation budget has been restated to reflect the approximately one-third, two-thirds expenditure pattern for Fiscal Year 2006 and Fiscal Year 2007 respectively.

The Preservation budgeted and actual amounts were adjusted for capitalized infrastructure and equipment in each fiscal year.

The Rest Areas Preservation budget is part of the P3 subprogram and consists of programmed rest area preservation projects of a non-capitalized nature. 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."

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.

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APPENDIX E

BOOK-ENTRY TRANSFER SYSTEM

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BOOK-ENTRY TRANSFER SYSTEM

The following information has been provided by DTC. The state makes no representation for the accuracy or completeness thereof, or for the absence of material changes in such information subsequent to the date hereof. Beneficial Owners should confirm the following with DTC or the Participants (as hereinafter defined).

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of each Series of the Bonds in the principal amount of such maturity and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at *www.dtcc.com* and *www.dtc.org*.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

When notices are given, they shall be sent by the Bond Registrar to DTC only. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by

arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices will be sent to DTC. If less than all of the Bonds of a Series are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the state as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distribution and dividend payments on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the state or the Bond Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Bond Registrar or the state, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions and dividend payments to Cede & Co. (or any other nominee as may be requested by an authorized representative of DTC) is the responsibility of the state or the Bond Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Bond Registrar or the state. Under such circumstances, in the event that a successor securities depository is not obtained, new certificates are required to be printed and delivered.

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.