OFFICIAL STATEMENT DATED JUNE 3, 2008

NEW ISSUE, BOOK-ENTRY ONLY

Moody's Rating: Aa2
(See "Other Certificate Information—Rating.")

In the opinion of Foster Pepper PLLC, Seattle, Washington, Certificate Counsel, 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 Certificates, interest evidenced and represented by the Certificates 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 evidenced and represented by the Certificates also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest evidenced and represented by the Certificates is to be taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest evidenced and represented by the Certificates received by certain S corporations may be subject to tax, and interest evidenced and represented by the Certificates received by foreign corporations with United States branches may be subject to a foreign branch profits tax. Receipt of interest evidenced and represented by the Certificates may have other federal tax consequences for certain taxpayers. See "Tax Matters—Tax Exemption of Certificates" and "—Certain Other Federal Tax Consequences."

$17,310,000
STATE OF WASHINGTON
CERTIFICATES OF PARTICIPATION, SERIES 2008C
(QUARTERLY)

Evidencing and Representing Undivided Proportionate Interests of the Owners Thereof in State Payments to be Made by the State of Washington Pursuant to the Master Financing Contract

DATED: DATE OF INITIAL DELIVERY (EXPECTED TO BE JUNE 13, 2008)

DUE: JANUARY 1 AND JULY 1, AS SHOWN ON PAGE i HEREOF

The State of Washington Certificates of Participation, Series 2008C (Quarterly) (the "Certificates") will be executed and delivered in fully registered form and, when executed and delivered, will be registered initially in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Certificates. Individual purchases of the Certificates will be made in book-entry form only, in denominations of $5,000 and any integral multiple thereof. Purchasers will not receive certificates representing their beneficial ownership interests in the Certificates purchased, except as described herein.

Interest evidenced and represented by the Certificates is payable semiannually on each January 1 and July 1, beginning on January 1, 2009. Principal and interest evidenced and represented by the Certificates is payable directly to DTC by The Bank of New York as Fiscal Agent for the Certificates (the "Fiscal Agent"). Upon receipt of payments of principal and interest represented by the Certificates, DTC in turn is obligated to remit such payments to the DTC Participants (as described herein) for subsequent disbursement to the purchasers of beneficial ownership interests in the Certificates.

The Certificates are subject to optional prepayment prior to their respective Principal Payment Dates. See "The Certificates—Prepayment."

The Certificates are being executed and delivered to finance and/or refinance the costs of acquisition of certain items of personal property for the benefit of certain Local Agencies and State Agencies (the "Agencies") and to fund issuance costs with respect to the Certificates. The Certificates are being executed and delivered by the Fiscal Agent pursuant to a Trust Agreement among the Fiscal Agent, the State Treasurer and the Washington Finance Officers Association (the "Corporation"), a Washington nonprofit corporation. The Certificates represent undivided proportionate interests in Installment Payments to be made by the state under a Master Financing Contract between the Corporation and the state (the "State Payments").

Except as otherwise described herein, State Payments are payable from payments to be made pursuant to the Agency Financing Contracts, each between the state and the applicable Agency ("Agency Installment Payments"). In the event that any Local Agency fails to make any payment due under its Agency Financing Contract, the State Treasurer is obligated to withhold an amount sufficient to make such payment from the Local Agency's share, if any, of state revenues or other amounts authorized or required by law to be distributed by the state to such Local Agency, if otherwise legally permissible. Upon the failure of any Local Agency to make any Agency Installment Payment, the State Treasurer is obligated further, to the extent of legally available appropriated funds and subject to any Executive Order reduction, to make the payment on behalf of the Local Agency.

THE MASTER FINANCING CONTRACT, INCLUDING THE STATE AGENCY FINANCING ADDENDA, CONSTITUTES A SPECIAL, LIMITED OBLIGATION OF THE STATE PAYABLE SOLELY FROM THE SOURCES AND SUBJECT TO THE LIMITATIONS SET FORTH THEREIN. NONE OF THE STATE PAYMENTS, THE AGENCY INSTALLMENT PAYMENTS NOR THE CERTIFICATES CONSTITUTE OR REPRESENT DEBT OR GENERAL OBLIGATIONS OF THE STATE OR ANY STATE AGENCY, AND NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE NOR ANY STATE AGENCY IS PLEDGED TO THE PAYMENT OF ANY SUCH PAYMENTS OR THE PRINCIPAL OR INTEREST EVIDENCED AND REPRESENTED BY THE CERTIFICATES. THE STATE WILL NOT BE OBLIGATED TO PAY THE SAME EXCEPT FROM AGENCY INSTALLMENT PAYMENTS AND OTHER AMOUNTS AS PROVIDED IN THE MASTER FINANCING CONTRACT. ANY PAYMENTS BY THE STATE TREASURER ON BEHALF OF A LOCAL AGENCY AND PAYMENTS BY A STATE AGENCY ARE SUBJECT TO APPROPRIATION BY THE STATE LEGISLATURE AND EXECUTIVE ORDER REDUCTION BY THE GOVERNOR. A DETERMINATION BY THE STATE LEGISLATURE NOT TO APPROPRIATE, OR ANY EXECUTIVE ORDER REDUCTION BY THE GOVERNOR, WOULD NOT CONSTITUTE AN EVENT OF DEFAULT UNDER THE TRUST AGREEMENT, THE MASTER FINANCING CONTRACT OR ANY STATE AGENCY FINANCING ADDENDA.

This cover page contains certain information for quick reference only, and is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Certificates are offered when, as and if executed and delivered, and are subject to receipt of the legal opinion of Foster Pepper PLLC, Certificate Counsel to the state, and certain other conditions. Certain legal matters will be passed upon for the Local Agencies by their respective counsel. It is expected that the Certificates will be available for delivery through the facilities of DTC in New York, New York, or to the Fiscal Agent on behalf of DTC by Fast Automated Securities Transfer on or about June 13, 2008.

No dealer, broker, sales representative, or other person has been authorized to give any information or make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the State of Washington (the "state"). This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor will there be any sale of the Certificates 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 but is not guaranteed as to its accuracy or completeness. Estimates, forecasts, projections, and expressions of opinion included herein should not be interpreted as statements of fact. The statements and information herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale of the securities offered hereby will create under any circumstances an implication that there has been no change in the affairs of the State of Washington, or any other party described herein, 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 Certificates.

The state makes no representation regarding the accuracy or completeness of the information in Appendix E—Book-Entry Transfer System, provided by DTC.

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.

$17,310,000

STATE OF WASHINGTON

CERTIFICATES OF PARTICIPATION, SERIES 2008C

(QUARTERLY)

Evidencing and Representing Undivided Proportionate Interests of the Owners Thereof in State Payments to be Made by the State of Washington Pursuant to the Master Financing Contract

CERTIFICATE PAYMENT SCHEDULE

Principal Payment Date	Principal Component	Interest Rate	Yield	Price	CUSIP
January 1, 2009	$ 1,485,000	3.000%	2.000%	100.543%	939719M98
July 1, 2009	1,535,000	3.000	2.100	100.929	939719N22
January 1, 2010	1,560,000	3.000	2.500	100.754	939719N30
July 1, 2010	1,585,000	3.000	2.550	100.892	939719N48
January 1, 2011	1,605,000	3.000	2.850	100.365	939719N55
July 1, 2011	1,630,000	3.000	2.850	100.434	939719N63
January 1, 2012	1,205,000	3.125	3.125	100.000	939719N71
July 1, 2012	1,220,000	3.125	3.125	100.000	939719N89
January 1, 2013	1,135,000	3.250	3.250	100.000	939719N97
July 1, 2013	1,155,000	3.250	3.250	100.000	939719P20
January 1, 2014	335,000	3.500	3.500	100.000	939719P38
July 1, 2014	340,000	3.500	3.500	100.000	939719P46
January 1, 2015	345,000	3.750	3.750	100.000	939719P53
July 1, 2015	350,000	3.750	3.750	100.000	939719P61
January 1, 2016	225,000	3.850	3.850	100.000	939719P79
July 1, 2016	230,000	3.850	3.850	100.000	939719P87
January 1, 2017	235,000	4.000	4.000	100.000	939719P95
July 1, 2017	240,000	4.000	4.000	100.000	939719Q29
January 1, 2018	245,000	4.125	4.125	100.000	939719Q37
July 1, 2018	250,000	4.125	4.125	100.000	939719Q45
January 1, 2019	100,000	4.200	4.200	100.000	939719Q52
July 1, 2019	100,000	4.200	4.200	100.000	939719Q60
January 1, 2020	100,000	4.250	4.300	99.546	939719Q78
July 1, 2020	100,000	4.250	4.300	99.531	939719Q86
Total	$ 17,310,000				

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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

Rob McKenna... Attorney General

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This publication will be available in alternative formats upon request to the Office of the State Treasurer. This publication is available in PDF format via the Internet at the Office of the State Treasurer's Home Page:

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 in this publication 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 Certificates. Information appearing on any such website is not incorporated by reference in this statement.

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PARTICIPATING STATE AND LOCAL AGENCIES

The proceeds received from the sale of the Certificates will be applied to finance the acquisition of the following items of personal property for the following participating State Agencies and Local Agencies:

Term (Yrs)	Agency	Property to be Acquired	Amount
3	City of Mossyrock	Police Vehicle	$ 24,000
3	City of Orting	Police Vehicles	155,000
3	Benton Co. Fire Protection District 2	Fire Apparatus	187,000
3	Centralia School District 401	School Buses	179,000
3	Department of Personnel	Computers	320,534
3	Department of Information Services	Computers	249,870
3	Department of Information Services	Computers	1,129,178
3	Department of Information Services	Computers	310,774
4	City of Oak Harbor	Fire Engines	192,000
4	Department of Information Services	Computer Equipment	39,989
4	Department of Information Services	Computers Equipment	12,244
4	Department of Information Services	Computer Equipment	85,173
4	Washington State Patrol	Computer Equipment	46,700
4	Department of Ecology	Computer Equipment	319,620
4	Columbia Basin College	Computer System	89,082
5	City of Gig Harbor	Police Vehicles	170,000
5	Okanogan Co. Fire Protection District 3	Trucks	90,000
5	Yakima Co. Fire Protection District 3	Truck	30,000
5	Dept. of General Administration	Automobiles	2,780,834
5	Dept. of General Administration	Automobiles	849,681
5	Washington State Patrol	Laboratory Equipment	201,143
5	Department of Corrections	Security Equipment	104,537
5	Department of Corrections	Kitchen Equipment	44,514
5	Department of Corrections	Misc. Equipment	19,341
5	Department of Corrections	Furniture	11,562
5	Department of Corrections	Furniture	12,121
5	Department of Corrections	Dental Equipment	21,826
5	Department of Corrections	SERT Supplies	20,394
5	Department of Corrections	Laundry Equipment	344,848
5	Department of Corrections	Automobiles	187,063
5	Department of Corrections	Kitchen Equipment	557,540
5	Department of Corrections	Automobiles	35,589
5	Department of Corrections	Music Equipment	840,000
5	Department of Corrections	Radio Equipment	40,666
5	Department of Corrections	Smoke Ejector Systems	18,213
5	Department of Corrections	Metal Shop Equipment	513,156
5	Washington State University	Security Equipment	65,000
5	Washington State University	Laboratory Equipment	44,047
5	Department of Fish and Wildlife	Trucks	459,426
5	Columbia Basin College	Printing Equipment	211,140

(continued on next page)

PARTICIPATING STATE AND LOCAL AGENCIES (CONTINUED)

Term (Yrs)	Agency	Property to be Acquired	Amount
7	Klickitat Co. Fire Protection District 3	Water Tender	$ 231,000
7	Dept. of General Administration	Trucks, Tractors, Trailers	788,128
7	Dept. of General Administration	Automobiles	203,415
7	Dept. of General Administration	Mailroom Equipment	339,057
7	Washington State University	Digital Transmitters	19,000
7	Washington State University	Tektronix Test Equipment	34,000
10	Kittitas Co. Fire Protection District 7	Fire Engine; Brush Engine; Water Tender	368,183
10	Kitsap Co. Fire Protection District 7	Fire Engine, Water Tender	186,111
10	North Kitsap School District 400	Energy Upgrade Project	595,500
10	Department of Corrections	Lighting Upgrades	460,369
10	Department of Corrections	Energy Upgrade Project	511,790
10	Washington State University	Energy Upgrade Project	27,573
10	Washington State University	Lighting Upgrades	116,892
10	Washington State University	Greenhouse	104,678
10	Washington State University	Energy Upgrade Project	132,183
10	Washington State University	Energy Upgrade Project	32,174
10	Washington State University	Energy Upgrade Project	110,630
12	University of Washington	Energy Upgrade Project	1,901,554

TABLE OF CONTENTS

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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 CERTIFICATES

Certificates:	The State of Washington Certificates of Participation, Series 2008C (Quarterly) (the "Certificates") represent undivided proportionate interests in Installment Payments to be made by the State of Washington (the "state") pursuant to a Master Financing Contract between the Washington Finance Officers Association (the "Corporation"), which is a Washington nonprofit corporation, and the state. The Certificates are dated their date of their initial delivery, which is expected to be June 13, 2008.
Interest Payments:	Interest evidenced and represented by the Certificates is payable semiannually on each January 1 and July 1, beginning January 1, 2009.
Principal Payments:	Principal evidenced and represented by the Certificates is payable semiannually on each January 1 and July 1, beginning January 1, 2009, through July 1, 2020, inclusive.
Prepayment:	The Certificates are subject to optional prepayment prior to their respective Principal Payment Dates. See "The Certificates—Prepayment."
Form of Certificates:	The Certificates will be executed and delivered in fully registered, book-entry only form in denominations of $5,000 or any integral multiple thereof.
Fiscal Agent:	The Bank of New York will act as Fiscal Agent for the Certificates (the "Fiscal Agent"). Payments of principal and interest represented by the Certificates will be paid to the Fiscal Agent which in turn will be obligated to remit such payments to Depository Trust Company ("DTC"). DTC will be obligated to remit payments to its Participants, who in turn will be obligated to remit such payments to the beneficial owners in accordance with the operational arrangements then in effect at DTC.
Security:	The Certificates represent undivided proportionate interests in payments to be made by the state pursuant to the Master Financing Contract between the Corporation and the state ("State Payments"). Except as otherwise described herein, State Payments are payable from Agency Installment Payments to be made pursuant to the Local Agency Financing Contracts, each between the state and a Local Agency, and the State Agency Financing Addenda, each executed by a State Agency. The obligation of each State Agency to make its Agency Installment Payments is subject to appropriation by the State Legislature and Executive Order reduction by the Governor. The state will not be obligated to pay the State Payments derived from State Agency Financing Addenda other than from the appropriated funds of the respective State Agencies. Payment of each Local Agency's Agency Installment Payments is secured by the full faith and credit of the Local Agency. If any Local Agency fails to make any Agency Installment Payment, the State Treasurer is obligated to withhold an amount sufficient to make such payment from the Local Agency's share, if any, of state revenues or other amounts authorized or required by law to be distributed by the state to the Local Agency, if otherwise legally permissible. Upon the

failure of any Local Agency to make any Agency Installment Payment, the State Treasurer is further obligated, to the extent of legally available appropriated funds and subject to any Executive Order reduction, to make the payment on behalf of the Local Agency.

THE MASTER FINANCING CONTRACT, INCLUDING THE STATE AGENCY FINANCING ADDENDA, CONSTITUTES A SPECIAL, LIMITED OBLIGATION OF THE STATE PAYABLE SOLELY FROM THE SOURCES AND SUBJECT TO THE LIMITATIONS SET FORTH THEREIN. NONE OF THE STATE PAYMENTS, THE AGENCY INSTALLMENT PAYMENTS NOR THE CERTIFICATES CONSTITUTE OR REPRESENT DEBT OR GENERAL OBLIGATIONS OF THE STATE OR ANY STATE AGENCY, AND NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE NOR ANY STATE AGENCY IS PLEDGED TO THE PAYMENT OF ANY SUCH PAYMENTS OR THE PRINCIPAL OR INTEREST EVIDENCED AND REPRESENTED BY THE CERTIFICATES. THE STATE WILL NOT BE OBLIGATED TO PAY THE SAME EXCEPT FROM AGENCY INSTALLMENT PAYMENTS AND OTHER AMOUNTS AS PROVIDED IN THE MASTER FINANCING CONTRACT. ANY PAYMENTS BY THE STATE TREASURER ON BEHALF OF A LOCAL AGENCY AND ANY PAYMENTS BY A STATE AGENCY ARE SUBJECT TO APPROPRIATION BY THE STATE LEGISLATURE AND EXECUTIVE ORDER REDUCTION BY THE GOVERNOR. A DETERMINATION BY THE STATE LEGISLATURE NOT TO APPROPRIATE, OR ANY EXECUTIVE ORDER REDUCTION BY THE GOVERNOR, WOULD NOT CONSTITUTE AN EVENT OF DEFAULT UNDER THE TRUST AGREEMENT, THE MASTER FINANCING CONTRACT OR ANY STATE AGENCY FINANCING ADDENDA.

The Corporation has assigned and transferred to the Fiscal Agent all of its right, title and interest in, to and under the Master Financing Contract and the Agency Financing Contracts pursuant to the Master Assignment between the Corporation and the Fiscal Agent.

Purpose: The Certificates are being executed and delivered to finance and/or refinance the costs of acquisition of certain personal property for the benefit of certain Agencies and to fund issuance costs with respect to the Certificates. See "Sources and Uses of Funds."

Legal Opinion: The Certificates are offered when, as and if executed and delivered, subject to the approving legal opinion of legality by Foster Pepper PLLC, Seattle, Washington, Certificate Counsel, and certain other conditions. The proposed form of such opinion is set forth in Appendix C.

Certificate Rating: The Certificates have been rated "Aa2" by Moody's Investors Service. See "Other Certificate Information—Rating."

Continuing Disclosure: The state has entered into an undertaking for the benefit of the owners of the Certificates 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."

OFFICIAL STATEMENT

$17,310,000
STATE OF WASHINGTON
CERTIFICATES OF PARTICIPATION, SERIES 2008C
(QUARTERLY)

Evidencing and Representing Undivided Proportionate Interests of the Owners Thereof in State Payments to be Made by the State of Washington Pursuant to the Master Financing Contract

INTRODUCTION

This Official Statement, including the cover hereof and appendices hereto, was prepared to provide certain information relating to the sale and delivery by the State of Washington (the "state") of the above-captioned certificates of participation (the "Certificates"). Capitalized terms used in this Official Statement, if not specifically defined, are used as defined in Appendix I to the Trust Agreement, referred to below.

The proceeds of the Certificates will be used to finance and/or refinance the costs of acquisition of certain personal property for the benefit of certain State Agencies and Local Agencies (the "Agencies"), as shown on the table entitled "Participating Agencies" on pages v and vi, and to fund issuance costs with respect to the Certificates.

The Certificates are being executed and delivered by The Bank of New York as Fiscal Agent for the Certificates (the "Fiscal Agent"), pursuant to a Trust Agreement with respect to the Certificates, dated as of the Dated Date, (the "Trust Agreement"), among the Fiscal Agent, the State Treasurer and the Washington Finance Officers Association (the "Corporation"), a Washington nonprofit corporation. The Certificates represent undivided proportionate interests in Installment Payments to be made by the state under a Master Financing Contract, dated as of the Dated Date (the "Master Financing Contract"), between the Corporation and the state.

Numerous state agencies including, in particular, the Office of the State Treasurer, the Department of Revenue, the State Attorney General, the Office of Economic and Revenue Forecast Council, the Department of Retirement Systems, and the Office of Financial Management, have assisted the State Finance Committee (the "Committee") in assembling the information contained herein.

Property

Various Agencies have purchased personal property to be financed with the proceeds of the Certificates (collectively, the "Property") on behalf of and as the agent of the Corporation. Pursuant to the Master Financing Contract, the state is purchasing the Property from the Corporation. The state in turn is selling the Property to the applicable Agencies pursuant to separate Local Agency Financing Contracts or State Agency Financing Addenda (collectively, the "Agency Financing Contracts"), each dated as of the Dated Date, between the state and the applicable Agencies.

Each Agency will make Agency Installment Payments to the state pursuant to its Agency Financing Contract for the purchase of its respective items of Property. The Agency Installment Payments payable by the participating Agencies pursuant to the Agency Financing Contracts in the aggregate are at least equal to the corresponding State Payments payable by the state pursuant to the Master Financing Contract.

Pursuant to the Master Assignment, dated as of the Dated Date (the "Master Assignment"), the Corporation is assigning and transferring to the Fiscal Agent, without recourse:

(i) all of its rights to receive the Installment Payments from the state pursuant to the Master Financing Contract;

(ii) its right to take all actions, exercise all remedies and give all consents under and pursuant to the Master Financing Contract, and

(iii) all of its remaining right, title and interest in, to and under the Master Financing Contract and the Agency Financing Contracts, and in and to the Property.

State and Agency Installment Payments

Except as otherwise described herein, Installment Payments due from the state under the Master Financing Contract ("State Payments") are payable from Agency Installment Payments to be made pursuant to the Agency Financing Contracts. The obligation of each State Agency to makes its Agency Installment Payments is subject to appropriation by the State Legislature and Executive Order reduction by the Governor. The State is not obligated to pay the State Payments other than from appropriated funds of the respective State Agencies and from Agency Installment Payments received from Local Agencies. Payment of the Agency Installment Payments of each Local Agency are secured by the full faith and credit of such Local Agency. In the event that any Local Agency fails to make any payment due under its Agency Financing Contract, the State Treasurer is obligated to withhold an amount sufficient to make such payment from the Local Agency's share, if any, of state revenues or other amounts authorized or required by law to be distributed by the state to such Local Agency, if otherwise legally permissible. Upon the failure of any Local Agency to make any Agency Installment Payment as required pursuant to its Agency Financing Contract, the State Treasurer is further obligated, to the extent of legally available appropriated funds and subject to any Executive Order reduction, to make such payment on behalf of such Local Agency.

The Master Financing Contract, including the related State Agency Financing Addenda, constitutes a special, limited obligation of the state payable solely from the sources and subject to the limitations set forth therein. Neither the State Payments, Agency Installment Payments nor the Certificates constitute or represent debt or general obligations of the state or any State Agency, and neither the full faith and credit nor the taxing power of the state or any State Agency is pledged to the payment of any such payments or the principal or interest evidenced and represented by the Certificates. The state will not be obligated to pay the same except from Agency Installment Payments and other amounts as provided in the Master Financing Contract. Payments by the State Treasurer of any Agency Installment Payments on behalf of a Local Agency and payments by a State Agency of its Agency Installment Payments are subject to appropriation by the State Legislature and Executive Order reduction by the Governor. A determination by the State Legislature not to appropriate, or any Executive Order reduction by the Governor, would not constitute an event of default under the Trust Agreement, the Master Financing Contract or any State Agency Financing Addenda.

Document Summaries

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 the audited financial statements and other financial reports, and their accompanying notes, for complete information. Copies thereof are available for inspection at the Office of the State Treasurer upon request.

For summaries of the Trust Agreement, the Master Financing Contract, the Agency Financing Contracts, and the Master Assignment, see Appendix B—Definitions and Summary of Certain Legal Documents. The summaries and descriptions of the Certificates, the Trust Agreement, the Master Financing Contract, the Agency Financing Contracts, the Master Assignment, the Committee's authorizing resolution, and certain provisions of state law in this Official Statement do not purport to be complete and are qualified in their entirety by reference to the complete provisions thereof, copies of which are available for inspection at the Office of the State Treasurer upon request. Any statements in this Official Statement involving estimates, projections or forecasts are to be construed as such, rather than as statements of fact or representations that such estimates, projections or forecasts will be realized.

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 (RCW 43.33.030), 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 and approve all financing contracts and certificate of participation issues. 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 CERTIFICATES

Authorization

The state is authorized by chapter 39.94 RCW, as amended (the "Act"), to enter into financing contracts for the state and its agencies or on behalf of certain local agencies specified in the Act, to acquire real and personal property to be used by the state or its agencies or those local agencies, and to issue certificates of participation in those contracts. The term "local agency" is defined in the Act to include a library or regional library, an educational service district, the superintendent of public instruction, the school directors' association, a health district, or any county, city, town, school district, or other municipal corporation or quasi-municipal corporation described as such by statute. Financing contracts may include, but are not limited to, conditional sales contracts, financing leases, lease purchase contracts, and refinancing contracts that provide for payment by the state over a term of more than one year.

All financing contracts of the state must be approved by the Committee. The Washington Supreme Court in *State Department of Ecology v. State Finance Committee*, 116 Wn.2d 246, 804 P.2d 1241 (1991), held that a financing contract for the state's Department of Ecology did not create debt within the meaning of Article 8, Section 1, of the Washington State Constitution.

The Committee, by Resolution No. 987, adopted on October 7, 2003, authorized and approved the execution and delivery of certificates of participation (including the Certificates) in series from time to time in payments to be made by the state pursuant to master financing contracts. The Committee also approved the forms of the Trust Agreement, the Master Financing Contract, the Local Agency Financing Contracts, the State Agency Financing Addenda, and the Master Assignment, and authorized and approved the execution and delivery thereof in connection with each series of certificates of participation. On May 15, 2007, the Committee approved a Finance Plan under which the aggregate principal amount for certificates of participation issued for the state during the 2007-2009 Biennium was set at $1,180,000,000 plus financing expenses and required reserves, including certificates expected to be issued to finance acquisition of real estate and equipment for state agencies and local governments.

Payment of Principal and Interest

The Certificates evidence and represent undivided proportionate interests in State Payments and will be dated the date of their initial delivery. The principal components of State Payments (the "Principal Components") evidenced and represented by the Certificates will be payable on the dates (each a "Principal Payment Date") and in the amounts shown on page i of this Official Statement. The Certificates will be executed and delivered as fully registered certificates without coupons in denominations of $5,000 or any integral multiple thereof.

The interest component of State Payments will be payable semiannually on January 1 and July 1 of each year (each an "Interest Payment Date" and together with Principal Payment Dates, "Principal Payment Dates"), beginning January 1, 2009, at the rates shown on page i of this Official Statement. Such interest will be computed using a 360-day year comprised of twelve 30-day months.

When issued, the Certificates will be registered in the name of Cede & Co. as registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York, which will act as initial securities depository for the Certificates. So long as the DTC book-entry system is used for the Certificates, principal and interest components of the State Payments evidenced and represented by the Certificates will be paid to DTC for distribution to its Participants and payment to the beneficial owners of the Certificates, and references in this Official Statement to the Owners will be deemed to refer to DTC. See Appendix E—Book-Entry System.

If at any time the Certificates are not in book-entry-only form, payments will be payable to the person whose name appears on the certificate register of the Fiscal Agent as of the close of business on the 15th day of the month immediately preceding the month in which the Interest Payment Date occurs (the "Record Date"), whether or not such day is a business day. Interest will be paid by check or draft mailed by first class mail on each Interest Payment Date to each Owner at the address as it appears on the certificate register of the Trust Agreement, or at the request of any Owner of at least $1,000,000 in aggregate Principal amount of Certificates, by wire transfer within the United States of America of immediately available funds to the bank account specified in writing by such Owner to the Fiscal Agent no later than the applicable Record Date. Payment of the Principal Component or Prepayment Price evidenced and represented by each Certificate is required to be made on the Principal Payment Date upon presentation and surrender thereof at the principal corporate trust office of the Fiscal Agent.

Prepayment

Optional Prepayment. The Certificates with Principal Payment Dates on and after January 1, 2019, are subject to prepayment prior to their respective stated Principal Payment Dates as a whole or in part in Authorized Denominations on any date on or after July 1, 2018, at par plus accrued interest evidenced thereby to the Prepayment Date.

Selection of Certificates for Prepayment. If the Certificates are in book-entry form at the time of prepayment, and less than all of the State Payments are being prepaid, the Fiscal Agent will direct DTC to instruct the DTC Participants to select such Certificates for prepayment *pro rata* among all Owners of the Principal Payment Date being prepaid. If the Certificates are not then in book-entry form at the time of mandatory prepayment, the Fiscal Agent shall select such Certificates for prepayment, *pro rata* among Owners, to the greatest extent possible, subject to maintaining Authorized Denominations.

Notice of Prepayment. Notice of prepayment is required to be given by the Fiscal Agent not less than 30 nor more than 60 days prior to the Principal Prepayment Date, to (i) the State Treasurer, (ii) the Owner of each Certificate affected at the address shown on the Certificate Register on the date such notice is mailed, (iii) the Securities Depository, and (iv) one or more Information Services. Each notice of prepayment must state the date of such notice, the date of execution and delivery of the Certificates, the Prepayment Date, the Prepayment Prices, the place or places of prepayment (including the name and appropriate address or addresses of the Fiscal Agent), the CUSIP numbers of the Certificates being prepaid, the source of the funds to be used for such prepayment, the Principal Component due evidenced and represented by the Certificates, the distinctive certificate numbers of the Certificates or portions thereof to be prepaid, the rate or rates of interest evidenced and represented by the Certificates to be prepaid, and the Principal Payment Dates of the Certificates to be prepaid. Such notice must also state that the interest evidenced and represented by the Certificates designated for prepayment will cease to accrue from and after such Prepayment Date, and that on said date there will become due and payable with respect to each of the prepaid Certificates the Prepayment Price of the Certificate to be prepaid, and interest, if any, accrued thereon to the Prepayment Date. The notice will require that such Certificates be then surrendered at the address or addresses of the Fiscal Agent specified in the prepayment notice.

Partial Prepayment. Upon surrender of any Certificate prepaid in part only, the Fiscal Agent is required to provide a replacement Certificate or Certificates evidencing and representing a principal amount equal to the portion of the Principal Component evidenced and represented by such Certificate not prepaid, and deliver it to the Owner of the Certificate. The Certificate so surrendered is required to be cancelled by the Fiscal Agent.

Book-Entry System

The Certificates initially will be delivered under a book-entry only system, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), acting as depository for the Certificates. Individual purchases of the Certificates will be made in book-entry form only. Purchasers will not receive certificates representing their beneficial ownership interests in the Certificates. For information about the DTC book-entry system, see Appendix E—Book-Entry Transfer System.

Defeasance

If money and/or certain types of securities maturing at such times and bearing interest to be earned thereon in amounts sufficient to pay the principal and interest evidenced and represented by any or all of the Certificates in accordance with their terms and the terms of the Trust Agreement and the Master Financing Contract are set aside irrevocably in a special trust account to effect such payment and are pledged for that purpose, then no further payments are required to be made to pay or secure the payment of the principal and interest evidenced and represented by those Certificates, and those Certificates will be deemed thereafter not to be outstanding. See Appendix B—Definitions and Summary of Certain Legal Documents.

SOURCES AND USES OF FUNDS

The following table shows the sources and uses of funds:

Sources	
Principal Component of Certificates	$ 17,310,000
Net Original Issue Premium	60,234
Total Sources	$ 17,370,234
Uses	
Deposit to Acquisition Fund	$ 17,175,041
Costs of Issuance*	77,318
Underwriting Spread	117,875
Total Uses	$ 17,370,234

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

SOURCES OF PAYMENT AND SECURITY FOR THE CERTIFICATES

State Payments

The Certificates represent undivided proportionate interests in State Payments. Pursuant to the Master Financing Contract, the Corporation will sell the Property to the state. In consideration thereof, the state is required to make State Payments to the Fiscal Agent, as assignee of the Corporation, during the term of the Master Financing Contract. State Payments are composed of Principal Components and/or Interest Components. State Payments are due on each Principal Payment Date.

Except as otherwise described below, State Payments due from the state under the Master Financing Contract are payable solely from Agency Installment Payments to be made by the respective Agencies pursuant to the related Agency Financing Contracts. The total of the Agency Installment Payments payable by the participating Agencies on each Agency Installment Payment Date pursuant to the Agency Financing Contracts is at least equal to the State Payment payable by the state pursuant to the Master Financing Contract on the next succeeding Installment Payment Date. Agency Installment Payments are due one month prior to the corresponding Installment Payment Date.

Pursuant to the Master Assignment, the Corporation is assigning and transferring to the Fiscal Agent, without recourse, all of its rights to receive the State Payments; its right to take all actions, exercise all remedies and give all consents under and pursuant to the Master Financing Contract, and all of its remaining right, title and interest in, to and under the Master Financing Contract and the Agency Financing Contracts, and in and to the Property.

Limited Obligations of State

THE MASTER FINANCING CONTRACT, INCLUDING THE STATE AGENCY FINANCING ADDENDA, CONSTITUTES A SPECIAL, LIMITED OBLIGATION OF THE STATE PAYABLE SOLELY FROM THE SOURCES AND SUBJECT TO THE LIMITATIONS SET FORTH THEREIN. NEITHER THE STATE PAYMENTS NOR THE CERTIFICATES CONSTITUTE OR REPRESENT DEBT OR GENERAL OBLIGATIONS OF THE STATE, AND NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE IS PLEDGED TO THE PAYMENT OF ANY STATE PAYMENTS OR THE PRINCIPAL OR INTEREST EVIDENCED AND REPRESENTED BY THE CERTIFICATES. THE STATE WILL NOT BE OBLIGATED TO PAY THE SAME EXCEPT FROM AGENCY INSTALLMENT PAYMENTS AND OTHER AMOUNTS AS PROVIDED IN THE MASTER FINANCING CONTRACT.

Non-Appropriation and Executive Order Reduction

ANY PAYMENTS BY THE STATE TREASURER ON BEHALF OF A LOCAL AGENCY AND ANY PAYMENTS BY A STATE AGENCY ARE SUBJECT TO APPROPRIATION BY THE STATE LEGISLATURE AND EXECUTIVE ORDER REDUCTION BY THE GOVERNOR. A DETERMINATION BY THE STATE LEGISLATURE NOT TO APPROPRIATE, OR ANY EXECUTIVE ORDER REDUCTION BY THE GOVERNOR, WOULD NOT CONSTITUTE AN EVENT OF DEFAULT UNDER THE TRUST AGREEMENT, THE MASTER FINANCING CONTRACT OR ANY STATE AGENCY FINANCING ADDENDA.

Permitted Termination Events

Under each State Agency Financing Addendum, each of the following constitutes a "Permitted Termination Event":

(i) the State Legislature determines not to appropriate sufficient funds within any biennial budget for the purpose of paying the Agency Installment Payments due during the next occurring biennium, or

(ii) the Governor issues an Executive Order mandating an emergency reduction in state funding; provided, that the State Agency delivers written notice thereof to the State Treasurer as required by the State Agency Financing Addendum.

Upon a Permitted Termination Event, subject to the provisions of the Master Financing Contract and State Agency Financing Addenda, the state may terminate a State Agency Financing Addendum and the related obligation of the State Treasurer under the Master Financing Contract.

The occurrence of a Permitted Termination Event does not constitute an Agency Event of Default, a Master Financing Contract Event of Default or an Event of Default, and remedies of the return of the Property are the sole remedies available to the State Treasurer and the Corporation upon such occurrence. See "Master Financing Contract—Permitted Termination Events" and "Agency Financing Contracts—Permitted Termination Events" in Appendix B.

Payment History

The principal and interest represented by certificates of participation in lease or other payment obligations that are payable by the state have always been paid when due. The state never has failed to appropriate funds to meet its lease, installment sale or other payment obligations with respect to outstanding certificates of participation.

Agency Installment Payments

Pursuant to the Agency Financing Contracts, each Agency is required to make Agency Installment Payments to the state with respect to its Property. Agency Installment Payments are composed of principal and interest components and are payable, during the term of the applicable Agency Financing Contract, on the first day of each month immediately preceding the related Principal Payment Date. The Agency Installment Payments in the aggregate are at least equal to the corresponding State Payment.

Each State Agency has covenanted in its Agency Financing Contract to take such action as may be necessary to include all of its Agency Installment Payments due thereunder in its biennial budget and to use its best efforts to obtain appropriations by the State Legislature in amounts sufficient to make all such Agency Installment Payments.

Each Local Agency has covenanted in its Agency Financing Contract to take such action as may be necessary to include all the Agency Installment Payments due thereunder in its annual budget and to make the necessary annual appropriations for all such Agency Installment Payments.

The obligation of each Local Agency to make its Agency Installment Payments is a direct and general obligation of the Local Agency to which the full faith and credit of such Local Agency is pledged. Each Local Agency executing an Agency Financing Contract has covenanted and agreed it will levy taxes, to the extent permitted by law, in such amounts and at such times necessary, within and as a part of the tax levy permitted to the Local Agency without a vote of its electors, to provide funds, together with other money legally available for that purpose, to make its Agency Installment Payments.

State Intercept

If any Local Agency fails to make any Agency Installment Payment due under its Agency Financing Contract, the State Treasurer is obligated pursuant to the Master Financing Contract to withhold an amount sufficient to make that payment from the Local Agency's share, if any, of state revenues or other amounts that are authorized or required by law to be distributed by the state to that Local Agency, including but not limited to leasehold excise taxes, sales and use taxes, excise taxes, property taxes and liquor control board receipts; *provided*, that the use of any such revenues or amounts to make the payments is otherwise authorized or permitted by state law. This withholding will continue until all payments due under the related Agency Financing Contract have been made. Amounts withheld by the State Treasurer will be applied to make any payment due under the Agency Financing Contract on behalf of the Local Agency, or to reimburse the State Treasurer for any payment made by the State Treasurer.

THERE CAN BE NO ASSURANCE AS TO THE AVAILABILITY OF FUNDS FOR INTERCEPT BY THE STATE TREASURER WITH RESPECT TO ANY LOCAL AGENCY UPON THE LOCAL AGENCY'S FAILURE TO MAKE ANY AGENCY INSTALLMENT PAYMENT PURSUANT TO ITS AGENCY FINANCING CONTRACT.

Conditional State Payment Obligation

If any Local Agency fails to make any Agency Installment Payment due under its Agency Financing Contract, the State Treasurer is obligated, to the extent of legally available appropriated funds and subject to any Executive Order reduction, to make such payment on behalf of such Local Agency within ten (10) Business Days after the Agency Installment Payment was due.

The State Treasurer currently has appropriation authority sufficient to make any such payments that may come due within the current biennium. The State Treasurer has covenanted in the Master Financing Contract to include in its biennial budget all scheduled Agency Installment Payments due during such biennium pursuant to any Agency Financing Contract with a Local Agency, and to use its best efforts to obtain appropriations by the State Legislature in amounts sufficient to make any such payments. The operating budget for the 2007-09 Biennium includes authority to make any such payments that may come due within the 2007-09 Biennium.

State Payments and Agency Installment Payments Not Subject to Abatement

The State Payments and the Agency Installment are *not* subject to abatement upon damage to or destruction of any of the Property, nor are such payments otherwise subject to diminution, reduction, postponement, counterclaim, defense, or set-off as a result of any dispute, claim or right of action by, against or among the state, the Corporation, the Fiscal Agent, any Agency, and/or any other Person, or for any other reason.

Substitution of Property

Under the Master Financing Contract and the corresponding provisions of the Agency Financing Contracts, the State Treasurer may substitute and consent to the substitution for an item of Property acquired for and on behalf of an Agency of other personal property by filing with the Fiscal Agent, as assignee of the Corporation:

(i) a certificate of such Agency stating that such substitute Property:

   (a) has a remaining useful life equal to or greater than the Property for which it is being substituted;

   (b) has a fair market value equal to or greater than the fair market value of the item of Property for which it is being substituted;

   (c) is free and clear of all liens and encumbrances except a first priority security interest in favor of the Fiscal Agent, as assignee of the Corporation, under the Master Financing Contract;

   (d) is of equal usefulness and value as the Property for which it is being substituted;

   (e) is essential to the Agency's ability to carry out its governmental functions and responsibilities; and

   (f) is expected to be used by such Agency immediately and for the term of its Agency Financing Contract; and

(ii) an Opinion of Counsel to the effect that the substitution will not cause the interest evidenced and represented by the Certificates to be includable in gross income for federal income tax purposes under the Code.

Acceleration

The Certificates may be subject to acceleration upon the occurrence of an Event of Default under the Master Financing Contract. However, the Certificates are not subject to acceleration upon the occurrence of an Agency Event of Default under any related Agency Financing Contract. See Appendix B—Definitions and Summary of Certain Legal Documents.

Limitations on Exercise of Remedies

Upon the occurrence of an Event of Default under the Master Financing Contract, the Fiscal Agent, as assignee of the Corporation, may pursue any available legal or equitable remedy against the state, which may include suing for Installment Payments then due and thereafter becoming due, or enforcing the observance or performance of any covenant, agreement or obligation of the state under the Master Financing Contract. Also, by written notice to the state, the Fiscal Agent may request the state to promptly return the item or items of Property with respect to which such default occurred to the Fiscal Agent in good condition at the state's own expense. The state has covenanted in the Master Financing Contract to comply with such request.

Upon the occurrence of an Agency Event of Default under an Agency Financing Contract, the Fiscal Agent may pursue any available legal or equitable remedy against the related Agency, which may include suing for Agency Installment Payments then due and thereafter becoming due, or enforcing the observance or performance of any covenant, agreement or obligation of the Agency under the Master Financing Contract. Also, by written notice to the Agency, the Fiscal Agent may request the Agency to promptly return the item or items of Property with respect to which such default occurred to the State Treasurer in good condition at the Agency's own expense. In addition, the Fiscal Agent may declare an amount equal to all unpaid Agency Installment Payments to become due and payable under the Agency Financing Contract, including but not limited to the Agency Interest Components accrued and unpaid, to be immediately due and payable without further demand. However, the Fiscal Agent's remedies against the state upon the occurrence of an Agency Event of Default are limited to requiring the state to assemble the Property and make it available to the Fiscal Agent.

The remedies provided in the Master Financing Contract, the Agency Financing Contracts and/or the Trust Agreement may be unenforceable under certain circumstances due to the application of principles of equity to state or federal laws relating to bankruptcy, moratorium, reorganization, and creditors' rights generally and to limitations on remedies against the state and the Agencies under the laws of the State of Washington. Moreover, due to the essential governmental nature of the Property, it is not certain whether a court would permit the exercise of the remedies of repossession and re-sale of the Property. In addition, the enforcement of remedies provided in the Master Financing Contract, the Agency Financing Contracts and the Trust Agreement could prove both expensive and time consuming. In any event, although the Fiscal Agent has the right, upon the occurrence of an Event of Default or an Agency Event of Default, to repossess and re-sell the applicable Property, it is unknown whether such actions would result in the collection of amounts sufficient to make the related Agency Installment Payments. Moreover, the Fiscal Agent would not be obligated to re-sell the Property in a manner so as to preserve the tax-exempt nature of interest represented by the Certificates.

WASHINGTON FINANCE OFFICERS ASSOCIATION

The Washington Finance Officers Association is a Washington nonprofit corporation the members of which consist of state and local government finance officials in the state. The Corporation was formed primarily for educational purposes, including promoting the improvement of government finance in the state. The Corporation acts as the nominal purchaser, seller, lessee, and sublessor in connection with various certificate of participation financings undertaken by the State Treasurer for the benefit of state and local government agencies. In connection with the Certificates, the Corporation is acting as the original purchaser of the Property and seller under the Master Financing Contract. As of the closing, the Corporation will irrevocably assign and transfer all of its right, title and interest in and to the Master Financing Contract to the Fiscal Agent, and thereafter will have no rights or interest with respect to the Certificates, the Property, the Master Financing Contract or the Agency Financing Contracts. The Corporation has not participated in the preparation of this Official Statement, and is not responsible for any of the statements or information herein.

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.

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 February 15, 2008. A press release summarizing the results of the February 15, 2008, economic results and forecasts is available on the state's website (*www.erfc.wa.gov)*. The next forecast will be released on or about June 19, 2008. 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

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

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

In addition to the regular sort of damages claims, there are currently a number of lawsuits challenging the management and administration of state programs. Some lawsuits seek an expansion of program social services for certain constituents. In *Allen* v. *Western State Hospital*, for instance, the Washington Protection and Advocacy System filed a class action lawsuit on behalf of patients with developmental disabilities at Western State Hospital, alleging that the state programs are inadequate and the state failed to provide community-based services when appropriate. The case was stayed pursuant to an agreement of the parties to allow the Department of Social and Health Services (DSHS) to implement a work plan. The parties reached a partial settlement agreement wherein the court approved on February 15, 2006. The parties met with U.S. Magistrate Judge Kelley Arnold on November 29, 2006, to mediate issues concerning census management at Western State Hospital. Additionally, settlement discussions regarding community-based services for class members resulted in an agreement that is being finalized at this time. A similar lawsuit, *Marr* v. *Eastern State Hospital,* was filed on behalf of patients at Eastern State Hospital. This case has also been stayed pursuant to an agreement of the parties to allow DSHS to make improvements at Eastern State Hospital. A court ordered monitoring report in the *Marr* case was completed in November 2006 which found that Eastern State Hospital was not in substantial compliance with the agreement in several areas. The stay has been continued through June 2007 to allow time for negotiation of a final settlement agreement.

In the case of *Braam v. State*, a class action pending in Whatcom County Superior Court, the plaintiff class filed a damage claim on behalf of all foster children that was satisfied from the state's Self Insured Liability Account. The injunctive relief portion of the case, involving the placement of foster children, was tried and appealed. On appeal, a new trial was ordered. As part of a pretrial mediated settlement, the state agreed to supplement its child welfare program and agreed to address improvement and oversight of the state's foster care system as suggested by a court appointed panel. In September 2006, the panel released a monitoring report that found the state out of compliance with previously identified action steps. The state provided a revised compliance plan to the court on November 31, 2006, and, to date, the court has declined to entertain a new enforcement action. Based on projections made at the time of the original trial court order in 2004, the estimated additional program costs to implement all requested reforms could cost the state as much as $55 million.

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

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

Another social and health services case is *Gasper/Myers v. DSHS.* This case involves the proper formula for determining the number of hours of in-home care to which Medicaid recipients are entitled to if the recipient lives in the same home as his/her caregiver. The trial court found the current department rule in this regard to be invalid but the court of appeals modified the trial court's ruling. This case has been appealed to the Washington Supreme Court and oral argument was heard on November 9, 2006. Because of how this case was framed by the Washington Court of Appeals, the estimated potential financial impact of this case has been revised. If the Supreme Court declines to modify the Court of Appeals ruling, the eventual additional cost to the state could be as much as $15 million per year.

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

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

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

In *United States Tobacco Sales & Marketing Co., Inc. v. Department of Revenue,* trial was held in Thurston County and judgment was entered regarding the correct valuation of tobacco product samples for purposes of the Other Tobacco Products (OTP) tax. The state appealed the trial court's valuation formula and the court of appeals reversed and remanded the case. The Washington State Supreme Court accepted the case and oral argument was heard on September 19, 2006. U.S. Tobacco seeks approximately $6 million in refunds. Should the trial court’s original valuation methodology be ultimately embraced, approximately $87 million in OPT tax refunds could be ordered.

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

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

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

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

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

This lawsuit could have a fiscal impact on the state but might also raise secondary questions regarding other retirement systems legislation because the 2007 Washington Legislature enacted early retirement legislation along with the gainsharing repeal legislation which provides that all new benefits provided in lieu of gainsharing will be ineffective if a court sustains a challenge to gainsharing repeal legislation. Attorneys representing the state cannot predict how the court will rule on the issues in this lawsuit and the State of Washington is unable to determine at this time what impact if any this lawsuit might have on future retirement systems planning, administration, or legislation.

APPROVAL OF LEGAL PROCEEDINGS

Certain legal matters incident to the authorization, issuance and sale by the state of the Certificates are subject to the approval of legality by Foster Pepper PLLC, Seattle, Washington, Certificate Counsel, and certain other conditions. The proposed form of the legal opinion of Certificate Counsel is set forth in Appendix C hereto. Certain legal matters will be passed upon for the Local Agencies by their respective counsel.

Certificate Counsel will deliver a legal opinion to the state to the effect that the statements in the section of the final Official Statement entitled "The Certificates" and "Sources of Payment and Security for the Certificates" and in Appendix B—Definitions and Summary of Certain Legal Documents hereto are accurate in all material aspects, but only insofar as they summarize or describe the terms of the Certificates, the Trust Agreement, the Master Financing Contract, the Agency Financing Contracts, and the Master Assignment. Neither Certificate Counsel nor counsel to the Agencies otherwise assumes any responsibility or liability for the accuracy or completeness of this Official Statement. Counsel to the Agencies have not reviewed this Official Statement. The payment of compensation to Certificate Counsel is contingent upon the successful delivery of the Certificates to, and full payment for the Certificates by, the successful bidder.

The opinions of Certificate Counsel are given based on factual representations made to Certificate Counsel, and under existing law, as of the date of initial delivery of the Certificates, and Certificate 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 Certificate Counsel are an expression of its professional judgment on the matters expressly addressed in its opinions and do not constitute a guarantee of result.

TAX MATTERS

Tax Exemption of Certificates

Exclusion from Gross Income. In the opinion of Foster Pepper PLLC, Seattle, Washington, Certificate 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 Certificates, interest evidenced and represented by the Certificates 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 execution and delivery of the Certificates in order to maintain the exclusion of the interest evidenced and represented by the Certificates from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Certificate proceeds and the facilities financed with Certificate proceeds, limitations on investing gross proceeds of the Certificates in higher yielding investments in certain circumstances, and the requirement to comply with the arbitrage rebate requirement to the extent applicable to the Certificates. The state has covenanted in the Master Contract to comply with those requirements, but if the state fails to comply with those requirements, interest evidenced and represented by the Certificates could become taxable retroactive to the date of execution and delivery of the Certificates. Certificate Counsel has not undertaken and does not undertake to monitor the state's compliance with such requirements.

Corporate Alternative Minimum Tax. While interest evidenced and represented by the Certificates 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 evidenced and represented by the Certificates, 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 Certificates, 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 Certificates may be subject to the foreign branch profits tax imposed by Section 884 of the Code when the Certificates 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 Certificates, 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. Certificate Counsel cannot predict whether the IRS would commence an audit of the Certificates. Depending on all the facts and circumstances and the type of audit involved, it is possible that commencement of an audit of the Certificates could adversely affect the market value and liquidity of the Certificates until the audit is concluded, regardless of its ultimate outcome.

Original Issue Premium. The Certificates maturing from January 1, 2009, through and including July 1, 2011 (the "Premium Certificates"), have been sold at prices reflecting original issue premium. An amount equal to the excess of the purchase price of a Premium Certificate over its stated redemption price at maturity constitutes premium on such Premium Certificate. A purchaser of a Premium Certificate must amortize any premium over such Premium Certificate'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 Certificate will offset a like amount of qualified stated interest on such Premium Certificate 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 Certificate 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 Certificate prior to its maturity. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed. Purchasers of the Premium Certificates, 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 Certificates.

Original Issue Discount. The Certificates maturing on January 1, 2020, and July 1, 2020 (the "Discount Certificates"), have been sold at prices reflecting original issue discount. Under existing law, the original issue discount in the selling price of each Discount Certificate, to the extent properly allocable to each owner of such Discount Certificate, 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 Certificate over the initial offering price to the public, excluding underwriters and other intermediaries, at which price a substantial amount of the Discount Certificates 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 Certificate during any accrual period generally equals (i) the issue price of such Discount Certificate plus the amount of original issue discount accrued in all prior accrual periods, multiplied by (ii) the yield to maturity of such Discount Certificate (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 Certificate 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 Certificate. Any gain realized by an owner from a sale, exchange, payment or redemption of a Discount Certificate will be treated as gain from the sale or exchange of such Discount Certificate.

The portion of original issue discount that accrues in each year to an owner of a Discount Certificate 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 Certificate will not receive a corresponding cash payment until a later year.

Owners who purchase Discount Certificates in the initial public offering but at a price different from the first offering price at which a substantial amount of those Discount Certificates were sold to the public, or who do not purchase Discount Certificates in the initial public offering, should consult their own tax advisors with respect to the tax consequences of the ownership of such Discount Certificates. Owners of Discount Certificates who sell or otherwise dispose of such Discount Certificates prior to maturity should consult their own tax advisors with respect to the amount of original issue discount accrued over the period such Discount Certificates have been held and the amount of taxable gain or loss to be recognized upon that sale or other disposition of Discount Certificates. Owners of Discount Certificates also should consult their own tax advisors with respect to state and local tax consequences of owning such Discount Certificates.

Certain Other Federal Tax Consequences

Certificates 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 Certificates 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 Certificates 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 evidenced and represented by the Certificates 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 evidenced and represented by the Certificates into account in determining gross income.

Other Possible Federal Tax Consequences. Receipt of interest evidenced and represented by the Certificates may have other federal tax consequences as to which prospective purchasers of the Certificates may wish to consult their own tax advisors.

CONTINUING DISCLOSURE UNDERTAKING

In accordance with paragraph (b)(5) of Securities and Exchange Commission (the "SEC") Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended (the "Rule"), the State Treasurer, on behalf of the Committee, has agreed in the Master Financing Contract to enter into a written undertaking in the form of a Disclosure Agreement for the benefit of the holders of the Certificates (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"), commencing 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 (the "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 the Undertaking made during the previous fiscal year and the effect of such amendments on the Annual Disclosure Report being provided.

Any or all of the items listed above may be included by specific reference to other documents, 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 ("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 any 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 Certificates, 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 Certificates;

(vii) modifications to rights of holders of the Certificates;

(viii) optional, contingent or unscheduled Certificate calls (other than scheduled mandatory sinking fund prepayments 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 Certificates; 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 Certificates. The Undertaking, or any provision thereof, will 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 Certificates; 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 Certificate 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 Certificates. The Undertaking inures to the benefit of the State Treasurer and any holder of the Certificates, 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.

Disclosure USA. Any filing required by the Undertaking to be made with any NRMSIR or SID may be made by transmitting such filing solely to the Texas Municipal Advisory Council (the "MAC") as provided in *http://www.disclosureusa.org* unless the United States Securities and Exchange Commission has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004.

OTHER CERTIFICATE INFORMATION

Rating

The Certificates have been rated "Aa2" by Moody's Investors Service ("Moody's"), as noted on the cover of this Official Statement. The state has furnished certain information and materials to Moody's regarding the Certificates and the state. Such rating reflects only the view of such rating agency and is not a recommendation to buy, sell or hold the Certificates. Generally, rating agencies base their ratings on the information and materials furnished to them and on their own investigations, studies and assumptions. An explanation of the significance of such rating may be obtained from Moody's Investors Service, 7 World Trade Center, 250 Greenwich Street, New York, New York 10007-2296.

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

Underwriter of the Certificates

The Certificates are being purchased by Morgan Stanley & Co. Incorporated (the "Underwriter") at a price of $17,252,358.76. The Underwriter has represented that the Certificates will be reoffered at the prices or yields set forth on page i of this Official Statement. The Underwriter may offer and sell the Certificates to certain dealers (including dealers depositing Certificates into investment trusts) and others at prices lower than the initial offering prices set forth on the cover hereof, and such initial offering prices may be changed from time to time by the Underwriter. After the initial public offering, the public offering prices may be varied from time to time.

Financial Advisor

DashenMusselman, Inc. has served as financial advisor to the state relative to the preparation of the Certificates for sale, timing of the sale and other factors relating to the Certificates. The financial advisor has not audited, authenticated or otherwise verified the information set forth in this Official Statement or other information provided relative to the Certificates. DashenMusselman, Inc. makes no guaranty, warranty or other representation on any matter related to the information contained in the Official Statement. The financial advisor is an independent financial advisory firm and is not engaged in the business of underwriting, marketing, trading, or distributing municipal securities. The payment of compensation to the financial advisor is contingent upon the successful delivery of the Certificates to, and full payment for the Certificates by, the underwriter.

Official Statement

Upon delivery of the Certificates to the successful bidder, the State Finance Committee by its Chairman, the State Treasurer, or his authorized representative, will approve or have approved the Official Statement, and also will deliver a certificate to the effect that the Preliminary Official Statement did not as of its date, and the Official Statement does not as of the date of such delivery, contain any untrue statement of a material fact required to be stated therein or necessary to make the statements therein, in the light of circumstances under which they were made, not misleading, and no event affecting the Certificates has occurred since the date of the Official Statement which should be disclosed in the Official Statement for the purpose for which it is to be used or which it is necessary to disclose therein in order to make the statements and information therein not misleading in any material respect (except that in no event will any representation be made with respect to information herein regarding DTC and its book-entry only system).

Excerpts from the state's 2007 Comprehensive Annual Financial Report ("CAFR") are attached as Appendix D. Copies of the state's entire 2007 CAFR are available on the Office of Financial Management's Web site at *http://www.ofm.wa.gov/cafr/default.asp* or upon request from the Office of the State Treasurer.

THE STATE OF WASHINGTON

/s/

Deputy State Treasurer

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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.

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

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

For an assessment of the current economic and budgetary outlook of the state, see "Outlook for the 2005-07 and 2007-09 Biennia." For certain economic and demographic information with respect to the state, see "Economic Information."

State Finance Committee

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

REVENUES, EXPENDITURES AND FISCAL CONTROLS

Revenues

The state's tax revenues are comprised primarily of excise and *ad valorem* taxes. By constitutional provision, the aggregate of all regular (nonvoted) tax levies upon real and personal property by the state and local taxing districts may not exceed one percent of the true and fair value of such property. Excess levies are subject to voter approval.

Excise Taxes. Certain select sales and gross receipts taxes accounted for approximately 55.20 percent of total state revenues for the fiscal year ending June 30, 2007.

The retail sales tax and its companion use tax represent the largest source of state tax revenue, accounting for 47.60 percent of total collections. The retail sales and use tax is applied to a broad base of tangible personal property and selected services purchased by consumers, including construction (labor and materials), some machinery and supplies used by businesses, services and repair of real and personal property, and other transactions not taxed in many other states. Among the various items not subject to this tax are most personal services, motor vehicle fuel, food for off-premises consumption, trade-ins, manufacturing machinery, and purchases for resale. The current state retail sales and use tax rate is 6.5 percent.

Business and occupation tax collections represented approximately 16.50 percent of total state taxes for the fiscal year ending June 30, 2007. The business and occupation tax is applied to gross receipts of all business activities conducted within the state. Business and occupation tax rates include a principal rate of 0.484 percent of gross income for most manufacturing and wholesaling businesses. Retail firms pay 0.471 percent, and services pay 1.5 percent.

The motor vehicle fuel tax represented approximately 6.79 percent of all state taxes for Fiscal Year 2007. The tax rate on December 31, 2007, was 36 cents per gallon.

Property Taxes. The state's property tax is levied against the true and fair value of property as determined by the Department of Revenue. The property tax for local taxing districts is levied against the assessed value as determined by county assessors. For property taxes payable in 2005, assessed value averaged 89.8 percent of fair market value.

The state property tax levy represented approximately 10.11 percent of all state tax revenues for Fiscal Year 2007. The state property tax levy is limited to the lesser of 101 percent or 100 percent plus the percentage change in inflation (as measured by the Implicit Price Deflator for Personal Consumption (the "IPD")) of the dollar amount of property taxes levied in the highest of the three most recent years plus an additional dollar amount calculated by multiplying the increase in assessed value resulting from new construction and improvements by the property tax rate for the preceding year. The state levy rate for taxes due in 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.

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

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

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

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

The following table provides fiscal growth factors for the last five biennia.

FISCAL GROWTH FACTORS

	Fiscal Growth Factor
1999-01 Biennium	
FY 2000	3.32
FY 2001	2.87
2001-03 Biennium	
FY 2002	2.79
FY 2003(1)	3.29
2003-05 Biennium	
FY 2004	3.20
FY 2005	3.02
2005-07 Biennium	
FY 2006	2.82
FY 2007	3.38
2007-09 Biennium(2)	
FY 2008	5.53
FY 2009	5.57

(1)* Statutory changes to the expenditure limit adopted in the 2000 Legislative Session make it possible for the effective rate of increase in expenditures to be higher than the fiscal growth factors (Engrossed House Bill 3169 ("EHB 3169")).

(2) Based on General Fund-State plus related accounts, and ten-year average of personal income growth rather than polulation and inflation.

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

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

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

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

Initiative 601 in its original form allowed the Legislature to access and appropriate money from the Emergency Reserve Fund ("ERF") based on a two-thirds majority. A measure adopted in the 2002

Legislative Session temporarily allows access to money in the ERF based on a simple majority. EHB 3169, adopted in the 2000 Legislative Session, provides the Office of the State Treasurer with the authority to transfer monies between the General Fund-State and the ERF at the conclusion of each fiscal year, to ensure that revenues deposited in the ERF for that year are exactly equal to the amount of revenues collected in excess of the expenditure limit for that year. During the 2003 special session, the Legislature authorized the transfer of the ERF balance to the General Fund-State in Fiscal Year 2004.

Most of Initiative 601, including the General Fund-State expenditure limit, became effective July 1, 1995. Two provisions of the initiative became effective on December 1, 1993: the requirement for supermajority legislative approval of fee increases beyond the fiscal year growth factor, and a restriction on new taxes being imposed without voter approval. At the beginning of Fiscal Year 1996 (July 1, 1995), the requirement for voter approval for new tax measures expired. Taxes now can be enacted with a two-thirds majority of both houses of the Legislature if resulting General Fund-State expenditures do not exceed the spending limit. Voter approval still would be required to exceed the spending limit. However, the Supplemental Budget Bill passed in the 2002 Legislative Session allows revenue increases to occur based on a simple majority vote for any action taken through June 30, 2003.

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

In the 2005 legislative session, the I-601 statute was again changed to allow revenue increases to be passed with a simple majority for funding the 2005-07 Biennial Budget. SSB 6078 changes the calculation of the I-601 expenditure limit, beginning with the 2007-09 Biennium, basing it on average growth in state personal income for the prior ten fiscal years. In addition, the new calculation is based not just on the state General Fund, but also “related” accounts, defined as the Health Services Account, Violence Reduction and Drug Enforcement Account, Public Safety and Education Account (“PSEA”), the Equal Justice subaccount of the PSEA, Water Quality Account, and Student Achievement Account. Fiscal growth factors under this new calculation for the 2007-09 Biennium are currently 5.53 percent for Fiscal Year 2008, and 5.57 percent for Fiscal Year 2009, as calculated by the November 2007 Expenditure Limit Committee.

The 2007 Legislature passed ESSB 5311 and SJR 8206 to create a new Budget Stabilization Account (also referred to as the Rainy Day Account). This legislation required that a constitutional amendment be put before the voters in November 2007, and the amendment was adopted by the voters. On July 1, 2008, the existing Emergency Reserve Fund will be abolished (any balance will be transferred to the new Budget Stabilization Account), and the Budget Stabilization Account will receive one percent of the general state revenues each year. Moneys may be appropriated from the Budget Stabilization Account by a majority vote of each house of the Legislature if: (i) forecasted state employment growth for any fiscal year is less than one percent, or (ii) the Governor declares an emergency resulting from a catastrophic event that requires government action to protect life or public safety. Other withdrawals from the Budget Stabilization Account may be made only by a three-fifths vote of the Legislature.

In November 2007, the voters also passed Initiative 960, relating to tax and fee increases imposed by state government. This law provides for the notification of interested parties when the Legislature proposes or otherwise takes action upon measures that increase taxes or fees. It also requires the Office of Financial Management to provide ten-year estimates of the increased revenues and costs of such measures. No fee may be imposed or increased without prior legislative approval. Tax increases must pass the Legislature by a two-thirds majority, and if they are not subject to a referendum vote of the people, must be submitted to the ballot for an advisory vote.

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

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

Expenditures

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

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

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

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

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

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

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

Social and Health Services. The Department of Social and Health Services ("DSHS") is the primary human service agency in the state; its expenditures account for the second largest category of state budget expenditures. DSHS provides services that are essential for the physical safety, security and survival of individuals and families, including protective services for children, the aged and mentally disabled people, as well as for people in institutions and other residential care facilities.

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

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

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

Corrections. The Department of Corrections operates 15 correctional institutions, including two prerelease facilities and 15 work-training release facilities. The rapid growth in inmate population (the primary cost driver) is, in part, the result of various crime initiatives enacted in the state. These include the Omnibus Drug Act of 1989, the Community Protection Act of 1990, Initiative 593—"Three Strikes and You're Out," approved by Washington voters in November 1993, and the Violence Prevention Act of 1994. Over the past several years, the Department of Corrections has constructed nearly 4,000 new prison beds. Even with the additional prison beds, the Department of Corrections continues to have overcrowding issues, and relies on renting prison beds from out-of-state. As of the end of March 2007, approximately 947 inmates have been transported to out-of-state prisons. In addition, the state rents 965 beds from local jurisdictions in Washington. The last major construction of a new facility was the Stafford Creek Corrections Center, a 1,936-bed, multi-custody facility that opened in April 2000 near Aberdeen, approximately 50 miles west of Olympia. During the 2007-09 Biennium, the Department of Corrections expects to complete construction and open over 2,500 new beds, including an additional 868 close custody and intensive management beds at the Washington Penitentiary in Walla Walla and to complete the construction of a new 2,048-bed prison expansion at the Coyote Ridge Correctional Center. Once these new facilities are completed, the department expects to begin bringing inmates housed out-of-state back to be housed in-state. The 2007 Legislature funded the construction of 476 new beds, which are scheduled to be operational by the 2009-11 Biennium.

Budgeting, Accounting and Fiscal Controls

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

Budget tables and statistics provided by the OFM for inclusion in this Official Statement are based on generally accepted accounting principles ("GAAP"). GAAP provides that the recognition and inclusion of revenues occur when they are measurable and earned, regardless of when the funds are received. Given the nature of the state's revenue collection, on an accrual basis revenues are available for expenditure prior to receipt. Recognizing that the expenditure of funds prior to receipt of offsetting revenue would erode the state's cash balance, the Legislature enacted laws which limited the expenditure of funds to the amount of revenue actually received or money on deposit over the course of the biennium. These limitations do not apply to the state's general obligation bonds.

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

Subsequent to the introduction of revenue and expenditure measures that embody the Governor's proposed operating budget, the Legislature engages in extensive budget deliberations and committee hearings. Legislative authorizations of long-term debt also are considered to finance a portion of the capital budget. Upon adoption of revenue and expenditure legislation by the House of Representatives and the Senate, the bills are transmitted to the Governor, who has constitutional authority to veto sections of the bills and append in writing the reasons therefor.

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

Accounting. The state's accounting records are maintained in conformance with GAAP, as promulgated by the Governmental Accounting Standards Board ("GASB"). GAAP accounting is mandated by RCW 43.88.037. The state's Comprehensive Annual Financial Report ("CAFR") is accounted on a GAAP basis. The accounting system produces monthly financial statements at the state-wide combined level and at the agency level, which are used in the preparation of the state's fiscal year CAFR, including its 2006 CAFR. The state's fiscal 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.

The Government Finance Officers Association of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the state for its CAFR for each of the Fiscal Years 1987 through 2006. To be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report, the content of which conforms to program standards. Such reports must satisfy both GAAP and applicable legal requirements.

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

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

Debt Issuance Policy

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

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

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

State Investment Programs

The State Treasurer's Office is responsible for the investment management of the state's operating funds totaling approximately $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 municipal districts, and higher education institutions.

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

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

In its management of the CMA pursuant to the Investment Policy adopted by the State Treasurer in January 2001, the State Treasurer sets its investment objectives pursuant to modern portfolio theory. To manage state funds more efficiently and effectively, the State Treasurer's CMA investments are separated into two portfolios, each with its own risk objectives. The policy sets forth, *inter alia*, the practices, procedures and restrictions applicable to the investment of funds and specifically denominates eligible investments and certain restrictions on portfolio composition. Internal controls and reporting requirements are mandated by the Investment Policy to allow for oversight and monitoring of performance.

Local Government Investment Pool. The LGIP, authorized by chapter 43.250 RCW, is a voluntary pool that provides its participants the opportunity to take advantage of the economies of scale inherent in pooling. It also is intended to offer participants increased safety of principal and the ability to achieve a higher investment yield than otherwise would be available to them. The LGIP is a conservatively managed, highly liquid pool comparable to a SEC Rule 2a-7 money market fund, restricted to investments with maturities of 397 days or less. The average life generally ranges from 30 to 60 days.

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

WASHINGTON STATE TREASURER PORTFOLIOS
AVERAGE DAILY BALANCES BY SECURITY CLASS

Treasury/ Trust	November 2007 (Dollars in Thousands)		Dec 2006 - Nov 2007 (Dollars in Thousands)	
Security Type				
US Agency	3,838,128	67.45%	3,268,950	66.56%
US Treasury	13,059	0.23%	41,887	0.85%
Repurchase Agreements	867,000	15.24%	939,422	19.13%
Bank Deposits	972,167	17.08%	660,873	13.46%
Commercial Paper	-	0.00%	-	0.00%
Treasury/Trust Totals	5,690,353	100.00%	4,911,132	100.00%
Weighted Average Maturity	813 days			
LGIP				
Security Type				
US Agency	4,609,171	63.46%	1,967,443	32.72%
US Treasury	-	0.00%	54,074	0.90%
Repurchase Agreements	1,765,216	24.30%	3,325,586	55.31%
Bank Deposits	888,664	12.24%	665,734	11.07%
Commercial Paper	-	0.00%	-	0.00%
LGIP Totals	7,263,051	100.00%	6,012,835	100.00%
Weighted Average Maturity	56 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. The purpose of this feature of debt management policy is to coordinate state debt and investment practices through asset liability management, which is defined as the management of the exposure to interest rate risk through active management of certain financial elements of the state’s balance sheet. Coordinating the management of state debt and state investment is expected to reduce the volatility and the impact of interest rate changes in the General Fund-State.

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

State Economic and Revenue Forecasting Process

To assist in its financial planning, the state prepares quarterly economic forecasts derived from national econometric models. The Legislature, through enactment of Chapter 138, Laws of 1984 (RCW 82.01.130), established the Office of Forecast Council (the “Forecast Council”) in the Department of Revenue, and in 1990, the Legislature established the Forecast Council as an independent body. The Forecast Council consists of six members, two appointed by the Governor and two appointed from each of the political caucuses of the Senate and House of Representatives. The Forecast Council approves the official revenue forecast for the state. The Forecast Council law requires a review of financial performance eight times during the biennium and requires action if changing economic conditions affect the budget. This “early warning” system gives policy makers time to reduce expenditures or raise taxes during economic downturns and provides the option of increasing financial reserves or dealing with emergent spending needs in periods of economic growth.

In mid-February (or March in odd-numbered years), June, September, and November, subject to the approval of the Forecast Council, the forecast supervisor uses forecasts of the U.S. economy to prepare an official state economic and revenue forecast and two unofficial forecasts, one based upon optimistic economic and revenue assumptions and one based upon pessimistic economic and revenue assumptions. The groundwork for these quarterly forecasts is undertaken in conjunction with the results of monthly state revenue collections, using a formally created economic and revenue forecast workgroup. This group consists of lead staff members representing the Department of Revenue and the OFM, as well as staff representatives of the legislative fiscal committees.

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

The state forecast by the Forecast Council that is discussed and analyzed in this Appendix A is the state forecast that was released on February 15, 2008. This forecast is the basis for the projections described under "Summary of Recent and Projected Operating Results" and "Outlook for the 2005-07 and 2007-09 Biennia." The next forecast will be released on or about June 19, 2008. Copies of the report and subsequent reports may be obtained from the Office of Economic and Revenue Forecast Council (*www.erfc.wa.gov)*.

SUMMARY OF RECENT AND PROJECTED OPERATING RESULTS

The following tables display projected revenues and expenditures for the 2005-07 and 2007-09 Biennia. Revenues for the 2005-07 and 2007-09 Biennia are based on the February 2008 forecast. Expenditures for the 2005-07 Biennium are based on the 2005-07 Operating Budget passed by the Legislature in April 2005 and signed by the Governor on May 17, 2005, the 2006 Supplemental Budget passed by the Legislature on March 8, 2006, and signed by the Governor on March 31, 2006, and the 2007 Supplemental Budget passed by the Legislature in April 2007 and signed by the Governor on May 15, 2007. Expenditures for the 2007-09 Biennium are based on the 2007-09 Operating Budget passed by the Legislature in April 2007 and signed by the Governor on May 15, 2007. The outlook for the 2005-07 and 2007-09 Biennia immediately follows the tables.

WASHINGTON STATE REVENUE
MODIFIED ACCRUAL BASIS
(in Millions)

	2005-07 Biennium Estimate (1)	2007-09 Biennium Estimate (1)
Beginning General Fund-State Balance	$ 870	$ 781
GENERAL FUND-STATE REVENUE		
Retail Sales and Use Taxes	$ 15,203	$ 16,730
Real Estate Excise	2,002	1,383
Business and Occupation	5,048	5,544
Property Tax	2,826	3,030
Other Taxes	2,081	2,190
Subtotal Tax Revenue	**$ 27,160**	**$ 28,876**
Other Nontax Revenue	$ 641	658
Other Financing	(29)	(71)
Transfers from Other Funds/Other Adjustments	192	40
Spillover Transfer to Emergency Reserve Account	(289)	0
Transfer to Budget Stabilization Account	0	(136)
TOTAL GENERAL FUND-STATE REVENUE (2)	**$ 28,545**	**$ 30,147**
Federal Revenue	$ 11,565	$ 12,378
Private/Local Revenue	368	403
TOTAL GENERAL FUND-STATE REVENUE	**$ 40,478**	**$ 42,928**

(1) Based on the February 2008 General Fund-State Revenue Forecast and changes in the 2007 legislative session.
(2) Including balance from previous biennium.

Note: Totals may not add due to rounding.

Source: Office of Financial Management

WASHINGTON STATE EXPENDITURES
MODIFIED ACCRUAL BASIS
(in Millions)

GENERAL FUND-STATE EXPENDITURES	2005-07 Biennium Estimate [1]	2007-09 Biennium Estimate [2]
Education		
Public Schools	$ 11,047	$ 12,092
Higher Education	2,950	3,290
Other Education	78	184
Total Education	**$ 14,075**	**15,566**
Human Services		
Department of Social and Health Services	$ 7,991	$ 8,994
Department of Corrections	1,449	1,736
Other Human Services	188	230
Total Human Services	**$ 9,628**	**$ 10,960**
Natural Resources and Recreation	$ 423	$ 447
Governmental Operations	471	528
Other Expenditures [3]		
Debt Service	$ 1,374	$ 1,547
Other Expenditures	1,794	575
Total Other Expenditures	**$ 3,168**	**$ 2,122**
TOTAL GENERAL FUND-STATE EXPENDITURES	**$ 27,765**	**$ 29,623**
Federal	$ 11,565	$ 12,378
Private/Local	368	403
TOTAL GENERAL FUND-STATE EXPENDITURES	**$ 39,698**	**$ 42,404**
Ending General Fund-State Balance	**$ 781**	**$ 524**
Emergency Reserve Account Projected Balance	**$ 293**	**$ 0**
Budget Stabilization Account	**$ 0**	**$ 430**
TOTAL RESERVES	**$ 1,074**	**$ 954**

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

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

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

Note: Totals may not add due to rounding.

Source: Office of Financial Management

OUTLOOK FOR THE 2005-07 AND 2007-09 BIENNIA

U.S. Economic Forecast

The February 2008 economic and revenue forecast incorporated the advance Gross Domestic Product ("GDP") estimate for the fourth quarter of 2007. According to the advance estimate, real GDP growth slowed to 0.6 percent in the fourth quarter of 2007 from 4.9 percent in the third quarter. Some of the slowdown was due to a sharp deceleration in inventory accumulation, but final sales growth also slowed in the fourth quarter to 1.9 percent from 4.0 percent in the third quarter. Consumer spending grew at a moderate 2.0 percent rate in the fourth quarter, in spite of a healthy 4.2 percent increase in spending on durable goods. Once again the weakest sector was fixed investment, which fell at a 2.6 percent rate in the quarter due to a 23.9 percent plunge in residential fixed investment. The decline in residential fixed investment subtracted 1.2 percentage points from GDP growth in the fourth quarter. The foreign sector partially offset the housing decline by contributing 0.4 percentage points to GDP growth in the fourth quarter. Exports rose at a 3.9 percent rate, which was more than enough to offset the 0.3 percent increase in imports. Government consumption and investment spending rose at a 2.6 percent rate in the fourth quarter, led by a 4.0 percent increase in state and local government spending.

Payroll employment growth held steady at 0.8 percent in the fourth quarter, while the unemployment rate edged up to 4.83 percent from 4.70 percent in the third quarter. The Consumer Price Index ("CPI") increased 4.3 percent in the fourth quarter following a 1.9 percent rise in the third quarter. The increase in inflation was due to energy costs, which rose at a 20.0 percent rate in the fourth quarter following a 6.6 percent decline in the third quarter. Core CPI inflation, which excludes food and energy, was unchanged at 2.5 percent in the fourth quarter. Housing starts plummeted at a 38.5 percent rate in the fourth quarter to 1.151 million units. The mortgage rate declined to 6.23 percent in the fourth quarter from 6.55 percent in the third quarter. As expected in the November forecast, the Federal Open Market Commmittee ("FOMC") cut its target for the federal funds rate by 25 basis points at each of its next two meetings, resulting in a rate of 4.25 percent by the end of the year. However, the November forecast did not anticipate the rate cuts on January 22 and January 30, which totaled 125 basis points and brought the target rate down to 3.00 percent.

The U.S. forecast incorporates a $153 billion (or 1.1 percent of GDP) fiscal stimulus package billion in fiscal 2008, of which $110 billion is for households via tax rebates and $43 billion is for businesses. The forecast assumes oil prices will continue to pull back from their highs near $100 per barrel to a second-quarter average of $78 per barrel. Thereafter, prices should remain in the low $70s. We assume that the FOMC will cut the target federal funds rate by 50 basis points at its March 18 meeting and another 50 basis points at its April 30 meeting, taking the rate down to 2.0 percent. Faster growth in 2009 leads the FOMC to partially reverse its cuts, returning the funds rate to 3.75 percent by the end of next year. Slower U.S. growth and falling interest rates are a recipe for a weaker dollar, but declines from now on are expected to be milder, since other trading partners are now cutting interest rates too. GDP growth in the United States' major currency trading partners is projected at 2.0 percent in 2008, down from 2.6 percent in 2007. Growth for other trading partners should ease from 5.6 percent in 2007 to 5.1 percent in 2008. Productivity gains are expected to average just 1.7 percent for 2008 compared to the 2.6 percent average since 1997. The forecast assumes that Congress will not allow all of the Bush administration's personal tax reductions to expire as scheduled at the end of 2010. But some increase in the income tax burden is expected, whether through the Alternative Minimum Tax (AMT) or through some kind of tax reform that raises a similar amount of revenues. Spending for the wars in Iraq and Afghanistan continues to climb. Real federal defense purchases are expected to rise 5.5 percent in calendar 2008, up from 2.8 percent growth in calendar 2007. Overall federal purchases will rise 4.1 percent in 2008, up from 1.7 percent growth in 2007.

Annual GDP growth slowed to 2.2 percent in 2007 from 2.9 percent in 2006. The forecast expects GDP growth to slow down to 1.4 percent this year, as the economy experiences a mild recession, before recovering to 2.2 percent in 2009, 3.0 percent in 2010, and 3.2 percent in 2011. Nonfarm payroll employment growth slowed to 1.1 percent in 2007 from 1.8 percent in 2006. Slower growth is expected during the next two years. Employment is expected to grow just 0.3 percent this year and 0.7 percent next year. Employment growth is expected to improve to 1.3 percent in 2010 and 1.6 percent in 2011 as the economy recovers from the recession. The unemployment rate edged up to 4.64 percent in 2007 from 4.61 percent in 2006. The forecast expects the unemployment rate to rise to 5.34 percent in 2008 and 5.62 percent in 2009, recovering to 5.45 percent in 2010 and 5.09 percent in 2011. Inflation, as measured by the implicit price deflator for personal consumption expenditures, eased slightly to 2.5 percent in 2007 from 2.8 percent in 2006. Rising energy costs continue to boost overall inflation. Core inflation, which excludes food and energy, was only 2.1 percent in 2007. Energy costs will add to inflation in 2008, but will help restrain inflation during the following three years. The overall implicit price deflator is expected to rise 2.4 percent in 2008, 1.7 percent in 2009, and 1.8 percent per year in 2010 and 2011.

Washington State Economic Forecast

The state's employment growth rate edged up to 1.7 percent in the fourth quarter of 2007 from 1.5 percent in the third quarter. Manufacturing employment rose at a 2.2 percent rate in the fourth quarter due to a 7.5 percent increase in aerospace employment. Manufacturing employment other than aerospace rose only 0.2 percent. Construction employment declined at a 1.2 percent rate in the fourth quarter, following a 2.9 percent decrease in the third quarter. Prior to the third quarter, construction employment had increased for 17 consecutive quarters. Natural resources (logging) and mining employment, while small, fell at a 6.8 percent rate in the fourth quarter. Among the private services-producing sectors, leisure and hospitality employment and education and health services employment remained strong in the fourth quarter, rising 3.3 percent and 2.9 percent, respectively. Both software and non-software information employment grew at a 2.7 percent rate in the fourth quarter. Professional and business services employment grew 1.8 percent, trade, transportation, and utilities employment grew 1.0 percent, and "other services" employment grew 0.7 percent in the fourth quarter. But financial activities employment fell at a 1.7 percent rate in the fourth quarter, the third consecutive decline. In the public sector, state and local government employment rose at a 3.7 percent rate in the fourth quarter, but federal government employment fell at a 4.9 percent rate.

Washington's personal income in the third quarter of 2007 was $0.082 billion (0.0 percent) higher than the estimate made in November. Total wages were $0.423 billion (0.3 percent) lower than expected in November. Software wages were $0.305 billion (2.8 percent) lower than expected, and other wages were $0.118 billion (0.1 percent) lower. Nonwage personal income was $0.505 billion (0.4 percent) higher than the November estimate. The forecast assumes that personal income growth fell to 1.2 percent in the fourth quarter of 2007 from 15.5 percent in the third quarter. Third quarter income had been temporarily boosted by large bonuses and vesting of stock awards in the software sector. Personal income, excluding software wages, is assumed to have grown at a healthy 5.5 percent rate in the fourth quarter. The forecast assumes that wage and salary disbursements fell at a 2.0 percent rate in the fourth quarter, again due mainly to software wages. Wages outside of the software sector rose at a 5.5 percent rate. The forecast assumes that income from sources other than wages grew at a healthy 5.6 percent rate in the fourth quarter.

The forecast also reflects Seattle consumer price data through December 2007. After trailing the national average during 2002, 2003, and 2004, December-December Seattle core inflation (excluding food and energy) moved ahead of the national average in 2005, 2006, and 2007, rising at an average rate of 3.3 percent compared to 2.4 percent for the nation. Energy costs added less to Seattle inflation than to U.S. inflation during this period, however. As a result, the Seattle all-items CPI rose at a 3.9 percent rate compared to the national average rate of 3.3 percent. The stronger inflation in Seattle compared to the U.S. city average can almost entirely be attributed to shelter costs, in particular, rent and owners' equivalent rent.

The number of housing units authorized by building permit fell 8,600 in the fourth quarter of 2007 to 34,800 from 43,400 in the third quarter. Single-family permits dropped 8,100 to 20,600 and multi-family permits declined 400 to 14,200. The number of single family permits taken out in the fourth quarter of 2007 was the lowest since the first quarter of 1991.

The decline in Washington housing permits, especially single-family permits, during the fourth quarter of 2007 was far more severe than expected in November. In addition, the preliminary annual estimate for 2007 indicates that the 2007 monthly estimates are, on average, too high. The current forecast assumes that housing permits will be significantly lower in 2008 than assumed in November, but will recover to about the same rate in 2009. Newly available employment data now indicate that construction employment peaked in the second quarter of 2007 with declines in the third and fourth quarters. In November, the forecast assumed the peak in construction employment would be in the fourth quarter. The new forecast also assumes steeper declines during 2008 than assumed in November. The forecast assumes little change in the overall level of construction employment in 2009, 2010, and 2011. The software employment forecast is similar to the November assumption. Software employment is expected to rise 4,800 from the fourth quarter of 2007 to the fourth quarter of 2009 and a similar amount in 2010 and 2011. The Washington aerospace employment forecast is also virtually unchanged, other than recognizing that 1,500 more aerospace jobs have been created as of December 2007 than assumed in the November forecast. The forecast expects another 1,200 new aerospace jobs by mid-2008, when employment is expected to level off at 84,200. 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. Growth in these key industries is expected to slow, though, and the state will also be adversely affected by the recession expected for the U.S. economy. The forecast calls for employment growth rates of 1.2 percent and 1.4 percent in 2008 and 2009. Employment growth is expected to improve to 1.8 percent and 1.7 percent in 2010 and 2011, as the national economy recovers from the recession. Washington personal income growth slowed from 8.3 percent in 2006 to a still strong 7.5 percent in 2007. Income growth is expected to slow to 5.3 percent in 2008 and 5.4 percent in 2009 before recovering to 5.9 percent and 6.1 percent in 2010 and 2011. 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 5,100 in 2007 to 44,900. Tighter lending standards and plunging consumer confidence are expected to depress the single-family market despite lower mortgage interest rates, but continued strong net migration into Washington should support multi-family activity. The forecast expects total housing permits to decline to 38,700 in 2008 before bouncing back to 45,100 in 2009, 47,400 in 2010, and 48,800 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 be roughly neutral in 2008 and declining energy costs in 2009, 2010, and 2011 should help lower overall inflation in those years. The slowdown in the overall economy should also help restrain core inflation. As a result, inflation should decline to 3.4 percent in 2008, 2.4 percent in 2009, 2.5 percent in 2010, and 2.2 percent 2011.

Alternative Economic Forecasts

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

Optimistic Forecast. Renewed strength in productivity growth provides the key assumption distinguishing the optimistic scenario from the baseline forecast. Stronger productivity gains, coupled with a dose of raw optimism, facilitate enhanced business spending and a milder housing contraction. These, in turn, allow meager, but positive, GDP growth during the first half of 2008, and then a strong takeoff in the second half. The fiscal stimulus package adds fuel to the fire during the latter half of 2008. Combined with a stronger currency, the productivity gains also help to contain inflation. Business fixed investment growth registers a respectable 3.5 percent rate in 2008, compared with just 1.5 percent in the baseline forecast. The contraction in residential investment is less severe in the optimistic scenario, with housing starts beginning to recover in the second half of 2008, averaging 1.029 million units for the year, compared with only 0.900 million units in the baseline forecast. Foreign economic growth is also stronger, boosting U.S. exports and strengthening domestic manufacturing. Finally, the optimistic scenario assumes that energy prices are lower than in the baseline. Oil prices run about $10 per barrel below baseline levels, and wellhead natural gas prices are also lower. Under these assumptions, the economic outlook is much brighter. After slowing to a 0.3 percent crawl in the first quarter of 2008, real GDP growth bounces back to 1.4 percent in the second quarter and 5.3 percent in the third. In the optimistic scenario, real GDP growth averages 2.2 percent for the year versus 1.4 percent in the baseline. Growth remains faster in 2009 as well, averaging 3.0 percent compared with 2.2 percent in the baseline. For Washington, the optimistic forecast assumes aerospace employment continues to grow through 2009, rather than leveling off in mid-2008 as in the baseline. Software employment also grows faster in the optimistic forecast. 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 begins to rise again in the fourth quarter of 2008, rather than leveling off as in the baseline. By the end of the 2007-09 Biennium, Washington nonagricultural employment is higher by 63,500 jobs than in the baseline forecast, and Washington personal income is $12.7 billion higher. The optimistic scenario generated $808 million (2.7 percent) more revenue in the 2007-09 Biennium than did the baseline forecast.

Pessimistic Forecast. The pessimistic scenario assumes that the housing recession deepens even more than in the baseline, and that near-term oil prices spike above $90 per barrel. This fatal combination sends the economy into a recession similar in depth and duration to the 1991 recession. Real GDP drops 1.4 percent, peak to trough, falling over the first two quarters of 2008. The economy then gets a breather, as the stimulus package and the FOMC rate cuts take effect, and growth inches toward 1.0 percent in the second half of 2008. But then the effects of the stimulative monetary and fiscal policies wear off, and the economy slips back into reverse. Housing starts drop to 717,000 units in 2008 compared with 900,000 in the baseline. The median price of existing homes falls 10 percent below the baseline in 2009. 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, causing a drop in consumer spending during the first two quarters of 2008. Capital spending is also weaker, as firms respond to a bleaker outlook by scuttling long-term projects. Foreign economic growth is also lower, which cuts into export growth. In the pessimistic scenario, real GDP drops 0.1 percent in 2008 and grows only 0.4 percent in 2009 compared with growth rates of 1.4 percent and 2.2 in the baseline. At the state level, aerospace employment growth begins to decline in the second half of 2008 rather than leveling off as in the baseline, and software employment levels off in 2008 and 2009 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 in 2008 and continues to decline throughout 2009. Due to the relatively weak local economy, Seattle inflation is lower than in the baseline forecast in spite of the higher national inflation rate. The weak economy also depresses Washington wage growth below the rate of growth in the baseline forecast. By the end of the 2007-09 Biennium, Washington nonagricultural employment is 68,900 lower than in the baseline forecast, and Washington personal income is $12.4 billion lower. The pessimistic scenario produced $819 million (2.8 percent) less revenue in the 2007-09 Biennium than did the baseline forecast.

Budgetary Outlook

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 $29.5 billion, a 6.1 percent increase from the 2005-07 Biennium, plus a carry-forward of $786 million. This figure includes $9.8 million of budget-driven revenue from adding more Sunday liquor sales, and Department of Revenue for the Streamlined Sales Tax bill that requires purchases made on the Internet to include sales tax, passed by the 2007 Legislature. Also included is $40 million in a shift of revenue from other funds into the General Fund, plus other adjustments. Revenues are reduced by $29 million for legislation with revenue impacts, as well as the first annual transfer to the new Budget Stabilization Account (also known as the Rainy Day Account), which was approved by the voters in November 2007.

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

In the 2007-09 Biennium, 52 percent of the General Fund-State budget will go to support public schools and higher education. The funding for K-12 public schools includes special education funding, classified staff recognition, and the increased cost of teacher and staff health benefits and salaries. The higher education funding provided for more than 9,700 student enrollment increases in public two- and four-year colleges and universities, and increases in need grants.

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

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

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

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

Beginning Fund Balance	$ 870
Revenue	
June 2005 Forecast	$ 25,031
September 2005 Forecast	645
November 2005 Forecast	305
2005 Legislative Changes	354
February 2006 Forecast	107
June 2006 Forecast	518
September 2006 Forecast	350
November 2006 Forecast	49
March 2007 Forecast	144
June 2007 Forecast	195
September 2007 Forecast	69
November 2007 Forecast	(2)
Spillover to the Emergency Reserve Fund	(289)
2006 Session Legislative Changes	7
Changes in Reserves and Other Adjustments	193
Total Sources	**$ 28,545**
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 BUDGET
(Modified Accrual Basis)
(in Millions)

Beginning Fund Balance	$ 781
Revenue	
November 2006	29,533
March 2007 Update	(18)
June 2007 Update	331
September 2007 Update	213
November 2007 Update	(130)
February 2008 Update	(423)
2007 Session Legislative Changes	(19)
Smokeless Tobacco Settlement	(23)
Rainy Day Account (Budget Stabilization Account)	(136)
Changes in Reserves and Other Adjustments	40
Total Sources	**$ 30,147**
Total Expenditures	**$ 29,623**
Ending General Fund-State Balance	**$ 524**
Budget Stabilization Account	**430**
Total Reserves	**$ 954**

Note: Totals may not add due to rounding.

Source: Office of Financial Management

State Transportation Budget

The Legislature passed the state transportation budget for the 2005-07 Biennium on April 24, 2005, and the Governor signed the bill on May 9, 2005. The 2006 supplemental transportation budget was passed on March 8, 2006, and signed by the Governor on March 31, 2006. The 2007 supplemental transportation budget was passed on April 2,1 2007, and signed by the Governor on May 15, 2007. The total $5.5 billion budget contains $3.4 billion for the Department of Transportation capital funding for roads, bridges, ferries, rail, and transit improvements. The transportation budget bill also contains funding for the Washington State Patrol, the Department of Licensing and other transportation agencies.

The Legislature passed the state transportation budget for the 2007-09 Biennium on April 21, 2007, and the Governor signed the bill on May 15, 2007. The total $7.6 billion budget includes $4.6 billion for the Department of Transportation capital funding for roads, bridges, ferries, rail, and transit improvements. The transportation budget bill also contains funding for the Washington State Patrol, the Department of Licensing and other transportation agencies. The budget includes $860 million for the SR 520 project and creates a $1 billion reserve from which either SR 520 or the Alaskan Way Viaduct can draw. The Regional Transportation Investment District, tolling and other funding mechanisms will be used to fund the remainder of the project costs.

CAPITAL BUDGET AND STATE DEBT

State Capital Budget

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

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

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

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

General Obligation Debt

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

(i) by the affirmative vote of 60 percent of both houses of the Legislature, without voter consent (in which case the amount of such debt is generally but not always subject to both constitutional and statutory limitations; see "General Obligation Debt Limitations" below);

(ii) by the affirmative vote of 50 percent of both houses of the Legislature and a majority of the voters voting thereon (in which case the amount of the debt so approved is not subject to other constitutional limitations, but is subject to statutory limitations; see "General Obligation Debt Limitations" below); or

(iii) by a body designated by statute (currently the Committee) without limitation as to amount, without approval of the Legislature (except as to appropriation of the sums borrowed) and without the approval of the voters; however, such debt:

- (a) may be incurred only to meet temporary deficiencies of the State Treasury, to preserve the best interests of the state in the conduct of the various state institutions, departments, bureaus, and agencies during each fiscal year;
- (b) must be discharged, other than by refunding, within 12 months of the date of incurrence;
- (c) may be incurred only to provide for appropriations already made by the Legislature; or
- (d) may be incurred to refund outstanding obligations of the state.

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

General Obligation Debt Limitations. With certain exceptions noted below, the amount of state general obligation debt which may be incurred by the means described in the section entitled "General Obligation Debt Authority" above is limited by constitutional and statutory restrictions. The limitations in both cases are imposed by prohibiting the issuance of new debt if the new debt would cause the maximum annual debt service on all thereafter outstanding general obligation debt to exceed a specified percentage of the arithmetic mean of general state revenues for the preceding three fiscal years. These are limitations on the incurrence of new debt and are not limitations on the amount of debt service which may be paid by the state in future years.

"General state revenues" is defined for purposes of the constitutional limitation as including all state money received in the State Treasury from each and every source whatsoever, with certain exceptions that include (i) fees and revenues derived from the operation of any facility; (ii) earmarked gifts, grants, donations, and aid; (iii) money for retirement system funds and performance bonds; (iv) money from trust funds, proceeds from sale of bonds or other indebtedness; and (v) taxes levied for specific purposes. For purposes of the statutory debt limitation, "general state revenues" also includes (i) the state lottery revenues, and (ii) revenues deposited in the state general fund and the student achievement fund that are derived from property taxes levied by the state for the support of common schools.

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

(i) *The Constitutional Limitation*. Under Article VIII, Section 1 of the State Constitution, new general obligation debt may not be issued if the new debt would cause maximum annual debt service on all thereafter outstanding general obligation debt to exceed nine percent of the arithmetic mean of general state revenues for the preceding three fiscal years. Excluded from the calculation are the following types of general obligation debt:

  (a) debt payable primarily from excise taxes levied on motor vehicle fuels, income received from the investment of the permanent common school fund and revenue received from license fees on motor vehicles;

  (b) debt which has been refunded;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Current General Obligation Debt Capacity. By applying the statutory and constitutional limitations on general obligation debt, the state’s estimated general obligation debt capacity (excluding Committee-authorized short-term debt described above) is calculated as follows (as of January 22, 2008, preliminary, subject to change):

	Statutory (7 Percent)*	**Constitutional (9 Percent)***
Estimated arithmetic mean of general state revenues for fiscal years ending June 30, 2006, 2007, and 2008 (1)	$ 13,456,969,671	$ 11,436,925,057
Debt service limitation (7% or 9% of above) (maximum annual debt service on general obligation debt to be outstanding may not exceed this sum)............	$ 941,987,877	$ 1,029,323,255
Maximum annual debt service on outstanding general obligation debt (1/22/2008)............	$ 784,612,505	$ 863,240,023
Uncommitted portion of debt service limitation (1/22/2008)............	$ 157,375,372	$ 166,083,232
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)	$ 2,011,785,429	$ 2,123,101,108

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

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

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

* Preliminary, subject to change.

Use of Short-Term General Obligation Debt Authority (Certificates of Indebtedness and Bond Anticipation Notes). Chapter 39.42 RCW and the respective bond acts of the state delegate to the Committee the authority to issue, in the name of the state, temporary notes in anticipation of the sale of bonds. Pursuant to statutory authority and resolution of the Committee, such notes are general obligations of the state. Principal of and interest on such notes are excluded from the constitutional and statutory debt limitations. The state has no bond anticipation notes currently outstanding.

Article VIII of the State Constitution and chapter 39.42 RCW provide for the issuance of certificates of indebtedness to meet temporary deficiencies in the State Treasury. Such indebtedness must be retired other than by refunding within twelve months of the date of issue. Principal and interest on certificates of indebtedness is excluded from constitutional and statutory debt limitations. The state has no certificates of indebtedness currently outstanding and does not anticipate any external short-term borrowing during the current biennium.

Motor Vehicle Fuel Tax Obligations

As of January 22, 2008, there will be outstanding $4,016,176,634 motor vehicle fuel tax bonds secured by a pledge of, and first payable from, excise taxes levied against motor vehicle and special fuels. Additionally, these bonds are secured by the full faith, credit and taxing power of the state. Such bonds are not subject to the constitutional or statutory debt limitation.

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

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

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

	Revenue Pledge	**County-City Allocation(1)**	**State Allocation (2)**
July 1, 1992 – June 30, 1993	$596,015,283	$79,888,937	$297,161,376
July 1, 1993 – June 30, 1994	614,890,069	82,418,884	306,571,969
July 1, 1994 – June 30, 1995	615,525,077	82,503,999	306,888,571
July 1, 1995 – June 30, 1996	655,427,980	87,887,898	327,133,159
July 1, 1996 – June 30, 1997	672,095,589	89,661,476	336,186,110
July 1, 1997 – June 30, 1998	688,474,782	91,846,557	344,379,077
July 1, 1998 – June 30, 1999	712,559,355	95,059,580	356,426,320
July 1, 1999 – June 30, 2000	721,684,773	96,276,797	365,130,833
July 1, 2000 – June 30, 2001	723,945,995	96,578,457	366,272,623
July 1, 2001 – June 30, 2002	720,305,001	96,092,728	364,429,773
July 1, 2002 – June 30, 2003	732,805,981	97,760,429	370,749,618
July 1, 2003 – June 30, 2004	888,237,589	99,866,758	512,808,590
July 1, 2004 – June 30, 2005	911,683,662	99,265,533	538,209,753
July 1, 2005 – June 30, 2006	1,002,731,346	100,413,860	611,792,224
July 1, 2006 – June 30, 2007 (3)	1,107,091,064	100,960,199	698,523,542
July 1, 2007 – June 30, 2008 (3)	1,175,419,572	100,580,419	763,544,622
July 1, 2008 – June 30, 2009 (3)	1,271,734,314	104,230,285	828,376,207

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

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

(3) Department of Transportation forecast (Feburary 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 imposed by chapters 82.36 and 82.38 RCW (formerly by chapters 82.36 and 82.40 RCW). That pledge constitutes a charge against the revenues from such motor vehicle and special fuels excise taxes equal to the charge of any other general obligation bonds of the state that have been and may hereafter be authorized that also pledge motor vehicle and special fuels excise taxes for their payment. By statutory provision the Legislature has covenanted to continue to levy that excise tax in amounts sufficient to pay, when due, the principal and interest on all of those bonds issued under the respective legislative authorizations. All motor vehicle fuel tax general obligation bonds of the state are further secured by a pledge of the full faith, credit and taxing power of the state. The act authorizing the issuance of refunding bonds requires, as to bonds to be refunded that are secured by motor vehicle fuel taxes, that the refunding bonds be secured by the same taxes in addition to the pledge of the state's full faith and credit and taxing power.

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

Sources of Repayment

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

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

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

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

GENERAL STATE REVENUES
STATUTORY
(in Millions)

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

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

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

For motor vehicle fuel tax bonds, at least one year prior to the date any interest is due and payable on those bonds or prior to the maturity date of any bonds, the Committee estimates, subject to the provisions of the pledge of revenue, the percentage of the monthly receipts of the motor vehicle fund resulting from collection of excise taxes on motor vehicle and special fuels that will be necessary to meet interest or bond payments when due. Each month as such funds are paid into the Motor Vehicle Fund, the State Treasurer must transfer such percentage of the monthly receipts from excise taxes on motor vehicle and special fuels in the Motor Vehicle Fund to the Highway Bond Retirement Fund and the Ferry Bond Retirement Fund, the latter of which is to be used for payment of the principal of and interest on the state ferry bonds when due. If in any month it appears that the estimated percentage of money so transferred is insufficient to meet the requirements for interest and bond retirement, the State Treasurer must notify the Committee, and the Committee must adjust its estimates so that all requirements for interest and principal of all bonds issued will be fully met at all times.

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

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

State Bonds Outstanding

The following table summarizes as of January 22, 2008, the state's general obligation bonds and general obligation bonds secured by motor vehicle fuel tax revenue.

General Obligation Bonds................................	$ 9,043,569,410
Motor Vehicle Fuel Tax General Obligation.....	4,016,176,634
	$ 13,059,746,044

An additional $2,729,113,029 principal amount of general obligation bonds and $7,303,663,366 principal amount of motor vehicle fuel tax general obligation bonds will be authorized but unissued as of January 22, 2008. Issuance of additional general obligation bonds is subject to constitutional and statutory debt limitations. By statute, additional general obligation bonds (with certain exceptions) may not be issued if, after giving effect thereto, maximum annual debt service would exceed seven percent of the three-year average of general state revenues. State motor vehicle fuel tax general obligation bonds and certain other bonds are not subject to that limitation.

The maximum annual debt service on all outstanding general obligation bonds is covered 15.10 times by general state revenues of $13.633 billion for the fiscal year ending June 30, 2006. Coverage of the projected annual debt service on all outstanding motor vehicle fuel tax general obligation bonds is 3.60 times based upon estimated gasoline tax revenues of $1,177.418 million for the fiscal year ending June 30, 2008.

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, 2008 BOND OFFERING

Fiscal Year Ending June 30th	Outstanding 1/22/2008 (1) Principal	Outstanding 1/22/2008 (1) Interest (4)	January 22, 2008 Bond Offering (2) Principal	January 22, 2008 Bond Offering (2) Interest	Total (3)
2008	$ 52,371,960	$ 33,973,320	$ -	$ -	$ 86,345,280
2009	570,305,442	580,596,001	21,815,000	42,301,891	1,215,018,334
2010	556,042,538	557,948,674	20,215,000	44,158,838	1,178,365,050
2011	539,653,541	534,280,843	21,220,000	43,350,238	1,138,504,621
2012	532,943,890	513,143,786	22,285,000	42,501,438	1,110,874,113
2013	557,573,288	485,135,687	23,395,000	41,610,038	1,107,714,013
2014	584,891,540	457,204,093	24,570,000	40,615,750	1,107,281,383
2015	613,549,557	439,612,566	25,790,000	39,387,250	1,118,339,373
2016	633,174,481	427,496,981	27,085,000	38,097,750	1,125,854,212
2017	636,924,784	422,001,937	28,450,000	36,743,500	1,124,120,221
2018	617,808,144	392,097,419	29,865,000	35,321,000	1,075,091,563
2019	603,688,200	368,054,594	31,350,000	33,827,750	1,036,920,543
2020	590,206,495	346,719,512	32,925,000	32,260,250	1,002,111,257
2021	549,560,193	293,599,001	34,560,000	30,614,000	908,333,194
2022	537,742,106	249,036,554	36,300,000	28,886,000	851,964,660
2023	523,902,167	226,216,899	38,110,000	27,071,000	815,300,066
2024	516,429,322	205,680,819	40,010,000	25,165,500	787,285,641
2025	486,699,917	184,087,005	42,015,000	23,165,000	735,966,923
2026	466,475,654	162,310,844	44,120,000	21,064,250	693,970,748
2027	431,168,610	141,493,813	46,325,000	18,858,250	637,845,673
2028	383,646,468	124,324,237	48,635,000	16,542,000	573,147,705
2029	361,841,913	108,724,237	51,080,000	14,110,250	535,756,400
2030	310,650,835	93,081,790	53,620,000	11,556,250	468,908,875
2031	228,530,000	19,945,575	56,305,000	8,875,250	313,655,825
2032	170,185,000	9,415,625	59,120,000	6,060,000	244,780,625
2033	82,535,000	2,020,913	62,080,000	3,104,000	149,739,913
	$ 12,138,501,044	$ 7,378,202,724	$ 921,245,000	$ 705,247,441	$ 21,143,196,210

Note: Totals may not add due to rounding.

	Principal	Interest
(1) **Outstanding Bonds by Revenue Pledge**		
(a) General State Revenues	8,497,324,410	4,788,647,404
(b) Motor Vehicle Fuel Tax	3,641,176,634	2,589,555,320
Total Bonds Outstanding	$ 12,138,501,044	$ 7,378,202,724
(2) **January 22, 2008, Bond Offering**		
(a) Series 2008C, dated 1/22/2008	$ 546,245,000	$ 418,174,660
(b) Series 2008D, dated 1/22/2008	375,000,000	287,072,781
Total January 22, 2008, Bond Offering	$ 921,245,000	$ 705,247,441
(3) **Total Bonds Outstanding Following January 22, 2008, Bond Offering**	$ 13,059,746,044	$ 8,083,450,165

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

SCHEDULE NO. 2

SUMMARY - DEBT STRUCTURE BY REVENUE PLEDGE

General Obligation [1]

	6/30/2003	6/30/2004	6/30/2005	6/30/2006	6/30/2007	1/22/2008 [2]
Outstanding						
General State Revenues and Components						
General State Revenues	$ 6,827,099,728	$ 7,215,204,278	$ 7,575,311,302	$ 7,702,642,072	$ 8,304,968,946	$ 9,043,569,410
Retail Sales Tax Revenue	445,000	- - - - - -	- - - - - -	- - - - - -	- - - - - -	- - - - - -
Subtotal	$ 6,827,544,728	$ 7,215,204,278	$ 7,575,311,302	$ 7,702,642,072	$ 8,304,968,946	$ 9,043,569,410
Motor Vehicle Fuel Tax Revenue	$ 1,720,296,935	$ 2,113,536,136	$ 2,404,758,801	$ 2,881,445,657	$ 3,368,311,634	$ 4,016,176,634
Total - Outstanding	$ 8,547,841,664	$ 9,328,740,413	$ 9,980,070,103	$ 10,584,087,730	$ 11,673,280,580	$ 13,059,746,044
Annual Debt Service Requirements						
Fiscal Year	$ 836,219,533	$ 827,723,419	$ 896,463,314	$ 939,827,748	$ 1,013,402,558	$ 1,106,293,725
Authorized -- Unissued						
General State Revenues	$ 2,033,548,029	$ 2,446,723,029	$ 3,165,528,029	$ 2,909,033,029	$ 3,858,263,029	$ 2,729,113,029
Motor Vehicle Fuel Tax Revenue	1,514,793,065	3,655,958,864	3,087,256,199	7,540,254,343	6,945,663,366	7,303,663,366
Total - Unissued	$ 3,548,341,094	$ 6,102,681,893	$ 6,252,784,228	$ 10,449,287,372	$ 10,803,926,395	$ 10,032,776,395
Issued (New Money and Refunding)						
Fiscal Year	$ 1,528,646,935	$ 1,624,334,200	$ 1,523,297,666	$ 1,558,261,856	$ 2,452,060,976	$ 1,891,150,000

(1) No limited obligation debt is outstanding or authorized.
(2) Includes current Bond offering dated January 22, 2008.

Note: Totals may not add due to rounding

SCHEDULE NO. 3

TOTAL DEBT SERVICE REQUIREMENTS [1]
by Pledge of Revenues

Fiscal Year Ending June 30th	General State Revenues (or Components)	Motor Vehicle Fuel Tax Revenues	Total Principal	Total Interest	Total Debt Service Requirements
2008	$845,329,927	$260,963,798	$557,056,495	$549,237,230	$1,106,293,725
2009	902,032,567	312,985,767	592,120,442	622,897,892	1,215,018,334
2010	869,840,877	308,524,173	576,257,538	602,107,512	1,178,365,050
2011	835,122,826	303,381,795	560,873,541	577,631,080	1,138,504,621
2012	811,442,221	299,431,892	555,228,890	555,645,223	1,110,874,113
2013	805,903,308	301,810,705	580,968,288	526,745,725	1,107,714,013
2014	796,632,406	310,648,977	609,461,540	497,819,843	1,107,281,383
2015	808,863,206	309,476,168	639,339,557	478,999,816	1,118,339,373
2016	807,793,710	318,060,502	660,259,481	465,594,731	1,125,854,212
2017	797,078,836	327,041,385	665,374,784	458,745,437	1,124,120,221
2018	751,174,781	323,916,782	647,673,144	427,418,419	1,075,091,563
2019	710,960,466	325,960,078	635,038,200	401,882,344	1,036,920,543
2020	677,809,742	324,301,515	623,131,495	378,979,762	1,002,111,257
2021	595,422,294	312,910,900	584,120,193	324,213,001	908,333,194
2022	539,481,025	312,483,635	574,042,106	277,922,554	851,964,660
2023	514,387,338	300,912,729	562,012,167	253,287,899	815,300,066
2024	488,403,413	298,882,229	556,439,322	230,846,319	787,285,641
2025	438,193,450	297,773,473	528,714,917	207,252,005	735,966,923
2026	398,575,525	295,395,223	510,595,654	183,375,094	693,970,748
2027	356,153,163	281,692,510	477,493,610	160,352,063	637,845,673
2028	313,761,075	259,386,630	432,281,468	140,866,237	573,147,705
2029	287,542,550	248,213,850	412,921,913	122,834,487	535,756,400
2030	239,026,000	229,882,875	364,270,835	104,638,040	468,908,875
2031	188,355,975	125,299,850	284,835,000	28,820,825	313,655,825
2032	151,358,925	93,421,700	229,305,000	15,475,625	244,780,625
2033	96,930,538	52,809,375	144,615,000	5,124,913	149,739,913
Total	$15,027,576,142	$7,135,568,514	$13,564,430,580	$8,598,714,075	$22,163,144,655

(1) Includes current Bond offering dated January 22, 2008.

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)
2004	$	1,570.16	4.43%	0.41%	1.65%
2005		1,636.63	4.55%	0.42%	1.64%
2006		1,706.27	4.47%	0.42%	1.54%
2007*		1,907.66	4.74%	0.42%	1.75%
2008*		1,978.99	4.70%	0.44%	1.55%

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)
2004	6,167.80	$ 218,366	$ 896,463	$ 585,655,515	$ 9,684,449
2005	6,256.40	224,808	939,828	625,111,698	10,239,381
2006	6,375.60	243,471	1,013,403	707,348,409	10,878,525
2007*	6,488.00	261,258	1,106,294	707,348,409	12,376,911
2008*	6,599.20	277,586	1,215,018	844,113,769	13,059,746

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

(2) Personal Income -- Office of the Forecast Council, "Washington Economic and Revenue Forecast November 2007," Table A3.3.

(3) Debt Service -- Reported by the State Finance Committee for the ensuing fiscal year.

(4) True and fair market value (100%) as reported by the Department of Revenue for state taxes due and payable in calendar years 2003 through 2006 -- Department of Revenue, "Property Tax Statistics 2007," 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, 2008.

* Estimate.

State Bonded Debt by Source of Payments

General Obligation		
Payable from General State Revenues	$8,073,466,302 [1]	
First Payable from Other Sources	4,986,279,742 [2]	
Limited Obligation	0	$13,059,746,044

	General Obligation Debt: Payable From General State Revenues	General Obligation Debt: First Payable from Other Sources	Total State Bonded Debt
Debt to True Market Value..........................	0.96%	0.59%	1.55%
Per Capita Debt..	$1,223.40	$755.59	$1,978.99

(1) Outstanding bonds as of January 22, 2008.

(2) Certain state general obligation bonds are payable first from sources other than general state revenues ($970,103,108 from tuition fees, patient fees, admissions taxes, parking taxes, certain King County sales and use taxes, or hotel and motel taxes) and are additionally full faith and credit obligations of the state.

OTHER OBLIGATIONS

Workers' Compensation Program

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

The Supplemental Pension Fund was adopted by the Legislature in 1973 to provide inflation adjustment payments for time lost for the temporarily disabled and pension benefits for the permanently disabled. This plan operates on a current, "pay-as-you-go" basis. GAAP formerly required those liabilities be recorded as long-term debt and allowed expected employer and employee contributions to be shown as an asset. GASB now requires the Supplemental Cost of Living Benefit to be characterized as an obligation of the Workers' Compensation Fund, a special enterprise fund, but does not permit employer and employee future contributions to be shown as an offsetting asset. This accounting change has no impact on the fund's liability to pay supplemental cost of living benefits, nor does it affect its ability to make those payments. The potential future liability of the fund to pay all claims for Supplemental Cost of Living Benefits for all employees is estimated to be $4.5 billion; however, the state's obligation to its own employees is substantially lower, and the state anticipates contributions from the private sector will be sufficient to satisfy all liabilities for nonpublic employees.

Certificates of Participation/Financing Contracts

The following table displays outstanding state certificates of participation/financing contracts as of November 30, 2007.

CERTIFICATES OF PARTICIPATION/FINANCING CONTRACTS

	Outstanding	2007-2009 Debt Service Requirement	Final Maturity
WA COP WSU, CTC, GA, Franklin Cnty, 2007A	$ 16,000,000	$ 2,509,813	2027
Big Bend, Clark, Spokane, SPSC, Walla Walla CCs, 2004A	11,460,000	2,512,235	2024
The Evergreen State College, Childcare Center, 2003	350,000	708,865	2008
Master Installment Program -- RE, 1993	1,880,000	1,185,740	2016
St Board for Cmmity & TechColleges, COP Series 2006C	9,395,000	1,742,688	2026
DOC, 2005, Tumwater and Airway Heights	8,680,000	1,364,790	2025
DOE Refunding, 2003B	25,715,000	2,280,975	2016
UW, Sandpoint Phase 2B, 2001D	2,930,000	552,665	2022
Highline Community College, RE-2003F	10,895,000	1,829,388	2023
UW, McCarty-Lander, 2001C	3,110,000	1,190,556	2013
Quarterly Pooled Financings; since 2004	116,612,274	56,122,091	2020
LOCAL Real Property	3,757,775	1,298,562	2017
South Puget Sound Community College, 1999	3,630,000	897,574	2020
Equipment Series, Competitive; since 1997	24,694,516	15,059,866	2015
GA, Yakima Building Project, 1999B	6,335,000	1,453,125	2019
UW, Sand Point Bldg 5, Phase IIC, 2002E	2,320,000	399,783	2023
CWU, Edmonds, 2002D	4,415,000	777,255	2023
Whatcom, Columbia Basin and Yakima CC, 2000A	3,805,000	948,305	2020
GA, Olympia Capitol Court and Federal Building, 1999A	8,285,000	1,458,631	2022
Pierce College, 1998 - Steilacoom Classroom Building	100,000	198,655	2008
Tacoma, Peninsula, Green River and Whatcom CCs, 2001A	3,610,000	927,909	2017
UW, Sand Point Bldg 29, 2002A	3,995,000	745,830	2022
GA Cherberg Bldg Rehabilitation, COP Series 2006D	7,760,000	1,178,538	2026
Veterans Affairs, 2001	2,785,000	744,629	2016
DOL, WSP, Vancouver and Union Gap Project, Series 1998	4,730,000	1,113,400	2018
WA Liquor Control Board Warehouse Expansion 2006I	16,525,000	5,778,798	2014
DOT Acquisitions, CCs and Adams Cnty COP, Series 2005D	14,815,000	3,033,945	2025
WSU - 2006A Refunding of 1996A Consolidated Info Cntr	6,090,000	1,473,375	2018
Washington State Convention and Trade Center	155,560,000	27,568,490	2018
DOE Refunding, 2001	26,190,000	12,070,050	2012
Edmonds CC - Music Building, 2000C	3,045,000	713,589	2018
WA CTC (Shoreline) COP, Series 2006G	14,795,000	2,353,575	2026
GA, Isabella Bush Record Center, 2002	3,310,000	576,798	2023
Whatcom Community College, 1997 - Child Care Center	425,000	163,420	2013
COP-CTC (Tacoma & Columbia), Mason County and Port Royal Slope	18,205,000	1,455,934	2028
Washington State Patrol, 1997 - Port Angeles Office	260,000	119,148	2012
WA COP-CTC(Edmonds, Pierce) and Parks (Camas), Series 2007C	16,600,000	1,309,679	2027
Bellingham Technical College Classroom Additions, 1998	50,000	99,485	2008
UW, Husky Den, 2001B	4,985,000	954,294	2022
UW, Sandpoint Phase 2, 2001A	1,270,000	247,898	2021
DOC, 1998 Kennewick Work Release Facility and Monroe Dairy	724,303	771,047	2009
Bellevue Community College, RE-2003C	13,660,000	2,304,155	2023
CTC and Pend Oreille FD 3 COP Series 2006F	15,495,000	2,441,048	2026
Bellevue, Spokane Falls, Shoreline and Edmonds CCs, 2001B	3,455,000	1,557,290	2015
LOCAL Real Property B - Taxable	190,000	68,675	2016
Columbia Basin CC, 2004F	7,600,000	1,497,535	2020
UW, Sandpoint Bldgs 5 and 29, RE-2003E	3,840,000	619,815	2024
UW, 1999, Sandpoint and Primate Center	7,510,000	2,215,280	2021
Dept. of Personnel Human Resources Systems, 2004D	30,665,000	8,249,578	2016
SOS, Records Center EWU, 2002	9,830,000	2,257,595	2018
GA, Kelso Building and Land, 2000	3,010,000	922,398	2015
DOC, 2001 Workrelease Facility- Spokane Brownstone	2,395,000	473,083	2021
Bates Technical College-Communications Center, 2000B	3,030,000	641,021	2020
GA, Tacoma Co-Location Project, 1996	10,860,000	2,720,843	2020
	$ 681,638,868	$ 183,859,702	

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

Other Contingencies

The following table displays other contingencies as of January 1, 2008.

	Outstanding	2007-2009 Debt Service Requirement	Final Maturity
Tumwater Office Properties Lease Revenue Bonds, 2004	$ 56,805,000	$ 6,796,076	2028

State Unemployment Compensation Fund

Currently, unemployed workers are entitled to up to 26 weeks of regular unemployment insurance benefits, with a maximum state liability of $12,896 per unemployed worker. The maximum and minimum weekly benefit amounts payable are defined as percentages of the state's average weekly wage in covered employment. The maximum is now $496; the minimum is $112.

Legislative changes in 1984 improved the revenue-generating capacity of the unemployment insurance financing provisions. Collections under prior law could only meet the average annual benefit costs of the state's benefit provisions, and the reserve fund level (fund balance as a percent of total wages) could increase only during periods of low unemployment. The experience rating system enacted in 1984 set tax rates based on the reserve fund level and the amount of benefits charged to employers, with a maximum tax rate of 5.4 percent to conform to federal requirements. The highest tax schedule was in effect when the reserve fund level was below one percent of total wages,. Growth in the trust fund triggered tax schedules with lower yields. Growth in the trust fund triggered tax schedules with lower yields. Due to a higher-than-necessary reserved fund level the Legislature added a lower tax schedule in 1993 and lower trust fund controls in 1995.

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

UNEMPLOYMENT COMPENSATION FUND
(Dollars in Millions)

	Beginning Balance	Receipts	Disbursements	June 30 Balance* Dollars	June 30 Balance* Percent**
FY 1993	$ 1,710	$ 684	$ 646	$ 1,748	4.2%
FY 1994	1,748	688	845	1,591	3.7
FY 1995	1,591	674	813	1,452	3.2
FY 1996	1,452	682	815	1,319	2.7
FY 1997	1,319	765	728	1,356	2.6
FY 1998	1,356	852	691	1,517	2.6
FY 1999	1,517	921	816	1,622	2.4
FY 2000	1,622	1,109	799	1,932	2.6
FY 2001	1,932	1,029	1,051	1,910	2.4
FY 2002	1,910	1,102	1,572	1,440	1.8
FY 2003	1,440	1,159	1,499	1,100	1.4
FY 2004	1,100	1,421	1,278	1,243	1.58
FY 2005	1,243	1,562	702	2,103	2.63

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

STATE RETIREMENT SYSTEMS

Overview

Washington State public pensions include nine systems:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

State Contribution Levels

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

CONTRIBUTION SPLITS

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

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

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

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

Plan Administration

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

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

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

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

Actuarial Assumptions

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

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

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

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

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

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

The Actuarial Valuation Report provides information on the following:

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

(ii) *Unfunded Actuarial Present Value of Credited Projected Benefits.* This is the amount by which liabilities exceed assets. Liabilities are calculated under the Projected Unit Credit ("PUC") cost method. Benefits are projected to retirement, including future salary increases, but based only on service earned to date.

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

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

Funded Status

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

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

HISTORICAL FUNDED RATIOS
(Dollars in millions)

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

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

* Assumptions changed.

Individual Retirement Systems

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

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

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

STATE CONTRIBUTIONS TO PERS
(Dollars in thousands)

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

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

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

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

SERS Overview. SERS is a cost-sharing multiple-employer retirement system comprised of two different plans for membership purposes. Plan 2 is a defined benefit plan, and Plan 3 is a combination defined benefit/defined contribution plan. As of September 30, 2005, the date of the last actuarial valuation, SERS included 58,045 active and inactive members, with 2,131 receiving benefits.

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

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

STATE CONTRIBUTIONS TO SERS
(Dollars in thousands)

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

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

TRS Overview. TRS is a cost-sharing multiple-employer retirement system consisting of three separate plans for membership purposes. Plans 1 and 2 are defined benefit plans, and Plan 3 is a combination defined benefit/defined contribution plan. As of September 30, 2005, the date of the last actuarial valuation, TRS included 111,613 active and inactive members, with 37,321 receiving benefits.

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

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

STATE CONTRIBUTIONS TO TRS
(Dollars in thousands)

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

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

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

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

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

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

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

STATE CONTRIBUTIONS TO LEOFF
(Dollars in thousands)

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

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

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

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

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

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

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

STATE CONTRIBUTION TO WSPRS
(Dollars in thousands)

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

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

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

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

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

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

STATE CONTRIBUTION TO JRS
(Dollars in thousands)

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

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

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

STATE CONTRIBUTION TO JUDGES
(Dollars in thousands)

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

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

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

STATE CONTRIBUTION TO VFF
(Dollars in thousands)

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

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

CONTRIBUTION RATES FOR VFF

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

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

Other Post-Employment Benefits

PEBB Overview. The Public Employee Benefits Board ("PEBB"), created within the Washington State Health Care Authority ("HCA"), administers medical, dental and life insurance plans for Washington State public employees and retirees. Employers who participate in the PEBB plan include the state, K-12 school districts, and political subdivisions of the state. The OPEB relationship between PEBB employers and their employees and retirees is not formalized in a contract or plan document; rather, the benefits are provided in accordance with a substantive plan.

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

MEMBERSHIP BY EMPLOYER

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

* Percentage of eligible members currently participating in PEBB.

Source: Washington State 2007 OPEB Report

2007 OPEB Actuarial Valuation Report—Summary of Benefits and Subsidies. PEBB offers retirees access to medical, prescription drug, life, dental, vision, disability and long-term care insurance. PEBB employers provide monetary assistance or subsidies, only for medical, prescription drug, vision and life insurance. Retirees pay the cost of other benefits.

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

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

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

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

ANNUAL 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.

On August 6, 2007, the state issued its *2007 Other Post-Employment Benefits (OPEB) Actuarial Valuation Report*. Since no contract or plan document exists, the state's current cost-sharing policy was used to project the retiree contributions and average retiree claims cost using the same medical inflation trend rate for each. The valuation was prepared using the Projected Unit Credit ("PUC") method, an amortization period of 30 years, and an expected long-term yield of 4.50 percent. The table below shows the GASB 45 liabilities as of January 1, 2007.

GASB 45 KEY RESULTS
(Dollars in Thousands)

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

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

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

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

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

(5) Estimated as of June 30, 2008.

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

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

ECONOMIC INFORMATION

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

Overview

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

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

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

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

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

Economic Base. The economic base of the state includes manufacturing and service industries as well as agricultural and timber production. Industry sectors exhibiting growth include transportation, communication and utilities employment; finance, insurance and real estate; and services. Boeing, the state's largest private employer, is preeminent in aircraft manufacture and exerts a significant impact on overall state production, employment and labor earnings. The state ranks fourth among 12 leading states in the percentage of its work force employed in technology-related industries and ranks third among the largest software development centers. The state is the home of approximately 1,000 advanced technology firms, including Microsoft Corporation. The state's leading export industries are aerospace, forest products, agriculture, and food processing.

Population Characteristics

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

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

* Revenue forecast as of 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.
1999-2008
(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	4.8	8,974.8	3.4
2005	224.8	2.9	10,301.1	5.9	201.5	0.0	9,232.1	2.9
2006	243.5	8.3	10,983.4	6.6	212.3	5.4	9,578.3	3.7
2007	261.8	7.5	11,667.3	6.2	222.6	4.8	9,922.5	3.6
2008(3)	275.6	5.3	12,144.7	4.1	228.8	2.8	10,084.6	1.6

(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 February 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	3,208.9	3,270.5	3,326.5	3,404.4	3,497.3
Unemployment	200.6	180.5	166.2	160.5	183.7
Unemployment Rate (Percent)	6.3	5.5	5.0	4.7	5.3
Total Employment	3,008.4	3,090.0	3,160.4	3,244.0	3,313.6
Nonagricultural Wage and Salary Workers Employed in Washington					
Nonfarm	2,700.9	2,776.9	2,859.1	2,929.8	2,964.7
Durable Manufacturing	182.4	191.5	204.0	211.7	214.5
Aerospace	61.5	65.6	73.4	80.1	84.0
Computer	22.1	22.2	22.5	22.8	23.1
Nondurable Manufacturing	81.3	81.1	81.9	81.4	80.7
Natural	9.1	9.0	8.7	8.2	7.8
Construction	164.2	177.3	194.9	207.2	202.6
Trade, Transportation, Communication, Utilities	518.4	530.4	541.6	552.6	555.1
Information	92.8	94.7	98.4	102.7	104.8
Software	39.3	41.3	44.7	47.7	49.6
Financial	151.8	154.5	156.2	155.1	154.3
Professional	301.6	316.0	330.5	344.7	353.7
Education	319.7	329.3	337.2	347.4	358.3
Leisure	255.6	263.5	271.6	280.2	286.6
Other Service	100.3	102.7	104.0	105.2	106.2
Government	523.7	526.8	530.0	533.3	540.1

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

Source: Washington State Office of the Forecast Council

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

	State 1998	State 2008(2)	United States 1998	United States 2008(2)
Manufacturing				
Nondurable Manufacturing				
Food and Kindred	1.5	1.2	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	0.4
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	3.3	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	10.0	13.9	9.8
Nonmanufacturing				
Natural Products	0.4	0.3	0.5	0.5
Construction	5.5	6.8	4.9	5.2
Trade, Transportation, Communication, Utilities	19.5	18.7	20.0	19.3
Information	3.0	3.5	2.6	2.2
Financial	5.3	5.2	5.9	6.0
Professional	10.5	11.9	12.0	13.2
Education	10.7	12.1	11.5	13.7
Leisure	9.3	9.7	8.9	10.0
Other	4.0	3.6	4.0	4.0
Government	18.0	18.2	15.8	16.2
Total Nonmanufacturing	86.1	90.0	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 February 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)

Year	Civilian Labor Force State	Civilian Labor Force US	Number of Unemployed State	Number of Unemployed US	Unemployment Rate State (%)	Unemployment Rate US (%)	State Unemployment as % of US Rate (%)
2002	3,105	145,125	228	8,644	7.3	5.8	126.8
2003	3,149	146,500	233	8,770	7.4	6.0	123.6
2004	3,209	147,383	201	8,141	6.3	5.5	112.8
2005	3,270	149,295	181	7,580	5.5	5.1	109.0
2006	3,327	151,415	166	6,994	5.0	4.6	108.4
2007	3,404	153,129	160	7,079	4.7	4.6	101.5
2008*	3,497	154,347	184	8,236	5.3	5.3	98.4

* Revenue forecast as of February 2008.

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

Companies. The following two tables provide information on the top companies headquartered in the state, ranked by revenues. The Boeing Company, headquartered in Chicago, Illinois, is the largest employer in the state, with revenues in 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.	Weyeyhaeuser	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			

Source: Puget Sound Business Journal, 2007 Book of Lists

WASHINGTON COMPANIES IN FORTUNE 500 IN 2007
(Dollars in Millions)

Company	Rank	Revenues	Headquarters/ Location
Costco Wholesale	32	$ 60,151.2	Issaquah
Microsoft	49	44,282.0	Redmond
Washington Mutual	81	26,561.0	Seattle
Weyerhaeuser	105	22,250.0	Federal Way
Paccar	141	16,454.1	Bellevue
Amazon.com	237	10,711.0	Seattle
Nordstrom	286	8,560.7	Seattle
Starbucks	310	7,786.9	Seattle
Safeco	363	6,289.9	Seattle
Expeditors International	477	4,626.0	Seattle
Alaska Air Group	596	3,344.4	Seattle
Puget Energy	647	3,044.3	Bellevue
Expedia	800	2,237.6	Seattle
Plum Creek Timber	973	1,627.0	Seattle
Potlatch	982	1,607.8	Spokane

Source: Fortune Magazine Fortune 500

Annual Retail Sales Activity

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

FISCAL YEAR RETAIL SALES ACTIVITY 1996-2005*
(Dollars in Billions)

Fiscal Year	Washington	% Change	United States	% Change
1996	62.8	1.4	2,515.8	5.3%
1997	66.7	6.3	2,652.1	5.4
1998	72.1	8.0	2,778.3	4.8
1999	77.2	7.1	2,948.9	6.1
2000	83.3	8.0	3,205.0	8.7
2001	85.6	2.8	3,333.5	4.0
2002	84.4	(1.4)	3,430.1	2.9
2003	86.2	2.1	3,531.5	3.0
2004	90.1	4.6	3,752.1	6.2
2005	97.3	7.9	4,038.7	7.6

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

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

Trade

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

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

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

Airport. The city of Seattle is the commercial center for the state and is near a major international airport, Sea-Tac, which has scheduled passenger service by 15 major/national, three regional/commuter and ten foreign flag carriers. In addition, 16 all-cargo carriers have scheduled cargo service at Sea-Tac. Sea-Tac is the 23rd busiest airport in the nation for aircraft operations and the 20th busiest cargo airport.

Manufacturing

The state's manufacturing base includes aircraft manufacture, with the aerospace industry currently representing approximately eight percent of all taxable business income generated in the state. Boeing remains the largest employer in the Puget Sound area, although total employment within the company dropped from 238,600 to 160,600 and employment within the State dropped from 103,420 to 57,000 between February 1998 and June 2003. In September 2001, the company relocated its corporate headquarters to Chicago, Illinois, a move that affected approximately one-half of the 1,000 people who worked in the Seattle location.

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

BOEING SALES AND EARNINGS

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

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

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

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

Source: The Boeing Company

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

Technology-Related Industries

The most significant growth in manufacturing jobs, exclusive of aerospace, has occurred in high technology-based companies. The state ranks fourth among all states in the percentage of its work force employed in technology-related industries and ranks third among the largest software development centers. The state is the home of approximately 1,000 advanced technology firms; nearly 50 percent of these firms are computer-related businesses. Microsoft, which is headquartered in Redmond, Washington, is the largest microcomputer software company in the world. Microsoft's fiscal year 2004 revenues were $36.8 billion, compared to $32.2 billion in fiscal year 2003.

Services/Tourism

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

Timber

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

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

Agriculture and Food Processing

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

Construction

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

HOUSING UNITS AUTHORIZED IN WASHINGTON AND THE UNITED STATES
2000-2007

Year	State	US(1)
2001	38,345	1,601,167
2002	40,200	1,710,250
2003	42,825	1,853,750
2004	50,089	1,949,500
2005	52,988	2,072,917
2006	50,033	1,811,917
2007(2)	48,366	1,343,984

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

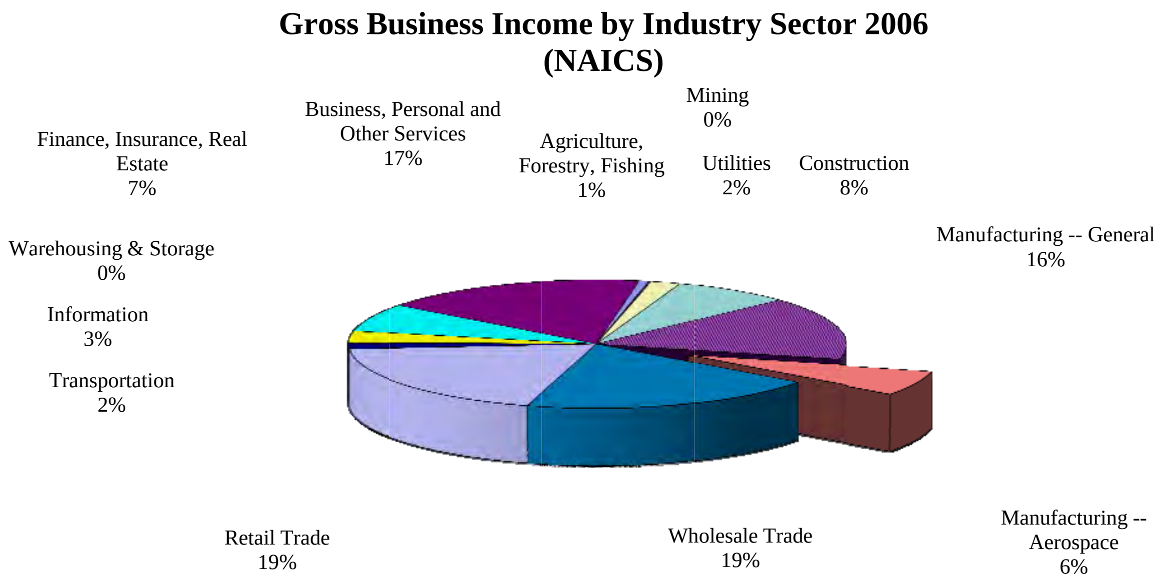
Source: *Washington State Office of the Forecast Council and the Department of Commerce*

Federal, State and Local Government

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

Summary

The following diagram provides an overall description of business income by industry sector for 2006.



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

APPENDIX B

DEFINITIONS AND SUMMARY OF CERTAIN LEGAL DOCUMENTS

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DEFINITIONS AND SUMMARY OF CERTAIN LEGAL DOCUMENTS

The following is a summary of certain provisions of the Master Financing Contract, Trust Agreement, Master Assignment, and Agency Financing Contracts, including certain defined terms used within this Official Statement. Reference is directed to each of such documents for the complete text thereof. Copies of such documents are available from the Office of the State Treasurer.

CERTAIN DEFINITIONS

The following are definitions of certain terms used in this Appendix B and elsewhere in the Official Statement.

Acquisition Costs means all costs incurred by or on behalf of the Corporation, or by the State or any Agency, as agent of the Corporation, on, prior to or after the effective date of the Master Financing Contract in connection with the acquisition of the Property thereunder, and shall include, but not be limited to,

(i) the cost of such Property (including, but not limited to, charges for installation, delivery, preparation, testing and similar charges);

(ii) the expenses of the Corporation, the State Treasurer and any Agency in connection with the acquisition of the Property, including but not limited to the Costs of Issuance;

(iii) any taxes, assessments and other charges, if any, payable in connection with the acquisition of the Property; and

(iv) any amounts required to reimburse the Corporation, the State Treasurer or any Agency for advances or payments made prior to the effective date of the Master Financing Contract for any of the above costs.

Acquisition Fund means the "State of Washington Certificates of Participation, Series 2008C Acquisition Fund" established by the State Treasurer pursuant to the Trust Agreement and the Master Financing Contract.

Act means Chapter 365 of the Laws of Washington, 1989, codified as Chapter 39.94 RCW, as supplemented and amended.

Additional Costs means all costs, expenses, insurance premiums, Impositions and other payments, including Administrative Fees and Expenses, that are the obligations of the State Treasurer or the Agency pursuant to the terms of the Master Financing Contract or the Agency Financing Contract, as the case may be.

Administrative Fees and Expenses means all application, commitment, financing or similar fees charged, or administrative or other expenses incurred, with respect to the administration and maintenance of the Certificates and the Series 2008C Agreements.

Agency means a State Agency or Local Agency.

Agency Event of Default has the meaning given such term in the related Agency Financing Contract, as described in this Appendix B under the captions "Agency Financing Contract—Agency Event of Default."

Agency Financing Contract means each Agency Financing Contract.

Agency Financing Contract means the Local Agency Financing Contract or the State Agency Financing Addendum.

Agency Installment Payment Dates means each December 1 and June 1, as specified in the Agency Financing Contract, on which an Agency Installment Payment is due.

Agency Installment Payment Fund means the fund maintained by the State Treasurer pursuant to the Master Financing Contract.

Agency Installment Payments means the installment payments to be made by each Agency as set forth in each Agency Financing Contract.

Agency Interest Component means that portion of each Agency Payment denominated as and comprising interest as set forth in each Agency Financing Contract.

Agency Principal Component means that portion of each Agency Installment Payment denominated as and comprising principal as set forth in each Agency Financing Contract.

Authorized Agency Representative means the natural person (i) designated on the certificate of the each Agency in the form set forth in the related Agency Financing Contract and includes any other officer appointed by the chief elected official or administrative official of such Agency and (b) whose signature is on file with the Fiscal Agent and the Treasurer Representative.

Authorized Corporation Representative means the President from time to time of the Corporation, unless such President shall have designated another officer of the Corporation, in which case "Authorized Corporation Representative" shall mean such other officer.

Authorized Denomination means $5,000 and any integral multiple thereof.

Beneficial Owner means any Person that has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Certificates (including Persons holding Certificates through nominees, depositories or other intermediaries).

Biennium means the fiscal period of the State.

Business Day means any day other than (i) a Saturday, (ii) a Sunday, (iii) a day on which banking institutions located in the state of Washington are authorized or required by law to remain closed, or (iv) a day on which the Principal Office of the Fiscal Agent or the New York Stock Exchange is closed.

Certificate Counsel means a firm of attorneys appointed by the State Treasurer of recognized national standing in the field of law relating to the issuance of certificates of participation, bonds and other obligations by states and their political subdivisions, and the exclusion of interest thereon from gross income for federal income tax purposes.

Certificate Fund means the "State of Washington Certificates of Participation, Series 2008C Certificate Fund" established pursuant to the Trust Agreement.

Certificate of the State Treasurer, ***Written Request of the State Treasurer*** and ***Written Order of the State Treasurer*** each mean an instrument in writing signed by a Treasurer Representative.

Certificate Register means the records for the registration of the Certificates maintained by the Fiscal Agent.

Certificates means the certificates of participation in the State Payments executed and delivered by the Fiscal Agent pursuant to the Trust Agreement in the Initial Principal Amount and designated as the "State of Washington Certificates of Participation, Series 2008C (Quarterly)."

Closing Date means the date on which the Certificates are delivered to the Underwriter in exchange for payment therefor.

Code means the Internal Revenue Code of 1986, as amended, together with all regulations promulgated by the United States Department of the Treasury thereunder.

Corporation means the Washington Finance Officers Association or any other Washington nonprofit corporation selected by the State Treasurer's Office from time to time, and any successors and permitted assigns thereof, including without limitation the Fiscal Agent as assignee pursuant to the Master Assignment.

Costs of Issuance means administrative expenses, legal, accounting, financial and printing expenses, and all other expenses incurred in connection with the preparation, execution and delivery of the Series 2008C Agreements and the Certificates.

Dated Date means the date of initial delivery, expected to be June 13, 2008.

Disclosure Agreement means an agreement for ongoing disclosure in compliance with the Rule, dated as of the Dated Date, executed and delivered by the Treasurer Representative and/or by the Authorized Agency Representative with respect to the Certificates.

DTC means The Depository Company, New York, New York, a limited purpose trust company organized under the laws of the State of New York, as depository for the Certificates, or any successor or substitute depository for the Certificates.

Event of Default means an Event of Default as set forth in the Master Financing Contract as described in this Appendix B under the captions "Master Financing Contract–Events of Default."

Executive Order, for purposes of the Master Financing Contract, means an order issued by the Governor of the State pursuant to sections 43.88.050 and 43.88.110 RCW, as amended or re-enacted.

Fiscal Agent means The Bank of New York, a banking corporation duly organized and existing under and by virtue of the laws of the State of New York, and its successors and assigns, or any other bank or trust company which may at any time be substituted in its place pursuant to the Trust Agreement.

Fitch means Fitch IBCA, Inc., and its successors and assigns, and, if such organization shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Fitch" shall be deemed to refer to any other nationally recognized securities rating agency (other than Moody's and S&P) designated by the Treasurer Representative with the consent of the Fiscal Agent.

Government Obligations means obligations described in paragraph (i) of the definition of Qualified Investments below.

Impositions means all federal, State and local real and personal property taxes and assessments (including assessments for public improvements), license and permit fees, charges for public utilities, leasehold excise taxes, other excise taxes, levies, use and occupancy taxes, privilege taxes, business and occupation taxes and all other governmental impositions and charges of every kind and nature, general and special, ordinary and extraordinary, foreseen and unforeseen, which are imposed, levied upon or assessed against or which arise with respect to the applicable Property (or any portion thereof), any State Payments, Agency Installment Payments, Additional Costs or other sums payable under the Master Financing Contract or the Agency Financing Contracts, or the operation, use or possession of the applicable Property, and all income, gross receipts or similar taxes imposed, levied upon, assessed against, or measured by any Agency Installment Payments, State Payments, Additional Costs, or other sums payable under the Master Financing Contract or the applicable Agency Financing Contracts, and all sales, value added, *ad valorem*, use and similar taxes levied, assessed or payable on account of the leasing, use, possession, control, or operation of the Property, and all charges, fees and assessments for utilities, communications and similar services provided to the Property.

Information Services means Financial Information, Inc.'s "Daily Bond Service," 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Kenny Information Services' "Called Bond Service," 55 Broad Street, 28th Floor, New York, New York 10004; Moody's "Municipal and Government," 99 Church Street, 8th Floor, New York, New York 10007, Attention: Municipal News Reports; and Standard and Poor's "Called Bond Record," 25 Broadway, 3rd Floor, New York, New York 10004; or, in accordance with then-current guidelines of the SEC, such other addresses and/or such other services providing information with respect to called bonds, as the State Treasurer may designate in a Certificate of the State Treasurer delivered to the Fiscal Agent.

Initial Principal Amount means the aggregate initial Principal Components evidenced and represented by the applicable Certificates as set forth in the Trust Agreement.

Installment Payment Date means each January 1 and July 1, as specified in the Trust Agreement, on which an Installment Payment evidenced and represented by the Certificates is due.

Installment Payments means the installment payments to be made by the State as set forth in the Master Financing Contract.

Interest Account means the account by that name established pursuant to the Trust Agreement.

Interest Component means that portion of each State Payment denominated as and comprising interest as set forth in the Master Financing Contract.

Interest Payment Date means each January 1 and July 1 on which an Interest Component is due as set forth in the Master Financing Contract.

LGIP means the Local Government Investment Pool administered by the Office of the State Treasurer.

Letter of Representation means the blanket issuer letter of representations from the State Treasurer to DTC.

Local Agency means any "other agency" as that term is now or thereafter defined in the Act.

Local Agency Financing Contract means each of the Local Agency Financing Contracts, dated as of the Dated Date, by and between the State, acting by and through the State Treasurer, and the respective Local Agency**.**

Master Assignment means the Master Assignment (Equipment), dated as of the Dated Date, executed and delivered in connection with the Certificates.

Master Financing Contract means the Master Financing Contract, dated as of the Dated Date, by and between the Corporation and the State, acting by and through the State Treasurer, as supplemented and amended.

Moody's means Moody's Investors Service, and its successors and assigns, and, if such organization shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency (other than Fitch and S&P) designated by the Treasurer Representative with the consent of the Fiscal Agent.

MSRB means the Municipal Securities Rulemaking Board or any successor to its functions.

Notice of Intent means the Notice of Intent in the form attached to each Agency Financing Contract.

NRMSIR means a nationally recognized municipal securities information repository as designated by the SEC.

OFM means the State Office of Financial Management established in the Office of the Governor of the State pursuant to Chapter 43.41 RCW, or any successor to the functions of the OFM, charged with responsibility of submitting budgets to the State Legislature.

Opinion of Counsel means a written opinion of Certificate Counsel satisfactory to the State Treasurer and the Fiscal Agent.

Outstanding means all Certificates executed and delivered pursuant to the Trust Agreement, except:

(i) Certificates theretofore canceled by the Fiscal Agent, or delivered to the Fiscal Agent for cancellation;

(ii) Certificates for which the payment of the State Payments evidenced and represented thereby has been made or duly provided for pursuant to the Master Financing Contract and the Trust Agreement; and

(iii) Certificates in lieu of or in substitution for which other Certificates have been executed and delivered pursuant to the Trust Agreement.

Owner means the registered owner of a Certificate as set forth on the Certificate Register.

Parties means, as the context requires, the State, the Corporation, each Agency, and/or the Fiscal Agent.

Paying Agent means any paying agent for the Certificates appointed pursuant to the Trust Agreement.

Permitted Termination Date means with respect to a Permitted Termination Event occurring as a result of an election by the State Legislature not to appropriate, the end of the last Biennium for which funding has been provided; or, with respect to a Permitted Termination Event occurring as a result of an Executive Order reduction in funding, the end of the last month for which funding is available to pay Agency Installment Payments due from State Agencies.

Permitted Termination Event means, with respect to a State Agency:

(i) (a) sufficient funds have not been appropriated within any biennial budget for the purpose of paying Agency Installment Payments due under its State Agency Financing Addendum in the next occurring Biennium or,

(b) the Governor of the State has issued an Executive Order mandating an emergency reduction in State funding; and

(ii) the Treasurer Representative has delivered written notice to the Fiscal Agent, within five (5) Business Days following the enactment of such budget or within thirty (30) days following such an emergency reduction in State funding, as the case may be, describing the election not to appropriate the necessary funds or the insufficiency of funds as a result of an emergency reduction in funding and stating the Permitted Termination Date.

Person or ***persons*** means an individual, corporation, firm, association, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

Personal Property Certificate means the Personal Property Certificate (in the form set forth as attached to the Local Agency Financing Contract and State Agency Financing Addendum) delivered by the Agency to the State Treasurer with respect to items of Property.

Principal Account means the account by that name established pursuant to the Trust Agreement.

Principal Component means that portion of each Installment Payment denominated as and comprising principal as set forth in the Master Financing Contract.

Principal Office means, with respect to the State Treasurer, the office in Olympia, Washington, designated in writing by the State Treasurer to the Fiscal Agent, and, with respect to the Fiscal Agent, the corporate trust office of the Fiscal Agent located in New York, New York, designated in writing by the Fiscal Agent to the State Treasurer.

Principal Payment Date means each January 1 and July 1 on which a Principal Component is due as set forth in the Master Financing Contract.

Property means, collectively, all personal property the Acquisition Costs of which are being financed or refinanced pursuant to the Master Financing Contract, as set forth in the Master Financing Contract, together with all replacements parts, repairs, additions, attachments and accessories thereof, therefor and thereto, licenses, permits and capitalized maintenance agreements with respect thereto, and any replacements of or substitutes therefor as permitted by the Agency Financing Contracts.

Purchase Price means the aggregate amount of the Principal Components of the Installment Payments with respect to the Property, as set forth in the Master Financing Contract.

Qualified Investments shall include the following:

(i) Any securities (including obligations held or issued in book-entry form on the books of the Department of the Treasury of the United States of America) which constitute direct obligations of, or the timely payment of the principal of and interest on which is unconditionally guaranteed by, the United States of America;

(ii) Federal Home Loan Bank Bonds and Discount Notes; Federal National Mortgage Association Bonds and Discount Notes; Federal Farm Credit Banks Consolidated System-Wide Bonds and Discount Notes; Federal Home Loan Mortgage Corporation Bonds and Discount Notes;

Government National Mortgage Association Bonds; Student Loan Marketing Association Bonds and Discount Notes; Small Business Administration Bonds; Export-Import Bank Bonds; Maritime Administration Bonds; and Obligations of any other Government Sponsored Corporation whose obligations are or may become eligible as collateral for advances to member banks as determined by the Board of Governors of the Federal Reserve System;

(iii) Bankers acceptances, which are eligible for purchase by the Federal Reserve System, drawn on and accepted by a commercial bank (which may include the Fiscal Agent) having a combined capital and surplus of not less than $100,000,000, which bank has at the time of investment one of the two highest ratings of a Rating Agency;

(iv) Commercial paper having original maturities of not more than 365 days which has at the time of investment one of the two highest ratings of a Rating Agency, which is issued by a corporation organized and operating in the United States with total assets in excess of $100,000,000;

(v) Bonds of the State and any local government in the State, which bonds have at the time of investment one of the three highest credit ratings of a Rating Agency;

(vi) General obligation bonds of a state other than the State and general obligation bonds of a local government of a state other than the State, which bonds have at the time of investment one of the three highest credit ratings of a Rating Agency;

(vii) Any investments authorized by law for the State Treasurer or any local government of the State;

(viii) Shares of money market funds with portfolios consisting of only U.S. Treasury and agency securities or repurchase agreements, which have at the time of investment one of the three highest ratings of a Rating Agency;

(ix) Any repurchase agreement with any bank or trust company organized under the laws of any state of the United States or any national banking association (including the Fiscal Agent) or government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York, which agreement is secured by any one or more of the securities described in clauses (a) or (b) above;

(x) The LGIP; and

(xi) Any other legal investment for funds held by the State Treasurer.

RCW means the Revised Code of Washington, as supplemented and amended.

Rating Agency means Fitch, Moody's or S&P.

Rating Category means the generic rating categories of the Rating Agency, without regard to any refinement or gradation of such rating category by a numerical modifier or otherwise.

Rebate Fund means the "State of Washington Certificates of Participation, Series 2008C Rebate Fund" which may be established pursuant to the Master Financing Contract.

Rebate Requirement has the meaning given to such term in the Tax Certificate.

Record Date means the 15th day of the month immediately preceding each Interest Payment Date and Principal Payment Date.

Resolution means Resolution No. 987 adopted by the State Finance Committee on October 7, 2003.

Rule means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time.

S&P means Standard & Poor's Ratings Group, and its successors and assigns, and, if such organization shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "S&P" shall be deemed to refer to any other nationally recognized securities rating agency (other than Fitch and Moody's) designated by the Treasurer Representative with the consent of the Fiscal Agent.

SEC means the Securities and Exchange Commission.

SID means a state information depository for the state of Washington, if any.

Securities Depositories means The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax-(516) 227-4039 or 4190; Midwest Securities Trust Company, Capital Structures-Call Notification, 440 South LaSalle Street, Chicago, Illinois 60605, Fax-(312) 663-2343; Philadelphia Depository Trust Company, Reorganization Division, 1900 Market Street, Philadelphia, Pennsylvania 19103, Attention: Bond Department, Fax-(215) 496-5058; or, in accordance with then-current guidelines of the SEC, such other addresses and/or such other securities depositories as the State Treasurer may designate in a Certificate of the State Treasurer delivered to the Fiscal Agent.

Series 2008C Agreement means, as the context requires, the Trust Agreement, the Master Financing Contract, the Agency Financing Contracts, the Master Assignment or the Disclosure Agreement, and collectively means all such agreements in connection with the Certificates.

State means the state of Washington.

State Agency means any state agency permitted to enter into financing contracts under the Act.

State Agency Financing Addendum means each State Agency Financing Addendum to the Master Financing Contract, dated as of the Dated Date, executed by the Treasurer Representative and the State Agency.

State Finance Committee means the state finance committee as constituted from time to time pursuant to Chapter 43.33 RCW.

State Legislature means the Legislature of the state of Washington.

State Payment means each Installment Payment.

State Reimbursement Rate means the average rate of return on the LGIP over the period the reimbursement payment by the Agency to the State Treasurer is delinquent, as determined by the State Treasurer, which determination shall be binding and conclusive against the Agency absent manifest error.

State Treasurer means the Treasurer of the state of Washington.

Supplemental Agreement means any agreement duly authorized and entered into following the Closing Date between or among the State Treasurer, the Corporation, and the Fiscal Agent (in the case of the Trust Agreement, the Master Financing Contract, or the Master Assignment), or the Agency (in the case of the Agency Financing Contracts) supplementing, modifying or amending the Trust Agreement, the Master Financing Contract, the Master Assignment, or an Agency Financing Contract.

Tax Certificate means the Tax Certificate and Agreement executed and delivered by the Treasurer Representative and/or Authorized Agency Representatives regarding compliance with applicable provisions of the Code in connection with the Master Financing Contract, the Agency Financing Contracts, and the Certificates.

Term Certificates means the Certificates identified as such in the Trust Agreement.

Treasurer Representative means the State Treasurer, the Assistant State Treasurer or the Deputy State Treasurer of the State, and shall include any other natural person who at the time and from time to time may be designated by a Certificate of the State Treasurer delivered to the Party relying thereon. Such Certificate shall contain the specimen signature of such person, and shall be signed on behalf of the State by the State Treasurer, the Assistant State Treasurer or the Deputy State Treasurer.

Trust Agreement means the Trust Agreement, dated as of the Dated Date, by and among the State Treasurer, the Corporation and the Fiscal Agent, as supplemented and amended in accordance therewith.

Underwriter means the original purchaser of the Certificates.

MASTER FINANCING CONTRACT

Sale and Purchase of Property

The Corporation agrees to sell, assign and convey, and does sell, assign and convey, to the State, and the State agrees to purchase, acquire and assume, and does purchase, acquire and assume, from the Corporation, upon the terms and conditions set forth in the Master Financing Contract, all of the Corporation's right, title and interest in and to the Property sold hereunder and all proceeds and profits thereof and therefrom, subject to the security interest created pursuant to the Master Financing Contract, and the State agrees to pay in consideration thereof the Purchase Price therefor and interest thereon and the Additional Costs in accordance with the Master Financing Contract, and all other amounts required to be paid by the State under the Master Financing Contract.

Appointment of Agents; Acquisition of Property; Revision and Substitution

Appointment of Agents. The Corporation appoints, and ratifies, approves and confirms its appointment of, the State Treasurer and the respective Agencies pursuant to the Notices of Intent as its agents in connection with the disbursement of the proceeds of the Certificates and the acquisition of the respective items of Property, respectively, and the State Treasurer accepts and agrees to such designation and appointment.

Acquisition of Property. The State Treasurer agrees that (i) it has caused or will cause the Property to be acquired by the respective Agencies, as agents for the Corporation, with all reasonable dispatch; and (ii) it will pay or cause to be paid the Costs of Acquisition of the Property solely from funds available to it pursuant to the Master Financing Contract, the Trust Agreement and the Agency Financing Contracts. This appointment of the State Treasurer and the respective Agencies to act as agents of the Corporation in connection with the disbursement of the proceeds of the Certificates and the acquisition of the Property, respectively, and all authority conferred is made and conferred irrevocably by the Corporation, and shall not be terminated by any act of the State Treasurer, any Agency or the Corporation or otherwise.

Revision and Substitution of Property. The State Treasurer may revise or consent to the revision of any item of Property to be acquired with proceeds of the Certificates, or the description thereof; *provided*, that

(i) such item of Property as so revised shall satisfy the requirements under the Master Financing Contract with respect to the substitution of Property previously acquired; (ii) the Costs of Acquisition of such item of Property shall not be materially reduced thereby; and (iii) any such revision shall not relieve the State or any Agency of its obligation to acquire the Property in accordance therewith and with the Agency Financing Contract with respect thereto.

After acquisition of an item of Property, the State Treasurer may substitute or consent to the substitution for an item of Property acquired for and on behalf of an Agency other personal property by filing with the Fiscal Agent, as assignee of the Corporation:

(i) a certificate of such Agency stating that such substitute Property:

  (a) has a remaining useful life equal to or greater than the Property for which it is being substituted;

  (b) has a fair market value equal to or greater than the fair market value of the item of Property for which it is being substituted;

  (c) is free and clear of all liens and encumbrances except a first priority security interest in favor of the Fiscal Agent, as assignee of the Corporation, under the Master Financing Contract;

  (d) is of equal usefulness and value as the Property for which it is being substituted;

  (e) is essential to the Agency's ability to carry out its governmental functions and responsibilities; and

  (f) is expected to be used by such Agency immediately and for the term of its Agency Financing Contract; and

(ii) an Opinion of Counsel to the effect that such substitution will not cause interest evidenced and represented by the Certificates to be includable in gross income for federal income tax purposes under the Code.

Title to the Property

All right, title and interest in and to the Property shall transfer to and vest in the State from the Corporation without any further action by the State or the Corporation immediately upon the acquisition thereof or reimbursement to the State or the Agency for the Acquisition Costs thereof; *provided*, that the State Treasurer and the Corporation shall take such action and execute such documents (including without limitation bills of sale and other title documents) as may be deemed necessary or desirable by the State Treasurer or the Corporation to evidence and confirm such transfer of title pursuant to the Master Financing Contract.

Title to any and all additions, modifications, improvements, repairs or replacements to any Property shall be vested in the State, subject to the security interest of the Corporation until payment of all amounts due and owing with respect to such Property under the Master Financing Contract.

Any Property constituting a motor vehicle subject to registration with the State Department of Licensing shall be registered with the Agency as the registered and legal owner thereof.

Security Interest

In order to secure the payment and performance by the State of its obligations under the Master Financing Contract, the State pledges, grants, assigns and conveys to the Corporation a lien on and security interest in all right, title and interest of the State, whether now owned or acquired, in and to the Property and the

Agency Financing Contracts, including without limitation the Agency Installment Payments and all proceeds thereof. Accordingly, the Master Financing Contract constitutes a security agreement. The State acknowledges and agrees that each provision of the Master Financing Contract is also a provision of the security agreement and that an Agency Event of Default under the Master Financing Contract is also a default under the security agreement.

The State further agrees that the Corporation may: (i) commingle Property which comes into its possession; (ii) re-pledge such Property upon terms which impair the State's right to redeem such Property; and (iii) require the State to assemble the Property and make it available to the Corporation in a manner which is reasonably convenient to both Parties. To the extent the Corporation is required for any reason to provide commercially reasonable notice to the State, the State agrees that notice mailed by first class mail five days before the event of which notice is given is commercially reasonable notice. The standard by which the Corporation's rights and duties with respect to such security agreement shall be measured is gross negligence or willful misconduct.

If required by the Corporation or the Fiscal Agent, as assignee of the Corporation, at any time during the term of the Master Financing Contract, the State will execute and deliver to the Corporation or the Fiscal Agent, as the case may be, in form satisfactory to the Corporation or the Fiscal Agent, such security agreements, financing statements and/or other instruments covering the Property and all accessions thereto.

Disclaimer of Warranties

The State acknowledges and agrees that the Property is of a nature, size, design and capacity selected by the respective Agencies pursuant to their own specifications, and not by the Corporation, and that the Corporation is not a manufacturer, supplier or a vendor of such personal property. THE CORPORATION MAKES NO WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AND ASSUMES NO RESPONSIBILITY, LIABILITY OR OBLIGATION, AS TO THE VALUE, DESIGN, CONDITION, MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR FITNESS FOR USE OF THE PROPERTY, OR AS TO THE TITLE THERETO, OR FOR THE ENFORCEMENT OF THE MANUFACTURERS', SUPPLIERS' OR VENDORS' REPRESENTATIONS, WARRANTIES OR GUARANTIES, OR ANY OTHER REPRESENTATION OR WARRANTY WITH RESPECT TO THE PERSONAL PROPERTY.

Installment Payments

The State promises to pay to the Corporation, as rental for the use and occupancy of the Property, the following amounts at the following times:

(i) On each Installment Payment Date, the Installment Payment, consisting of a Principal Component and/or an Interest Component; and

(ii) All Additional Costs incurred by the Corporation in connection with the sale of the Property to the State, the execution and delivery of the Certificates, and the observance and performance of the Series 2008C Agreements, within thirty (30) days following receipt of an invoice from the Corporation with respect thereto which includes (a) a brief description of each such Additional Cost, (b) the party to whom payment is due, (c) the amount thereof, and (d) such additional information as the State Treasurer may reasonably request.

Each Installment Payment shall consist of a Principal Component and/or an Interest Component as set forth in the Master Financing Contract. Interest shall accrue and be calculated as provided in the Trust Agreement. Each Installment Payment shall consist of the aggregate of the Agency Installment Payments payable by each Agency pursuant to its Agency Financing Contract. Each Installment Payment payable under the Master Financing Contract shall be paid by electronic funds transfer in lawful money of the United States of America. Payments of Additional Costs shall be made to or upon the order of the Corporation. Each Installment Payment shall be applied first to the Interest Component due under the Master Financing Contract, and then to the Principal Component due under the Master Financing Contract.

The Corporation directs the State Treasurer, and the State Treasurer agrees, to make all Installment Payments directly to the Fiscal Agent, as assignee of the Corporation, from the sources set forth in the Master Financing Contract and subject to the terms and conditions of the Master Financing Contract.

Sources of Payment of Installment Payments

State Agency Financing Addenda. The State is acquiring the State Agency Property for and on behalf of the respective State Agencies set forth in Exhibit B to the Master Financing Contract. Concurrently with the execution of the Master Financing Contract, each such State Agency shall execute and deliver a State Agency Financing Addendum pursuant to which such State Agency shall agree to acquire its respective Property and to make Agency Installment Payments therefor, at such times and in such amounts as provided tin the Master Financing Contract, which will be sufficient in the aggregate to pay the Purchase Price of the Property to be acquired by the State for and on behalf of such State Agency and interest thereon. Each State Agency Financing Addendum is incorporated in the Master Financing Contract and made a part of the Master Financing Contract by reference therein.

That portion of the Installment Payments that is allocable to the Purchase Price of State Agency Property and interest thereon shall be payable by the State solely from Agency Installment Payments to be made by the respective State Agencies. The obligation of each State Agency to make its Agency Installment Payments shall be subject to appropriation by the State Legislature and Executive Order reduction by the Governor. The State shall not be obligated to pay that portion of the Installment Payments that is allocable to the Purchase Price of State Agency Property and interest thereon other than from appropriated funds of the respective State Agencies.

Local Agency Financing Contracts. The State is acquiring the Local Agency Property for and on behalf of the respective Local Agencies set forth in Exhibit B to the Master Financing Contract. Concurrently with the execution of the Master Financing Contract, each such Local Agency shall execute and deliver a Local Agency Financing Contract pursuant to which such Local Agency shall agree to acquire its respective Property and to make Agency Installment Payments, at such times and in such amounts as provided in the Master Financing Contract. Such Agency Installment Payments shall be sufficient in the aggregate to pay, on each Installment Payment Date, the Purchase Price of the Property to be acquired by the State for and on behalf of such Local Agency, and interest thereon.

That portion of the Installment Payments that is allocable to the Purchase Price of Local Agency Property and interest thereon shall be payable by the State solely from Agency Installment Payments to be made by the respective Local Agencies, except as otherwise provided in the two succeeding paragraphs immediately below. The obligation of each Local Agency to make its Agency Installment Payments shall be a direct and general obligation of the Local Agency to which the full faith and credit of such Local Agency is pledged. The State shall not be obligated to pay that portion of the Installment Payments that is allocable to the Purchase Price of Local Agency Property and interest thereon other than from Agency Installment Payments paid by the respective Local Agencies, except as otherwise provided in the Master Financing Contract.

Intercept of Local Agency Share of State Revenues. In the event that any Local Agency fails to make any payment due under its Local Agency Financing Contract, the State Treasurer shall withhold an amount sufficient to make such payment from the Local Agency's share of State revenues or other amounts authorized or required by law to be distributed by the State to such Local Agency, including but not limited to leasehold excise taxes, sales and use taxes, excise taxes, property taxes and liquor control board receipts; *provided*, that the use of any such revenues or amounts to make such payments is otherwise authorized or permitted by State law. Such withholding shall continue until all such payments due under the Master Financing Contract have been made. Amounts withheld by the State Treasurer shall be applied to make any such payment due under the Local Agency Financing Contract on behalf of the Local Agency, or to reimburse the State Treasurer for any such payment made pursuant to the Master Financing Contract.

Conditional Payment of Local Agency Installment Payments. Upon the failure of any Local Agency to make any Agency Installment Payment at such time and in such amount as required pursuant to its Local Agency Financing Contract, the State Treasurer shall, to the extent of legally available appropriated funds and subject to any Executive Order reduction, make such payment into the Agency Installment Payment Fund on behalf of such Local Agency within ten (10) Business Days after such Agency Installment Payment was due. The State Treasurer shall be entitled to reimbursement for any such payments made on behalf of the Local Agency as provided in the Local Agency Financing Contract.

Agency Installment Payments; Deposit and Investment

Agency Installment Payments shall be payable on each Agency Installment Payment Date and shall be deposited in a special fund or funds maintained by the State Treasurer (the "Agency Installment Payment Fund"). Payments of Agency Installment Payments from State Agencies shall be accounted for separately from payments from Local Agencies. The Agency Installment Payments due on each Agency Installment Payment Date shall be at least sufficient, in the aggregate, to make the Installment Payment next coming due under the Master Financing Contract. Amounts in the Agency Installment Payment Fund, including investment earnings thereon, shall be used and applied, *first*, to make the Installment Payment next coming due, *and thereafter*, but prior to the next Agency Installment Payment Date, to the extent that amounts remain in such Fund after such Installment Payment is made, to pay Additional Costs or for any other lawful purpose of the State Treasurer. Amounts in the Agency Installment Payment Fund shall be invested in the Qualified Investments, and shall be separately accounted for, but may be commingled with other moneys on deposit with the State Treasurer solely for investment purposes.

No Set-Off

The obligation of the State to make Installment Payments from the sources set forth in the Master Financing Contract and to perform its other obligations under the Master Financing Contract shall be absolute and unconditional, subject, however, to the right of any Agency to cease making Agency Installment Payments upon the occurrence of a Permitted Termination Event. The State shall make Installment Payments as and when the same shall become due without diminution, reduction, postponement, abatement, counterclaim, defense or set-off as a result of any dispute, claim or right of action by, against or diminution, among the State, the Corporation, the Fiscal Agent, any Agency, and/or any other Person, or for any other reason; *provided,* that nothing in the Master Financing Contract shall be construed to release or excuse the Corporation from the observance or performance of its obligations under the Master Financing Contract. If the Corporation shall fail to observe or perform any such obligation, the State may institute such legal action and pursue such other remedies against the Corporation as the State deems necessary or desirable, including, but not limited to actions for specific performance, injunction and/or the recovery of damages.

Limited Obligation

THE MASTER FINANCING CONTRACT SHALL CONSTITUTE A SPECIAL, LIMITED OBLIGATION OF THE STATE PAYABLE SOLELY FROM THE SOURCES AND SUBJECT TO THE LIMITATIONS SET FORTH HEREIN. THE MASTER FINANCING CONTRACT SHALL NOT

CONSTITUTE A DEBT OR A GENERAL OBLIGATION OF THE STATE OR OF ANY STATE AGENCY, THE CONTRACTING OF AN INDEBTEDNESS BY THE STATE OR BY ANY STATE AGENCY, OR A PLEDGE OF THE FAITH AND CREDIT OR TAXING POWER OF THE STATE OR OF ANY STATE AGENCY, FOR PURPOSES OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION UPON DEBT OR THE CONTRACTING OF INDEBTEDNESS. THE OBLIGATION OF THE STATE TO MAKE AGENCY INSTALLMENT PAYMENTS, BOTH FOR STATE AGENCY PROPERTY AND ON BEHALF OF LOCAL AGENCIES FOR LOCAL AGENCY PROPERTY, IS SUBJECT TO APPROPRIATION AND TO EMERGENCY REDUCTION IN FUNDING UNDER CERTAIN CIRCUMSTANCES, ALL AS SET FORTH IN THE MASTER FINANCING CONTRACT. NOTHING IN THE MASTER FINANCING CONTRACT SHOULD BE CONSIDERED AS OR CONSTRUED TO IMPLY A MORAL OBLIGATION ON THE PART OF THE STATE OR ANY AGENCY TO MAKE THE INSTALLMENT PAYMENTS DUE HEREUNDER.

Assignment

Concurrently with the execution and delivery of the Master Financing Contract, the Corporation will grant, sell, assign, transfer and convey (i) all of its rights to receive the Installment Payments, and (ii) all of its remaining right, title and interest in, to and under the Master Financing Contract and the Agency Financing Contracts, and in and to the Property to the Fiscal Agent pursuant to the Master Assignment (Equipment) in consideration for the payment by the Fiscal Agent to the State Treasurer, as agent of the Corporation, of the proceeds of the sale of the Certificates. The State Treasurer, the State Agencies and the Corporation acknowledge and agree that such grant, sale, assignment, transfer and conveyance by the Corporation is intended to be a true sale of the Corporation's right, title and interest, and that upon such grant, sale, assignment, transfer and conveyance, the Corporation shall cease to have any rights, duties or obligations under the Master Financing Contract or with respect to the Property, and the Fiscal Agent shall thereafter have all the rights, duties and obligations of the Corporation under the Master Financing Contract as if the Fiscal Agent had been the original party hereto, and every reference in the Master Financing Contract to the Corporation shall be deemed and construed to refer to the Fiscal Agent, except where the context otherwise requires. Anything in the Master Financing Contract to the contrary notwithstanding, such grant, sale, assignment, transfer and conveyance shall not confer any rights or impose any duties or obligations on the Fiscal Agent other than as expressly set forth in the Trust Agreement and in the Master Assignment (Equipment).

Optional Prepayment

The Certificates are not subject to optional redemption prior to maturity. The State may at its option and shall upon any optional prepayment of Agency Installment Payments by any Agency pursuant to its Agency Financing Contract, provide for the payment of all or any portion of the Installment Payments then unpaid, in whole or in part on any date, by causing to be deposited with the Fiscal Agent, as assignee of the Corporation, (i) moneys and/or Government Obligations in accordance with the Trust Agreement; and (ii) an Opinion of Counsel to the effect such actions are permitted under the Master Financing Contract and will not cause interest evidenced and represented by the Certificates to be includable in gross income for federal income tax purposes under the Code.

Discharge of Master Financing Contract

All right, title and interest of the Corporation in the Master Financing Contract and all obligations of the State under the Master Financing Contract shall cease, terminate, become void and be completely discharged and satisfied (except for the right of the Fiscal Agent, as assignee of the Corporation, and the obligation of the State to have the moneys and Government Obligations so set aside applied to make the remaining Installment Payments) when either:

(i) all Installment Payments and all Additional Costs and other amounts due under the Master Financing Contract have been paid in accordance therewith; or

(ii) (a) the State Treasurer shall have delivered a written notice to the Fiscal Agency, as assignee of the Corporation, of its intention to prepay all of the Installment Payments remaining unpaid;

(b) the State Treasurer shall cause to be deposited with the Fiscal Agent, as assignee of the Corporation, (1) moneys and/or Government Obligations in accordance with the Trust Agreement; and (2) an Opinion of Counsel to the effect that such actions are permitted under the Master Financing Contract and will not cause interest evidenced and represented by the Certificates to be includable in gross income for federal income tax purposes under the Code; and

(c) for so long as any Installment Payments remain unpaid, provision shall have been made satisfactory to the Corporation and the Fiscal Agent for payment of all Additional Costs, including but not limited to the fees and expenses of the Fiscal Agent.

Permitted Termination Event

Upon the occurrence of a Permitted Termination Event with respect to any State Agency Financing Addendum, the State Treasurer shall immediately deliver written notice thereof to the Corporation, which notice shall state the election not to appropriate the necessary funds or the Executive Order reduction in State funding as set forth in said State Agency Financing Addendum as the reason for cancellation thereof. The State Treasurer shall, if practicable, request a supplemental appropriation in the event that an appropriation has not been made to the State Agency. In the event of an Executive Order reduction, the State Treasurer shall determine whether or not the Property and the obligations of the State Agency under the State Agency Financing Addendum may be transferred to the office of the State Treasurer or to another agency or department of the State authorized under the Act to enter into financing agreements. No Permitted Termination Event following an Executive Order reduction in funding shall be effective unless or until the State Treasurer has determined that neither the State Treasurer nor any other agency or department of the State authorized under the Act to enter into financing agreements is willing and able to assume the rights and obligations of the State Agency under the Master Financing Contract. The State Treasurer shall, at the beginning of the period for which funds have not been appropriated or for which funding has been reduced, return said Property to the Corporation for the account of the State and thereupon be released of its obligations to make payments in an amount equal to the then unpaid balance of Agency Installment Payments with respect to such Property; *provided,* that the State delivers such Property in good repair, working order and condition (ordinary wear and tear excepted) and its unencumbered title to the Corporation at a location in the United States designated by the Corporation as of the end of the last month for which funding has been provided or the end of the last month for which funding is available in the event of an Executive Order reduction in funding. Upon the occurrence and effectiveness of a Permitted Termination Event, the Corporation shall be entitled to retain for the benefit of the Owners of the Certificates all sums theretofore transmitted to the Fiscal Agent, as assignee of the Corporation, by the State Treasurer. The occurrence of a Permitted Termination Event with respect to one State Agency Financing Addendum shall not affect any rights, duties or obligations with respect to any other State Agency Financing Addendum with respect to which no Permitted Termination Event has occurred.

Covenants and Agreements of the State

Budget. The State Treasurer shall (i) include in its biennial budget all scheduled Local Agency Installment Payments due during such Biennium; (ii) submit such budget to OFM at such times and in such manner as required by law; (iii) use its best efforts to obtain appropriations by the State Legislature in amounts sufficient to make any such payments; (iv) include all such payments in its statements of proposed expenditures for each fiscal period required by law to be submitted to OFM; and (v) use its best efforts to obtain allotments by OFM of appropriated funds sufficient to make all such payments.

Agency Financing Contracts. Concurrently with the execution and delivery of the Master Financing Contract, the State Treasurer shall enter into a Local Agency Financing Contract with each Local Agency set forth in Exhibit B to the Master Financing Contract with respect to the acquisition of the item or items of Property set forth in the Master Financing Contract substantially in the form set forth in Exhibit C to the Master Financing Contract. Concurrently with the execution and delivery of the Master Financing Contract, the State Treasurer shall also enter into a State Agency Financing Addendum with each State Agency set forth in Exhibit B to the Master Financing Contract with respect to the acquisition of the item or items of Property set forth in the Master Financing Contract substantially in the form set forth in Exhibit D to the Master Financing Contract. Each State Agency Financing Addendum shall constitute a part of the Master Financing Contract.

Tax-Exemption. The State shall not make any use of the proceeds of the Master Financing Contract or the Certificates or of any other amounts, regardless of the source, or of any Property, and shall not take or refrain from taking any action, that would cause the Master Financing Contract or the Certificates to be "arbitrage bonds" within the meaning of Section 148 of the Code. The State shall not use or permit the use of the Property or any part thereof by any Person other than a "governmental unit" as that term is defined in Section 141 of the Code, in such manner or to such extent as would result in the loss of the exclusion from gross income for federal income tax purposes of the Interest Component of the Installment Payments under Section 103 of the Code. The State shall not make any use of the proceeds of this Master Agency Financing Contract or the Certificates or of any other amounts, and shall not take or refrain from taking any action, that would cause the Master Financing Contract or the Certificates to be "federally guaranteed" within the meaning of Section 149(b) of the Code, or "private activity bonds" within the meaning of Section 141 of the Code, or "hedge bonds" within the meaning of Section 149 of the Code. To that end, for so long as any Installment Payments remain unpaid, the State, with respect to such proceeds and other amounts, will comply with all requirements under such Sections and all applicable regulations of the United States Department of the Treasury promulgated under the Master Financing Contract. The State will at all times do and perform all acts and things permitted by law which are necessary or desirable in order to assure that the Interest Components of the Installment Payments will not be included in gross income of the Owners of the Certificates for federal income tax purposes under the Code, and will take no action that would result in such interest being so included. The State shall comply with the provisions of the Tax Certificate and Agreement.

The State Treasurer shall establish and maintain a separate account designated as the "State of Washington Certificates of Participation, Series 2008C Rebate Fund" (the "Rebate Fund"). The State shall deposit in the Rebate Fund the Rebate Requirement as provided in the Tax Certificate. Subject to the other provisions of this subsection, moneys held in the Rebate Fund are pledged to secure the rebate payments to the United States, and the State, the Agencies, the Corporation, the Fiscal Agent and the Owners shall have no rights in or claim to such moneys.

Without limiting the generality of the foregoing, the State agrees that there shall be paid from time to time all amounts required to be rebated to the United States pursuant to Section 148(f) of the Code. This covenant shall survive the discharge of the Master Financing Contract and the payment in full or defeasance of the Certificates. The State specifically covenants to pay or cause to be paid to the United States at the times and in the amounts determined under this subsection, the Rebate Requirement as provided by the Tax Certificate.

Notwithstanding any provision of this subsection, if the State shall provide to the Fiscal Agent an Opinion of Counsel to the effect that any specified action required under this subsection is no longer required or that some further or different action is required to maintain the tax-exempt status of interest evidenced and represented by the Certificates, the Fiscal Agent may conclusively rely on such opinion, and the covenants of the State under the Master Financing Contract shall be deemed to be modified to that extent.

Duties Imposed by Law. To the extent permitted by law, the covenants, agreements and other obligations on the part of the State contained in the Master Financing Contract shall be deemed and construed to be ministerial and non-discretionary duties imposed by law, and it shall be the duty of the State and each and every public official to take such actions and to do such things as are required by law in the performance of the official duties of such officials to enable the State to observe and perform the covenants, agreements, terms, conditions and other obligations contained in the Master Financing Contract and in the other Series 2008C Agreements to which the State is a party to be observed and performed by the State.

Liens. The State shall not create, incur, assume or suffer to exist any mortgage, pledge, lien, charge, encumbrance or claim on or with respect to the Property, except the rights of the Corporation and the respective Agencies as provided in the Master Financing Contract and in the Agency Financing Contracts. The State shall promptly, at its own expense, take such action as may be necessary to duly discharge any such mortgage, pledge, lien, charge, encumbrance or claim if the same shall arise at any time. The State shall not (and shall not permit any Agency) to grant, sell, transfer, assign, pledge, convey or otherwise dispose of any of the Property other than to the respective Agencies pursuant to the Agency Financing Contracts or as otherwise provided in the Master Financing Contract, and any such attempted grant, sale, transfer, assignment, pledge, conveyance or disposal shall be void.

Performance. The State shall punctually pay the Installment Payments in strict conformity with the terms and provisions of the Master Financing Contract, and will faithfully observe and perform all the covenants, agreements, terms, conditions and other obligations contained in the Master Financing Contract required to be observed and performed by the State. Except for Permitted Termination Events, the State will not suffer or permit any default to occur under the Master Financing Contract, or do or permit anything to be done, or omit or refrain from doing anything, in any case where any such act done or permitted, or any such omission or refraining from doing anything, would or might be grounds for acceleration or termination of the Master Financing Contract. Except for Permitted Termination Events, the State will not terminate the Master Financing Contract for any cause, including but not limited to any acts or circumstances that may constitute failure of consideration, destruction of or damage to the Property, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State or any political subdivision of the State, or any failure by the Corporation to observe or perform any covenant, agreement, term, condition or other obligation contained in the Master Financing Contract required to be observed and performed by it, whether express or implied, or the bankruptcy, insolvency, liquidation or reorganization of the Corporation. The State assumes the entire risk of loss, from any and every cause whatsoever, to the Property.

Accounting Records and Report. The State Treasurer will keep or cause to be kept proper accounting records in which complete and correct entries shall be made of all transactions relating to the receipt, investment, deposit, application and disbursement of the Agency Installment Payments, and such accounting records shall be available for inspection by the Fiscal Agent, as assignee of the Corporation, or its agent duly authorized in writing at reasonable hours and under reasonable conditions.

Further Assurances. The State will preserve and protect the rights of the Corporation and the Fiscal Agent, as assignee of the Corporation, under the Master Financing Contract, and will warrant and defend such rights against all claims and demands of all Persons. The State will promptly execute, make and deliver any and all further assurances, instruments and agreements, and do or cause to be done such other and further things, as may be necessary or proper to carry out the intention or to facilitate the performance of the Master Financing Contract and for the better assuring and confirming to the Corporation the rights and benefits provided to it under the Master Financing Contract.

Disclosure Agreement. Concurrently with the execution and delivery of the Master Financing Contract, the State Treasurer will execute and deliver the Disclosure Agreement in order to assist the Underwriter in complying with the requirements under the Rule. The State Treasurer shall comply with the requirements of the Disclosure Agreement; *provided*, that failure to so comply shall not constitute a default under the Master Financing Contract.

Events of Default

Each of the following shall constitute an "Event of Default" under the Master Financing Contract:

(i) Failure by the State (other than as a result of a Permitted Termination Event) to pay or cause to be paid any Installment Payment required to be paid under the Master Financing Contract at the time set forth in the Master Financing Contract;

(ii) Failure by the State (other than as a result of a Permitted Termination Event) to observe or perform any covenant, agreement, term or condition on its part to be observed or performed under the Master Financing Contract, other than as set forth in paragraph (i), above, for a period of thirty (30) days after written notice from the Corporation, or from the Owners of not less than 25 percent in aggregate Principal Component evidenced and represented by the Certificates then Outstanding, to the State Treasurer specifying such failure and requesting that it be remedied; provided, however, that such period shall be extended for not more than sixty (60) days if such failure cannot be corrected within such period, and corrective action is commenced by the State within such period and diligently pursued until the failure is corrected; and

(iii) The occurrence of an Agency Event of Default.

Notwithstanding the foregoing provisions of this Subheading, if by reason of *force majeure* the State is unable in whole or in part to carry out the covenants, agreements, terms and conditions on its part contained in the Master Financing Contract, the State shall not be deemed in default during the continuance of such inability. The term "*force majeure*" means the following: acts of God; strikes; lockouts or other industrial disturbances or disputes; acts of public enemies; orders or restraints of any kind of the government of the United States of America or any of its departments, agencies or officials, or of its civil or military authorities; orders or restraints of the State or of any of its departments, agencies or officials or civil or military authorities of the State; wars, rebellions, insurrections; riots; civil disorders; blockade or embargo; landslides; earthquakes; fires; storms; droughts; floods; explosions; or any other cause or event not within the control of the State.

The Corporation may, at its election, waive any default or Event of Default and its consequences under the Master Financing Contract and annul any notice thereof by written notice to the State Treasurer to such effect, and thereupon the respective rights of the Parties under the Master Financing Contract shall be as they would have been if such default or Event of Default had not occurred.

ANYTHING HEREIN TO THE CONTRARY NOTWITHSTANDING, A PERMITTED TERMINATION EVENT SHALL NOT CONSTITUTE AN EVENT OF DEFAULT UNDER THE MASTER FINANCING CONTRACT.

Remedies

Whenever an Event of Default under the Master Financing Contract shall have occurred and be continuing, the Corporation has the right, without any further demand or notice, to:

(i) take whatever action at law or in equity may appear necessary or desirable to collect the Installment Payments then due and thereafter becoming due, or to enforce the observance or performance of any covenant, agreement or obligation of the State under the Master Financing Contract;

(ii) by written notice to the State, request the State to (and the State agrees that it shall), at the State's expense, promptly return the item or items of Property with respect to which such default occurred in good condition (ordinary wear and tear excepted) to any location in the United States specified by the Corporation;

(iii) exercise all rights of a secured party under the State Uniform Commercial Code with respect to the item or items of Property with respect to which such default occurred; and

(iv) exercise any other rights or remedies it may have under the Master Financing Contract or under applicable law.

ANYTHING HEREIN TO THE CONTRARY NOTWITHSTANDING, IF THE EVENT OF DEFAULT CONSISTS OF AN AGENCY EVENT OF DEFAULT, THE REMEDIES OF THE CORPORATION SHALL BE LIMITED TO THOSE SET FORTH IN THE MASTER FINANCING CONTRACT AND THE RELATED AGENCY FINANCING CONTRACT, RESPECTIVELY.

No Remedy Exclusive; Non-Waiver

No remedy conferred upon or reserved to the Corporation under the Master Financing Contract or under applicable law is intended to or shall be exclusive, and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Master Financing Contract or now or existing at law or in equity. No delay or omission to exercise any right or remedy accruing upon a default or an Event of Default under the Master Financing Contract shall impair any such right or remedy or shall be construed to be a waiver of such default or Event of Default, but any such right or remedy may be exercised from time to time and as often as may be deemed necessary or expedient. In order to exercise any remedy reserved to the Corporation under the Master Financing Contract, it shall not be necessary to give any notice, other than such notice as may be required under the Master Financing Contract. A waiver by the Corporation of any default or Event of Default under the Master Financing Contract shall not constitute a waiver of any subsequent default or Event of Default under the Master Financing Contract, and shall not affect or impair the rights or remedies of the Corporation in connection with any such subsequent default or Event of Default.

Term

The Master Financing Contract shall terminate on the date on which all amounts due under the Master Financing Contract shall have been paid or the payment thereof duly provided for pursuant to the Master Financing Contract.

TRUST AGREEMENT

Acquisition Fund

The State Treasurer shall establish and maintain the "State of Washington Certificates of Participation, Series 2008C Acquisition Fund" (the "Acquisition Fund"), as agent for the Corporation. The moneys in the Acquisition Fund shall be held by the State Treasurer in trust for the benefit of the Owners and applied to the payment of the Acquisition Costs of the Property described in the Master Financing Contract (including reimbursement to the Corporation, or to the State Treasurer or any Agency in its capacity as agent of the Corporation, for any such costs theretofore paid by such Party), including but not limited to the Costs of Issuance. Moneys in the Acquisition Fund shall be invested by the State Treasurer in Qualified Investments. Disbursements by the State Treasurer from the Acquisition Fund to pay or reimburse the Acquisition Costs of Property to be acquired by each Agency shall not exceed the amount in the Acquisition Fund allocable to such Agency, as determined by the State Treasurer. When the Property has been acquired or refinanced and all of the Acquisition Costs and Costs of Issuance have been paid, the State Treasurer shall transfer any remaining balance in the Acquisition Fund to the Agency Installment Payment Fund.

State Payments; Funds and Accounts; Investments

State Payments Held in Trust. The State Payments are irrevocably pledged and shall be applied to pay the Principal Component and Interest Component evidenced and represented by the Certificates when due, and shall not be used or applied for any other purpose while any of the Certificates remain Outstanding. The pledge shall constitute a first and exclusive lien on and security interest in the State Payments for the benefit of the Owners of the Certificates.

All State Payments shall be paid directly by the State Treasurer to the Fiscal Agent, as assignee of the Corporation, and if received by the Corporation at any time shall be deposited by the Corporation with the Fiscal Agent within one (1) Business Day after the receipt thereof. All State Payments shall be immediately deposited by the Fiscal Agent in the appropriate funds provided in the Trust Agreement, whereupon they shall be applied immediately to the payment of Certificates except as otherwise expressly provided in the Trust Agreement, but if for any reason not so applied, held in trust by the Fiscal Agent in such fund for the benefit of the Owners from time to time.

Deposit of State Payments. The Fiscal Agent agrees to establish, maintain and hold in trust the Certificate Fund for so long as any Certificates remain Outstanding. The Fiscal Agent shall deposit all State Payments in the following Accounts within the Certificate Fund, each of which the Fiscal Agent agrees to establish and maintain, at the times, in the manner and in the order of priority as set forth below, and the moneys in each of such Accounts shall be disbursed only for the purposes and uses authorized.

(i) *Interest Account*. On each Interest Payment Date, the Fiscal Agent shall deposit in the Interest Account that amount of moneys evidencing the Interest Components due on such Interest Payment Date. Moneys in the Interest Account shall be withdrawn and used by the Fiscal Agent solely for the purpose of paying the interest evidenced and represented by the Certificates due and payable on such Interest Payment Date.

(ii) *Principal Account*. On each Principal Payment Date, the Fiscal Agent shall deposit in the Principal Account that amount of moneys evidencing the Principal Components due on such Principal Payment Date. Moneys in the Principal Account shall be withdrawn and used by the Fiscal Agent solely for the purpose of paying the principal evidenced and represented by the Certificates due and payable on such Principal Payment Date.

Application of Insurance Proceeds. The proceeds of any casualty insurance with respect to any of the Property, if received by the State or any Agency, shall immediately be paid to the Fiscal Agent. Within ninety (90) days of payment of such proceeds to the Fiscal Agent, the respective Agency shall notify the Fiscal Agent in writing as to whether it elects to repair or replace such Property. In the event that the Agency elects to repair or replace such Property, such amounts shall be disbursed by the Fiscal Agent to pay the costs of such repair or replacement. In the event that the Agency elects not to repair or replace the property damaged, destroyed or taken, such amounts shall be applied to provide for the payment of Principal Components evidenced and represented by the Certificates pursuant to the Trust Agreement. To the extent that such amounts are not sufficient, in whole or in part, to prepay Principal Components evidenced and represented by the Certificates in Authorized Denominations, such amounts shall be applied to provide for the payment thereof pursuant to the Trust Agreement.

Investment of Moneys. All moneys in any of the funds or accounts established and maintained by the Fiscal Agent pursuant to the Trust Agreement shall be invested by the Fiscal Agent, at the Written Direction of the State Treasurer, solely in Qualified Investments. The written investment instruction to the Fiscal Agent shall contain a statement that such investments are Qualified Investments as required by the Trust Agreement. In the absence of written investment instructions directing the Fiscal Agent by noon of the Business Day preceding the day when investments are to be made, the Fiscal Agent is directed to invest available funds in Qualified Investments described in the Trust Agreement, until such written instruction is received by the Fiscal Agent.

Qualified Investments may be purchased at such prices as the Fiscal Agent may in its discretion determine or as may be directed by the State Treasurer. All investment instructions to the Fiscal Agent shall be subject to the limitations set forth in the Trust Agreement and such additional limitations or requirements consistent with the foregoing as may be established by the State Treasurer.

Moneys in all funds and accounts maintained by the Fiscal Agent shall be invested in Qualified Investments maturing not later than the date on which such moneys will be required for the purposes specified in the Trust Agreement. Notwithstanding any provisions in the Trust Agreement to the Contrary, any moneys held for the payment of Certificates pursuant to the Trust Agreement, shall be invested only at the Written Direction of the State Treasurer and only in Government Obligations (or in shares of a taxable government money market fund restricted to Government Obligations rated in the highest rating category applicable to such funds by at least one Rating Agency) which mature not later than the date on which it is estimated that such moneys will be required to pay such Certificates (but in any event maturing in not more than thirty (30) days).

All interest, profits and other income received from the investment of moneys in any fund or account established pursuant to the Trust Agreement shall be deposited in the fund or account which gave rise to the investment earnings. For the purpose of determining the amount in any fund or account, all Qualified Investments credited to such fund or account shall be valued at the lesser of cost or par value.

Subject to any written instruction from the State Treasurer pursuant to the Trust Agreement, moneys in any and all funds and accounts may be commingled for investment purposes; *provided*, that the Fiscal Agent shall at all times account for such investments strictly in accordance with the funds and accounts to which they are credited and otherwise as provided in the Trust Agreement. The Fiscal Agent and its affiliates may act as principal or agent in the making or disposing of any investment. The Fiscal Agent may sell or present for redemption any Qualified Investments so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such Qualified Investment is credited, and the Fiscal Agent shall not be liable or responsible for any loss resulting from such investment or disposition. The Fiscal Agent and its affiliates may act as sponsor, advisor or depository with regard to any Qualified Investments.

Non-Presentment of Certificates. In the event that any Certificates shall not be presented for payment when the principal evidenced and represented thereby becomes due, either at a Principal Payment Date or otherwise, if moneys sufficient to pay such principal shall have been deposited in the Principal Account, all liability of the Fiscal Agent and the State to the Owner thereof for payment with respect to such Certificate shall forthwith cease, terminate and be completely discharged, and thereupon it shall be the duty of the Fiscal Agent to hold such moneys (subject to the Trust Agreement), without liability for interest thereon, for the benefit of the Owner of such Certificate who shall thereafter be restricted exclusively to such moneys, for any claim of whatever nature on his or her part under the Trust Agreement or on or with respect to such Certificate.

Repayment to State Treasurer. When there are no longer any Certificates Outstanding, and all fees, charges and expenses of the Fiscal Agent and any Paying Agents have been paid or provided for, and all expenses of the Corporation and the State Treasurer relating to the Master Financing Contract and the Trust Agreement have been paid or provided for, and all other amounts payable under the Trust Agreement and under the Master Financing Contract have been paid, and the Trust Agreement has been discharged and satisfied, the Fiscal Agent shall pay to the State Treasurer any amounts remaining in any fund or account established and held under the Trust Agreement.

Covenants of the Corporation, the State and the Fiscal Agent

Compliance with Trust Agreement. The Fiscal Agent will not execute or deliver any Certificates in any manner other than in accordance with the provisions of the Trust Agreement. The Corporation, the State and the Fiscal Agent will faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms of the Trust Agreement required to be complied with, kept, observed and performed by each of them.

Compliance with and Amendment of the Master Financing Contract. The Corporation, the State and the Fiscal Agent, as assignee of the Corporation, will faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms contained in the Master Financing Contract required to be complied with, kept, observed and performed by each of them, and the Fiscal Agent will, to the extent required under the Trust Agreement, enforce such agreement against the State in accordance with its terms.

The State will not alter, amend or modify the Master Financing Contract without the prior written consent of the Fiscal Agent. Such consent of the Fiscal Agent shall be given only (i) if the Fiscal Agent receives an Opinion of Counsel to the effect that such alterations, amendments or modifications will not have a material adverse effect on the interests of the Owners of the Certificates, or (ii) if the Fiscal Agent first obtains the written consent of the Owners of a majority in aggregate Principal Component evidenced and represented by the Certificates then Outstanding to such alterations, amendments or modifications; *provided*, that no such alteration, amendment or modification shall reduce the amount or extend the time for payment of any State Payment without the prior written consent of the Owners of the Certificates evidencing and representing any portion thereof.

Other Liens. So long as any Certificates are Outstanding, the Corporation, the State and the Fiscal Agent will not create or suffer to be created any pledge of, lien on or security interest in the State Payments other than the pledge and lien of the Trust Agreement and security interest under the Trust Agreement.

Prosecution and Defense of Suits. The State will defend against every action, suit or other proceeding at any time brought against the Corporation, the Fiscal Agent or any Owner upon any claim arising out of the receipt, deposit or disbursement of any of the State Payments or involving the rights or obligations of the Corporation, the Fiscal Agent or any Owner under the Trust Agreement; *provided, however,* that the

Corporation, the Fiscal Agent or any Owner, at its election and at its sole cost and expense, may appear in and defend any such action, suit or other proceeding.

Accounting Records and Statements. The Fiscal Agent will keep proper accounting records in accordance with corporate trust accounting standards in which complete and correct entries shall be made of all transactions relating to the receipt, investment, deposit, application and disbursement of the State Payments, and such accounting records shall be available for inspection by the State Treasurer or any Owner or agent duly authorized in writing at reasonable hours and under reasonable conditions. Not later than December 1 in each year, commencing on December 1, 2008, and continuing for so long as any Certificates are Outstanding, the Fiscal Agent will furnish, or cause to be furnished to the State Treasurer and any Owner who may so request (at the expense of such Owner) a complete statement covering the receipts, investment, deposits, application and disbursements of the State Payments for the twelve-month period ending on the preceding July 1.

Such records shall specify the fund or account to which each investment (or portion thereof) held pursuant to the Trust Agreement is to be allocated and shall set forth, in the case of each Qualified Investment, (i) its purchase price, (ii) identifying information, including par amount, coupon rate, and payment dates, (iii) the amount received at maturity or its sale price, as the case may be, (iv) the amounts and dates of any payments made with respect thereto, and (v) such other documentation as is required by the State Treasurer in writing.

Recording and Filing. The Fiscal Agent, upon receipt of a Written Request of the State Treasurer, shall file, record, register, renew, refile and rerecord all such documents, including but not limited to the Master Financing Contract, the Agency Financing Contracts, the Master Assignment, , as may be required by law in order to maintain a security interest in the State Payments, all in such manner, at such times and in such places as may be required and to the extent permitted by law in order to fully perfect, preserve and protect the security of the Owners and the rights and interests of the Fiscal Agent; *provided*, *however*, that the Fiscal Agent will not be required to execute a special or general consent to service of process, or to qualify as a foreign corporation in connection with any such filing, recording, registration, refiling or rerecording in any jurisdiction in which it is not now so subject.

Further Assurances. Whenever and so often as requested to do so by the Fiscal Agent or any Owner, the Corporation and the State Treasurer will promptly execute and deliver or cause to be executed and delivered all such other and further assurances, documents or instruments and promptly do or cause to be done all such other and further things as may be necessary or desirable in order to further and more fully vest in the Fiscal Agent and the Owners all advantages, benefits, interests, powers, privileges and rights conferred upon them and by the Master Financing Contract.

Events of Default; Remedies

Events of Default; Remedies; Waiver. If an Event of Default shall occur and be continuing, then such Event of Default shall constitute a default under the Trust Agreement, and in each and every such case during the continuance of such Event of Default, the Fiscal Agent may, and upon the written request of the Owners of not less than a majority in aggregate Principal Component evidenced and represented by the Certificates then Outstanding and receipt of indemnity satisfactory to it shall, exercise the remedies provided to the Corporation and the Fiscal Agent, as assignee of the Corporation, under the Trust Agreement and under the Master Financing Contract.

The Fiscal Agent may, in its discretion, waive any default or Event of Default and its consequences under the Trust Agreement and annul any notice thereof by written notice to the State Treasurer to such effect, and thereupon the respective rights of the Parties under the Trust Agreement shall be as they would have been if such default or Event of Default had not occurred.

Other Remedies of the Fiscal Agent. The Fiscal Agent may, and upon the written request of the Owners of not less than a majority in aggregate Principal Component evidenced and represented by the Certificates then Outstanding and receipt of indemnity satisfactory to it, shall:

(i) by mandamus or other action or proceeding or suit, action or proceeding at law or in equity enforce its rights against the State or any Agency or any officer or employee thereof, and to compel the State or any such Agency or any such officer or employee to perform or carry out its duties under law and the agreements and covenants required to be performed by it or him or her contained in the Trust Agreement and in the Master Financing Contract;

(ii) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Fiscal Agent; or

(iii) by suit in equity upon the happening of any default under the Trust Agreement to require the State or any Agency and its officers and employees to account as the trustee of an express trust.

Application of Moneys. If an Event of Default shall have occurred and be continuing, all moneys received by the Fiscal Agent shall be applied, first, to the payment of the reasonable costs and expenses incurred by the Fiscal Agent and the Owners to declare such default (including but not limited to the reasonable fees and expenses of their counsel and agents); second, to the payment of the Interest Components evidenced and represented by the Certificates accrued to the date of application thereof *pro rata* among the Owners entitled thereto; third, to the payment of the Principal Components evidenced and represented by the Certificates and the Prepayment Price, if any, then due under the Trust Agreement *pro rata* among the Owners entitled thereto; and fourth, when no Certificates remain Outstanding, to pay or reimburse the State for its costs and expenses, including reasonable attorneys' fees, incurred in connection with the Certificates, the Master Financing Contract, the Agency Financing Contracts, and the Trust Agreement.

Non-Waiver. A waiver of any default or breach of duty or contract by the Fiscal Agent shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Fiscal Agent to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Fiscal Agent by law or by such article may be enforced and exercised from time to time and as often as shall be deemed expedient by the Fiscal Agent.

If any action, proceeding or suit to enforce any right or to exercise any remedy is abandoned or determined adversely to the Fiscal Agent, the Fiscal Agent, the Corporation and the State Treasurer shall be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Remedies Not Exclusive. No remedy in the Trust Agreement conferred upon or reserved to the Fiscal Agent is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given under the Trust Agreement or now or existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by any law.

Fiscal Agent May Enforce Claims Without Possession of Certificates. All rights of action and claims under the Trust Agreement or the Certificates may be prosecuted and enforced by the Fiscal Agent without the possession of any of the Certificates or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Fiscal Agent shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Fiscal Agent, its agents and counsel, be for the ratable benefit of the Owners of the Certificates in respect of which such judgment has been recovered.

Limitation on Actions by Owners. The Owners of not less than a majority in aggregate Principal Component evidenced and represented by the Certificates then Outstanding shall have the right to direct the method and place of conducting any proceeding or remedy available to the Fiscal Agent, or exercising any trust or power conferred on the Fiscal Agent, under the Trust Agreement or under the Master Financing Contract in connection with the enforcement of the covenants, agreement, terms, and conditions of the Trust Agreement and thereof; *provided*, that any such direction shall not be contrary to law, the Trust Agreement or the Master Financing Contract, and is not unduly prejudicial to the interest of the Owners not joining in such direction; and *provided further*, that the Fiscal Agent may take any other action which it deems necessary or appropriate and not inconsistent with such direction.

No Owner shall have the right to institute any action, suit or proceeding for the enforcement of the Trust Agreement or of the Master Financing Contract, or to pursue any remedy available under the Trust Agreement or under the Master Financing Contract, unless:

(i) the Fiscal Agent shall have been given written notice of an Event of Default by such Owner;

(ii) the Owners of at least a majority in aggregate Principal Component evidenced and represented by the Certificates then Outstanding respecting which there has been an Event of Default shall have requested the Trustee, in writing, to exercise the powers granted by the Trust Agreement or the Master Financing Contract, or to institute such action, suit or proceeding, or to pursue such remedy in it or their name or names;

(iii) the Fiscal Agent shall have been offered indemnity satisfactory to it against its costs, expenses and liabilities in connection therewith; and

(iv) the Fiscal Agent shall have failed to comply with such request within sixty (60) days, or such shorter period as shall be reasonable under the circumstances.

No Liability by the Corporation to the Owners. Except for the observance and performance of the agreements and covenants required to be observed and performed by it contained in the Trust Agreement, the Corporation shall not have any obligation or liability to the Owners with respect to the Trust Agreement, or the payment when due of the State Payments by the State, or with respect to the observance or performance by the State of the other agreements and covenants required to be observed and performed by the State contained in the Master Financing Contract or in the Trust Agreement, or with respect to preparation, execution, delivery, or transfer of the Certificates or the disbursement of the State Payments by the Fiscal Agent to the Owners, or with respect to the observance or performance by the Fiscal Agent of any agreements, covenants, terms or obligations required to be performed or observed by it contained in the Trust Agreement.

No Liability by the State to the Owners. Except for the payment when due of the State Payments and the observance and performance of the other agreements and covenants required to be observed and performed by it contained in the Master Financing Contract and in the Trust Agreement, the State shall not have any obligation or liability to the Owners with respect to the Trust Agreement, or the preparation, execution, delivery or transfer of the Certificates or the disbursement of the State Payments by the Fiscal Agent to the Owners, or with respect to the observance or performance by the Fiscal Agent of any agreements, covenants, terms or obligations required to be observed or performed by it contained in the Trust Agreement.

No Liability by the Fiscal Agent to the Owners. Except as expressly provided in the Trust Agreement, the Fiscal Agent shall not have any obligation or liability to the Owners with respect to the payment when due of the State Payments by the State, with respect to the observance or performance by the State of the other agreements and covenants required to be observed and performed by it contained in the Master Financing Contract or in the Trust Agreement or with respect to the observance or performance by the Corporation of the agreements and covenants required to be observed and performed by it contained in the Trust Agreement.

Amendment or Supplement of Trust Agreement

Amendment or Supplement; Consents. The Trust Agreement and the rights and obligations of the State, the Owners, the Fiscal Agent or any Paying Agent under the Trust Agreement may be amended or supplemented at any time as provided in the Appendix of the Trust Agreement. No such amendment or supplement shall:

(i) extend the stated Principal Payment Date of any Certificate, or reduce the rate of interest evidenced and represented thereby, or extend the time of payment of such interest, or reduce the amount of the Principal Component evidenced and represented thereby, without the prior written consent of the Owner of the Certificate so affected; or

(ii) reduce the percentage of Owners whose consent is required for the execution of any amendment of the Trust Agreement or supplement hereto; or

(iii) modify any of the rights or obligations of the Fiscal Agent or any Paying Agent without its prior written consent thereto.

Disqualified Certificates. Certificates owned or held by or for the account of the State (but excluding Certificates held in any pension or retirement fund of the State) or any Agency shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Certificates provided in the Trust Agreement, and shall not be entitled to consent to or take any other action provided in the Trust Agreement, and the Fiscal Agent may adopt appropriate regulations to require each Owner, before consent provided for in the Trust Agreement shall be deemed effective, to reveal if the Certificates as to which such consent is given are disqualified as provided in the Trust Agreement.

Endorsement or Replacement of Certificates After Amendment or Supplement. After the effective date of any action taken as provided above, the Fiscal Agent may determine that the Certificates may bear a notation by endorsement in a form approved by the Fiscal Agent as to such action, and in that case upon demand of the Owner of any Outstanding Certificate and presentation of such Owner's Certificate for such purpose at the Principal Office of the Fiscal Agent a suitable notation as to such action shall be made on such Certificate. If the Fiscal Agent shall so determine, new Certificates so modified as in the opinion of the Fiscal Agent shall be necessary to conform to such action shall be prepared, and in that case upon demand of the Owner of any Outstanding Certificates such new Certificates shall be exchanged at the Principal Office of the Fiscal Agent without cost to each Owner for Certificates then Outstanding upon surrender of such Outstanding Certificates.

Amendment by Mutual Consent. The amendment provisions of the Trust Agreement shall not prevent any Owner from accepting any amendment to the particular Certificates held by it; *provided*, that due notation thereof is made on such Certificates.

Defeasance of Certificates; Discharge of Trust Agreement

Discharge of Trust Agreement. When the obligations of the State under the Master Financing Contract shall cease (except for the right of the Fiscal Agent and the obligation of the State to have the money and Qualified Investments referenced therein applied to the payment of State Payments as therein set forth), then and in that case the obligations created by the Trust Agreement shall thereupon cease, terminate, become void and be completely discharged except for the right of the Owners and the obligation of the Fiscal Agent to apply such moneys and Qualified Investments to the payment of the Certificates as in the Trust Agreement set forth and the right of the Fiscal Agent to collect any fees or expenses due under the Trust Agreement. The Fiscal Agent shall turn over to the State Treasurer, as an overpayment of State Payments, any surplus in the Certificate Fund and all balances remaining in any other funds or accounts other than moneys and Qualified Investments held for the payment of the Certificates on the Principal Payment Dates thereof, which moneys and Qualified Investments shall continue to be held by the Fiscal Agent in trust for the benefit of the Owners and shall be applied by the Fiscal Agent to the payment, when due, of the principal and interest evidenced and represented by the Certificates, and after such payment, the Trust Agreement shall become void. The Fiscal Agent shall thereafter execute and deliver to the State such other documents and instruments as may be necessary or desirable to evidence such discharge and satisfaction of the Trust Agreement.

Defeasance of Certificates. Any Outstanding Certificates shall be deemed to have been paid with the meaning and effect expressed in the immediately preceding paragraph if there shall be irrevocably deposited and held in trust by the Fiscal Agent moneys or Qualified Investments in the amount necessary to pay the principal and interest evidenced and represented thereby as provided in the Trust Agreement.

If moneys or Qualified Investments are deposited with and held by the Fiscal Agent as thereinabove provided, the Fiscal Agent shall within thirty (30) days after such moneys or Qualified Investments shall have been deposited with it, mail a notice, first class postage prepaid, to the Owners of the Certificates that have been defeased at the addresses listed on the registration books kept by the Fiscal Agent pursuant to the Trust Agreement, setting forth (i) the date or dates fixed for payment of the Certificates, (ii) a description of the moneys or Qualified Investments so held by it, and (iii) that such Certificates have been defeased and are no longer deemed to be Outstanding under the Trust Agreement, and/or that the Trust Agreement has been released and discharged in accordance with the provisions of the Trust Agreement.

Deposit of Money or Securities with Fiscal Agent. Whenever in the Trust Agreement or the Master Financing Contract it is provided or permitted that there be deposited with or held in trust by the Fiscal Agent money or securities (certified to be sufficient by a report of an independent certified public accountant or firm of accountants, or an independent financial advisor or consultant or firm of such advisors or consultants) in the necessary amount to pay the principal and interest evidenced and represented by all or a portion of the Certificates, the money or securities to be so deposited or held may include money or securities held by the Fiscal Agent in the funds and accounts established pursuant to the Trust Agreement and shall be:

(i) lawful money of the United States of America in an amount equal to the principal amount evidenced and represented by such Certificates and all unpaid interest evidenced and represented thereby to the respective Principal Payment Dates thereof; or

(ii) Government Obligations, the principal of and interest on which when due will provide money sufficient, without reinvestment, to pay the principal and accrued interest to the Principal Payment Date, evidenced and represented by the Certificates to be paid, as such amounts become due;

further provided, in each case, that the Fiscal Agent shall have been irrevocably instructed (by the terms of the Trust Agreement and the Master Financing Contract or by Written Request of the State Treasurer) to apply such money to the payment of such principal and interest, if any, evidenced and represented by such Certificates.

Unclaimed Moneys. Any moneys held by the Fiscal Agent in trust for the payment and discharge of the principal or interest evidenced and represented by any of the Certificates which remain unclaimed for two (2) years after the date when the principal or interest evidenced and represented by such Certificates have become payable, shall at the Written Request of the State Treasurer be repaid by the Fiscal Agent to the State Treasurer as its property free from trust, and the Fiscal Agent shall thereupon be released and discharged with respect thereto and the Owners shall look only to the State Treasurer for the payment of the principal or interest evidenced and represented by such Certificates.

Miscellaneous

Funds and Accounts. Any fund required to be established and maintained in the Trust Agreement by the Fiscal Agent or the State Treasurer may be established and maintained in the accounting records of the Fiscal Agent or the State Treasurer, respectively, either as an account or a fund, and may, for the purposes of such accounting records, any audits thereof, and any reports or statements with respect thereto, be treated either as an account or a fund; but all such records with respect to all such funds shall at all times be maintained in accordance with prudent accounting practice and with due regard for the protection of the security of the Certificates and the right of the Owners.

Notices to Rating Agencies. The Fiscal Agent shall provide to each Rating Agency then rating the Certificates prompt written notice of (i) the appointment of any successor Fiscal Agent or Paying Agent; (ii) any material amendment to the Trust Agreement or the Master Financing Contract; (iii) any prepayment of the Certificates; and (iv) any defeasance or discharge of the Certificates or the Trust Agreement.

MASTER ASSIGNMENT (EQUIPMENT)

Assignment

The Corporation unconditionally grants, sells, assigns, transfers and conveys to the Fiscal Agent without recourse (i) all of its rights to receive the Installment Payments under and pursuant to the Master Financing Contract, and (ii) all of its remaining right, title and interest in, to and under the Master Financing Contract, the Agency Financing Contracts, and in and to the Property (including any security interest therein), including but not limited to its right to take all actions and exercise all remedies under and pursuant to the Master Financing Contract.

Acceptance

The Fiscal Agent accepts the grant, sale, assignment, transfer and conveyance for the benefit of the Owners of the Certificates, subject to the conditions and terms of the Trust Agreement, and all such Installment Payments shall be applied and all of such right, title and interest shall be exercised by the Fiscal Agent as provided in the Trust Agreement. The Fiscal Agent agrees to keep, perform and observe all of the terms, conditions, covenants and agreements under the Master Financing Contract from and after the Dated Date.

Acknowledgement

The Fiscal Agent and the Corporation acknowledge and agree that:

(i) such grant, sale, assignment, transfer and conveyance by the Corporation is intended to be a true sale of the Corporation’s right, title and interest in, to and under the Master Financing Contract and in and to the Property;

(ii) the Corporation shall cease to have any rights, duties or obligations under the Master Financing Contract or with respect to the Property;

(iii) the Fiscal Agent shall have all the rights, duties and obligations of the Corporation thereunder as if the Fiscal Agent had been the original party thereto; and

(iv) every reference in the Master Financing Contract to the Corporation shall be deemed and construed to refer to the Fiscal Agent, except where the context otherwise requires.

AGENCY FINANCING CONTRACTS

Appointment of Agents; Changes to the Project, Additions to the Property, Substitution of Property

Appointment of Agents. Under each Agency Financing Contract, the Agency ratifies, approves and confirms, and accepts and agrees to, its designation and appointment as agent of the Corporation in connection with the acquisition of the Property.

Changes to the Project: Additions to the Property. The Agency agrees that:

(i) it has caused or will cause the Property to be acquired, as agent for the Corporation, with all reasonable dispatch;

(ii) it will make, execute, acknowledge and deliver any contracts, agreements, orders, receipts, documents, writings or instructions with or to any Person and do all other things that may be necessary or desirable to acquire the Property; and

(iii) it will pay or cause to be paid the Costs of Acquisition of the Property from funds available to it pursuant to the Agency Financing Contract and the Master Financing Contract.

The appointment of the Agency to act as agent of the Corporation in connection with the acquisition of the Property is made and conferred irrevocably by the Corporation, and shall not be terminated by any act of the Agency, the State Treasurer or otherwise.

The Agency shall negotiate or call for bids for the purchase of the Property in accordance with the requirements and limitations, if any, imposed by State or local law with respect to the purchase of such Property by such Agency. Neither the Corporation nor the State shall have any responsibility, liability or obligation with respect to the selection or procurement of any of the Property.

Substitution of Property. The Agency, with the prior written consent of the State Treasurer, may revise any item of Property to be financed or refinanced and acquired pursuant hereto, or the description thereof; *provided*, that:

(i) such item of Property as so revised shall satisfy the requirements under the Agency Financing Contract and the Master Financing Contract with respect to the substitution of Property previously acquired;

(ii) the Costs of Acquisition of such item of Property shall not be materially reduced thereby; and

(iii) any such revision shall not relieve the Agency of its obligation to acquire the Property in accordance therewith and with the Master Financing Contract.

After acquisition of an item of Property, the Agency, with the prior written consent of the State Treasurer, may substitute for an item of Property acquired pursuant to the Agency Financing Contract other personal property by filing with the State Treasurer:

(i) a certificate of the Agency stating that such substitute Property:

  (a) has a remaining useful life equal to or greater than the Property for which it is being substituted;

(b) has a fair market value equal to or greater than the fair market value of the item of Property for which it is being substituted;

(c) is free and clear of all liens and encumbrances except a first priority security interest in favor of the Fiscal Agent, as assignee of the Corporation, under the Master Financing Contract;

(d) is of equal usefulness and value as the Property for which it is being substituted;

(e) is essential to the Agency's ability to carry out its governmental functions and responsibilities; and

(f) is expected to be used by such Agency immediately and for the term of the Agency Financing Contract; and

(ii) an Opinion of Counsel to the effect that such substitution will not cause interest evidenced and represented by the Certificates to be includable in gross income for federal income tax purposes under the Code.

Title to the Property

All right, title and interest in and to the Property shall transfer to and be vested in the Agency from the Corporation or the State, as applicable, without any further action by the Agency, the Corporation or the State immediately upon the acquisition thereof or reimbursement to the Agency for the Acquisition Costs thereof; *provided*, that the State Treasurer and the Agency shall take such action and execute such documents (including without limitation bills of sale and other title documents) as may be deemed necessary or desirable by the State Treasurer or the Agency to evidence and confirm such transfer of title pursuant to the Agency Financing Contract.

Title to any and all additions, modifications, improvements, repairs or replacements to the Property shall be vested in the Agency, subject to the security interest of the Corporation until payment of all amounts due and owing with respect to such Property under the Agency Financing Contract.

Any Property constituting a motor vehicle subject to registration with the State Department of Licensing shall be registered with the Agency as the registered and legal owner thereof.

Security Interest

State Security Interest. In order to secure the payment and performance by the State of its obligations under the Master Financing Contract, the State has pledged, granted, assigned and conveyed to the Corporation a lien on and security interest in all right, title and interest of the State, whether now owned or acquired, in and to the Property and the Agency Financing Contract, including without limitation the Agency Installment Payments and all proceeds thereof. The Agency acknowledges and agrees to such pledge, grant, assignment and conveyance, and acknowledges that its right, title and interest in and to the Property is subject to such first priority lien and security interest.

Agency Security Interest. In order to secure the payment and performance by the Agency of its obligations under the Agency Financing Contract, the Agency pledges, grants, assigns and conveys to the Corporation a lien on and security interest in all right, title and interest of the Agency, whether now owned or acquired, in and to the Property. Accordingly, the Agency Financing Contract constitutes a security agreement. The Agency acknowledges and agrees that each provision of the Agency Financing Contract is also a provision of the security agreement.

The Agency further agrees that the Corporation may: (i) commingle Property which comes into its possession; (ii) re-pledge such Property upon terms which impair the Agency's right to redeem such

Property; and (iii) require the Agency to assemble the Property and make it available to the Corporation in a manner which is reasonably convenient to both Parties. To the extent the Corporation is required for any reason to provide commercially reasonable notice to the Agency, the State agrees that notice mailed by first class mail five days before the event of which notice is given is commercially reasonable notice. The standard by which the Corporation's rights and duties with respect to such security agreement shall be measured is gross negligence or willful misconduct.

If required by the Corporation or the Fiscal Agent, as assignee of the Corporation, at any time during the term of the Agency Financing Contract, the Agency will execute and deliver to the Corporation or the Fiscal Agent, as the case may be, in form satisfactory to the Corporation or the Fiscal Agent, such security agreements, financing statements and/or other instruments covering the Property and all accessions thereto.

Disclaimer of Warranties

The Local Agency acknowledges and agrees that the Property is of a nature, size, design and capacity selected by the Local Agency pursuant to its own specifications, and not by the State or the Corporation, and that neither the State nor the Corporation is a manufacturer, supplier or a vendor of such Property. THE STATE AND THE CORPORATION MAKE NO WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AND ASSUME NO RESPONSIBILITY, LIABILITY OR OBLIGATION, AS TO THE VALUE, DESIGN, CONDITION, MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR FITNESS FOR USE OF THE PROPERTY, OR AS TO THE TITLE THERETO, OR FOR THE ENFORCEMENT OF THE MANUFACTURERS', SUPPLIERS' OR VENDORS' REPRESENTATIONS, WARRANTIES OR GUARANTIES, OR ANY OTHER REPRESENTATION OR WARRANTY WITH RESPECT TO THE PROPERTY. IN NO EVENT SHALL THE STATE OR THE CORPORATION BE LIABLE OR RESPONSIBLE FOR ANY INCIDENTAL, INDIRECT, SPECIAL OR CONSEQUENTIAL DAMAGES IN CONNECTION WITH OR ARISING OUT OF THE LOCAL AGENCY FINANCING CONTRACT OR THE EXISTENCE, FURNISHING, FUNCTIONING OR USE BY THE LOCAL AGENCY OF THE PROPERTY.

The State Agency acknowledges and agrees that the Property is of a nature, size, design and capacity selected by the State Agency pursuant to its own specifications, and not by the State Treasurer or the Corporation, and that neither the State Treasurer nor the Corporation is a manufacturer, supplier or a vendor of such Property. THE STATE TREASURER AND THE CORPORATION MAKE NO WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AND ASSUME NO RESPONSIBILITY, LIABILITY OR OBLIGATION, AS TO THE VALUE, DESIGN, CONDITION, MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR FITNESS FOR USE OF THE PROPERTY, OR AS TO THE TITLE THERETO, OR FOR THE ENFORCEMENT OF THE MANUFACTURERS', SUPPLIERS' OR VENDORS' REPRESENTATIONS, WARRANTIES OR GUARANTIES, OR ANY OTHER REPRESENTATION OR WARRANTY WITH RESPECT TO THE PROPERTY. IN NO EVENT SHALL THE STATE TREASURER OR THE CORPORATION BE LIABLE OR RESPONSIBLE FOR ANY INCIDENTAL, INDIRECT, SPECIAL OR CONSEQUENTIAL DAMAGES IN CONNECTION WITH OR ARISING OUT OF THE STATE AGENCY FINANCING ADDENDUM OR THE EXISTENCE, FURNISHING, FUNCTIONING OR USE BY THE STATE AGENCY OF THE PROPERTY.

Agency Installment Payments

Each Agency Installment Payment shall consist of a Principal Component and/or an Interest Component as set forth in Exhibit D to the Agency Financing Contract. Interest shall accrue and be calculated as determined by the State Treasurer, which determination shall be binding and conclusive against the Agency absent manifest error. Each Agency Installment Payment payable under the Agency Financing

Contract shall be paid to or upon the order of the State Treasurer at such place as the State Treasurer shall direct in writing not less than ten (10) Business Days prior to the Agency Installment Payment Date by electronic funds transfer in lawful money of the United States of America. Payments of Additional Costs shall be made to or upon the order of the State Treasurer. Each Agency Installment Payment shall be applied first to the Interest Component due under the Agency Financing Contract, and then to the Principal Component due under the Agency Financing Contract.

Sources of Payment of Agency Installment Payments

Local Agency Financing Contract. The Local Agency acknowledges and agrees that the State is acquiring the Property from the Corporation for and on behalf of the Local Agency. Concurrently with the execution of the Local Agency Financing Contract, the State shall execute and deliver the Master Financing Contract pursuant to which the State shall agree to make Installment Payments for the acquisition of the Property for and on behalf of the respective Agencies, at such times and in such amounts as provided in the Local Agency Financing Contract, which will be sufficient in the aggregate to pay the Purchase Price of the Property to be acquired by the State for and on behalf of the Local Agency, together with all other personal property to be acquired for and on behalf of the other Local Agencies and the State Agencies, and interest thereon.

That portion of the Installment Payments that is allocable to the Purchase Price of the Local Agency Property and interest thereon shall be payable by the State solely from Agency Installment Payments to be made by the respective Local Agencies, including the Local Agency, except as otherwise provided in the Master Financing Contract. The obligation of the Local Agency to make its Agency Installment Payments shall be a direct and general obligation of the Local Agency to which the full faith and credit of such Local Agency is pledged. The State shall not be obligated to pay that portion of the Installment Payments that is allocable to the Purchase Price of the Local Agency Property and interest thereon other than from Agency Installment Payments paid by the respective Local Agencies, except as otherwise provided in the Master Financing Contract.

Intercept of Local Agency Share of State Revenues. In the event that the Local Agency fails to make any payment due under the Local Agency Financing Contract, the State Treasurer shall withhold an amount sufficient to make such payment from the Local Agency's share of State revenues or other amounts authorized or required by law to be distributed by the State to the Local Agency, including but not limited to leasehold excise taxes, sales and use taxes, excise taxes, property taxes, and liquor control board receipts; *provided*, that the use of any such revenues or amounts to make such payments is otherwise authorized or permitted by State law. Such withholding shall continue until all such delinquent payments have been made. Amounts withheld by the State Treasurer shall be applied to make any such payment due under the Local Agency Financing Contract on behalf of the Local Agency, or to reimburse the State Treasurer for any such payment made pursuant to the Local Agency Financing Contract. The Local Agency authorizes, approves and consents to any such withholding.

Conditional Payment of Local Agency Installment Payments. Upon the failure of the Local Agency to make any Agency Installment Payment at such time and in such amount as required pursuant to the Local Agency Financing Contract, the State Treasurer shall, to the extent of legally available appropriated funds and subject to any Executive Order reduction, make such payment into the Agency Installment Payment Fund, defined below, on behalf of such Local Agency within ten (10) Business Days after such Agency Installment Payment Date. The Local Agency shall reimburse the State for such payments made on its behalf immediately thereafter and in any case not later than ten (10) Business Days after such Agency Installment Payment Date, together with interest thereon at a rate equal to the State Reimbursement Rate. Anything in the Local Agency Financing Contract to the contrary notwithstanding, failure of the Local Agency to reimburse the State for any such payment shall not constitute an Agency Event of Default under the Local Agency Financing Contract, but the State may institute such legal action and pursue such other remedies against the Local Agency as the State deems necessary or desirable, including, but not limited to, actions for specific performance, injunction and/or the recovery of damages.

Payments by Local Agency Treasurer. The treasurer of the Local Agency is authorized and directed to establish and/or maintain a special fund in the "bonds payable" category of accounts of the Local Agency for the purposes of paying the Local Agency's Agency Installment Payments and Additional Costs. The treasurer of the Local Agency is further authorized and directed to remit each payment of Agency Installment Payments to the State Treasurer or its assignee on each Agency Installment Payment Date and any Additional Costs when due under the Local Agency Financing Contract. Such payment shall be made from any legally available funds of the Local Agency.

State Agency Financing Contract. The State Agency acknowledges and agrees that the State is acquiring the Property from the Corporation for and on behalf of the State Agency. Concurrently with the execution hereof, the State shall execute and deliver the Master Financing Contract pursuant to which the State shall agree to make Installment Payments for the acquisition of the Property for and on behalf of the respective Agencies, at such times and in such amounts as provided therein, which will be sufficient in the aggregate to pay the Purchase Price of the Property to be acquired by the State for and on behalf of the State Agency together with all other personal property to be acquired for and on behalf of the other State Agencies, and interest thereon.

Obligation of State Agency Subject to Appropriation. That portion of the Installment Payments that is allocable to the Purchase Price of the State Agency Property shall be payable by the State solely from Agency Installment Payments to be made by the respective State Agencies, including the State Agency. The obligation of the State Agency to make its Agency Installment Payments shall be subject to appropriation by the State Legislature and to Executive Order reduction. The State shall not be obligated to pay that portion of the Installment Payments that is allocable to the Purchase Price of the State Agency Property and interest thereon other than from appropriated funds of the respective State Agencies.

Deposit and Investment of Agency Installment Payments

The Agency acknowledges and agrees that the Agency Installment Payments shall be deposited in a special fund or funds maintained by the State Treasurer (the "Agency Installment Payment Fund"). Payments of Agency Installment Payments from State Agencies shall be separately accounted for from payments from Local Agencies. The Agency Installment Payments due on each Agency Installment Payment Date shall be at least sufficient, in the aggregate, to make the Installment Payment next coming due under the Master Financing Contract. Amounts in the Agency Installment Payment Fund, including investment earnings thereon, shall be used and applied, *first*, to make the Installment Payment next coming due, *and thereafter*, but prior to the next Agency Installment Payment Date, to the extent that amounts remain in such Fund after such Installment Payment is made, to pay Additional Costs or for any other lawful purpose of the State Treasurer. Amounts in the Agency Installment Payment Fund shall be invested in Qualified Investments, and shall be separately accounted for, but may be commingled with other moneys on deposit with the State Treasurer solely for investment purposes. The Agency shall have no right, title or interest in or to the amounts on deposit from time to time in the Agency Installment Payment Fund.

No Set-Off

The obligation of the Local Agency to make Agency Installment Payments from the sources set forth in the Local Agency Financing Contract and to perform its other obligations under the Local Agency Financing Contract shall be absolute and unconditional. The Local Agency shall make Agency Installment Payments as and when the same shall become due without diminution, reduction, postponement, abatement, counterclaim, defense or set-off as a result of any dispute, claim or right of action by, against or among the State, the Corporation, the Fiscal Agent, any Agency, and/or any other Person, or for any other reason; *provided*, that nothing in the Local Agency Financing Contract shall be construed to release or excuse the State from the observance or performance of its obligations under the Local Agency Financing Contract. If the State shall fail to observe or perform any such obligation, the Local Agency may institute such legal action and pursue such other remedies against the State as the Local Agency deems necessary or desirable, including, but not limited to, actions for specific performance, injunction and/or the recovery of damages.

The obligation of the State Agency to make Agency Installment Payments from the sources set forth in the State Agency Financing Addendum and to perform its other obligations under the State Agency Financing Addendum shall be absolute and unconditional. The State Agency shall make Agency Installment Payments as and when the same shall become due without diminution, reduction, postponement, abatement, counterclaim, defense or set-off as a result of any dispute, claim or right of action by, against or among the State, the Corporation, the Fiscal Agent, any Agency, and/or any other Person, or for any other reason; *provided*, that nothing in the State Agency Financing Addendum shall be construed to release or excuse the State Treasurer or the Corporation from the observance or performance of its obligations under the State Agency Financing Addendum or under the Master Financing Contract. If the State Treasurer or the Corporation shall fail to observe or perform any such obligation, the State Agency may institute such legal action and pursue such other remedies against the State Treasurer or the Corporation as the State Agency deems necessary or desirable, including, but not limited to, actions for specific performance, injunction and/or the recovery of damages.

Assignments by the Corporation

The Local Agency acknowledges and agrees that, concurrently with the execution and delivery of the Local Agency Financing Contract, the Corporation will unconditionally grant, sell, assign, transfer and convey to the Fiscal Agent without recourse:

(i) all of its rights to receive the Installment Payments under and pursuant to the Master Financing Contract; and

(ii) all of its remaining right, title and interest in, to and under the Master Financing Contract and the Local Agency Financing Contract, and in and to the Property (including any security interest tin the Local Agency Financing Contract), including but not limited to its right to take all actions and exercise all remedies under and pursuant to the Master Financing Contract, pursuant to the Master Assignment in consideration for the payment by the Fiscal Agent to the State Treasurer, as agent of the Corporation, of the proceeds of the sale of the Certificates.

The State and the Corporation have acknowledged and agreed that such grant, sale, assignment, transfer and conveyance by the Corporation is intended to be a true sale of the Corporation's right, title and interest, and that upon such grant, sale, assignment, transfer and conveyance, the Corporation shall cease to have any rights, duties or obligations under the Master Financing Contract or with respect to the Property, and the Fiscal Agent shall thereafter have all the rights, duties and obligations of the Corporation under the Local Agency Financing Contract as if the Fiscal Agent had been the original party thereto, and, except where the context otherwise requires, every reference in the Local Agency Financing Contract to the Corporation shall be deemed and construed to refer to the Fiscal Agent. Anything in the Local Agency Financing Contract or in the Local Agency Financing Contract to the contrary notwithstanding, such grant, sale, assignment, transfer and conveyance shall not confer any rights or impose any duties or obligations on the Fiscal Agent other than as expressly set forth in the Trust Agreement and the Master Assignment.

The State Agency acknowledges and agrees that, concurrently with the execution and delivery hereof, the Corporation will unconditionally grant, sell, assign, transfer and convey to the Fiscal Agent without recourse:

(i) all of its rights to receive the Installment Payments under and pursuant to the Master Financing Contract; and

(ii) all of its remaining right, title and interest in, to and under the Master Financing Contract and the State Agency Financing Addendum, and in and to the Property (including any security interest therein), including but not limited to its right to take all actions and exercise all remedies under and pursuant to the Master Financing Contract, pursuant to the Master Assignment in consideration for the payment by the Fiscal Agent to the State Treasurer, as agent of the Corporation, of the proceeds of the sale of the Certificates.

The State and the Corporation have acknowledged and agreed that such grant, sale, assignment, transfer and conveyance by the Corporation is intended to be a true sale of the Corporation's right, title and interest, and that upon such grant, sale, assignment, transfer and conveyance, the Corporation shall cease to have any rights, duties or obligations under the Master Financing Contract or the State Agency Financing Addendum or with respect to the Property, and the Fiscal Agent shall thereafter have all the rights, duties and obligations of the Corporation thereunder and under the State Agency Financing Addendum as if the Fiscal Agent had been the original party thereto and hereto, and every reference therein and in the State Agency Financing Addendum to the Corporation shall be deemed and construed to refer to the Fiscal Agent, except where the context otherwise requires. Anything in the State Agency Financing Addendum or therein to the contrary notwithstanding, such grant, sale, assignment, transfer and conveyance shall not confer any rights or impose any duties or obligations on the Fiscal Agent other than as expressly set forth in the Trust Agreement and the Master Assignment.

Optional Prepayment

The Agency may, at its option, prepay all or any portion of its Agency Installment Payments then unpaid, in whole or in part on any date, by causing to be deposited with the State Treasurer money and/or Government Obligations in an amount sufficient for the State Treasurer to prepay or defease the portion of its Installment Payments corresponding thereto in accordance with the Master Financing Contract, and to pay any Additional Costs in connection therewith.

The Agency shall provide the State Treasurer with not less than sixty (60) days' prior written notice of its intention to prepay any of its Agency Installment Payments, which notice shall specify the date of the date of such prepayment, and the amount and the Agency Installment Payment Dates of the Agency Installment Payments to be prepaid. The State Treasurer shall notify the Agency within fifteen (15) Business Days after receipt of such notice from the Agency as to the amount required to be paid in connection with such prepayment or defeasance of the corresponding Installment Payments, including any Additional Costs in connection therewith. The determination by the State Treasurer of the amount to be paid by the Agency shall be binding and conclusive against such Agency, absent manifest error.

Revision of Agency Installment Payments upon Optional Prepayment

The Principal Components and Interest Components of the Agency Installment Payments due on each Agency Installment Payment Date on and after the date of any prepayment pursuant to the Agency Financing Contract, as set forth in Exhibit D to the Agency Financing Contract, shall be reduced by the State Treasurer to reflect such prepayment, in such amounts and on such Agency Installment Payment Dates as the Agency shall elect in its written notice to the State Treasurer, pursuant to the Agency Financing Contract.

Discharge of Agency Financing Contract

All right, title and interest of the State in the Agency Financing Contract and all obligations of the Agency under the Agency Financing Contract shall cease, terminate, become void and be completely discharged and satisfied (except for the right of the State Treasurer and the Fiscal Agent, as assignee of the Corporation, and the obligation of the Agency to have the moneys and Government Obligations so set aside applied to make the remaining Agency Installment Payments) when either:

(i) all Agency Installment Payments and all Additional Costs and other amounts due under the Agency Financing Contract have been paid in accordance therewith; or

(ii) (a) the Agency shall have delivered a written notice to the State Treasurer of its intention to prepay all of the Agency Installment Payments remaining unpaid;

(b) the Agency shall have caused to be deposited with the State Treasurer (1) moneys and/or Government Obligations in accordance with the Agency Financing Contract; and (2) an Opinion of Counsel to the effect that such actions are permitted under the Agency Financing Contract, under the Master Financing Contract and under the Trust Agreement and will not cause interest evidenced and represented by the Certificates to be includable in gross income for federal income tax purposes under the Code; and

(c) for so long as any Agency Installment Payments remain unpaid, provision shall have been made satisfactory to the Corporation and the Fiscal Agent for payment of all Additional Costs.

Covenants and Agreements of the Agency

The Agency covenants and agrees as follows:

Budget. The Local Agency shall take such action as may be necessary to include all the Agency Installment Payments and Additional Costs due under the Local Agency Financing Contract in its annual budget and to make the necessary annual appropriations for all such Agency Installment Payments and Additional Costs.

The State Agency shall (i) include in its biennial budget all payments required to be made by the State Agency under the State Agency Financing Addendum; (ii) submit such budget to OFM at such times and in such manner as required by law; (iii) use its best efforts to obtain appropriations by the State Legislature in amounts sufficient to make any such payments; (iv) include all such payments in its statements of proposed expenditures for each fiscal period required by law to be submitted to OFM; and (v) use its best efforts to obtain allotments by OFM of appropriated funds sufficient to make all such payments.

Tax-Exemption. The Agency shall not make any use of the proceeds of the Agency Financing Contract or the Certificates or of any other amounts, regardless of the source, or of any property, and shall not take or refrain from taking any action, that would cause the Master Financing Contract or the Certificates to be "arbitrage bonds" within the meaning of Section 148 of the Code. The Agency shall not use or permit the use of the Property or any part thereof by any Person other than a "governmental unit" as that term is defined in Section 141 of the Code, in such manner or to such extent as would result in the loss of the exclusion from gross income for federal income tax purposes of the Interest Component of the Installment Payments under Section 103 of the Code. The Agency shall not make any use of the proceeds of the Agency Financing Contract or the Certificates or of any other amounts, and shall not take or refrain from taking any action, that would cause the Master Financing Contract or the Certificates to be "federally guaranteed" within the meaning of Section 149(b) of the Code, or "private activity bonds" within the meaning of Section 141 of the Code, or "hedge bonds" within the meaning of Section 149 of the Code. To that end, for so long as any Agency Installment Payments remain unpaid, the Agency, with respect to such proceeds and other amounts, will comply with all requirements under such Sections and all applicable regulations of the United States Department of the Treasury promulgated under the Agency Financing Contract. The Agency will at all times do and perform all acts and things permitted by law which are necessary or desirable in order to assure that the Interest Components of the Installment Payments will not be included in gross income of the Owners of the Certificates for federal income tax purposes under the Code, and will take no action that would result in such interest being so included. The Agency shall comply with the applicable provisions of the Tax Certificate and Agreement.

Liens; Sale or Disposal. The Agency shall not create, incur, assume or suffer to exist any mortgage, pledge, lien, charge, encumbrance or claim on or with respect to the Property, except the rights of the Corporation as provided in the Agency Financing Contract and in the Master Financing Contract. The Agency shall promptly, at its own expense, take such action as may be necessary to duly discharge any such mortgage, pledge, lien, charge, encumbrance or claim if the same shall arise at any time. The Agency shall not grant, sell, transfer, assign, pledge, convey or otherwise dispose of any of the Property or any interest tin the Agency Financing Contract during the term of the Agency Financing Contract, and any such attempted grant, sale, transfer, assignment, pledge, conveyance or disposal shall be void.

Pledge of Funds and Credit of Local Agency. The obligations of the Local Agency under the Local Agency Financing Contract constitute a debt and a general obligation of the Local Agency, and a contracting of an indebtedness by the Local Agency, to which the full faith and credit of the Local Agency are pledged. If and to the extent authorized by law, the Local Agency covenants and agrees that it will levy taxes in such amounts and at such times as shall be necessary, within and as a part of the tax levy, if any, permitted to the Local Agency without a vote of its electors, to provide funds, together with other legally available moneys, sufficient to make the Agency Installment Payments and the other payments required under the Local Agency Financing Contract.

Use of Property. During the term of the Agency Financing Contract, the Agency will use the Property for the purposes of performing one or more of its essential governmental functions or responsibilities. The Agency will not permit the Property to be used or operated other than by authorized employees, agents and contractors of the Agency.

Use; Repairs. For so long as the Agency is in possession of the Property, the Agency shall be solely responsible for the maintenance and repair, both ordinary and extraordinary, thereof. The Agency will:

(i) keep and maintain the Property in good repair, working order and condition, and protect the same from deterioration other than normal wear and tear;

(ii) cause the Property to be used within its normal capacity, in the manner contemplated by the manufacturer's specification, and in compliance with the requirements of applicable laws, ordinances and regulations, the requirements of any warranties applicable thereto, and the requirements of any insurance or self-insurance program required under the Agency Financing Contract;

(iii) cause the Property to be used and operated by or under the direction of competent persons only, and obtain all registrations, permits and licenses, if any, required by law for the operation of the Property; and

(iv) will pay all costs, claims, damages, fees and charges arising out of its possession, use or maintenance of the Property. The Agency, at its expense, will furnish all parts, mechanisms and devices required to operate and maintain the Property.

Insurance. The Agency shall maintain, or cause to be maintained, in full force and effect, comprehensive general liability insurance with respect to the Property in such amounts as may be reasonably determined by the Agency from time to time but in any event not less than $1,000,000 per occurrence, or such greater amount as the State Treasurer may reasonably require from time to time. Such insurance may be carried under a blanket policy with umbrella coverage. Such insurance shall cover any and all liability of the Agency and its officials, officers, employees and volunteers. Such insurance shall include (i) coverage for any accident resulting in personal injury to or death of any person and consequential damages arising therefrom; and (ii) comprehensive property damage insurance.

The Agency shall maintain or cause to be maintained in full force and effect fire and extended coverage insurance covering the Property in such amounts and covering such risks as the Agency may reasonably determine from time to time but in any event not less than the aggregate amount of Agency Installment Payments due under the Agency Financing Contract which remain unpaid. Such insurance may be carried under a policy or policies covering other property of the Agency. In the alternative, the Agency may assume financial responsibility for any physical damage to and/or loss of the Property; *provided, however,* that if the Agency elects this option, the Agency covenants and agrees that it will promptly repair or replace the Property promptly upon any loss or damage thereto.

The insurance required under the above paragraphs in this subheading:

(i) shall be provided by a financially responsible insurance company authorized to do business in the State;

(ii) shall name the State, the Corporation and the Fiscal Agent, as assignee of the Corporation, as additional insureds under the Agency Financing Contract;

(iii) shall provide that the same may not be canceled or given notice of non-renewal, nor shall the terms of conditions thereof be altered, amended or modified, without at least 45 days' prior written notice being given by the insurer to the State Treasurer, the Corporation and the Fiscal Agent as assignee of the Corporation; and

(iv) may be provided in whole or in part through a funded program of self-insurance reviewed at least annually by an insurance actuary.

A certificate of insurance with respect to the required coverages shall be provided by the Agency to the State Treasurer on or prior to the date of delivery of the Personal Property Certificate to the State Treasurer.

The Agency will pay or cause to be paid when due the premiums for all insurance policies required by the Agency Financing Contract.

Agency Event of Default

Each of the following shall constitute an "Agency Event of Default" under the Agency Financing Contract:

(i) Failure by the Agency to pay or cause to be paid any Agency Installment Payment required to be paid under the Agency Financing Contract within ten (10) Business Days of the respective Agency Installment Payment Date, other than (in the case of a State Agency) as a result of a Permitted Termination Event;

(ii) Failure by the Agency to observe or perform any covenant, agreement, term or condition on its part to be observed or performed under the Agency Financing Contract, other than as set forth in paragraph (i) above, for a period of thirty (30) days after written notice from the State Treasurer or the Fiscal Agent to the Agency specifying such failure and requesting that it be remedied, other than (in the case of a State Agency) as a result of a Permitted Termination Event; *provided, however,* that such period shall be extended for not more than sixty (60) days if such failure cannot be corrected within such period, and the corrective action is commenced by the Agency within such period and diligently pursued until the failure is corrected;

(iii) If any statement, representation, or warranty made by the Agency in the Agency Financing Contract or in any writing delivered by the Agency pursuant hereto or in connection therewith is false, misleading, or erroneous in any material respect; and

(iv) Inability of the Agency to generally pay its debts as such debts become due, or admission by the Agency in writing of its inability to pay its debts generally or the making by the Agency of a general assignment for the benefit of creditors, or the institution of any proceeding by or against the Agency seeking to adjudicate it as bankrupt or insolvent, or seeking liquidation, winding-up, reorganization, reimbursement, adjustment, protection, relief or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or for appointment of a receiver, trustee, or other similar officer of it or any substantial part of its property, or the taking of any action by the Agency to authorize any of the actions set forth above in the Agency Financing Contract.

Notwithstanding the foregoing provisions, if by reason of *force majeure* the Agency is unable in whole or in part to carry out the covenants, agreements, terms and conditions on its part contained in the Agency Financing Contract, the Agency shall not be deemed in default during the continuance of such inability. The term "*force majeure*" means the following: acts of God; strikes; lockouts or other industrial disturbances or disputes; acts of public enemies; orders or restraints of any kind of the government of the United States of America or any of its departments, agencies or officials, or of its civil or military authorities; orders or restraints of the State or of any of its departments, agencies or officials or civil or military authorities of the State; wars, rebellions, insurrections; riots; civil disorders; blockade or embargo; landslides; earthquakes; fires; storms; droughts; floods; explosions; or any other cause or event not within the control of the Agency.

The State Treasurer, with the prior written consent of the Fiscal Agent, may, at its election, waive any default or Agency Event of Default and its consequences under the Agency Financing Contract and annul any notice thereof by written notice to the Agency to such effect, and thereupon the respective rights of the Parties under the Agency Financing Contract shall be as they would have been if such default or Agency Event of Default had not occurred.

Rights of State Treasurer Following Agency Default Event

Whenever an Agency Event of Default shall have occurred and be continuing, the State Treasurer shall have the following rights and remedies:

(i) By written notice to the Agency, require that the Agency promptly return possession and use of the Property to the State Treasurer at any location specified in the United States (at the cost and expense of the Agency) in good repair, working order and condition, ordinary wear and tear excepted;

(ii) By written notice to the Agency and the Fiscal Agent, declare an amount equal to all Agency Installment Payments to become due and payable under the Agency Financing Contract, including but not limited to the Agency Interest Components thereof accrued and unpaid, to be immediately due and payable, without further demand;

(iii) Take whatever action at law or in equity may appear necessary or desirable to collect the Agency Installment Payments then due and thereafter becoming due, or to enforce the observance or performance of any covenant, agreement or obligation of the Agency under the Agency Financing Contract; and

(iv) Exercise any other rights or remedies it may have under the Agency Financing Contract or under applicable law.

No Remedy Exclusive; Non-Waiver

No remedy conferred upon or reserved to the State Treasurer under the Agency Financing Contract or under applicable law is intended to or shall be exclusive, and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Agency Financing Contract or now or existing at law or in equity. No delay or omission to exercise any right or remedy accruing upon a default or an Agency Event of Default under the Agency Financing Contract shall impair any such right or remedy or shall be construed to be a waiver of such default or Agency Event of Default, but any such right or remedy may be exercised from time to time and as often as may be deemed necessary or expedient. In order to exercise any remedy reserved to the State Treasurer under the Agency Financing Contract, it shall not be necessary to give any notice, other than such notice as may be required under the Agency Financing Contract. A waiver by the State Treasurer of any default or Agency Event of Default under the Agency Financing Contract shall not constitute a waiver of any subsequent default or Agency Event of Default under the Agency Financing Contract, and shall not affect or impair the rights or remedies of the State Treasurer in connection with any such subsequent default or Agency Event of Default.

APPENDIX C

PROPOSED FORM OF CERTIFICATE COUNSEL OPINION

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[FORM OF APPROVING LEGAL OPINION]

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

Re: State of Washington Certificates of Participation, Series 2008C (Quarterly)

We have acted as special counsel to the state of Washington (the "State") in connection with the execution and delivery by The Bank of New York in the capacity of fiscal agent of the State (the "Fiscal Agent") of Certificates of Participation, Series 2008C (Quarterly), in the Initial Principal Amount of $17,310,000 (the "Certificates") pursuant to a Trust Agreement, Series 2008C (the "Trust Agreement"), dated as of June 13, 2008 (the "Dated Date"), by and among the State, acting by and through the State Treasurer of the State (the "State Treasurer"), the Fiscal Agent and the Washington Finance Officers Association (the "Corporation"), a Washington nonprofit corporation. Capitalized terms used in this opinion that are not otherwise defined have the meanings given such terms in Appendix I to the Trust Agreement.

The Certificates evidence and represent undivided proportionate ownership interests in the Principal Components and Interest Components of Installment Payments to be made by the State ("State Payments") pursuant to a Master Financing Contract, Series 2008C (the "Master Financing Contract"), dated as of the Dated Date, entered into by and between the Corporation and the State, acting by and through the State Treasurer, to finance or refinance the acquisition of certain personal property (the "Property") for State Agencies and Local Agencies (the "Agencies").

The Master Financing Contract constitutes a special, limited obligation of the State payable solely from the sources set forth therein, including Agency Installment Payments required to be paid by the State Agencies pursuant to State Agency Financing Addenda, Series 2008C (the "State Agency Financing Addenda"), to the Master Financing Contract, and by Local Agencies pursuant to Local Agency Financing Contracts, Series 2008C (the "Local Agency Financing Contracts," and, together with the State Agency Financing Addenda, the "Agency Financing Contracts"). Pursuant to the Master Financing Contract, the State Treasurer is conditionally obligated, to the extent of legally available appropriated funds, to pay Agency Installment Payments when due under Local Agency Financing Contracts upon the default of any Local Agency.

Pursuant to a Master Assignment, Series 2008C (Equipment), dated as of the Dated Date, the Corporation has unconditionally granted, sold, assigned, transferred and conveyed to the Fiscal Agent without recourse (i) all of its rights to receive the State Payments under and pursuant to the Master Financing Contract, and (ii) all of its remaining right, title and interest in, to and under the Master Financing Contract and the Agency Financing Contracts, and in and to the Property (including any security interest therein), including but not limited to its right to take all actions and exercise all remedies under and pursuant to the Master Financing Contract.

We have not been engaged nor have we undertaken to review the accuracy, completeness or sufficiency of the official statement or other offering material relating to the Certificates nor with respect to the validity or sufficiency of any undertaking for continuing disclosure. As to matters of fact material to this opinion, we have relied upon representations contained in the certified proceedings and other certifications of public officials 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 and the Agencies are required to comply with certain requirements after the date of execution and delivery of the Certificates in order to maintain the exclusion of the interest evidenced and represented by the Certificates from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Certificate proceeds and the Property financed or refinanced with Certificate proceeds, limitations on investing gross proceeds of the Certificates in higher yielding investments in certain circumstances, and the arbitrage rebate requirement to the extent applicable to gross proceeds of the Certificates. The State and the Agencies have covenanted to comply with those requirements, but if the State or the Agencies fail to comply with those requirements, interest evidenced and represented by the Certificates could become taxable retroactive to the date of execution and delivery of the Certificates. We have not undertaken and do not undertake to monitor compliance with such requirements.

Under the statutes, regulations, published rulings and court decisions existing on the date of this opinion and based on our review of such other documents, proceedings and certifications as we have deemed necessary, it is our opinion that:

1. The Master Financing Contract has been duly authorized, executed and delivered by the State, acting by and through the State Treasurer and the respective State Agencies, and, assuming the due authorization, execution and delivery thereof by the Corporation, constitutes a valid, binding and enforceable obligation of the State payable solely from the sources set forth therein. The Master Financing Contract does not constitute a general obligation of the State, and neither the full faith and credit nor the taxing power of the State is pledged to the payment thereof.

2. The obligation of each State Agency to pay Agency Installment Payments during the term of its State Agency Financing Addendum constitutes a valid and binding obligation of such State Agency, subject to appropriation by the State Legislature and to Executive Order reduction by the Governor of the State. Such obligation does not constitute a general obligation of the State, and neither the full faith and credit nor taxing power of the State is pledged to the payment thereof.

3. The conditional obligation of the State Treasurer pursuant to the Master Financing Contract to pay Agency Installment Payments under each Local Agency Financing Contract upon the default of any Local Agency is subject to appropriation by the State Legislature and to Executive Order reduction by the Governor of the State. Such conditional obligation does not constitute a general obligation of the State, and neither the full faith and credit nor taxing power of the State is pledged to the payment thereof.

4. Assuming (a) the due authorization, execution and delivery of the Master Assignment by the Corporation and the Fiscal Agent, (b) the due authorization, execution and delivery of the Trust Agreement by the Corporation and the Fiscal Agent, and (c) the due authorization, execution and delivery of the Certificates by the Fiscal Agency, the Certificates are entitled to the benefits of the Master Assignment and the Trust Agreement.

5. Assuming compliance by the State and the Agencies after the date of execution and delivery of the Certificates with applicable requirements of the Code, the Interest Component of each State Payment ("Interest") under the Master Financing Contract and received by the Owners of Certificates is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals; however, while Interest also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, Interest 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 received by certain S corporations may be subject to tax, and Interest 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 tax consequences arising with respect to the ownership of the Certificates. Owners of the Certificates should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences.

Our opinions with respect to the enforceability of various documents are subject to limitations imposed by bankruptcy, insolvency or other laws affecting creditors' rights and by the application of equitable principles and the exercise of judicial discretion in appropriate cases.

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

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

Respectfully submitted,

APPENDIX D

EXCERPTS FROM THE STATE'S 2007 FINANCIAL STATEMENTS

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Washington State Auditor
Brian Sonntag

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

December 14, 2007

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, 2007, 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	13.4%	18.1%	8.6%
Business-Type Activities	74.6%	100%	62.0%
Higher Education Special Revenue Fund	50.6%	44.3%	48.1%
Higher Education Endowment Fund	96.8%	97.0%	95.0%
Higher Education Student Services Fund	69.4%	74.4%	82.1%
Workers' Compensation Fund	100%	100%	100%
Aggregate Discretely Presented Component Units and Remaining Fund Information	90.0%	92.9%	75.3%

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 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, 2007, 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 14, 2007, 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 listed in the table of contents are for purposes of additional analysis, and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements by us and the other auditors 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

Management's Discussion and 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, 2007. 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 $22.8 billion (reported as *net assets*). Of this amount, $(3.0) 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 combined ending fund balance of $12.2 billion, an increase of 16.7 percent compared with the prior year.

- Unreserved fund balance for the General Fund was $781 million, or 4.1 percent of total General Fund expenditures.

- The state's capital assets increased by $1.9 billion while total bond debt increased by $1.2 billion during the current fiscal year.

Overview of the Financial Statements

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

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

The S*tatement 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.

The S*tatement 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 39-41 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 non-major 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 non-major governmental funds are provided in the form of *combining statements* elsewhere in this report.

The governmental fund financial statements can be found on pages 44-47 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, 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 non-major enterprise funds. The internal service funds are combined for presentation purposes. Individual fund data for the state's non-major proprietary funds are provided in the form of *combining statements* elsewhere in this report.

The proprietary fund financial statements can be found on pages 48-51 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 statement 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 non-major component units. Refer to Note 1 on page 58 for more detailed information. Individual fund data for the state's non-major component units are provided in the form of *combining statements* elsewhere in this report.

The financial statements for the state's component units 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 56-137 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 funding, and infrastructure assets reported using the modified approach. Required supplementary information can be found on pages 140-161 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 165-215 of this report.

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 $22.8 billion at June 30, 2007 as compared to $20.8 billion as reported at June 30, 2006.

The largest portion of the state's net assets (73.7 percent for Fiscal Year 2007 as compared to 77.1 percent for Fiscal Year 2006) 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.

State of Washington's Net Assets

(in millions of dollars)

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current and other assets	$ 17,995	$ 15,537	$ 20,395	$ 18,297	$ 38,390	$ 33,834
Capital assets	25,834	24,174	1,846	1,587	27,680	25,761
Total assets	43,829	39,711	22,241	19,884	66,070	59,595
Current and other liabilities	3,920	3,510	2,441	1,962	6,361	5,472
Long-term liabilities outstanding	14,379	13,040	22,566	20,285	36,945	33,325
Total liabilities	18,299	16,550	25,007	22,247	43,306	38,797
Net assets:						
Invested in capital assets, net of related debt	16,189	15,434	598	605	16,787	16,039
Restricted	5,072	4,343	3,892	3,164	8,964	7,507
Unrestricted (deficit)	4,269	3,384	(7,256)	(6,132)	(2,987)	(2,748)
Total net assets	$ 25,530	$ 23,161	$ (2,766)	$ (2,363)	$ 22,764	$ 20,798

A portion of the state of Washington's net assets (39.4 percent for Fiscal Year 2007 as compared to 36.1 percent for Fiscal Year 2006) represents resources that are subject to external restrictions on how they may be used. The remaining balance represents *unrestricted (deficit) net assets.* A positive balance indicates that excess assets are available to meet the state's ongoing obligations to citizens and creditors. The state's overall negative balance is caused by the workers' compensation program that provides time-loss, medical, disability and payments to qualifying individuals sustaining work-related injuries. For reporting purposes an actuarially determined liability has been recorded to comply with applicable accounting standards. However, by statute, the supplemental pension cost-of-living adjustments granted for time-loss and disability payments are funded on a pay-as-you-go basis.

State of Washington's Changes in Net Assets

(in millions of dollars)

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program revenues:						
Charges for services	$ 3,618	$ 3,225	$ 5,472	$ 6,911	$ 9,090	$ 10,136
Operating grants and contributions	8,286	8,260	46	55	8,332	8,315
Capital grants and contributions	745	610	-	-	745	610
General revenues:						
Taxes	16,704	15,499	108	100	16,812	15,599
Interest and investment earnings	818	475	1,316	147	2,134	622
Total revenues	30,171	28,069	6,942	7,213	37,113	35,282
Expenses:						
General government	(1,525)	(1,320)	-	-	(1,525)	(1,320)
Education - K-12	(6,871)	(6,642)	-	-	(6,871)	(6,642)
Education - higher education	(5,244)	(4,804)	-	-	(5,244)	(4,804)
Human services	(10,473)	(10,082)	-	-	(10,473)	(10,082)
Adult corrections	(811)	(749)	-	-	(811)	(749)
Natural resources and recreation	(983)	(777)	-	-	(983)	(777)
Transportation	(1,588)	(1,526)	-	-	(1,588)	(1,526)
Interest on long-term debt	(553)	(533)	-	-	(553)	(533)
Workers' compensation	-	-	(3,841)	(2,267)	(3,841)	(2,267)
Unemployment compensation	-	-	(697)	(736)	(697)	(736)
Higher education student services	-	-	(1,305)	(1,254)	(1,305)	(1,254)
Health insurance programs*	-	-	-	(1,244)	-	(1,244)
Other business-type activities	-	-	(1,102)	(1,042)	(1,102)	(1,042)
Total expenses	(28,048)	(26,433)	(6,945)	(6,543)	(34,993)	(32,976)
Excess (deficiency) of revenues over expenses before contributions to endowments, extraordinary loss, and transfers	2,123	1,636	(3)	670	2,120	2,306
Contributions to endowments	97	131	-	-	97	131
Extraordinary loss (asset impairment)	-	(84)	-	-	-	(84)
Transfers	204	252	(204)	(252)	-	-
Increase (decrease) in net assets	2,424	1,935	(207)	418	2,217	2,353
Net assets - July 1, as restated*	23,106	21,226	(2,559)	(2,781)	20,547	18,445
Net assets - June 30	$ 25,530	$ 23,161	$ (2,766)	$ (2,363)	$ 22,764	$ 20,798

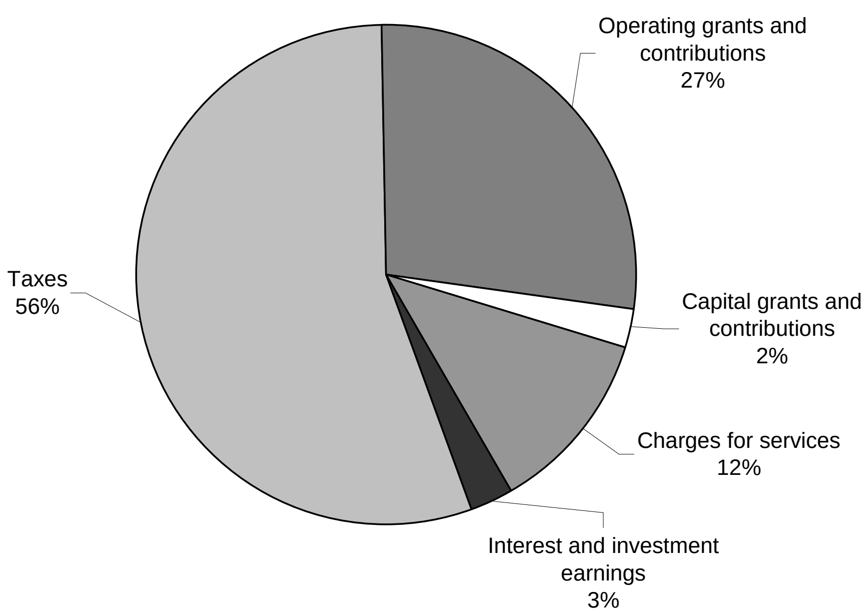
* Fiscal Year 2007 beginning Net Assets balances were restated to reflect fund type reclassifications and prior period error corrections.

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.

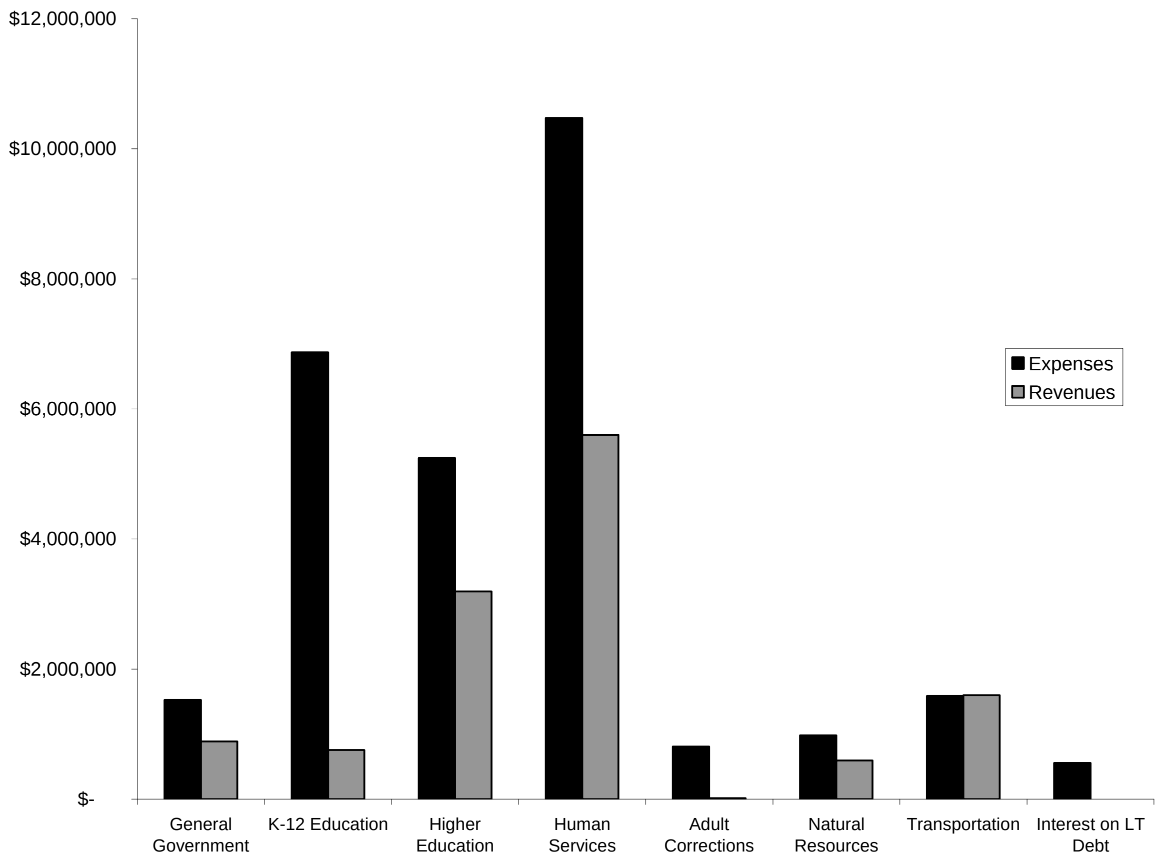
Governmental activities. Governmental activities resulted in an increase in the state of Washington's net assets of $2.4 billion. Key elements of this increase are as follows*:*

- Increases in tax revenues reflect strong economic and personal income growth during Fiscal Year 2007 as well as gains in employment.
- Persistent growth in the housing sector due to continued in-migration and an increase in disposable household income from home mortgage refinancing also resulted in increases in tax revenues.
- Interest and investment earnings increased due to both an increase in the average invested balance and higher interest rates and improvement in the performance of the state's investment portfolio.

Revenues by Source – Governmental Activities



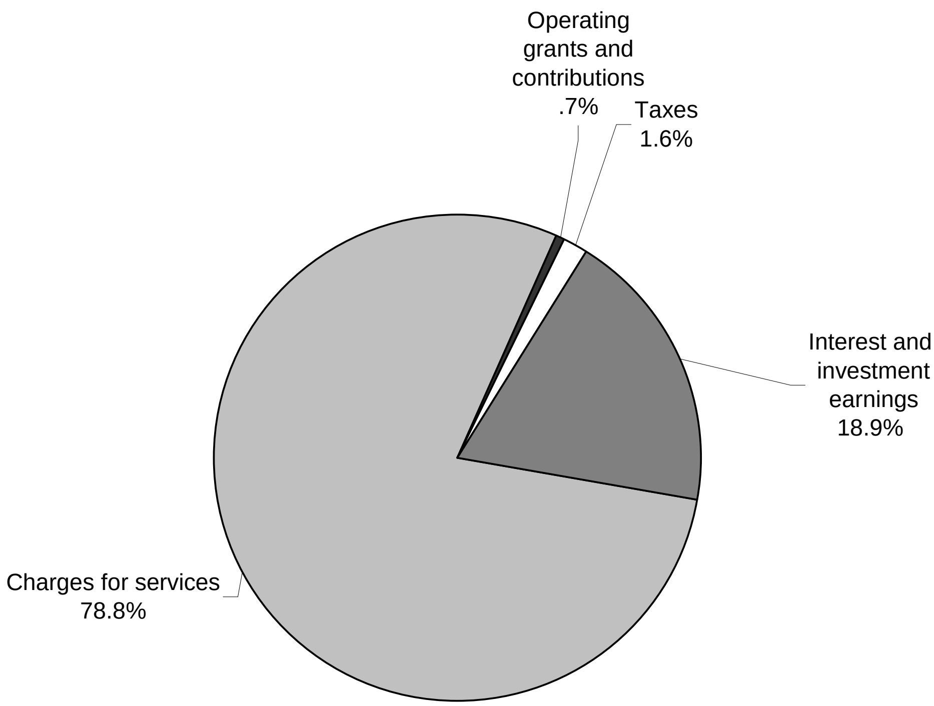
Program Revenues and Expenses - Governmental Activities



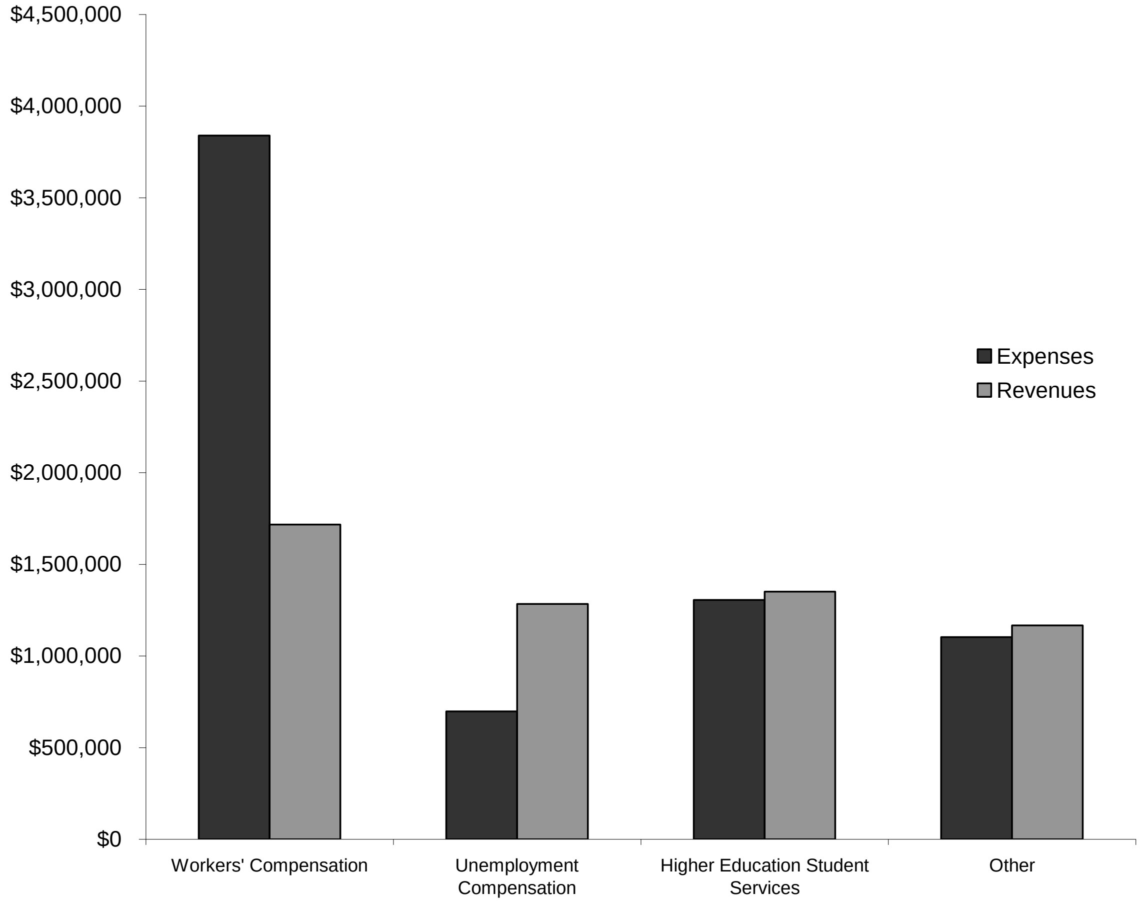
Business-type activities. Business-type activities decreased the state of Washington's net assets by $207 million which included a $1.1 billion loss in the Workers' Compensation Fund. Key factors contributing to the operating results of business-type activities are:

- Workers' compensation claims expense increased from $2.0 billion in Fiscal Year 2006 to $3.6 billion in Fiscal Year 2007. This increase is primarily related to recent growth in the state's average annual wage which is a factor in the calculation of the supplemental pension cost-of-living adjustments for time loss and disability benefits for injured workers. For Calendar Year 2007 and beyond, the workers' compensation program actuaries are estimating that the state's average annual wage will increase higher than estimates prepared in prior years. On a more positive note, earnings on investments in the Workers' Compensation Fund increased in Fiscal Year 2007 over 2006 by $1.0 billion, of which a significant portion relates to unrealized investment gains.
- Though moderating somewhat from the prior year, the state's strong economic performance was reflected in a reduction in unemployment costs. Unemployment compensation benefit expenses decreased by 5 percent in Fiscal Year 2007 compared to 2006.

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 $781 million is undesignated and is considered available to spend.

The fund balance of the state of Washington's General Fund increased by $26 million during the current fiscal year.

State of Washington's General Fund

(in millions of dollars)

	Fiscal Year		Difference Increase
	2007	2006	(Decrease)
Revenues			
Taxes	$ 14,097	$ 13,165	$ 932
Federal grants	6,205	6,113	92
Investment revenue	106	73	33
Other	418	369	49
Total	20,826	19,720	1,106
Expenditures			
Human services	10,191	9,809	382
Education	7,765	7,407	358
Other	1,134	1,036	98
Total	19,090	18,252	838
Net transfers in (out)	(1,715)	(1,577)	(138)
Other financing sources	5	17	(12)
Net increase (decrease) in fund balance	$ 26	$ (92)	$ 118

The state's improving economy is reflected in increased tax revenue collection. Expenditure growth continues to be limited to services and programs most vital to citizens – primarily health care, public education, and economic development. Overall revenues were up 5.6 percent while expenditures increased at a slower pace of 4.6 percent when compared to the prior year. In Fiscal Year 2007, the state transferred $608 million to nonmajor governmental funds for education, pension stabilization, and health services. The state also transferred $289 million from the General Fund to the Emergency Reserve Fund.

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 $448 million in Fiscal Year 2007 as compared to $70 million in Fiscal Year 2006. The increase was predominantly due to a transfer from the General Fund of $215 million and increased revenues from a stand alone estate tax of $160 million. The fund balance for the Higher Education Endowment Fund increased by $447 million which is fairly consistent with the prior year's growth.

The fund balance for non-major governmental funds increased by $822 million. Increases by individual revenue sources and function of expenditures were fairly consistent with one exception. In Fiscal Year 2007 capital outlays increased by $556 million over Fiscal Year 2006 and bonds issued reported a corresponding increase of $520 million over the same period.

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 $1.1 billion in Fiscal Year 2007. As noted previously, this amount is the result of a significant increase in claims expenses related to the actuarial valuation of the supplemental pension cost-of-living adjustments for time loss and disability benefits offset in part by gains in investment earnings. The Unemployment Compensation Fund reported a 5 percent decrease in unemployment compensation claims as compared to Fiscal Year 2006. This reflects the continuing reduction in the state's unemployment rate. Activity for the various non-major proprietary funds resulted in an increase to net assets of $106 million.

General Fund Budgetary Highlights

Differences between the original budget of the General Fund and the final amended budget reflect adjustments related to changes in the state's economy during the two fiscal years ended June 30, 2007. During that period, significant changes to estimates are summarized as follows:

- Estimated resources increased by $2.8 billion over the course of the biennium. The major component was an increase in estimated tax revenues of $2.4 billion largely due to the state's strong economy. Additionally, federal grants-in-aid increased by $266 million.
- Appropriated expenditure authority increased by $2.0 billion over the course of the biennium. The largest component of this increase is reflected in the General Government functional area and is comprised of $1.2 billion in transfers to nonmajor governmental funds for education, pension stabilization, and health services. Other increases included $285 million in Education and $182 in Human Services.

The state did not overspend its legal spending authority for Fiscal Year 2007, the second year of the 2005-07 Biennium. Actual General Fund revenues and expenditures for the 2005-07 Biennium were approximately 99 percent of final budgeted revenues and appropriations for the 2005-07 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, 2007 amounted to $27.7 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 2007 investment in capital assets, net of current year depreciation, was $1.9 billion, including increases to the state's transportation infrastructure of $1.3 billion and buildings of $452 million. The state's construction in progress includes both new construction and major improvements to state infrastructure and facilities including 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 $4.3 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's Capital Assets
(net of depreciation)
(in millions of dollars)

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Land	$ 1,012	$ 1,238	$ 135	$ 92	$ 1,147	$ 1,330
Transportation infrastructure and other assets not depreciated	15,657	14,321	-	-	15,657	14,321
Buildings	5,545	5,247	1,337	1,183	6,882	6,430
Furnishings, equipment, and collections	1,399	1,362	138	115	1,537	1,477
Other improvements and infrastructure	985	942	58	59	1,043	1,001
Construction in progress	1,236	1,064	178	138	1,414	1,202
Total	$ 25,834	$ 24,174	$ 1,846	$ 1,587	$ 27,680	$ 25,761

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 a short rail line. While the rail line is 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 state highway system and emergency airfields continue to meet or exceed targeted condition levels and no significant changes in condition levels were noted. Amounts spent during Fiscal Year 2007 to maintain/preserve these infrastructure assets were not significantly different from estimated spending plans according to the biennial budget. 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 152.

The Washington State Department of Transportation (WSDOT) accomplished a net addition of 74 lane miles and 22 bridges in Fiscal Year 2007. The state transportation system asset value increased by $1.335 million during the fiscal year. Amounts spent during Fiscal Year 2007 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 2008 commitments made for ongoing infrastructure projects that extend beyond Fiscal Year 2007 amount to $2.9 million representing, 758 projects.

Bond debt. At the end of Fiscal Year 2007, the state of Washington had general obligation bond debt outstanding of $11.7 billion, an increase of 10.3 percent over Fiscal Year 2006. This debt is secured by a pledge of the full faith and credit of the state. Additionally, the state had authorized $10.8 billion general obligation debt that remains unissued.

The state had revenue debt outstanding at June 30, 2007, of $1.5 billion, an increase of $88 million over Fiscal Year 2006. This increase is related to revenue bonds issued by state colleges and universities. Revenue bond debt is secured by specific sources of revenue.

Four times during the year, the state issued general obligation debt, totaling $2.45 billion, for various capital and transportation projects as well as for refunding purposes. The state took advantage of the historically low interest rates that prevailed through Fiscal Year 2007 to refund outstanding bonds. These refundings will save taxpayers over $55.57 million (net present value) in future interest payments. The state ranked 30th in a list of the top 100 issuers ranked by amount financed by municipal issuers in calendar year 2006, according to The Bond Buyer's 2007 Yearbook.

State of Washington's Bond Debt

(in millions of dollars)

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
General obligation (GO) bonds	$ 11,573	$ 10,464	$ 101	$ 120	$ 11,674	$ 10,584
Accreted interest on zero interest rate GO bonds	264	234	31	27	295	261
Revenue bonds	608	615	889	794	1,497	1,409
Total	$ 12,445	$ 11,313	$ 1,021	$ 941	$ 13,466	$ 12,254

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 2007 is the Constitutional limit. For the fiscal year ended June 30, 2007, the maximum GO debt authorized was $9.83 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 $11.7 billion general obligation bond debt outstanding at June 30, 2007, $7.4 billion is subject to the limitation. Based on the debt limitation calculation, the debt service requirements as of June 30, 2007 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_FY2007.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, 2007, 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 236 of this report.

Conditions with Expected Future Impact

Economic Factors. Legislative leaders and management will consider the following economic factors in preparing the state's budget for future years.

- The economic forecast for Washington reflects a maturing of the recovery at the state and national levels.
- Revenue growth is expected to be slow in the 2007-09 Biennium, due in part to legislative changes in the tax system.
- Washington's personal income is expected to grow at a moderate rate in Fiscal Year 2008.

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Initiative 960. In November 2007, the voters of Washington passed Initiative 960 which changes the way that state agencies and the Legislature are required to address tax and fee increases. All tax and fee increases must now receive prior legislative approval. Any legislative action that raises taxes (i.e. increases state tax revenue for any fund) requires a two-thirds vote of the Legislature, unless it is referred to the voters as a referendum. These actions may also be referred to an advisory vote of the people.

New Financial Reporting Requirement. The provisions of the Governmental Accounting Standards Board's (GASB) Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* will be implemented by the state for Fiscal Year 2008 reporting. The other post employment 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. An initial actuarial valuation was made by the Office of the State Actuary and is available at http://osa.leg.wa.gov/Actuarial_Services/Publications/pension_studies.htm.

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 will be 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.

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.

Basic Financial Statements

Government-wide Financial Statements

State of Washington
Statement of Net Assets
June 30, 2007
(expressed in thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
ASSETS				
Cash and pooled investments	$ 7,094,531	$ 6,320,552	$ 13,415,083	$ 54,847
Taxes receivable (net of allowance)	2,730,075	4,962	2,735,037	-
Other receivables (net of allowance)	953,543	1,290,247	2,243,790	4,381
Internal balances (net)	49,991	(49,991)	-	-
Due from other governments	3,043,290	49,545	3,092,835	-
Inventories	90,004	81,425	171,429	-
Investments, noncurrent	3,906,597	12,523,958	16,430,555	22,472
Other assets	126,681	174,706	301,387	31,814
Capital assets (Note 6):				
Non-depreciable assets	17,906,120	313,024	18,219,144	35,091
Depreciable assets, net of depreciation	7,928,173	1,532,764	9,460,937	384,729
Total capital assets, net of depreciation	25,834,293	1,845,788	27,680,081	419,820
Total Assets	$ 43,829,005	$ 22,241,192	$ 66,070,197	$ 533,334
LIABILITIES				
Accounts payable	$ 1,265,760	$ 143,506	$ 1,409,266	$ 5,551
Contracts and retainage payable	144,776	16,286	161,062	6,956
Accrued liabilities	489,979	264,339	754,318	3,848
Obligations under security lending agreements	825,150	1,953,536	2,778,686	-
Due to other governments	623,472	16,564	640,036	-
Unearned revenue	570,708	47,215	617,923	1,815
Long-term liabilities (Note 7):				
Due within one year	965,526	2,032,290	2,997,816	-
Due in more than one year	13,413,245	20,533,932	33,947,177	38,093
Total Liabilities	18,298,616	25,007,668	43,306,284	56,263
NET ASSETS				
Invested in capital assets, net of related debt	16,189,371	598,073	16,787,444	372,202
Restricted for:				
Unemployment compensation	-	3,891,025	3,891,025	-
Other purposes	1,745,444	-	1,745,444	30,610
Capital projects	270,494	-	270,494	-
Expendable permanent fund principal	1,779,181	-	1,779,181	-
Nonexpendable permanent endowments	1,276,752	-	1,276,752	-
Unrestricted (deficit)	4,269,147	(7,255,574)	(2,986,427)	74,259
Total Net Assets	$ 25,530,389	$ (2,766,476)	$ 22,763,913	$ 477,071

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

State of Washington
Statement of Activities
For the Fiscal Year Ended June 30, 2007
(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	$ 1,524,568	$ 575,908	$ 311,809	$ 1,098
Education--elementary and secondary (K-12)	6,870,782	14,287	739,990	-
Education--higher education	5,243,929	1,545,093	1,629,165	20,822
Human services	10,473,000	235,553	5,367,161	536
Adult corrections	810,730	10,023	2,643	-
Natural resources and recreation	982,956	393,507	165,060	37,108
Transportation	1,588,496	843,707	69,892	685,050
Interest on long-term debt	553,527	-	-	-
Total governmental activities	28,047,988	3,618,078	8,285,720	744,614
Business-type Activities:				
Workers' compensation	3,840,578	1,709,917	7,258	-
Unemployment compensation	697,182	1,248,273	35,276	-
Higher education student services	1,305,235	1,347,420	3,720	-
Other	1,102,814	1,166,493	5	-
Total business-type activities	6,945,809	5,472,103	46,259	-
Total Primary Government	$ 34,993,797	$ 9,090,181	$ 8,331,979	$ 744,614
Total Component Units	$ 29,730	$ 15,136	$ 159	$ 940

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 -- restated beginning

Net assets -- ending

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

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
$ (635,753)	$ -	$ (635,753)	
(6,116,505)	-	(6,116,505)	
(2,048,849)	-	(2,048,849)	
(4,869,750)	-	(4,869,750)	
(798,064)	-	(798,064)	
(387,281)	-	(387,281)	
10,153	-	10,153	
(553,527)	-	(553,527)	
(15,399,576)	-	(15,399,576)	
-	(2,123,403)	(2,123,403)	
-	586,367	586,367	
-	45,905	45,905	
-	63,684	63,684	
-	(1,427,447)	(1,427,447)	
(15,399,576)	(1,427,447)	(16,827,023)	
			$ (13,495)
7,951,469	-	7,951,469	-
2,756,374	-	2,756,374	-
1,688,531	-	1,688,531	-
1,134,622	-	1,134,622	-
1,106,729	56,111	1,162,840	-
2,066,491	52,362	2,118,853	-
817,905	1,315,639	2,133,544	4,832
17,522,121	1,424,112	18,946,233	4,832
2,122,545	(3,335)	2,119,210	(8,663)
97,346	-	97,346	-
204,099	(204,099)	-	-
2,423,990	(207,434)	2,216,556	(8,663)
23,106,399	(2,559,042)	20,547,357	485,734
$ 25,530,389	$ (2,766,476)	$ 22,763,913	$ 477,071

Fund Financial Statements

GOVERNMENTAL FUNDS
Balance Sheet

June 30, 2007
(expressed in thousands)

	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	**Total**
Assets:					
Cash and pooled investments	$ 1,071,194	$ 729,447	$ 474,866	$ 4,213,159	$ 6,488,666
Investments	-	819,867	2,803,024	225,088	3,847,979
Taxes receivable (net of allowance)	2,599,567	8,874	-	121,634	2,730,075
Other receivables (net of allowance)	241,902	245,817	43,017	539,397	1,070,133
Due from other funds	237,813	155,268	299	456,142	849,522
Due from other governments	841,258	119,299	-	1,960,631	2,921,188
Inventories	23,462	12,175	-	35,700	71,337
Total Assets	$ 5,015,196	$ 2,090,747	$ 3,321,206	$ 7,551,751	$ 17,978,900
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	$ 730,798	$ 96,697	$ 3	$ 371,937	$ 1,199,435
Contracts and retainages payable	23,758	989	3,412	100,353	128,512
Accrued liabilities	157,948	128,121	13,078	92,675	391,822
Obligations under security lending agreements	153,798	129,918	399,997	127,134	810,847
Due to other funds	387,044	58,925	2,384	300,084	748,437
Due to other governments	477,273	14,421	-	92,999	584,693
Deferred revenues	1,161,844	150,787	15,827	605,022	1,933,480
Claims and judgments payable	19,573	-	-	8,782	28,355
Total Liabilities	3,112,036	579,858	434,701	1,698,986	5,825,581
Fund Balances:					
Reserved for:					
Encumbrances	-	-	-	244,822	244,822
Inventories	17,078	12,175	-	35,700	64,953
Permanent funds	-	-	2,886,505	169,428	3,055,933
Other specific purposes	102,609	191,206	-	1,896,024	2,189,839
Unreserved, designated for, reported in:					
Working capital	1,002,963	-	-	-	1,002,963
Higher education	-	155,679	-	-	155,679
Special revenue funds	-	-	-	221	221
Debt service funds	-	-	-	220,474	220,474
Unreserved, undesignated	780,510	1,151,829	-	-	1,932,339
Unreserved, undesignated reported in:					
Special revenue funds	-	-	-	3,040,036	3,040,036
Capital project funds	-	-	-	246,060	246,060
Total Fund Balances	1,903,160	1,510,889	2,886,505	5,852,765	12,153,319
Total Liabilities and Fund Balances	$ 5,015,196	$ 2,090,747	$ 3,321,206	$ 7,551,751	$ 17,978,900

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

State of Washington
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2007
(expressed in thousands)

Total fund balances for governmental funds		$ 12,153,319
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	$ 17,884,611	
Depreciable assets, net of depreciation	7,504,284	
Total capital assets		25,388,895
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.		1,367,255
Accrued current interest on general obligation bonds		(226,241)
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.		171,961
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
Bonds and notes payable	(12,377,386)	
Accrued interest on bonds	(267,436)	
Claims and judgments	(32,242)	
Other obligations	(647,736)	
Total long-term liabilities		(13,324,800)
Net assets of governmental activities		$ 25,530,389

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

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

For the Fiscal Year Ended June 30, 2007
(expressed in thousands)

	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	**Total**
Revenues:					
Retail sales and use taxes	$ 7,870,223	$ -	$ -	$ 81,246	$ 7,951,469
Business and occupation taxes	2,684,797	-	-	71,577	2,756,374
Property taxes	1,441,949	-	-	246,582	1,688,531
Excise taxes	1,014,513	-	-	92,216	1,106,729
Motor vehicle and fuel taxes	-	-	-	1,134,622	1,134,622
Other taxes	1,085,532	267,498	-	713,312	2,066,342
Licenses, permits, and fees	91,920	563	-	770,193	862,676
Timber sales	2,747	-	14,015	152,394	169,156
Other contracts and grants	132,895	646,561	-	19,960	799,416
Federal grants-in-aid	6,204,585	1,056,354	-	1,056,343	8,317,282
Charges for services	55,702	1,279,179	9	507,637	1,842,527
Investment income (loss)	106,056	104,364	451,388	156,097	817,905
Miscellaneous revenue	71,872	118,024	1,626	395,768	587,290
Escheated property	63,691	-	-	-	63,691
Contribution and donations	-	-	97,346	-	97,346
Total Revenues	20,826,482	3,472,543	564,384	5,397,947	30,261,356
Expenditures:					
Current:					
General government	640,255	-	-	505,213	1,145,468
Human services	10,191,279	-	-	1,051,421	11,242,700
Natural resources and recreation	361,384	-	-	544,419	905,803
Transportation	39,180	1,619	-	1,606,592	1,647,391
Education	7,764,593	3,222,751	88	801,927	11,789,359
Intergovernmental	29,477	-	-	348,852	378,329
Capital outlays	49,111	143,290	4	2,102,828	2,295,233
Debt service:					
Principal	14,829	14,486	-	498,363	527,678
Interest	301	4,087	-	540,582	544,970
Total Expenditures	19,090,409	3,386,233	92	8,000,197	30,476,931
Excess of Revenues Over (Under) Expenditures	1,736,073	86,310	564,292	(2,602,250)	(215,575)
Other Financing Sources (Uses):					
Bonds issued	-	-	-	1,617,361	1,617,361
Refunding bonds issued	-	-	-	834,700	834,700
Payments to refunded bond escrow agents	-	-	-	(887,879)	(887,879)
Other debt issued	5,384	54,644	-	3,051	63,079
Bond issue premium	-	-	-	109,008	109,008
Capital lease acquisitions	65	42	-	-	107
Transfers in	128,186	687,860	5,373	2,486,970	3,308,389
Transfers (out)	(1,843,353)	(381,116)	(123,136)	(738,740)	(3,086,345)
Total Other Financing Sources (Uses)	(1,709,718)	361,430	(117,763)	3,424,471	1,958,420
Net change in fund balances	26,355	447,740	446,529	822,221	1,742,845
Fund Balances - Beginning, as restated	1,876,805	1,063,149	2,439,976	5,030,544	10,410,474
Fund Balances - Ending	$ 1,903,160	$ 1,510,889	$ 2,886,505	$ 5,852,765	$ 12,153,319

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

State of Washington

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

For the Fiscal Year Ended June 30, 2007
(expressed in thousands)

Net change in fund balances--total governmental funds	$ 1,742,845
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	1,892,142
Bond proceeds provide current financial resources to governmental funds, however, issuing debt increases long-term liabilities in the statement of net assets. Also, repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(1,251,326)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of the internal service funds is reported with governmental activities.	28,495
Because some revenues will not be collected for several months after the state's fiscal year end, they are not considered "available" revenues in the governmental funds. Deferred revenues decreased by this amount this year.	11,834
Change in net assets of governmental activities	$ 2,423,990

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

PROPRIETARY FUNDS
Statement of Fund Net Assets

June 30, 2007
(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	$ 54,868	$ 3,478,756	$ 461,136	$ 307,813	$ 4,302,573	$ 583,936
Investments	1,580,659	-	1,572	435,748	2,017,979	14,842
Taxes receivable (net of allowance)	-	-	-	4,962	4,962	-
Other receivables (net of allowance)	703,597	415,218	135,479	35,953	1,290,247	6,427
Due from other funds	59,343	2,245	60,300	18,200	140,088	124,528
Due from other governments	950	12,059	32,795	3,559	49,363	6,930
Inventories	168	-	35,472	45,785	81,425	18,667
Prepaid expenses	30	-	17,509	1,318	18,857	3,483
Total Current Assets	2,399,615	3,908,278	744,263	853,338	7,905,494	758,813
Noncurrent Assets:						
Investments, noncurrent	10,983,401	-	269,715	1,270,842	12,523,958	65,706
Other noncurrent assets	-	-	-	155,848	155,848	183
Capital Assets:						
Land	3,240	-	53,041	79,073	135,354	3,827
Buildings	62,705	-	1,421,492	408,790	1,892,987	122,627
Other improvements	1,289	-	40,620	14,485	56,394	18,294
Furnishings, equipment, and collections	63,895	-	311,037	60,726	435,658	709,343
Infrastructure	-	-	34,247	-	34,247	478
Accumulated depreciation	(58,136)	-	(695,525)	(132,861)	(886,522)	(426,853)
Construction in progress	-	-	166,813	10,857	177,670	17,681
Total Noncurrent Assets	11,056,394	-	1,601,440	1,867,760	14,525,594	511,286
Total Assets	$ 13,456,009	$ 3,908,278	$ 2,345,703	$ 2,721,098	$ 22,431,088	$ 1,270,099
Liabilities						
Current Liabilities:						
Accounts payable	$ 13,911	$ -	$ 78,231	$ 51,364	$ 143,506	$ 62,474
Contracts and retainages payable	2,724	-	7,206	42,056	51,986	16,198
Accrued liabilities	172,813	7,654	68,705	132,970	382,142	22,951
Obligations under security lending agreements	1,580,659	-	-	372,877	1,953,536	14,304
Bonds and notes payable	3,526	-	44,474	51,151	99,151	14,959
Due to other funds	64,653	963	69,700	57,481	192,797	100,207
Due to other governments	-	8,636	47	4,979	13,662	43
Unearned revenues	13,697	-	33,425	93	47,215	4,480
Claims and judgments payable	1,777,527	-	-	2,110	1,779,637	140,046
Total Current Liabilities	3,629,510	17,253	301,788	715,081	4,663,632	375,662
Noncurrent Liabilities:						
Claims and judgments payable	17,968,965	-	-	4,343	17,973,308	539,968
Bonds and notes payable	29,555	-	898,313	249,464	1,177,332	158,054
Other long-term liabilities	13,534	-	140,748	1,229,010	1,383,292	24,454
Total Noncurrent Liabilities	18,012,054	-	1,039,061	1,482,817	20,533,932	722,476
Total Liabilities	21,641,564	17,253	1,340,849	2,197,898	25,197,564	1,098,138
Net Assets:						
Invested in capital assets, net of related debt	39,911	-	388,938	169,224	598,073	272,386
Restricted for:						
Unemployment compensation	-	3,891,025	-	-	3,891,025	-
Unrestricted	(8,225,466)	-	615,916	353,976	(7,255,574)	(100,425)
Total Net Assets (Deficit)	$ (8,185,555)	$ 3,891,025	$ 1,004,854	$ 523,200	$ (2,766,476)	$ 171,961

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

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

For the Fiscal Year Ended June 30, 2007
(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	$ -	$ -	$ 125,878	$ 563,201	$ 689,079	$ 147,619
Less: Cost of goods sold	-	-	78,555	398,530	477,085	124,628
Gross profit	-	-	47,323	164,671	211,994	22,991
Charges for services	17	-	1,118,835	78,681	1,197,533	608,563
Premiums and assessments	1,689,071	1,230,735	-	-	2,919,806	1,146,753
Federal aid for unemployment insurance benefits	-	35,178	-	-	35,178	-
Lottery ticket proceeds	-	-	-	492,591	492,591	-
Miscellaneous revenue	21,123	17,538	103,447	8,947	151,055	46,645
Total Operating Revenues	1,710,211	1,283,451	1,269,605	744,890	5,008,157	1,824,952
Operating Expenses:						
Salaries and wages	120,244	-	510,192	81,180	711,616	266,951
Employee benefits	37,794	-	97,694	28,360	163,848	72,250
Personal services	3,800	-	12,128	18,492	34,420	24,286
Goods and services	70,440	-	462,777	122,438	655,655	318,102
Travel	3,482	-	18,311	2,438	24,231	4,782
Premiums and claims	3,585,725	697,182	11	27	4,282,945	1,046,713
Lottery prize payments	-	-	-	304,834	304,834	-
Depreciation and amortization	8,220	-	60,949	16,023	85,192	62,105
Miscellaneous expenses	9,320	-	18,987	47,675	75,982	2,014
Total Operating Expenses	3,839,025	697,182	1,181,049	621,467	6,338,723	1,797,203
Operating Income (Loss)	(2,128,814)	586,269	88,556	123,423	(1,330,566)	27,749
Nonoperating Revenues (Expenses):						
Earnings (loss) on investments	1,000,222	140,304	38,593	136,520	1,315,639	23,017
Interest expense	(1,553)	-	(45,631)	(42,299)	(89,483)	(8,222)
Distributions to other governments	-	-	-	(40,518)	(40,518)	-
Other revenue (expenses)	6,964	98	2,980	131,551	141,593	(1,443)
Total Nonoperating Revenues (Expenses)	1,005,633	140,402	(4,058)	185,254	1,327,231	13,352
Income (Loss) Before Contributions and Transfers	(1,123,181)	726,671	84,498	308,677	(3,335)	41,101
Capital contributions	-	-	-	-	-	5,339
Transfers in	430,109	-	110,453	17,192	557,754	104,522
Transfers (out)	(431,714)	-	(109,889)	(220,250)	(761,853)	(122,467)
Net Contributions and Transfers	(1,605)	-	564	(203,058)	(204,099)	(12,606)
Change in Net Assets	(1,124,786)	726,671	85,062	105,619	(207,434)	28,495
Net Assets (Deficit) - Beginning, as restated	(7,060,769)	3,164,354	919,792	417,581	(2,559,042)	143,466
Net Assets (Deficit) - Ending	$ (8,185,555)	$ 3,891,025	$ 1,004,854	$ 523,200	$ (2,766,476)	$ 171,961

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

PROPRIETARY FUNDS
Statement of Cash Flows

Continued

For the Fiscal Year Ended June 30, 2007
(expressed in thousands)

	Business-Type Activities Enterprise Funds					Governmental Activities
	Workers' Compensation	Unemployment Compensation	Higher Education Student Services	Nonmajor Enterprise Funds	**Total**	Internal Service Funds
Cash Flows from Operating Activities:						
Receipts from customers	$ 1,624,571	$ 1,290,935	$ 1,189,992	$ 1,098,925	$ 5,204,423	$ 1,877,965
Payments to suppliers	(1,626,432)	(698,705)	(533,592)	(716,784)	(3,575,513)	(1,412,324)
Payments to employees	(155,702)	-	(604,544)	(108,700)	(868,946)	(335,296)
Other receipts (payments)	21,123	50,238	103,448	8,943	183,752	46,629
Net Cash Provided (Used) by Operating Activities	(136,440)	642,468	155,304	282,384	943,716	176,974
Cash Flows from Noncapital Financing Activities:						
Transfers in	430,109	-	110,453	17,192	557,754	104,522
Transfers out	(431,714)	-	(109,889)	(220,250)	(761,853)	(122,467)
Operating grants and donations received	7,213	98	3,945	5	11,261	326
Taxes and license fees collected	5	-	-	131,734	131,739	(4)
Distributions to other governments	-	-	-	(40,518)	(40,518)	-
Other noncapital financing sources	-	-	-	3,240	3,240	-
Net Cash Provided (Used) by Noncapital Financing Activities	5,613	98	4,509	(108,597)	(98,377)	(17,623)
Cash Flows from Capital and Related Financing Activities:						
Interest paid	(1,553)	-	(44,104)	(11,013)	(56,670)	(8,231)
Principal payments on long-term capital financing	(18,286)	-	(35,170)	(29,544)	(83,000)	(27,811)
Proceeds from long-term capital financing	14,535	-	258,014	16,974	289,523	35,948
Proceeds from sale of capital assets	62	-	909	887	1,858	8,781
Acquisitions of capital assets	(11,729)	-	(318,744)	(16,978)	(347,451)	(85,755)
Net Cash or Pooled Investments Provided by (Used in) Capital and Related Financing Activities	(16,971)	-	(139,095)	(39,674)	(195,740)	(77,068)
Cash Flows from Investing Activities:						
Receipt of interest	773,777	140,304	35,700	28,338	978,119	23,081
Proceeds from sale of investment securities	6,283,208	-	62,091	412,047	6,757,346	2,593
Purchases of investment securities	(6,887,539)	-	(15,114)	(496,780)	(7,399,433)	(5,811)
Net Cash Provided by (Used in) Investing Activities	169,446	140,304	82,677	(56,395)	336,032	19,863
Net Increase (Decrease) in Cash and Pooled Investments	21,648	782,870	103,395	77,718	985,631	102,146
Cash and Pooled Investments, July 1	33,220	2,695,886	357,741	230,095	3,316,942	481,790
Cash and Pooled Investments, June 30	$ 54,868	$ 3,478,756	$ 461,136	$ 307,813	$ 4,302,573	$ 583,936
Cash Flows from Operating Activities:						
Operating Income (Loss)	$ (2,128,814)	$ 586,269	$ 88,556	$ 123,423	$ (1,330,566)	$ 27,749
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operations:						
Depreciation	8,220	-	60,949	16,023	85,192	62,105
Change in Assets: Decrease (Increase)						
Receivables (net of allowance)	(56,677)	57,722	(50,087)	(35,550)	(84,592)	(23,546)
Inventories	1	-	(1,676)	2,593	918	2,837
Prepaid expenses	(24)	-	(728)	(388)	(1,140)	(1,332)
Change in Liabilities: Increase (Decrease)						
Payables	2,040,854	(1,523)	58,290	176,283	2,273,904	109,161
Net Cash or Cash Equivalents Provided by (Used in) Operating Activities	$ (136,440)	$ 642,468	$ 155,304	$ 282,384	$ 943,716	$ 176,974

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

PROPRIETARY FUNDS
Statement of Cash Flows

Concluded

For the Fiscal Year Ended June 30, 2007
(expressed in thousands)

	Business-Type Activities Enterprise Funds					Governmental Activities
	Workers' Compensation	Unemployment Compensation	Higher Education Student Services	Nonmajor Enterprise Funds	**Total**	Internal Service Funds
Noncash Investing, Capital and Financing Activities:						
Contributions of capital assets	$ -	$ -	$ -	$ -	$ -	$ 5,339
Amortization of annuity prize liability	-	-	-	(27,100)	(27,100)	-
Increase (decrease) in fair value of investments	212,926	-	2,173	107,518	322,617	(101)
Refunding bonds issued	-	-	5,625	-	5,625	-
Refunded bonds redeemed	-	-	(5,625)	-	(5,625)	-
Amortization of debt premium (issue costs/discount)	-	-	(227)	-	(227)	-
Accretion of interest on zero coupon bonds	-	-	-	(3,596)	(3,596)	-

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

FIDUCIARY FUNDS
Statement of Fiduciary Net Assets

June 30, 2007
(expressed in thousands)

	Private-Purpose Trust	Local Government Investment Pool	Pension and Other Employee Benefit Plans	Agency Funds
Assets:				
Cash and pooled investments	$ 12,283	$ 4,796,874	$ 69,400	$ 259,775
Investments	-	1,161,617	-	-
Receivables, pension and other employee benefit plans				
Employers	-	-	98,674	-
Members (net of allowance)	-	-	2,984	-
Interest and dividends	-	-	198,517	-
Investment trades pending	-	-	171,611	-
Other receivables, all other funds	5,079	21,659	-	245,526
Due from other funds	5	-	43,014	8,640
Due from other governments	-	-	-	43,257
Total Current Assets	17,367	5,980,150	584,200	557,198
Noncurrent Assets:				
Investments, noncurrent, pension and other employee benefit plans				
Public equity	-	-	35,235,425	-
Fixed income	-	-	13,101,198	-
Private equity	-	-	11,693,976	-
Real estate	-	-	7,044,494	-
Security lending	-	-	5,762,821	-
Liquidity	-	-	2,448,525	-
Other	-	-	43,018	-
Investments, noncurrent, all other funds	110,388	19,711	-	727,375
Other noncurrent assets	-	-	-	42,988
Capital Assets:				
Furnishings, equipment, and collections	81	-	-	-
Accumulated depreciation	(81)	-	-	-
Total Noncurrent Assets	110,388	19,711	75,329,457	770,363
Total Assets	$ 127,755	$ 5,999,861	$ 75,913,657	$ 1,327,561
Liabilities:				
Accounts payable	$ 3,271	$ -	$ -	$ 23,410
Contracts and retainages payable	-	-	-	26,775
Accrued liabilities	876	99,476	908,218	1,000,010
Obligations under security lending agreements	-	91,105	5,750,229	9,840
Due to other funds	69,028	44	44,097	11,187
Due to other governments	-	-	-	213,351
Unearned revenues	-	-	1,106	-
Other long-term liabilities	-	-	-	42,988
Total Liabilities	73,175	190,625	6,703,650	$ 1,327,561
Net Assets:				
Net assets held in trust for:				
Pension benefits	-	-	66,660,109	
Deferred compensation participants	-	-	2,549,898	
Local government pool participants	-	5,809,236	-	
Individuals, organizations & other governments	54,580	-	-	
Total Net Assets	$ 54,580	$ 5,809,236	$ 69,210,007	

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

FIDUCIARY FUNDS
Statement of Changes in Fiduciary Net Assets

For the Fiscal Year Ended June 30, 2007
(expressed in thousands)

	Private-Purpose Trust	Local Government Investment Pool	Pension and Other Employee Benefit Plans
Additions:			
Contributions:			
Employers	$ -	$ -	$ 639,509
Members	-	-	774,740
State	-	-	53,793
Pool participants	-	12,112,389	175,055
Total Contributions	-	12,112,389	1,643,097
Investment Income:			
Net appreciation (depreciation) in fair value	-	-	9,774,927
Interest and dividends	-	293,302	2,574,616
Less: Investment expenses	-	-	(363,179)
Net Investment Income	-	293,302	11,986,364
Other additions:			
Escheated property	30,859	-	-
Transfers from other pension plans	-	-	5,650
Other contracts, grants and miscellaneous	14	4	687
Total other additions	30,873	4	6,337
Total Additions	30,873	12,405,695	13,635,798
Deductions:			
Pension benefits	-	-	2,343,149
Pension refunds	-	-	178,277
Transfers to other pension plans	-	-	5,650
Administrative expenses	3,356	5,063	1,567
Distributions to pool participants	-	11,668,728	127,198
Payments to or on behalf of individuals, organizations and other governments in accordance with trust agreements	25,656	-	-
Total Deductions	29,012	11,673,791	2,655,841
Net Increase (Decrease)	1,861	731,904	10,979,957
Net Assets - Beginning, as restated	52,719	5,077,332	58,230,050
Net Assets - Ending	$ 54,580	$ 5,809,236	$ 69,210,007

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

COMPONENT UNITS
Statement of Fund Net Assets

June 30, 2007
(expressed in thousands)

	Public Stadium	Nonmajor Component Units	**Total**
Assets			
Current Assets:			
Cash and pooled investments	$ 8,153	$ 7,090	$ 15,243
Investments	4,868	34,736	39,604
Other receivables (net of allowance)	2,761	1,620	4,381
Prepaid expenses	27	131	158
Total Current Assets	15,809	43,577	59,386
Noncurrent Assets:			
Investments, noncurrent	22,272	200	22,472
Other noncurrent assets	-	31,656	31,656
Capital Assets:			
Land	34,677	-	34,677
Buildings	459,042	-	459,042
Furnishings and equipment	23,442	1,357	24,799
Accumulated depreciation	(98,056)	(1,056)	(99,112)
Construction in Progress	414	-	414
Total Noncurrent Assets	441,791	32,157	473,948
Total Assets	$ 457,600	$ 75,734	$ 533,334
Liabilities			
Current Liabilities:			
Accounts payable	$ 272	$ 5,279	$ 5,551
Contracts and retainages payable	6,956	-	6,956
Accrued liabilities	3,759	89	3,848
Unearned revenues	79	1,736	1,815
Total Current Liabilities	11,066	7,104	18,170
Noncurrent Liabilities:			
Other long-term liabilities	38,093	-	38,093
Total Noncurrent Liabilities	38,093	-	38,093
Total Liabilities	49,159	7,104	56,263
Net Assets:			
Invested in capital assets, net of related debt	371,901	301	372,202
Restricted for deferred sales tax	30,110	-	30,110
Restricted for other purposes	-	500	500
Unrestricted	6,430	67,829	74,259
Total Net Assets (Deficit)	$ 408,441	$ 68,630	$ 477,071

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

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

For the Fiscal Year Ended June 30, 2007
(expressed in thousands)

	Public Stadium	Nonmajor Component Units	**Total**
Operating Revenues:			
Charges for services	$ 918	$ 14,218	$ 15,136
Total Operating Revenues	918	14,218	15,136
Operating Expenses:			
Salaries and wages	367	4,331	4,698
Employee benefits	61	1,234	1,295
Personal services	166	1,059	1,225
Goods and services	1,289	2,301	3,590
Travel	3	29	32
Depreciation and amortization	18,626	103	18,729
Miscellaneous expenses	-	2	2
Total Operating Expenses	20,512	9,059	29,571
Operating Income (Loss)	(19,594)	5,159	(14,435)
Nonoperating Revenues (Expenses):			
Earnings (loss) on investments	2,745	2,087	4,832
Operating grants and contributions	-	159	159
Distributions of operating grants	-	(159)	(159)
Total Nonoperating Revenues (Expenses)	2,745	2,087	4,832
Income (Loss) Before Contributions and Transfers	(16,849)	7,246	(9,603)
Capital grants and contributions	940	-	940
Total Contributions and Transfers	940	-	940
Change in Net Assets	(15,909)	7,246	(8,663)
Net Assets - Restated Beginning	424,350	61,384	485,734
Net Assets - Ending	$ 408,441	$ 68,630	$ 477,071

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

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007

Index to the Notes to the Basic Financial Statements

Page

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 UNIT - Blended component units, although legally separate entities, are part of the state's operations in substance. Accordingly, they are reported as part of the state and blended into the appropriate funds. The following 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 $420 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

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 605 accounts that are combined into 59 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 Funds** are used to report trust arrangements, other than pension and investment trusts, under which principal and income benefit individuals, private organizations, or other governments such as the administration of unclaimed property.

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

Operating and Nonoperating Revenues and Expenses

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

Revenues from property taxes are determined to be available if collectible within 60 days. Taxes imposed on exchange transactions are accrued when the underlying exchange transaction occurs if collectible within one year. Revenue for timber cutting contracts is accrued when the timber is harvested. Revenues from licenses, permits, and fees are recognized when received in cash. Revenues related to expenditure driven grant agreements are recognized when the qualifying expenditures are made provided that the availability criteria is met. Expenditure driven grant revenue is 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 twelve months.

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

Under modified accrual accounting, expenditures are recognized when the related liability is incurred. Exceptions to the general modified accrual expenditure recognition criteria include unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with available expendable financial resources.

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

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

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

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

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Investments

Investments of surplus or pooled cash balances are reported on the accompanying Statements of Net Assets, Balance Sheets and Statements of Cash Flows as "Cash and Pooled Investments." The Office of the State Treasurer invests state treasury cash surpluses where funds can be disbursed at any time without prior notice or penalty. As a result, the cash balances of funds with surplus pooled balances are not reduced for these investments. For reporting purposes, pooled cash is stated at fair value or amortized cost, which approximates fair value. For 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.

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 $6.4 million in federally donated consumable inventories, which are offset by deferred revenues because they do not constitute an "available" resource until consumed.

4. Capital Assets

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

- all land;
- all additions and improvements to the state highway system;
- infrastructure, other than the state highway system, with a cost of $100,000 or more;
- all other capital assets with a unit cost of $5,000 or more.

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

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

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

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

Art collections, library reserve collections, and museum and historical collections, that are considered inexhaustible in that their value does not diminish over time, are not capitalized by the state if all of the following conditions are met:

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

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

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

The cost and related accumulated depreciation of capital assets retired from service, or disposed of, are removed from the accounting records.

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

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

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

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

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

5. Compensated Absences

State employees accrue vested vacation leave at a variable rate based on years of service. In general, accrued vacation leave cannot exceed 30 days at the employee's anniversary date.

Employees accrue sick leave at the rate of one day per month without limitation on the amount that can be accumulated. Sick leave is not vested; i.e., the state does not pay employees for unused sick leave upon termination except upon employee death or retirement. At death or retirement, the state is liable for 25 percent of the employee's accumulated sick leave. In addition, the state has a "sick leave buyout option" in which each January, employees who accumulate sick leave in excess of 60 days may redeem sick leave earned but not taken during the previous year at the rate of one day's pay in exchange for each four days of sick leave.

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

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

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

6. Long-Term Liabilities

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

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

7. Fund Equity

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

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

E. Other Information

1. General Budgetary Policies and Procedures

The legal level of budgetary control is at the fund/account, agency, and appropriation level, with administrative controls established at lower levels of detail in certain instances. The accompanying budgetary schedules presented as Required Supplementary Information (RSI) are not presented at the legal level of budgetary control. This is due to the large number of appropriations within individual agencies that would make such a presentation in the accompanying financial schedules extremely cumbersome. Section 2400.121 of the GASB Codification of Governmental Accounting and Financial Reporting Standards provides for the preparation of a separate report in these extreme cases. For the state of Washington, a separate report has been prepared for the 2005-07 Biennium to illustrate legal budgetary compliance. Appropriated budget versus actual expenditures, and estimated versus actual revenues and other financing sources (uses) for appropriated funds at agency and appropriation level are presented in Report CAF1054 for governmental funds. A copy of this report is available at the Office of Financial Management, 6639 Capitol Boulevard, PO Box 43113, Olympia, Washington 98504-3113. For additional information, refer to the Notes to Budgetary Information section of the RSI.

2. Insurance Activities

Workers' Compensation

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

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

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

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

Risk Management

Washington State operates a risk management liability program pursuant to RCW 4.92.130. The state manages its tort claims as an insurance business activity rather than a general governmental activity. The state's policy is generally not to purchase commercial insurance for the risk of losses to which it is exposed. Instead, the state management believes it is more economical to manage its risks internally and set aside assets for claims settlement in the Risk Management Fund, an internal service fund. A limited amount of commercial insurance is purchased for employee bonds and to limit the exposure to catastrophic losses. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past five 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 Notes 2 and 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 54 percent of the eligible subscribers in Fiscal Year 2007. Claims are paid from premiums collected, and claims adjudication is contracted through a third-party administrator. Considerations in calculating liabilities include frequency of claims, administrative costs, industry inflation trends, advances in medical technology, and other social and economic factors. Liabilities include an amount for claims incurred but not reported.

3. Interfund/Interagency Activities

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

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

4. Donor-restricted Endowments

The state reports endowments in higher education endowment permanent accounts. These accounts are established outside of the state treasury for use by the higher education institutions. State law permits the governing boards of the institutions to appropriate for expenditure as much of the net appreciation, realized and unrealized, in the fair value of the assets of an endowment fund as is deemed prudent under the facts and circumstances prevailing at the time.

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

The net appreciation available for authorization for expenditure by governing boards totaled $178.5 million and is reported in the nonexpendable portion of the reserve for permanent funds.

Note 2 - Accounting and Reporting Changes

Fund equity at July 1, 2006, has been restated as follows (expressed in thousands):

	Fund equity at June 30, 2006, as previously reported	Fund Reclassification	Prior Period Adjustment	Fund equity as restated, July 1, 2006
Governmental Funds:				
General	$ 1,876,805	$ -	$ -	$ 1,876,805
Higher Education Special Revenue	1,063,149	-	-	1,063,149
Higher Education Endowment	2,439,976	-	-	2,439,976
Nonmajor Governmental	5,030,382	162	-	5,030,544
Proprietary Funds:				
Enterprise Funds:				
Workers' Compensation	(7,060,769)	-	-	(7,060,769)
Unemployment Compensation	3,164,354	-	-	3,164,354
Higher Education Student Services	919,792	-	-	919,792
Nonmajor Enterprise	613,010	(195,429)	-	417,581
Internal Service Funds	(51,963)	195,429	-	143,466
Fiduciary Funds:				
Private Purpose Trust	52,881	(162)	-	52,719
Local Government Investment Pool	5,077,332	-	-	5,077,332
Pension and Other Employee Benefit Plans	58,230,050	-	-	58,230,050
Component Units:				
Public Stadium	424,350	-	-	424,350
Nonmajor Component Units	61,384	-	-	61,384

Reporting Changes

Effective for Fiscal Year 2007 reporting, the state implemented Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Post Employment Benefit Plans Other Than Pension Plans.*

In addition to certain disclosures (refer to Note 12), GASB Statement No. 43 requires the retiree portion of an agency multi-employer other post employment benefits plan be reported in an agency fund if the plan is not funded through a trust fund.

Fund Reclassifications – The Health Insurance Fund was reclassified from an enterprise fund to an internal service fund. After the removal of the balances and activity related to retirees as required by GASB Statement No. 43, the state and its employees became the predominant participants in the fund.

Additionally, during Fiscal Year 2007, it was determined that a certain Nonmajor Governmental 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 Special Revenue Fund.

Governmental Capital Assets – The Department of Natural Resources recorded prior period adjustments in the net amount of $250.5 million to governmental capital assets to correct a number of misstated balances.

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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, 2007, $1.8 billion of the state's deposits with financial institutions were either insured or collateralized, with the remaining $37.5 million uninsured/uncollateralized. The Federal Deposit Insurance Corporation (FDIC) covers the state's insured deposits and the PDPC provides collateral protection.

B. Investments – Pension and Other Employee Benefit Trust Funds (Pension Trust Funds)

1. SUMMARY OF INVESTMENT POLICIES

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

Eligible Investments - Pension trust funds are invested in the Commingled Trust Fund (CTF). The CTF is comprised of public market equities, fixed income securities, private equity investments and real estate. The CTF's performance benchmark objective is to exceed the return of a policy benchmark consisting of public market indices weighted according to asset allocation targets. The asset allocation for the CTF is formally reviewed every three to four years.

The public markets equity portion of the retirement fund includes strategies in the U.S., developed international and emerging markets. Since the U.S. equity markets are generally efficient, the domestic equity portfolio is almost entirely (75 percent) passively managed with the rest in an enhanced index strategy. Over time, the domestic equity portfolio should track the return of a broad U.S. market benchmark, the Dow Jones Wilshire 5000 Index. Non-U.S. markets are generally less efficient than the U.S. market: therefore, more active management will be included in the approach taken with international markets. The weightings of the elements of the developed markets and emerging markets of the non-U.S. equity program 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 fixed income investments of the pension trust funds are actively managed to exceed the return of the Lehman Universal Index, with volatility similar to or less than the index. The portfolio constraints are that no corporate fixed income issue shall exceed 3 percent of cost at the time of purchase or 6 percent of market value thereafter of the fund, and no high yield issues shall exceed 1 percent of cost or 2 percent of market value of the fund. Permissible fixed income market segments include: U.S. Treasuries and government agencies, Treasury Inflation Protection Securities, investment-grade credit bonds, high yield bonds, publicly traded mortgage-backed securities, commercial mortgage-backed securities, privately-placed mortgages, private placements of corporate debt, asset-backed securities, convertible securities, non-dollar bonds, real estate mortgages and Washington State Housing Finance Commission taxable municipal bonds up to a total of $50 million with a maximum of $10 million per year.

Pension trust funds can be invested in any appropriate private equity investment opportunity that has the potential for returns superior to traditional investment opportunities and which is not prohibited by the WSIB's policies or by law. These investment types include venture capital investments, corporate finance (including leveraged, management and employee buyouts), distressed, international and mezzanine investments. Private equity investments are made through limited partnership vehicles. The private equity portfolio has diversified investments in companies in a variety of stages of growth. The portfolio also includes a broad cross-section of opportunities in different industries, and geographic regions.

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

2. 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, 2007, the Retirement Funds had unfunded commitments of $8.1 million and $6.7 million in private equity and real estate, 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 State Street Bank and Trust (SSB) to act as agent for the WSIB in securities lending transactions. As SSB is the custodian bank for the WSIB, it is counterparty to securities lending transactions.

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

Securities were loaned and collateralized by the WSIB's agent with cash and U.S. government securities (exclusive of mortgage backed securities and letters of credit), and irrevocable letters of credit. When the loaned securities were denominated in United States dollars, were securities whose primary trading market was located in the United States or were sovereign debt issued by foreign governments, the collateral requirement was 102 percent of the market value of the securities loaned. When the loaned securities were not denominated in United States dollars or were securities whose primary trading market was not located in the United States, the collateral requirement was 105 percent of the market value of the loaned securities. The collateral held and market value of securities on loan at June 30, 2007 were $5.7 billion and $5.6 billion respectively.

During Fiscal Year 2007, securities lending transactions could be terminated on demand by either the WSIB or the borrower. The average term of overall loans was 28 days.

Cash collateral was invested by the WSIB's agents in securities issued or guaranteed by the U.S. government, the WSIB's short-term investment pool (average weighted maturity of 220 days) or term loans. Because the securities lending agreements were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. Non-cash collateral could not be pledged or sold absent borrower default. There are no restrictions on the amount of securities that can be lent.

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

During Fiscal Year 2007, 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 2007 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, 2007. 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, 2007
(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	$ 41,662	$ -	$ 1,023	$ -	$ 40,639	Multiple
Mortgages:						
Collateralized Mortgage Obligations	1,960,964	-	424,556	879,596	656,812	Multiple
Pass Throughs	2,469,699	927	1,142,050	1,174,496	152,226	Multiple
Non-Standard Mortgages	3,281	-	-	2,264	1,017	Aaa
Commercial Mortgage Backed Securities	579,979	-	296,293	281,277	2,409	Multiple
Corporate Bonds - Domestic	5,788,251	235,985	1,949,355	2,513,078	1,089,833	Multiple
Corporate Bonds - Foreign	270,542	-	37,335	101,075	132,133	Multiple
Government Securities - Domestic:						
US Government Treasuries	1,076,656	-	326,765	624,892	124,999	Aaa
US Government Agencies	2,189	-	2,189	-	-	Aaa
Treasury Inflation Protected Securities	1,394,067	-	674,892	715,062	4,113	Aaa
Variable Rate Notes	623,696	10,336	132,388	53,583	427,389	Multiple
	$ 14,210,986	$ 247,248	$ 4,986,846	$ 6,345,323	$ 2,631,570	
Corporate Stock - Domestic						
Corporate Stock - Foreign	9,783,325					
Commingled Index Funds - Domestic	13,936,461					
Commingled Index Funds - Foreign	5,439,787					
Money Market Funds	1,858,693					
Cash Overlay	497,074					
Private Equity	11,693,976					
Real Estate	7,044,494					
Innovation	43,018					
Currencies	92,890					
Securities Lending Collateral Balances	5,745,330					
Defined Contribution Plans Assets:						
Short-Horizon	55,539					
Mid-Horizon	180,386					
Long-Horizon	196,727					
Mutual Funds:						
Domestic Equity Passive	1,462,805					
Non-US Passive Developed	353,121					
Domestic Equity Active	1,201,278					
Non-US Active Developed	169,010					
Washington State Bond Fund	296,946					
Savings Pool	729,829					
Money Market Mutual Funds	330,219					
Total	$ 75,321,894					

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, 2007
(expressed in thousands)

	Investment Type							
Moody's Equivalent Credit Rating	Asset-backed Securities	Corporate Bonds - Domestic	Corporate Bonds - Foreign	Variable Rate Notes	Collateralized Mortgage Obligations	Pass Throughs	Commercial Mortgage Backed Securities	**Total**
Aaa	$ 18,835	$ 863,912	$ 56,597	$ 270,612	$ 1,945,665	$ 2,386,042	$ 554,468	$ 6,096,131
Aa1	-	155,136	-	15,189	-	-	23,103	193,428
Aa2	-	484,096	-	6,258	-	-	-	490,354
Aa3	-	830,022	-	25,348	-	-	-	855,370
A1	-	480,454	37,335	8,900	-	-	-	526,689
A2	-	450,533	-	20,054	-	-	-	470,587
A3	-	511,498	-	13,711	-	-	-	525,209
Baa1	-	506,929	36,737	24,665	-	-	-	568,331
Baa2	-	655,797	-	11,714	-	-	-	667,511
Baa3	22,827	849,874	139,873	227,245	15,299	83,657	-	1,338,775
NR	-	-	-	-	-	-	2,408	2,408
Total	$ 41,662	$ 5,788,251	$ 270,542	$ 623,696	$ 1,960,964	$ 2,469,699	$ 579,979	$ 11,734,793

5. CREDIT RISK

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The WSIB investment policy mitigates credit risk by limiting holdings of below investment grade fixed income securities. Rated debt investments of the pension trust funds as of June 30, 2007, were rated by Moody's and/or an equivalent national rating organization.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The WSIB policy states no corporate fixed income issue shall exceed 3 percent of cost at the time of purchase or 6 percent of market value thereafter of the fund, and no high yield issues shall exceed 1 percent of cost or 2 percent of market value of the fund. There was no concentration of credit risk exceeding these policy guidelines as of June 30, 2007.

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

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 $5.4 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, 2007
(expressed in thousands)

Foreign Currency Denomination	Short Term	Fixed Income	Equity	Private Equity	Real Estate	**Total**
	Investment Type					
Australia-Dollar	$ 2,832	$ -	$ 467,673	$ -	$ -	$ 470,505
Brazil-Real	6	175,945	79,910	-	-	255,861
Britain-Pound	16,141	-	1,698,431	67,733	71,000	1,853,305
Canada-Dollar	5,294	-	371,285	-	573	377,152
China-Renminbi	41	-	-	-	-	41
Denmark-Krone	2	-	47,733	-	-	47,735
E.M.U.-Euro	36,336	-	3,514,913	1,049,132	1,162,812	5,763,193
Egypt-Pound	136	-	10,537	-	-	10,673
Hong Kong-Dollar	985	-	284,182	-	-	285,167
Hungary-Forint	38	-	48,813	-	-	48,851
Indonesia-Rupiah	-	-	13,085	-	-	13,085
Israel-Shekel	-	-	5,216	-	-	5,216
Japan-Yen	28,756	-	1,517,465	-	1,910,879	3,457,100
Lithuania-Litas	138	-	-	-	-	138
Malaysia-Ringgit	499	-	14,562	-	-	15,061
Mexico-Peso	-	37,602	37,232	-	1,149	75,983
New Zealand-Dollar	15	-	23,338	-	-	23,353
Norway-Krone	38	-	126,606	-	-	126,644
Pakistan-Rupee	5	-	11,804	-	-	11,809
Philippines-Peso	30	-	226	-	-	256
Poland-Zloty	-	-	60,104	-	-	60,104
Singapore-Dollar	271	-	218,106	-	-	218,377
South Africa-Rand	1	-	40,764	-	-	40,765
South Korea-Won	142	-	53,296	-	2,208,662	2,262,100
Sweden-Krona	1,077	-	192,095	62,054	-	255,226
Switzerland-Franc	57	-	547,318	-	-	547,375
Taiwan-Dollar	-	-	-	-	15,670	15,670
Thailand-Baht	45	-	2,196	-	-	2,241
Turkey-Lira	5	56,994	33,908	-	-	90,907
Total	$ 92,890	$ 270,541	$ 9,420,798	$ 1,178,919	$ 5,370,745	$ 16,333,893

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

Consistent with the WSIB authority to invest in derivatives, international active equity managers may make limited investments in financial futures, forward contracts or other derivative securities to manage exposure to currency rate risk and equitize excess cash holdings. No such derivative securities were held as of June 30, 2007. 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, 2007, the only derivative securities held directly by WSIB were collateralized mortgage obligations (CMOs) of $1.9 billion.

8. REVERSE REPURCHASE AGREEMENTS
State law permits WSIB to enter into reverse repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The market value of the securities underlying reverse repurchase agreements normally exceeds the cash received, providing the dealers margin against a decline in market value of the securities. If the dealers default on their obligations to resell these securities to the state or provide securities or cash of equal value, WSIB would suffer an economic loss equal to the difference between the market value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. There were no reverse repurchase agreements during the year and there were no liabilities outstanding as of June 30, 2007.

C. Investments – Workers' Compensation Fund

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

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

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

Eligible Investments – Eligible investments include:

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

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

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

- No corporate fixed income issue cost shall exceed 3 percent of the fund's market value at the time of purchase, nor shall its market value exceed 6 percent of the fund's market value at any time.
- Allocation of equity investments between U.S. and International must fall within prescribed limits. The benchmark and structure for U.S. equities is the broad U.S. stock market as defined by the Dow Jones-Wilshire 5000. The benchmark and structure for international equities is the Morgan Stanley Capital Indexes Europe, Australia, Far East (MSCI EAFE) index. Both portfolios are 100 percent passively managed in commingled index funds. The commingled funds may use futures for hedging or establishing a long position.
- The fixed income portfolios' structure varies depending upon the required duration target. The duration targets are reviewed every three years, or sooner, if there are significant changes in the funding levels or the liability durations.
- Sector allocation of fixed income investments must be managed within the prescribed ranges. These targets are long-term in nature. Deviations may occur in the short-term as a result of interim market conditions. However, if a range is exceeded the portfolios must be rebalanced as soon as it is practical to the target allocations.
- Total holdings of below investment grade credit bonds (rated BB+ or below by Standard & Poor's or rated Ba1 or below by Moody's) should not exceed 5 percent of total fixed income holdings.

2. SECURITIES LENDING

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

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

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

Securities were loaned and collateralized by the WSIB's agent with cash and U.S. government securities (exclusive of mortgage backed securities and letters of credit), and irrevocable letters of credit. When the loaned securities were denominated in United States dollars, were securities whose primary trading market was located in the United States or were sovereign debt issued by foreign governments, the collateral requirement was 102 percent of the market value of the securities loaned. When the loaned securities were not denominated in United States dollars or were securities whose primary trading market was not located in the United States, the collateral requirement was 105 percent of the market value of the loaned securities. The collateral held and market value of securities on loan at June 30, 2007 was $1.58 billion and $1.55 billion respectively.

During Fiscal Year 2007, securities lending transactions could be terminated on demand by either the WSIB or the borrower. The average term of overall loans was 28 days.

Cash collateral was invested by the WSIB's agents in securities issued or guaranteed by the U.S. government, the WSIB's short-term investment pool (average weighted maturity of 220 days) or term loans. Because the securities lending agreements were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. Non-cash collateral could not be pledged or sold absent borrower default. There are no restrictions on the amount of securities that can be lent.

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

During Fiscal Year 2007, 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 2007 resulting from a default by either the borrowers or the securities lending.

3. INTEREST RATE RISK

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The workers' compensation fixed income investments are actively managed to exceed the return of the Lehman Aggregate Index, with volatility as measured by duration to be similar to or less than the index. As of June 30, 2007, the durations of the various fixed income classes were within the duration targets of the Lehman Aggregate Index.

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

The following schedule presents the workers' compensation fund investments by type and provides information about the interest rate risks associated with the investments as of June 30, 2007. 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, 2007
(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	$ 1,720,253	$ -	$ 158,435	$ 280,229	$ 1,281,589	Aaa
Pass Throughs	2,045	135	1,621	289	-	Aaa
Non-Standard Mortgages	11,091	-	9,381	-	1,710	Aaa
Commercial Mortgage Backed Securities	640,287	13,958	230,567	395,762	-	Aaa
Corporate Bonds - Domestic	4,732,794	202,091	882,666	1,388,602	2,259,435	Multiple
Government Securities-Domestic:	-					
US Government Treasuries	948,232	16,974	259,815	-	671,443	Aaa
US Government Agencies	209,807	-	-	-	209,807	Aaa
Treasury Inflation Protected Securities	472,661	-	-	227,350	245,311	Aaa
	8,737,170	$ 233,158	$ 1,542,485	$ 2,292,232	$ 4,669,295	
Commingled Index Funds-Domestic	1,740,566					
Commingled Index Funds-Foreign	316,883					
Money Market Funds	188,793					
Securities Lending Collateral Balances	1,580,386					
Total	$ 12,563,798					

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, 2007
(expressed in thousands)

Moody's Equivalent Credit Rating	Investment Type: Corporate Bonds - Domestic	Non-Standard Mortgages	Commercial Mortgage Backed Securities	**Total**
Aaa	$ 494,086	$ 11,062	$ 582,341	$ 1,087,489
Aa1	83,022	-	57,946	140,968
Aa2	193,679	29	-	193,708
Aa3	718,821	-	-	718,821
A1	553,968	-	-	553,968
A2	494,673	-	-	494,673
A3	614,322	-	-	614,322
Baa1	407,075	-	-	407,075
Baa2	821,683	-	-	821,683
Baa3	351,465	-	-	351,465
Total	$ 4,732,794	$ 11,091	$ 640,287	$ 5,384,172

4. CREDIT RISK

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The WSIB investment policy mitigates credit risk by limiting holdings of below investment grade fixed income securities. The rated debt investments of the workers' compensation funds as of June 30, 2007, were rated by Moody's and/or an equivalent national rating organization

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The WSIB policy states that the cost of no corporate fixed income issue shall exceed 3 percent of the fund's market value at the time of purchase, nor shall its market value exceed 6 percent of the fund's market value at any time. There was no concentration of credit risk as of June 30, 2007.

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

5. FOREIGN CURRENCY RISK

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The WSIB does not have a formal policy to limit foreign currency risk. The workers' compensation funds had $316.9 million invested in an international commingled equity index fund. As such, no currency denomination is presented.

6. DERIVATIVES

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

Consistent with the WSIB authority to invest in derivatives, international active equity managers may make limited investments in financial futures, forward contracts or other derivative securities to manage exposure to currency rate risk and equitize excess cash holdings. No such derivative securities were held as of June 30, 2007. 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, 2007, the only derivative securities held directly by WSIB were collateralized mortgage obligations (CMOs) of $1.7 billion.

7. REVERSE REPURCHASE AGREEMENTS
State law permits WSIB to enter into reverse repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The market value of the securities underlying reverse repurchase agreements normally exceeds the cash received, providing the dealers margin against a decline in market value of the securities. If the dealers default on their obligations to resell these securities to the state or provide securities or cash of equal value, WSIB would suffer an economic loss equal to the difference between the market value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. There were no reverse repurchase agreements during Fiscal Year 2007 and there were no liabilities outstanding as of June 30, 2007.

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 2007, 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, 2007, 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 two days.

3. INTEREST RATE RISK

Interest rate risk is the risk that changes in interest rates of debt instruments will adversely affect the fair value of an investment. The LGIP policy places a 90-day maximum on the weighted average maturity. Further, the maximum maturity of any security may not exceed 397 days, except securities utilized in repurchase agreements and U.S. Agency floating or variable rate notes with reset dates less than a year and which on any reset date can reasonably be expected to have a market value that approximates its amortized cost. As of June 30, 2007, the LGIP had a weighted average maturity of 46 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, 2007.

Local Government Investment Pool (LGIP)
June 30, 2007
(expressed in thousands)

Investment Type	Fair Value	Maturity: Less than 1 year	Maturity: 1-5 years
U.S. Agency Obligations	$ 1,585,558	$ 1,565,847	$ 19,711
U.S. Government Obligations	149,795	149,795	-
Certificates of Deposit	634,076	634,076	-
Repurchase Agreements	3,820,672	3,820,672	-
Securities Lending Collateral	91,105	91,105	-
Total	$ 6,281,206	$ 6,261,495	$ 19,711

4. CREDIT RISK

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of a failure of the counter party, the LGIP will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The LGIP investment policy requires that securities purchased by the office be held by the master custodian, acting as an independent third party, in its safekeeping or trust department. All securities held as collateral were rated AAA. The market value of securities held for collateral must be at least 102 percent of the value of the repurchase agreement.

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

5. FOREIGN CURRENCY RISK - None

6. DERIVATIVES – None

7. REVERSE REPURCHASE AGREEMENTS

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

Repurchase agreements are collateralized at 102 percent. The collateral is priced daily and held by the LGIP's custodian in the state's name. Collateral for mortgage-backed repurchase agreements with a maturity date longer than seven days will be priced at 105 percent of fair value, plus accrued interest. Collateralized Mortgage Obligations (CMO) used as collateral for repurchase agreements must pass the Federal Financial Institutions Examination Council (FFIEC) test, or not exceed a volatility rating of V-5 by Fitch Investor Services, or a similar rating of a nationally recognized rating agency.

During the Fiscal Year 2007, 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 78 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, 2007, the Invested Funds Pool totaled $796.1 million. The fund also owns units in the Consolidated Endowment Fund valued at $414.3 million on June 30, 2007. By University policy, departments with qualifying funds in the Invested Funds Pool receive one of four rates of return based on the realized yield of the portfolio. Campus depositors received 4.25 percent for Fiscal Year 2007. The difference between the actual earnings of the Invested Funds Pool and the calculated distributions is used to support activities benefiting all University departments.

The majority of the endowed funds are invested in a pooled fund called the Consolidated Endowment Fund (CEF). Individual endowments subscribe to or dispose of units in the pool on the basis of a per unit valuation of the CEF at fair value on the last business day of the calendar quarter. Income is distributed based on the number of units held. The CEF income distribution is 5 percent of the average fair value of the CEF for the previous three years. State law allows for the spending of appreciation in the CEF.

The University records its permanent endowments at the lower of original value or current market value in the Restricted Nonexpendable Net Assets category. Of the total of approximately $1.209 million permanent endowment funds (at market value) as of June 30, 2007, the aggregate amount of the deficiencies for all funds for which the fair value of the assets is less than the original gifts is $0.

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 $58.9 million at June 30, 2007. Income received from these trusts was $2.2 million for the year ended June 30, 2007.

2. UNFUNDED COMMITMENTS

The University enters into contracts with investment managers to fund alternate investments. As of June 30, 2007, the University had unfunded commitments in the amount of $286 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 140 days. Cash collateral is invested in a short-term investment pool that had an average weighted maturity of 37 days as of June 30, 2007. 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, 2007, was $5.69 million.

Securities on loan at June 30, 2007, totaled $393.2 million, and are presented by investment type in the following schedule. The securities lending program resulted in net revenues of $0.6 million for the year ended June 30, 2007.

The following schedule presents the fair value of the University of Washington's investments by type at June 30, 2007.

University of Washington
June 30, 2007
(expressed in thousands)

Investment Type		Fair Value
Cash Equivalents	$	234,184
Domestic Fixed Income		633,653
Domestic Fixed Income-Loaned		289,793
Foreign Fixed Income		126,720
Domestic Equity		581,928
Domestic Equity-Loaned		74,626
Foreign Equity		484,540
Foreign Equity-Loaned		28,802
Non-Marketable Alternatives		509,590
Marketable Alternatives		323,931
Real Estate		6,039
Miscellaneous		5,773
Total Investments		3,299,579
Collateral from Securities Lending - Cash		396,657
Total	$	3,696,236

4. INTERST RATE RISK

The University manages interest rate risk through its investment policies and the investment guidelines established with each manager. Each fixed income manager is assigned a maximum boundary for duration as compared to the manager's relevant benchmark index. The goal is to allow the ample freedom for the manager to perform, while controlling the interest rate risk in the portfolio. Modified duration, which estimates the sensitivity of a bond's price to interest rate changes, is based on Macaulay duration. Macaulay duration is the basic calculation developed for a portfolio of bonds assembled to fund a fixed liability. Macaulay duration is calculated as follows: sum of discounted time-weighted cash flows / bond price. Modified duration is calculated using the following formula: Macaulay duration / (1 + yield-to-maturity/ number of coupon payments per year).

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

Approximately $244.2 million of additional domestic fixed income securities (including loaned) and $98.8 million of additional foreign fixed income securities, which in total makeup 10.4 percent of the University's investments, are not included in the duration figures below. These investments, some of which are managed by the University and others by the University's affiliates, are not invested under the same investment strategy or with the same custodian as those detailed in the following schedule.

University of Washington
Interest Rate Risk
Duration as of June 30, 2007
(expressed in thousands, modified duration in years)

	Consolidated Endowment Fund		Invested Funds Pool	
	Asset Value	Duration	Asset Value	Duration
Domestic Fixed Income				
Asset Backed	$ 4,280	1.95	$ 55,968	0.86
Cash Equivalents (Short-term Money Market)	40,702	-	54,035	0.04
Corporate Bonds	9,534	5.25	8,943	1.64
Government & Agencies	43,362	6.78	192,095	3.32
Mortgage Related	29,867	3.70	240,465	2.81
Subtotal	127,745	3.62	551,506	2.50
Foreign Fixed Income				
International Fixed	27,256	4.67	705	3.06
Total	$ 155,001	3.81	$ 552,211	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 reflects a higher level of credit risk/loss sensitivity and requires each manager to maintain a specific average AA rating as issued by a nationally recognized rating organization. Additionally, the investment policy requires the operating funds to have 50 percent of the assets invested in government and government agency issues. The Investment Policy for the CEF reflects its long-term nature by specifying average quality rating levels by individual manager, but still restricting investments to investment grade credits.

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

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

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, 2007, the University had net outstanding forward commitments to sell foreign currency with a total fair value of $9.3 million, which equals 0.3 percent of the total portfolio.

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

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

University of Washington
Consolidated Endowment Fund
Foreign Currency Risk
June 30, 2007
(expressed in thousands)

Foreign Currency	Market Value
Britain-Pound	$ 77,162
Canada-Dollar	47,221
China - Renminbi	73,377
E.M.U.-Euro	280,762
Hong Kong-Dollar	27,818
India-Rupee	26,677
Japan-Yen	135,921
Korea-Won	42,311
Taiwan-Dollar	31,165
Other (less than 3% each)	227,170
Total	$ 969,584

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, 2007, securities on loan approximated $286 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 two days.

The OST investment policy requires that any securities on loan be made available by the lending agent for next day liquidity at the option of the OST. During Fiscal Year 2007, the OST had no credit risk exposure to borrowers because the amounts owed to the borrowers exceeded the amounts the borrowers owed the OST. There were no violations of legal or contractual provisions or any losses resulting from a default of a borrower or lending agent during the fiscal year.

3. INTEREST RATE RISK

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

The following schedule presents the fair value of the OST's investments by type at June 30, 2007.

Office of the State Treasurer (OST)
Cash Management Account
June 30, 2007
(expressed in thousands)

		Maturity		
Investment Type	**Fair Value**	Less than 1 year	1-5 years	6-10 years
U.S. Government Obligations	$ 55,247	$ 55,247	$ -	$ -
U.S. Agency Obligations	3,318,278	1,244,532	1,172,406	901,340
Certificates of Deposit	616,292	616,292	-	-
Repurchase Agreements	1,672,000	1,672,000	-	-
Securities Lending Collateral	294,279	294,279	-	-
Total	$ 5,956,096	$ 3,882,350	$ 1,172,406	$ 901,340

4. CREDIT RISK

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

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

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. For non-governmental securities, the OST limits its exposure to concentration of credit risk by restricting the amount of investments to no more than 5 percent of the portfolio to any single issuer. During Fiscal Year 2007, 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 2007, 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, 2007, consisted of the following (expressed in thousands):

Taxes Receivable	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	**Total**
Property	$ 870,409	$ -	$ -	$ 362	$ 870,771
Sales	1,338,116	5,742	-	22,785	1,366,643
Business and occupation	413,134	-	-	-	413,134
Estate	5,646	3,132	-	-	8,778
Fuel	-	-	-	98,563	98,563
Other	2,522	-	-	207	2,729
Subtotals	2,629,827	8,874	-	121,917	2,760,618
Less: Allowance for uncollectible receivables	30,260	-	-	283	30,543
Total Taxes Receivable	$ 2,599,567	$ 8,874	$ -	$ 121,634	$ 2,730,075

Other Receivables

Other receivables at June 30, 2007, consisted of the following (expressed in thousands):

Other Receivables	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	**Total**
Public assistance (1)	$ 1,180,721	$ -	$ -	$ -	$ 1,180,721
Accounts receivable	31,158	123,352	1,047	72,347	227,904
Interest	-	8,698	8,623	6,742	24,063
Loans (2)	6,450	127,784	-	296,001	430,235
Long-term contracts (3)	3,215	-	15,549	91,025	109,789
Miscellaneous	7,498	4,090	17,872	101,313	130,773
Subtotals	1,229,042	263,924	43,091	567,428	2,103,485
Less: Allowance for uncollectible receivables (1)	987,140	18,107	74	28,031	1,033,352
Total Other Receivables	$ 241,902	$ 245,817	$ 43,017	$ 539,397	$ 1,070,133

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

(2) Significant long-term portions of loans receivable include $106 million in the Higher Education Special Revenue Fund for student loans and $289 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, 2007, consisted of the following (expressed in thousands):

Deferred Revenues	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
Property taxes	$ 851,227	$ -	$ -	$ 155	$ 851,382
Other taxes	232,301	2,474	-	133	234,908
Timber sales	-	-	15,549	82,030	97,579
Charges for services	25,506	140,386	278	29,531	195,701
Donable goods	6,384	-	-	-	6,384
Miscellaneous	46,426	7,927	-	493,173	547,526
Total Deferred Revenues	$ 1,161,844	$ 150,787	$ 15,827	$ 605,022	$ 1,933,480

B. Proprietary Funds

Taxes Receivable

Taxes receivable at June 30, 2007, consisted of $5 million in liquor taxes reported in Nonmajor Enterprise Funds.

Other Receivables

Other receivables at June 30, 2007, 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	$ 117,881	$ -	$ 210,999	$ 30,221	$ 359,101	$ 5,212
Interest	114,987	-	1,968	5,248	122,203	381
Loans	-	-	5	-	5	-
Miscellaneous	550,442	503,309	2,489	555	1,056,795	1,039
Subtotals	783,310	503,309	215,461	36,024	1,538,104	6,632
Less: Allowance for uncollectible receivables	79,713	88,091	79,982	71	247,857	205
Total Other Receivables	$ 703,597	$ 415,218	$ 135,479	$ 35,953	$ 1,290,247	$ 6,427

Unearned Revenues

Unearned revenues at June 30, 2007, consisted of the following (expressed in thousands):

Unearned Revenues	Business-Type Activities Enterprise Funds: Workers' Compensation	Unemployment Compensation	Higher Education Student Services	Nonmajor Enterprise Funds	Total	Governmental Activities: Internal Service Funds
Charges for services	$ 5	$ -	$ 32,818	$ 90	$ 32,913	$ 2,707
Other taxes	2,031	-	-	3	2,034	-
Miscellaneous	11,661	-	607	-	12,268	1,773
Total Unearned Revenues	$ 13,697	$ -	$ 33,425	$ 93	$ 47,215	$ 4,480

C. Fiduciary Funds

Other Receivables

Other receivables at June 30, 2007, consisted of the following (expressed in thousands):

Other Receivables	Private-Purpose Trust	Local Government Investment Pool	Pension and Other Employee Benefit Plans	Agency Funds
Accounts receivable	$ -	$ -	$ -	$ 15,126
Interest	-	21,659	-	53,260
Loans	-	-	-	1
Miscellaneous	5,079	-	-	177,914
Subtotals	5,079	21,659	-	246,301
Less: Allowance for uncollectible receivables	-	-	-	775
Total Other Receivables	$ 5,079	$ 21,659	$ -	$ 245,526

Unearned Revenues

Unearned revenues at June 30, 2007, consisted of $1.1 million for service credit restorations reported in Pension and Other Employee Benefit Plans Funds.

Note 5 - Interfund Balances and Transfers

A. Interfund Balances

The following balances at June 30, 2007, represent due from and due to balances among all funds and state agencies (expressed in thousands):

	Due From						
Due To	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Workers' Compensation	Unemployment Compensation	Higher Education Student Services
General	$ 69,896	$ 7,912	$ -	$ 61,071	$ 321	$ -	$ -
Higher Educ. Special Revenue	30,518	23,053	-	16,647	137	-	34,268
Higher Education Endowment	-	-	70	227	-	-	-
Nonmajor Governmental Funds	237,824	495	2,314	175,638	26	963	2
Workers' Compensation	205	-	-	2	58,965	-	-
Unemployment Compensation	822	676	-	372	42	-	6
Higher Educ. Student Services	246	17,761	-	9,375	100	-	32,752
Nonmajor Enterprise Funds	5,058	135	-	3,948	94	-	6
Internal Service Funds	27,415	1,166	-	17,346	4,714	-	27
Fiduciary Funds	15,060	7,727	-	15,458	254	-	2,639
Totals	$ 387,044	$ 58,925	$ 2,384	$ 300,084	$ 64,653	$ 963	$ 69,700

Except as noted, all interfund balances are expected to be paid within one year from the date of the financial statements. These balances resulted from the time lag between the dates that (1) interfund goods and services were provided and when the payments occurred, and (2) interfund transfers were accrued and when the liquidations occurred. A long-term receivable is recorded in the General Fund for the long-term portion of escheat resources due from Other Private-Purpose Trust Funds.

Nonmajor Enterprise Funds	Internal Service Funds	Fiduciary Funds	Totals
$ 2,156	$ 1,196	$ 95,261	$ 237,813
30,962	18,217	1,466	155,268
-	-	2	299
13,887	9,219	15,774	456,142
88	42	41	59,343
52	58	217	2,245
-	3	63	60,300
7,469	1,412	78	18,200
2,492	69,996	1,372	124,528
375	64	10,082	51,659
$ 57,481	$ 100,207	$ 124,356	$ 1,165,797

B. Interfund Transfers

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

Net transfers between funds for the year ended June 30, 2007, consisted of the following (expressed in thousands):

	Transferred To						
Transferred From	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Workers' Compensation	Higher Education Student Services	Nonmajor Enterprise Funds
General	$ -	$ 379,704	$ -	$ 1,429,973	$ -	$ -	$ 74
Higher Educ. Special Revenue	-	191,081	914	148,221	-	39,035	-
Higher Education Endowment	-	90,619	1,411	31,092	-	14	-
Nonmajor Governmental Funds	19,270	19,508	2,821	694,268	-	-	2,633
Workers' Compensation	-	-	-	1,605	430,109	-	-
Higher Educ. Student Services	-	6,346	227	32,826	-	70,170	-
Nonmajor Enterprise Funds	58,916	-	-	146,849	-	-	14,485
Internal Service Funds	50,000	602	-	2,136	-	1,234	-
Totals	$ 128,186	$ 687,860	$ 5,373	$ 2,486,970	$ 430,109	$ 110,453	$ 17,192

Additionally, there were transfers of $5.7 million within the state's Pension trust funds. The transfers from Pension trust funds were into other Pension trust funds.

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

In Fiscal Year 2007, in accordance with budget and other legal provisions, state transfers from the General Fund to nonmajor governmental funds included $392.9 million for education, $115 million for pension stabilization, and $100 million for health services. The state also recorded transfers of $289.1 million from the General Fund to the Emergency Reserve Account and $50 million from the Health Insurance Fund, an internal service fund, to the General Fund.

Internal Service Funds	Totals
$ 33,602	$ 1,843,353
1,865	381,116
-	123,136
240	738,740
-	431,714
320	109,889
-	220,250
68,495	122,467
$ 104,522	$ 3,970,665

Note 6 - Capital Assets

A. Governmental Capital Assets

The following is a summary of governmental capital asset activity for the year ended June 30, 2007 (expressed in thousands):

Capital Assets	Balances July 1, 2006	Additions	Deletions	Balances June 30, 2007
Capital assets, not being depreciated:				
Land	$ 1,238,341	54,322	(280,603)	$ 1,012,060
Transportation Infrastructure	14,212,743	1,335,466	-	15,548,209
Construction in Progress	1,063,772	559,667	(387,078)	1,236,361
Art Collections, Library Reserves, and Museum and Historical Collections	108,233	3,779	(2,522)	109,490
Total capital assets, not being depreciated	16,623,089			17,906,120
Capital assets, being depreciated:				
Buildings	7,825,170	513,774	(27,622)	8,311,322
Accumulated depreciation	(2,578,371)	(219,120)	31,294	(2,766,197)
Net buildings	5,246,799			5,545,125
Furnishings, equipment, and collections*	3,426,394	283,610	(101,364)	3,608,640
Accumulated depreciation*	(2,063,988)	(223,713)	77,577	(2,210,124)
Net furnishings, equipment and collections	1,362,406			1,398,516
Other improvements	938,322	67,354	(2,757)	1,002,919
Accumulated depreciation	(353,330)	(35,522)	436	(388,416)
Net other improvements	584,992			614,503
Infrastructure (other)	537,981	125,700	(761)	662,920
Accumulated depreciation	(181,112)	(111,813)	34	(292,891)
Net infrastructure (other)	356,869			370,029
Total capital assets, being depreciated, net	7,551,066			7,928,173
Governmental activities capital assets, net	$ 24,174,155			$ 25,834,293

*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, 2007, (expressed in thousands):

Capital Assets	Balances July 1, 2006	Additions	Deletions	Balances June 30, 2007
Capital assets, not being depreciated:				
Land	$ 92,181	43,173	(35)	$ 135,319
Construction in Progress	138,328	138,529	(99,187)	177,670
Art Collections	35	-	-	35
Total capital assets, not being depreciated	230,544			313,024
Capital assets, being depreciated:				
Buildings	1,696,232	200,637	(3,882)	1,892,987
Accumulated depreciation	(512,805)	(45,271)	1,712	(556,364)
Net buildings	1,183,427			1,336,623
Furnishings, equipment, and collections*	395,374	70,112	(29,828)	435,658
Accumulated depreciation*	(280,332)	(35,498)	17,970	(297,860)
Net furnishings, equipment, and collections	115,042			137,798
Other Improvements	53,726	4,413	(1,745)	56,394
Accumulated depreciation	(17,118)	(2,486)	480	(19,124)
Net other improvements	36,608			37,270
Infrastructure (other)	33,198	1,049	-	34,247
Accumulated depreciation	(11,787)	(1,387)	-	(13,174)
Net infrastructure (other)	21,411			21,073
Total capital assets, being depreciated, net	1,356,488			1,532,764
Business-type activities capital assets, net	$ 1,587,032			$ 1,845,788

*Beginning balances restated to reflect change in fund reclassification.

C. Depreciation

Depreciation expense for the year ended June 30, 2007, was charged to functions of the primary government as follows (expressed in thousands):

	Amount
Governmental Activities:	
General Government	$ 50,214
Education - Elementary and Secondary (K-12)	2,270
Education - Higher Education	256,354
Human Services	32,144
Adult Corrections	26,734
Natural Resources and Recreation	38,492
Transportation	79,388
Total Depreciation Expense - Governmental Activities	$ 485,596 *
Business-Type Activities:	
Workers' Compensation	$ 8,220
Unemployment Compensation	-
Higher Education Student Services	60,949
Other	16,023
Total Depreciation Expense - Business-Type Activities	$ 85,192

*Includes $62 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, 2007, are as follows (expressed in thousands):

Agency/Project Commitments	Construction In Progress June 30, 2007	Remaining Project Commitments
Department of General Administration:		
Legislative and other buildings rehab., repairs & expansion, and other projects	$ 231,388	$ 6,788
Liquor Control Board:		
Distribution Center expansion project	10,857	5,303
Military Department:		
Renovation and remodeling of readiness facilities and other projects	5,191	2,641
Department of Social and Health Services:		
State hospital & juvenile rehab construction & renovations, and other projects	109,869	18,164
Department of Corrections:		
Correctional centers construction, improvements, and other projects	220,791	432,838
Department of Transportation:		
State highway office and maintenance facilities, and ferry vessels and terminals	223,155	102,618
Transportation infrastructure	-	2,865,000
Parks and Recreation Commission:		
State park facilities projects	9,290	3,106
Department of Fish and Wildlife:		
Skookumchuck Hatchery, hatchery renovations, and other projects	8,132	4,919
Higher Education Facilities:		
University of Washington	195,553	158,051
Washington State University	122,368	374,562
Eastern Washington University	22,190	10,258
Central Washington University	7,333	-
The Evergreen State College	4,997	638
Western Washington University	26,881	28,785
Community and Technical Colleges	212,008	304,964
Other Agencies Miscellaneous Projects	4,028	2,713
Total Construction in Progress	$ 1,414,031	$ 4,321,348

Note 7 – Long-Term Liabilities

A. Bonds Payable

Bonds payable at June 30, 2007, 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 2007 was $9.8 billion, under the constitutional limitation. This computation excludes specific bond issues and types, which are not secured by general state revenues. Of the $11.7 billion general obligation bond debt outstanding at June 30, $7.4 is subject to the limitation. Based on the debt limitation calculation, the debt service requirements as of June 30, 2007, 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_FY2007.pdf.

Authorized but unissued
The state had a total of $10.8 billion in bonds authorized but unissued as of June 30, 2007, 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 2.5 to 7.75 percent. Variable rate demand obligations (VRDO) of $215.3 million as of June 30, 2007, are remarketed on a weekly basis. Interest rates on revenue bonds range from 2.0 to 6.63 percent.

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

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

Outstanding general obligations bonds are presented in the Washington State Treasurer's Annual Report for 2007. 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, 2007, are as follows (expressed in thousands):

	Governmental Activities		Business-Type Activities		Totals	
General Obligation Bonds	Principal	Interest	Principal	Interest	Principal	Interest
By Fiscal Year:						
2008	$ 536,366	$ 534,634	$ 20,690	$ 3,196	$ 557,056	$ 537,830
2009	539,600	527,809	11,265	4,897	550,865	532,706
2010	526,631	506,497	8,912	4,481	535,543	510,978
2011	509,838	484,184	8,196	4,140	518,034	488,324
2012	499,905	464,599	7,484	3,767	507,389	468,366
2013-2017	2,861,169	2,000,759	30,105	26,097	2,891,274	2,026,856
2018-2022	2,712,332	1,448,576	14,107	34,682	2,726,439	1,483,258
2023-2027	2,200,521	802,826	-	-	2,200,521	802,826
2028-2032	1,169,174	302,122	-	-	1,169,174	302,122
2033-2037	16,985	382	-	-	16,985.0	382.0
Total Debt Service Requirements	$ 11,572,521	$ 7,072,388	$ 100,759	$ 81,260	$ 11,673,280	$ 7,153,648

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.

Governmental activities include revenue bonds outstanding at June 30, 2007 of $490.2 million issued by the Tobacco Settlement Authority (TSA), which is a blended component unit of the state. The bonds are obligations of the TSA and are secured solely by the TSA's right to receive 29.2 percent of the state's tobacco settlement revenues, restricted investments of the TSA, and undistributed TSA bond proceeds. These bonds do not constitute either a legal or moral obligation of the state, nor does the state pledge its full faith, credit or taxing power for payment of these bonds.

Governmental activities also include revenue bonds outstanding at June 30, 2007 of $56.8 million issued by the Tumwater Office Properties (TOP), which is a blended component unit of the state. The bonds 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.

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

Total debt service requirements for revenue bonds to maturity as of June 30, 2007, are as follows (expressed in thousands):

	Governmental Activities		Business-Type Activities		Totals	
Revenue Bonds	Principal	Interest	Principal	Interest	Principal	Interest
By Fiscal Year:						
2008	$ 13,270	$ 33,835	$ 32,410	$ 43,982	$ 45,680	$ 77,817
2009	13,777	35,622	23,175	42,253	36,952	77,875
2010	13,236	35,286	25,551	41,153	38,787	76,439
2011	17,113	34,649	27,113	39,950	44,226	74,599
2012	18,392	33,679	28,511	38,686	46,903	72,365
2013-2017	93,999	143,324	156,970	171,399	250,969	314,723
2018-2022	101,802	123,849	205,229	130,898	307,031	254,747
2023-2027	142,469	87,780	153,046	86,940	295,515	174,720
2028-2032	188,508	35,362	140,484	46,183	328,992	81,545
2033-2037	5,154	498	96,733	15,331	101,887	15,829
Total Debt Service Requirements	$ 607,720	$ 563,884	$ 889,222	$ 656,775	$ 1,496,942	$ 1,220,659

DEBT REFUNDINGS

When advantageous and permitted by statute and bond covenants, the State Finance Committee authorizes the refunding of outstanding bonds and certificates of participation. Colleges and universities may also refund revenue bonds. When the state refunds outstanding bonds, the net proceeds of each refunding issue are used to purchase U.S. government securities that are placed in irrevocable trusts with escrow agents to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered defeased and the liability has been removed from the government-wide statement of net assets.

CURRENT YEAR DEFEASANCES

Governmental Activities:

On November 14, 2006, the state issued $321.0 million of Various Purpose General Obligation Refunding Bonds (series R-2007A) with an average interest rate of 5.0 percent to refund $322.2 million of Various Purpose General Obligation Bonds from several series with an average interest rate of 5.58 percent. The refunding resulted in a $23.8 million gross debt service savings over the next 20 years and a net present value savings of $21.4 million.

On November 14, 2006, the state issued $63.8 million of Motor Vehicle Fuel Tax Refunding Bonds (series R-2007B) with an average interest rate of 5.0 percent to refund $64.9 million of Motor Vehicle Fuel Tax Bonds from several series with an average interest rate of 5.51 percent. The refunding resulted in a $5.1 million gross debt service savings over the next 20 years and a net present value savings of $4.6 million.

On May 30, 2007, the state issued $376.8 million of Various Purpose General Obligation Refunding Bonds (series R-2007C) with an average interest rate of 5.0 percent to refund $392.2 million of Various Purpose General Obligation Bonds from several series with an average interest rate of 5.0 percent. The refunding resulted in a $33.4 million gross debt service savings over the next 16 years and a net present value savings of $24.8 million.

On May 30, 2007, the state issued $73.0 million of Motor Vehicle Fuel Tax Refunding Bonds (series R-2007D) with an average interest rate of 4.96 percent to refund $75.4 million of Motor Vehicle Fuel Tax Bonds from several series with an average interest rate of 5.03 percent. The refunding resulted in a $7.9 million gross debt service savings over the next 17 years and a net present value savings of $4.8 million.

Business-Type Activities:

On October 11, 2006, Eastern Washington University issued $33.7 million in Services and Activities Fee Revenue Bonds, 2006. The bonds were sold as one issue and allocated between $28.1 million for the Recreation Center and $5.6 million refunding of current debt with an average interest rate of 4 percent to refund $5.6 million of Services and Activities Fee Revenue Bonds, 1993 with an average interest rate of 4.98 percent. The refunding resulted in $417 thousand gross debt service savings over the next seven years and an economic gain of $330 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, 2007, $894.0 million of general obligation bonded debt outstanding is considered defeased.

Revenue Bond Debt:
On June 30, 2007, $97.1 million of revenue bonded debt outstanding is considered defeased.

B. Certificates of Participation

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

Total debt service requirements for certificates of participation to maturity as of June 30, 2007, are as follows (expressed in thousands):

	Governmental Activities		Business-Type Activities		Totals	
Certificates of Participation	Principal	Interest	Principal	Interest	Principal	Interest
By Fiscal Year:						
2008	$ 41,198	$ 22,865	$ 40,381	$ 15,226	$ 81,579	$ 38,091
2009	37,374	14,545	20,936	9,887	58,310	24,432
2010	34,938	13,051	20,406	9,003	55,344	22,054
2011	32,245	11,610	19,962	8,118	52,207	19,728
2012	30,883	10,216	19,774	7,225	50,657	17,441
2013-2017	150,736	29,901	83,009	21,704	233,745	51,605
2018-2022	37,686	8,385	28,384	6,315	66,070	14,700
2023-2027	16,890	1,777	12,720	1,339	29,610	3,116
2028-2032	-	-	-	-	-	-
2033-2037	-	-	-	-	-	-
Total Debt Service Requirements	$ 381,950	$ 112,350	$ 245,572	$ 78,817	$ 627,522	$ 191,167

C. Claims and Judgments

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

Workers' Compensation
Changes in the balances of workers' compensation claims liabilities during Fiscal Years 2006 and 2007 were as follows (expressed in thousands):

Workers' Compensation Fund	Balances Beginning of Fiscal Year	Incurred Claims and Changes in Estimates	Claim Payments	Balances End of Fiscal Year
FY 2006	$ 17,278,895	2,131,407	(1,655,201)	$ 17,755,101
FY 2007	$ 17,755,101	3,721,024	(1,729,633)	$ 19,746,492

At June 30, 2007, $32.6 billion of unpaid claims and claim adjustment expenses are presented at their net present and settlement value of $19.7 billion. These claims are discounted at assumed interest rates of 2.5 percent (time loss and medical) to 6.5 percent (pensions) to arrive at a settlement value that is net of third party recoveries.

The claims and claim adjustment liabilities of $19.7 billion, as of June 30, 2007, include $10.5 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 $9.2 billion are fully funded by long-term investments, net of obligations under securities lending agreements.

Risk Management

Changes in the balances of risk management claims liabilities during Fiscal Years 2006 and 2007 were as follows (expressed in thousands):

Risk Management Fund	Balances Beginning of Fiscal Year	Incurred Claims and Changes in Estimates	Claim Payments	Tort Defense Payments	Balances End of Fiscal Year
FY 2006	$ 508,113	72,512	(36,750)	(16,677)	$ 527,198
FY 2007	$ 527,198	102,693	(36,057)	(17,271)	$ 576,563

Risk Management reports claims and judgment liabilities when it becomes probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an actuarially determined amount for claims that have been incurred but not reported. It also includes an actuarial estimate of loss adjustment expenses for tort defense. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, it should be recognized that future loss emergence will likely deviate, perhaps materially, from the actuarial estimates. Claims liabilities are re-evaluated annually to take into consideration recently settled claims, the frequency of claims, and other economic or social factors.

The state is a defendant in a significant number of lawsuits pertaining to property and casualty matters. As of June 30, 2007, outstanding and actuarially determined claims against the state and its public authorities including actuarially projected defense costs were $576.6 million for which the state has recorded a liability. The state is restricted by law from accumulating funds in the Self Insurance Liability Program in excess of 50 percent of total outstanding and actuarially determined claims. At June 30, 2007, the Risk Management Fund held $132.5 million in cash and pooled investments designated for payment of these claims under the state's Self Insurance Liability Program.

Health Insurance

Changes in the balances of Health Insurance claim liabilities during Fiscal Years 2006 and 2007 were as follows (expressed in thousands):

Health Insurance Fund	Balances Beginning of Fiscal Year	Incurred Claims and Changes in Estimates	Claim Payments	Balances End of Fiscal Year
FY 2006	$ 78,429	599,782	(606,765)	$ 71,446
FY 2007*	$ 53,584	503,994	(501,260)	$ 56,318

* Beginning balance restated - refer to Note 2.

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, 2007, health insurance claims liabilities totaling $56.3 million are fully funded with cash and investments, net of obligations under securities lending agreements.

D. Leases

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

Leased land, buildings and equipment under capital leases as of June 30, 2007, include the following (expressed in thousands):

	Governmental Activities	Business-Type Activities
Land (non-depreciable)	$ 1,918	$ -
Buildings	14,130	1,759
Equipment	34,685	30,524
Less: Accumulated Depreciation	(32,588)	(19,161)
Totals	$ 18,145	$ 13,122

The following schedule presents future minimum payments for capital and operating leases as of June 30, 2007, (expressed in thousands):

	Capital Leases		Operating Leases	
Capital and Operating Leases	Governmental Activities	Business-Type Activities	Governmental Activities	Business-Type Activities
By Fiscal Year:				
2008	$ 6,360	$ 6,401	$ 78,221	$ 23,635
2009	6,385	6,275	71,718	23,621
2010	3,647	4,006	64,018	24,202
2011	2,458	2,525	52,315	24,127
2012	1,306	971	38,584	22,950
2013-2017	1,953	1,925	126,631	21,697
2018-2022	451	1,925	48,068	22,360
2023-2027	-	47	37,336	23,476
2028-2032	-	-	24,691	24,648
2033-2037	-	-	25,655	25,881
Total Future Minimum Payments	22,560	24,075	567,237	236,597
Less: Executory costs and interest costs	2,210	3,037	-	-
Net Present Value of future minimum lease payments	$ 20,350	$ 21,038	$ 567,237	$ 236,597

The total operating lease rental expense for Fiscal Year 2007 was $190.8 million.

E. Long-Term Liability Activity

Long-term liability activity for the Fiscal Year 2007 (expressed in thousands) was as follows:

Governmental Activities:	Beginning Balance July 1, 2006	Additions	Reductions	Ending Balance June 30, 2007	Amounts Due Within One Year
Long-term Debt:					
GO Bonds Payable -					
General obligation (GO) bonds	$ 9,675,385	$ 2,420,420	$ 1,312,705	$ 10,783,100	$ 515,085
GO - zero coupon bonds (principal)	788,258	16,181	15,018	789,421	21,281
Subtotal - GO Bonds payable	10,463,643	2,436,601	1,327,723	11,572,521	536,366
Accreted Interest - GO - zero coupon bonds	234,296	30,515	-	264,811	-
Revenue Bonds Payable *	615,035	-	7,315	607,720	13,270
Less: Deferred amounts for issuance discounts	(11,307)	-	(596)	(10,711)	-
Less: Unamortized bond issuance costs	(1,905)	-	(100)	(1,805)	-
Total Bonds Payable	11,299,762	2,467,116	1,334,342	12,432,536	549,636
Other Liabilities -					
Certificates of participation	333,280	79,974	31,304	381,950	41,198
Claims and judgments	699,599	776,155	735,144	740,610	172,463
Installment contracts	4,057	-	1,089	2,968	-
Leases *	17,582	3,826	1,058	20,350	5,582
Compensated absences	466,131	397,194	347,028	516,297	56,430
Unfunded pension obligations	77,281	20,071	637	96,715	-
Other	213,707	365,774	392,136	187,345	140,217
Total Other Liabilities	1,811,637	1,642,994	1,508,396	1,946,235	415,890
Total	$ 13,111,399	$ 4,110,110	$ 2,842,738	$ 14,378,771	$ 965,526

* Beginning balances have been restated to reflect reclassification of the debt of Tumwater Office Properties, a blended component unit of the state, from a lease obligation to a revenue bond obligation.

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, 23.7 percent by the Higher Education Special Revenue Funds, and the balance by various other governmental funds. The claims and judgments liability will be liquidated primarily through the risk management fund, an internal service fund. Leases, installment contract obligations, and other liabilities will be repaid from various other governmental funds.

Business-Type Activities	Beginning Balance July 1, 2006	Additions	Reductions	Ending Balance June 30, 2007	Amounts Due Within One Year
Long-term Debt:					
GO Bonds Payable					
General obligation (GO) bonds	$ 91,185	$ 15,460	$ 35,145	$ 71,500	$ 20,690
GO - zero coupon bonds (principal)	29,259	-	-	29,259	-
Subtotal - GO Bonds payable	120,444	15,460	35,145	100,759	20,690
Accreted Interest - GO - zero coupon bonds	27,123	3,494	-	30,617	-
Revenue Bonds Payable	793,548	117,765	22,091	889,222	32,410
Less: Deferred gain/loss on bond refunding	(8,925)	(425)	(830)	(8,520)	-
Plus: Unamortized amounts issuance premiums	5,031	154	371	4,814	-
Less: Deferred amounts for issuance discounts	(1,774)	(112)	(93)	(1,793)	-
Less: Unamortized bond issuance costs	(3,046)	(998)	(278)	(3,766)	-
Total Bonds Payable	932,401	135,338	56,406	1,011,333	53,100
Other liabilities -					
Certificates of participation	239,170	27,997	21,595	245,572	40,381
Less: Deferred amounts for issuance discounts	(1,604)	144	-	(1,460)	-
Claims and judgments	17,759,792	3,726,187	1,733,034	19,752,945	1,779,637
Lottery prize annuities payable	421,847	109,054	142,192	388,709	62,630
Tuition benefits payable	768,300	229,956	67,856	930,400	35,700
Leases	20,718	3,384	3,064	21,038	5,670
Compensated absences	47,594	27,173	22,577	52,190	20,846
Other	24,602	977,144	836,251	165,495	34,326
Total Other Liabilities	19,280,419	5,101,039	2,826,569	21,554,889	1,979,190
Total	$ 20,212,820	$ 5,236,377	$ 2,882,975	$ 22,566,222	$ 2,032,290

Note 8 - No Commitment Debt

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

These bonds do not constitute either a legal or moral obligation of the state or these financing authorities, nor does the state or these financing authorities pledge their faith and credit for the payment of such bonds. Debt service on the bonds is payable solely from payments made by the borrowers pursuant to loan agreements. Due to their no commitment nature, the bonds issued by these financing authorities are excluded from the state's financial statements.

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

Financing Authorities	Principal Balance
Washington State Housing Finance Commission	$ 3,692,045
Washington Higher Education Facilities Authority	522,389
Washington Health Care Facilities Authority	3,709,000
Washington Economic Development Finance Authority	633,597
Total No Commitment Debt	$ 8,557,031

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, 2007, 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	$ -	$ 98,033	$ -	$ -	$ 98,033
Investments with trustees	654	-	-	493	1,147
Long-term receivables	101,283	163	-	1,598,374	1,699,820
Long-term investments	-	87,314	-	2,445	89,759
Emergency reserve	-	-	-	293,878	293,878
Petty cash	672	5,696	-	833	7,202
Total Reserved for Other Specific Purposes	$ 102,609	$ 191,206	$ -	$ 1,896,024	$ 2,189,839

Note 10 - Deficit Net Assets

At June 30, 2007, there were two proprietary funds with deficit net assets.

The Workers' Compensation Fund, a major enterprise fund, had deficit net assets of $8.2 billion at June 30, 2007. The fund is used to account for the workers' compensation program, which provides time-loss, medical, disability, and pension payments to qualifying individuals sustaining work-related injuries. The main benefit plans of the workers' compensation program are funded based on rates that will keep these plans solvent in accordance with recognized actuarial principles. The supplemental pension cost-of-living adjustments (COLA) granted for time-loss and disability payments, however, are funded on a pay-as-you-go basis. By statute, the state is only allowed to collect enough revenue to fund the current COLA payments.

The following schedule details the changes in total net assets for the Workers' Compensation Fund during the fiscal year ended June 30, 2007 (expressed in thousands):

Workers' Compensation Fund	Net Assets (Deficit)
Balance, July 1, 2006	$ (7,060,769)
Fiscal Year 2007 activity	(1,124,786)
Balance, June 30, 2007	$ (8,185,555)

The Risk Management Fund, an internal service fund, had deficit net assets of $446.9 million at June 30, 2007. 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, 2007 (expressed in thousands):

Risk Management Fund	Net Assets (Deficit)
Balance, July 1, 2006	$ (413,957)
Fiscal Year 2007 activity	(32,914)
Balance, June 30, 2007	$ (446,871)

Note 11 - Retirement Plans

A. General

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

Basis of Accounting

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

Investments

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

DEPARTMENT OF RETIREMENT SYSTEMS

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

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

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

School Employees' Retirement System (SERS)
- Plan 2 - defined benefit
- Plan 3 - defined benefit/defined contribution

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)
- Plan 1 - defined benefit
- Plan 2 - defined benefit

Washington State Patrol Retirement System (WSPRS)
- Plan 1 - defined benefit
- Plan 2 - defined benefit

Public Safety Employees Retirement System (PSERS)
- Plan 2 - defined benefit

Judicial Retirement System (JRS)
- Defined benefit plan

Judges' Retirement Fund (Judges)
- Defined benefit plan

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

Administration of the PERS, TRS, SERS, LEOFF, WSPRS, and PSERS systems and plans was funded by an employer rate of 0.18 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 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 a Higher Education Retirement Plan, privately administered defined contribution plans.

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

Membership of each state administered plan consisted of the following at September 30, 2006, the date of the latest actuarial valuation for all plans except for VFFRPF which had an actuarial valuation performed on December 31, 2006.

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	54,834	2,675	13,245	968	71,722
PERS 2	14,881	20,604	82,969	35,372	153,826
PERS 3	486	2,331	9,001	13,472	25,290
TRS 1	35,745	1,224	7,248	134	44,351
TRS 2	1,574	2,542	6,505	478	11,099
TRS 3	933	4,045	25,809	27,562	58,349
SERS 2	1,815	3,627	16,418	2,046	23,906
SERS 3	943	3,267	13,924	18,430	36,564
LEOFF 1	8,172	5	595	1	8,773
LEOFF 2	779	597	12,116	3,602	17,094
WSPRS 1	808	110	896	10	1,824
WSPRS 2	-	-	1	115	116
PSERS 2	-	-	-	2,073	2,073
JRS	132	1	11	-	144
Judges	15	-	-	-	15
JRA	-	184	34	-	218
VFFRPF	3,309	4,966	4,694	6,933	19,902
Total	124,426	46,178	193,466	111,196	475,266

Following is a summary of the number of government employers participating in state administered retirement plans as of June 30, 2007.

Number of Participating Employers

Plan	State Agencies	School Districts	Counties/ Municipalities	Other Political Subdivisions
PERS 1	147	245	183	214
PERS 2	175	-	271	464
PERS 3	162	-	195	257
TRS 1	67	286	-	-
TRS 2	22	275	-	-
TRS 3	30	303	-	-
SERS 2	-	292	-	-
SERS 3	-	294	-	-
LEOFF 1	-	-	74	18
LEOFF 2	7	-	219	153
WSPRS 1	1	-	-	-
WSPRS 2	1	-	-	-
PSERS 2	8	-	61	-
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.

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

PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and 2 defined benefit plans accrue interest at a rate specified by DRS. During Fiscal Year 2007, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in PERS Plan 1 and 2 can elect to withdraw total employee contributions and interest thereon upon separation from PERS-covered employment. PERS Plan 3 defined contribution benefits are financed from employee contributions and investment earnings. Employees in PERS Plan 3 can elect to withdraw total employee contributions adjusted by earnings and losses from the investment of those contributions upon separation from PERS-covered employment.

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior Courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not in national higher education retirement programs; judges of district and municipal courts; and employees of local governments. The Higher Education Retirement Plans are not administered by DRS. Approximately 50 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in state statute and may be amended only by the state Legislature.

PERS Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. Benefits are also actuarially reduced when a Plan 1 member chooses a survivor option. The annual benefit is 2 percent of the average final compensation (AFC) per year of service (AFC is based on the greatest compensation during any 24 eligible consecutive compensation months), capped at 60 percent. 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 10 years of service or after five years of service, as long as 12 consecutive months of service were accrued after attainment of age 44. Plan 3 members are immediately vested in the defined contribution portion of their plan. Vested Plan 3 members are eligible to retire with full benefits at age 65. Plan 3 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. Refer to section I of this note for a description of the defined contribution component of PERS Plan 3.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity payable to the age of 60. The allowance amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any worker's compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60. A member with five years of membership service is eligible for non-duty disability retirement. Prior to the age of 55, the allowance amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. 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 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, if found eligible by the Department of Labor and Industries.

Legislation passed in recent sessions effective in Fiscal Year 2007:

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

Effective July 1, 2006, 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 members benefit (Chapter 172, Laws of 2004).

Effective July 1, 2006, the minimum benefit established in 2004 for PERS Plan 1 retirees who have at least 25 years of service and have been retired for at least 20 years or more is increased by 3 percent annually. The benefit for those PERS Plan 1 retirees, who have at least 20 years of service and have been retired 25 years or more, is also extended and likewise increased (Chapter 244, Laws of 2006).

Effective July 1, 2006, PERS 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 (Chapter 214, Laws of 2006).

Beginning January 1, 2007 through December 31, 2007 judicial members of PERS may choose to participate in the Judicial Benefit Multiplier (JBM) Program (Chapter 189, Laws of 2006). Current justices or judges in PERS

Plan 1 and 2 may make a one-time irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of average final compensation. Judges in PERS Plan 3 can elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of average final compensation.

Members who choose to participate will:

- 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 do not choose to participate will:

- 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.

Justices and judges who are newly elected or appointed to judicial service and choose to become PERS members on or after January 1, 2007, or who have not previously opted into PERS membership, are required to participate in the JBM program. Members required to join the JBM program will:

- 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.

There were no other material changes in PERS benefit provisions for the Fiscal Year ended June 30, 2007.

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

Teachers' Retirement System (TRS)

TRS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. TRS participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977, and by June 30, 1996, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. TRS participants joining the system on or after July 1, 1996, and those who exercised their transfer option, are members of TRS Plan 3.

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

TRS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the TRS Plan 1 and 2 defined benefit plans accrue interest at a rate specified by DRS. During Fiscal Year 2007, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in TRS Plan 1 and 2 can elect to withdraw total employee contributions and interest thereon upon separation from TRS-covered employment. TRS Plan 3 defined contribution benefits are financed from employee contributions and investment earnings. Employees in TRS Plan 3 can elect to withdraw total employee contributions adjusted by earnings and losses from the investment of those contributions upon separation from TRS-covered employment.

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

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

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

TRS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the AFC per year of service. (AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Effective June 7, 2006, TRS Plan 3 members may be vested either after 10 years of service or after five years of service, as long as 12 consecutive months of service were accrued after attainment of age 44. Plan 3 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. Refer to section I of this note for a description of the defined contribution component of TRS Plan 3.

TRS Plan 1 provides death and temporary disability benefits. TRS Plan 1 members receive the following additional lump sum death benefits: retired members-$400 (if retired with ten years of full-time membership), $400 (if inactive with ten years of membership), active members $600 (if employed full-time at time of death). Members on temporary disability receive a monthly payment of $180 payable for up to two years, for the same occurrence. After five years of service, members on a disability retirement receive an allowance based on their salary and service to date of disability. Members enrolled in TRS prior to April 25, 1973, may elect a benefit based on the formula in effect at that time.

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

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

In addition, a $150,000 death benefit is provided to the estate (or duly designated nominee) of a TRS member who dies in the line of service as a result of injuries sustained in the course of employment, if found eligible by the Department of Labor and Industries.

Legislation passed in recent sessions effective in Fiscal Year 2007:

Beginning January 1, 2007 through December 31, 2007 judicial members of TRS may choose to participate in the Judicial Benefit Multiplier (JBM) Program (Chapter 189, Laws of 2006). Current justices or judges in TRS Plan 1 may 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 choose to participate will:

- 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 do not choose to participate will:

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

Justices and judges who are newly elected or appointed to judicial service and choose to become TRS members on or after January 1, 2007, or who have not previously opted into TRS membership, are required to participate in the JBM program. Members required to join the JBM program will:

- 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.

Effective July 1, 2006, the minimum benefit established in 2004 for TRS Plan 1 retirees who have at least 25 years of service and have been retired 20 years or more is increased by 3 percent annually. The benefit of those TRS Plan 1 retirees, who have at least 20 years of service and have been retired 25 years or more, is also extended and likewise increased (Chapter 224, Laws of 2006).

Effective July 1, 2006, 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 (Chapter 214, Laws of 2006).

Effective January 1, 2007, active TRS Plan 2 and Plan 3 members may 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 (Chapter 257, Laws of 2006).

There were no other material changes in TRS benefit provisions for the Fiscal Year ended June 30, 2007.

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

School Employees' Retirement System (SERS)

SERS is a cost-sharing multiple-employer retirement system comprised of two separate plans for membership purposes: Plan 2 is a defined benefit plan and Plan 3 is a combination defined benefit/defined contribution plan. As of September 1, 2000, the membership of classified school employees in PERS Plan 2 was transferred to SERS Plan 2. Those who joined on or after October 1, 1977, and by August 31, 2000, are SERS Plan 2 members unless they exercised an option to transfer their membership to Plan 3. SERS participants joining the system on or after September 1, 2000, and those who exercised their transfer option, are members of SERS Plan 3.

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

SERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the SERS Plan 2 defined benefit plan accrue interest at a rate specified by DRS. During Fiscal Year 2007, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in SERS Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from SERS-covered employment. SERS Plan 3 defined contribution benefits are financed from employee contributions and investment earnings. Employees in SERS Plan 3 can elect to withdraw total employee contributions adjusted by earnings and losses from the investment of those contributions upon separation from SERS-covered employment.

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

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

SERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the AFC per year of service. (AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Effective June 7, 2006, allows SERS Plan 3 members to be vested either after 10 years of service or after five years of service, as long as 12 consecutive months of service were accrued after attainment of age 44. Plan 3 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. Refer to section I of this note for a description of the defined contribution component of SERS Plan 3.

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

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

In addition, a $150,000 death benefit is provided to the estate (or duly designated nominee) of a SERS member who dies in the line of service as a result of injuries sustained in the course of employment, if found eligible by the Department of Labor and Industries.

Legislation passed in recent sessions effective in Fiscal Year 2007:

Effective July 1, 2006, 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 (Chapter 172 Laws of 2004).

Effective July 1, 2006, SERS 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 (Chapter 214, Laws of 2006).

There were no other material changes in SERS benefit provisions for the Fiscal Year ended June 30, 2007.

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 2007, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in LEOFF Plan 1 and 2 can elect to withdraw total employee contributions and interest earnings thereon upon separation from LEOFF-covered employment.

LEOFF was established in 1970 by the Legislature. Membership includes all full-time, fully compensated, local law enforcement officers and firefighters. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers who were first included prospectively effective July 27, 2003, being a major exception. LEOFF retirement benefit provisions are established in state statute and may be amended only by the state Legislature. Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established by Initiative 790 to provide governance of LEOFF Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the Legislature for the LEOFF Plan 2 retirement plan.

LEOFF Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50. The benefit per year of service calculated as a percent of final average salary (FAS) is as follows:

Term of Service	Percent of FAS
20+	2.0%
10-19	1.5%
5-9	1.0%

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. If membership was established in LEOFF after February 18, 1974, the service retirement benefit is capped at 60 percent of FAS. A cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index). LEOFF Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 50 with 20 years of service, or at the age of 53 with five years of service, with an allowance of 2 percent of the FAS per year of service (FAS is based on the highest consecutive 60 months). Plan 2 retirements prior to the age of 53 are reduced 3 percent for each year that the benefit commences prior to age 53. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

LEOFF Plan 1 provides death and disability benefits. Death benefits for Plan 1 members on active duty consist of the following: (1) If eligible spouse, 50 percent of the FAS, plus 5 percent of FAS for each surviving child, with a limitation on the combined allowances of 60 percent of the FAS; or (2) If no eligible spouse, 30 percent of FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of FAS. In addition, a duty death benefit of $150,000 is provided to Plan 1 and Plan 2 members.

The LEOFF Plan 1 disability allowance is 50 percent of the FAS plus 5 percent for each child up to a maximum of 60 percent. Upon recovery from disability before the age of 50, a member is restored to service with full credit for service while disabled. Upon recovery after the age of 50, the benefit continues as the greater of the member's disability allowance or service retirement allowance.

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is 2 percent of the FAS for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 53, and to reflect the choice of a survivor option.

Members of LEOFF Plan 2 who leave service because of a line of duty disability are allowed to withdraw 150 percent of accumulated member contributions. This withdrawal benefit is not subject to federal income tax. Alternatively, members of LEOFF Plan 2 who leave service because of a line of duty disability can receive a retirement allowance, not actuarially reduced, of at least 10 percent of FAS. If the unreduced 2 percent per year of service disability benefit results in a greater benefit than the minimum 10 percent, the member receives the greater benefit. The first 10 percent of the line-duty disability benefit is not subject to federal income tax. The line-duty disability benefit applies to all LEOFF Plan 2 members disabled in the line of duty on or after January 1, 2001. Alternatively, members of LEOFF 2 who leave service because of a line of duty disability that is totally disabling can receive a retirement allowance, not actuarially reduced, of 70 percent of FAS. This amount is offset by Labor and Industries and Social Security benefits so that when all benefits are combined, they do not exceed 100 percent of FAS.

Beneficiaries of a LEOFF Plan 2 member with 10 years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not 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 a 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.

Legislation passed in recent sessions effective in Fiscal Year 2007:

Effective July 1, 2006, the benefit cap of 60 percent of a LEOFF Plan 1 member's FAS is removed for a member enrolled on or after February 19, 1974 (Chapter 350, Laws of 2006).

Effective July 1, 2006, LEOFF Plan 2 members may purchase up to five years of additional service credit at retirement (Chapter 21, Laws of 2005).

Effective July 1, 2006, 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 (Chapter 214, Laws of 2006).

There were no other material changes in LEOFF benefit provisions for the Fiscal Year ended June 30, 2007.

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 2007, the DRS-established rate on employee contributions was 5.5 percent annually, compounded monthly. Employees in WSPRS can elect to withdraw total employee contributions and interest earnings thereon upon separation from WSPRS-covered employment.

WSPRS was established by the Legislature in 1947. Any commissioned employee of the Washington State Patrol is eligible to participate. WSPRS benefits are established in state statute and may be amended only by the state Legislature.

WSPRS retirement benefits are vested after an employee completes five years of eligible service. Members are eligible for retirement at the age of 55 with five years of service, or after 25 years of service. The annual pension is 2 percent of the average final salary (AFS), capped at 75 percent, per year of service. A cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

WSPRS benefit provisions include death benefits; however, the system provides no disability benefits. Disability benefits may be available from the Washington State Patrol. If disability benefits are received, the member may be eligible to acquire service credit for the period of disability. In addition, a duty death benefit of $150,000 is provided to all WSPRS members.

For WSPRS Plan 1 members, AFS is based on the average of the two highest-paid service credit years and excludes voluntary overtime. Death benefits for Plan 1 members on active duty consist of the following: (1) If eligible spouse, 50 percent of the AFS, plus 5 percent of the AFS for each surviving child, with a limitation on the combined allowances of 60 percent of the AFS; or (2) If no eligible spouse, 30 percent of AFS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of AFS.

For WSPRS Plan 2 members, AFS is based on the average of the five consecutive highest-paid service credit years and excludes both voluntary overtime and cash-outs of annual and holiday leave. At retirement, Plan 2 members also have the option of selecting an actuarially reduced benefit in order to provide for post-retirement survivor benefits. Death benefits for active-duty Plan 2 members consist of the following: (1) If the member is single or has less than 10 years of service, the return of the member's accumulated contributions; or (2) If the member is married, has an eligible child, or has completed 10 years of service, a reduced benefit allowance reflecting a joint and 100 percent survivor option or 150 percent of the member's accumulated contributions, at the survivor's option.

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

Benefits for surviving spouses of disabled state troopers will be based on the current salaries of members of the same rank the member held at the time of disablement (Chapter 94, Laws of 2006).

Effective July 1, 2006, 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 (Chapter 214, Laws 2006).

There were no other material changes in WSPRS benefit provisions for the Fiscal Year ended June 30, 2007.

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. 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 10 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 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 10 or more service credit years in PSERS), or less than 65 (with fewer than 10 service credit years).

Beneficiaries of a PSERS Plan 2 member with 10 years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not 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, if found eligible by the Department of Labor and Industries.

Legislation passed in recent sessions effective in Fiscal Year 2007:

Effective July 1, 2006, PSERS members may purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at 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 (Chapter 214, Laws of 2006).

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 2007, the DRS established rate on employee contributions was 5.5 percent, compounded quarterly. JRS employees who are vested in the plan may not elect to withdraw their contributions upon termination. However, any JRS member that left the system before July 1, 1988, or his/her spouse, who was ineligible to receive a benefit at that time, may apply and receive a refund of such contributions from DRS, if said contributions have not been already refunded via a sundry claims appropriation from the state legislature.

JRS was established by the Legislature in 1971. Membership includes judges elected or appointed to the Supreme Court, Court of Appeals, and Superior Courts on or after August 9, 1971. The system was closed to new entrants on July 1, 1988, with new judges joining PERS Plan 2. JRS retirement benefit provisions are established in state statute and may be amended only by the state Legislature.

JRS members are eligible for retirement at the age of 60 with 15 years of service, or at the age of 60 after 12 years of service (if the member left office involuntarily) with at least 15 years after beginning judicial service.

The benefit per year of service calculated as a percent of average final compensation (AFC) is as follows:

Term of Service	Percent of AFC
15+	3.5%
10-14	3.0%

Death and disability benefits are also provided. Eligibility for death benefits while on active duty requires 10 or more years of service. A monthly spousal benefit is provided which is equal to 50 percent of the benefit a member would have received if retired. If the member is retired, the surviving spouse receives the greater of 50 percent of the member's retirement benefit or 25 percent of the AFC. For members with 10 or more years of service, a disability benefit of 50 percent of AFC is provided.

There were no material changes in JRS benefit provisions for the Fiscal Year ended June 30, 2007.

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, 2007.

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

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

VFFRPF is a cost-sharing multiple-employer retirement system that provides death and active duty disability benefits to all members, and optional defined benefit pension plan payments.

VFFRPF retirement benefits are financed from a combination of investment earnings, member contributions, municipality contributions, and a special funding situation where the state pays the remaining contributions. VFFRPF members accrue no interest on contributions and may elect to withdraw their contributions upon termination.

The Volunteer Fire Fighters' Relief Act was created by the Legislature in 1935 and the pension portion of the act was added in 1945. Membership in the system requires volunteer firefighter service with a fire department of an electing municipality of Washington State, emergency work as an emergency medical technician with an emergency medical service district, or work as a commissioned reserve law enforcement officer.

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

After 25 years of active membership, members having reached the age of 65 and who have paid their annual retirement fee for 25 years are entitled to receive a monthly benefit of $50 plus $10 per year of service. The maximum monthly benefit is $300. Reduced pensions are available for members under the age of 65 or with less than 25 years of service.

Death and active duty disability benefits are provided at no cost to the member. Death benefits in the line of duty consist of a lump sum of $152,000. Funeral and burial expenses are also paid in a lump sum of $2,000 for members on active duty. Members receiving disability benefits at the time of death shall be paid $500. Members on active duty shall receive disability payments of $2,550 per month for up to six months; thereafter, payments are reduced. Disabled members receive $1,275 per month, their spouse $255, and dependent children $110. Benefit provisions for VFFRPF are established under the authority of chapter 41.24 RCW.

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

There were no material changes in VFFRPF benefit provisions for the Fiscal Year ended June 30, 2007.

C. Funding Policies

Contributions towards the amortization of the PERS 1 and TRS 1 unfunded actuarial accrued liability (UAAL) were suspended for the 2003-05 and 2005-07 biennia. Legislation during the 2006 session provided for resumption of UAAL payments beginning September 1, 2006 for TRS and SERS, and January 1, 2007 for PERS.

The Legislature provided for minimum contribution rates (Chapter 365, Laws of 2006 and Chapter 300, Laws of 2007). The LEOFF 2 Board 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. There are no employer contributions to PERS Plan 3 defined contribution. Employees who participate in the defined contribution portion of PERS Plan 3 contribute to the defined contribution plan instead of the defined benefit portion of PERS Plan 3. The employee chooses from six rate options provided in statute ranging from 5 to 15 percent, two of the options are graduated rates dependent on the employee's age. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates.

As a result of the implementation of the Judicial Benefit Multiplier (JBM) Program in January 2007, a second tier of employer and employee rates was 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 6.0 percent plus 3.76 percent.
- PERS 1 Court of Appeals and Superior Court judges – PERS 1 rate of 6.0 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 2007 were as follows:

PERS Actual Contribution Rates

	Plan 1	Plan 2	Plan 3
Members Not Participating in JBM:			
Employer Rates:			
State agencies*	5.46%	5.46%	5.46%**
Local governmental units*	5.46%	5.46%	5.46%**
State gov't elected officials*	8.10%	5.46%	5.46%**
Employee Rates:			
State agencies	6.00%	3.50%	***
Local governmental units	6.00%	3.50%	***
State gov't elected officials	7.50%	3.50%	***
Members Participating in JBM:			
Employer Rates:			
State agencies*	7.96%	7.96%	7.96%**
Local governmental units*	5.46%	5.46%	5.46%**
Employee Rates:			
State agencies	9.76%	6.25%	7.50%****
Local governmental units	12.26%	8.75%	7.50%****

*Includes an administrative expense rate of 0.18 %.
**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. There are no employer contributions to TRS Plan 3 defined contribution. Employees who participate in the defined contribution portion of TRS Plan 3 contribute to the defined contribution plan instead of the defined benefit portion of TRS Plan 3. The employee chooses from six rate options provided in statute ranging from 5 to 15 percent, two of the options are graduated rates dependent on the employee's age. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates.

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

As a result of the implementation of the Judicial Benefit Multiplier (JBM) Program in January 2007, a second tier of employee rates was 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 6.0 percent plus 6.26 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 2007 were as follows:

TRS Actual Contribution Rates

	Plan 1	Plan 2	Plan 3
Members Not Participating in JBM:			
Employer Rates *	4.74%	4.74%	4.74%**
Employee Rates:			
State agencies	6.00%	3.01%	***
Local governmental units	6.00%	3.01%	***
State gov't elected officials	7.50%	3.01%	***
Members Participating in JBM:			
Employer Rates *	4.74%	n/a	n/a
Employee Rates:			
State agencies	12.26%	n/a	n/a

*Includes an administrative expense rate of 0.18 %.
** Plan 3 defined benefit portion only.
*** Variable from 5% to 15% based on rate selected by the member.

School Employees' Retirement System (SERS)

Each biennium the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 employer contribution rates. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. There are no employer contributions to SERS Plan 3 defined contribution. Employees who participate in the defined contribution portion of SERS Plan 3 contribute to the defined contribution plan instead of the defined benefit portion of SERS Plan 3. The employee chooses from six rate options provided in statute ranging from 5 to 15 percent, two of the options are graduated rates dependent on the employee's age. The Employee

Retirement Benefits Board sets Plan 3 employee contribution rates.

The methods used to determine the contribution requirements are established under state statute in chapters 41.35 and 41.45 RCW.

Required contribution rates (expressed as a percentage of current year covered payroll) at the close of Fiscal Year 2007 were as follows:

SERS Actual Contribution Rates

	Plan 2	Plan 3
Employer Rates:		
State agencies*	4.85%	4.85% **
Local governmental units*	4.85%	4.85% **
Employee Rates:		
State agencies	3.79%	***
Local governmental units	3.79%	***

*Includes an administrative expense rate of 0.18 %.
**Plan 3 defined benefit portion only.
***Variable from 5% to 15% based on rate selected by the member.

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

Beginning July 1, 2000, Plan 1 employers and employees contribute zero percent as long as the plan remains fully funded. Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plan. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF 2 Board. All employers are required to contribute at the level required by state statute.

Required contribution rates (expressed as a percentage of current year covered payroll) at the close of Fiscal Year 2007 were as follows:

LEOFF Actual Contribution Rates

	Plan 1	Plan 2
Employer Rates:		
Ports and Universities*	NA	8.03%
Local governmental units*	0.18%	4.90%
(cities, counties, fire districts, etc)		
Employee Rates:		
Ports and Universities	NA	7.85%
Local governmental units	0.18%	7.85%
(cities, counties, fire districts, etc)		
State of Washington	NA	3.13%

*Includes an administrative expense rate of 0.18 %.

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 2007, the state contributed $37.9 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 2007 were as follows:

WSPRS Actual Contribution Rates

	Plan 1	Plan 2
Employer rate*	4.69%	4.69%
Employee rate	4.51%	4.51%

*Includes an administrative expense rate of 0.18 %.

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 2007 were as follows:

PSERS Actual Contribution Rates

	Plan 2
Employer Rates:	
State agencies*	8.53%
Local governmental units*	8.53%
Employee Rates:	
State agencies	6.57%
Local governmental units	6.57%

*Includes an administrative expense rate of 0.18 %.

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 2007, the state contributed $9.5 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, 2007, 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 2007, the state contributed $0.3 million.

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

The retirement provisions of VFFRPF is funded through member contributions of $30 per year, employer contributions of $30 per year, and 40 percent of the Fire Insurance Premium Tax, as per chapter 41.24 RCW. VFFRPF members earn no interest on contributions and may elect to withdraw their contributions upon termination. The death and disability provisions of VFFRPF are funded by an employer contribution rate, which as of July 24, 2005 increased from $10 to $30 per member (Chapter 37, Laws of 2005).

Administrative expenses are funded through fire insurance premium taxes and are maintained in a separate fund. Amounts not needed for administrative expenses are transferred to VFFRPF.

D. Employer Contributions Required and Paid

The following table presents the state of Washington's required contributions in millions of dollars to cost-sharing plans in accordance with the funding policy. All contributions required by the funding method were paid.

	2007	2006	2005
PERS Plan 1	59.9	$15.0	$11.3
PERS Plan 2/3	118.3	73.1	36.7
TRS Plan 1	2.1	0.5	0.3
TRS Plan 2/3	0.6	0.5	0.2
SERS Plan 2/3	0.0	0.0	0.0
PSERS Plan 2	2.8	n/a	n/a
LEOFF Plan 1	0.0	0.0	0.0
LEOFF Plan 2	38.6	31.7	21.6
VFFRPF	6.0	4.6	4.4

There are no long-term contracts for contributions for any of the retirement plans administered by the state.

E. Annual Pension Cost and Other Related Information

Current year annual pension cost, net pension obligation (NPO) and related information for the current year for the State's single employer and agent multiple-employer defined benefit plans are as follows (amounts in millions):

	WSPRS	JRS	Judges
Annual Pension Cost and Net Pension Obligation:			
Annual required contribution	$ 5.3	$37.3	$ 0.0
Interest on NPO	(1.4)	5.4	(0.2)
Adjustment to annual required contribution	2.2	(28.8)	0.7
Annual pension cost	6.1	13.9	0.5
Less contributions made	3.3	9.6	0.3
Increase (decrease) in NPO	2.8	4.3	0.2
NPO at beginning of year	(16.9)	68.0	(2.2)
NPO at end of year	$(14.1)	$72.3	$(2.0)
Actuarial Assumptions:			
Valuation date	9/30/06	9/30/06	9/30/06
Actuarial cost method	Aggregate*	Entry age	Entry age
Amortization method	n/a	Level $	Level $
Remaining amortization period (closed)	n/a	12/31/08	12/31/08
Asset valuation method	8 year graded smoothed fair value	Market	Market
Actuarial assumptions:			
Investment rate of return	8%	8%	8%
Projected salary increases	4.5%**	4.5%	4.5%
Includes inflation at	3.5%	3.5%	3.5%
Cost-of-living adjustments	CPI increase, maximum 3%	3.%	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.

F. Three Year Historical Trend Information

The following table presents three-year trend information in millions for the plans listed:

	2007	2006	2005
WSPRS			
Annual Pension Cost	$5.3	$7.1	$4.4
% of APC contributed	61.8	44.0	0.0
NPO	$(14.1)	$(16.2)	$(20.2)
JRS			
Annual Pension Cost	$13.9	$13.3	$12.1
% of APC contributed	69.1	50.5	50.8
NPO	$72.3	$68.0	$61.4
Judges			
Annual Pension Cost	$0.5	$0.7	$0.5
% of APC contributed	60.0	42.9	100.0
NPO	$(2.0)	$(2.2)	$(2.6)

There are no long-term contracts for contributions for any of the retirement plans administered by the state.

G. Changes in Actuarial Assumptions and Methods

The demographic assumptions for LEOFF Plan 2 were modified for a disability benefit enhancement.

LEOFF Plan 1 retirement rates were increased at all ages for members with at least 30 year of service to reflect the removal of the 60 percent benefit cap for that plan. Further, the Office of the State Actuary assumed that members with at least 30 years of service would select the now uncapped retirement benefit in lieu of the disability benefit.

H. Changes in Benefit Provisions

The 2007 legislative session provided the following changes in benefit provisions.

- The "base salary" of eligible dual members will now include previously excluded forms of payment that are reportable (for contribution purposes) in each of a dual member's retirement systems. The "maximum benefit rule" is lifted for dual members who have (a) less than 15 years of service in one capped plan; and (b) service in one uncapped plan. LEOFF 2 is added to the list of plans that are able to combine service under portability to receive indexing of the term-vested benefit for members with at least 20 years of service. (Chapter 207, Laws of 2007).

- Judges who are members of PERS Plans 1, 2, and 3 or TRS Plan 1 may elect to have their benefit multipliers increased through a combination of increased contribution rates, lump sum payments, and redirected JRA contributions, where applicable (Chapter 123, Laws of 2007).

- PERS 1 and TRS 1 Uniform COLA eligibility requirements include all retirees who have been retired at least one year and will have attained age 66 by December 31 of the calendar year in which the increase is given (Chapter 89, Laws of 2007).

- Gain-sharing is repealed effective January 2, 2008, for Plans 1 and 3 of PERS, TRS, and SERS. Plans 2 and 3 members with at least 30 years of service will receive improved early retirement reduction factors. New entrants in TRS and SERS will have the choice to become members of Plan 2 or Plan 3. Plan 1 members will receive an additional increase in the Uniform COLA amount (Chapter 491, Laws of 2007).

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

- The $150,000 duty-related death benefit for LEOFF Plan 2 was expanded to cover more duty-related illnesses (Chapter 490, Laws of 2007).

- Surviving spouses of WSPRS Plan 2 members killed in the line of duty are provided continued health care coverage through the Public Employees' Benefits Board and reimbursed for the premiums paid for those benefits (Chapter 488, Laws of 2007).

- WSPRS mandatory retirement age was increased from age 60 to age 65 (Chapter 87, Laws of 2007).

- WSPRS member contribution rates will be no more than 7 percent of pay plus half the cost of any future benefit improvements (Chapter 300, Laws of 2007).

There were no other material pension benefit changes during the 2007 session.

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.

The estimated value of the 2008 gain-sharing event is included in the liabilities for both accounting disclosure and funding purposes.

I. Defined Contribution Plans

Public Employees' Retirement System Plan 3 (PERS 3)

The Public Employees' Retirement System (PERS) Plan 3 is a combination defined benefit/defined contribution plan administered by the state through the Department of Retirement Systems (DRS). Eligible employees include: elected officials; state employees; employees of the Supreme, Appeals, and Superior Courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not in national higher education retirement programs; judges of district and municipal courts; and employees of local governments. PERS participants who joined on or after October 1, 1977, and by either, February 28, 2002, for state and higher education employees, or August 31, 2002, for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants who joined the system on or after March 1, 2002, for state and higher education employees, or September 1, 2002, for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. Refer to section B of this note for PERS plan descriptions.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. As established by RCW 41.40, employee contribution rates to the defined contribution component range from 5 to 15 percent of salaries based on member choice. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are solely dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions as authorized by the Employee Retirement Benefits Board. Any expenses caused in conjunction with self-directed investments are to be paid by members. Absent a member's self-direction, PERS Plan 3 investments are made in the same portfolio as that of the PERS 2/3 defined benefit plan.

For Fiscal Year 2007, employee contributions required and made were $71.7 million, and plan refunds paid out were $35.3 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 a defined contribution component. As established by RCW 41.34, employee contribution rates to the defined contribution component range from 5 to 15 percent of salaries based on member choice. There are currently no requirements for employer contributions to the defined contribution component of TRS Plan 3.

TRS Plan 3 defined contribution retirement benefits are solely dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions as authorized by the Employee Retirement Benefits Board. Any expenses caused in conjunction with self-directed investments are to be paid by members. Absent a member's self-direction, TRS Plan 3 investments are made in the same portfolio as that of the TRS 2/3 defined benefit plan.

For Fiscal Year 2007, employee contributions required and made were $213.9 million and plan refunds paid out were $62.8 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, are also members of SERS Plan 3. Refer to Section B of this note for SERS plan descriptions.

SERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. As established by RCW 41.35, employee contribution rates to the defined contribution component range from 5 to 15 percent of salaries based on member choice. There are currently no requirements for employer contributions to the defined contribution component of SERS Plan 3.

SERS Plan 3 defined contribution retirement benefits are solely dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions as authorized by the Employee Retirement Benefits Board. Any expenses caused in conjunction with self-directed investments are to be paid by members. Absent a member's self-direction, SERS Plan 3 investments are made in the same portfolio as that of the SERS 2/3 defined benefit plan.

For Fiscal Year 2007, employee contributions required and made were $54.2 million and plan refunds paid out were $32.1 million.

Judicial Retirement Account (JRA)

The Judicial Retirement Account Plan was established by the Legislature in 1988 to provide supplemental retirement benefits. It is a defined contribution plan administered by the state Administrative Office of the Courts, under the direction of the Board for Judicial Administration. Membership includes judges elected or appointed to the Supreme Court, Court of Appeals, and Superior Courts, and who are members of the PERS for their services as a judge. Vesting is full and immediate. There are three participating employers in JRA.

Member contributions equal 2.5 percent of covered salary and the state, as employer, matches this amount. Contributions are collected by the Administrative Office of the Courts. The employer and employee obligations to contribute are established per chapter 2.14 RCW. Plan provisions and contribution requirements are established in state statute and may be amended only by the State Legislature.

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 may 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 shall not participate in JRA and shall be enrolled in the Judicial Benefit Multiplier Program (SHB 2691, Chapter 189, Laws 2006). As of June 30, 2007, 167 JRA member judges have elected to enroll in JBM.

Current-year covered payroll for JRA employees was $29.6 million for the Fiscal Year ended June 30, 2007. For Fiscal Year 2007, the contribution requirement for JRA was $857 thousand. Actual employer and employee contributions were $427 and $430 thousand respectively, for a total of $857 thousand. Plan benefits paid out for Fiscal Year 2007 totaled $110 thousand.

A JRA member who separates from judicial service for any reason is entitled to receive a lump-sum distribution of the accumulated contributions. The administrator of JRA may adopt rules establishing other payment options. If a member dies, the amount of accumulated contributions standing to the member's credit at the time of the member's death shall be paid to the member's estate, or such person or persons, trust or organization as the member has nominated by written designation.

The Administrator of JRA has entered an agreement with DRS for accounting and reporting services, and the Washington State Investment Board (SIB) for investment services. DRS is responsible for all record keeping, accounting, and reporting of member accounts. The SIB has the full power to establish investment policy, develop participant investment options, and manage the investment funds from the JRA plan, consistent with the provisions of RCW 2.14.080 and RCW 43.84.150.

Higher Education Retirement Plans

The Higher Education Retirement Plans are privately administered defined contribution plans with a supplemental plan component. As authorized by RCW 28B.10, the plans cover higher education faculty and other positions as designated by each institution. The state and regional universities, the state college, and the state community and technical colleges each participate in a plan. Contributions to the plans are invested in annuity contracts or mutual fund accounts offered by one or more fund sponsors. Benefits from fund sponsors are available upon separation or retirement at the member's option. Employees have at all times a 100 percent vested interest in their accumulations. RCW 28.B.10.400 et. seq. assigns the authority to establish and amend benefit provisions to: the board of regents of the state universities, the boards of trustees of the regional universities and the state college, and the state board for community colleges.

Employee contribution rates, based on age, range from 5 to 10 percent of salary. The employers match the employee contributions. The employer and employee obligations to contribute are established per chapter 28B.10 RCW. For Fiscal Year 2007, covered payroll was $1.57 billion. Employer and employee contributions were $130.7 million each, for a total of $261.4 million. These contribution amounts represent approximately 8 percent each of covered payroll for employers and employees.

The plans have a supplemental payment component which guarantees a minimum retirement benefit based upon a one-time calculation at each employee's retirement date. Institutions make direct payments to qualifying retirees when the retirement benefits provided by the fund sponsors do not meet the benefit goals. The supplemental component is financed on a pay-as-you-go basis.

An actuarial evaluation of the supplemental component of the Higher Education Retirement plans was done at the end of Fiscal Year 2007. The previous evaluation 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):

	2007	2006	2005
Annual required contribution	$ 16.6	$ 5.1	$ 5.1
Payments to beneficiaries	(1.9)	(1.6)	(2.1)
Increase (decrease) in NPO	14.7	3.5	3.0
NPO at beginning of year	9.3	5.8	2.8
NPO at end of year	$ 24.0	$ 9.3	$ 5.8

J. Plan Net Assets and Changes in Plan Net Assets

The Combining Statement of Plan Net Assets that follows presents the principal components of receivables, investments, and liabilities. The Combining Statement of Changes in Plan Net Assets presents the additions and deductions to plan net assets.

Combining Statement of Plan Net Assets
Pension and Other Employee Benefit Funds

June 30, 2007

continued

(expressed in thousands)

	PERS Plan 1	PERS Plan 2/3 Defined Benefit	PERS Plan 3 Defined Contribution	TRS Plan 1	TRS Plan 2/3 Defined Benefit	TRS Plan 3 Defined Contribution
Assets:						
Cash and pooled investments	$ 2,364	$ 11,916	$ 112	$ 4,056	$ 7,555	$ 2,248
Receivables:						
Employer accounts receivable	5,656	33,001	3,585	3,993	11,534	18,910
Member accounts receivable (net of allowance)	557	125	-	307	2	-
Due from other funds	2,461	425	9,140	301	2,907	17,044
Interest and dividends	35,851	54,099	2,439	30,319	19,109	7,189
Investment trades pending	30,878	46,977	2,116	25,969	16,563	6,231
Total Receivables	75,403	134,627	17,280	60,889	50,115	49,374
Investments, Noncurrent:						
Public equity	5,445,528	8,281,870	920,788	4,579,712	2,917,415	2,710,493
Fixed income	2,358,434	3,586,842	162,658	1,983,453	1,263,519	477,411
Private equity	2,104,177	3,200,154	145,122	1,769,622	1,127,302	425,942
Real estate	1,267,564	1,927,784	87,422	1,066,026	679,091	256,589
Security lending	1,034,459	1,572,977	71,300	870,069	554,380	209,268
Liquidity	427,884	662,274	24,816	403,774	245,882	81,852
Other	7,741	11,772	534	6,510	4,147	1,567
Total Investments, Noncurrent	12,645,787	19,243,673	1,412,640	10,679,166	6,791,736	4,163,122
Total Assets	$ 12,723,554	$ 19,390,216	$ 1,430,032	$ 10,744,111	$ 6,849,406	$ 4,214,744
Liabilities:						
Obligations under security lending agreements	$ 1,034,460	$ 1,573,385	$ 70,892	$ 870,069	$ 555,036	$ 208,613
Accrued liabilities	167,286	245,564	11,028	140,987	86,642	32,455
Due to other funds	83	12,077	159	85	17,750	2,856
Deferred revenues	199	449	-	424	4	-
Total Liabilities	1,202,028	1,831,475	82,079	1,011,565	659,432	243,924
Net Assets						
Net Assets Held in Trust for:						
Pension Benefits	11,521,526	17,558,741	1,347,953	9,732,546	6,189,974	3,970,820
(Schedule of funding progress by plan begins on page 144)						
Deferred Compensation Participants	-	-	-	-	-	-
Total Net Assets	$ 11,521,526	$ 17,558,741	$ 1,347,953	$ 9,732,546	$ 6,189,974	$ 3,970,820

Combining Statement of Plan Net Assets
Pension and Other Employee Benefit Funds

June 30, 2007

continued

(expressed in thousands)

	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	$ 1,321	$ 676	$ -	$ 1,905	$ 688	$ 408
Receivables:						
Employer accounts receivable	5,662	4,836	-	10,106	285	1,097
Member accounts receivable (net of allowance)	-	-	67	40	-	-
Due from other funds	2,535	8,041	7	16	3	2
Interest and dividends	7,758	2,420	19,912	15,966	2,985	37
Investment trades pending	6,724	2,096	17,222	13,847	2,586	30
Total Receivables	22,679	17,393	37,208	39,975	5,859	1,166
Investments, Noncurrent:						
Public equity	1,183,847	629,123	3,037,097	2,442,033	455,836	5,215
Fixed income	512,719	160,906	1,315,353	1,057,633	197,421	2,258
Private equity	457,444	143,559	1,173,549	943,613	176,137	2,015
Real estate	275,566	86,481	706,950	568,436	106,106	1,214
Security lending	224,856	70,532	576,740	463,722	86,590	1,011
Liquidity	100,635	26,205	231,970	200,484	35,296	2,002
Other	1,683	528	4,317	3,471	648	7
Total Investments, Noncurrent	2,756,750	1,117,334	7,045,976	5,679,392	1,058,034	13,722
Total Assets	$ 2,780,750	$ 1,135,403	$ 7,083,184	$ 5,721,272	$ 1,064,581	$ 15,296
Liabilities:						
Obligations under security lending agreements	$ 225,191	$ 70,197	$ 576,740	$ 463,723	$ 86,593	$ 1,011
Accrued liabilities	35,191	10,921	90,211	72,147	13,649	154
Due to other funds	8,264	2,527	17	170	6	87
Deferred revenues	3	-	13	14	-	-
Total Liabilities	268,649	83,645	666,981	536,054	100,248	1,252
Net Assets						
Net Assets Held in Trust for:						
Pension Benefits	2,512,101	1,051,758	6,416,203	5,185,218	964,333	14,044
(Schedule of funding progress by plan begins on page 144)						
Deferred Compensation Participants	-	-	-	-	-	-
Total Net Assets	$ 2,512,101	$ 1,051,758	$ 6,416,203	$ 5,185,218	$ 964,333	$ 14,044

Combining Statement of Plan Net Assets
Pension and Other Employee Benefit Funds
June 30, 2007 concluded
(expressed in thousands)

	JRS	JRA	Judges	VFFRPF	Deferred Compensation	**Total**
Assets:						
Cash and pooled investments	$ 111	$ 6	$ 3,996	$ 31,424	$ 614	$ 69,400
Receivables:						
Employer accounts receivable	9	-	-	-	-	98,674
Member accounts receivable (net of allowance)	1	1	-	-	1,884	2,984
Due from other funds	1	-	16	114	1	43,014
Interest and dividends	4	-	-	428	1	198,517
Investment trades pending	-	-	-	372	-	171,611
Total Receivables	15	1	16	914	1,886	514,800
Investments, Noncurrent:						
Public equity	-	20,324	-	58,724	2,547,420	35,235,425
Fixed income	-	-	-	22,591	-	13,101,198
Private equity	-	-	-	25,340	-	11,693,976
Real estate	-	-	-	15,265	-	7,044,494
Security lending	13	-	197	26,675	32	5,762,821
Liquidity	453	-	-	4,998	-	2,448,525
Other	-	-	-	93	-	43,018
Total Investments, Noncurrent	466	20,324	197	153,686	2,547,452	75,329,457
Total Assets	$ 592	$ 20,331	$ 4,209	$ 186,024	$ 2,549,952	$ 75,913,657
Liabilities:						
Obligations under security lending agreements	$ 14	$ -	$ 206	$ 14,068	$ 31	$ 5,750,229
Accrued liabilities	33	-	3	1,940	7	908,218
Due to other funds	-	-	-	-	16	44,097
Deferred revenues	-	-	-	-	-	1,106
Total Liabilities	47	-	209	16,008	54	6,703,650
Net Assets						
Net Assets Held in Trust for:						
Pension Benefits (Schedule of funding progress by plan begins on page 144)	545	20,331	4,000	170,016	-	66,660,109
Deferred Compensation Participants	-	-	-	-	2,549,898	2,549,898
Total Net Assets	$ 545	$ 20,331	$ 4,000	$ 170,016	$ 2,549,898	$ 69,210,007

Combining Statement of Changes in Plan Net Assets

Pension and Other Employee Benefit Funds

For the Fiscal Year Ended June 30, 2007

continued

(expressed in thousands)

	PERS Plan 1	PERS Plan 2/3 Defined Benefit	PERS Plan 3 Defined Contribution	TRS Plan 1	TRS Plan 2/3 Defined Benefit	TRS Plan 3 Defined Contribution
Additions:						
Contributions:						
Employers	$ 118,660	$ 242,544	$ -	$ 60,462	$ 102,180	$ -
Members	49,685	211,672	71,712	34,654	12,894	213,879
State	-	-	-	-	-	-
Participants	-	-	-	-	-	-
Total Contributions	168,345	454,216	71,712	95,116	115,074	213,879
Investment Income:						
Net appreciation (depreciation) in fair value	1,689,861	2,476,276	177,526	1,427,296	873,319	548,119
Interest and dividends	462,171	674,830	35,860	390,445	238,479	96,678
Less: Investment expenses	(65,585)	(96,589)	(4,911)	(55,358)	(33,765)	(14,302)
Net Investment Income	2,086,447	3,054,517	208,475	1,762,383	1,078,033	630,495
Transfers from other pension plans	519	292	1,572	84	201	581
Other additions	-	-	-	-	-	-
Total Additions	2,255,311	3,509,025	281,759	1,857,583	1,193,308	844,955
Deductions:						
Pension benefits	978,995	143,802	-	802,344	28,534	18
Pension refunds	6,214	26,465	35,254	1,878	2,726	62,810
Transfers to other pension plans	28	3,899	439	-	437	254
Administrative expenses	463	541	-	121	45	-
Distributions to participants	-	-	-	-	-	-
Total Deductions	985,700	174,707	35,693	804,343	31,742	63,082
Net Increase (Decrease)	1,269,611	3,334,318	246,066	1,053,240	1,161,566	781,873
Net Assets - Beginning	10,251,915	14,224,423	1,101,887	8,679,306	5,028,408	3,188,947
Net Assets - Ending	$ 11,521,526	$ 17,558,741	$ 1,347,953	$ 9,732,546	$ 6,189,974	$ 3,970,820

Combining Statement of Changes in Plan Net Assets

Pension and Other Employee Benefit Funds

For the Fiscal Year Ended June 30, 2007

continued

(expressed in thousands)

	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	$ 45,950	$ -	$ 56	$ 58,191	$ 3,278	$ 6,612
Members	17,484	54,175	597	97,387	3,278	6,664
State	-	-	-	37,928	-	-
Participants	-	-	-	-	-	-
Total Contributions	63,434	54,175	653	193,506	6,556	13,276
Investment Income:						
Net appreciation (depreciation) in fair value	352,885	141,462	934,448	723,726	138,925	595
Interest and dividends	96,458	33,071	254,516	197,481	37,847	242
Less: Investment expenses	(13,683)	(4,563)	(36,237)	(28,780)	(5,390)	(25)
Net Investment Income	435,660	169,970	1,152,727	892,427	171,382	812
Transfers from other pension plans	1,998	239	-	-	164	-
Other additions	-	-	-	-	-	-
Total Additions	501,092	224,384	1,153,380	1,085,933	178,102	14,088
Deductions:						
Pension benefits	17,641	-	300,452	20,812	31,393	-
Pension refunds	2,516	32,077	11	7,995	290	23
Transfers to other pension plans	274	289	-	30	-	-
Administrative expenses	29	-	150	139	21	21
Distributions to participants	-	-	-	-	-	-
Total Deductions	20,460	32,366	300,613	28,976	31,704	44
Net Increase (Decrease)	480,632	192,018	852,767	1,056,957	146,398	14,044
Net Assets - Beginning	2,031,469	859,740	5,563,436	4,128,261	817,935	-
Net Assets - Ending	$ 2,512,101	$ 1,051,758	$ 6,416,203	$ 5,185,218	$ 964,333	$ 14,044

Combining Statement of Changes in Plan Net Assets

Pension and Other Employee Benefit Funds

For the Fiscal Year Ended June 30, 2007 concluded
(expressed in thousands)

	JRS	JRA	Judges	VFFRPF	Deferred Compensation	**Total**
Additions:						
Contributions:						
Employers	$ 111	$ 427	$ -	$ 1,038	$ -	$ 639,509
Members	111	430	-	118	-	774,740
State	9,539	-	300	6,026	-	53,793
Participants	-	-	-	-	175,055	175,055
Total Contributions	9,761	857	300	7,182	175,055	1,643,097
Investment Income:						
Net appreciation (depreciation) in fair value	-	2,090	-	20,216	268,183	9,774,927
Interest and dividends	145	386	194	6,716	49,097	2,574,616
Less: Investment expenses	(6)	(25)	(9)	(850)	(3,101)	(363,179)
Net Investment Income	139	2,451	185	26,082	314,179	11,986,364
Transfers from other pension plans	-	-	-	-	-	5,650
Other additions	-	6	-	1	680	687
Total Additions	9,900	3,314	485	33,265	489,914	13,635,798
Deductions:						
Pension benefits	9,356	110	581	9,111	-	2,343,149
Pension refunds	-	-	-	18	-	178,277
Transfers to other pension plans	-	-	-	-	-	5,650
Administrative expenses	-	-	-	37	-	1,567
Distributions to participants	-	-	-	-	127,198	127,198
Total Deductions	9,356	110	581	9,166	127,198	2,655,841
Net Increase (Decrease)	544	3,204	(96)	24,099	362,716	10,979,957
Net Assets - Beginning	1	17,127	4,096	145,917	2,187,182	58,230,050
Net Assets - Ending	$ 545	$ 20,331	$ 4,000	$ 170,016	$ 2,549,898	$ 69,210,007

Note 12 – Other Post Employment Benefits

In addition to pension benefits as described in Note 11, the state, through the Health Care Authority (HCA), administers an agency multiple-employer other post employment 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), 53 of the state's K-12 school and educational service districts and 206 political subdivisions. Additionally, the PEBB plan is available to the retirees of the remaining 253 K-12 and educational service districts (ESDs). As of June 2007 membership in the PEBB plan consisted of the following:

	Active Employees	Retirees[1]	Total
State	107,253	24,452	131,705
K-12 and ESDs [2]	2,031	25,212	27,243
Political Subdivisions	11,209	834	12,043
Total	120,493	50,498	170,991

[1]Retirees include retired employees, surviving spouses, and terminated members entitled to a benefit.

[2]In Fiscal Year 2007, there were 105,348 active employees in the 253 K-12 and educational service districts that elected to limit participation in PEBB only to their retirees.

For Fiscal Year 2007, the estimated monthly cost for PEBB benefits for active employees (average across all plans and tiers) is as follows:

Required Premium[3]	
Medical	$676
Dental	70
Life	4
Long-term disability	3
Total	$753
Employer contribution	$ 680
Employee contribution	73
Total	$ 753

[3] Per 2007 Conference Budget Legislative Model 2.3

The relationship between the PEBB OPEB plan and its member employers and their employees and retirees is not formalized in a contract or plan document. Rather, the benefits are provided in accordance with a substantive plan. A substantive plan is one in which the plan terms are understood by the employers and plan members. This understanding is based on communications between the HCA, employers and plan members and the historical pattern of practice with regard to the sharing of benefit costs.

The PEBB retiree OPEB plan is available to employees who elect to continue coverage and pay the administratively established premiums at the time they retire under the provisions of the retirement system to which they belong. Retirees' access to PEBB plans depends on the retirement eligibility of their respective retirement system. PEBB members are covered in the following retirement systems: PERS, PSERS, TRS, SERS, WSPRS, and Higher Education.

Per RCW 41.05.022, retirees who are not yet eligible for Medicare benefits may continue participation in the state's Non- Medicare community-rated health insurance risk pool on a self-pay basis. Retirees in the Non-Medicare risk pool receive an implicit subsidy. The implicit subsidy exists because retired members pay a premium based on a claims experience for active employees and other Non-Medicare retirees. The subsidy is valued using the difference between the age-based claims costs and the premium. In Calendar Year 2006, the average weighted implicit subsidy was valued at $235.61 per member per month, and in Calendar Year 2007, the average weighted implicit subsidy is projected to be $251.46 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 2006, the explicit subsidy was $131.87 per member per month, and in Calendar Year 2007, the explicit subsidy is $149.67 per member per month.

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 2007, the cost of the subsidies was approximately 6.6 percent of the cost of benefits for active employee. 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. Information related to investment valuations is presented in Note 3.

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/publications/pension_studies.htm.

Washington will be implementing GASB Statement No. 45 "*Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*" for Fiscal Year 2008 financial reporting.

Note 13 - Commitments and Contingencies

A. Construction and Other Commitments

Outstanding commitments related to state infrastructure and facility construction, improvement, and/or renovation totaled $4.3 billion at June 30, 2007.

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 totaling $209 million involving claims of inadequate funding for care of foster children, disabled adults, and the elderly as well as for indigent emergency medical services. 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 that could result in refunds up to $5 million individually.

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 $18 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 $27 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 $143 million in Fiscal Year 2008 and is subject to various offsets, reductions, and adjustments. Beginning in 2008, Washington will receive 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.

Early in 2006, a determination was made that disadvantages experienced as a result of participating in the MSA were a significant factor contributing to the market share loss by manufacturers. This determination related to 2003 sales data. Earlier this year a similar determination was made for the year 2004. Washington faces a potential "NPM adjustment" of between $0 and $130 million for the year 2003 and $0 and $137 million for the year 2004.

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. The court's ruling was not entirely unexpected given that 18 other state courts had entered orders compelling arbitration and only one court, North Dakota, has agreed that the courts should determine the issue. Washington’s appeal was dismissed and the trial court’s order compelling arbitration is now final. A decision on the merits before any arbitral panel is unlikely to be issued before the next MSA payment is due in April 2008. The Settling States and the Participating Manufacturers have been engaged in settlement discussions but no negotiated resolution has been achieved to date.

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

<u>School Bond Guarantee Program</u>
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 2007, the state had guaranteed 189 school districts’ voter-approved general obligation debt with a total outstanding principal of $6.4 billion. The state estimates that school bond guarantee liability, if any, will be immaterial to its overall financial condition.

<u>Local Option Capital Asset Lending Program (LOCAL)</u>
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, 2007, outstanding certificates of participation notes totaled $59 million for 187 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 August 2007, the University of Washington issued $138.4 million in General Revenue Bonds to fund various University projects.

In September 2007, the state issued $512.9 million in Various Purpose General Obligation Bonds, Series 2008A, $387 million in Motor Vehicle Fuel Tax General Obligation Bonds, Series 2008B and $70 million in General Obligation Taxable Bonds, Series 2008T.

B. Certificates of Participation

In September 2007, the state issued $6.4 million in Certificates of Participation for various state and local government equipment purchases and a real estate purchase, Series 2007E.

In November 2007, the state issued $18.2 million in Certificates of Participation for a state real estate purchase, Series 2007F.

In December 2007, the state plans to issue $10.5 million in Certificates of Participation for various state and local government equipment and real estate purchases, Series 2007G.

Required Supplementary Information

Budgetary Information

Budgetary Comparison Schedule

General Fund

For the Biennium Ended June 30, 2007
(expressed in thousands)

	General Fund			
	Original Budget 2005-07 Biennium	Final Budget 2005-07 Biennium	Actual 2005-07 Biennium	Variance with Final Budget
Budgetary fund balance, July 1	$ 869,659	$ 869,659	$ 869,659	$ -
Resources:				
Taxes	24,760,740	27,111,751	27,204,240	92,489
Licenses, permits, and fees	157,669	172,507	176,854	4,347
Other contracts and grants	246,203	245,208	245,675	467
Timber sales	6,485	5,625	5,570	(55)
Federal grants-in-aid	11,272,200	11,538,498	10,973,676	(564,822)
Charges for services	96,035	109,565	106,772	(2,793)
Interest income	85,659	167,023	178,238	11,215
Miscellaneous revenue	91,786	144,640	118,401	(26,239)
Escheated property	-	-	100,131	100,131
Transfers from other funds	427,316	422,988	372,719	(50,269)
Total Resources	38,013,752	40,787,464	40,351,935	(435,529)
Charges to appropriations:				
General government	2,687,901	4,141,389	4,114,086	27,303
Human services	18,937,160	19,119,125	18,735,785	383,340
Natural resources and recreation	582,257	658,106	591,892	66,214
Transportation	75,415	83,030	79,986	3,044
Education	15,270,796	15,555,602	15,472,116	83,486
Capital outlays	241,483	251,598	116,097	135,501
Transfers to other funds	119,429	131,683	467,486	(335,803)
Total Charges to appropriations	37,914,441	39,940,533	39,577,448	363,085
Excess available for appropriation				
Over (Under) charges to appropriations	99,311	846,931	774,487	(72,444)
Reconciling Items:				
Changes in reserves (net)	-	-	(19,649)	(19,649)
Entity adjustments (net)	-	-	25,672	25,672
Total Reconciling Items	-	-	6,023	6,023
Budgetary Fund Balance, June 30	$ 99,311	$ 846,931	$ 780,510	$ (66,421)

Budgetary Information

Budgetary Comparison Schedule

Budget to GAAP Reconciliation

General Fund

For the Biennium Ended June 30, 2007

(expressed in thousands)

	General Fund
Sources/inflows of resources	
Actual amounts (budgetary basis) "Total Resources"	
from the Budgetary Comparison Schedule	$ 40,351,935
Differences - budget to GAAP:	
The following items are inflows of budgetary resources but are not	
revenue for financial reporting purposes:	
Transfers from other funds	(372,719)
Budgetary fund balance at the beginning of the biennium	(869,659)
The following items are not inflows of budgetary resources but are	
revenue for financial reporting purposes:	
Noncash commodities and electronic food stamp benefits	1,339,073
Unanticipated receipts	36,777
Noncash revenues	201
Revenues collected for other governments	60,723
Biennium total revenues	40,546,331
Fiscal Year 2006 total revenues	(19,719,849)
Total revenues (GAAP basis) as reported on the Statement of Revenues,	
Expenditures, and Changes in Fund Balances - Governmental Funds	$ 20,826,482
Uses/outflows of resources	
Actual amounts (budgetary basis) "Total Charges to Appropriations"	
from the Budgetary Comparison Schedule.	$ 39,577,448
Differences - budget to GAAP:	
Budgeted expenditure transfers are recorded as expenditures in the budget statement but are recorded as other financing source (use) for financial reporting purposes.	(3,197,761)
The following items are outflows of budgetary resources but are	
not expenditures for financial reporting purposes.	
Transfers to other funds	(467,486)
Loan disbursements	(3,940)
The following items are not outflows of budgetary resources but are	
recorded as current expenditures for financial reporting purposes.	
Noncash commodities and electronic food stamp benefits	1,313,602
Expenditures related to unanticipated receipts	36,777
Capital lease acquisitions	22,698
Distributions to other governments	60,723
Biennium total expenditures	37,342,061
Fiscal Year 2006 total expenditures	(18,251,652)
Total expenditures (GAAP basis) as reported on the Statement of Revenues,	
Expenditures, and Changes in Fund Balances - Governmental Funds	$ 19,090,409

Budgetary Information

Notes to Required Supplementary Information

General Budgetary Policies and Procedures

The Governor is required to submit a budget to the state Legislature no later than December 20 of the year preceding odd-numbered year sessions of the Legislature. The budget is a proposal for expenditures in the ensuing biennial period based upon anticipated revenues from the sources and rates existing by law at the time of submission of the budget. The Governor may additionally submit, as an appendix to the budget, a proposal for expenditures in the ensuing biennium from revenue sources derived from proposed changes in existing statutes.

The appropriated budget and any necessary supplemental budgets are legally required to be adopted through the passage of appropriation bills by the Legislature and approved by the Governor. Operating appropriations are generally made at the fund/account and agency level; however, in a few cases, appropriations are made at the fund/account and agency/program level. Operating appropriations cover either the entire biennium or a single fiscal year within the biennium. Capital appropriations are biennial and are generally made at the fund/account, agency, and project level.

The legal level of budgetary control is at the fund/account, agency, and appropriation level, with administrative controls established at lower levels of detail in certain instances. The accompanying budgetary schedules are not presented at the legal level of budgetary control. This is due to the large number of appropriations within individual agencies that would make such a presentation in the accompanying financial schedules extremely cumbersome. Section 2400.121 of the GASB Codification of Governmental Accounting and Financial Reporting Standards provides for the preparation of a separate report in these extreme cases. For the state of Washington, a separate report has been prepared for the 2005-07 Biennium to illustrate legal budgetary compliance. Appropriated budget versus actual expenditures, and estimated versus actual revenues and other financing sources (uses) for appropriated funds at agency and appropriation level are presented in Report CAF1054 for governmental funds. A copy of this report is available at the Office of Financial Management, 6639 Capitol Boulevard, PO Box 43113, Olympia, Washington 98504-3113.

Legislative appropriations are strict legal limits on expenditures/expenses, and 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 versus GAAP Reporting

Governmental funds are budgeted materially in conformance with GAAP. However, the presentation in the accompanying budgetary schedules is different in certain respects from the corresponding Statements of Revenues, Expenditures, and Changes in Fund Balance (governmental operating statement). In the accompanying budgetary schedules, budget and actual expenditures are reported only for appropriated activities. Expenditures are classified based on whether the appropriation is from the operating or capital budget. Expenditures funded by operating budget appropriations are reported as current expenditures classified by the function of the agency receiving the appropriation. Expenditures funded by capital budget appropriations are reported as capital outlays.

However, in the governmental operating statements, all governmental funds are included and expenditures are classified according to what was actually purchased. Capital outlays are fixed asset acquisitions such as land, buildings, and equipment. Debt service expenditures are principal and interest payments. Current expenditures are all other governmental fund expenditures classified based on the function of the agency making the expenditures.

Additionally, certain governmental activities are excluded from the budgetary schedules because they are not appropriated. These activities include: activities designated as nonappropriated by the Legislature, such as the Higher Education Special Revenue Fund, Higher Education Endowment Fund, Tobacco Settlement Securitization Bond Debt Service Fund, federal surplus food commodities, electronic food stamp benefits, capital leases, note proceeds, and resources collected and distributed to other governments.

Further, certain expenditures are appropriated as operating transfers. These transfers are reported as operating transfers on the budgetary schedules and as expenditures on the governmental operating statements. The factors contributing to the differences between the Budgetary Comparison Schedule and the Statement of Revenues, Expenditures, and Changes in Fund Balance are noted in the previous Budget to GAAP reconciliation.

Budgetary Fund Balance includes the following as reported on the Governmental Funds Balance Sheet: Unreserved, undesignated fund balance; and Reserved for encumbrances.

Pension Plan Information

Public Employees' Retirement System - Plan 1

Schedule of Funding Progress

Valuation Years 2006 through 2001 (dollars in millions)

	2006	2005	2004	2003	2002	2001
Actuarial Valuation Date	9/30/2006	9/30/2005	9/30/2004	9/30/2003	9/30/2002	9/30/2001
Actuarial Value of Plan Assets	$ 9,591	$ 9,707	$ 9,928	$ 10,227	$ 10,757	$ 10,990
Actuarial Accrued Liability	13,129	13,704	12,855	12,692	12,560	12,088
Unfunded Actuarial Liability	3,538	3,997	2,927	2,465	1,803	1,098
Percentage Funded	73%	71%	77%	81%	86%	91%
Covered Payroll	725	786	863	945	1,023	1,085
Unfunded Actuarial Liability as a Percentage of Covered Payroll	488%	509%	339%	261%	176%	101%

Source: Washington State Office of the State Actuary

Teachers' Retirement System - Plan 1

Schedule of Funding Progress

Valuation Years 2006 through 2001 (dollars in millions)

	2006	2005	2004	2003	2002	2001
Actuarial Valuation Date	9/30/2006	9/30/2005	9/30/2004	9/30/2003	9/30/2002	9/30/2001
Actuarial Value of Plan Assets	$ 8,275	$ 8,450	$ 8,728	$ 9,086	$ 9,365	$ 9,342
Actuarial Accrued Liability	10,359	10,894	10,401	10,325	10,235	9,895
Unfunded Actuarial Liability	2,084	2,444	1,673	1,239	869	553
Percentage Funded	80%	78%	84%	88%	91%	94%
Covered Payroll	478	546	616	692	741	800
Unfunded Actuarial Liability as a Percentage of Covered Payroll	436%	448%	272%	179%	117%	69%

Source: Washington State Office of the State Actuary

Pension Plan Information

Law Enforcement Officers' and Fire Fighters' Retirement System- Plan 1

Schedule of Funding Progress

Valuation Years 2006 through 2001 (dollars in millions)

	2006	2005	2004	2003	2002	2001
Actuarial Valuation Date	9/30/2006	9/30/2005	9/30/2004	9/30/2003	9/30/2002	9/30/2001
Actuarial Value of Plan Assets	$ 5,018	$ 4,800	$ 4,666	$ 4,803	$ 5,095	$ 5,369
Actuarial Accrued Liability	4,309	4,243	4,266	4,275	4,259	4,153
Unfunded (Assets in Excess of)						
Actuarial Liability	(709)	(557)	(400)	(528)	(836)	(1,216)
Percentage Funded	116%	113%	109%	112%	120%	129%
Covered Payroll	48	56	64	71	80	87
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

Judicial Retirement System

Schedule of Funding Progress

Valuation Years 2006 through 2001 (dollars in millions)

	2006	2005	2004	2003	2002	2001
Actuarial Valuation Date	9/30/2006	9/30/2005	9/30/2004	9/30/2003	9/30/2002	9/30/2001
Actuarial Value of Plan Assets	$ 0.3	$ 2	$ 4	$ 6	$ 8	$ 10
Actuarial Accrued Liability	88	89	89	91	92	92
Unfunded Actuarial Liability	88	87	85	85	84	82
Percentage Funded	0%	2%	4%	7%	9%	11%
Covered Payroll	1.4	1.7	2.4	2.6	3.0	3.0
Unfunded Actuarial Liability as a						
Percentage of Covered Payroll	6286%	5118%	3542%	3269%	2800%	2733%

Source: Washington State Office of the State Actuary

Pension Plan Information

Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund

Schedule of Funding Progress

Valuation Years 2006 through 2001 (dollars in millions)

	2006	2005	2004	2003	2002	2001
Actuarial Valuation Date	12/31/2006	12/31/2005	12/31/2004	12/31/2003	12/31/2002	12/31/2001
Actuarial Value of Plan Assets	$ 140	$ 127	$ 120	$ 120	$ 124	$ 129
Actuarial Accrued Liability*	142	140	115	112	110	99
Unfunded (Assets in Excess of) Actuarial Liability	2	13	(5)	(8)	(14)	(30)
Percentage Funded	99%	91%	104%	107%	113%	130%
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

Judges' Retirement Fund

Schedule of Funding Progress

Valuation Years 2006 through 2001 (dollars in millions)

	2006	2005	2004	2003	2002	2001
Actuarial Valuation Date	9/30/2006	9/30/2005	9/30/2004	9/30/2003	9/30/2002	9/30/2001
Actuarial Value of Plan Assets	$ 4.1	$ 4.2	$ 4.4	$ 4.5	$ 4.7	$ 4.9
Actuarial Accrued Liability	4.0	4.5	4.7	5.2	5.5	6.0
Unfunded (Assets in Excess of) Actuarial Liability	(0.1)	0.3	0.3	0.7	0.8	1.1
Percentage Funded	103%	93%	94%	87%	85%	82%
Covered Payroll	-	-	-	-	0.1	0.1
Unfunded Actuarial Liability as a Percentage of Covered Payroll	N/A	N/A	N/A	N/A	0%	0%

N/A indicates data not available.

Source: Washington State Office of the State Actuary

Pension Plan Information

Schedules of Contributions from Employers and Other Contributing Entities

For the Fiscal Years Ended June 30, 2007 through 2002
(expressed in millions)

	2007	2006	2005	2004	2003	2002
Public Employees' Retirement Plan System - Plan 1						
Employers' Annual Required Contribution	$ 397.3	$ 438.5	$ 340.3	$ 295.1	$ 228.9	$ 164.3
Employers' Actual Contribution	118.7	29.6	22.4	22.8	56.6	68.6
Percentage Contributed	30%	7%	7%	8%	25%	42%
Public Employees' Retirement Plan System - Plan 2/3						
Employers' Annual Required Contribution	$ 331.3	$ 307.6	$ 227.7	$ 192.6	$ 141.7	$ 72.0
Employers' Actual Contribution	242.5	149.6	74.7	69.4	38.2	51.0
Percentage Contributed	73%	49%	33%	36%	27%	71%
Teachers' Retirement System - Plan 1						
Employers' Annual Required Contribution	$ 249.8	$ 287.5	$ 224.3	$ 185.7	$ 153.4	$ 119.8
Employers' Actual Contribution	60.5	15.1	8.8	11.4	20.4	59.5
Percentage Contributed	24%	5%	4%	6%	13%	50%
Teachers' Retirement System - Plan 2/3						
Employers' Annual Required Contribution	$ 167.7	$ 166.4	$ 117.4	$ 96.2	$ 79.5	$ 66.7
Employers' Actual Contribution	102.2	75.4	33.8	29.9	18.2	46.4
Percentage Contributed	61%	45%	29%	31%	23%	70%
School Employees' Retirement System - Plan 2/3						
Employers' Annual Required Contribution	$ 71.5	$ 81.4	$ 64.0	$ 52.3	$ 44.2	$ 19.5
Employers' Actual Contribution	45.9	30.4	10.2	9.1	6.2	11.3
Percentage Contributed	64%	37%	16%	17%	14%	58%

Source: Washington State Office of the State Actuary

The Annual Required Contribution (ARC) changes each year with the experience of the plans. Factors influencing the experience include changes in funding methods, assumptions, plan provisions, and economic and demographic gains and losses. The methods used to derive the ARC for this accounting disclosure are different from that used to derive the actual contributions required by law. These differences include the use of different actuarial valuations (actual contributions may be based on an earlier valuation), and different actuarial cost methods. For these reasons the actual contributions will not match the Annual Required Contributions.

Pension Plan Information

Schedules of Contributions from Employers and Other Contributing Entities

For the Fiscal Years Ended June 30, 2007 through 2002
(expressed in millions)

	2007	2006	2005	2004	2003	2002
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	0.1
Percentage Contributed	100%	N/A	N/A	N/A	N/A	N/A
State Annual Required Contribution	-	-	-	-	-	-
State Actual Contribution	-	-	-	-	-	-
Percentage Contributed	N/A	N/A	N/A	N/A	N/A	N/A
Law Enforcement Officers' and Fire Fighters' Retirement System - Plan 2						
Employers' Annual Required Contribution	$ 56.9	$ 60.8	$ 48.5	$ 41.5	$ 34.1	$ 26.2
Employers' Actual Contribution	58.2	48.5	32.8	30.8	25.6	24.0
Percentage Contributed	102%	80%	68%	74%	75%	92%
State Annual Required Contribution	38.0	40.5	32.3	27.7	22.7	17.5
State Actual Contribution	37.9	31.7	21.3	20.2	16.4	15.6
Percentage Contributed	100%	78%	66%	73%	72%	89%
Washington State Patrol Retirement System						
Employers' Annual Required Contribution	$ 5.3	$ 6.1	$ 3.4	$ 2.6	$ -	$ -
Employers' Actual Contribution	3.3	3.1	-	-	-	-
Percentage Contributed	62%	51%	0%	0%	N/A	N/A

N/A indicates data not available.

Source: Washington State Office of the State Actuary

The Annual Required Contribution (ARC) changes each year with the experience of the plans. Factors influencing the experience include changes in funding methods, assumptions, plan provisions, and economic and demographic gains and losses. The methods used to derive the ARC for this accounting disclosure are different from that used to derive the actual contributions required by law. These differences include the use of different actuarial valuations (actual contributions may be based on an earlier valuation), and different actuarial cost methods. For these reasons the actual contributions will not match the Annual Required Contributions.

Pension Plan Information

Schedules of Contributions from Employers and Other Contributing Entities

For the Fiscal Years Ended June 30, 2007 through 2002
(expressed in millions)

	2007	2006	2005	2004	2003	2002
Public Safety Employees' Retirement Plan System - Plan 2						
Employers' Annual Required Contribution	$ 7.1	-	-	-	-	-
Employers' Actual Contribution	6.6	-	-	-	-	-
Percentage Contributed	93%	N/A	N/A	N/A	N/A	N/A
Judicial Retirement System						
Employers' Annual Required Contribution	$ 37.3	$ 27.7	$ 21.7	$ 18.5	$ 16.2	$ 14.2
Employers' Actual Contribution	9.6	6.7	6.2	6.2	6.2	6.2
Percentage Contributed	26%	24%	29%	34%	38%	44%
Judges' Retirement Fund						
Employers' Annual Required Contribution	$ -	$ 0.1	$ 0.1	$ 0.2	$ 0.1	$ 0.2
Employers' Actual Contribution	0.3	0.3	0.5	0.5	0.3	0.3
Percentage Contributed	N/A	300%	500%	250%	300%	150%
Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund						
Employers' Annual Required Contribution	$ 1.0	$ 1.0	$ 0.7	$ 0.8	$ 0.8	$ 0.8
Employers' Actual Contribution	1.0	1.0	0.7	0.8	0.8	0.8
Percentage Contributed	100%	100%	100%	100%	100%	100%
State Annual Required Contribution	2.0	3.6	1.8	1.5	0.7	-
State Actual Contribution	6.0	4.6	4.4	4.4	3.3	3.3
Percentage Contributed	300%	128%	244%	293%	471%	N/A

N/A indicates data not available.

Source: Washington State Office of the State Actuary

Pension Plan Information

Notes to the Required Supplementary Information
Defined Benefit Pension Plans

For the Fiscal Year Ended June 30, 2007

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated below. Additional information as of the latest valuation follows.

	PERS Plan 1	PERS Plan 2/3	TRS Plan 1	TRS Plan 2/3
Valuation Date	9/30/2006	9/30/2006	9/30/2006	9/30/2006
Actuarial Cost Method	frozen initial liability[1]	aggregate[2]	frozen initial liability[1]	aggregate[2]
Amortization Method				
Funding	level %[3]	n/a	level %[3]	n/a
GASB	level $	n/a	level $	n/a
Remaining amortization period (closed)	7/01/2007 - 6/30/2024	n/a	7/01/2007 - 6/30/2024	n/a
Asset valuation method	8-year graded smoothed fair value[4]	8-year graded smoothed fair value[4]	8-year graded smoothed fair value[4]	8-year graded smoothed fair value[4]
Actuarial assumptions:				
Investment Rate of Return	8.00%	8.00%	8.00%	8.00%
Projected Salary Increases				
Salary Inflation at 4.5%, plus the merit increases described below:				
initial salary merit (grades down to 0%)	6.1%	6.1%	6.2%	6.2%
merit period (years of service)	17 yrs	17 yrs	17 yrs	17 yrs
Includes inflation at	3.50%	3.50%	3.50%	3.50%
Cost of living adjustments	Uniform COLA[5] Gainsharing COLA[5]	CPI increase, maximum 3%	Uniform COLA[5] Gainsharing COLA[5]	CPI increase, maximum 3%

N/A indicates data not applicable.

1 Based on a variation of the Frozen Initial Liability (FIL) cost method.

2 The aggregate cost method does not identify or separately amortize unfunded actuarial liabilities.

3 Level percent of payroll, including system growth.

4 Asset Valuation Method (8 year smoothed fair value): The actuarial value of assets is calculated under an adjusted market value method by starting with the market value of assets. For subsequent years the actuarial value of assets is determined by adjusting the market value of assets to reflect the difference between the actual investment return and the expected investment return during each of the last 8 years or, if fewer, the completed years since adoption, at the following rates per year (annual recognition):

Annual Gain/Loss			**Annual Gain/Loss**		
Rate of Return	Smoothing Period	Annual Recognition	Rate of Return	Smoothing Period	Annual Recognition
15% and up	8 years	12.50%	6-7%	2 years	50.00%
14-15%	7 years	14.29%	5-6%	3 years	33.33%
13-14%	6 years	16.67%	4-5%	4 years	25.00%
12-13%	5 years	20.00%	3-4%	5 years	20.00%
11-12%	4 years	25.00%	2-3%	6 years	16.67%
10-11%	3 years	33.33%	1-2%	7 years	14.29%
9-10%	2 years	50.00%	1% and lower	8 years	12.50%
7-9%	1 year	100.00%			

The actuarial value of assets is subject to a 30% market value corridor, so it will lie between 70% and 130% of the market value of assets.

SERS Plan 2/3	LEOFF Plan 1	LEOFF Plan 2	PSERS Plan 2	VFFRPF
9/30/2006	9/30/2006	9/30/2006	9/30/2006	12/31/2006
aggregate[2]	frozen initial liability[1]	aggregate[2]	aggregate[2]	entry age
n/a	level %[3]	n/a	n/a	level $
n/a	level $	n/a	n/a	level $
n/a	7/01/2007 - 6/30/2024	n/a	n/a	1/1/2007 - 12/31/2017
8-year graded smoothed fair value[4]	8-year graded smoothed fair value[4]	8-year graded smoothed fair value[4]	8-year graded smoothed fair value[4]	4-year smoothed fair value
8.00%	8.00%	8.00%	8.00%	7.00%
7.0%	11.7%	11.7%	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

5 The Uniform COLA and Gainsharing COLA

In a given year all PERS and TRS Plan 1 members who attain at least age 66 (by December 31) and who have been retired at least one year (by July 1) receive an increase in their monthly benefit on July 1 of the given year. This increase is called the Uniform COLA. If certain extraordinary investment gains are achieved, an additional gain-sharing COLA is paid on January 1 of even-numbered years. Each year the Uniform COLA amount equals the Uniform COLA amount from the pervious year plus any additional amount attribuatable to gain-sharing, all increased by 3%. The 2007 Legislature repealed gain-sharing effective January 2, 2008 - after the 2008 event.

Date	Prior Uniform COLA	+ Gainsharing COLA	X 1.03	= Uniform COLA
7/1/2002	$1.11	0.00		$1.14
7/1/2003	$1.14	0.00		$1.18
7/1/2004	$1.18	0.00		$1.21
7/1/2005	$1.21	0.00		$1.25
7/1/2006	$1.25	0.00		$1.29
7/1/2007	$1.29	0.00		$1.29

Information about Infrastructure Assets Reported Using the Modified Approach

Condition Assessment

The state's highway system is divided into three main categories: pavement, bridges and rest areas. Condition information about each as well as the state's emergency airfields follows.

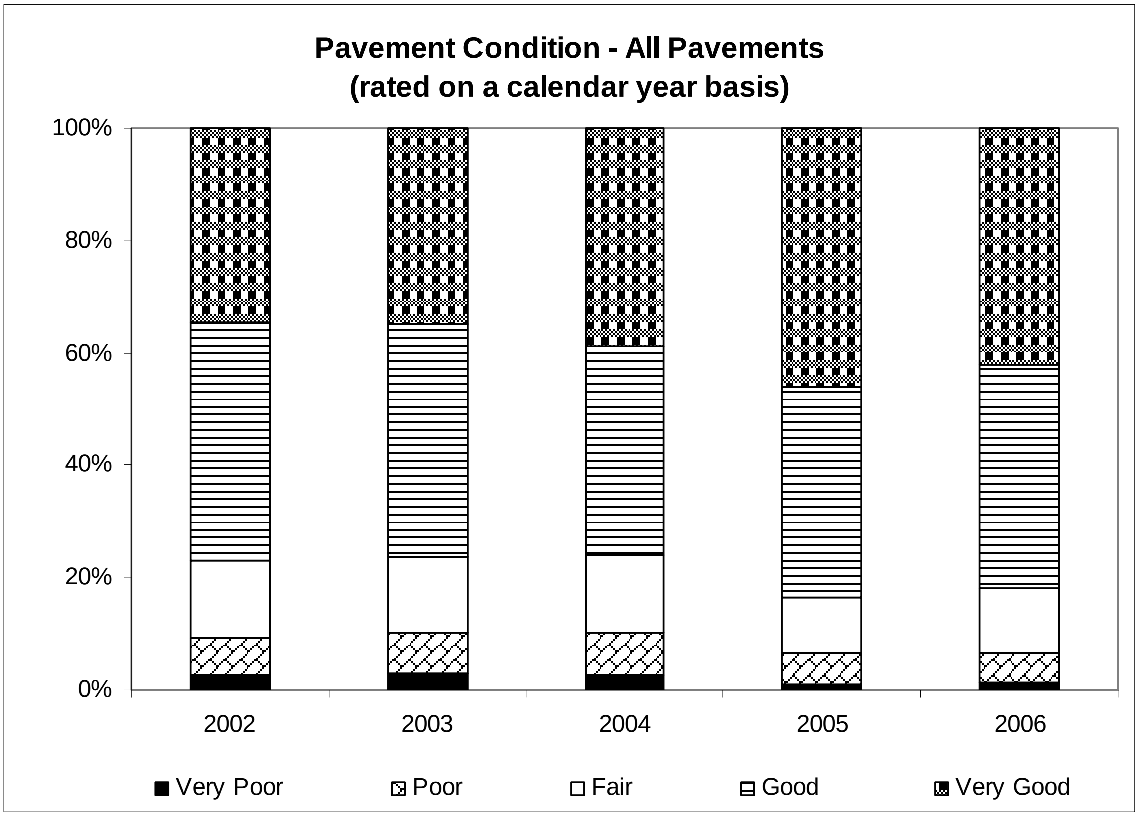
Pavement Condition

The Washington State Department of Transportation (WSDOT) owns and maintains 20,173 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 1,784 of the total lane miles.

WSDOT has been rating pavement condition since 1969. Pavement rated in *good* condition is smooth and has few defects. Pavement in *poor* condition is characterized by cracking, patching, roughness and rutting. Pavement condition is rated using three factors: Pavement Structural Condition (PSC), International Roughness Index (IRI), and Rutting.

In 1993 the Legislature required WSDOT to rehabilitate pavements at the Lowest Life Cycle Cost (LLCC), which has been determined to occur at a PSC range between 40 and 60, or when triggers for roughness or rutting are met. The trend over the last five years has shown that the percentage of pavements in poor or very poor condition has remained fairly stable at 9 to 10 percent with a slight improvement to 7 percent in 2005 and 6 percent in 2006. WSDOT uses LLCC analysis to manage its pavement preservation program. The principles behind LLCC are basic – if rehabilitation is done too early, pavement life is wasted; if rehabilitation is done too late, very costly repair work may be required, especially if the underlying structure is compromised. WSDOT continually looks for ways to best strike the balance between these two basic principles.

While the goal for pavements is zero miles in 'poor' condition, marginally good pavements may deteriorate into poor condition during the lag time between assessment and actual rehabilitation. As a result, a small percentage of marginally good pavements will move into the 'poor' condition category for any given assessment period.



The Department of Transportation manages state highways targeting the LLCC per the Pavement Management System due date. While the department has a long-term goal of no pavements in poor condition (a pavement condition index less than 40, on a 100 point scale), the current policy is to maintain 90 percent of all highway pavement types at a pavement condition index of 40 or better with no more than 10 percent of its highways at a pavement condition below 40. The most recent assessment found that state highways were within the prescribed parameters with only 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% of wheel track length having "hairline" severity alligator cracking will have a PSC of 80.
Good	60 - 80	Early stage deterioration. Example: Flexible pavement with 15% of wheel track length having "hairline" alligator cracking will have a PSC of 70.
Fair	40 - 60	This is the threshold value for rehabilitation. Example: Flexible pavement with 25% of wheel track length having "hairline" alligator cracking will have a PSC of 50.
Poor	20 - 40	Structural deterioration. Example: Flexible pavement with 25% of wheel track length having "medium (spalled)" severity alligator cracking will have a PSC of 30.
Very Poor	0 - 20	Advanced structural deterioration. Example: Flexible pavement with 40% of wheel track length having "medium (spalled)" severity alligator cracking will have a PSC of 10. May require extensive repair and thicker overlays.

The PSC is a measure based on distresses such as cracking and patching, which are related to the pavement's ability to carry loads. Pavements develop structural deficiencies due to truck traffic and cold weather. WSDOT attempts to program rehabilitation for pavement segments when they are projected to reach a PSC of 50. A PSC of 50 can occur due to various amounts and severity of distress. For rigid pavements (such as Portland cement concrete), a PSC of 50 represents 50 percent of the concrete slabs exhibiting joint faulting with a severity of 1/8 to 1/4 inch (faulting is the elevation difference at slab joints and results in a rough ride – particularly in large trucks). Further, a PSC of 50 can also be obtained if 25 percent of concrete slabs exhibit two to three cracks per panel.

The International Roughness Index (IRI) uses a scale in inches per mile. WSDOT considers pavements with a ride performance 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. In 2006, WSDOT rated pavement condition on 17,896 of the 20,173 lane miles of highway. The chart on the following page shows recent pavement condition ratings for the State Highway System, using the combination of the three indices described above.

Percentage of Pavement in Fair or Better Condition

	2006*	2005*	2004*	2003*	2002*
Statewide - Chip Seals	94%	91%	86%	86%	89%
Statewide - Asphalt	91%	95%	92%	91%	91%
Statewide - Concrete	93%	91%	85%	93%	92%
Statewide - All Pavements	94%	93%	90%	90%	91%

Percentage of Pavement in Poor or Very Poor Condition

	2006*	2005*	2004*	2003*	2002*
Statewide - Chip Seals	6%	9%	14%	14%	11%
Statewide - Asphalt	9%	5%	8%	9%	9%
Statewide - Concrete	7%	9%	15%	7%	8%
Statewide - All Pavements	6%	7%	10%	10%	9%

* Calendar year data. Assessments are typically made in the summer and fall of each year, and processed during the winter and spring, with final results released in July. Years indicated are when the physical assessment was done in the summer and fall.

Note: The All Pavements percentages are calculated from total database averages, not a statistical average of the three pavement type percentages. Numbers are rounded to full percentage points. IRI or rutting is not used for sections identified as under construction in rating distress.

More information about pavement management at the Department of Transportation may be obtained at:
http://www.wsdot.wa.gov/biz/mats/pavement/

Bridge Condition

During Fiscal Year 2007 there were 3,110 state-owned vehicular structures over 20 feet in length with a total area of 44,232,755 square feet. In addition to bridges, the 3,110 structures include 89 culverts and 31 ferry terminal structures (while ferry terminals are included in a depreciable asset category, they are included here with bridge condition information since they are evaluated by the WSDOT Bridge Office on a periodic basis). All bridges are inspected on a two to four year interval, with no more than 10 percent of the bridges inspected less than every three years. Divers inspect underwater bridge components at least once every five years in accordance with Federal Highway Administration requirements. Special emphasis is given to the ongoing inspection and maintenance of major bridges representing a significant public investment due to size, complexity or strategic location. Information related to public bridges is maintained in the Washington State Bridge Inventory System (WSBIS). This system is used to develop preservation strategies and comprehensive recommendations for maintenance and construction, and for reporting to the Federal Highway Administration (FHWA).

WSDOT's policy is to maintain 95 percent of its bridges at a structural condition of at least fair, meaning that all primary structural elements are sound. The most recent assessment found that state-owned bridges were within the prescribed parameters with 97.4 percent having a condition rating of fair or better and only 2.6 percent of bridges having a condition rating of poor. Bridges rated as poor may have structural deficiencies that restrict the weight and type of traffic allowed. No bridges that are currently rated as poor are unsafe for public travel. Any bridges determined to be unsafe are closed to traffic. WSDOT had no closed bridges at June 30, 2007.

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 921 bridges that have been classified as needing retrofitting. From 1991 to the end of June 2007, WSDOT has fully or partially retrofitted 360 bridges. Of those, 210 are completely retrofitted, 150 are partially retrofitted. There are also 26 bridges under contract to be retrofitted.

The following condition rating data is based on the structural sufficiency standards established in the FHWA "Recording and Coding Guide for the Structural Inventory and Appraisal of the Nation's Bridges." This structural rating relates to the evaluation of bridge superstructure, deck, substructure, structural adequacy and waterway adequacy. Three categories of condition were established in relation to the FHWA criteria as follows:

Category	National Bridge Inventory Code	Description
Good	6, 7, or 8	A range from no problems noted to some minor deterioration of structural elements.
Fair	5	All primary structural elements are sound but may have deficiencies such as minor section loss, deterioration, cracking, spalling or scour.
Poor	4 or less	Advanced deficiencies such as section loss, deterioration, cracking, spalling, scour or seriously affected primary structural components.

Note: Bridges rated in poor condition may be restricted for the weight and type of traffic allowed.

Condition Rating of Washington State Department of Transportation's Bridges

Percentage of Bridges in Fair or Better Condition

Bridge Type	2007	2006	2005	2004	2003
Reinforced Concrete (1,289 bridges in FY 2007)	98.3%	98.6%	98.6%	98.0%	98.0%
Prestressed Concrete (1,320 bridges in FY2007)	99.3%	99.4%	99.5%	99.5%	99.5%
Steel (360 bridges* in FY 2007)	94.7%	94.1%	94.3%	93.0%	93.0%
Timber (61 bridges in FY 2007)	66.3%	68.1%	69.2%	70.0%	69.0%
Statewide - All Bridges (3,030 out of 3,110 bridges in FY 2007)	97.4%	97.5%	97.6%	97.4%	97.0%

Percentage of Bridges in Poor Condition

Bridge Type	2007	2006	2005	2004	2003
Reinforced Concrete (18 bridges in FY 2007)	1.7%	1.4%	1.4%	2.0%	2.0%
Prestressed Concrete (9 bridges in FY 2007)	0.7%	0.7%	0.5%	0.5%	0.5%
Steel (20 bridges* in FY 2007)	5.3%	5.9%	5.7%	6.5%	7.0%
Timber (31 bridges in FY 2007)	33.7%	31.9%	30.8%	30.0%	3.1%
Statewide - All Bridges (82 out of 3,110 bridges in FY 2007)	2.6%	2.5%	2.4%	2.6%	3.0%

*****The steel bridge ratings for Fiscal Year 2007 include 29 ferry terminal structures rated as fair or better and two ferry terminal structures rated as poor.

Note: Bridges rated as poor may have structural deficiencies that restricted the weight and type of traffic allowed. WSDOT currently has 13 posted bridges and 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. Refer to http://www.wsdot.wa.gov/commercialvehicle/bridgelist.cfm. for more information. Any bridges determined to be unsafe are closed to traffic. WSDOT had no closed bridges as of June 30, 2007.

Additional information regarding the Department of Transportation's bridge inspection program may be obtained at: http://www.wsdot.wa.gov/eesc/bridge/index.cfm

Safety Rest Area Condition

The Washington State Department of Transportation (WSDOT) owns, operates, and maintains 42 developed safety rest area (SRA) facilities. Within these facilities, the department manages the following assets: 83 buildings, 566 acres, 29 on-site public drinking water systems, 36 on-site sewage pre-treatment/treatment systems, and 19 recreational vehicle sanitary disposal facilities.

In 2005 WSDOT performed the second round of SRA building and site condition assessments to determine the facility deficiencies. This biennial process, which began in 2003, helps prioritize renovation and replacement projects. Sites and buildings are divided into functional components that are assessed with a numerical rating of 1 to 5 based on guideline criteria (1 meets current standards, 5 is poor). In addition, a weighting multiplier is applied based on the criticality of the individual component. For instance, a safety deficiency adds a weighting multiplier of 10 while a department image deficiency has a weighting multiplier of two. The combined total building and site ratings are used to determine each facility's overall condition, and fall into one of five categories. WSDOT has conducted the 2007 condition assessment but the information is not yet available.

WSDOT SRA condition assessment rating parameters are not based on other state or national guidelines for safety rest areas. The model used is based on the capital facility program software already in use, with minor modifications to the rating parameters to better match the unique needs of SRA facilities.

The SRA Program goal is to have no more than 5 percent of the facilities rated Poor.

	2003	2005
Percentage of facilities in Fair or Good condition	95%	95%
Percentage of facilities in Poor condition	5%	5%

Category	Definition	Number of Safety Rest Areas in Category
Good Condition	Facility is new construction and/or meets current standards.	11
Fair-High Condition	Facility meets current standards and/or is in adequate condition with minimal component deficiencies.	2
Fair-Mid Condition	Facility is functional, and in adequate condition with minor component deficiencies.	9
Fair-Low Condition	Facility has multiple system deficiencies.	18
Poor	Facility is at or beyond its service life, with multiple major deficiencies.	2

Emergency Air Field Condition

The Washington State Department of Transportation (WSDOT), through its Aviation Division is authorized by RCW 47.68.100 to acquire and maintain airports.

Under this authority, WSDOT owns eight emergency airfields and leases several others. Most of the airfields are located near or adjacent to state highways and range in character from paved to gravel or turf. The primary purpose for the airports is to provide emergency facilities in remote locations. They serve as landing sites for medical evacuations, forest firefighting operations, and search and rescue. In addition, they allow access to local communities and recreation areas. Two airfields are in operational condition 12 months of the year, with five operational from June to October each year. One is only available for emergency search and rescue use. In accordance with WSDOT policy, maintenance is done on each airfield annually to keep it at its existing condition of use. Each airfield is inspected a minimum of three times per year.

The definitions below form the rating criteria for the current airfield condition ratings that follow.

Category	Definition
General Use Community Airport	An airport with a paved runway capable of handling aircraft with a maximum gross certificated takeoff weight of 12,500 pounds.
Limited Use Community Airport	An airport with an unpaved runway capable of handling aircraft with a maximum gross certificated takeoff weight of 12,500 pounds.
General Recreational Use Airport	An airport with a turf (unpaved) runway near access to recreational opportunities with capacity for aircraft less than 12,500 pounds.
Limited Search and Rescue Forward Operating Location	An airport with a landing pad only capable of accommodating rotorcraft.

Condition Rating of Washington State Emergency Airfields

	Number of Airports
Owned airports:	
Acceptable for general use as a community airport	1
Acceptable for limited use as a community airport	1
Acceptable for general recreation use	5
Limited search and rescue forward operating location	1
Total owned airports	8

	2007	2006	2005	2004	2003
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, 2003 through 2007
(expressed in thousands)

	2003			2004		
Highway System						
Pavement	Budget	Actual	Variance	Budget	Actual	Variance
Preservation	$ 119,160	$ 123,883	$ (4,723)	$ 116,902	$ 107,229	$ 9,673
Maintenance	22,796	24,123	(1,327)	21,254	18,064	3,190
Total	$ 141,956	$ 148,006	$ (6,050)	$ 138,156	$ 125,293	$ 12,863
Bridges						
Preservation	$ 22,460	$ 23,988	$ (1,528)	$ 30,637	$ 24,780	$ 5,857
Maintenance	11,222	12,853	(1,631)	11,292	11,267	25
Total	$ 33,682	$ 36,841	$ (3,159)	$ 41,929	$ 36,047	$ 5,882
Rest Areas						
Preservation	$ 390	$ 386	$ 4	$ 331	$ 222	$ 109
Maintenance	4,744	4,688	56	4,268	4,833	(565)
Total	$ 5,134	$ 5,074	$ 60	$ 4,599	$ 5,055	$ (456)
Emergency Air Fields						
Preservation & Maint.	$ 70	$ 58	$ 12	$ 70	$ 71	$ (1)

In addition to increasing and improving the state highway system, WSDOT places a high priority on preserving and maintaining the current highway system. WSDOT breaks out preservation and maintenance into two separate functions. Preservation can be described as projects that maintain the structural integrity of the existing highway system including roadway pavements, safety features, bridges, and other structures/facilities. The Maintenance function handles the day-to-day needs that occur such as guardrail replacement, patching pot holes, installing signs, vegetation control, etc.

In 1996 WSDOT embarked on an initiative to use outcome based performance measures for evaluating the effectiveness of the Maintenance Program. The Maintenance Accountability Process (MAP) is a comprehensive planning, measuring and managing process that provides a means for communicating the impacts of policy and budget decisions on program service delivery. WSDOT uses it to identify investment choices and affects of those choices in communicating with the legislature and other stakeholders. The MAP measures and communicates the outcomes of 34 distinct highway maintenance activities. Maintenance results are measured via field condition surveys and reported as Level of Service (LOS) ratings, which range from A to F. LOS targets are defined in terms of the condition of various highway features (i.e. percent of guardrail on the highway system that is damaged) and are set commensurate with the level of funding provided for the WSDOT highway maintenance program. More information about MAP may be obtained at: http://www.wsdot.wa.gov/maintenance/mgmt/accountability.htm.

Notes: Numbers for the Pavement and Bridges budget amounts are calculated based on biennial plans as shown in the WSDOT *Monthly Financial* Report for subprograms P1 (Roadway Preservation), P2 (Structures Preservation), and M2 (Roadway, Bridge & Tunnel Maintenance). For Fiscal Year 2007, 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.

*For Fiscal Year 2006, 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.

2005			2006			2007		
Budget	Actual	Variance	Budget*	Actual	Variance	Budget	Actual	Variance
$ 118,055	$ 122,868	$ (4,813)	$ 108,409	$ 130,340	$ (21,931)	$ 111,195	$ 99,416	$ 11,779
20,657	18,715	1,942	19,219	18,586	633	19,152	16,255	2,897
$ 138,712	$ 141,583	$ (2,871)	$ 127,628	$ 148,926	$ (21,298)	$ 130,347	$ 115,671	$ 14,676
$ 16,768	$ 14,332	$ 2,436	$ 8,434	$ 20,338	$ (11,904)	$ 21,055	$ 20,138	$ 917
11,159	11,151	8	11,552	11,820	(268)	11,553	11,051	502
$ 27,927	$ 25,483	$ 2,444	$ 19,986	$ 32,158	$ (12,172)	$ 32,608	$ 31,189	$ 1,419
$ 381	$ 333	$ 48	$ 188	$ 129	$ 59	$ 188	$ 173	$ 15
4,268	5,527	(1,259)	5,021	5,187	(166)	5,056	5,359	(303)
$ 4,649	$ 5,860	$ (1,211)	$ 5,209	$ 5,316	$ (107)	$ 5,244	$ 5,532	$ (288)
$ 108	$ 129	$ (21)	$ 83	$ 67	$ 16	$ 83	$ 200	$ (117)

The Preservation budgeted and actual amounts were adjusted for capitalized infrastructure and equipment in Fiscal Year 2006.

The Emergency Airfields (program F3, State Airport Construction and Maintenance) budget amount came from the same sources as for pavements and bridges described above but is only one-fourth of the biennial total because the budget is split evenly between state owned and leased airports.

The Rest Areas Maintenance budget is based on the biennial plan as shown in the WSDOT *Monthly Financial Report* for subprogram M2 under maintenance group “Rest Area Maintenance”. For Fiscal Year 2007, the annual budget was calculated as half the biennial amount. The Rest Areas Preservation budget is part of the P3 subprogram and consists of programmed rest area preservation projects of a non-capitalized nature. For Fiscal Years 2003 through 2005, the budget amounts are based on biennial plans as shown in the WSDOT *Monthly Financial Report* for subprogram P3 (Other Preservation), the annual budgets were calculated as half of the biennial amount times the percentage of non-capitalized rest area costs to the total costs in subprogram P3. Fiscal Year 2006’s budget amount was provided by the rest area program manager.

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 as to the accuracy or completeness thereof. Beneficial Owners should confirm the following with DTC or the Participants (as hereinafter defined).

DTC will act as securities depository for the Certificates. The Certificates 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 certificate will be issued for each maturity of the Certificates 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 Certificates under the DTC system, in Authorized Denominations, must be made by or through Direct Participants, which will receive a credit for the Certificates on DTC's records. The ownership interest of each actual purchaser of each Certificate ("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, but Beneficial Owners are 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 Certificates 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 interest in the Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

To facilitate subsequent transfers, all Certificates 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 Certificates 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 Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates 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.

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 Certificates 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 Certificates 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 Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distribution and dividend payments on the Certificates 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 Fiscal Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Fiscal Agent 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 Fiscal Agent, 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 Certificates at any time by giving reasonable notice to the Fiscal Agent 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, certificates will be printed and delivered to DTC.