State of Washington
Office of Financial Management

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2008

December 2008

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Department of Transportation
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Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2008

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STATE OF WASHINGTON
OFFICE OF FINANCIAL MANAGEMENT
Insurance Building, PO Box 43113 • Olympia, Washington 98504-3113 • (360) 902-0555

December 17, 2008

The Honorable Christine Gregoire, Governor
Honorable Members of the Legislature
Citizens of the State
State of Washington
Olympia, Washington 98504

In accordance with Revised Code of Washington 43.88.027, the Office of Financial Management has prepared this Comprehensive Annual Financial Report (CAFR) of the State of Washington for the fiscal year that ended June 30, 2008. Full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that has been established for this purpose, rests with the state. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

The State Auditor has issued an unqualified ("clean") opinion on the Washington State financial statements for the year ended June 30, 2008. The independent auditor's report is located at the front of the financial section of this report.

Management's Discussion and Analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

Following the MD&A are the basic financial statements, including the government-wide financial statements, the fund financial statements, and the notes to the financial statements. The required supplementary information, combining and individual fund financial statements, and the statistical section, complete the CAFR.

Profile of Washington State

Washington State was created in 1889 by an enabling act of Congress. The State is located on the Pacific Coast, in the northwestern corner of the continental United States, and comprises 68,139 square miles. Its current population is 6.6 million. Washington is famous for its breathtakingly beautiful scenery and sharp contrasts. On the west side of the state, high mountains rise above coastal waters. The forests of the Olympic Peninsula are among the world's rainiest places. The State's coastline has hundreds of bays and inlets that make excellent harbor, while in the eastern part, flat semi-desert land stretches for long distances without a single tree.

Washington's location makes it a gateway for land, sea, and air travel to Alaska and Pacific Rim countries. Ships from all parts of the world dock at Washington ports. Costco Wholesale Corporation, headquartered in Issaquah, operates an international chain of membership warehouses. Microsoft, a leader in the computer software industry, makes its home in Redmond. The Weyerhaeuser Company, a major producer of wood and related products, is headquartered in Federal Way.

East of the Cascade Mountain range, farmers raise livestock and grow wheat on large ranches. Washington leads the nation in apple production, makes world-class wine, and produces large amounts of lumber, pulp, paper, and other wood products. Western Washington's mild moist climate makes that region excellent for dairy farming and for the production of flower bulbs.

GOVERNMENTAL STRUCTURE

As established in the State Constitution, Washington State consists of three branches of government: the Executive Branch, Legislative Branch, and Judicial Branch. The Executive Branch has nine elected officials: the Governor, Lieutenant Governor, Secretary of State, State Treasurer, State Auditor, Attorney General, Superintendent of Public Instruction, Insurance Commissioner, and Commissioner of Public Lands. Forty agency heads are appointed by, and report to, the Governor. Eighty-nine agency heads report to a board appointed, in whole or in part, by the Governor. The Legislative Branch consists of two legislative bodies: the Senate (with forty-nine members) and the House of Representatives (with ninety-eight members). The Judicial Branch consists of the State Supreme Court, the highest court in the state, which has nine Justices. Every two years, three Justices are elected for six-year terms. A Chief Justice is chosen from among the most senior Justices.

TYPES OF SERVICES PROVIDED AND REPORTING ENTITY

The state provides a wide range of services that include education, transportation, environmental and natural resource protection, and social and health services.

The accompanying report includes all funds and subsidiary accounts of the primary government, the State of Washington as legally defined, as well as all of its component units. Component units are legally separate entities for which the primary government is financially accountable. The determination of "financial accountability" is based on criteria established in Governmental Accounting Standards Board Statement No. 14. Note 1.A to the financial statements explains more fully which organizations are included in the reporting entity.

THE BUDGET CYCLE

Washington enacts budgets for a two-year cycle, beginning on July 1 of each odd-numbered year. By law, the Governor must propose a biennial budget in December, the month before the Legislature convenes in regular session. The biennial budget enacted by the Legislature can be modified in any legislative session through changes to the original appropriations. Since the inception of annual legislative sessions in 1979, it has become common for the Legislature to enact annual revisions to the state's biennial budget. These revisions are referred to as supplemental budgets.

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.

Washington State's Economy and Revenue Outlook

SUMMARY

Since the beginning of the nation's economic recovery and expansion that began in 2001, Washington State has gained almost 307,000 jobs, or about 11.6 percent growth. The state job recovery started slowly; picking up speed in Fiscal Year 2006 and maintaining that speed through Fiscal Year 2007. It began to moderate in Fiscal Year 2008. A dramatic turnaround in the aerospace industry, persistent growth in the state's housing markets due to continued in-migration, and an increase in disposable household income from home mortgage refinancing have aided the state's expansion.

The relative strength of the state's recovery and expansion reflects the growing diversity within the state's economy, elements of which include a vital export base, the presence of knowledge-based industries such as business, professional, health, and financial services, and a high quality of life. All of these elements continue to support strong population growth.

Washington State's nonfarm payroll employment grew by a restrained 2.1 percent in Fiscal Year 2008, further moderating from the 3.0 percent pace set in Fiscal Year 2006 and the 2.7 percent pace in Fiscal Year 2007. The aerospace industry maintained its hiring pace, started in Fiscal Year 2006, through Fiscal Year 2008; the sector added 6,400 workers, an increase of 8.3 percent, thanks to continued strong aircraft sales and a lengthening backlog of orders. Total manufacturing employment grew by 1.9 percent, the fourth straight year of positive growth during this recovery and expansion period.

Washington's unemployment rate began to soften at the end of Fiscal Year 2008, reflecting the slowing of the national economy brought about by a weakening housing market and accelerating energy costs. The annual unemployment rate held steady at 4.7 percent, highlighting a twenty-month period in which the State's jobless rate fell below the national average.

Personal income grew at a rate of 6.8 percent in Fiscal Year 2008, attributable to gains in both wage and non-wage income. Real personal income – after factoring out inflation – still grew at 3.5 percent, well above the 1.8 percent increase in 2006, but below the 5.5 percent increase in 2007.

Washington's outlook for Fiscal Year 2009 is for much slower economic growth as the impacts of the financial crisis and recessionary national and international economies hit home. Nonfarm payroll employment in Washington is forecasted to decrease in Fiscal Year 2009 by 0.4 percent, the first annual decline in employment since Fiscal Year 2003. Personal income is also predicted to grow by 2.9 percent in current terms, and by 1.0 percent in real terms, in Fiscal Year 2009.

General Fund-State revenues are forecasted to grow at a 5.0 percent rate in the 2009-11 Biennium, compared to the 3.1 percent increase in the 2007-09 Biennium, and the 18.7 percent pace in the 2005-07 Biennium. A portion of the slow growth in the 2007-09 Biennium is due to economic changes in the tax system that were scheduled to take full effect in the 2007-09 Biennium, including aerospace industry tax credits. The slowing economy and slumping housing markets have also had a negative effect on revenue growth. Particularly hard hit have been retail sales and real estate excise taxes. In addition, the 2007 Legislature passed a resolution to send to a vote of the people a constitutional amendment that requires 1 percent of "general state revenue" be deposited in a budget stabilization account that would permit access only when economic conditions permit. The constitutional amendment was approved by voters in the November 2007 general election. About $436.6 million will be available in the budget stabilization account by the end of the 2007-09 Biennium. Because of the slowing economy, and a $413.4 million shortfall in the projected general fund ending balance, total reserves are estimated to be $23.2 million by the end of the 2007-09 Biennium. These projected reserves assume no further changes in appropriations for the 2007-09 Biennium.

ECONOMIC CONDITION IN FISCAL YEAR 2008

Washington's nonfarm payroll employment grew by 2.1 percent in Fiscal Year 2008, significantly faster than the 0.7 percent increase in U.S. nonfarm payroll employment. The absolute increase in Washington's nonfarm payroll employment was 61,700 during Fiscal Year 2008. Personal income in Washington also grew at a faster rate than U.S. personal income: 6.8 percent in Washington compared to 5.3 percent for the U.S. Because Washington's labor market has been adding jobs at a quicker pace than the national average, it holds that the wage income component of personal income would also outpace the national average in 2008. Real per capita income growth was up in Washington by 1.9 percent over the same period, compared to 1.1 percent for the nation as a whole. Again, stronger job growth had a positive impact on Washington's personal income and per capita personal income growth.

Aerospace employment provided the brightest spot in Washington's manufacturing sector in Fiscal Year 2008. After reaching a cyclical low point in 2004, aerospace employment made a modest comeback in Fiscal Year 2005, increasing by 1,300 jobs; growth accelerated in Fiscal Year 2006 with an addition of 5,600 jobs (an 8.8 percent increase); in Fiscal Year 2007, the aerospace industry added 7,300 jobs, more jobs than in the previous two years combined, for a growth rate of 11.1 percent; and in Fiscal Year 2008, the aerospace sector added another 6,400 jobs, a growth rate of 8.3 percent. While this increase in aerospace jobs is not as steep as in years past, this is because of the industry's new "global network" production model that shares design and production processes with overseas partners.

Manufacturing employment, other than aerospace, was considerably less vibrant, actually declining by 0.8 percent. Durable manufacturing industries experienced pullbacks in employment as the weakening national economy and housing markets began to hit full force in Fiscal Year 2008. Nondurable manufacturing employment fell in Fiscal Year 2008 as demand for processed food and paper products began to decline.

Employment in durable manufacturing, other than aerospace, fell by 0.4 percent in Fiscal Year 2008 (a decline of 400 jobs), while employment in durable manufacturing declined by 2.3 percent nationally. Employment patterns in durable manufacturing industries were mixed in Washington during Fiscal Year 2008; employment in lumber and wood products, other transportation equipment, and other durable goods were down, while primary metal, fabricated metal, computers, and machinery were up. Washington's lumber industry is dependent upon local and national home building trends. The housing market in Washington had begun to soften in Fiscal Year 2008 and the national markets had been weak since the end of Fiscal Year 2007, resulting in a fall-off in wood products demand and employment. Employment in other transportation equipment (other than aerospace) fell by 4.5 percent as demand for heavy trucks was impacted by soaring fuel costs. Employment in primary and fabricated metal products rose by 4.2 percent in Fiscal Year 2008, the fastest manufacturing job increase next to aerospace, and reliant on the aerospace sector as a major customer. Machinery manufacturing employment grew 1.8 percent in 2008. Computers and electronic products were up 1.2 percent (an increase of 300 jobs), while employment in other durable manufacturing was down by 0.4 percent.

Non-durable manufacturing employment in Washington decreased by 0.5 percent in Fiscal Year 2008, a loss of about 300 jobs; nationally, non-durable manufacturing employment declined by 1.9 percent over the same period. In Washington, employment in food manufacturing rose 0.9 percent in Fiscal Year 2008 on the strength of national and export markets. Printing and paper products employment dropped 6.5 percent in Fiscal Year 2008 on slumping national demand. Other non-durable manufacturing jobs were essentially flat in Fiscal Year 2008.

Washington's non-manufacturing employment grew by 2.2 percent during Fiscal Year 2008. The construction industry posted a 1.9 percent gain in employment as the housing market weakened in the last half of the year. Employment in the information sector rose by 3.1 percent primarily on the continued strength of software publishing, which increased 5.5 percent.

Wholesale trade employment rose by 1.8 percent, while retail trade employment grew by 1.6 percent. Job gains in professional and business services remained strong, posting 3.3 percent growth for Fiscal Year 2008, though the employment services component within the sector softened in the last half of the year. Education and health services reported solid job growth with an increase of 3.8 percent during Fiscal Year 2008. Leisure and hospitality services recorded a healthy 2.8 percent gain as food and beverage establishments continued to attract a growing customer base. Employment also grew in the public sector as state and local government jobs increased by 1.9 percent.

Several non-manufacturing industries recorded job losses. Employment in the financial activities industry declined by 1.1 percent as credit problems from across the nation were felt at locally-headquartered firms. Employment in the natural resources industry fell at a rate of 6.5 percent in Fiscal Year 2008 as certain mining operations were impacted by recent legal limitations.

ECONOMIC OUTLOOK

The forecast for Washington State for Fiscal Year 2009 reflects the closing stages of the economic expansion at both the state and national levels. According to the November 19, 2008, forecast by the state Economic and Revenue Forecast Council, growth in Washington's nonfarm payroll employment is predicted to decrease by 0.4 percent in Fiscal Year 2009. While the reversal is not as severe as the 1.0 percent decline projected for the nation, the State's nonfarm employment has not posted an annual decline since Fiscal Year 2003. Washington's personal income is expected to grow by 2.9 percent in Fiscal Year 2009, while U.S. personal income growth is predicted to be 3.1 percent for the same period.

Manufacturing employment in Washington is projected to decline in Fiscal Year 2009. While the aerospace industry is expected to add another 900 workers in Fiscal Year 2008, for a growth rate of 1.1 percent, that growth will not necessarily carry through to other sectors. Those durable manufacturing sectors that have traditionally provided inputs to the aerospace industry would normally be expected to show similar increases in employment in Fiscal Year 2009. But that is not the case under the current global production model where many of the support industries are found outside of Washington State. As a result, primary and fabricated metal manufacturers are expected to decline 0.9 percent. Computers, machinery, and electrical equipment manufacturers should post job gains, but only in the 0.2 percent range. The wood products industry is expected to lose about 2,100 jobs in Fiscal Year 2009 as the nation's home-building market remains lethargic and as companies restructure for tax purposes. Other transportation equipment manufacturers are likely to cut payrolls as demand for trucks and boats soften because of credit issues. Clay, glass, sand, and cement producers will be a holdup in other durable goods manufacturers, because of weakness in commercial construction.

All sectors of non-durable manufacturing are expected to lose employment in Fiscal Year 2009. Employment in food manufacturing is forecasted to decline by 3.9 percent, and employment in other nondurable manufacturing will fall by 4.2 percent. Employment in paper and paper products manufacturing is expected to fall by 9.0 percent in Fiscal Year 2009, a continuation of the payroll losses in 2007 and 2008.

In the non-manufacturing sectors, the strongest employment growth in Fiscal Year 2009 is predicted to occur in software publishing (7.9 percent) and education and health services (3.4 percent). Modest employment gains will also occur in federal government (1.0 percent), state and local government (0.8 percent), and leisure and hospitality services (0.2 percent). The remaining non-manufacturing sectors are expected to experience job losses. Construction will be particularly hard hit as commercial building projects begin to slow as office vacancies build and as the residential market remains sluggish. Employment in professional and business services will slow (-0.5 percent) because of slack demand for temporary help services and administrative support services. Slowing international economies will cut into the volume of exports and, thus, demand for transportation and warehousing, and wholesale trade jobs, which should drop by 1.0 percent and 1.4 percent, respectively, in Fiscal Year 2009.

The efforts of households to pare down high levels of debt will impact the retail trade sector and employment is expected to decline 0.9 percent in Fiscal Year 2009. Employment losses are expected to continue in the financial services sector as the industry and federal government work to resolve the financial and credit crises. State and local government employment is expected to grow at a below average 0.8 percent in Fiscal Year 2009 in response to the weak revenues from the slowing economy.

Major Initiatives

Led by Governor Chris Gregoire, the State of Washington witnessed a strong economy that began to transition, then significantly falter, in 2008, due to the economic crisis plaguing the nation and the world. Nonetheless, in the first quarter of the year, the Governor and Legislature were able to make critical investments in education, health care, and the environment. Strategic policy and budget steps were taken to improve public schools and the state's higher education system, strengthen the economy for the long-term, expand health coverage to children, and improve the environmental health of Puget Sound. Governor Gregoire and the Legislature also took actions to enhance public safety, help seniors and people with disabilities, and improve services for foster children and developmentally disabled individuals.

Throughout the year, Governor Gregoire maintained her strong commitment to make state government more accountable to citizens and to make state government agencies more mobile, flexible, and better able to deliver services that citizens need. She convened regular accountability forums, bringing together multiple agencies to improve performance, efforts that have yielded positive results.

EDUCATION

During the 2008 Legislative Session, Governor Gregoire and the Legislature made new investments in all levels of the education system, from early learning through K-12, and continuing through college, job training, and beyond. These investments grew out of the Governor's Washington Learns initiative, which is dedicated to building a world-class, learner-focused, and seamless education system.

Early Learning: In 2006, the Legislature granted Governor Gregoire's request for a cabinet-level Department of Early Learning to better ensure that pre-kindergarten children have access to learning programs in venues including day care. The agency is now operating and supporting several key initiatives enacted during the 2008 Legislative Session. Preeminent among these initiatives is the expansion of all-day kindergarten in school districts with the highest level of poverty, as measured by the number of families receiving free or reduced-price lunches.

Public Schools: The two-year budget enacted in 2007 and adjusted in 2008 was designed to fundamentally change educational expectations, delivery, and results with a substantial investment at all levels, from early learning through K-12 to higher education and job training. The biennial budget of $2.5 billion included an education funding increase of nearly $900 per student in kindergarten through 12th grade. Major investments made in 2008 included streamlining assistance for students struggling with state standards and the Washington Assessment of Student Learning (WASL), developing high school programs that combine English language learning and workforce skills, and enhancing the teacher preparation program to better ensure classroom learning. Also important to teachers were the Governor's initiatives to improve pay for outstanding educators.

Higher Education: The Governor and Legislature provided significant funding and policy actions to open college doors to more high school graduates. In particular, the 2007-09 budget created nearly 10,000 new slots for incoming students, offered more scholarship opportunities, expanded eligibility for grant programs, and capped tuition increases at the college level. The budget also made further investments in research programs at state universities with the goal of boosting innovation in fields in which the state has already made critical progress.

Other higher education improvements made in 2008 were requiring student safety plans at all higher education campuses, increasing career ladder opportunities in health care fields, expanding research capacity at the University of Washington, and boosting scholarships for new doctors and health care workers.

HEALTH CARE

Governor Gregoire has set a goal of providing access to health insurance to all Washington children by 2010. In 2008, she continued her steady progress toward that goal by increasing access to health insurance for an additional 80,000 Washington children.

The Governor continued her campaign to improve health care by strengthening Washington State's work to provide affordable health insurance premiums to small businesses. With respect to individual health insurance premiums, the Governor and Legislature directed that greater oversight be established. In a huge step for consumers, Governor Gregoire supported legislation to improve patient safety by strengthening the licensing and disciplinary standards for all health care providers, give the public access to hospital reports of medical errors, and provide real-time information to reduce medication errors.

The Governor and Legislature helped to improve the quality of counseling services. In addition, they supported family planning services and medical homes to provide one place that coordinates patient care. More nurses will be trained, thanks to funding approved by the Governor.

ECONOMIC DEVELOPMENT AND HOUSING

In 2007, the Governor and state leaders introduced an economic development strategy for Washington State known as The Next Washington. This ten-year business plan calls for growing the economy by investing in the skills employees need to succeed in today's job market, building a foundation for success by investing in infrastructure across the state, and developing an "Open for Business" approach to government to make Washington an affordable and efficient place to do business. This strategy calls for making a series of targeted investments in alternative energy, tourism, the state's ports, and areas where the state can lead the world, including in fields such as global health.

In 2008, the Governor continued to deliver on the promise of The Next Washington by funding infrastructure needed for new jobs. She also promoted green jobs that benefit the economy and the environment. Washington communities across the state are benefiting from financing tools that help them leverage local resources. The state's economy will see dividends from incentives for company recruitment and expansion.

When repercussions of the subprime mortgage market meltdown threatened, Governor Gregoire was ready with several proposals to help keep Washington families in their homes. She proposed measures to strengthen mortgage lending laws and to provide homeowner mortgage education and counseling. More affordable housing will be made available, thanks to actions taken by the Legislature and the Governor. Assistance was also made available to residents of manufactured home parks facing eviction, and to renters displaced by condominium conversions.

ENVIRONMENT

Governor Gregoire and the Legislature continued their strong commitment to protecting the state's natural environment in 2008. One of the key results of the 2007 Legislative Session was to create a new state agency solely responsible for the cleanup of Puget Sound. The new Puget Sound Partnership works collaboratively with government at all levels, with tribes, with businesses, and with citizen groups in its charge to lead and coordinate efforts to protect and restore Puget Sound by 2020.

The Governor and the Legislature took action on climate change by setting greenhouse gas emission limits, by requiring reporting on emissions, and by establishing a green jobs program. In collaboration with the Confederated Tribes of the Colville Reservation and the Spokane Tribe, an agreement was reached to provide an additional 132,500 acre-feet of Columbia River water to benefit municipal and industrial users, agriculture, and stream flows for fish.

HUMAN SERVICES

Governor Gregoire led many initiatives to improve human services programs. In particular, important steps were taken to strengthen the state's services for children and individuals with developmental disabilities. The budget provides funding for improving and expanding oversight of the child welfare system and for better services for children in foster care. Those with developmental disabilities will have their most pressing needs better met. Our seniors will benefit from funding that allows them to be cared for at home. Funding was also directed to improve the quality of the long-term care workforce.

PUBLIC SAFETY & DISASTER RESPONSE

Governor Gregoire and the Legislature made tremendous progress on improving public safety and reducing crime. This year, budget and policy changes took a particular emphasis on protection against sex offenders. Verification is now required of the addresses of all sex offenders through in-person checks by law enforcement officers. Funding approved in 2008 will ensure that the DNA of all registered sex offenders is in the state crime lab database. A major public safety tool will be continued: Operation Crackdown, which arrests sex offenders on warrant status. Expansion of electronic monitoring of sex offenders, another of the Governor's public safety initiatives, was also funded in 2008.

In addition, Governor Gregoire and the Legislature acted upon other key measures, including those expanding community policing partnerships between the Department of Corrections and local law enforcement agencies, ones to suppress criminal street gangs, and to increase penalties against offenders eluding a police vehicle.

When unprecedented flooding hit Southwest Washington, Governor Gregoire took immediate and decisive action to aid victims and restore businesses. Funding helped victims and communities recover from the massive storm. To protect against future occurrences, flood protection was also provided in the Chehalis River basin.

TRANSPORTATION

In the area of transportation, Washington State continued to move forward on key infrastructure projects providing funding for critical safety, freight and mobility transportation projects. Chief among these projects are replacement of the State Route 520 Floating Bridge, work on U.S. 2 between Goldbar and Monroe, the Alaskan Way Viaduct, Interstate 5/State Route 16 Tacoma area HOV, the Columbia River crossing, State Route 519 intermodal access, State Route 167 HOT lane pilot, Interstate 405 corridor, and a number of other vitally important projects to keep Washington moving forward.

GOVERNMENT EFFICIENCY

In 2008, Governor Gregoire continued her aggressive effort, begun three years ago, to improve the performance of Washington state government. She undertook this initiative through a process called Government Management Accountability and Performance (GMAP). Modeled on similar endeavors used successfully in New York City and Baltimore, the process includes forums in which the Governor and key staff work directly with individual cabinet members to identify problems, establish goals, and measure results using hard data.

The process has yielded measurable improvements, including cutting in half the processing time for agriculture permits and water quality loans, reducing by sixty percent the wait time for callers to two major state telephone hotlines, and eliminating a waiting list of vocational rehabilitation services that was once 14,700 people long while steadily improving the rate of success for putting people back to work. In the area of transportation, GMAP results have highlighted a return-on-investment that illustrates that eighty-five percent of highway projects are built within budget and ninety-one percent are completed on time.

The Governor and Legislature also continued to use strategic budgeting principles first used successfully in 2003. This approach, known as Priorities of Government, involves making strategic spending decisions based on what citizens need most in an environment of limited resources. Priorities of Government is a valuable tool to the Governor in making budget decisions that benefit the people of Washington.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Washington State for its CAFR for the fiscal year that ended June 30, 2007. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR, with contents conforming to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. Washington State has received a Certificate of Achievement for the last twenty-one years. The Office of Financial Management considers this report to be in conformity with the Certificate of Achievement Program requirements, and will submit it to the GFOA.

The preparation of this report could not have been accomplished without the professionalism and dedication demonstrated by the financial and management personnel of each state agency and institution of higher education and the Office of Financial Management. This CAFR reflects the commitment of the Governor to the Legislature, the citizens of Washington State, and the financial community to maintain financial statements in conformance with the highest standards of financial accountability.

Sincerely,

Victor A. Moore
Director

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Washington

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

Statewide Elected Officials
As of June 30, 2008

Governor
Christine Gregoire

Lieutenant Governor
Brad Owen

Secretary of State
Sam Reed

Treasurer
Michael Murphy

State Auditor
Brian Sonntag

Attorney General
Rob McKenna

Superintendent of Public Instruction
Terry Bergeson

Commissioner of Public Lands
Doug Sutherland

Insurance Commissioner
Mike Kreidler

2007-2008 Organization Chart

Washington State Government

Legislative Branch

Senate | **House of Representatives**

- Joint Legislative Audit and Review Committee
- Joint Legislative Systems Committee
- Joint Transportation Committee
- Legislative Ethics Board
- Office of the State Actuary
- Redistricting Commission *(activated decennially)*
- Statute Law Committee *(Code Reviser)*

Executive Branch

Judicial Branch

Supreme Court

- Administrative Office of the Courts
- Office of Civil Legal Aid
- Court of Appeals
- Commission on Judicial Conduct
- District Courts
- Law Library
- Municipal Courts
- Office of Public Defense
- Superior Courts
- Supreme Court

Agencies Managed by Statewide Elected Officials

Commissioner of Public Lands
- *Department of Natural Resources*
- *Forest Practices Board*

Insurance Commissioner

Treasurer
- *Public Deposit Protection Commission*
- *State Finance Committee*

Lieutenant Governor

Governor

Office of the Governor
- *Office of the Education Ombudsman*
- *Salmon Recovery Office*
- *Governor's Office of Indian Affairs*
- *Office of the Family and Children's Ombudsman*

Attorney General
- *Executive Ethics Board*

Superintendent of Public Instruction
- *Board of Education*
- *Professional Educator Standards Board*

Auditor

Secretary of State
- *Productivity Board*
- *State Library*

Agencies Led by Governor-appointed Executives

Environment and Natural Resources
- Dept. of Agriculture *(commodity commissions)*
- Dept. of Ecology
- Pollution Liability Insurance Program
- Puget Sound Partnership
- Recreation and Conservation Office
  - *Salmon Recovery Funding Board*

General Government
- Board of Accountancy
- Office of Administrative Hearings
- Dept. of Archaeology and Historic Preservation
- Dept. of Financial Institutions
- Office of Financial Management
- Dept. of General Administration
- Dept. of Information Systems
  - *Integrated Justice Information Board*
- Lottery Commission
- Military Department
- Dept. of Personnel
  - *Personnel Resources Board*
- Public Printer
- Dept. of Retirement Systems
  - *Employee Retirement Benefits Board*
- Dept. of Revenue

Transportation
- Dept. of Licensing *(occupational regulatory boards)*
- State Patrol
- Traffic Safety Commission
- Dept. of Transportation

Health and Human Services
- Dept. of Corrections
- Dept. of Employment Security
- Dept. of Health *(occupational regulatory boards)*
- Health Care Authority
  - *Public Employees' Benefits Board*
- Dept. of Labor and Industries
- Council for the Prevention of Child Abuse and Neglect
- Dept. of Services for the Blind
- Dept. of Social and Health Services
- Dept. of Veterans Affairs

Education
- School for the Blind
- School for the Deaf
  - *Board of Trustees*
- Workforce Training and Education Coordinating Board

Community and Economic Development
- Commission on African-American Affairs
- Arts Commission
- Commission on Asian Pacific American Affairs
- Dept. of Community, Trade, and Economic Development
  - *Economic Development Commission*
  - *Energy Facility Site Evaluation Council*
  - *Public Works Board*
  - *Building Code Council*
- Commission on Hispanic Affairs
- Office of Minority and Women's Business Enterprises

Agencies Under Authority of a Board

Environment and Natural Resources
- Columbia River Gorge Commission
- Conservation Commission
- Environmental Hearings Office
  - *Environmental and Land Use Hearings Board*
  - *Pollution Control Hearings Board*
  - *Shorelines Hearings Board*
  - *Forest Practices Appeals Board*
  - *Hydraulic Appeals Board*
- Fish and Wildlife Commission
  - *Dept. of Fish and Wildlife*
- Growth Management Hearings Boards
  - *Eastern Washington*
  - *Central Puget Sound*
  - *Western Washington*
- Board of Natural Resources
- Parks and Recreation Commission
- Washington Materials Management and Financing Authority

General Government
- Caseload Forecast Council
- Citizens' Commission on Salaries for Elected Officials
- Economic and Revenue Forecast Council
- Forensic Investigations Council
- Gambling Commission
- Horse Racing Commission
- Investment Board
- Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement System Board
- Liquor Control Board
- Municipal Research Council
- Pension Funding Council
- Public Disclosure Commission
- Public Employment Relations Commission
- Board of Tax Appeals
- Utilities and Transportation Commission
- Board for Volunteer Firefighters and Reserve Officers

Transportation
- County Road Administration Board
- Freight Mobility Strategic Investment Board
- Marine Employees' Commission
- Board of Pilotage Commissioners
- Transportation Improvement Board
- Transportation Commission

Health and Human Services
- Criminal Justice Training Commission
- Board of Health
- Health Care Facilities Authority
- Home Care Quality Authority
- Human Rights Commission
- Indeterminate Sentence Review Board
- Board of Industrial Insurance Appeals
- Sentencing Guidelines Commission
- Tobacco Settlement Authority

Education
- Board for Community and Technical Colleges
- Eastern Washington State Historical Society
- Governing Boards of Four-Year Institutions of Higher Education
  - *University of Washington*
  - *Washington State University*
  - *Central Washington University*
  - *Eastern Washington University*
  - *Western Washington University*
  - *The Evergreen State College*
- Higher Education Coordinating Board
- Higher Education Facilities Authority
- Spokane Intercollegiate Research and Technology Institute
- Boards of Trustees
  - *Community Colleges*
  - *Technical Colleges*
- Washington State Historical Society

Community and Economic Development
- Convention and Trade Center
- Economic Development Finance Authority
- Housing Finance Commission
- Life Sciences Discovery Fund Authority

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OFFICE OF FINANCIAL
MANAGEMENT
APRIL 2008

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FINANCIAL SECTION

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Washington State Auditor
Brian Sonntag

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

December 17, 2008

The Honorable Christine Gregoire
Governor, State of Washington

Dear Governor Gregoire:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component units and remaining fund information of the State of Washington as of and for the fiscal year ended June 30, 2008, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Workers' Compensation Fund of the Department of Labor and Industries, Washington's Lottery, Department of Retirement Systems, Local Government Investment Pool, University of Washington, Western Washington University, and the funds managed by the State Investment Board. Those financial statements represent part or all of the total assets, net assets, and revenues or additions of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component units and remaining fund information as follows:

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

Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the above mentioned entities and funds are based solely on the reports of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Workers' Compensation Fund of the Department of Labor and Industries, Washington's Lottery, Department of Retirement Systems, Local Government Investment Pool, University of Washington, Western Washington University, and the funds managed by the State Investment Board were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

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

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

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

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

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

BRIAN SONNTAG, CGFM

STATE AUDITOR

MD&A
Management's Discussion and Analysis

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MD&A
Management's Discussion & Analysis

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

Financial Highlights

- Total assets of the state of Washington exceeded its liabilities by $21.8 billion (reported as net assets). Of this amount, $(5.7) billion was reported as "unrestricted (deficit) net assets." A negative balance indicates that no funds were available for discretionary purposes.

- The state of Washington's governmental funds reported a combined ending fund balance of $12.5 billion, an increase of 3.1 percent compared with the prior year.

- Unreserved fund balance for the General Fund was $677 million, or 3.3 percent of total General Fund expenditures.

- The state's capital assets increased by $2.0 billion while total bond debt increased by $1.5 billion during the current fiscal year.

Overview of the Financial Statements

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

FUND FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

OTHER REQUIRED INFORMATION

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

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

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

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

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

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

Government-wide Financial Analysis

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

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

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

A portion of the state of Washington's net assets (45.5 percent for Fiscal Year 2008 as compared to 39.4 percent for Fiscal Year 2007) represents resources that are subject to external restrictions on how they may be used. The remaining balance represents unrestricted (deficit) net assets. The state's overall negative balance is caused by the workers' compensation program that provides time-loss, medical, disability and pension payments to qualifying individuals who sustain work-related injuries or develop occupational diseases as a result of their required work activities. The main benefit plans of the workers' compensation program are funded on rates that will keep the plans solvent in accordance with recognized actuarial principles.

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

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

STATE OF WASHINGTON

Changes in Net Assets

(in millions of dollars)

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

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

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

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

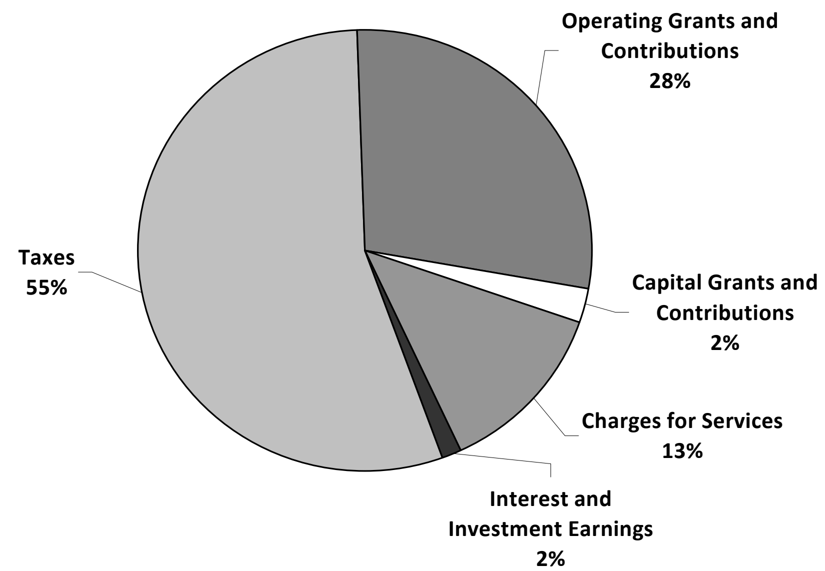
- Growth in expenses outpaced growth in revenues. Consistent with Fiscal Year 2007, the expenses for Human Services and Education comprised 80 percent of the total expenses for governmental activities. Human Services expenses grew by $787 million or 7.5 percent in Fiscal Year 2008 over Fiscal Year 2007.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

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

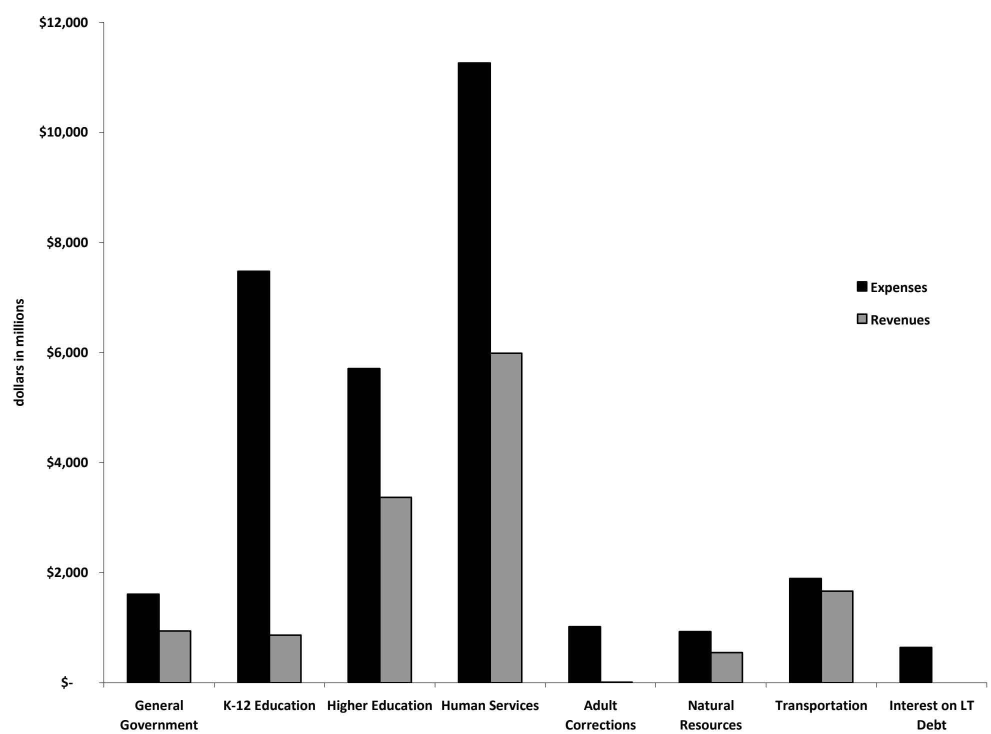
- The loss in the Workers' Compensation Fund in Fiscal Year 2008 was up $855 million over the loss in Fiscal Year 2007. A number of factors contributed to the increased loss including a decrease in premium revenue of $125 million, an increase in claims costs of $142 million, and a decrease in investment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

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

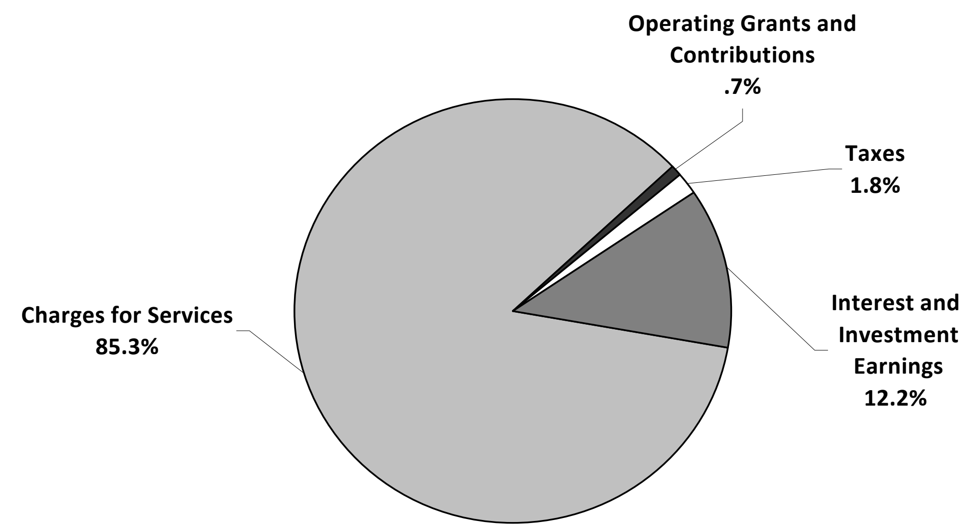
Revenues by Source: Governmental Activities



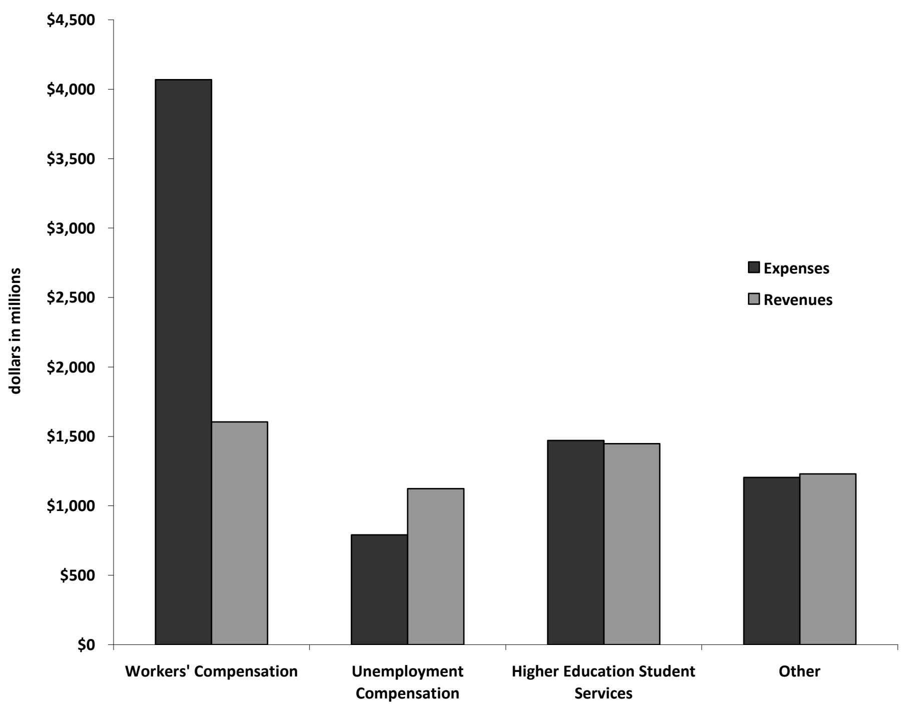
Program Revenues and Expenses: Governmental Activities



Revenues by Source: Business-Type Activities



Program Revenues and Expenses: Business-Type Activities



Financial Analysis of the Government's Funds

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

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

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

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

STATE OF WASHINGTON

General Fund

(in millions of dollars)

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

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

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

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

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

The Workers' Compensation Fund, Unemployment Compensation Fund, and Higher Education Student Services Fund are major proprietary funds. The Workers' Compensation Fund reported a loss of $2.0 billion in Fiscal Year 2008. As noted previously, by state law, the supplemental pension cost-of-living adjustments (COLAs) granted for time-loss and disability payments are funded on a pay-as-you-go basis. So, while claims are calculated and reported in accordance with recognized actuarial principles, the state is only allowed to collect enough revenue to fund current COLA payments.

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

General Fund Budgetary Highlights

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

- Estimated resources decreased by $12 million over the course of the fiscal year. While federal grants-in-aid and other contracts and grants increased by a combined $234 million, taxes, charges for services and transfers reported decreases of $86 million, $59 million and $95 million respectively.

- Appropriated expenditure authority increased by $140 million over the course of the fiscal year. Increases were recorded in general government, human services and education of $123 million, $135 million and $72 million, respectively. The largest decrease was in transfers to other funds of $196 million.

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

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

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

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

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

STATE OF WASHINGTON

Capital Assets - Net of Depreciation

(in millions of dollars)

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

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

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

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

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

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

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

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

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

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

STATE OF WASHINGTON

Bond Debt

(in millions of dollars)

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

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

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

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

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

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

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

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

Conditions with Expected Future Impact

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

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

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

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

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

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

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

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

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

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

Requests for Information

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

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Basic Financial Statements

Governmental-wide Financial Statements

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Statement of Net Assets

June 30, 2008

(expressed in thousands)

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

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

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

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

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

Total general revenues

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

Contributions to endowments

Transfers

Change in Net Assets

Net assets - Beginning, as restated

Net assets - Ending

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

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

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Basic Financial Statements

Fund Financial Statements

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

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

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

Reconciliation of the Balance Sheet to the Statement of Net Assets GOVERNMENTAL FUNDS

June 30, 2008

(expressed in thousands)

Total Fund Balances for Governmental Funds		$ 12,531,627
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:		
Non-depreciable assets	$ 19,532,045	
Depreciable assets	13,265,636	
Less: Accumulated depreciation	(5,561,720)	
Total capital assets		27,235,961
Some of the state's revenues will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.		1,305,821
Unmatured interest on general obligation bonds is not recognized in the funds until due.		(280,610)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets.		163,558
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
Bonds and other financing contracts payable	$ (13,673,474)	
Accreted interest on bonds	(295,056)	
Compensated absences	(497,558)	
Other postemployment obligations	(221,375)	
Unfunded pension obligation	(113,416)	
Claims and judgments	(28,278)	
Other obligations	(30,595)	
Total long-term liabilities		(14,859,752)
Net Assets of Governmental Activities		$ 26,096,605

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

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

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

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

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

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

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

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

Statement of Fund Net Assets
PROPRIETARY FUNDS
June 30, 2008
(expressed in thousands)

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

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

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

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

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

Statement of Cash Flows
PROPRIETARY FUNDS

For the Fiscal Year Ended June 30, 2008

(expressed in thousands)

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

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

Continued

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

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

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

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

Concluded

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

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

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

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

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

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

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

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

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

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

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

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

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

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Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2008

Note 1
Summary of Significant Accounting Policies

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

A. REPORTING ENTITY

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

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

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

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

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

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

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

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

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

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

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

Tobacco Settlement Authority (TSA): The TSA was created by the Washington State Legislature in March 2002 as a public instrumentality separate and distinct from the state. It is governed by a five-member board appointed by the Governor. It was created to issue bonds to securitize a portion of the state's future tobacco settlement revenue in order to generate funds for increased costs of health care, long-term care, and other programs of the state.

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

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

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

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

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

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

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

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

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

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

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

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

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-wide Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

Fund Financial Statements

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

Major Governmental Funds:

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

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

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

Major Enterprise Funds:

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

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

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

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

Nonmajor Governmental Funds:

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

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

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

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

Nonmajor Proprietary Funds:

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

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

The state reports the following fiduciary funds:

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

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

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

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

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

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

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

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

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

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

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

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

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

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

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

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

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

1. Cash and Investments

Investments of surplus or pooled cash balances are reported on the accompanying Statements of Net Assets, Balance Sheets and Statements of Cash Flows as "Cash and Pooled Investments." The Office of the State Treasurer invests state treasury cash surpluses where funds can be disbursed at any time without prior notice or penalty. As a result, the cash balances of funds with surplus pooled balances are not reduced for these investments. For reporting purposes, investments are stated at fair value or amortized cost, which approximates fair value. For purposes of reporting cash flows, the state considers cash and pooled investments to be cash equivalents. Pooled investments include short-term, highly-liquid investments that are both readily convertible to cash and are so near their maturity dates that they present insignificant risk of changes in value because of changes in interest rates.

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

Long-term investments are reported at fair value. Fair values are based on published market prices, quotations from national security exchanges and security pricing services, or by the respective fund managers for securities that are not actively traded. Privately held mortgages are valued at cost, which approximates fair value. Certain pension trust fund investments, including real estate and private equity, are valued based on appraisals or independent advisors. Additional disclosure describing investments is provided in Note 3.

2. Receivables and Payables

Receivables in the state's governmental fund type accounts consist primarily of taxes and federal revenues. Receivables in all other funds have arisen in the ordinary course of business. Receivables are recorded when either the asset or revenue recognition criteria (refer to Note 1.C) have been met. All receivables are reported net of an allowance for accounts estimated to be uncollectible.

For government-wide reporting purposes, amounts recorded as interfund/interagency receivables and payables are eliminated in the governmental and business-type activities columns on the Statement of Net Assets, except for the net residual balances due between the governmental and business-type activities, which are reported as internal balances. Amounts recorded in governmental and business-type activities as due to or from fiduciary funds have been reported as due to or from other governments.

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

3. Inventories

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

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

For governmental fund financial reporting, inventory balances are also recorded as a reservation of fund balance indicating that they do not constitute "available spendable resources" except for $6.6 million in federally donated consumable inventories, which are offset by deferred revenues because they do not constitute an "available" resource until consumed.

4. Capital Assets

Except as noted below, it is the state's policy to capitalize:

- All land;
- All additions and improvements to the state highway system;
- Infrastructure, other than the state highway system, with a cost of $100,000 or more;
- Buildings, building improvements, and leasehold improvements with a cost of $100,000 or more;
- All other capital assets with a unit cost of $5,000 or more.

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

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

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

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

Art collections, library reserve collections, and museum and historical collections, that are considered inexhaustible in that their value does not diminish over time, are not capitalized by the state if all of the following conditions are met:

- The collection is held for public exhibition, education or research in furtherance of public service, rather than financial gain.

- The collection is protected, kept unencumbered, cared for, and preserved.

- The collection is subject to policy requirements that the proceeds from sales of collection items be used to acquire other items for the collection.

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Generally, estimated useful lives are as follows:

Buildings & building components	5-50 years
Furnishings, equipment & collections	3-50 years
Other improvements	3-50 years
Infrastructure	20-50 years

The cost and related accumulated depreciation of disposed capital assets are removed from the accounting records.

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

- Maintenance of an up-to-date inventory of system assets,

- Performance of condition assessments of the assets at least every three years with summarization of the results using a measurement scale, and

- Annual estimation of the amount to maintain and preserve the assets at the condition level established and disclosed.

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

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

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

5. Compensated Absences

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

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

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

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

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

6. Long-Term Liabilities

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

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

7. Fund Equity

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

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

E. OTHER INFORMATION

1. Insurance Activities

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

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

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

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

Risk Management. Washington State operates a risk management liability program pursuant to RCW 4.92.130. The state manages its tort claims as an insurance business activity rather than a general governmental activity. The state's policy is generally not to purchase commercial insurance for the risk of losses to which it is exposed. Instead, the state's management believes it is more economical to manage its risks internally and set aside assets for claims settlement in the Risk Management Fund, an internal service fund. A limited amount of commercial insurance is purchased for employee bonds and to limit the exposure to catastrophic losses. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past six fiscal years. Otherwise, the risk management liability program services all claims against the state for injuries and property damage to third parties. The majority of state funds and agencies participate in the risk management liability program in proportion to the anticipated exposure to liability losses.

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

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

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

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

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

2. Postemployment Benefits

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

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

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

3. Interfund/Interagency Activities

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

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

4. Donor-restricted Endowments

The state reports endowments in higher education endowment permanent accounts. These accounts are established outside of the state treasury for use by the higher education institutions. State law permits the governing boards of the institutions to appropriate for expenditure as much of the net appreciation, realized and unrealized, in the fair value of the assets of an endowment fund as is deemed prudent under the facts and circumstances prevailing at the time.

Generally, the institutions use a 5 percent spending rate policy for authorizing and spending investment income. The net appreciation available for authorization for expenditure by governing boards totaled $204.8 million and is reported in the nonexpendable portion of the reserve for permanent funds.

Note 2

Accounting and Reporting Changes

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

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

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

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

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

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

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

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

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

Note 3
Deposits and Investments

A. DEPOSITS

Custodial Credit Risk. Custodial credit risk is the risk associated with the failure of a depository financial institution. In the event of a depository financial institution's failure, it is the risk that the state would not be able to recover its deposits or collateralized securities that are in the possession of the outside parties.

The state minimizes custodial credit risk by restrictions set forth in state law. Statutes restrict the State Treasurer to deposit funds in financial institutions that are physically located in Washington unless otherwise expressly permitted by statute and authorized by the Washington Public Deposit Protection Commission (PDPC). The PDPC (established under Chapter 39.58 of the Revised Code of Washington) constitutes a multiple financial institution collateral pool. Pledged securities under the PDPC collateral pool are held by the PDPC's agent in the name of the collateral pool.

At June 30, 2008, $2.5 billion of the state's deposits with financial institutions were either insured or collateralized, with the remaining $32.4 million uninsured/ uncollateralized. The Federal Deposit Insurance Corporation (FDIC) covers the state's insured deposits and the PDPC provides collateral protection.

B. INVESTMENTS – PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS (PENSION TRUST FUNDS)

1. Summary of Investment Policies

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

Eligible Investments. Pension trust funds are invested in the Commingled Trust Fund (CTF). The CTF is comprised of public market equities, fixed income securities, private equity investments, real estate and tangible assets. The CTF's performance benchmark objective is to exceed the return of a policy benchmark consisting of public market indices weighted according to asset allocation targets. The asset allocation for the CTF is formally reviewed at least every four years.

The public markets equity portion of the retirement fund includes strategies in the U.S., developed international and emerging markets. Since the U.S. equity markets are generally efficient, the domestic equity portfolio is 75 percent passively managed with the rest in an active enhanced strategy. Over time, the domestic equity portfolio should track the return of a broad U.S. market benchmark, the Dow Jones Wilshire 5000 Index. Non-U.S. markets and emerging markets are generally less efficient than the U.S. market; therefore, more active management will be included in the approach taken with these markets. The weightings of the elements of the developed markets and emerging markets of the non-U.S. equity program are similar to the weightings of the MSCI All Country World ex. U.S. Index which serves as the benchmark for the WSIB's entire non-U.S. program.

The portfolio is constrained by policy from investing more than 1 percent of the portfolio's par holdings in any single issuer with a quality rating below investment grade, and from having a duration (the sensitivity of the portfolio's fair value to changes in the level of interest rates) that is more than 20 percent different than the duration of the Lehman Universal Index. In addition, the major sector allocations are limited to the following ranges: U.S Treasuries and government agencies – 10 percent to 45 percent, credit bonds – 10 percent to 60 percent, asset backed securities – 0 percent to 10 percent, commercial mortgage-backed securities – 0 percent to 10 percent, mortgage-backed securities – 5 percent to 45 percent and below investment grade credit bonds – 0 percent to 15 percent.

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

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

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

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

2. Unfunded Commitments

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

3. Securities Lending

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

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

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

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

During Fiscal Year 2008, securities lending transactions could be terminated on demand by either the WSIB or the borrower. The weighted average maturity of overall loans was 21 days.

Cash collateral was invested by the WSIB's agents in securities issued or guaranteed by the U.S. government, the WSIB's short-term investment pool (average final maturity of 136 days) or term loans. Because the securities lending agreements were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. Non-cash collateral could not be pledged or sold absent borrower default. There are no restrictions on the amount of securities that can be lent.

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

During Fiscal Year 2008, there were no significant violations of legal or contractual provisions, or failures by any borrowers to return loaned securities or to pay distributions thereon. Further, the WSIB incurred no losses during Fiscal Year 2008 resulting from a default by either the borrowers or the securities lending agents.

4. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The pension fixed income investments are actively managed to exceed the return of the Lehman Universal Index, with volatility as measured by duration to be similar to or less than the index. Pension trust funds are invested in U.S. agencies and corporate debt variable-rate securities, most of which reset periodically to the market interest rate. Because these securities frequently reprice to prevailing market rates, interest rate risk is substantially reduced at each periodic reset date.

The following schedule presents the pension fund investments by type and provides information about the interest rate risks associated with the pension trust funds investments as of June 30, 2008. The schedule displays various asset classes held by maturity in years and credit ratings. Variable-rate securities are presented according to the length of time until the next reset date rather than the stated maturity.

Pension Trust Funds
June 30, 2008
(expressed in thousands)

Investment Type	Fair Value	Maturity: Less than 1 year	1-5 years	6-10 years	More than 10 years	Credit Rating
Asset Backed Securities	$ 8,290	$ -	$ 611	$ -	$ 7,679	Multiple
Mortgages:						
Collateralized mortgage obligations	1,787,756	4,083	586,200	1,082,038	115,435	Aaa
Pass throughs	2,710,005	261	1,706,519	906,172	97,053	Multiple
Commercial mortgage backed securities	566,007	20,829	268,853	275,136	1,189	Multiple
Corporate bonds - domestic	6,765,029	346,569	2,112,167	3,065,125	1,241,168	Multiple
Corporate bonds - foreign	385,893	-	165,153	111,431	109,309	Multiple
Government securities - domestic:						
US government treasuries	78,143	-	26,264	51,879	-	Aaa
Treasury inflation protected securities	1,489,766	-	1,019,000	470,766	-	Aaa
Variable rate notes	520,164	15,119	72,539	24,806	407,700	Multiple
	14,311,053	$ 386,861	$ 5,957,306	$ 5,987,353	$ 1,979,533	
Corporate stock - foreign	8,478,993					
Commingled index funds - domestic	9,445,627					
Commingled index funds - foreign	5,216,260					
Money market funds	1,056,971					
Cash overlay	287,383					
Private equity	13,837,207					
Real estate	8,688,560					
Innovation	555,605					
Tangible assets	447,753					
Currencies	132,867					
Securities lending collateral balances	3,963,758					
Defined contribution plans assets:						
Short-Horizon	74,248					
Mid-Horizon	193,474					
Long-Horizon	194,005					
Mutual funds:						
Domestic equity passive	1,257,938					
Non-US passive developed	914,575					
Domestic equity active	321,081					
Non-US active developed	141,587					
Washington State bond fund	403,561					
Savings pool	825,670					
Money market mutual funds	400,342					
Total	$ 71,148,518					

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

Pension Trust Funds
Investments with Multiple Credit Ratings
June 30, 2008
(expressed in thousands)

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

5. Credit Risk

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

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

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

6. Foreign Currency Risk

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

The following schedule presents the exposure of pension fund investments to foreign currency risk. The schedule provides information on deposits and investments held in various foreign currencies, which are stated in U.S. dollars. The pension trust funds also had $5.2 billion invested in an international commingled equity index fund. As such, these currency denominations are not presented in the following schedule.

Pension Trust Funds
Foreign Currency Risk
June 30, 2008
(expressed in thousands)

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

7. Derivatives

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

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

8. Reverse Repurchase Agreements

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

C. INVESTMENTS – WORKERS' COMPENSATION FUND

1. Summary of Investment Policies

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

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

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

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

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

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

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

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

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

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

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

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

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

2. Securities Lending

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

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

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

During Fiscal Year 2008, securities lending transactions could be terminated on demand by either the WSIB or the borrower. The average weighted maturity of overall loans was 21 days.

Cash collateral was invested by the WSIB's agents in securities issued or guaranteed by the U.S. government, the WSIB's short-term investment pool (average final maturity of 136 days) or term loans. Because the securities lending agreements were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. Non-cash collateral could not be pledged or sold absent borrower default. There are no restrictions on the amount of securities that can be lent.

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

During Fiscal Year 2008, there were no significant violations of legal or contractual provisions, no failures by any borrowers to return loaned securities or to pay distributions thereon. Further, the WSIB incurred no losses during Fiscal Year 2008 resulting from a default by either the borrowers or the securities lending agents.

3. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The workers' compensation fixed income investments are actively managed to exceed the return of the Comparable Market Index, with volatility as measured by duration to be similar to or less than the index. As of June 30, 2008, the durations of the various fixed income classes were within the duration targets of the Comparable Market Index.

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

The following schedule presents the workers' compensation fund investments by type and provides information about the interest rate risks associated with the investments as of June 30, 2008. The schedule displays various asset classes held by maturity in years and credit ratings. Variable-rate securities are presented according to the length of time until the next reset date rather than the stated maturity.

Workers' Compensation Fund
June 30, 2008
(expressed in thousands)

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

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

Workers' Compensation Fund
Investments with Multiple Credit Ratings
June 30, 2008
(expressed in thousands)

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

4. Credit Risk

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

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

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

5. Foreign Currency Risk

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

6. Derivatives

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

Consistent with the WSIB authority to invest in derivatives, international active equity managers may make limited investments in financial futures, forward contracts or other derivative securities to manage exposure to currency rate risk and equitize excess cash holdings. No such derivative securities were held as of June 30, 2008. Domestic and foreign passive equity index fund managers may also utilize various derivative securities to manage exposure to risk and increase portfolio returns. Information on the extent of use and holdings of derivative securities by passive equity index fund managers is unavailable. At June 30, 2008, the only derivative securities held directly by the WSIB were collateralized mortgage obligations (CMOs) of $1.8 billion.

7. Reverse Repurchase Agreements

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

D. INVESTMENTS – LOCAL GOVERNMENT INVESTMENT POOL (LGIP)

1. Summary of Investment Policies

The LGIP is managed and operated by the Office of the State Treasurer (OST). The OST is responsible for establishing the investment policy for the pool. It is reviewed annually by the LGIP Advisory Committee. The terms of the policy are designed to ensure the safety and liquidity of the funds deposited in the LGIP.

Investment Objectives. The LGIP is comparable to a Rule 2a-7 money market fund recognized by the Securities and Exchange Commission (17CFR.270.2a-7). Rule 2a-7 funds are limited to high quality obligations with limited maximum and average maturities, the effect of which is to minimize both market and credit risk.

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

- Adhere to all restrictions on the investment of funds established by law and by the policy.
- Limit the purchase of investments in securities so that the weighted average maturity of the portfolio, as defined in Section VI of the policy, does not exceed 90 days.
- Limit the purchase of investments to securities that have a maximum final maturity of 397 days, with the exceptions listed in section VI of the policy.
- Limit the purchase of investments in securities other than those issued by the U.S. government or its agencies.
- Prepare regular reports of portfolio activity.

The primary objective of safety will be measured in cash, as opposed to accounting terms, where different, and in terms of the portfolio, as a whole, as opposed to the terms of any individual transaction. This means, for example, that a single transaction that generated an accounting loss but actually increased the amount of cash received in the portfolio would be considered to have increased capital, and not decreased it.

Within the restrictions necessary to ensure the safety and liquidity of funds, the investment portfolio of the LGIP will be structured to attain a market rate of return throughout an economic cycle.

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

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

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

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

2. Securities Lending

The LGIP investment policy requires that any securities on loan be made available by the lending agent for next day liquidity at the option of the LGIP. During Fiscal Year 2008, the LGIP had no credit risk exposure to borrowers because the amounts owed to the borrowers exceeded the amounts the borrowers owed the LGIP. Furthermore, the contract with the lending agent requires them to indemnify the LGIP if the borrowers fail to return the securities (and if collateral is inadequate to replace the securities lent) or if the borrower fails to pay the LGIP for income distribution by the securities' issuers while the securities are on loan.

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

State statutes permit the LGIP to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The LGIP, which has contracted with a lending agent to lend securities in the LGIP, earns a fee for this activity. The lending agent lends securities and receives collateral, which can be in the form of cash or other securities. The collateral, which must be valued at 102 percent of the fair value of the loaned securities, is priced daily and, if necessary, action is taken to maintain the collateralization level at 102 percent.

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

At June 30, 2008, all LGIP securities on loan were collateralized by cash and other securities and the average life of both the loans and the investment of cash received as collateral was one day.

3. Interest Rate Risk

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

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

The following schedule presents the LGIP investments by type and provides information about the interest rate risks associated with the LGIP investments as of June 30, 2008.

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

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

4. Credit Risk

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of a failure of the counter party, the LGIP will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The LGIP investment policy requires that securities purchased by the office be held by the master custodian, acting as an independent third party, in its safekeeping or trust department. All securities held as collateral were rated AAA. The market value of securities held for collateral must be at least 102 percent of the value of the repurchase agreement.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The LGIP mitigates concentration of credit risk by limiting the percentage of the portfolio invested with any one issuer.

5. Foreign Currency Risk - None.

6. Derivatives - None.

7. Reverse Repurchase Agreements

State law also permits the LGIP to enter into reverse repurchase agreements, which are, by contract, sales of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest.

The fair value of the securities pledged as collateral by the LGIP underlying the reverse repurchase agreements normally exceeds the cash received, providing the dealers a margin against a decline in the fair value of the securities.

If the dealers default on their obligations to resell these securities to the LGIP or to provide equal value in securities or cash, the LGIP would suffer an economic loss equal to the difference between the fair value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest.

Repurchase agreements are collateralized at 102 percent. The collateral is priced daily and held by the LGIP's custodian in the state's name. Collateral for mortgage-backed repurchase agreements with a maturity date longer than seven days will be priced at 105 percent of the value of the repurchase agreement. Collateralized Mortgage Obligations (CMOs) used as collateral for repurchase agreements must pass the Federal Financial Institutions Examination Council (FFIEC) test, or not exceed a volatility rating of V-5 by Fitch Investor Services, or a similar rating of a nationally recognized rating agency.

During the Fiscal Year 2008, the LGIP did not enter into any reverse repurchase agreements and there were no obligations under reverse repurchase agreements outstanding at year-end.

E. INVESTMENTS – HIGHER EDUCATION SPECIAL REVENUE AND ENDOWMENT FUNDS

1. Summary of Investment Policies

The investments of the University of Washington represent 65 percent of the total investments in Higher Education Special Revenue and Endowment Funds.

The Board of Regents of the University of Washington is responsible for the management of the University's investments. The Board establishes investment policy, which is carried out by the Chief Investment Officer. The University of Washington Investment Committee (UWINCO) comprised of Board members and investment professionals advise on matters relating to the management of the University's investment portfolios. The majority of the University's investments are insured, registered, and held by the University's custodial bank as an agent for the University. Investments not held by the custodian include lent securities, mutual funds, venture capital, private equity, distressed, marketable alternatives, mortgages, real estate, and miscellaneous investments.

The University combines most short-term cash balances in the Invested Funds Pool. At June 30, 2008, the Invested Funds Pool totaled $868.6 million. The fund also owns units in the Consolidated Endowment Fund valued at $446 million on June 30, 2008. By University policy, departments with qualifying funds in the Invested Funds Pool receive distributions based on their average balances and on the type of balance. Campus depositors received 4.25 percent for Fiscal Year 2008. The difference between the actual earnings of the Invested Funds Pool and the calculated distributions is used to support activities benefiting all University departments.

The majority of the endowed funds are invested in a pooled fund called the Consolidated Endowment Fund (CEF). Individual endowments subscribe to or purchase units in the pool on the basis of a per unit valuation of the CEF at fair value on the last business day of the calendar quarter. Income is distributed based on the number of units held. The CEF income distribution is 5 percent of the average fair value of the CEF for the previous three years. State law allows for the spending of appreciation in the CEF.

The University records its permanent endowments at the lower of original value or current market value in the Restricted Nonexpendable Net Assets category. Of the total of approximately $1.3 billion permanent endowment funds (at fair value) as of June 30, 2008, the aggregate amount of the deficiencies for all funds for which the fair value of the assets is less than the original gifts is $3.3 million.

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

2. Unfunded Commitments

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

3. Securities Lending

The University's investment policies permit it to lend its securities to broker dealers and other entities. The University's custodian lends securities for collateral in the form of cash or other securities, with the simultaneous agreement to return the collateral for the same securities in the future. U.S. securities are loaned and secured by collateral valued at 102 percent of the fair value of the securities plus any accrued interest.

Non-U.S. securities are loaned and secured by collateral valued at 105 percent of the fair value of the securities plus any accrued interest. At year-end, the University had no credit risk exposure to borrowers because the amounts the University owes the borrowers exceed the amounts the borrowers owe the University.

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

Either the University or the borrower can terminate all securities loans on demand, although the average term of overall loans is 105 days. Cash collateral is invested in a short-term investment pool that had an average weighted maturity of 42 days as of June 30, 2008.

The relationship between the maturities of the investment pool and the University's loans is affected by the maturities of the securities loaned by other entities that use the custodian's pool. The University cannot determine the maturities of these loaned securities. The University cannot sell or pledge non-cash collateral unless the borrower defaults. Non-cash collateral at June 30, 2008, was $13.6 million.

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

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

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

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

4. Interest Rate Risk

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

Modified duration, which estimates the sensitivity of a bond's price to interest rate changes, is based on Macaulay duration.

Macaulay duration is the basic calculation developed for a portfolio of bonds assembled to fund a fixed liability. Macaulay duration is calculated as follows: sum of discounted time-weighted cash flows divided by the bond price. Modified duration is calculated using the following formula:

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

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

Approximately $181.4 million of additional domestic fixed income securities (including loaned) and $3.8 million of additional foreign fixed income securities, which in total makeup 5.6 percent of the University's investments, are not included in the duration figures below. These investments, which are managed by the University or by the University's affiliates, are not invested under the same investment strategy or with the same custodian as those detailed in the following schedule.

University of Washington
Interest Rate Risk
Duration as of June 30, 2008
(expressed in thousands, modified duration in years)

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

5. Credit Risk

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

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

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

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

6. Foreign Currency Risk

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

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

At June 30, 2008, the University had net outstanding forward commitments to sell foreign currency with a total fair value of $19.1 million, which equals 0.58 percent of the total portfolio.

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

University of Washington
Consolidated Endowment Fund
Foreign Currency Risk
June 30, 2008
(expressed in thousands)

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

7. Derivatives

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

8. Reverse Repurchase Agreements – None

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

1. Summary of Investment Policies

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

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

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

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

- Obligations of the U.S. government.
- Obligations of U.S. government agencies, or of corporations wholly owned by the U.S. government.
- Obligations of government sponsored corporations that are or may become eligible as collateral for advances to member banks as determined by the board of governors of the Federal Reserve.
- Banker's acceptances purchased on the secondary market rated with the highest short-term credit rating of any two Nationally Recognized Statistical Rating Organizations (NRSROs), at the time of purchase. If the banker's acceptance is rated by more than two NRSROs, it must have the highest rating from all of the organizations.
- Commercial paper, provided that the State Treasurer adheres with policies and procedures of the State Investment Board regarding commercial paper (RCW 43.84.080(7).
- Certificates of deposit with financial institutions qualified by the Washington Public Deposit Protection Commission.
- Local Government Investment Pool, for proceeds of bonds or other debt obligations, when the investments are made in order to comply with the Internal Revenue Code of 1986, as amended.
- Obligations of the state of Washington or its political sub-divisions.

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

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

- The allocation to investments subject to high sensitivity or reduced marketability will not exceed 15 percent of the daily balance of the portfolio.

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

2. Securities Lending

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

The OST lending agent lends U.S. Government and U.S. Agency securities and receives collateral, which can be in the form of cash or other securities. The collateral, which must be valued at 102 percent of the fair value of the loaned securities, is priced daily and, if necessary, action is taken to maintain the collateralization level at 102 percent. The cash is invested by the lending agent in repurchase agreements or money market instruments, in accordance with investment guidelines approved by the OST.

The securities held as collateral and the securities underlying the cash collateral are held by the custodian. The contract with the lending agent requires them to indemnify the OST if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or if the borrower fails to pay the OST for income distribution by the securities' issuers while the securities are on loan. The OST cannot pledge or sell collateral securities received unless the borrower defaults.

At June 30, 2008, securities on loan approximated $507 million. All OST securities on loan were collateralized by cash and other securities and the average life of both the loans and the investment of cash received as collateral was one day.

The OST investment policy requires that any securities on loan be made available by the lending agent for next day liquidity at the option of the OST. During Fiscal Year 2008, the OST had no credit risk exposure to borrowers because the amounts owed to the borrowers exceeded the amounts the borrowers owed the OST. There were no violations of legal or contractual provisions or any losses resulting from a default of a borrower or lending agent during the fiscal year.

3. Interest Rate Risk

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

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

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

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

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

4. Credit Risk

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

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

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. For non-governmental securities, the OST limits its exposure to concentration of credit risk by restricting the amount of investments to no more than 5 percent of the portfolio to any single issuer. During Fiscal Year 2008, the non-governmental securities of a single issuer held by the Cash Management Account did not exceed 5 percent of the total portfolio.

5. Foreign Currency Risk - None.

6. Derivatives - None.

7. Reverse Repurchase Agreements

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

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

During the Fiscal Year 2008, the OST did not enter into any reverse repurchase agreements and there were no obligations under reverse repurchase agreements outstanding at year-end.

Note 4
Receivables and Deferred/Unearned Revenues

A. GOVERNMENTAL FUNDS

Taxes Receivable

Taxes receivable at June 30, 2008, consisted of the following (expressed in thousands):

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

Other Receivables

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

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

Notes:

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

(2) Significant long-term portions of loans receivable include $108 million in the Higher Education Special Revenue Fund for student loans and $305 million in Nonmajor Governmental Funds for low income housing, public works, and economic development/revitalization loans.

(3) Long-term contracts in Nonmajor Governmental Funds are for timber sales contracts.

Deferred Revenues

Deferred revenues at June 30, 2008, consisted of the following (expressed in thousands):

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

B. PROPRIETARY FUNDS

Taxes Receivable

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

Other Receivables

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

	Business-Type Activities Enterprise Funds					Governmental Activities
Other Receivables	Workers' Compensation	Unemployment Compensation	Higher Education Student Services	Nonmajor Enterprise Funds	Total	Internal Service Funds
Accounts receivable	$ 130,305	$ -	$ 209,102	$ 34,283	$ 373,690	$ 5,334
Interest	98,868	-	1,438	4,019	104,325	2,741
Loans	-	-	5	-	5	-
Miscellaneous	602,587	478,182	2,523	1,708	1,085,000	10,531
Subtotals	831,760	478,182	213,068	40,010	1,563,020	18,606
Less: Allowance for uncollectible receivables	117,727	92,802	77,317	71	287,917	195
Total Other Receivables	$ 714,033	$ 385,380	$ 135,751	$ 39,939	$ 1,275,103	$ 18,411

Unearned Revenues

Unearned revenues at June 30, 2008, consisted of the following (expressed in thousands):

	Business-Type Activities Enterprise Funds					Governmental Activities
Unearned Revenues	Workers' Compensation	Unemployment Compensation	Higher Education Student Services	Nonmajor Enterprise Funds	Total	Internal Service Funds
Charges for services	$ 5	$ -	$ 34,060	$ 93	$ 34,158	$ 2,504
Other taxes	8,055	-	-	-	8,055	-
Miscellaneous	12,278	-	705	3	12,986	1,637
Total Unearned Revenues	$ 20,338	$ -	$ 34,765	$ 96	$ 55,199	$ 4,141

C. FIDUCIARY FUNDS

Other Receivables

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

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

Unearned Revenues

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

Note 5
Interfund Balances and Transfers

A. INTERFUND BALANCES

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

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

Except as noted, all interfund balances are expected to be paid within one year from the date of the financial statements. These balances resulted from the time lag between the dates that (1) interfund goods and services were provided and when the payments occurred, and (2) interfund transfers were accrued and when the liquidations occurred.

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

B. INTERFUND TRANSFERS

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

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

Additionally, there were transfers of $330 million within the state's Pension Trust Funds. Transfers are used to 1) move revenues from the fund that statute requires to collect them to the fund that statute requires to expend them, 2) move receipts designated for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, 3) move unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, 4) move profits from the Liquor Revolving Account and the State Lottery Account as required by law, and 5) transfer amounts to and from the General Fund as required by law. In Fiscal Year 2008, there were no significant transfers of a non-routine nature.

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

Note 6
Capital Assets

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

A. GOVERNMENTAL CAPITAL ASSETS

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

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

*Beginning balances restated to reflect change in fund reclassification.

B. BUSINESS-TYPE CAPITAL ASSETS

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

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

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

C. DEPRECIATION

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

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

*Includes $68 million internal service fund depreciation that was allocated to functions as a part of the net internal service fund activity.

D. CONSTRUCTION IN PROGRESS

Major construction commitments of the state at June 30, 2008, are as follows (expressed in thousands):

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

Note 7
Long-Term Liabilities

A. BONDS PAYABLE

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

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

Legal Debt Limitation

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

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

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

Authorized But Unissued

The state had a total of $10.2 billion in general obligation bonds authorized but unissued as of June 30, 2008, for the purpose of public building and schools construction and renovation, higher education purposes, and highways construction and improvement.

Interest Rates

Interest rates on fixed rate general obligation bonds ranged from 2.84 to 7.75 percent. Variable rate demand obligations (VRDO) of $147.2 million as of June 30, 2008, are remarketed on a weekly basis. Interest rates on revenue bonds range from 2 to 7.38 percent.

Debt Service Requirements to Maturity

General Obligations Bonds

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

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

Outstanding general obligations bonds are presented in the Washington State Treasurer's Annual Report for 2008. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington, 98504-0200, phone number (360) 902-9000 or TTY (360) 902-8963.

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

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

Revenue Bonds

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

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

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

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

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

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

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

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

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

* Total future principal and interest payments.

** Construction in-progress.

Debt Refundings

When advantageous and permitted by statute and bond covenants, the State Finance Committee authorizes the refunding of outstanding bonds and certificates of participation. Colleges and universities may also refund revenue bonds.

When the state refunds outstanding bonds, the net proceeds of each refunding issue are used to purchase U.S. government securities that are placed in irrevocable trusts with escrow agents to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered defeased and the liability has been removed from the government-wide statement of net assets.

Current Year Defeasances

Business-Type Activities

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

Prior Year Defeasances

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

General Obligation Bond Debt

On June 30, 2008, $742.8 million of general obligation bonded debt outstanding is considered defeased.

Revenue Bond Debt

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

B. CERTIFICATES OF PARTICIPATION

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

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

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

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

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

C. CLAIMS AND JUDGMENTS

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

Workers' Compensation

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

The claims and claim adjustment liabilities of $21.9 billion as of June 30, 2008, include $12.0 billion for supplemental pension cost of living adjustments (COLAs) that by statute are not to be fully funded.

These COLA payments are funded on a pay-as-you-go basis, and the Workers' Compensation actuaries have indicated that future premium payments will be sufficient to pay these claims as they come due.

The remaining claims liabilities of $9.9 billion are fully funded by long-term investments, net of obligations under securities lending agreements.

Changes in the balances of workers' compensation claims liabilities during Fiscal Years 2007 and 2008 were as follows (expressed in thousands):

Workers' Compensation Fund	Balances Beginning of Fiscal Year	Incurred Claims and Changes in Estimates	Claim Payments	Balances End of Fiscal Year
2007	$ 17,755,101	3,721,024	(1,729,633)	$ 19,746,492
2008	$ 19,746,492	4,022,871	(1,882,215)	$ 21,887,148

Risk Management

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

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

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

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

Changes in the balances of risk management claims liabilities during Fiscal Years 2007 and 2008 were as follows (expressed in thousands):

Risk Management Fund	Balances Beginning of Fiscal Year	Incurred Claims and Changes in Estimates	Claim Payments	Tort Defense Payments	Balances End of Fiscal Year
2007	$ 527,198	102,693	(36,057)	(17,271)	$ 576,563
2008	$ 576,563	137,753	(44,906)	(19,649)	$ 649,761

Health Insurance

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

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

Changes in the balances of Health Insurance claim liabilities during Fiscal Years 2007 and 2008 were as follows (expressed in thousands):

Health Insurance Fund	Balances Beginning of Fiscal Year	Incurred Claims and Changes in Estimates	Claim Payments	Balances End of Fiscal Year
2007	$ 53,584	503,994	(501,260)	$ 56,318
2008	$ 56,318	604,294	(590,678)	$ 69,934

D. LEASES

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

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

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

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

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

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

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

E. LONG-TERM LIABILITY ACTIVITY

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

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

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

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

** Beginning balance has been restated to reflect reclassification.

For Governmental Activities, payments on the certificates of participation are being repaid directly from various governmental funds. The compensated absences liability will be liquidated approximately 52.8 percent by the General Fund, 23.4 percent by the Higher Education Special Revenue Funds, and the balance by various other governmental funds. The claims and judgments liability will be liquidated primarily through the risk management fund, an internal service fund. Leases, installment contract obligations, and other liabilities will be repaid from various other governmental funds.

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

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

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

Note 8
No Commitment Debt

The Washington State Housing Finance Commission, Washington Higher Education Facilities Authority, Washington Health Care Facilities Authority, and Washington Economic Development Finance Authority (financing authorities) were created by the state Legislature. For financial reporting purposes, they are discretely presented as component units. These financing authorities issue bonds for the purpose of making loans to qualified borrowers for capital acquisitions, construction, and related improvements. These bonds do not constitute either a legal or moral obligation of the state or these financing authorities, nor does the state or these financing authorities pledge their faith and credit for the payment of such bonds. Debt service on the bonds is payable solely from payments made by the borrowers pursuant to loan agreements. Due to their no commitment nature, the bonds issued by these financing authorities are excluded from the state's financial statements.

The table below presents the June 30, 2008, balances for the "No Commitment" debt of the state's financing authorities (expressed in thousands):

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

Note 9
Fund Balances Reserved for Other Specific Purposes

The nature and purposes of fund balances reserved for other specific purposes as of June 30, 2008, are listed below (expressed in thousands):

Fund Balances	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Totals
Reserved for Other Specific Purposes:					
Long-term student loans	$ -	$ 100,810	$ -	$ -	$ 100,810
Investments with trustees	679	-	-	513	1,192
Long-term receivables	68,327	1,393	-	1,716,440	1,786,160
Long-term investments	-	82,547	-	2,472	85,019
Emergency reserve	-	-	-	303,216	303,216
Petty cash	673	7,662	-	797	9,132
Total Reserved for Other Specific Purposes	$ 69,679	$ 192,412	$ -	$ 2,023,438	$ 2,285,529

Note 10
Deficit Net Assets

The Risk Management Fund, an internal service fund, had deficit net assets of $512.8 million at June 30, 2008. The Risk Management Fund is used to account for the claims, torts, and judgments generally arising from automobile and general government operations, and loss adjustment expenses for tort defense. These costs are supported by premium assessments to state agencies that are designed to cover current and future claim losses. Outstanding and incurred but not reported claims are actuarially determined and accrued, resulting in the deficit net assets.

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

The state is restricted by law from accumulating funds in the Self Insurance Liability Program in excess of 50 percent of total outstanding and actuarially determined claims.

The following schedule details the changes in net assets for the Risk Management Fund during the fiscal year ended June 30, 2008 (expressed in thousands):

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

Note 11
Retirement Plans

A. GENERAL

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

Basis of Accounting

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

Investments

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

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

- Public Employees' Retirement System (PERS)
  Plan 1 - defined benefit
  Plan 2/3 - defined benefit
  Plan 3 - defined contribution

- Teachers' Retirement System (TRS)
  Plan 1 - defined benefit
  Plan 2/3 - defined benefit
  Plan 3 - defined contribution

- School Employees' Retirement System (SERS)
  Plan 2/3 - defined benefit
  Plan 3 - defined contribution

- Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)
  Plan 1 - defined benefit
  Plan 2 - defined benefit

- Washington State Patrol Retirement System (WSPRS)
  Plan 1 - defined benefit
  Plan 2 - defined benefit

- Public Safety Employees Retirement System (PSERS)
  Plan 2 - defined benefit

- Judicial Retirement System (JRS)
  Defined benefit plan

- Judges' Retirement Fund (Judges)
  Defined benefit plan

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

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

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

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

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

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

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

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

Number of Participating Members

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

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

Number of Participating Employers

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

Employers can participate in multiple systems and/or plans.

B. PLAN DESCRIPTIONS

Public Employees' Retirement System (PERS)

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. PERS participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977, and by either, February 28, 2002, for state and higher education employees, or August 31, 2002, for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002, for state and higher education employees, or September 1, 2002, for local government employees, have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill with less than five years to live.

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

PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and 2 defined benefit plans accrue interest at a rate specified by DRS. During Fiscal Year 2008, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in PERS Plan 1 and 2 can elect to withdraw total employee contributions and interest thereon upon separation from PERS-covered employment.

PERS Plan 3 defined contribution benefits are financed from employee contributions and investment earnings. Employees in PERS Plan 3 can elect to withdraw total employee contributions adjusted by earnings and losses from the investment of those contributions upon separation from PERS-covered employment.

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior Courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not in national higher education retirement programs; judges of district and municipal courts; and employees of local governments. The Higher Education Retirement Plans are not administered by DRS. Approximately 52 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in state statute and may be amended only by the state Legislature.

PERS Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. Benefits are also actuarially reduced when a Plan 1 member chooses a survivor option. The annual benefit is 2 percent of the average final compensation (AFC) per year of service (AFC is based on the greatest compensation during any 24 eligible consecutive compensation months), capped at 60 percent. A cost-of-living allowance is granted at age 66 based upon years of service times the COLA amount (indexed to the Seattle Consumer Price Index), capped at 3 percent annually. Plan 1 members may also elect to receive an additional COLA amount (indexed to the Seattle Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

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

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the AFC per year of service. (AFC is based on the greatest compensation during any eligible consecutive 60-month period.)

Effective June 7, 2006, PERS Plan 3 members may be vested either after ten years of service or after five years of service, as long as 12 consecutive months of service were accrued after attainment of age 44. Plan 3 members are immediately vested in the defined contribution portion of their plan. Vested Plan 3 members are eligible to retire with full benefits at age 65. Plan 3 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. Refer to section J of this note for a description of the defined contribution component of PERS Plan 3.

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

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

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

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

In addition, a $150,000 death benefit is provided to the estate (or duly designated nominee) of a PERS member who dies in the line of service as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of their covered employment, if found eligible by the Department of Labor and Industries.

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

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

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

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

Members who chose to participate would:

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

Members who did not choose to participate would:

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

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

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

Legislation passed in recent sessions effective in Fiscal Year 2008:

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

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

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

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

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

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

There were no other material changes in PERS benefit provisions for the Fiscal Year ended June 30, 2008. PERS pension benefit provisions are established by chapter 41.40 and 41.34 RCW.

Teachers' Retirement System (TRS)

TRS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. TRS participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977, and by June 30, 1996, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. TRS participants joining the system on or after July 1, 1996, and those who exercised their transfer option, are members of TRS Plan 3. TRS members hired on or after July 1, 2007 have 90 days to make an irrevocable choice to enroll in either plan 2 or Plan 3. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to TRS Plan 3. Notwithstanding, TRS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

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

TRS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the TRS Plan 1 and 2 defined benefit plans accrue interest at a rate specified by DRS. During Fiscal Year 2008, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in TRS Plan 1 and 2 can elect to withdraw total employee contributions and interest thereon upon separation from TRS-covered employment. TRS Plan 3 defined contribution benefits are financed from employee contributions and investment earnings. Employees in TRS Plan 3 can elect to withdraw total employee contributions adjusted by earnings and losses from the investment of those contributions upon separation from TRS-covered employment.

TRS was legislatively established in 1938. Eligibility for membership requires service as a certificated public school employee in an instructional, administrative or supervisory capacity. TRS is comprised principally of non-state employees. TRS retirement benefit provisions are established in state statute and may be amended only by the state Legislature.

TRS Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The annual pension is 2 percent of the average final compensation (AFC) per year of service (AFC is based on the greatest compensation during the highest of any consecutive two compensation contract years), capped at 60 percent. A cost-of-living allowance is granted at age 66 based upon years of service times the COLA amount, increased by 3 percent annually. Plan 1 members may also elect to receive an additional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

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

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

TRS Plan 1 provides death and temporary disability benefits. TRS Plan 1 members receive the following additional lump sum death benefits: retired members-$400 (if retired with ten years of full-time membership), $400 (if inactive with ten years of membership), active members $600 (if employed full-time at time of death). Members on temporary disability receive a monthly payment of $180 payable for up to two years, for the same occurrence. After five years of service, members on a disability retirement receive an allowance based on their salary and service to date of disability. Members enrolled in TRS prior to April 25, 1973, may elect a benefit based on the formula in effect at that time.

TRS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is 2 percent of the AFC for each year of service. For Plan 3, the allowance amount is 1 percent of the AFC for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option.

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

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

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

In addition, a $150,000 death benefit is provided to the estate (or duly designated nominee) of a TRS member who dies in the line of service as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of their covered employment, if found eligible by the Department of Labor and Industries.

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

Members who chose to participate would:

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

Members who did not choose to participate would:

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

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

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

Legislation passed in recent sessions effective in Fiscal Year 2008:

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

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

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

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

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

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

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

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

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

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

There were no other material changes in TRS benefit provisions for the Fiscal Year ended June 30, 2008. TRS pension benefit provisions are established by chapters 41.32 and 41.34 RCW.

School Employees' Retirement System (SERS)

SERS is a cost-sharing multiple-employer retirement system comprised of two separate plans for membership purposes: Plan 2 is a defined benefit plan and Plan 3 is a combination defined benefit/defined contribution plan. As of September 1, 2000, the membership of classified school employees in PERS Plan 2 was transferred to SERS Plan 2. Those who joined on or after October 1, 1977, and by August 31, 2000, are SERS Plan 2 members unless they exercised an option to transfer their membership to Plan 3. SERS participants joining the system on or after September 1, 2000, and those who exercised their transfer option, are members of SERS Plan 3. SERS members hired on or after July 1, 2007 have 90 days to make an irrevocable choice to enroll in either Plan 2 or Plan 3. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to SERS Plan 3. Notwithstanding, SERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

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

SERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the SERS Plan 2 defined benefit plan accrue interest at a rate specified by DRS. During Fiscal Year 2008, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in SERS Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from SERS-covered employment. SERS Plan 3 defined contribution benefits are financed from employee contributions and investment earnings. Employees in SERS Plan 3 can elect to withdraw total employee contributions adjusted by earnings and losses from the investment of those contributions upon separation from SERS-covered employment.

The Legislature established SERS in 2000. Membership in the system includes all classified employees of school districts or educational service districts. SERS is comprised principally of non-state employees. SERS retirement benefit provisions are established in state statute and may be amended only by the state Legislature.

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

SERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the AFC per year of service. (AFC is based on the greatest compensation during any eligible consecutive 60-month period.)

Effective June 7, 2006, SERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after 5 years of service if 12 months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by September 1, 2000. Plan 3 members are immediately vested in the defined contribution portion of their plan. Vested Plan 3 members are eligible to retire with full benefits at the age of 65. SERS Plan 3 members who retire prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. Refer to section J of this note for a description of the defined contribution component of SERS Plan 3.

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

SERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is 2 percent of the AFC for each year of service. For Plan 3 the allowance amount is 1 percent of the AFC for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option.

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

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

In addition, a $150,000 death benefit is provided to the estate (or duly designated nominee) of a SERS member who dies in the line of service as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of their covered employment, if found eligible by the Department of Labor and Industries.

Legislation passed in recent sessions effective in Fiscal Year 2008:

Effective July 22, 2007, SERS members may purchase up to 24 consecutive months of service credits (up from 12 months) for each period of temporary duty disability (Chapter 40, Laws of 2007).

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

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

Effective after the January 2008 distribution, gain sharing for SERS Plan 3 members is discontinued. New alternative early retirement provisions were created for SERS Plan 2 and Plan 3 members (Chapter 491, Laws of 2007).

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

There were no other material changes in SERS benefit provisions for the Fiscal Year ended June 30, 2008. SERS pension benefit provisions are established by chapter 41.35 and 41.34 RCW.

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

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977, are Plan 2 members.

LEOFF defined benefit retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations. Employee contributions to the LEOFF Plan 1 and 2 defined benefit plans accrue interest at a rate specified by DRS. During Fiscal Year 2008, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in LEOFF Plan 1 and 2 can elect to withdraw total employee contributions and interest earnings thereon upon separation from LEOFF-covered employment.

LEOFF was established in 1970 by the Legislature. Membership includes all full-time, fully compensated, local law enforcement officers and firefighters, and as of July 24, 2005, those emergency medical technicians who were given the option and chose LEOFF Plan 2 membership. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers who were first included prospectively effective July 27, 2003, being a major exception.

Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established by Initiative 790 to provide governance of LEOFF Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the Legislature for the LEOFF Plan 2 retirement plan. LEOFF retirement benefit provisions are established in state statute and may be amended only by the state Legislature.

LEOFF Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50.

The benefit per year of service calculated as a percent of final average salary (FAS) is as follows:

Term of Service	Percent of FAS
20+	2.0%
10-19	1.5%
5-9	1.0%

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last ten years of service. A cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index).

LEOFF Plan 1 provides death and disability benefits. Death benefits for Plan 1 members on active duty consist of the following: (1) If eligible spouse, 50 percent of the FAS, plus 5 percent of FAS for each surviving child, with a limitation on the combined allowances of 60 percent of the FAS; or (2) If no eligible spouse, 30 percent of FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of FAS.

The LEOFF Plan 1 disability allowance is 50 percent of the FAS plus 5 percent for each child up to a maximum of 60 percent. Upon recovery from disability before the age of 50, a member is restored to service with full credit for service while disabled. Upon recovery after the age of 50, the benefit continues as the greater of the member's disability allowance or service retirement allowance.

LEOFF Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members may retire at age 50 with 20 years of service, or at the age of 53 with five years of service, with an allowance of 2 percent of the FAS per year of service (FAS is based on the highest consecutive 60 months). Plan 2 members who retire prior to the age of 53 receive reduced benefits. Benefits are actuarially reduced for each year that the benefit commences prior to age 53 and to reflect the choice of a survivor option. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

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

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is 2 percent of the FAS for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 53, unless the disability is duty-related, and to reflect the choice of a survivor option. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53.

Members of LEOFF Plan 2 who leave service because of a line of duty disability are allowed to withdraw 150 percent of accumulated member contributions. This withdrawal benefit is not subject to federal income tax. Alternatively, members of LEOFF Plan 2 who leave service because of a line of duty disability may be eligible to receive a retirement allowance of at least 10 percent of the FAS and 2 percent per year of service beyond 5 years. The first 10 percent of FAS is not subject to federal income tax.

LEOFF Plan 2 members who are severely disabled in the line of duty and incapable of substantial gainful employment in any capacity in the future, can receive a catastrophic disability benefit from LEOFF Plan 2 equal to 70 percent of their final average salary subject to offsets for workers' compensation and Social Security disability benefits received.

LEOFF Plan 2 retirees may return to work in an eligible position covered by another retirement system, choose membership in that system and suspend their pension benefits, or not choose membership and continue receiving pension benefits without interruption.

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

In addition, a $150,000 death benefit is provided to the estate (or duly designated nominee) of a LEOFF member who dies as a result of injuries sustained in the course of employment or dies from occupational disease or duty-related illness such as an infectious disease or cancer resulting from a job-related exposure, if found eligible by the Department of Labor and Industries.

Eligible survivors of LEOFF Plan 2 members who are killed in the line of duty are reimbursed for the cost of on-going health care insurance coverage.

LEOFF Plan 1 members may purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement, and cannot be used to qualify for any retirement eligibility or benefit reductions based upon years of service. This credit is to be used exclusively to provide the member with a monthly annuity that is paid in addition to the member's retirement allowance. LEOFF Plan 2 members may purchase up to five years of additional service credit at retirement.

Legislation passed in recent sessions effective in Fiscal Year 2008:

Effective July 22, 2007, LEOFF Plan 2 members may purchase up to 24 consecutive months of service credit (up from 12 months) for each period of temporary duty disability (Chapter 40, Laws of 2007).

Effective July 22, 2007, the portability of retirement benefits is changed for LEOFF Plan 2 members, the LEOFF Plan 2 system is added to those plans which are able to combine service under portability for indexing purposes, allowing compensation that is reportable in all dual members systems, except in WSPRS, to be included in the calculation of all dual members' benefits, and removing the "maximum benefit rule" for dual members who have less than 15 years of service in one capped plan and service in one uncapped plan (Chapter 207, Laws of 2007).

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

Effective July 22, 2007, terms of the employer representatives on the LEOFF Plan 2 Board are now staggered, so that no more than one position expires in the same year. Legislative terms are now two years and run from January through December. After January 1, 2008, one member of the Board must be a retired LEOFF Plan 2 participant (Chapter 303, Laws of 2007).

Effective July 22, 2007, an exception is made to the five-year waiting period required before transferring prior PERS service credit for those Emergency Medical Technicians who joined LEOFF Plan 2 as a result of legislation passed in 2003 and 2005 and retire due to disability, or die (Chapter 304, Laws of 2007).

Effective June 12, 2008, active LEOFF members can choose whether or not to obtain and pay for Medicare coverage through a "divided referendum" process (Chapter 142, Laws of 2008).

Beginning in 2011, when state General Fund revenues increase by at least 5 percent over the prior biennium's revenues, the State Treasurer will transfer, subject to legislative appropriation, specific amounts into a Local Public Safety Enhancement Account. Half of this transfer will be proportionately distributed to all jurisdictions with LEOFF Plan 2 members. The other half will be transferred to a LEOFF Retirement System Benefits Improvement Account to fund benefit enhancements for LEOFF Plan 2 members (Chapter 99, Laws of 2008).

There were no other material changes in LEOFF benefit provisions for the Fiscal Year ended June 30, 2008. LEOFF pension benefit provisions are established by chapter 41.26 RCW.

Washington State Patrol Retirement System (WSPRS)

WSPRS is a single-employer defined benefit retirement system. WSPRS participants who joined the system by December 31, 2002, are Plan 1 members. Those who joined on or after January 1, 2003, are Plan 2 members. For financial reporting and investment purposes, however, both plans are accounted for in the same pension fund.

WSPRS retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to WSPRS accrue interest at a rate specified by DRS. During Fiscal Year 2008, the DRS-established rate on employee contributions was 5.364 percent annually, compounded monthly. Employees in WSPRS can elect to withdraw total employee contributions and interest earnings thereon upon separation from WSPRS-covered employment.

WSPRS was established by the Legislature in 1947. Any commissioned employee of the Washington State Patrol is eligible to participate. WSPRS benefits are established in state statute and may be amended only by the state Legislature.

There is no vesting requirement for active WSPRS members. Inactive WSPRS members are vested after the completion of five years of eligible service. Members are eligible for retirement at the age of 55 with five years of service, or after 25 years of service. The annual pension is 2 percent of the average final salary (AFS), capped at 75 percent, per year of service. A cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

WSPRS benefit provisions include death benefits; however, the system provides no disability benefits. Disability benefits may be available from the Washington State Patrol. If disability benefits are received, the member may be eligible to acquire service credit for the period of disability. In addition, a duty death benefit of $150,000 is provided to all WSPRS members.

For WSPRS Plan 1 members, AFS is based on the average of the two highest-paid service credit years and excludes voluntary overtime. Death benefits for Plan 1 members on active duty consist of the following: (1) If eligible spouse, 50 percent of the AFS, plus 5 percent of the AFS for each surviving child, with a limitation on the combined allowances of 60 percent of the AFS; or (2) If no eligible spouse, 30 percent of AFS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of AFS.

For WSPRS Plan 2 members, AFS is based on the average of the five consecutive highest-paid service credit years and excludes both voluntary overtime and cash-outs of annual and holiday leave. At retirement, Plan 2 members also have the option of selecting an actuarially reduced benefit in order to provide for post-retirement survivor benefits. Death benefits for active-duty Plan 2 members consist of the following: (1) If the member is single or has less than ten years of service, the return of the member's accumulated contributions; or (2) If the member is married, has an eligible child, or has completed ten years of service, a reduced benefit allowance reflecting a joint and 100 percent survivor option or 150 percent of the member's accumulated contributions, at the survivor's option.

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

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

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

Legislation passed in recent sessions effective in Fiscal Year 2008:

Effective July 1, 2007, WSPRS member contribution rates will be no more than 7 percent of pay plus half the cost of any future benefit improvements. Employers will pay the contribution rate required to cover all system costs that are not covered by the member contribution rate. Also a minimum total contribution rate is established for WSPRS, beginning July 1, 2009 (Chapter 300, Laws of 2007).

Effective July 1, 2007, the WSPRS mandatory retirement age is changed from 60 to 65, but does not apply to the member serving as chief of the Washington State Patrol (Chapter 87, Laws of 2007).

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

Effective July 22, 2007, the spouse and dependent children of a WSPRS member who is killed in the course of employment will be reimbursed for any payments of medical premiums to the Washington State Health Care Authority (Chapter 488, Laws of 2007).

There were no other material changes in WSPRS benefit provisions for the Fiscal Year ended June 30, 2008. WSPRS pension benefit provisions are established by chapter 43.43 RCW.

Public Safety Employees' Retirement System (PSERS)

PSERS is a cost-sharing multiple-employer retirement system comprised of a single defined benefit plan, PSERS Plan 2. PSERS was created by the 2004 Legislature and became effective July 1, 2006.

PSERS Plan 2 membership includes:

- Full-time employees of a covered employer on or before July 1, 2006, who met at least one of the PSERS eligibility criteria, and elected membership during the election period of July 1, 2006 to September 30, 2006; and,
- Full-time employees hired on or after July 1, 2006 by a covered employer, that meet at least one of the PSERS eligibility criteria.

A "covered employer" is one that participates in PSERS. Covered employers include:

- State of Washington agencies: Department of Corrections, Parks and Recreation Commission, Gambling Commission, Washington State Patrol, and Liquor Control Board;
- Washington state counties; and,
- Washington cities except for Seattle, Tacoma and Spokane.

To be eligible for PSERS, an employee must work on a full-time basis and:

- Have completed a certified criminal justice training course with authority to arrest, conduct criminal investigations, enforce the criminal laws of Washington, and carry a firearm as part of the job: or
- Have primary responsibility to ensure the custody and security of incarcerated or probationary individuals; or
- Function as a limited authority Washington peace officer, as defined in RCW 10.93.020; or
- Have primary responsibility to supervise eligible members who meet the above criteria.

PSERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PSERS Plan 2 defined benefit plans accrue interest at a rate specified by DRS. During Fiscal Year 2008, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in PSERS Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from PSERS-covered employment.

PSERS retirement benefit provisions are established in state statute and may be amended only by the state Legislature.

PSERS Plan 2 benefits are vested after an employee completes five years of eligible service. PSERS Plan 2 members may retire at the age 65 with five years of service, or at the age of 60 with at least ten years of PSERS service credit, with an allowance of 2 percent of the average final compensation (AFC) per year of service. The AFC is the monthly average of the member's 60 consecutive highest-paid service credit months, excluding any severance pay such as lump-sum payments for deferred sick leave, vacation or annual leave. Plan 2 retirees prior to the age of 60 receive reduced benefits. If retirement is at age 53 or older with at least 20 years of service, a 3 percent per year reduction for each year between the age at retirement and age 60 applies. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

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

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

PSERS Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. Eligibility is based on the member being totally incapacitated for continued employment with a PSERS employer and leaving that employment as a result of the disability. The disability allowance is 2 percent of the average final compensation (AFC) for each year of service. AFC is based on the member's 60 consecutive highest creditable months of service. Service credit is the total years and months of service credit at the time the member separates from employment. Benefits are actuarially reduced for each year that the member's age is less than 60 (with ten or more service credit years in PSERS), or less than 65 (with fewer than ten service credit years).

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

In addition, a $150,000 death benefit is provided to the estate (or duly designated nominee) of a PSERS member who dies as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of their covered employment, if found eligible by the Department of Labor and Industries.

Legislation passed in recent sessions effective in Fiscal Year 2008:

Effective July 22, 2007, PSERS members may purchase up to 24 consecutive months of service credit (up from 12 months) for each period of temporary duty disability (Chapter 40, Laws of 2007).

Effective July 22, 2007, the portability of retirement benefits is changed for PSERS Plan 2 members, allowing compensation that is reportable in all dual members systems, except in WSPRS, to be included in the calculation of all dual members' benefits, and removing the "maximum benefit rule" for dual members who have less than 15 years of service in one capped plan and service in one uncapped plan (Chapter 207, Laws of 2007).

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

There were no other material changes to PSERS benefit provisions for the Fiscal Year ended June 30, 2008. PSERS pension benefit provisions have been established by chapter 41.37 RCW.

Judicial Retirement System (JRS)

JRS is an agent multiple-employer retirement system comprised of a single defined benefit plan. JRS retirement benefits are financed on a pay-as-you-go basis from a combination of investment earnings, employer contributions, employee contributions, and a special funding situation in which the state pays the remaining contributions.

During Fiscal Year 2008, the DRS established rate on employee contributions was 5.5 percent, compounded quarterly. JRS employees who are vested in the plan may not elect to withdraw their contributions upon termination. However, any JRS member that left the system before July 1, 1988, or his/her spouse, who was ineligible to receive a benefit at that time, may apply and receive a refund of such contributions from DRS, if said contributions have not been already refunded via a sundry claims appropriation from the state Legislature.

JRS was established by the Legislature in 1971. Membership includes judges elected or appointed to the Supreme Court, Court of Appeals, and Superior Courts on or after August 9, 1971. The system was closed to new entrants on July 1, 1988, with new judges joining PERS Plan 2. JRS retirement benefit provisions are established in state statute and may be amended only by the state Legislature.

JRS members are eligible for retirement at the age of 60 with 15 years of service, or at the age of 60 after 12 years of service (if the member left office involuntarily) with at least 15 years after beginning judicial service.

The benefit per year of service calculated as a percent of average final compensation (AFC) is the table below. This benefit is capped at 75 percent of AFC, exclusive of cost of living increases.

Term of Service	Percent of AFC
15+	3.5%
10-14	3.0%

Death and disability benefits are also provided. Eligibility for death benefits while on active duty requires ten or more years of service. A monthly spousal benefit is provided which is equal to 50 percent of the benefit a member would have received if retired. If the member is retired, the surviving spouse receives the greater of 50 percent of the member's retirement benefit or 25 percent of the AFC. For members with ten or more years of service, a disability benefit of 50 percent of AFC is provided.

There were no material changes in JRS benefit provisions for the Fiscal Year ended June 30, 2008. JRS pension benefit provisions are established by chapter 2.10 RCW.

Judges' Retirement Fund (Judges)

The Judges' Retirement Fund is an agent multiple-employer retirement system comprised of a single defined benefit plan. There are currently no active members in this plan. Retirement benefits were financed on a pay-as-you-go basis from a combination of past employee contributions, past employer contributions, and a special funding situation in which the state paid the remaining contributions. Retirees did not earn interest on their contributions, nor could they elect to withdraw their contributions upon termination.

The Judges' Retirement Fund was created by the Legislature on March 22, 1937, pursuant to RCW 2.12, to provide retirement benefits to judges of the Supreme Court, Court of Appeals, or Superior Courts of the state of Washington. Subsequent legislation required that all judges first appointed or elected to office on or after August 9, 1971, enter the Judicial Retirement System. Judges' retirement benefit provisions are established in state statute and may be amended only by the state Legislature.

Judges' members are eligible for retirement at the age of 70 with ten years of service, or at any age with 18 years of service. Members are eligible to receive a partial retirement allowance after 12 years of credited service as a judge. With the exception of a partial retirement allowance, the member receives a benefit equal to one-half of the monthly salary being received as a judge at the time of retirement, or at the end of the term immediately prior to retirement if retirement occurs after the expiration of the member's term in office. A partial retirement allowance is based on the proportion of the member's 12 or more years of service in relation to 18 years of service. There were no material changes in Judges' benefit provisions for the Fiscal Year ended June 30, 2008. Judges' pension benefit provisions are established by chapter 2.12 RCW.

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

VFFRPF is a cost-sharing multiple-employer retirement system that provides death and active duty disability benefits to all members, and optional defined benefit pension plan payments. VFFRPF retirement benefits are financed from a combination of investment earnings, member contributions, municipality contributions, and a special funding situation where the state pays the remaining contributions. VFFRPF members accrue no interest on contributions and may elect to withdraw their contributions upon termination.

The Volunteer Fire Fighters' Relief Act was created by the Legislature in 1935 and the pension portion of the act was added in 1945. Membership in the system requires volunteer firefighter service with a fire department of an electing municipality of Washington State, emergency work as an emergency medical technician with an emergency medical service district, or work as a commissioned reserve law enforcement officer.

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

After 25 years of active membership, members having reached the age of 65 and who have paid their annual retirement fee for 25 years are entitled to receive a monthly benefit of $50 plus $10 per year of service. The maximum monthly benefit is $300. Reduced pensions are available for members under the age of 65 or with less than 25 years of service.

Death and active duty disability benefits are provided at no cost to the member. Death benefits in the line of duty consist of a lump sum of $152,000. Funeral and burial expenses are also paid in a lump sum of $2,000 for members on active duty. Members receiving disability benefits at the time of death shall be paid $500. Members on active duty shall receive disability payments of $2,550 per month for up to six months; thereafter, payments are reduced. Disabled members receive $1,275 per month, their spouse $255, and dependent children $110. Benefit provisions for VFFRPF are established under the authority of chapter 41.24 RCW.

Effective July 1, 2001, the disability income benefits and the maximum survivor benefits under the Relief Plan are increased for increases in the Consumer Price Index. There were no material changes in VFFRPF benefit provisions for the Fiscal Year ended June 30, 2008.

C. FUNDING POLICIES

The Legislature provided for minimum contribution rates (Chapter 365, Laws of 2006 and Chapter 300, Laws of 2007). The LEOFF 2 Board also provided for minimum contribution rates. These minimum rates will go into effect beginning with the 2009-11 biennium.

Public Employees' Retirement System (PERS)

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials.

The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age.

As a result of the implementation of the Judicial Benefit Multiplier (JBM) Program in January 2007, a second tier of employer and employee rates were developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program. These new higher rates are detailed below.

Required employer contribution rates:

- PERS employer of Supreme Court justices – PERS contribution rate plus 2.5 percent of pay.
- PERS employer of Court of Appeals and Superior Court judges – PERS contribution rate only (member pays the 2.5 percent difference).

Required member contribution rates:

- PERS 1 Supreme Court justices – PERS contribution rate of 6 percent plus 3.76 percent.
- PERS 1 Court of Appeals and Superior Court judges – PERS 1 rate of 6 percent plus 3.76 percent, plus the difference of 2.5 percent from employer listed above.
- PERS 2 Supreme Court justices – 250 percent of the PERS 2 member contribution rate less 2.5 percent of pay.
- PERS 2 Court of Appeals and Superior Court judges – 250 percent of the PERS 2 member contribution rate.
- PERS 3 Supreme Court justices, Court of Appeals and Superior Court judges – variable based on member's selection, subject to a 7.5 percent minimum.

The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW. Required contribution rates (expressed as a percentage of current year covered payroll) at the close of Fiscal Year 2008 were as follows:

PERS Actual Contribution Rates

	Plan 1	Plan 2	Plan 3
Members Not Participating in JBM			
Employer Rates:			
State agencies*	6.13%	6.13%	6.13%**
Local governmental units*	6.13%	6.13%	6.13%**
State gov't elected officials*	9.12%	6.13%	6.13%
Employee Rates:			
State agencies	6.00%	4.15%	***
Local governmental units	6.00%	4.15%	***
State gov't elected officials	7.50%	4.15%	***
Members Participating in JBM:			
Employer Rates:			
State agencies*	8.63%	8.63%	8.63%
Local governmental units*	6.13%	6.13%	6.13%
Employee Rates:			
State agencies	9.76%	7.88%	7.50%****
Local governmental units	12.26%	10.38%	7.50%****

* Includes an administrative expense rate of 0.16%.

** Plan 3 defined benefit portion only.

***Variable from 5% to 15% based on rate selected by the member.

**** Minimum rate.

Teachers' Retirement System (TRS)

Each biennium the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature.

Under TRS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.32 and 41.45 RCW.

As a result of the implementation of the Judicial Benefit Multiplier (JBM) Program in January 2007, a second tier of employee rates were developed to fund, along with investment earnings, the increased retirement benefits of those judges that participate in the program.

The required employer contribution rate for a TRS employer of Supreme Court Justices, Court of Appeals Judges and Superior Court Judges equals the TRS contribution rate. The required member contribution rate of TRS 1 Supreme Court Justices, Court of Appeals Judges and Superior Court Judges is the TRS 1 rate of 6 percent plus 3.76 percent of pay. These higher rates, along with investment earnings, are intended to fund the increased retirement benefits of those judges that choose to participate in the JBM program.

Required contribution rates (expressed as a percentage of current-year covered payroll) at the close of Fiscal Year 2008 were as follows:

TRS Actual Contribution Rates

	Plan 1	Plan 2	Plan 3
Members Not Participating in JBM			
Employer Rates*	5.82%	5.82%	5.82%**
Employee Rates:			
State agencies	6.00%	2.90%	***
Local governmental units	6.00%	2.90%	***
State gov't elected officials	7.50%	2.90%	***
Members Participating in JBM:			
Employer Rates*	5.82%	n/a	n/a
Employee Rates:			
State agencies	9.76%	n/a	n/a

* Includes an administrative expense rate of 0.16%.

** Plan 3 defined benefit portion only.

***Variable from 5% to 15% based on rate selected by the member.

School Employees' Retirement System (SERS)

Each biennium the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 employer contribution rates. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under SERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age.

The methods used to determine the contribution requirements are established under state statute in chapters 41.35 and 41.45 RCW. Required contribution rates (expressed as a percentage of current year covered payroll) at the close of Fiscal Year 2008 were as follows:

SERS Actual Contribution Rates

	Plan 2	Plan 3
Employer Rates:		
State agencies*	5.88%	5.88%**
Local governmental units*	5.88%	5.88%**
Employee Rates:		
State agencies	3.90%	***
Local governmental units	3.90%	***

* Includes an administrative expense rate of 0.16%.

** Plan 3 defined benefit portion only.

***Variable from 5% to 15% based on rate selected by the member.

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

Beginning July 1, 2000, Plan 1 employers and employees contribute 0 percent as long as the plan remains fully funded. Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plan. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF 2 Board. All employers are required to contribute at the level required by state statute.

Required contribution rates (expressed as a percentage of current year covered payroll) at the close of Fiscal Year 2008 were as follows:

LEOFF Actual Contribution Rates

	Plan 1	Plan 2
Employer Rates:		
Ports and Universities*	n/a	8.80%
Local governmental units* (cities, counties, fire districts, etc)	0.16%	5.35%
Employee Rates:		
Ports and Universities	n/a	8.64%
Local governmental units* (cities, counties, fire districts, etc)	n/a	8.64%
State of Washington	n/a	3.45%

* Includes an administrative expense rate of 0.16%.

The Legislature, by means of a special funding arrangement, appropriated money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 1 and Plan 2 in accordance with the requirements of the Pension Funding Council and the LEOFF 2 Board. However, this special funding situation is not mandated by the State Constitution and this funding requirement could be returned to the employers by a change of statute. For Fiscal Year 2008, the state contributed $45.9 million to LEOFF Plan 2.

Washington State Patrol Retirement System (WSPRS)

Each biennium, the state Pension Funding Council adopts the employee and the state contribution rates. The employee and the state contribution rates are developed by the Office of the State Actuary to fully fund the plan. State statute also requires employees to contribute at a rate of at least 2 percent. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 43.43 and 41.45 RCW.

Required contribution rates (expressed as a percentage of current year covered payroll) at the close of Fiscal Year 2008 were as follows:

WSPRS Actual Contribution Rates

	Plan 1	Plan 2
Employer Rates*	7.86%	7.86%
Employee Rates	6.65%	6.65%

* Includes an administrative expense rate of 0.16%.

Public Safety Employees' Retirement System (PSERS)

Each biennium the state Pension Funding Council adopts Plan 2 employers and employee contribution rates. The employer and employee contribution rates for Plan 2 are developed by the Office of the State Actuary to fully fund Plan 2. All employers are required to contribute at the level established by the Legislature. The methods used to determine the contribution requirements are established under state statute in chapters 41.37 and 41.45 RCW.

Required contribution rates (expressed as a percentage of current year covered payroll) at the close of Fiscal Year 2008 were as follows:

PSERS Actual Contribution Rates

	Plan 2
Employer Rates:	
State agencies*	8.55%
Local governmental units*	8.55%
Employee Rates:	
State agencies	6.57%
Local governmental units	6.57%

* Includes an administrative expense rate of 0.16%.

Judicial Retirement System (JRS)

Contributions made are based on rates set in chapter 2.10 RCW. By statute, employees are required to contribute 7.5 percent with an equal amount contributed by the state. In addition, the state guarantees the solvency of the JRS on a pay-as-you-go basis. Each biennium, the Legislature, through biennial appropriations from the state General Fund, contributes amounts sufficient to meet benefit payment requirements. For Fiscal Year 2008, the state contributed $ 9.6 million.

Judges' Retirement Fund (Judges)

Contributions made are based on rates set in chapter 2.12 RCW. By statute, employees are required to contribute 6.5 percent with an equal amount contributed by the state. In addition, the state guarantees the solvency of the Judges' Retirement Fund on a pay-as-you-go basis. As of June 30, 2008, there are no active members remaining in the Judges Retirement Fund and member contributions are no longer collected. Each biennium, the Legislature, through biennial appropriations from the state General Fund, contributes amounts sufficient to meet benefit payment requirements. For Fiscal Year 2008, however, no appropriations or contributions were made.

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

The retirement provisions of VFFRPF is funded through member contributions of $30 per year, employer contributions of $30 per year, and 40 percent of the Fire Insurance Premium Tax, as per chapter 41.24 RCW. VFFRPF members earn no interest on contributions and may elect to withdraw their contributions upon termination.

Administrative expenses are funded through fire insurance premium taxes and are maintained in a separate fund. Amounts not needed for administrative expenses are transferred to VFFRPF.

D. EMPLOYER CONTRIBUTIONS REQUIRED AND PAID

The following table presents the state of Washington's required contributions in millions of dollars to cost-sharing plans in accordance with the funding policy. All contributions required by the funding method were paid.

	2008	2007	2006
PERS Plan 1	$115.5	$59.9	$15.0
PERS Plan 2/3	159.6	118.3	73.1
TRS Plan 1	4.3	2.1	0.5
TRS Plan 2/3	0.5	0.6	0.5
SERS Plan 2/3	0.0	0.0	0.0
PSERS Plan 2	5.9	2.8	n/a
LEOFF Plan 1	0.0	0.0	0.0
LEOFF Plan 2	45.9	38.6	31.7
VFFRPF	5.0	6.0	4.6

There are no long-term contracts for contributions for any of the retirement plans administered by the state.

E. FUNDED STATUS AND FUNDING PROGRESS

The funded status of each plan as of June 30, 2007, the most recent actuarial valuation date, is as follows (amounts in millions):

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
PERS Plan 1	$ 9,715.0	$ 13,740.0	$ 4,025.0	71%	$ 676.0	595%
PERS Plan 2/3*	14,888.0	14,661.0	(227.0)	102%	7,157.0	0%
TRS Plan 1	8,302.0	10,826.0	2,524.0	77%	426.0	592%
TRS Plan 2/3*	5,277.0	4,682.0	(594.0)	113%	3,318.0	0%
SERS Plan 2/3*	2,133.0	1,998.0	(136.0)	107%	1,283.0	0%
LEOFF Plan 1	5,298.0	4,340.0	(958.0)	122%	43.0	0%
LEOFF Plan 2*	4,360.0	3,626.0	(734.0)	120%	1,234.0	0%
WSPRS 1/2*	800.0	702.0	(98.0)	114%	72.0	0%
PSERS 2*	14.0	12.0	(1.0)	117%	134.0	0%
JRS	1.0	85.0	85.0	1%	1.3	6,538%
Judges	4.0	3.9	(0.1)	103%	N/A	N/A
VFFRPF	151.0	136.0	(15.0)	111%	N/A	N/A

N/A indicates data not applicable

* These plans use the aggregate actuarial cost method which does not identify or separately amortize unfunded actuarial liabilities. For this reason, the information shown above has been prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress of these plans.

Source: Washington State Office of the State Actuary

The Schedules of Funding Progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs (Actuarial Accrued Liability) for benefits.

Additional information for the state's defined benefit plans as of the latest valuation date is presented on the following page.

Defined Benefit Pension Plans Administered by the State
For the Fiscal Year Ended June 30, 2008

The information was determined as part of the actuarial valuations at the dates indicated below. Additional information as of the latest valuation follows.

	PERS Plan 1	PERS Plan 2/3	TRS Plan 1	TRS Plan 2/3
Valuation date	6/30/2007	6/30/2007	6/30/2007	6/30/2007
Actuarial cost method	Frozen Initial Liability[1]	Aggregate[2]	Frozen Initial Liability[1]	Aggregate[2]
Amortization method				
Funding	Level %[4]	N/A	Level %[4]	N/A
GASB	Level $	N/A	Level $	N/A
Remaining amortization period (closed)	7/01/2008 - 6/30/2024	N/A	7/01/2008 - 6/30/2024	N/A
Asset valuation method	8-year Graded Smoothed Fair Value[6]	8-year Graded Smoothed Fair Value[6]	8-year Graded Smoothed Fair Value[6]	8-year Graded Smoothed Fair Value[6]
Actuarial assumptions				
Investment rate of return	8.00%	8.00%	8.00%	8.00%
Projected salary increases				
Salary inflation at 4.5%, plus the merit increases described below:				
Initial salary merit (grades down to 0%)	6.1%	6.1%	5.8%	5.8%
Merit period (years of service)	17 yrs	17 yrs	26 yrs	26 yrs
Includes inflation at	N/A	3.50%	N/A	3.50%
Cost of living adjustments	Uniform COLA[7]	CPI Increase, Maximum 3%	Uniform COLA[7]	CPI Increase, Maximum 3%

N/A indicates data not applicable.

[1] Based on a variation of the Frozen Initial Liability (FIL) cost method.

[2] The aggregate cost method does not identify or separately amortize unfunded actuarial liabilities.

[3] Pay As You Go basis for funding.

[4] Level percent of payroll, including system growth.

[5] LEOFF Plan 2 assumes 4.5% of Salary Inflation

[6] Asset Valuation Method (8 year smoothed fair value): The actuarial value of assets is calculated under an adjusted market value method by starting with the market value of assets. For subsequent years the actuarial value of assets is determined by adjusting the market value of assets to reflect the difference between the actual investment return and the expected investment return during each of the last 8 years or, if fewer, the completed years since adoption, at the following rates per year (annual recognition). We set the VFFRPF Annual Gain/Loss around their 7% expected rate of return instead of 8%.

Annual Gain/Loss			Annual Gain/Loss		
Rate of Return	Smoothing Period	Annual Recognition	Rate of Return	Smoothing Period	Annual Recognition
15% and up	8 years	12.50%	6-7%	2 years	50.00%
14-15%	7 years	14.29%	5-6%	3 years	33.33%
13-14%	6 years	16.67%	4-5%	4 years	25.00%
12-13%	5 years	20.00%	3-4%	5 years	20.00%
11-12%	4 years	25.00%	2-3%	6 years	16.67%
10-11%	3 years	33.33%	1-2%	7 years	14.29%
9-10%	2 years	50.00%	1% and lower	8 years	12.50%
7-9%	1 year	100.00%			

The actuarial value of assets is subject to a 30% market value corridor, so it will lie between 70% and 130% of the market value of assets.

SERS Plan 2/3	LEOFF Plan 1	LEOFF Plan 2	PSERS Plan 2	VFFRPF[8]
6/30/2007	6/30/2007	6/30/2007	6/30/2007	6/30/2007
Aggregate[2]	Frozen Initial Liability[1]	Aggregate[2]	Aggregate[2]	Entry Age[3]
N/A	Level %[4]	N/A	N/A	Level $
N/A	Level $	N/A	N/A	Level $
N/A	7/01/2008 - 6/30/2024	N/A	N/A	15 - Year Rolling
8-Year Graded Smoothed Fair Value[6]	8-Year Graded Smoothed Fair Value[6]	8-Year Graded Smoothed Fair Value[6]	8-Year Graded Smoothed Fair Value[6]	8-Year Smoothed Fair Value[6]
8.00%	8.00%	8.00%	8.00%	7.00%
6.9%	11.0%	11.0%	6.1%	N/A
17 yrs	21 yrs	21 yrs	17 yrs	N/A
3.50%	3.50%	3.50%	3.50%	N/A
CPI Increase, Maximum 3%	CPI Increase	CPI Increase, Maximum 3%	CPI Increase, Maximum 3%	None

[7] The Uniform COLA

Generally, all retirees over age 66 receive an increase in their monthly benefit at least once a year.

The Uniform COLA amount is calculated as the last unrounded Uniform COLA amount increased by 3%, rounded to the nearest penny.

These are some historical monthly COLA amounts per year of service

Date	Uniform COLA
7/1/2002	$1.14
7/1/2003	$1.18
7/1/2004	$1.21
7/1/2005	$1.25
7/1/2006	$1.29
7/1/2007	$1.33
7/1/2008	$1.73

[8] VFFRPF uses the Entry Funding Method for Pensions, and the Pay-As-You-Go Method for the Relief Costs

F. ANNUAL PENSION COST AND OTHER RELATED INFORMATION

Current year annual pension cost, net pension obligation (NPO) and related information for the current year for the state's single employer and agent multiple-employer defined benefit plans are as follows (amounts in millions):

	WSPRS	JRS	Judges
Annual Pension Cost and Net Pension Obligation:			
Annual required contribution	$ 6.8	$ 26.6	$ -
Interest on NPO	(1.1)	4.9	(0.2)
Adjustment to annual required contribution	1.8	(19.3)	0.6
Annual pension cost	7.5	12.2	0.5
Less: Contributions made	6.1	9.6	-
Increase (decrease) in NPO	1.4	2.5	0.5
NPO at beginning of year	(14.1)	72.3	(2.0)
NPO at end of year	$(12.7)	$74.8	$(1.5)
Actuarial assumptions:			
Valuation date	6/30/07	6/30/07	6/30/07
Actuarial cost method	Aggregate*	Entry age	Entry age
Amortization method	n/a	Level $	Level $
Remaining amortization Period (closed)	n/a	12/31/08	12/31/08
Asset valuation method	8 year graded smoothed fair value	Market	Market
Investment rate of return	8%	8%	8%
Projected salary increases	4.25%**	4.5%	N/A
Includes inflation at	3.5%	3.5%	3.5%
cost-of-living adjustments	CPI increase, max. 3%	3.0%	none

* The aggregate cost method does not identify or separately amortize unfunded actuarial accrued liabilities.

** WSPRS also assumes a variable salary merit increase for a merit period of 20 years.

G. THREE YEAR HISTORICAL TREND INFORMATION

The following table presents three-year trend information in millions for the plans listed:

	2008	2007	2006
WSPRS			
Annual pension cost	$ 7.5	$ 5.3	$ 7.1
% of APC contributed	89.2	61.8	44.0
NPO	$(12.7)	$(14.1)	$(16.2)
JRS			
Annual pension cost	$ 12.2	$ 13.9	$ 13.3
% of APC contributed	79.5	69.1	50.5
NPO	$ 74.8	$ 72.3	$ 68.0
Judges			
Annual pension cost	$ 0.5	$ 0.5	$ 0.7
% of APC contributed	0.0	60.0	42.9
NPO	$ (1.5)	$ (2.0)	$ (2.2)

There are no long-term contracts for contributions for any of the retirement plans administered by the state.

H. CHANGES IN ACTUARIAL ASSUMPTIONS AND METHODS

The demographic assumptions were updated as a result of the 2001 – 2006 Experience study. For details refer to the experience study available at: http://osa.leg.wa.gov/Actuarial_Services/Publications/experience_studies.htm.

The salary growth economic assumption for all retirement plans (except LEOFF 2) was decreased by the Pension Funding Council from 4.50 percent to 4.25 percent. The projected mortality tables were modified to recognize the fact that people are living longer.

I. CHANGES IN BENEFIT PROVISIONS

Pension funding legislation was adopted during the 2005 legislative session (Chapter 370, Laws of 2005), which created a short-term change in funding policy. The policy is to adopt annual contribution rates over a four-year "phase-in" period from 2005-2009, to suspend payments on the Plan 1 Unfunded Actuarial Accrued Liability (UAAL) in PERS and TRS during the 2005-07 biennium and to delay recognition of the cost of future gain-sharing benefits until the 2007-09 biennium. Legislation adopted during the 2007 legislative session (Chapter 491, Laws of 2007) repealed gain-sharing after the 2008 event. Additional legislation adopted a phase-in period to smooth the Plan 1 UAAL contribution rate increases from 2006-2009 (Chapter 56, Laws of 2006).

Legislation for 2006 and 2007 provided for target funding ratios and contribution rate floors for PERS, TRS, SERS, and WSPRS (Chapter 365, Laws of 2006 and Chapter 300, Laws of 2007). The LEOFF 2 Board in 2006 provided for minimum contribution rates. These changes will become effective July 1, 2009.

J. DEFINED CONTRIBUTION PLANS

Public Employees' Retirement System Plan 3 (PERS 3)

The Public Employees' Retirement System (PERS) Plan 3 is a combination defined benefit/defined contribution plan administered by the state through the Department of Retirement Systems (DRS). Eligible employees include: elected officials; state employees; employees of the Supreme, Appeals, and Superior Courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not in national higher education retirement programs; judges of district and municipal courts; and employees of local governments. PERS participants who joined on or after October 1, 1977, and by either, February 28, 2002, for state and higher education employees, or August 31, 2002, for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants who joined the system on or after March 1, 2002, for state and higher education employees, or September 1, 2002, for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. Refer to section B of this note for PERS plan descriptions.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance the defined contribution component. As established by chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 to 15 percent of salaries based on member choice. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are solely dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions as authorized by the Employee Retirement Benefits Board. Any expenses incurred in conjunction with self-directed investments are to be paid by members. Absent a member's self-direction, PERS Plan 3 investments are made in the same portfolio as that of the PERS 2/3 defined benefit plan.

For Fiscal Year 2008, employee contributions required and made were $82.7 million, and plan refunds paid out were $38.3 million.

Teachers' Retirement System Plan 3 (TRS 3)

The Teachers' Retirement System (TRS) Plan 3 is a combination defined benefit/defined contribution plan administered by the state through the Department of Retirement Systems (DRS). Eligibility for membership requires service as a certificated public school employee working in an instructional, administrative or supervisory capacity. TRS participants who joined on or after October 1, 1977, and by June 30, 1996, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. TRS participants joining the system on or after July 1, 1996, and those who exercised their transfer option, are members of TRS Plan 3. Refer to section B of this note for TRS plan descriptions.

TRS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance the defined contribution component. As established by chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 to 15 percent of salaries based on member choice. There are currently no requirements for employer contributions to the defined contribution component of TRS Plan 3.

TRS Plan 3 defined contribution retirement benefits are solely dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions as authorized by the Employee Retirement Benefits Board. Any expenses incurred in conjunction with self-directed investments are to be paid by members. Absent a member's self-direction, TRS Plan 3 investments are made in the same portfolio as that of the TRS 2/3 defined benefit plan.

For Fiscal Year 2008, employee contributions required and made were $234.7 million and plan refunds paid out were $84.8 million.

School Employees' Retirement System Plan 3 (SERS 3)

The School Employees' Retirement System (SERS) Plan 3 is a combination defined benefit/defined contribution plan administered by the state through the Department of Retirement Systems (DRS). Eligible employees include classified employees of school districts and educational service districts who joined PERS Plan 2 on or after October 1, 1977, and by August 31, 2000, and were transferred to SERS Plan 2 on September 1, 2000. Members transferred from PERS Plan 2 to SERS Plan 2 may exercise an option to transfer their membership to SERS Plan 3. SERS participants joining the system on or after September 1, 2000, and before July 1, 2007, are also members of SERS Plan 3. SERS members hired on or after July 1, 2007 have 90 days to choose between SERS Plan 2 and SERS Plan 3. Individuals who fail to make a choice will default to SERS Plan 3. Refer to section B of this note for SERS plan descriptions.

SERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance the defined contribution component. As established by chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 to 15 percent of salaries based on member choice. There are currently no requirements for employer contributions to the defined contribution component of SERS Plan 3.

SERS Plan 3 defined contribution retirement benefits are solely dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions as authorized by the Employee Retirement Benefits Board. Any expenses incurred in conjunction with self-directed investments are to be paid by members. Absent a member's self-direction, SERS Plan 3 investments are made in the same portfolio as that of the SERS 2/3 defined benefit plan.

For Fiscal Year 2008, employee contributions required and made were $58.4 million and plan refunds paid out were $39.8 million.

Judicial Retirement Account (JRA)

The Judicial Retirement Account Plan was established by the Legislature in 1988 to provide supplemental retirement benefits. It is a defined contribution plan administered by the state Administrative Office of the Courts, under the direction of the Board for Judicial Administration. Membership includes judges elected or appointed to the Supreme Court, Court of Appeals, and Superior Courts, and who are members of PERS for their services as a judge. Vesting is full and immediate. There are three participating employers in JRA.

Member contributions equal 2.5 percent of covered salary and the state, as employer, matches this amount. Contributions are collected by the Administrative Office of the Courts. The employer and employee obligations to contribute are established per chapter 2.14 RCW. Plan provisions and contribution requirements are established in state statute and may be amended only by the State Legislature.

Beginning January 1, 2007 through December 31, 2007 any judicial members of the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS) eligible to participate in JRA were able to make a one-time irrevocable election to discontinue future contributions to JRA, in lieu of prospective contributions to the Judicial Benefit Multiplier Program (JBM). Beginning January 1, 2007 any newly elected or appointed Supreme Court justice, Court of Appeals judge or Superior Court judge is no longer able to participate in JRA and is enrolled in the Judicial Benefit Multiplier Program (enacted in 2006). As of June 30, 2008, 189 JRA member judges have elected to enroll in JBM.

Current-year covered payroll for JRA employees was $4.3 million for the Fiscal Year ended June 30, 2008. For Fiscal Year 2008, the contribution requirement for JRA was $140 thousand. Actual employer and employee contributions were $70 and $70 thousand respectively. Plan benefits paid out for Fiscal Year 2008 totaled $6.5 million.

A JRA member who separates from judicial service for any reason is entitled to receive a lump-sum distribution of the accumulated contributions. The administrator of JRA may adopt rules establishing other payment options. If a member dies, the amount of accumulated contributions standing to the member's credit at the time of the member's death shall be paid to the member's estate, or such person or persons, trust or organization as the member has nominated by written designation.

The Administrator of JRA has entered an agreement with DRS for accounting and reporting services, and the Washington State Investment Board (SIB) for investment services. DRS is responsible for all record keeping, accounting, and reporting of member accounts. As of April 2006, DRS also became responsible for collection of JRA contributions. The SIB has the full power to establish investment policy, develop participant investment options, and manage the investment funds from the JRA plan, consistent with the provisions of RCW 2.14.080 and RCW 43.84.150.

Higher Education Retirement Plans

The Higher Education Retirement Plans are privately administered defined contribution plans with a supplemental plan component. As authorized by RCW 28B.10, the plans cover higher education faculty and other positions as designated by each institution. The state and regional universities, the state college, and the state community and technical colleges each participate in a plan. Contributions to the plans are invested in annuity contracts or mutual fund accounts offered by one or more fund sponsors. Benefits from fund sponsors are available upon separation or retirement at the member's option. Employees have at all times a 100 percent vested interest in their accumulations. RCW 28.B.10.400 et. seq. assigns the authority to establish and amend benefit provisions to: the board of regents of the state universities, the boards of trustees of the regional universities and the state college, and the state board for community colleges.

Employee contribution rates, based on age, range from 5 to 10 percent of salary. The employers match the employee contributions. The employer and employee obligations to contribute are established per chapter 28B.10 RCW. For Fiscal Year 2008, covered payroll was $1.7 billion. Employer and employee contributions were $141.7 million each, for a total of $141.6 million. These contribution amounts represent approximately 8 percent each of covered payroll for employers and employees.

The plans have a supplemental payment component which guarantees a minimum retirement benefit based upon a one-time calculation at each employee's retirement date. Institutions make direct payments to qualifying retirees when the retirement benefits provided by the fund sponsors do not meet the benefit goals. The supplemental component is financed on a pay-as-you-go basis.

An actuarial valuation of the supplemental component of the Higher Education Retirement plans was done at the end of Fiscal Year 2007. The previous valuation was performed in 2004. The Unfunded Actuarial Accrued Liability (UAAL) calculated as of June 30, 2007 and 2004 was $120.2 million and $48.1 million, respectively, and is amortized over a 16.5-year period. The Annual Required Contribution (ARC) of $16.6 million consists of amortization of the UAL ($8.3 million) and normal cost (or current cost) ($7.8 million). The UAL and ARC were established using the entry age normal cost method. The actuarial assumptions included an investment rate of return of 6 to 8 percent and projected salary increases ranging from 2 to 4 percent. Approximately $1.5 billion and $1.1 billion of payroll were covered under these plans during 2007 and 2004, respectively.

The following table reflects the activity in the Net Pension Obligation for the years ended June 30 (in millions):

	2008	2007	2006
Annual required contribution	$16.6	$16.6	$5.1
Payments to beneficiaries	(1.9)	(1.9)	(1.6)
Increase (decrease) in NPO	14.6	14.7	3.5
NPO at beginning of year	24.0	9.3	5.8
NPO at end of year	$38.6	$24.0	$9.3

K. PLAN NET ASSETS AND CHANGES IN PLAN NET ASSETS

The Combining Statement of Plan Net Assets that follows presents the principal components of receivables, investments, and liabilities. The Combining Statement of Changes in Plan Net Assets presents the additions and deductions to plan net assets.

Combining Statement of Plan Net Assets
Pension and Other Employee Benefit Funds

June 30, 2008
(expressed in thousands)

continued

	PERS Plan 1	PERS Plan 2/3 Defined Benefit	PERS Plan 3 Defined Contribution	TRS Plan 1	TRS Plan 2/3 Defined Benefit	TRS Plan 3 Defined Contribution
ASSETS						
Cash and pooled investments	$ 48,196	$ 84,341	$ 121	$ 40,564	$ 40,943	$ 5,172
Receivables:						
Employer accounts receivable	5,230	39,367	4,004	3,317	13,091	20,452
Member accounts receivable (net of allowance)	586	158	-	359	5	-
Due from other funds	964	-	10,991	725	5,167	19,874
Interest and dividends	32,436	53,472	2,580	27,172	17,939	8,016
Investment trades pending	63,757	108,034	2,545	53,229	43,275	7,903
Total Receivables	102,973	201,031	20,120	84,802	79,477	56,245
Investments, Noncurrent:						
Public equity	4,073,647	7,286,706	326,779	3,400,955	2,302,282	2,513,777
Fixed income	2,331,202	3,856,179	187,004	1,946,245	1,317,513	553,749
Private equity	2,366,373	3,914,357	189,825	1,975,608	1,337,391	562,103
Real estate	1,485,876	2,457,875	119,194	1,240,509	839,765	352,952
Security lending	678,991	1,121,731	54,377	566,783	383,898	161,018
Liquidity	234,117	-	563,869	245,159	144,115	59,259
Tangible assets	76,573	126,663	6,142	63,928	43,276	18,189
Other	95,018	23,650	7,622	79,328	53,701	22,570
Total Investments, Noncurrent	11,341,797	18,787,161	1,454,812	9,518,515	6,421,941	4,243,617
Total Assets	$ 11,492,966	$ 19,072,533	$ 1,475,053	$ 9,643,881	$ 6,542,361	$ 4,305,034
LIABILITIES						
Obligations under security lending agreements	$ 678,991	$ 1,121,987	$ 54,121	$ 566,783	$ 376,862	$ 168,053
Accrued liabilities	167,954	276,723	6,600	140,608	109,696	20,490
Due to other funds	98	12,351	120	65	20,963	5,172
Unearned revenues	127	379	-	171	37	-
Total Liabilities	847,170	1,411,440	60,841	707,627	507,558	193,715
NET ASSETS						
Net assets held in trust for:						
Pension Benefits (Schedule of Funding Progress by Plan begins on Page 149)	10,645,796	17,661,093	1,414,212	8,936,254	6,034,803	4,111,319
Deferred compensation participants	-	-	-	-	-	-
Total Net Assets	$ 10,645,796	$ 17,661,093	$ 1,414,212	$ 8,936,254	$ 6,034,803	$ 4,111,319

Combining Statement of Plan Net Assets
Pension and Other Employee Benefit Funds

June 30, 2008
(expressed in thousands)

continued

	SERS Plan 2/3 Defined Benefit	SERS Plan 3 Defined Contribution	LEOFF Plan 1	LEOFF Plan 2	WSPRS Plan 1/2	PSERS Plan 2
ASSETS						
Cash and pooled investments	$ 16,705	$ 1,501	$ 27,234	$ 24,534	$ 5,080	$ 450
Receivables:						
Employer accounts receivable	5,984	5,030	-	14,466	488	1,498
Member accounts receivable (net of allowance)	4	-	38	25	117	-
Due from other funds	1,513	6,898	4	7	2	1
Interest and dividends	7,396	2,585	18,374	16,064	2,828	101
Investment trades pending	17,125	2,547	36,181	31,674	5,574	194
Total Receivables	32,022	17,060	54,597	62,236	9,009	1,794
Investments, Noncurrent:						
Public equity	929,459	594,022	2,311,730	2,023,728	356,106	12,384
Fixed income	531,896	187,388	1,322,921	1,158,107	203,786	7,087
Private equity	539,920	190,215	1,342,879	1,175,579	206,861	7,194
Real estate	339,023	119,439	843,211	738,161	129,890	4,517
Security lending	155,019	54,488	385,067	336,902	59,384	2,089
Liquidity	65,891	15,981	127,349	128,381	20,163	3,180
Tangible assets	17,471	6,155	43,454	38,040	6,694	233
Other	21,679	7,638	53,921	47,203	8,307	289
Total Investments, Noncurrent	2,600,358	1,175,326	6,430,532	5,646,101	991,191	36,973
Total Assets	$ 2,649,085	$ 1,193,887	$ 6,512,363	$ 5,732,871	$ 1,005,280	$ 39,217
LIABILITIES						
Obligations under security lending agreements	$ 155,337	$ 54,170	$ 385,066	$ 336,902	$ 59,383	$ 2,089
Accrued liabilities	43,460	6,604	92,118	80,348	14,315	495
Due to other funds	7,133	1,501	16	145	7	76
Unearned revenues	30	-	-	68	-	-
Total Liabilities	205,960	62,275	477,200	417,463	73,705	2,660
NET ASSETS						
Net assets held in trust for:						
Pension Benefits	2,443,125	1,131,612	6,035,163	5,315,408	931,575	36,557
(Schedule of Funding Progress by Plan begins on Page 149)						
Deferred compensation participants	-	-	-	-	-	-
Total Net Assets	$ 2,443,125	$ 1,131,612	$ 6,035,163	$ 5,315,408	$ 931,575	$ 36,557

Combining Statement of Plan Net Assets
Pension and Other Employee Benefit Funds

June 30, 2008
(expressed in thousands)

concluded

	JRS	JRA	Judges	VFFRPF	Deferred Compensation	Total
ASSETS						
Cash and pooled investments	$ 344	$ 8	$ 3,617	$ 36,969	$ 802	$ 336,581
Receivables:						
Employer accounts receivable	9	-	-	-	-	112,936
Member accounts receivable (net of allowance)	-	-	4	-	1,760	3,056
Due from other funds	1	-	10	93	1	46,251
Interest and dividends	4	-	-	394	-	189,361
Investment trades pending	-	-	-	779	-	372,817
Total Receivables	14	-	14	1,266	1,761	724,421
Investments, Noncurrent:						
Public equity	-	13,023	-	45,787	2,431,642	28,622,027
Fixed income	-	-	-	23,316	-	13,626,393
Private equity	-	-	-	28,902	-	13,837,207
Real estate	-	-	-	18,148	-	8,688,560
Security lending	46	1	332	19,626	78	3,979,830
Liquidity	625	-	5	3,955	1	1,612,050
Tangible assets	-	-	-	935	-	447,753
Other	-	-	-	1,087	-	422,013
Total Investments, Noncurrent	671	13,024	337	141,756	2,431,721	71,235,833
Total Assets	$ 1,029	$ 13,032	$ 3,968	$ 179,991	$ 2,434,284	$ 72,296,835
LIABILITIES						
Obligations under security lending agreements	$ 46	$ -	$ 332	$ 11,617	$ 79	$ 3,971,818
Accrued liabilities	30	-	3	1,999	11	961,454
Due to other funds	-	-	-	-	-	47,647
Unearned revenues	-	-	-	-	-	812
Total Liabilities	76	-	335	13,616	90	4,981,731
NET ASSETS						
Net assets held in trust for:						
Pension Benefits	953	13,032	3,633	166,375	-	64,880,910
(Schedule of Funding Progress by Plan begins on Page 149)						
Deferred compensation participants	-	-	-	-	2,434,194	2,434,194
Total Net Assets	$ 953	$ 13,032	$ 3,633	$ 166,375	$ 2,434,194	$ 67,315,104

Combining Statement of Changes in Plan Net Assets
Pension and Other Employee Benefit Funds

For the Fiscal Year Ended June 30, 2008

(expressed in thousands)

continued

	PERS Plan 1	PERS Plan 2/3 Defined Benefit	PERS Plan 3 Defined Contribution	TRS Plan 1	TRS Plan 2/3 Defined Benefit	TRS Plan 3 Defined Contribution
ADDITIONS						
Contributions:						
Employers	$ 221,787	$ 318,740	$ -	$ 113,088	$ 109,522	$ -
Members	50,949	278,445	82,707	30,794	15,631	234,661
State	-	-	-	-	-	-
Participants	-	-	-	-	-	-
Total Contributions	272,736	597,185	82,707	143,882	125,153	234,661
Investment Income:						
Net appreciation (depreciation) in fair value	(425,711)	(713,629)	(74,910)	(355,165)	(238,142)	(256,969)
Interest and dividends	353,150	554,915	32,613	296,470	186,703	91,247
Less: investment expenses	(42,149)	(66,215)	(3,984)	(35,384)	(22,132)	(11,923)
Net investment income (loss)	(114,710)	(224,929)	(46,281)	(94,079)	(73,571)	(177,645)
Transfers from other pension plans	343	316	68,408	5	339	168,817
Other additions	-	-	-	-	-	-
Total Additions	158,369	372,572	104,834	49,808	51,921	225,833
DEDUCTIONS						
Pension benefits	1,027,934	170,317	22	844,986	36,016	45
Pension refunds	5,573	26,575	38,291	1,000	2,190	84,776
Transfers to other pension plans	62	70,761	262	-	168,770	513
Administrative expenses	530	2,567	-	114	116	-
Distributions to participants	-	-	-	-	-	-
Total Deductions	1,034,099	270,220	38,575	846,100	207,092	85,334
Net Increase (Decrease)	(875,730)	102,352	66,259	(796,292)	(155,171)	140,499
Net Assets - Beginning	11,521,526	17,558,741	1,347,953	9,732,546	6,189,974	3,970,820
Net Assets - Ending	$ 10,645,796	$ 17,661,093	$ 1,414,212	$ 8,936,254	$ 6,034,803	$ 4,111,319

Combining Statement of Changes in Plan Net Assets
Pension and Other Employee Benefit Funds

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

continued

	SERS Plan 2/3 Defined Benefit	SERS Plan 3 Defined Contribution	LEOFF Plan 1	LEOFF Plan 2	WSPRS Plan 1/2	PSERS Plan 2
ADDITIONS						
Contributions:						
Employers	$ 52,139	$ -	$ 8	$ 73,363	$ 6,064	$ 11,700
Members	20,911	58,381	927	116,441	5,345	11,740
State	-	-	-	45,926	-	-
Participants	-	-	-	-	-	-
Total Contributions	73,050	58,381	935	235,730	11,409	23,440
Investment Income:						
Net appreciation (depreciation) in fair value	(97,536)	(55,130)	(242,251)	(215,478)	(37,472)	(1,435)
Interest and dividends	76,711	30,780	197,810	165,778	30,063	748
Less: investment expenses	(9,135)	(3,620)	(23,676)	(20,615)	(3,594)	(78)
Net investment income (loss)	(29,960)	(27,970)	(68,117)	(70,315)	(11,003)	(765)
Transfers from other pension plans	2,118	89,449	-	117	90	3
Other additions	-	-	-	-	-	-
Total Additions	45,208	119,860	(67,182)	165,532	496	22,678
DEDUCTIONS						
Pension benefits	22,628	8	313,530	27,505	32,963	-
Pension refunds	2,044	39,815	150	7,639	268	152
Transfers to other pension plans	89,448	183	4	-	-	2
Administrative expenses	64	-	174	198	23	11
Distributions to participants	-	-	-	-	-	-
Total Deductions	114,184	40,006	313,858	35,342	33,254	165
Net Increase (Decrease)	(68,976)	79,854	(381,040)	130,190	(32,758)	22,513
Net Assets - Beginning	2,512,101	1,051,758	6,416,203	5,185,218	964,333	14,044
Net Assets - Ending	$ 2,443,125	$ 1,131,612	$ 6,035,163	$ 5,315,408	$ 931,575	$ 36,557

Combining Statement of Changes in Plan Net Assets
Pension and Other Employee Benefit Funds

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

concluded

	JRS	JRA	Judges	VFFRPF	Deferred Compensation	Total
ADDITIONS						
Contributions:						
Employers	$ 112	$ 70	$ -	$ 1,082	$ -	$ 907,675
Members	112	70	-	117	-	907,231
State	9,600	-	-	5,020	-	60,546
Participants	-	-	-	-	188,735	188,735
Total Contributions	9,824	140	-	6,219	188,735	2,064,187
Investment Income:						
Net appreciation (depreciation) in fair value	1	(1,311)	13	(5,097)	(238,553)	(2,958,775)
Interest and dividends	99	426	171	5,671	72,425	2,095,780
Less: investment expenses	(2)	(20)	(6)	(559)	(3,264)	(246,356)
Net investment income (loss)	98	(905)	178	15	(169,392)	(1,109,351)
Transfers from other pension plans	-	-	-	-	-	330,005
Other additions	-	6	-	-	829	835
Total Additions	9,922	(759)	178	6,234	20,172	1,285,676
DEDUCTIONS						
Pension benefits	9,514	6,540	545	9,866	-	2,502,419
Pension refunds	-	-	-	9	-	208,482
Transfers to other pension plans	-	-	-	-	-	330,005
Administrative expenses	-	-	-	-	-	3,797
Distributions to participants	-	-	-	-	135,876	135,876
Total Deductions	9,514	6,540	545	9,875	135,876	3,180,579
Net Increase (Decrease)	408	(7,299)	(367)	(3,641)	(115,704)	(1,894,903)
Net Assets - Beginning	545	20,331	4,000	170,016	2,549,898	69,210,007
Net Assets - Ending	$ 953	$ 13,032	$ 3,633	$ 166,375	$ 2,434,194	$ 67,315,104

Note 12
Other Postemployment Benefits

Plan Description and Funding Policy

In addition to pension benefits as described in Note 11, the state, through the Health Care Authority (HCA), administers an agent multiple-employer other postemployment benefit plan (OPEB). Per RCW 41.05.065, the Public Employees Benefits Board (PEBB) created within the Health Care Authority, is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage, including establishment of eligibility criteria for both active and retired employees. PEBB programs include medical, dental, life and long-term disability.

Employers participating in the PEBB plan include the state (which includes general government agencies and higher education institutions), 52 of the state's K-12 schools and educational service districts (ESDs) and 200 political subdivisions. Additionally, the PEBB plan is available to the retirees of the remaining 249 K-12 schools and ESDs. As of June 2008, membership in the PEBB plan consisted of the following:

	Active Employees	Retirees[1]	Total
State	111,681	24,963	136,644
K-12 schools and ESDs[2]	2,132	26,013	28,145
Political subdivisions	11,393	900	12,293
Total	125,206	51,876	177,082

[1]Retirees include retired employees, surviving spouses, and terminated members entitled to a benefit.
[2]In Fiscal Year 2008, there were 100,208 full-time equivalent active employees in the 249 K-12 schools and ESDs that elected to limit participation in PEBB only to their retirees.

For Fiscal Year 2008, the estimated monthly cost for PEBB benefits for active employees (average across all plans and tiers) is as follows:

Required Premium[3]	
Medical	$694
Dental	71
Life	5
Long-term disability	2
Total	$772
Employer contribution	$697
Employee contribution	75
Total	$772

[3]Per 2008 Collective Bargaining Model 4.0.

The relationship between the PEBB OPEB plan and its member employers and their employees and retirees is not formalized in a contract or plan document. Rather, the benefits are provided in accordance with a substantive plan. A substantive plan is one in which the plan terms are understood by the employers and plan members. This understanding is based on communications between the HCA, employers and plan members and the historical pattern of practice with regard to the sharing of benefit costs.

The PEBB retiree OPEB plan is available to employees who elect to continue coverage and pay the administratively established premiums at the time they retire under the provisions of the retirement system to which they belong. Retirees' access to PEBB plans depends on the retirement eligibility of their respective retirement system. PEBB members are covered in the following retirement systems: PERS, PSERS, TRS, SERS, WSPRS, and Higher Education.

Per RCW 41.05.022, retirees who are not yet eligible for Medicare benefits may continue participation in the state's Non-Medicare community-rated health insurance risk pool on a self-pay basis. Retirees in the Non-Medicare risk pool receive an implicit subsidy. The implicit subsidy exists because retired members pay a premium based on a claims experience for active employees and other Non-Medicare retirees. The subsidy is valued using the difference between the age-based claims costs and the premium. In Calendar Year 2007, the average weighted implicit subsidy was valued at $250 per member per month, and in Calendar Year 2008, the average weighted implicit subsidy is projected to be $253 per member per month.

Retirees who are enrolled in both Parts A and B of Medicare may participate in the state's Medicare community-rated health insurance risk pool. Medicare retirees receive an explicit subsidy in the form of reduced premiums. Annually, the Health Care Authority administrator recommends an amount for the next calendar year's explicit subsidy for inclusion in the Governor's budget. In Calendar Year 2007, the explicit subsidy was $150 per member per month, and in Calendar Year 2008, the explicit subsidy is $164 per member per month.

Retirees participating in the PEBB life insurance program received an explicit subsidy of $5 per member per month in Calendar Year 2007. The explicit subsidy is also $5 per member per month in Calendar Year 2008.

Administrative costs as well as implicit and explicit subsidies are funded by required contributions from participating employers. The subsidies provide monetary assistance for medical and life insurance benefits.

Contributions are set each biennium as part of the budget process. In Fiscal Year 2008, the cost of the subsidies was approximately 6.8 percent of the cost of benefits for active employees. The benefits are funded on a pay-as-you-go basis.

Each participating employer in the plan is required to disclose additional information with regard to funding policy, the employer's annual OPEB costs and contributions made, the funded status and funding progress of the employers individual plan and actuarial methods and assumptions used.

The PEBB OPEB plan is accounted for as an agency fund on an accrual basis. The plan has no investments or other assets. The PEBB OPEB plan does not issue a publicly available financial report.

For information on the results of an actuarial valuation of the employer provided subsidies associated with the PEBB plan, refer to: http://osa.leg.wa.gov/Actuarial_services/OPEB/OPEB.htm.

Annual OPEB Cost and Net OPEB Obligation

The state's (general government agencies and higher education institutions) annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the state as the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following tables show the components of the state's annual OPEB cost for Fiscal Year 2008, the amount actually contributed to the plan, and changes in the state's net OPEB obligation (NOO) (expressed in thousands):

Annual required contribution	$313,970
Interest on NOO	-
Amortization of NOO	-
Annual OPEB cost	$313,970

NOO beginning of year	$ -
Annual OPEB cost	313,970
Contributions made	(68,115)
NOO end of year	$245,855

The state's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for Fiscal Year 2008 was as follows (expressed in thousands):

Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
$313,970	21.69%	$245,855

Funded Status and Funding Progress

The funded status of the plan as of June 30, 2008, was as follows (expressed in thousands):

Actuarial accrued liability (AAL)	$3,799,530
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$3,799,530

Funded ratio (actuarial value of plan assets/AAL)	0.00%
Covered payroll (active plan members)	$5,427,219
UAAL as a percentage of covered payroll	70.01%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Significant methods and assumptions were as follows:

Actuarial valuation date	January 1, 2007
Actuarial cost method	Projected Unit Credit (PUC)
Amortization method	Closed, level percentage of projected payroll amortization method
Remaining amortization period	30 years
Asset valuation method	n/a - no assets
Actuarial assumptions:	
Investment rate of return	4.5%
Projected salary increases	4.5%
Health care inflation rate	11% initial rate, 5% ultimate rate in 2015
Inflation rate	3.5%

The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents the results of the OPEB valuation for the fiscal year ending June 30, 2008. Looking forward, the schedule will provide additional multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Note 13
Commitments and Contingencies

A. CONSTRUCTION AND OTHER COMMITMENTS

Outstanding commitments related to state infrastructure and facility construction, improvement, and/or renovation totaled $3.3 billion at June 30, 2008.

B. SUMMARY OF SIGNIFICANT LITIGATION

Pending Litigation

The state and its agencies are parties to numerous routine legal proceedings that normally occur in governmental operations. At any given point, there may be numerous lawsuits involving the implementation of specific state programs that could significantly impact expenditures and potentially have future budgetary impact.

The state is the defendant in a number of cases seeking damages in excess of $60 million involving claims of inadequate funding for care of the disabled and elderly. The state is also defending a number of cases alleging inadequacies and inequities in K-12 funding. Adverse rulings in these cases could result in significant future costs.

The Department of Revenue routinely has claims for refunds in various stages of administrative and legal review. Claims for refunds are approximately $117 million.

The Washington State Department of Transportation (WSDOT) is a defendant in a number of lawsuits related to environmental clean-up and habitat restoration/enhancement associated with highway construction projects and storm water discharge from state highways. While estimates are not available for all lawsuits, claims for damages exceed $35 million. If the efforts of the plaintiffs are successful, the financial impact could be significant and would need to be addressed in future budgets. The WSDOT also faces a lawsuit related to the state's procurement of four new ferry boats.

The state is the defendant in numerous lawsuits by employees accusing the state of various infractions of law or contract. These suits claim back pay and damages in excess of $15 million. The state is also defending complaints by the United States Department of Labor claiming the state violated the Fair Labor Standards Act. Total monetary damages sought in these actions are approximately $65 million. Additionally, the state is being sued as a result of the recent legislative repeal of the gain sharing provision associated with select state pension plans. No estimate of damage is currently available.

The state is contesting these lawsuits and the outcomes are uncertain at this time.

Tobacco Settlement

In November 1998, Washington joined 45 other states in a Master Settlement Agreement (MSA) with the nation's largest tobacco manufacturers to provide restitution for monies spent under health care programs for the treatment of smoking-related illnesses. Washington's share of the settlement is expected to be approximately $138 million in Fiscal Year 2008 and is subject to various offsets, reductions, and adjustments. Beginning in 2008, Washington received the first of ten "strategic contribution payments" under the MSA. This payment, which is subject to the same offsets, reductions, and adjustments as are applicable to the base payment, is estimated to be approximately $48-$49 million.

In 2006, 2007, and 2008, determinations were made under a process established by the MSA that disadvantages experienced as a result of participating in the MSA were a significant factor contributing to the market share loss by manufacturers. These determinations related to sales data for the years 2003, 2004, and 2005. Washington faces a potential "NPM adjustment" of between $0 and $130 million for the year 2003, $0 and $137 million for the year 2004, and $0 and $131 million for the year 2005.

Washington and 37 other states each filed court actions seeking a declaration that they had diligently enforced their escrow statutes. In the Consent Decree, the King County Superior Court retained jurisdiction to enforce and interpret the MSA as to Washington. The participating manufacturers oppose having the diligent enforcement issue decided by numerous state courts. They believe the issue is governed by an arbitration clause in the MSA that they claim requires a panel of arbitrators to decide, in a single national proceeding, whether individual states diligently enforced their own statutes.

The King County Superior Court heard Washington's motion and, in late September 2006, entered an order compelling arbitration and dismissing the state's action. Washington's appeal was dismissed and the trial court's order compelling arbitration is now final. The vast majority of states have final orders compelling them to arbitrate. It appears likely that a substantial number of disputes will be resolved through a multistate arbitration. It is uncertain when such arbitration would commence, but a decision on the merits of the disputes is not likely until 2010.

C. FEDERAL ASSISTANCE

The state has received federal financial assistance for specific purposes that are generally subject to review or audit by the grantor agencies. Entitlement to this assistance is generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of assistance for allowable purposes. Any disallowance resulting from a review or audit may become a liability of the state. The state does estimate and recognize a claims and judgments liability for disallowances when determined by the grantor agency or for probable disallowances based on experience pertaining to these grants; however, these recognized liabilities and any unrecognized disallowances are considered immaterial to the state's overall financial condition.

D. ARBITRAGE REBATE

Rebatable arbitrage is defined by the Internal Revenue Service Code Section 148 as earnings on investments purchased from the gross proceeds of a bond issue that are in excess of the amount that would have been earned if the investments were invested at a yield equal to the yield on the bond issue. The rebatable arbitrage must be paid to the federal government. State agencies and universities responsible for investments from bond proceeds carefully monitor their investments to restrict earnings to a yield less than the bond issue, and therefore limit any state arbitrage liability. The state estimates that rebatable arbitrage liability, if any, will be immaterial to its overall financial condition.

E. OTHER COMMITMENTS AND CONTINGENCIES

School Bond Guarantee Program

Washington voters passed a constitutional amendment in November 1999, creating the Washington State School Bond Guarantee Program. The program's purpose is to provide savings to state taxpayers by pledging the full faith and credit of the state of Washington to the full and timely payment of voter-approved school district general obligation bonds in the event a school district is unable to make a payment. The issuing school district remains responsible for the repayment of the bonds, including any payment the state makes under the guarantee.

The State Treasurer introduced the School Bond Guarantee Program in March 2000. At the end of Fiscal Year 2008 the state had guaranteed 199 school districts' voter-approved general obligation debt with a total outstanding principal of $7.3 billion. The state estimates that school bond guarantee liability, if any, will be immaterial to its overall financial condition.

Local Option Capital Asset Lending Program (LOCAL)

On September 1, 1998, the state lease-purchase program was extended to local governments seeking low cost financing of essential equipment. The program allows local governments to pool their financing requests together with Washington State agencies in Certificates of Participation (COPs). Refer to Note 7.B for the state's COP disclosure. These COP's do not constitute a debt or pledge of the faith and credit of the state, rather local governments pledge their full faith and credit in a general obligation pledge. In the event that any local government fails to make any payment, the state is obligated to withhold an amount sufficient to make such payment from the local government's share, if any, of state revenues or other amounts authorized or required by law to be distributed by the state to such local government, if otherwise legally permissible.

Upon failure of any local government to make a payment, the state is further obligated, to the extent of legally available appropriated funds to make such payment on behalf of such local government. The local government remains obligated to make all COP payments and reimburse the state for any conditional payments.

As of June 30, 2008, outstanding certificates of participation notes totaled $77.7 million for 185 local governments participating in LOCAL. The state estimates that LOCAL program liability, if any, will be immaterial to its overall financial condition.

Note 14
Subsequent Events

A. BOND ISSUES

In July 2008, the state issued $492.5 million in Various Purpose General Obligation Bonds, Series 2009A, $260 million in Motor Vehicle Fuel Tax General Obligation Bonds, Series 2009B, and $70.6 million in General Obligation Taxable Bonds, Series 2009T.

B. CERTIFICATES OF PARTICIPATION

In September 2008, the state issued $11.8 million in Certificates of Participation for various state and local government equipment purchases, Series 2008D.

In December 2008, the state plans to issue $14 million in Certificates of Participation for various state and local government equipment purchases, Series 2008E.

C. FINANCIAL MARKET LOSSES

Subsequent to June 30, 2008, the Washington State Investment Board (WSIB), which manages the state's pension trust, workers' compensation, and certain permanent fund investments, realized investment losses upon the failures of Lehman Brothers Holdings, Inc., Washington Mutual, Inc., and American International Group, Inc. Overall losses of $225 million were realized, allocated 79 percent, 18 percent and 3 percent to pension trust, workers' compensation and permanent funds, respectively. These losses are not reflected in the accompanying financial statements since the losses arose subsequent to June 30, 2008.

Also, subsequent to June 30, 2008, the state sustained other unrealized losses on investments due to turmoil within the capital markets. These losses are deemed temporary in nature and, given that they occurred after June 30, 2008, are not reflected in the accompanying financial statements.

RSI
Required Supplementary Information

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BUDGETARY INFORMATION
Budgetary Comparison Schedule

Budgetary Comparison Schedule
General Fund
For the Fiscal Year Ended June 30, 2008
(expressed in thousands)

	General Fund			
	Original Budget 2007-09 Biennium	Final Budget 2007-09 Biennium	Actual 2007-09 Biennium	Variance with Final Budget
Budgetary fund balance, July 1	$ 780,510	$ 780,510	$ 780,510	$ -
RESOURCES				
Taxes	29,144,057	29,058,120	14,276,390	(14,781,730)
Licenses, permits, and fees	181,346	189,991	97,493	(92,498)
Other contracts and grants	288,705	395,920	162,238	(233,682)
Timber sales	6,657	6,697	2,847	(3,850)
Federal grants-in-aid	12,347,165	12,474,335	5,871,839	(6,602,496)
Charges for services	123,032	63,764	56,614	(7,150)
Interest income	143,544	154,270	113,034	(41,236)
Miscellaneous revenue	126,270	100,384	69,358	(31,026)
Escheated property	-	-	89,727	89,727
Transfers from other funds	512,072	417,434	72,007	(345,427)
Total Resources	43,653,358	43,641,425	21,592,057	(22,049,368)
CHARGES TO APPROPRIATIONS				
General government	2,982,113	3,104,985	1,637,339	1,467,646
Human services	21,186,368	21,321,458	10,276,682	11,044,776
Natural resources and recreation	704,224	714,456	326,277	388,179
Transportation	86,584	80,967	42,609	38,358
Education	17,229,757	17,301,727	8,387,898	8,913,829
Capital outlays	216,104	217,599	41,676	175,923
Transfers to other funds	571,900	375,793	71,421	304,372
Total Charges To Appropriations	42,977,050	43,116,985	20,783,902	22,333,083
Excess Available For Appropriation Over (Under) Charges To Appropriations	676,308	524,440	808,155	283,715
RECONCILING ITEMS				
Changes in reserves (net)	-	-	(10,076)	(10,076)
Entity adjustments (net)	-	-	(8,577)	(8,577)
Total Reconciling Items	-	-	(18,653)	(18,653)
Budgetary fund balance, June 30	$ 676,308	$ 524,440	$ 789,502	$ 265,062

BUDGETARY INFORMATION
Budgetary Comparison Schedule – Budget to GAAP Reconciliation

Budgetary Comparison Schedule - Budget to GAAP Reconciliation
General Fund
For the Fiscal Year Ended June 30, 2008
(expressed in thousands)

	General Fund
SOURCES / INFLOWS OF RESOURCES	
Actual amounts (budgetary basis) "Total Resources" from the Budgetary Comparison Schedule	$ 21,592,057
Differences - budget to GAAP:	
The following items are inflows of budgetary resources but are not revenue for financial reporting purposes:	
Transfers from other funds	(72,007)
Budgetary fund balance at the beginning of the biennium	(780,510)
The following items are not inflows of budgetary resources but are revenue for financial reporting purposes:	
Noncash commodities and electronic food stamp benefits	643,995
Unanticipated receipts	8,823
Noncash revenues	23,706
Revenues collected for other governments	32,486
Total Revenues (GAAP Basis) as Reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	$ 21,448,550
USES / OUTFLOWS OF RESOURCES	
Actual amounts (budgetary basis) "Total Charges to Appropriations" from the Budgetary Comparison Schedule.	$ 20,783,902
Differences - budget to GAAP:	
Budgeted expenditure transfers are recorded as expenditures in the budget statement but are recorded as other financing sources (uses) for financial reporting purposes.	(1,145,328)
The following items are outflows of budgetary resources but are not expenditures for financial reporting purposes.	
Transfers to other funds	(71,421)
Loan disbursements	3,440
The following items are not outflows of budgetary resources but are recorded as current expenditures for financial reporting purposes.	
Noncash commodities and electronic food stamp benefits	676,278
Expenditures related to unanticipated receipts	8,823
Capital lease acquisitions	12,110
Distributions to other governments	32,486
Total Expenditures (GAAP Basis) as Reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	$ 20,300,290

BUDGETARY INFORMATION

Notes to RSI

Required Supplementary Information

GENERAL BUDGETARY POLICIES AND PROCEDURES

The Governor is required to submit a budget to the state Legislature no later than December 20 of the year preceding odd-numbered year sessions of the Legislature. The budget is a proposal for expenditures in the ensuing biennial period based upon anticipated revenues from the sources and rates existing by law at the time of submission of the budget. The Governor may additionally submit, as an appendix to the budget, a proposal for expenditures in the ensuing biennium from revenue sources derived from proposed changes in existing statutes.

The appropriated budget and any necessary supplemental budgets are legally required to be adopted through the passage of appropriation bills by the Legislature and approved by the Governor. Operating appropriations are generally made at the fund/account and agency level; however, in a few cases, appropriations are made at the fund/account and agency/program level. Operating appropriations cover either the entire biennium or a single fiscal year within the biennium. Capital appropriations are biennial and are generally made at the fund/account, agency, and project level.

The legal level of budgetary control is at the fund/account, agency, and appropriation level, with administrative controls established at lower levels of detail in certain instances. The accompanying budgetary schedules are not presented at the legal level of budgetary control. This is due to the large number of appropriations within individual agencies that would make such a presentation in the accompanying financial schedules extremely cumbersome. Section 2400.121 of the GASB Codification of Governmental Accounting and Financial Reporting Standards provides for the preparation of a separate report in these extreme cases. For the state of Washington, a separate report has been prepared for the 2007-09 Biennium to illustrate legal budgetary compliance. Appropriated budget versus actual expenditures, and estimated versus actual revenues and other financing sources (uses) for appropriated funds at agency and appropriation level are presented in Report CAF1054 for governmental funds. A copy of this report is available at the Office of Financial Management, 6639 Capitol Boulevard, PO Box 43113, Olympia, Washington 98504-3113.

Legislative appropriations are strict legal limits on expenditures/expenses, and over-expenditures are prohibited. All appropriated and certain nonappropriated funds are further controlled by the executive branch through the allotment process. This process allocates the expenditure/expense plan into monthly allotments by program, source of funds, and object of expenditure. According to statute RCW 43.88.110(2), except under limited circumstances, the original allotments are approved by the Governor and may be revised on a quarterly basis and must be accompanied by an explanation of the reasons for significant changes. Because allotments are not the strict legal limit on expenditures/expenses, the budgetary schedules presented as required supplementary information (RSI) are shown on an appropriation versus actual comparison rather than an allotment versus actual comparison.

Proprietary funds typically earn revenues and incur expenses (i.e., depreciation or budgeted asset purchases) not covered by the allotment process. Budget estimates are generally made outside the allotment process according to prepared business plans. These proprietary fund business plan estimates are adjusted only at the beginning of each fiscal year.

Additional fiscal control is exercised through various means. OFM is authorized to make expenditure/expense allotments based on availability of unanticipated receipts, mainly federal government grant increases made during a fiscal year. State law does not preclude the over-expenditure of allotments, although RCW 43.88.110(3) requires that the Legislature be provided an explanation of major variances.

Operating encumbrances lapse at the end of the applicable appropriation. Capital outlay encumbrances lapse at the end of the biennium unless reappropriated by the Legislature in the ensuing biennium. Encumbrances outstanding against continuing appropriations at fiscal year end are reported as reservations of fund balance.

Budgetary Reporting vs. GAAP Reporting

Governmental funds are budgeted materially in conformance with GAAP. However, the presentation in the accompanying budgetary schedules is different in certain respects from the corresponding Statements of Revenues, Expenditures, and Changes in Fund Balance (governmental operating statement). In the accompanying budgetary schedules, budget and actual expenditures are reported only for appropriated activities. Expenditures are classified based on whether the appropriation is from the operating or capital budget. Expenditures funded by operating budget appropriations are reported as current expenditures classified by the function of the agency receiving the appropriation. Expenditures funded by capital budget appropriations are reported as capital outlays.

However, in the governmental operating statements, all governmental funds are included and expenditures are classified according to what was actually purchased. Capital outlays are fixed asset acquisitions such as land, buildings, and equipment. Debt service expenditures are principal and interest payments. Current expenditures are all other governmental fund expenditures classified based on the function of the agency making the expenditures.

Additionally, certain governmental activities are excluded from the budgetary schedules because they are not appropriated. These activities include activities designated as nonappropriated by the Legislature, such as the Higher Education Special Revenue Fund, Higher Education Endowment Fund, Tobacco Settlement Securitization Bond Debt Service Fund, federal surplus food commodities, electronic food stamp benefits, capital leases, note proceeds, and resources collected and distributed to other governments.

Further, certain expenditures are appropriated as operating transfers. These transfers are reported as operating transfers on the budgetary schedules and as expenditures on the governmental operating statements. The factors contributing to the differences between the Budgetary Comparison Schedule and the Statement of Revenues, Expenditures, and Changes in Fund Balance are noted in the previous Budget to GAAP reconciliation.

Budgetary Fund Balance includes the following as reported on the Governmental Funds Balance Sheet: Unreserved, undesignated fund balance; and Reserved for encumbrances.

PENSION PLAN INFORMATION
Schedules of Funding Progress

continued

Schedule of Funding Progress
Public Employees' Retirement System - Plan 1
Valuation Years 2007 through 2002
(dollars in millions)

	2007	2006	2005	2004	2003	2002
Actuarial valuation date	6/30/2007	9/30/2006	9/30/2005	9/30/2004	9/30/2003	9/30/2002
Actuarial value of plan assets	$ 9,715	$ 9,591	$ 9,707	$ 9,928	$ 10,227	$ 10,757
Actuarial accrued liability	13,740	13,129	13,704	12,855	12,692	12,560
Unfunded actuarial liability	4,025	3,538	3,997	2,927	2,465	1,803
Percentage funded	71%	73%	71%	77%	81%	86%
Covered payroll	676	725	786	863	945	1,023
Unfunded actuarial liability as a percentage of covered payroll	595%	488%	509%	339%	261%	176%

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

Schedule of Funding Progress
Public Employees' Retirement System - Plan 2/3
Valuation Years 2007 through 2002
(dollars in millions)

	2007	2006	2005	2004	2003	2002
Actuarial valuation date	6/30/2007	N/A	N/A	N/A	N/A	N/A
Actuarial value of plan assets	$ 14,888	N/A	N/A	N/A	N/A	N/A
Actuarial accrued liability	14,661	N/A	N/A	N/A	N/A	N/A
Unfunded actuarial liability	(227)	N/A	N/A	N/A	N/A	N/A
Percentage funded	102%	N/A	N/A	N/A	N/A	N/A
Covered payroll	7,157	N/A	N/A	N/A	N/A	N/A
Unfunded actuarial liability as a percentage of covered payroll	0%	N/A	N/A	N/A	N/A	N/A

PERS Plan 2/3 uses the aggregate actuarial cost method. Effective for reporting year 2007, this Schedule of Funding Progress is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress information of this plan as required by GASB Statement No. 50.

N/A indicates data not available.

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

PENSION PLAN INFORMATION
Schedules of Funding Progress

continued

Schedule of Funding Progress
Teachers' Retirement System - Plan 1
Valuation Years 2007 through 2002
(dollars in millions)

	2007	2006	2005	2004	2003	2002
Actuarial valuation date	6/30/2007	9/30/2006	9/30/2005	9/30/2004	9/30/2003	9/30/2002
Actuarial value of plan assets	$ 8,302	$ 8,275	$ 8,450	$ 8,728	$ 9,086	$ 9,365
Actuarial accrued liability	10,826	10,359	10,894	10,401	10,325	10,235
Unfunded actuarial liability	2,524	2,084	2,444	1,673	1,239	870
Percentage funded	77%	80%	78%	84%	88%	91%
Covered payroll	426	478	546	616	692	741
Unfunded actuarial liability as a percentage of covered payroll	592%	436%	448%	272%	179%	117%

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

Schedule of Funding Progress
Teachers' Retirement System - Plan 2/3
Valuation Years 2007 through 2002
(dollars in millions)

	2007	2006	2005	2004	2003	2002
Actuarial valuation date	6/30/2007	N/A	N/A	N/A	N/A	N/A
Actuarial value of plan assets	$ 5,277	N/A	N/A	N/A	N/A	N/A
Actuarial accrued liability	4,682	N/A	N/A	N/A	N/A	N/A
Unfunded actuarial liability	(595)	N/A	N/A	N/A	N/A	N/A
Percentage funded	113%	N/A	N/A	N/A	N/A	N/A
Covered payroll	3,318	N/A	N/A	N/A	N/A	N/A
Unfunded actuarial liability as a percentage of covered payroll	0%	N/A	N/A	N/A	N/A	N/A

TRS Plan 2/3 uses the aggregate actuarial cost method. Effective for reporting year 2007, this Schedule of Funding Progress is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress information of this plan as required by GASB Statement No. 50.

N/A indicates data not available.

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

PENSION PLAN INFORMATION
Schedules of Funding Progress
continued

Schedule of Funding Progress
School Employees' Retirement System - Plan 2/3
Valuation Years 2007 through 2002
(dollars in millions)

	2007	2006	2005	2004	2003	2002
Actuarial valuation date	6/30/2007	N/A	N/A	N/A	N/A	N/A
Actuarial value of plan assets	$ 2,133	N/A	N/A	N/A	N/A	N/A
Actuarial accrued liability	1,998	N/A	N/A	N/A	N/A	N/A
Unfunded actuarial liability	(135)	N/A	N/A	N/A	N/A	N/A
Percentage funded	107%	N/A	N/A	N/A	N/A	N/A
Covered payroll	1,283	N/A	N/A	N/A	N/A	N/A
Unfunded actuarial liability as a percentage of covered payroll	0%	N/A	N/A	N/A	N/A	N/A

SERS Plan 2/3 uses the aggregate actuarial cost method. Effective for reporting year 2007, this Schedule of Funding Progress is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress information of this plan as required by GASB Statement No. 50.

N/A indicates data not available.

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

Schedule of Funding Progress
Law Enforcement Officers' and Fire Fighters' Retirement System - Plan 1
Valuation Years 2007 through 2002
(dollars in millions)

	2007	2006	2005	2004	2003	2002
Actuarial valuation date	6/30/2007	9/30/2006	9/30/2005	9/30/2004	9/30/2003	9/30/2002
Actuarial value of plan assets	$ 5,298	$ 5,018	$ 4,800	$ 4,666	$ 4,803	$ 5,095
Actuarial accrued liability	4,340	4,309	4,243	4,266	4,275	4,259
Unfunded (assets in excess of) actuarial liability	(958)	(709)	(557)	(400)	(528)	(836)
Percentage funded	122%	116%	113%	109%	112%	120%
Covered payroll	43	48	56	64	71	80
Unfunded actuarial liability as a percentage of covered payroll	0%	N/A	N/A	N/A	N/A	N/A

N/A indicates data not available.

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

PENSION PLAN INFORMATION
Schedules of Funding Progress

continued

Schedule of Funding Progress
Law Enforcement Officers' and Fire Fighters' Retirement System - Plan 2
Valuation Years 2007 through 2002
(dollars in millions)

	2007	2006	2005	2004	2003	2002
Actuarial valuation date	6/30/2007	N/A	N/A	N/A	N/A	N/A
Actuarial value of plan assets	$ 4,360	N/A	N/A	N/A	N/A	N/A
Actuarial accrued liability	3,626	N/A	N/A	N/A	N/A	N/A
Unfunded (assets in excess of) actuarial liability	(734)	N/A	N/A	N/A	N/A	N/A
Percentage funded	120%	N/A	N/A	N/A	N/A	N/A
Covered payroll	1,234	N/A	N/A	N/A	N/A	N/A
Unfunded actuarial liability as a percentage of covered payroll	0%	N/A	N/A	N/A	N/A	N/A

LEOFF Plan 2 uses the aggregate actuarial cost method. Effective for reporting year 2007, this Schedule of Funding Progress is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress information of this plan as required by GASB Statement No. 50.

N/A indicates data not available.

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

Schedule of Funding Progress
Washington State Patrol Retirement System - Plan 1/2
Valuation Years 2007 through 2002
(dollars in millions)

	2007	2006	2005	2004	2003	2002
Actuarial valuation date	6/30/2007	N/A	N/A	N/A	N/A	N/A
Actuarial value of plan assets	$ 800	N/A	N/A	N/A	N/A	N/A
Actuarial accrued liability	702	N/A	N/A	N/A	N/A	N/A
Unfunded actuarial liability	(98)	N/A	N/A	N/A	N/A	N/A
Percentage funded	114%	N/A	N/A	N/A	N/A	N/A
Covered payroll	72	N/A	N/A	N/A	N/A	N/A
Unfunded actuarial liability as a percentage of covered payroll	0%	N/A	N/A	N/A	N/A	N/A

WSPRS Plan 1/2 uses the aggregate actuarial cost method. Effective for reporting year 2007, this Schedule of Funding Progress is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress information of this plan as required by GASB Statement No. 50.

N/A indicates data not available.

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

PENSION PLAN INFORMATION
Schedules of Funding Progress

continued

Schedule of Funding Progress
Public Safety Employees' Retirement System - Plan 2
Valuation Years 2007 through 2002
(dollars in millions)

	2007	2006	2005	2004	2003	2002
Actuarial valuation date	6/30/2007	N/A	N/A	N/A	N/A	N/A
Actuarial value of plan assets	$ 14	N/A	N/A	N/A	N/A	N/A
Actuarial accrued liability	12	N/A	N/A	N/A	N/A	N/A
Unfunded actuarial liability	(2)	N/A	N/A	N/A	N/A	N/A
Percentage funded	117%	N/A	N/A	N/A	N/A	N/A
Covered payroll	134	N/A	N/A	N/A	N/A	N/A
Unfunded actuarial liability as a percentage of covered payroll	0%	N/A	N/A	N/A	N/A	N/A

PSERS Plan 2 uses the aggregate actuarial cost method. Effective for reporting year 2007, this Schedule of Funding Progress is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress information of this plan as required by GASB Statement No. 50.

N/A indicates data not available.

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

Schedule of Funding Progress
Judicial Retirement System
Valuation Years 2007 through 2002
(dollars in millions)

	2007	2006	2005	2004	2003	2002
Actuarial valuation date	6/30/2007	9/30/2006	9/30/2005	9/30/2004	9/30/2003	9/30/2002
Actuarial value of plan assets	$ 1	$ 0.3	$ 2	$ 4	$ 6	$ 8
Actuarial accrued liability	85	88	89	89	91	92
Unfunded actuarial liability	84	88	87	85	85	84
Percentage funded	1%	0%	2%	4%	7%	9%
Covered payroll	1.3	1.4	1.7	2.4	2.6	3
Unfunded actuarial liability as a percentage of covered payroll	6462%	6286%	5118%	3542%	3269%	2800%

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

PENSION PLAN INFORMATION
Schedules of Funding Progress

concluded

Schedule of Funding Progress
Judges' Retirement Fund
Valuation Years 2007 through 2002
(dollars in millions)

	2007	2006	2005	2004	2003	2002
Actuarial valuation date	6/30/2007	9/30/2006	9/30/2005	9/30/2004	9/30/2003	9/30/2002
Actuarial value of plan assets	$ 4.0	$ 4.1	$ 4.2	$ 4.4	$ 4.5	$ 4.7
Actuarial accrued liability	3.9	4.0	4.5	4.7	5.2	5.5
Unfunded (assets in excess of) actuarial liability	(0.1)	(0.1)	0.3	0.3	0.7	0.8
Percentage funded	103%	103%	93%	94%	87%	85%
Covered payroll	-	-	-	-	-	0.1
Unfunded actuarial liability as a percentage of covered payroll	N/A	N/A	N/A	N/A	N/A	N/A

N/A indicates data not available.

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

Schedule of Funding Progress
Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund
Valuation Years 2007 through 2002
(dollars in millions)

	2007	2006	2005	2004	2003	2002
Actuarial valuation date	6/30/2007	12/31/2006	12/31/2005	12/31/2004	12/31/2003	12/31/2002
Actuarial value of plan assets	$ 151	$ 140	$ 127	$ 120	$ 120	$ 124
Actuarial accrued liability	136	142	140	115	112	110
Unfunded (assets in excess of) actuarial liability	(15)	2	13	(5)	(8)	(14)
Percentage funded	111%	99%	91%	104%	107%	113%
Covered payroll	N/A	N/A	N/A	N/A	N/A	N/A
Unfunded actuarial liability as a percentage of covered payroll	N/A	N/A	N/A	N/A	N/A	N/A

* Pension plan liability only - excludes relief benefits.

**Covered Payroll is not presented because it is not applicable since this is a volunteer organization.

N/A indicates data not available.

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

PENSION PLAN INFORMATION

Schedules of Contributions from Employers and Other Contributing Entities (cont'd)

Schedules of Contributions from Employers and Other Contributing Entities

For the Fiscal Years Ended June 30, 2008 through 2003

(expressed in millions)

	2008	2007	2006	2005	2004	2003
PUBLIC EMPLOYEES' RETIREMENT PLAN SYSTEM - PLAN 1						
Employers' annual required contribution	$ 453.1	$ 397.3	$ 438.5	$ 340.3	$ 295.1	$ 228.9
Employers' actual contribution	221.8	118.7	29.6	22.4	22.8	56.6
Percentage contributed	49%	30%	7%	7%	8%	25%
PUBLIC EMPLOYEES' RETIREMENT PLAN SYSTEM - PLAN 2/3						
Employers' annual required contribution	$ 363.3	$ 331.3	$ 307.6	$ 227.7	$ 192.6	$ 141.7
Employers' actual contribution	318.7	242.5	149.6	74.7	69.4	38.2
Percentage contributed	88%	73%	49%	33%	36%	27%
TEACHERS' RETIREMENT SYSTEM - PLAN 1						
Employers' annual required contribution	$ 294.7	$ 249.8	$ 287.5	$ 224.3	$ 185.7	$ 153.4
Employers' actual contribution	113.1	60.5	15.1	8.8	11.4	20.4
Percentage contributed	38%	24%	5%	4%	6%	13%
TEACHERS' RETIREMENT SYSTEM - PLAN 2/3						
Employers' annual required contribution	$ 208.9	$ 167.7	$ 166.4	$ 117.4	$ 96.2	$ 79.5
Employers' actual contribution	109.5	102.2	75.4	33.8	29.9	18.2
Percentage contributed	52%	61%	45%	29%	31%	23%
SCHOOL EMPLOYEES' RETIREMENT SYSTEM - PLAN 2/3						
Employers' annual required contribution	$ 75.8	$ 71.5	$ 81.4	$ 64.0	$ 52.3	$ 44.2
Employers' actual contribution	52.1	45.9	30.4	10.2	9.1	6.2
Percentage contributed	69%	64%	37%	16%	17%	14%

The Annual Required Contribution (ARC) changes each year with the experience of the plans. Factors influencing the experience include changes in funding methods, assumptions, plan provisions, and economic and demographic gains and losses. The methods used to derive the ARC for this accounting disclosure are different from that used to derive the actual contributions required by law. These differences include the use of different actuarial valuations (actual contributions may be based on an earlier valuation), and different actuarial cost methods. For these reasons the actual contributions will not match the Annual Required Contributions.

Source: Washington State Office of the State Actuary

PENSION PLAN INFORMATION

Schedules of Contributions from Employers and Other Contributing Entities (cont'd)

Schedules of Contributions from Employers and Other Contributing Entities
For the Fiscal Years Ended June 30, 2008 through 2003
(expressed in millions)

	2008	2007	2006	2005	2004	2003
LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS' RETIREMENT SYSTEM - PLAN 1						
Employers' annual required contribution	$ -	$ 0.1	$ -	$ -	$ -	$ -
Employers' actual contribution	-	0.1	0.1	-	-	0.1
Percentage contributed	N/A	100%	N/A	N/A	N/A	N/A
State annual required contribution	-	-	-	-	-	-
State actual contribution	-	-	-	-	-	-
Percentage contributed	N/A	N/A	N/A	N/A	N/A	N/A
LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS' RETIREMENT SYSTEM - PLAN 2						
Employers' annual required contribution*	$ 61.3	$ 56.9	$ 60.8	$ 48.5	$ 41.5	$ 34.1
Employers' actual contribution	73.4	58.2	48.5	32.8	30.8	25.6
Percentage contributed	120%	102%	80%	68%	74%	75%
State annual required contribution*	40.8	38.0	40.5	32.3	27.7	22.7
State actual contribution	45.9	37.9	31.7	21.3	20.2	16.4
Percentage contributed	N/A	100%	78%	66%	73%	72%
WASHINGTON STATE PATROL RETIREMENT SYSTEM						
Employers' annual required contribution	$ 6.8	$ 5.3	$ 6.1	$ 3.4	$ 2.6	$ -
Employers' actual contribution	6.1	3.3	3.1	-	-	-
Percentage contributed	90%	62%	51%	0%	0%	N/A

N/A indicates data not available.

*The Annual Required Contribution (ARC) for the LEOFF Plan 2 presented is the Office of the State Actuary's recommended figure; the LEOFF Plan 2 board has proposed a higher ARC of $113.5 Million.

The Annual Required Contribution (ARC) changes each year with the experience of the plans. Factors influencing the experience include changes in funding methods, assumptions, plan provisions, and economic and demographic gains and losses. The methods used to derive the ARC for this accounting disclosure are different from that used to derive the actual contributions required by law. These differences include the use of different actuarial valuations (actual contributions may be based on an earlier valuation), and different actuarial cost methods. For these reasons the actual contributions will not match the Annual Required Contributions.

Source: Washington State Office of the State Actuary

PENSION PLAN INFORMATION

Schedules of Contributions from Employers and Other Contributing Entities (concl'd)

Schedules of Contributions from Employers and Other Contributing Entities

For the Fiscal Years Ended June 30, 2008 through 2003

(expressed in millions)

	2008	2007	2006	2005	2004	2003
PUBLIC SAFETY EMPLOYEES' RETIREMENT PLAN SYSTEM - PLAN 2						
Employers' annual required contribution	$ 12.4	$ 7.1	$ -	$ -	$ -	$ -
Employers' actual contribution	11.7	6.6	-	-	-	-
Percentage contributed	94%	93%	N/A	N/A	N/A	N/A
JUDICIAL RETIREMENT SYSTEM						
Employers' annual required contribution	$ 26.6	$ 37.3	$ 27.7	$ 21.7	$ 18.5	$ 16.2
Employers' actual contribution	9.6	9.6	6.7	6.2	6.2	6.2
Percentage contributed	36%	26%	24%	29%	34%	38%
JUDGES' RETIREMENT FUND						
Employers' annual required contribution	$ -	$ -	$ 0.1	$ 0.1	$ 0.2	$ 0.1
Employers' actual contribution	-	0.3	0.3	0.5	0.5	0.3
Percentage contributed	N/A	N/A	300%	500%	250%	300%
VOLUNTEER FIRE FIGHTERS' AND RESERVE OFFICERS' RELIEF AND PENSION FUND						
Employers' annual required contribution	$ 1.0	$ 1.0	$ 1.0	$ 0.7	$ 0.8	$ 0.8
Employers' actual contribution	1.0	1.0	1.0	0.7	0.8	0.8
Percentage contributed	100%	100%	100%	100%	100%	100%
State annual required contribution	0.9	2.0	3.6	1.8	1.5	0.7
State actual contribution	5.0	6.0	4.6	4.4	4.4	3.3
Percentage contributed	556%	300%	128%	244%	293%	471%

N/A indicates data not available.

The Annual Required Contribution (ARC) changes each year with the experience of the plans. Factors influencing the experience include changes in funding methods, assumptions, plan provisions, and economic and demographic gains and losses. The methods used to derive the ARC for this accounting disclosure are different from that used to derive the actual contributions required by law. These differences include the use of different actuarial valuations (actual contributions may be based on an earlier valuation), and different actuarial cost methods. For these reasons the actual contributions will not match the Annual Required Contributions.

Source: Washington State Office of the State Actuary

OTHER POSTEMPLOYMENT BENEFITS INFORMATION
Schedule of Funding Progress

Schedule of Funding Progress
Other Postemployment Benefits
Valuation Years 2007 through 2005
(dollars in millions)

	2007	2006	2005
Actuarial valuation date	1/1/2007	N/A	N/A
Actuarial value of plan assets	$ -	N/A	N/A
Actuarial accrued liability (AAL)*	3,800	N/A	N/A
Unfunded actuarial accrued liability (UAAL)	3,800	N/A	N/A
Funded ratio	0%	N/A	N/A
Covered payroll	5,427	N/A	N/A
UAAL as a percentage of covered payroll	70.01%	N/A	N/A

* Based on projected unit credit actuarial cost method.

N/A indicates data not available.

Source: Washington State Office of the State Actuary

INFORMATION ABOUT INFRASTRUCTURE ASSETS REPORTED USING THE MODIFIED APPROACH

Condition Assessment

The state's highway system is divided into three main categories: pavement, bridges and rest areas. Condition information about each as well as the state's emergency airfields follows.

Pavement Condition

The Washington State Department of Transportation (WSDOT) owns and maintains 20,251 lane miles of highway, including ramps, collectors and special use lanes. Special use lanes include High Occupancy Vehicle (HOV), climbing, chain-up, holding, slow vehicle turnout, two-way turn, weaving/speed change, bicycle, transit, truck climbing shoulder, turn and acceleration lanes. Special use and ramp/collector lane miles make up 1,816 of the total lane miles.

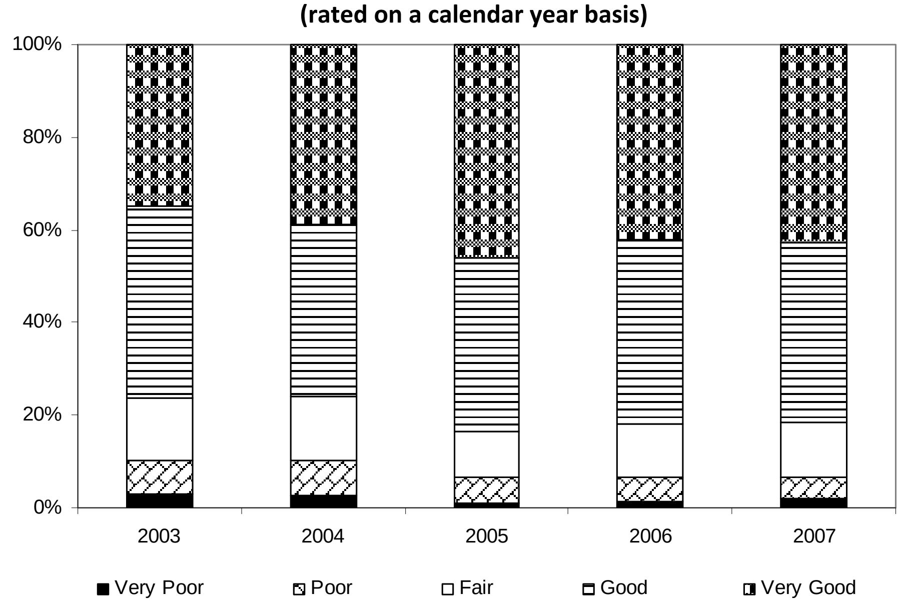
WSDOT has been rating pavement condition since 1969. Pavement rated in good condition is smooth and has few defects. Pavement in poor condition is characterized by cracking, patching, roughness and rutting. Pavement condition is rated using three factors: Pavement Structural Condition (PSC), International Roughness Index (IRI), and Rutting.

In 1993 the Legislature required WSDOT to rehabilitate pavements at the Lowest Life Cycle Cost (LLCC), which has been determined to occur at a PSC range between 40 and 60, or when triggers for roughness or rutting are met. The trend over the last five years has shown that the percent of pavements in poor or very poor condition was fairly stable at 7 percent - 10 percent, with an improvement to 6 percent - 7 percent in 2005 through 2007. WSDOT uses LLCC analysis to manage its pavement preservation program. The principles behind LLCC are basic – if rehabilitation is done too early, pavement life is wasted; if rehabilitation is done too late, very costly repair work may be required, especially if the underlying structure is compromised. WSDOT continually looks for ways to best strike the balance between these two basic principles.

While the goal for pavements is zero miles in 'poor' condition, marginally good pavements may deteriorate into poor condition during the lag time between assessment and actual rehabilitation. As a result, a small percentage of marginally good pavements will move into the 'poor' condition category for any given assessment period.

WSDOT manages state highways targeting the LLCC per the Pavement Management System due date. While the department has a long-term goal of no pavements in poor condition (a pavement condition index less than 40, on a 100 point scale), the current policy is to maintain 90 percent of all highway pavement types at a pavement condition index of 40 or better with no more than 10 percent of its highways at a pavement condition below 40. The most recent assessment found that state highways were within the prescribed parameters with only 7 percent of all pavement types with a pavement condition index below 40.

Pavement Condition – All Pavements (rated on a calendar year basis)



WSDOT uses the following scale for Pavement Structural Condition (PSC):

Category	PSC Range	Description
Very Good	80 – 100	Little or no distress. Example: Flexible pavement with 5 percent of wheel track length having "hairline" severity alligator cracking will have a PSC of 80.
Good	60 – 80	Early stage deterioration. Example: Flexible pavement with 15 percent of wheel track length having "hairline" alligator cracking will have a PSC of 70.
Fair	40 – 60`	This is the threshold value for rehabilitation. Example: Flexible pavement with 25 percent of wheel track length having "hairline" alligator cracking will have a PSC of 50.
Poor	20 – 40	Structural deterioration. Example: Flexible pavement with 25 percent of wheel track length having "medium (spalled)" severity alligator cracking will have a PSC of 30.
Very Poor	0 – 20	Advanced structural deterioration. Example: Flexible pavement with 40 percent of wheel track length having "medium (spalled)" severity alligator cracking will have a PSC of 10. May require extensive repair and thicker overlays.

The PSC is a measure based on distresses such as cracking and patching, which are related to the pavement's ability to carry loads. Pavements develop structural deficiencies due to truck traffic and cold weather. WSDOT attempts to program rehabilitation for pavement segments when they are projected to reach a PSC of 50. A PSC of 50 can occur due to various amounts and severity of distress. For rigid pavements (such as Portland cement concrete), a PSC of 50 represents 50 percent of the concrete slabs exhibiting joint faulting with a severity of 1/8 to 1/4 inch (faulting is the elevation difference at slab joints and results in a rough ride – particularly in large trucks). Further, a PSC of 50 can also be obtained if 25 percent of concrete slabs exhibit two to three cracks per panel.

The International Roughness Index (IRI) uses a scale in inches per mile. WSDOT considers pavements with a ride performance measure of greater than 220 inches per mile to be in poor condition. For example, new asphalt overlays typically have ride values below 75 inches per mile, which is very smooth.

Rutting is measured in millimeters: a pavement with more than 12 millimeters of rutting is considered in poor condition. The three indices (PSC, IRI, and Rutting) are combined to rate a section of pavement, which is assigned the lowest category of any of the three ratings.

The following table shows the combined explanatory categories and the ratings for each index.

Category	PSC	IRI	Rutting
Very Good	100 – 80	< 95	< 4
Good	80 – 60	95 – 170	4 – 8
Fair	60 – 40	170 – 220	8 – 12
Poor	40 – 20	220 – 320	12 – 16
Very Poor	0 – 20	> 320	> 16

Since 1999, WSDOT has used an automated pavement distress survey procedure. In the automated survey, high-resolution video images are collected at highway speed and these video images are then rated on special workstations at 3-6 mph speed. This change has also resulted in a more detailed classification and recording of various distresses that are rated.

Pavement condition surveys are generally conducted in the fall of each year and analyzed during the winter and spring, with the previous year's results available in July each year. Years indicated are when the physical assessment was done.

In 2007, WSDOT rated pavement condition on 17,323 of the 20,251 lane miles of highway. The following chart shows recent pavement condition ratings for the State Highway System, using the combination of the three indices described on the preceding page.

Percentage of Pavement in Fair or Better Condition

	2007*	2006*	2005*	2004*	2003*
Statewide - Chip seals	91%	91%	91%	86%	86%
Statewide - Asphalt	94%	94%	95%	92%	91%
Statewide - Concrete	93%	93%	91%	85%	92%
Statewide - All pavements	93%	94%	93%	90%	90%

Percentage of Pavement in Poor or Very Poor Condition

	2007*	2006*	2005*	2004*	2003*
Statewide - Chip seals	9%	9%	9%	14%	14%
Statewide - Asphalt	6%	6%	5%	8%	9%
Statewide - Concrete	7%	7%	9%	15%	8%
Statewide - All pavements	7%	6%	7%	10%	10%

*Calendar year data. Assessments are typically made in the summer and fall of each year, and processed during the winter and spring, with final results released in July. Years indicated are when the physical assessment was done in the summer and fall.

Note: The All Pavements percentages are calculated from total database averages, not a statistical average of the three pavement type percentages. IRI or rutting is not used for sections identified as under construction in rating distress.

More information about pavement management at the Department of Transportation may be obtained at: http://www.wsdot.wa.gov/biz/mats/pavement/.

Bridge Condition

During Fiscal Year 2008 there were 3,140 state-owned vehicular structures over 20 feet in length with a total area of 45,691,819 square feet. In addition to bridges, the 3,140 structures include 91 culverts and 54 ferry terminal structures. (While ferry terminals are included in a depreciable asset category, they are included here with bridge condition information since they are evaluated by the WSDOT Bridge Office on a periodic basis.) The fiscal year increase of 23 ferry terminal structures reflects a change in inventory detail which separated some structures that were previously reported as one structure. There were 7 bridge structures added in Fiscal Year 2008. All bridges are inspected every two years. Divers inspect underwater bridge components at least once every five years in accordance with Federal Highway Administration requirements. Special emphasis is given to the ongoing inspection and maintenance of major bridges representing a significant public investment due to size, complexity or strategic location.

Information related to public bridges is maintained in the Washington State Bridge Inventory System (WSBIS). This system is used to develop preservation strategies and comprehensive recommendations for maintenance and construction, and for reporting to the Federal Highway Administration (FHWA).

WSDOT's policy is to maintain 95 percent of its bridges at a structural condition of at least fair, meaning that all primary structural elements are sound. The most recent assessment found that state-owned bridges were within the prescribed parameters with 97 percent having a condition rating of fair or better and only 3 percent of bridges having a condition rating of poor. Bridges rated as poor may have structural deficiencies that restrict the weight and type of traffic allowed. No bridges that are currently rated as poor are unsafe for public travel. Any bridges determined to be unsafe are closed to traffic. WSDOT had one closed bridge at June 30, 2008 where US97 crosses the Columbia River in south central Washington. The bridge deck is undergoing replacement.

WSDOT's Bridge Seismic Retrofit Program prioritizes state bridges for seismic retrofit, and performs these retrofits as funding permits. Retrofit priorities are based on seismic risk of a site, structural detail deficiencies, and route importance. The Seismic Retrofit Program includes 922 bridges that have been classified as needing retrofitting. WSDOT has fully or partially retrofitted 370 bridges. Of those, 217 are completely retrofitted, 153 are partially retrofitted. Seismic Analysis has determined that 12 bridges do not require a retrofit. There are 19 bridges currently under contract to be retrofitted.

The following condition rating data is based on the structural sufficiency standards established in the FHWA "Recording and Coding Guide for the Structural Inventory and Appraisal of the Nation's Bridges." This structural rating relates to the evaluation of bridge superstructure, deck, substructure, structural adequacy and waterway adequacy. Three categories of condition were established in relation to the FHWA criteria as follows:

Category	National Bridge Inventory Code	Description
Good	6, 7, or 8	A range from no problems noted to some minor deterioration of structural elements.
Fair	5	All primary structural elements are sound but may have deficiencies such as minor section loss, deterioration, cracking, spalling or scour.
Poor	4 or less	Advanced deficiencies such as section loss, deterioration, cracking, spalling, scour or seriously affected primary structural components.

Note: Bridges rated in poor condition may be restricted for the weight and type of traffic allowed.

Condition rating of WSDOT's bridges:

Percentage of Bridges in Fair or Better Condition					
Bridge Type	**2008**	**2007**	**2006**	**2005**	**2004**
Reinforced concrete (1,289 bridges in FY 2008)	98.0%	98.3%	98.6%	98.6%	98.0%
Prestressed concrete (1,325 bridges in FY2008)	98.9%	99.3%	99.3%	99.5%	99.5%
Steel (356 bridges* in FY 2008)	93.9%	94.7%	94.1%	94.3%	93.5%
Timber (76 bridges in FY 2008)	71.7%	66.3%	68.1%	69.2%	70.0%
Statewide - All bridges (3,046 out of 3,140 bridges in FY 2008)	97.0%	97.4%	97.5%	97.6%	97.4%

Percentage of Bridges in Poor Condition					
Bridge Type	**2008**	**2007**	**2006**	**2005**	**2004**
Reinforced concrete (26 bridges in FY 2008)	2.0%	1.7%	1.4%	1.4%	2.0%
Prestressed concrete (15 bridges in FY 2008)	1.1%	0.7%	0.7%	0.5%	0.5%
Steel (23 bridges* in FY 2008)	6.1%	5.3%	5.9%	5.7%	6.5%
Timber (30 bridges in FY 2008)	28.3%	33.7%	31.9%	30.8%	30.0%
Statewide - All bridges (94 out of 3,140 bridges in FY 2008)	3.0%	2.6%	2.5%	2.4%	2.6%

*The steel bridge ratings for Fiscal Year 2008 include 51 ferry terminal structures rated as fair or better and three ferry terminal structures rated as poor.

Note: Bridges rated as poor may have structural deficiencies that restricted the weight and type of traffic allowed. WSDOT currently has 14 posted bridges and 152 restricted bridges. Posted bridges have signs posted which inform of legal weight limits. Restricted bridges are those where overweight permits will not be issued for travel by overweight vehicles. This is one additional posted bridge in 2008 as compared to 2007. The number of restricted bridges did not change in the last year.

Refer to http://www.wsdot.wa.gov/commercialVehicle/Restrictions/ for more information on overweight restrictions. Any bridges determined to be unsafe are closed to traffic. WSDOT has one closed bridge as of June 30, 2008.

Additional information regarding the Department of Transportation's bridge inspection program may be obtained at: http://www.wsdot.wa.gov/eesc/bridge/index.cfm.

Safety Rest Area Condition

The WSDOT owns, operates, and maintains 46 developed safety rest area (SRA) facilities, an increase of four sites in Fiscal Year 2008. Within these facilities, the department manages the following assets: 92 buildings, 692 acres, 29 on-site public drinking water systems, 36 on-site sewage pre-treatment/treatment systems, and 19 recreational vehicle sanitary disposal facilities.

In 2007, WSDOT performed the third round of Safety Rest Area building and site condition assessments to determine the facility deficiencies. This biennial process, which began in 2003, helps prioritize renovation and replacement projects. Sites and buildings are divided into functional components that are assessed with a numerical rating of 1 to 5 based on guideline criteria (1 meets current standards, 5 is poor).

In addition, a weighting multiplier is applied based on the criticality of the individual component. For instance, a safety deficiency adds a weighting multiplier of ten while a department image deficiency has a weighting multiplier of two. The combined total building and site ratings are used to determine each facility's overall condition, and fall into one of five categories. WSDOT will conduct the next condition assessment in 2009.

WSDOT SRA condition assessment rating parameters are not based on other state or national guidelines for safety rest areas. The model used is based on the capital facility program software already in use, with minor modifications to the rating parameters to better match the unique needs of SRA facilities. The SRA Program goal is to have no more than 5 percent of the facilities rated Poor.

Condition rating of Washington State rest areas:

Category	2007	2005	2003
Percentage of facilities in fair or good condition	95.3%	95.2%	95.2%
Percentage of facilities in poor condition	4.7%	4.8%	4.8%

Category	Description	Number of Safety Rest Areas in Category		
		2007	2005	2003
Good Condition	Facility is new construction and/or meets current standards.	8	11	11
Fair-High Condition	Facility meets current standards and/or is in adequate condition with minimal component deficiencies.	6	2	4
Fair-Mid Condition	Facility is functional, and in adequate condition with minor component deficiencies.	6	9	20
Fair-Low Condition	Facility has multiple system deficiencies.	20	18	6
Poor	Facility is at or beyond its service life, with multiple major deficiencies.	2	2	2
	Total	*42	42	43

*Four sites were not included in the condition assessment process for 2007: Iron Goat, Mader, Price Creek, and Traveler's Rest.

Emergency Air Field Condition

The WSDOT, through its Aviation Division is authorized by RCW 47.68.100 to acquire and maintain airports.

Under this authority, WSDOT owns eight emergency airfields and leases several others. Most of the airfields are located near or adjacent to state highways and range in character from paved to gravel or turf. The primary purpose for the airports is to provide emergency facilities in remote locations. They serve as landing sites for medical evacuations, forest firefighting operations, and search and rescue. In addition, they allow access to local communities and recreation areas. Two airfields are in operational condition 12 months of the year, with five operational from June to October each year. One is only available for emergency search and rescue use. In accordance with WSDOT policy, maintenance is done on each airfield annually to keep it at its existing condition of use. Each airfield is inspected a minimum of three times per year.

The definitions below form the rating criteria for the current airfield condition ratings that follow.

Category	Definition
General use community airport	An airport with a paved runway capable of handling aircraft with a maximum gross certificated takeoff weight of 12,500 pounds.
Limited use community airport	An airport with an unpaved runway capable of handling aircraft with a maximum gross certificated takeoff weight of 12,500 pounds.
General recreational use airport	An airport with a turf (unpaved) runway near access to recreational opportunities with capacity for aircraft less than 12,500 pounds.
Limited search and rescue forward operating location	An airport with a landing pad only capable of accommodating rotorcraft.

Condition rating of Washington State emergency airfields:

Number of Airports						
Owned Airports						
Acceptable for general use as a community airport	1					
Acceptable for limited use as a community airport	1					
Acceptable for general recreation use	5					
Limited search and rescue forward operating location	1					
Total Owned Airports	8					
		2008	**2007**	**2006**	**2005**	**2004**
Percentage of airports acceptable for general recreational use or better		88%	88%	88%	88%	88%
Percentage of airports not acceptable for general recreational use or better		12%	12%	12%	12%	12%

Note: One airport is open only as a limited search and rescue operating location and is expected to remain in that status. For pictures of specific airfields, refer to the Department of Transportation's website at: http://www.wsdot.wa.gov/aviation/Airports/.

INFORMATION ABOUT INFRASTRUCTURE ASSETS REPORTED USING THE MODIFIED APPROACH

Comparison of Budgeted-to-Actual Preservation and Maintenance

For the Fiscal Years Ended June 30, 2008 through 2004
(expressed in thousands)

	2008			2007		
Highway System						
PAVEMENT	**Budget**	**Actual**	**Variance**	**Budget***	**Actual**	**Variance**
Preservation	$ 118,886	$ 130,375	$ (11,489)	$ 111,195	$ 99,416	$ 11,779
Maintenance	18,329	16,994	1,335	19,152	16,255	2,897
Total	$ 137,215	$ 147,369	$ (10,154)	$ 130,347	$ 115,671	$ 14,676
BRIDGES						
Preservation	$ 11,260	$ 23,407	$ (12,147)	$ 21,055	$ 20,138	$ 917
Maintenance	12,427	12,601	(174)	11,553	11,051	502
Total	$ 23,687	$ 36,008	($ 12,321)	$ 32,608	$ 31,189	$ 1,419
REST AREAS						
Preservation	$ 77	$ 77	$ -	$ 188	$ 173	$ 15
Maintenance	5,590	5,778	(188)	5,056	5,359	(303)
Total	$ 5,667	$ 5,855	$ (188)	$ 5,244	$ 5,532	$ (288)
Emergency Air Fields						
Preservation & maintenance	$ 146	$ 134	$ 12	$ 83	$ 200	$ (117)

In addition to increasing and improving the state highway system, WSDOT places a high priority on preserving and maintaining the current highway system. WSDOT breaks out preservation and maintenance into two separate functions. Preservation can be described as projects that maintain the structural integrity of the existing highway system including roadway pavements, safety features, bridges, and other structures/facilities. The Maintenance function handles the day-to-day needs that occur such as guardrail replacement, patching pot holes, installing signs, vegetation control, etc.

In 1996, WSDOT embarked on an initiative to use outcome based performance measures for evaluating the effectiveness of the Maintenance Program. The Maintenance Accountability Process (MAP) is a comprehensive planning, measuring and managing process that provides a means for communicating the impacts of policy and budget decisions on program service delivery. WSDOT uses it to identify investment choices and affects of those choices in communicating with the Legislature and other stakeholders. The MAP measures and communicates the outcomes of 32 distinct highway maintenance activities. Maintenance results are measured via field condition surveys and reported as Level of Service (LOS) ratings, which range from A to F. LOS targets are defined in terms of the condition of various highway features (i.e. percent of guardrail on the highway system that is damaged) and are set commensurate with the level of funding provided for the WSDOT highway maintenance program. More information about MAP may be obtained at: http://www.wsdot.wa.gov/maintenance/mgmt/accountability.htm.

Notes: Numbers for the Pavement and Bridges budget amounts are calculated based on biennial plans as shown in the WSDOT Monthly Financial Report for subprograms P1 (Roadway Preservation), P2 (Structures Preservation), and M2 (Roadway, Bridge & Tunnel Maintenance). For Fiscal Year 2008, the annual budget was calculated as half the biennial amount. This results in the biennial budget being distributed 50 percent in each fiscal year in anticipation of an even spending pattern. The spending pattern for subprogram P2, Bridges, was not approximately 50 percent in each year.

2006			2005			2004		
Budget*	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance
$ 108,409	$ 130,340	$ (21,931)	$ 118,055	$ 122,868	$ (4,813)	$ 116,902	$ 107,229	$ 9,673
19,219	18,586	633	20,657	18,715	1,942	21,254	18,064	3,190
$ 127,628	$ 148,926	$ (21,298)	$ 138,712	$ 141,583	$ (2,871)	$ 138,156	$ 125,293	$ 12,863
$ 8,434	$ 20,338	$ (11,904)	$ 16,768	$ 14,332	$ 2,436	$ 30,637	$ 24,780	$ 5,857
11,552	11,820	(268)	11,159	11,151	8	11,292	11,267	25
$ 19,986	$ 32,158	$ (12,172)	$ 27,927	$ 25,483	$ 2,444	$ 41,929	$ 36,047	$ 5,882
$ 188	$ 129	$ 59	$ 381	$ 333	$ 48	$ 331	$ 222	$ 109
5,021	5,187	(166)	4,268	5,527	(1,259)	4,268	4,833	(565)
$ 5,209	$ 5,316	$ (107)	$ 4,649	$ 5,860	$ (1,211)	$ 4,599	$ 5,055	$ (456)
$ 83	$ 67	$ 16	$ 108	$ 129	$ (21)	$ 70	$ 71	$ (1)

*The Bridge Preservation budget has been restated to reflect the approximately one-third, two-thirds expenditure pattern for Fiscal Year 2006 and Fiscal Year 2007 respectively.

The Preservation budgeted and actual amounts were adjusted for capitalized infrastructure and equipment in each fiscal year.

The Rest Areas Preservation budget is part of the P3 subprogram and consists of programmed rest area preservation projects of a non-capitalized nature. The Rest Areas Maintenance budget is based on the biennial plan as shown in the WSDOT Monthly Financial Report for subprogram M2 under maintenance group "Rest Area Maintenance."

The Emergency Airfields (program F3, State Airport Construction and Maintenance) budget amount came from the same sources as for pavements and bridges described above but is only one-fourth of the biennial total because the budget is split evenly between state owned and leased airports.

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Nonmajor Funds

Combining and Individual Fund Financial Statements

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Nonmajor
Governmental Funds

The nonmajor Governmental Funds fall into the four categories as described below.

Special Revenue 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 specified purposes.

Debt Service Funds

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

Capital Projects Funds account for the acquisition, construction, or improvement of major capital facilities including higher education facilities (other than those financed by proprietary funds for individuals, private organizations, or other governments).

Permanent Funds

Permanent Funds account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for the benefit of the state or its citizenry. The Common School Permanent Fund, the state's only nonmajor permanent fund, accounts for the principal derived from the sale of timber. Interest earned is used for the benefit of common schools.

NONMAJOR GOVERNMENTAL FUNDS

Combining Balance Sheet - by Fund Type

June 30, 2008

(expressed in thousands)

	Special Revenue	Debt Service	Capital Projects	Common School Permanent	Total
ASSETS					
Cash and pooled investments	$ 3,473,986	$ 340,903	$ 595,458	$ 31,685	$ 4,442,032
Investments	31,968	8,323	25,336	175,636	241,263
Taxes receivable (net of allowance)	97,928	-	-	-	97,928
Other receivables (net of allowance)	570,195	26,291	20,208	1,678	618,372
Due from other funds	349,383	1,674	41,050	-	392,107
Due from other governments	2,115,646	-	3,423	-	2,119,069
Inventories	38,807	-	-	-	38,807
Total Assets	$ 6,677,913	$ 377,191	$ 685,475	$ 208,999	$ 7,949,578
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 292,416	$ -	$ 42,598	$ 82	$ 335,096
Contracts and retainages payable	77,783	-	25,164	-	102,947
Accrued liabilities	115,936	2,442	1,988	1	120,367
Obligations under security lending agreements	148,252	12,274	4,652	32,748	197,926
Due to other funds	305,443	353	28,260	568	334,624
Due to other governments	99,436	-	4,488	-	103,924
Deferred revenues	646,066	-	48,128	-	694,194
Claims and judgments payable	10,396	-	-	-	10,396
Total Liabilities	1,695,728	15,069	155,278	33,399	1,899,474
Fund Balances:					
Reserved for:					
Encumbrances	488,842	-	422,222	-	911,064
Inventories	38,807	-	-	-	38,807
Permanent funds	-	-	-	175,600	175,600
Other specific purposes	2,022,204	-	1,234	-	2,023,438
Unreserved, designated for, reported in:					
Special revenue funds	220	-	-	-	220
Debt service funds	-	362,122	-	-	362,122
Unreserved, undesignated reported in:					
Special revenue funds	2,432,112	-	-	-	2,432,112
Capital project funds	-	-	106,741	-	106,741
Total Fund Balances	4,982,185	362,122	530,197	175,600	6,050,104
Total Liabilities and Fund Balances	$ 6,677,913	$ 377,191	$ 685,475	$ 208,999	$ 7,949,578

NONMAJOR GOVERNMENTAL FUNDS

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - by Fund Type

For the Fiscal Year Ended June 30, 2008

(expressed in thousands)

	Special Revenue	Debt Service	Capital Projects	Common School Permanent	Total
REVENUES					
Retail sales and use taxes	$ 84,712	$ -	$ -	$ -	$ 84,712
Business and occupation taxes	90,123	-	-	-	90,123
Property taxes	247,197	-	-	-	247,197
Excise taxes	73,681	-	-	-	73,681
Motor vehicle and fuel taxes	1,169,900	-	-	-	1,169,900
Other taxes	724,630	-	-	-	724,630
Licenses, permits, and fees	812,543	-	-	-	812,543
Timber sales	101,591	-	4,789	-	106,380
Other contracts and grants	18,713	-	6,797	-	25,510
Federal grants-in-aid	1,115,237	-	5,717	-	1,120,954
Charges for services	495,571	-	42,970	-	538,541
Investment income (loss)	150,835	6,773	4,010	11,705	173,323
Miscellaneous revenue	406,965	64,910	24,421	1,837	498,133
Total Revenues	5,491,698	71,683	88,704	13,542	5,665,627
EXPENDITURES					
Current:					
General government	421,420	116	169,321	-	590,857
Human services	1,179,967	-	13,843	-	1,193,810
Natural resources and recreation	491,719	-	69,443	-	561,162
Transportation	1,758,839	-	21	-	1,758,860
Education	896,433	-	156,995	-	1,053,428
Intergovernmental	348,524	-	-	-	348,524
Capital outlays	1,377,869	-	678,632	-	2,056,501
Debt service:					
Principal	2,371	558,872	21	-	561,264
Interest	5,096	575,297	117	-	580,510
Total Expenditures	6,482,238	1,134,285	1,088,393	-	8,704,916
Excess of Revenues Over (Under) Expenditures	(990,540)	(1,062,602)	(999,689)	13,542	(3,039,289)
OTHER FINANCING SOURCES (USES)					
Bonds issued	819,103	-	1,072,047	-	1,891,150
Payments to refunded bond escrow agents	-	-	(58,125)	-	(58,125)
Other debt issued	867	-	-	-	867
Bond issue premium	51,802	-	71,685	-	123,487
Transfers in	877,588	1,231,232	140,877	-	2,249,697
Transfers (out)	(883,574)	(26,982)	(22,620)	(7,370)	(940,546)
Total Other Financing Sources (Uses)	865,786	1,204,250	1,203,864	(7,370)	3,266,530
Net Change in Fund Balances	(124,754)	141,648	204,175	6,172	227,241
Fund Balances - Beginning, as restated	5,106,939	220,474	326,022	169,428	5,822,863
Fund Balances - Ending	$ 4,982,185	$ 362,122	$ 530,197	$ 175,600	$ 6,050,104

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Nonmajor
Special Revenue 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 specified purposes. The nonmajor Special Revenue Funds are described below:

Motor Vehicle Fund
Motor Vehicle Fund revenues are generated from vehicle fuel taxes, vehicle licenses, and federal transportation agencies. This fund accounts for the following: (1) highway activities of the Washington State Patrol; (2) operations of the state ferry system; and (3) maintenance of non-interstate highways and bridges, completion and preservation of the interstate system, and other transportation improvements.

Multimodal Transportation Fund
Multimodal Transportation Fund revenues are derived principally from motor vehicle operators. This fund accounts for activities relating to drivers' licensing, driver improvement, financial responsibility, maintenance of driving records, and other non-highway transportation improvements.

School Construction Fund
School Construction Fund revenues are obtained principally from the sale of timber and investment earnings. This fund provides financing to local school districts and higher education for construction of school facilities.

Central Administrative & Regulatory Fund
The Central Administrative and Regulatory Fund accounts for operating expenditures of certain administrative and regulatory agencies.

Human Services Fund
The Human Services Fund accounts for the following: (1) funds provided to local governments for the construction or substantial remodeling of detention and correctional facilities; and (2) defraying the cost of administering unemployment compensation.

Wildlife and Natural Resources Fund
The Wildlife and Natural Resources Fund accounts for the protection and management programs of the state's wildlife, habitats, and natural resources, including forests, water, and parks.

Local Construction & Loan Fund
The Local Construction and Loan Fund accounts for construction and loan programs for local public works projects.

NONMAJOR SPECIAL REVENUE FUNDS

Combining Balance Sheet

June 30, 2008

(expressed in thousands)

	Motor Vehicle	Multimodal Transportation	School Construction	Central Administrative and Regulatory	Human Services
ASSETS					
Cash and pooled investments	$ 828,647	$ 135,164	$ 115,446	$ 1,060,236	$ 599,361
Investments	175	-	-	3,698	19,908
Taxes receivable (net of allowance)	79,858	1	-	3,617	13,288
Other receivables (net of allowance)	27,788	4,563	49,919	74,972	318,339
Due from other funds	127,477	8,625	74,971	29,713	33,975
Due from other governments	81,962	35,650	61	29,479	225,158
Inventories	38,089	224	-	137	21
Total Assets	$ 1,183,996	$ 184,227	$ 240,397	$ 1,201,852	$ 1,210,050
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 167,487	$ 18,561	$ 1,638	$ 19,469	$ 56,166
Contracts and retainages payable	35,829	4,080	7,001	9,036	2,301
Accrued liabilities	45,347	4,387	70	8,453	23,454
Obligations under security lending agreements	59,337	11,171	6,987	9,328	31,499
Due to other funds	128,681	16,616	10,588	35,188	56,744
Due to other governments	46,722	21,050	41	10,372	4,360
Deferred revenues	25,471	4,765	43,098	93,057	395,848
Claims and judgments payable	-	-	-	10,396	-
Total Liabilities	508,874	80,630	69,423	195,299	570,372
Fund Balances:					
Reserved for:					
Encumbrances	4,018	1,713	170,974	14,606	48,320
Inventories	38,089	224	-	137	21
Other specific purposes	853	571	-	312,281	58,949
Unreserved, designated for, reported in:					
Special revenue funds	-	-	-	-	124
Unreserved, undesignated	632,162	101,089	-	679,529	532,264
Total Fund Balances	675,122	103,597	170,974	1,006,553	639,678
Total Liabilities and Fund Balances	$ 1,183,996	$ 184,227	$ 240,397	$ 1,201,852	$ 1,210,050

Wildlife and Natural Resources	Local Construction and Loan	Total
$ 499,792	$ 235,340	$ 3,473,986
8,187	-	31,968
849	315	97,928
84,652	9,962	570,195
63,202	11,420	349,383
586,541	1,156,795	2,115,646
336	-	38,807
$ 1,243,559	$ 1,413,832	$ 6,677,913
$ 27,444	$ 1,651	$ 292,416
18,669	867	77,783
12,656	21,569	115,936
16,764	13,166	148,252
36,083	21,543	305,443
9,817	7,074	99,436
71,369	12,458	646,066
-	-	10,396
192,802	78,328	1,695,728
234,699	14,512	488,842
336	-	38,807
541,699	1,107,851	2,022,204
-	96	220
274,023	213,045	2,432,112
1,050,757	1,335,504	4,982,185
$ 1,243,559	$ 1,413,832	$ 6,677,913

NONMAJOR SPECIAL REVENUE FUNDS

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

For the Fiscal Year Ended June 30, 2008

(expressed in thousands)

	Motor Vehicle	Multimodal Transportation	School Construction	Central Administrative and Regulatory	Human Services
REVENUES					
Retail sales and use taxes	$ -	$ 59,411	$ -	$ 25,132	$ 131
Business and occupation taxes	-	-	-	-	86,363
Property taxes	-	-	-	247,197	-
Excise taxes	-	30	-	-	29,605
Motor vehicle and fuel taxes	1,155,171	3,083	-	-	-
Other taxes	27	-	-	103,505	418,753
Licenses, permits, and fees	400,677	133,484	-	107,670	58,263
Timber sales	5	-	40,396	2,533	-
Other contracts and grants	2,411	27	-	4,286	7,666
Federal grants-in-aid	507,857	254,644	-	102,706	214,129
Charges for services	214,836	32,100	-	55,537	190,171
Investment income (loss)	33,088	5,505	3,723	56,787	19,039
Miscellaneous revenue	31,908	23,577	19,429	36,350	185,841
Total Revenues	2,345,980	511,861	63,548	741,703	1,209,961
EXPENDITURES					
Current:					
General government	6,384	266	-	278,854	110,994
Human services	-	-	-	73,115	1,103,433
Natural resources and recreation	593	-	-	13,815	1,589
Transportation	1,293,714	423,347	-	33,389	7,588
Education	-	-	239,378	604,147	52,760
Intergovernmental	246,924	1,811	-	98,573	1,153
Capital outlays	1,295,633	44,797	12,962	8,784	3,893
Debt service:					
Principal	356	216	-	875	309
Interest	271	150	-	871	219
Total Expenditures	2,843,875	470,587	252,340	1,112,423	1,281,938
Excess of Revenues Over (Under) Expenditures	(497,895)	41,274	(188,792)	(370,720)	(71,977)
OTHER FINANCING SOURCES (USES)					
Bonds issued	762,000	-	-	-	-
Other debt issued	215	-	-	248	157
Bond issue premium	51,649	-	-	-	-
Transfers in	113,654	35,920	298,841	153,000	197,802
Transfers (out)	(328,773)	(108,107)	(126,066)	(94,077)	(159,013)
Total Other Financing Sources (Uses)	598,745	(72,187)	172,775	59,171	38,946
Net Change in Fund Balances	100,850	(30,913)	(16,017)	(311,549)	(33,031)
Fund Balances - Beginning, as restated	574,272	134,510	186,991	1,318,102	672,709
Fund Balances - Ending	$ 675,122	$ 103,597	$ 170,974	$ 1,006,553	$ 639,678

Wildlife and Natural Resources	Local Construction and Loan	Total
$ 38	$ -	$ 84,712
3,760	-	90,123
-	-	247,197
-	44,046	73,681
11,646	-	1,169,900
156,867	45,478	724,630
112,283	166	812,543
58,657	-	101,591
4,323	-	18,713
35,901	-	1,115,237
2,927	-	495,571
15,739	16,954	150,835
108,524	1,336	406,965
510,665	107,980	5,491,698
373	24,549	421,420
3,419	-	1,179,967
446,655	29,067	491,719
801	-	1,758,839
148	-	896,433
63	-	348,524
11,227	573	1,377,869
615	-	2,371
3,585	-	5,096
466,886	54,189	6,482,238
43,779	53,791	(990,540)
28,605	28,498	819,103
247	-	867
19	134	51,802
33,747	44,624	877,588
(33,060)	(34,478)	(883,574)
29,558	38,778	865,786
73,337	92,569	(124,754)
977,420	1,242,935	5,106,939
$ 1,050,757	$ 1,335,504	$ 4,982,185

NONMAJOR SPECIAL REVENUE FUNDS

Combining Schedule of Revenues, Expenditures, and Other Financing Sources (Uses) - Budget and Actual

For the Fiscal Year Ended June 30, 2008

(expressed in thousands)

	Motor Vehicle			
	Original Budget 2007-09 Biennium	Final Budget 2007-09 Biennium	Actual 2007-09 Biennium	Variance with Final Budget
Budgetary fund balance, July 1	$ 537,945	$ 537,945	$ 537,945	$ -
RESOURCES				
Taxes	2,044,820	1,963,411	908,227	(1,055,184)
Licenses, permits, and fees	790,682	792,552	399,996	(392,556)
Other contracts and grants	8,768	2,177	2,411	234
Timber sales	-	-	6	6
Federal grants-in-aid	1,011,624	1,090,315	502,981	(587,334)
Charges for services	443,558	473,535	214,836	(258,699)
Interest income	44,005	56,528	30,928	(25,600)
Miscellaneous revenue	68,860	51,360	29,669	(21,691)
Dividend income	-	-	-	-
Transfers from other funds	1,816,791	593,840	113,654	(480,186)
Total Resources	6,767,053	5,561,663	2,740,653	(2,821,010)
CHARGES TO APPROPRIATIONS				
General government	26,882	14,733	6,384	8,349
Human services	-	-	-	-
Natural resources and recreation	2,343	2,338	737	1,601
Transportation	1,604,930	1,629,111	817,121	811,990
Education	-	-	-	-
Capital outlays	4,513,209	4,402,323	1,767,472	2,634,851
Transfers to other funds	2,401,243	1,086,440	328,274	758,166
Total Charges To Appropriations	8,548,607	7,134,945	2,919,988	4,214,957
Excess Available For Appropriation Over (Under) Charges To Appropriations	(1,781,554)	(1,573,282)	(179,335)	1,393,947
RECONCILING ITEMS				
Bond sale proceeds	1,902,157	1,889,282	762,000	(1,127,282)
Bond issue premium	-	-	51,648	51,648
Changes in reserves (net)	-	-	(2,615)	(2,615)
Entity adjustments (net)	-	-	4,482	4,482
Total Reconciling Items	1,902,157	1,889,282	815,515	(1,073,767)
Budgetary fund balance, June 30	$ 120,603	$ 316,000	$ 636,180	$ 320,180

Continued

Multimodal Transportation				School Construction			
Original Budget 2007-09 Biennium	Final Budget 2007-09 Biennium	Actual 2007-09 Biennium	Variance with Final Budget	Original Budget 2007-09 Biennium	Final Budget 2007-09 Biennium	Actual 2007-09 Biennium	Variance with Final Budget
$ 132,759	$ 132,759	$ 132,759	$ -	$ 186,991	$ 186,991	$ 186,991	$ -
132,954	127,460	62,524	(64,936)	-	-	-	-
270,611	262,065	132,035	(130,030)	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	335,224	308,719	40,396	(268,323)
57,604	148,636	14,841	(133,795)	-	-	-	-
1,439	4,728	295	(4,433)	-	-	-	-
8,011	8,158	4,929	(3,229)	4,782	4,219	3,387	(832)
43,491	41,447	13,104	(28,343)	165,785	152,500	19,429	(133,071)
-	-	-	-	-	-	-	-
342,626	74,073	35,920	(38,153)	654,718	727,870	298,841	(429,029)
989,495	799,326	396,407	(402,919)	1,347,500	1,380,299	549,044	(831,255)
1,712	1,449	266	1,183	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
351,418	357,051	146,803	210,248	-	-	-	-
		-	-	-	-	-	-
376,059	365,448	44,109	321,339	1,115,081	1,117,877	252,340	865,537
398,720	146,155	83,107	63,048	211,628	253,980	126,066	127,914
1,127,909	870,103	274,285	595,818	1,326,709	1,371,857	378,406	993,451
(138,414)	(70,777)	122,122	192,899	20,791	8,442	170,638	162,196
155,399	149,966	-	(149,966)	-	-	-	-
-	-	-	-	-	-	-	-
-	-	957	957	-	-	-	-
-	-	(20,277)	(20,277)	-	-	336	336
155,399	149,966	(19,320)	(169,286)	-	-	336	336
$ 16,985	$ 79,189	$ 102,802	$ 23,613	$ 20,791	$ 8,442	$ 170,974	$ 162,532

NONMAJOR SPECIAL REVENUE FUNDS

Combining Schedule of Revenues, Expenditures, and Other Financing Sources (Uses) - Budget and Actual

For the Fiscal Year Ended June 30, 2008

(expressed in thousands)

	Central Administrative and Regulatory			
	Original Budget 2007-09 Biennium *	Final Budget 2007-09 Biennium	Actual 2007-09 Biennium	Variance with Final Budget
Budgetary fund balance, July 1	$ 1,015,124	$ 1,015,124	$ 1,015,124	$ -
RESOURCES				
Taxes	571,381	569,098	248,493	(320,605)
Licenses, permits, and fees	199,499	219,570	66,579	(152,991)
Other contracts and grants	7,679	5,774	-	(5,774)
Timber sales	11,610	10,564	2,533	(8,031)
Federal grants-in-aid	97,460	121,829	59,260	(62,569)
Charges for services	99,253	100,501	42,435	(58,066)
Interest income	50,506	66,927	54,209	(12,718)
Miscellaneous revenue	40,205	37,111	14,867	(22,244)
Dividend income	-	-	-	-
Transfers from other funds	462,982	480,928	123,361	(357,567)
Total Resources	2,555,699	2,627,426	1,626,861	(1,000,565)
CHARGES TO APPROPRIATIONS				
General government	378,517	426,471	187,163	239,308
Human services	150,395	146,661	67,421	79,240
Natural resources and recreation	25,111	25,014	13,694	11,320
Transportation	66,547	76,053	32,044	44,009
Education	1,272,733	1,271,301	589,138	682,163
Capital outlays	21,367	27,322	8,167	19,155
Transfers to other funds	288,306	142,010	45,119	96,891
Total Charges To Appropriations	2,202,976	2,114,832	942,746	1,172,086
Excess Available For Appropriation Over (Under) Charges To Appropriations	352,723	512,594	684,115	171,521
RECONCILING ITEMS				
Bond sale proceeds	-	-	-	-
Bond issue premium	-	-	-	-
Changes in reserves (net)	-	-	(9,340)	(9,340)
Entity adjustments (net)	-	-	19,360	19,360
Total Reconciling Items	-	-	10,020	10,020
Budgetary fund balance, June 30	$ 352,723	$ 512,594	$ 694,135	$ 181,541

*Amount changed due to fund reclassification.

Continued

Human Services				Wildlife and Natural Resources			
Original Budget 2007-09 Biennium *	Final Budget 2007-09 Biennium	Actual 2007-09 Biennium	Variance with Final Budget	Original Budget 2007-09 Biennium	Final Budget 2007-09 Biennium	Actual 2007-09 Biennium	Variance with Final Budget
$ 625,273	$ 625,273	$ 625,273	$ -	$ 460,719	$ 460,719	$ 460,719	$ -
1,053,134	1,056,738	524,490	(532,248)	307,352	339,666	172,237	(167,429)
146,524	149,962	55,979	(93,983)	226,923	245,259	74,686	(170,573)
3,898	5,020	1,523	(3,497)	8,583	16,951	4,323	(12,628)
-	-	-	-	187,733	142,568	46,711	(95,857)
502,298	530,917	164,322	(366,595)	171,881	173,820	35,901	(137,919)
378,279	379,769	143,680	(236,089)	5,558	5,658	2,922	(2,736)
26,592	22,677	17,075	(5,602)	33,013	32,169	13,808	(18,361)
352,828	377,733	175,134	(202,599)	268,210	329,669	97,368	(232,301)
275	275	2	(273)	-	-	-	-
615,842	346,466	156,933	(189,533)	276,135	171,948	27,477	(144,471)
3,704,943	3,494,830	1,864,411	(1,630,419)	1,946,107	1,918,427	936,152	(982,275)
257,078	250,692	101,246	149,446	40,177	37,321	22,908	14,413
2,075,575	2,192,130	1,009,886	1,182,244	8,003	8,018	3,442	4,576
2,909	2,885	1,621	1,264	656,672	661,525	280,901	380,624
17,026	18,425	8,072	10,353	1,430	1,410	642	768
-	2,950	-	2,950	-	-	-	-
165,451	190,525	50,648	139,877	784,917	834,385	139,669	694,716
644,140	312,242	157,532	154,710	200,747	38,072	8,747	29,325
3,162,179	2,969,849	1,329,005	1,640,844	1,691,946	1,580,731	456,309	1,124,422
542,764	524,981	535,406	10,425	254,161	337,696	479,843	142,147
-	-	-	-	19,965	51,796	28,605	(23,191)
-	-	-	-	-	-	19	19
-	-	(18)	(18)	-	-	(12,549)	(12,549)
-	-	45,320	45,320	-	-	12,804	12,804
-	-	45,302	45,302	19,965	51,796	28,879	(22,917)
$ 542,764	$ 524,981	$ 580,708	$ 55,727	$ 274,126	$ 389,492	$ 508,722	$ 119,230

*Amount changed due to fund reclassification.

NONMAJOR SPECIAL REVENUE FUNDS

Combining Schedule of Revenues, Expenditures, and Other Financing Sources (Uses) - Budget and Actual

For the Fiscal Year Ended June 30, 2008

(expressed in thousands)

Concluded

	Local Construction and Loan			
	Original Budget 2007-09 Biennium	Final Budget 2007-09 Biennium	Actual 2007-09 Biennium	Variance with Final Budget
Budgetary fund balance, July 1	$ 217,644	$ 217,644	$ 217,644	$ -
RESOURCES				
Taxes	288,760	288,878	89,523	(199,355)
Licenses, permits, and fees	482	603	-	(603)
Other contracts and grants	-	-	-	-
Timber sales	-	-	-	-
Federal grants-in-aid	-	-	-	-
Charges for services	-	-	-	-
Interest income	33,485	45,338	16,335	(29,003)
Miscellaneous revenue	323,787	321,735	94,130	(227,605)
Dividend income	-	-	-	-
Transfers from other funds	181,726	190,320	44,624	(145,696)
Total Resources	1,045,884	1,064,518	462,256	(602,262)
CHARGES TO APPROPRIATIONS				
General government	3,988	3,962	1,750	2,212
Human services	-	-	-	-
Natural resources and recreation	425	421	224	197
Transportation	-	-	-	-
Education	-	-	-	-
Capital outlays	878,750	878,492	227,026	651,466
Transfers to other funds	117,299	106,904	34,478	72,426
Total Charges To Appropriations	1,000,462	989,779	263,478	726,301
Excess Available For Appropriation Over (Under) Charges To Appropriations	45,422	74,739	198,778	124,039
RECONCILING ITEMS				
Bond sale proceeds	3,910	3,910	28,498	24,588
Bond issue premium	-	-	134	134
Changes in reserves (net)	-	-	15	15
Entity adjustments (net)	-	-	228	228
Total Reconciling Items	3,910	3,910	28,875	24,965
Budgetary fund balance, June 30	$ 49,332	$ 78,649	$ 227,653	$ 149,004

Nonmajor

Debt Service Funds

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. Debt Service Funds are described below:

General Obligation Bond Fund

The General Obligation Bond Fund accounts for the accumulation of resources for, and the payment of, non-transportation related general obligation bond principal and interest.

Transportation General Obligation Bond Fund

The Transportation General Obligation Bond Fund accounts for the accumulation of resources for, and payment of, general obligation transportation bond principal and interest.

Tobacco Settlement Securitization Bond Fund

The Tobacco Settlement Securitization Bond Fund accounts for the accumulation of resources for, and the payment of, principal and interest on bonds issued by the Tobacco Settlement Authority, a blended component unit of the state.

NONMAJOR DEBT SERVICE FUNDS

Combining Balance Sheet

June 30, 2008

(expressed in thousands)

	General Obligation Bond	Transportation General Obligation Bond	Tobacco Settlement Securitization Bond	Total
ASSETS				
Cash and pooled investments	$ 124,467	$ 155,039	$ 61,397	$ 340,903
Investments	8,323	-	-	8,323
Other receivables (net of allowance)	1,278	930	24,083	26,291
Due from other funds	1,371	303	-	1,674
Total Assets	$ 135,439	$ 156,272	$ 85,480	$ 377,191
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accrued liabilities	$ -	$ 2,427	$ 15	$ 2,442
Obligations under security lending agreements	1,822	10,452	-	12,274
Due to other funds	-	353	-	353
Total Liabilities	1,822	13,232	15	15,069
Fund Balances:				
Unreserved, undesignated	133,617	143,040	85,465	362,122
Total Fund Balances	133,617	143,040	85,465	362,122
Total Liabilities and Fund Balances	$ 135,439	$ 156,272	$ 85,480	$ 377,191

NONMAJOR DEBT SERVICE FUNDS

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

For the Fiscal Year Ended June 30, 2008

(expressed in thousands)

	General Obligation Bond	Transportation General Obligation Bond	Tobacco Settlement Securitization Bond	Total
REVENUES				
Investment income (loss)	$ 1,230	$ 2,810	$ 2,733	$ 6,773
Miscellaneous revenue	10,431	-	54,479	64,910
Total Revenues	11,661	2,810	57,212	71,683
EXPENDITURES				
Current:				
General government	-	-	116	116
Debt service:				
Principal	410,200	126,052	22,620	558,872
Interest	408,950	134,900	31,447	575,297
Total Expenditures	819,150	260,952	54,183	1,134,285
Excess of Revenues Over (Under) Expenditures	(807,489)	(258,142)	3,029	(1,062,602)
OTHER FINANCING SOURCES (USES)				
Transfers in	944,483	286,749	-	1,231,232
Transfers (out)	(26,982)	-	-	(26,982)
Total Other Financing Sources (Uses)	917,501	286,749	-	1,204,250
Net Change in Fund Balances	110,012	28,607	3,029	141,648
Fund Balances - Beginning	23,605	114,433	82,436	220,474
Fund Balances - Ending	$ 133,617	$ 143,040	$ 85,465	$ 362,122

NONMAJOR DEBT SERVICE FUNDS

Combining Schedule of Revenues, Expenditures, and Other Financing Sources (Uses) - Budget and Actual

For the Fiscal Year Ended June 30, 2008

(expressed in thousands)

	General Obligation Bond			
	Original Budget 2007-09 Biennium	Final Budget 2007-09 Biennium	Actual 2007-09 Biennium	Variance with Final Budget
Budgetary fund balance, July 1	$ 23,605	$ 23,605	$ 23,605	$ -
RESOURCES				
Charges for services	16,524	28,524	-	(28,524)
Interest income	641	872	-	(872)
Miscellaneous revenue	29	88	-	(88)
Transfers from other funds	240,773	208,598	174,819	(33,779)
Total Resources	281,572	261,687	198,424	(63,263)
CHARGES TO APPROPRIATIONS				
General government	158,315	151,615	71,923	79,692
Transfers to other funds	88,252	77,544	-	77,544
Total Charges To Appropriations	246,567	229,159	71,923	157,236
Excess Available For Appropriation Over (Under) Charges To Appropriations	35,005	32,528	126,501	93,973
RECONCILING ITEMS				
Entity adjustments (net)	-	-	7,116	7,116
Total Reconciling Items	-	-	7,116	7,116
Budgetary fund balance, June 30	$ 35,005	$ 32,528	$ 133,617	$ 101,089

Transportation General Obligation Bond			
Original Budget 2007-09 Biennium	Final Budget 2007-09 Biennium	Actual 2007-09 Biennium	Variance with Final Budget
$ 114,433	$ 114,433	$ 114,433	$ -
-	-	-	-
3,331	4,549	2,466	(2,083)
-	-	-	-
709,717	643,081	286,749	(356,332)
827,481	762,063	403,648	(358,415)
635,838	608,263	260,952	347,311
30,200	47,964	-	47,964
666,038	656,227	260,952	395,275
161,443	105,836	142,696	36,860
-	-	344	344
-	-	344	344
$ 161,443	$ 105,836	$ 143,040	$ 37,204

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Nonmajor

Capital Projects Funds

Capital Projects Funds account for the acquisition, construction, or improvement of major capital facilities (other than those financed by proprietary funds for individuals, private organizations, or other governments). The Capital Projects Funds are as follows:

State Facilities Fund

The State Facilities Fund accounts for the construction and remodeling of public buildings.

Higher Education Facilities Fund

The Higher Education Facilities Fund accounts for the acquisition, construction, and remodeling of higher education facilities.

NONMAJOR CAPITAL PROJECTS FUNDS

Combining Balance Sheet

June 30, 2008

(expressed in thousands)

	State Facilities	Higher Education Facilities	Total
ASSETS			
Cash and pooled investments	$ 372,676	$ 222,782	$ 595,458
Investments	-	25,336	25,336
Other receivables (net of allowance)	14,686	5,522	20,208
Due from other funds	38,390	2,660	41,050
Due from other governments	1,740	1,683	3,423
Total Assets	$ 427,492	$ 257,983	$ 685,475
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 21,557	$ 21,041	$ 42,598
Contracts and retainages payable	24,180	984	25,164
Accrued liabilities	1,938	50	1,988
Obligations under security lending agreements	-	4,652	4,652
Due to other funds	14,500	13,760	28,260
Due to other governments	4,486	2	4,488
Deferred revenues	11,942	36,186	48,128
Total Liabilities	78,603	76,675	155,278
Fund Balances:			
Reserved for:			
Encumbrances	347,655	74,567	422,222
Other specific purposes	1,234	-	1,234
Unreserved, undesignated	-	106,741	106,741
Total Fund Balances	348,889	181,308	530,197
Total Liabilities and Fund Balances	$ 427,492	$ 257,983	$ 685,475

NONMAJOR CAPITAL PROJECTS FUNDS

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

For the Fiscal Year Ended June 30, 2008

(expressed in thousands)

	State Facilities	Higher Education Facilities	Total
REVENUES			
Timber sales	$ 4,703	$ 86	$ 4,789
Other contracts and grants	-	6,797	6,797
Federal grants-in-aid	-	5,717	5,717
Charges for services	-	42,970	42,970
Investment income (loss)	-	4,010	4,010
Miscellaneous revenue	8,770	15,651	24,421
Total Revenues	13,473	75,231	88,704
EXPENDITURES			
Current:			
General government	168,747	574	169,321
Human services	13,843	-	13,843
Natural resources and recreation	69,443	-	69,443
Transportation	21	-	21
Education	96,978	60,017	156,995
Capital outlays	443,169	235,463	678,632
Debt service:			
Principal	-	21	21
Interest	44	73	117
Total Expenditures	792,245	296,148	1,088,393
Excess of Revenues Over (Under) Expenditures	(778,772)	(220,917)	(999,689)
OTHER FINANCING SOURCES (USES)			
Bonds issued	917,047	155,000	1,072,047
Payments to refunded bond escrow agents	-	(58,125)	(58,125)
Bond issue premium	61,176	10,509	71,685
Transfers in	864	140,013	140,877
Transfers (out)	(9,340)	(13,280)	(22,620)
Total Other Financing Sources (Uses)	969,747	234,117	1,203,864
Net Change in Fund Balances	190,975	13,200	204,175
Fund Balances - Beginning	157,914	168,108	326,022
Fund Balances - Ending	$ 348,889	$ 181,308	$ 530,197

NONMAJOR CAPITAL PROJECTS FUNDS

Combining Schedule of Revenues, Expenditures, and Other Financing Sources (Uses) - Budget and Actual

For the Fiscal Year Ended June 30, 2008

(expressed in thousands)

	State Facilities			
	Original Budget 2007-09 Biennium	Final Budget 2007-09 Biennium	Actual 2007-09 Biennium	Variance with Final Budget
Budgetary fund balance, July 1	$ 156,673	$ 156,673	$ 156,673	$ -
RESOURCES				
Timber sales	24,454	15,692	4,703	(10,989)
Charges for services	-	-	-	-
Interest income	110	85	-	(85)
Miscellaneous revenue	28,024	27,335	8,447	(18,888)
Transfers from other funds	7,178	8,020	864	(7,156)
Total Resources	216,439	207,805	170,687	(37,118)
CHARGES TO APPROPRIATIONS				
General government	10,806	14,151	1,936	12,215
Capital outlays	2,416,401	2,539,041	790,264	1,748,777
Transfers to other funds	89,749	111,540	9,340	102,200
Total Charges To Appropriations	2,516,956	2,664,732	801,540	1,863,192
Excess Available For Appropriation Over (Under) Charges To Appropriations	(2,300,517)	(2,456,927)	(630,853)	1,826,074
RECONCILING ITEMS				
Bond sale proceeds	2,453,393	2,489,053	917,046	(1,572,007)
Bond issue premium	-	-	61,176	61,176
Changes in reserves (net)	-	-	(2)	(2)
Entity adjustments (net)	-	-	288	288
Total Reconciling Items	2,453,393	2,489,053	978,508	(1,510,545)
Budgetary fund balance, June 30	$ 152,876	$ 32,126	$ 347,655	$ 315,529

Higher Education Facilities			
Original Budget 2007-09 Biennium	Final Budget 2007-09 Biennium	Actual 2007-09 Biennium	Variance with Final Budget
$ 168,108	$ 168,108	$ 168,108	$ -
915	431	86	(345)
95,792	101,141	42,970	(58,171)
3,189	3,233	2,166	(1,067)
32,177	43,427	104	(43,323)
77,758	80,188	37,832	(42,356)
377,939	396,528	251,266	(145,262)
2,242	2,354	293	2,061
554,392	558,461	217,556	340,905
15,391	13,750	7,502	6,248
572,025	574,565	225,351	349,214
(194,086)	(178,037)	25,915	203,952
317,624	311,357	155,000	(156,357)
-	-	10,509	10,509
-	-	-	-
-	-	(10,116)	(10,116)
317,624	311,357	155,393	(155,964)
$ 123,538	$ 133,320	$ 181,308	$ 47,988

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Nonmajor
Enterprise Funds

Enterprise Funds account for any activity for which a fee is charged to external users for goods or services. If an activity's principal revenue source meets any one of the following criteria, it is required to be reported as an enterprise fund: (1) an activity financed with debt that is secured solely by pledge of the net revenues from fees and charges for the activity; (2) laws or regulations which require that the activity's costs of providing services, including capital costs, be recovered with fees and charges, rather than with taxes or similar revenues; or (3) pricing policies which establish fees and charges designed to recover the activity's costs, including capital costs. The nonmajor Enterprise Funds are described below:

Liquor Fund
The Liquor Fund accounts for the administration and operation of state liquor stores, warehouses, and the distribution of net proceeds.

Convention and Trade Fund
The Convention and Trade Fund accounts for the acquisition, design, construction, promotion, and operation of the State Convention and Trade Center.

Lottery Fund
The Lottery Fund accounts for lottery ticket revenues, administrative and operating expenses of the Lottery Commission, and the distribution of revenue.

Institutional Fund
The Institutional Fund accounts for the enterprise activities (industries) carried out through vocational/ education programs at the correctional institutions.

Other Activities Fund
The Other Activities Fund accounts for the following: (1) the guaranteed college tuition program; (2) the production and sale of statute law publications and official reports; and (3) Judicial Information System users.

NONMAJOR ENTERPRISE FUNDS
Combining Statement of Fund Net Assets
June 30, 2008
(expressed in thousands)

	Liquor	Convention and Trade	Lottery	Institutional
ASSETS				
Current Assets:				
Cash and pooled investments	$ 23,978	$ 79,795	$ 50,618	$ 7,733
Investments	-	-	59,166	-
Taxes receivable (net of allowance)	5,072	-	-	-
Other receivables (net of allowance)	9,127	5,402	19,847	368
Due from other funds	2,041	251	7,676	8,796
Due from other governments	1	-	-	515
Inventories	24,967	-	270	8,544
Prepaid expenses	7	267	-	58
Total Current Assets	65,193	85,715	137,577	26,014
Noncurrent Assets:				
Investments, noncurrent	-	-	316,123	-
Other noncurrent assets	-	-	-	-
Capital assets:				
Land and other non-depreciable assets	177	77,355	-	1,540
Buildings	15,241	379,328	-	12,828
Other improvements	-	13,004	535	1,869
Furnishings, equipment, and collections	28,108	5,150	555	20,353
Accumulated depreciation	(24,052)	(100,772)	(782)	(12,616)
Construction in progress	15,970	20,995	-	-
Total Noncurrent Assets	35,444	395,060	316,431	23,974
Total Assets	100,637	480,775	454,008	49,988
LIABILITIES				
Current Liabilities:				
Accounts payable	22,436	1,175	7,609	5,190
Contracts and retainages payable	-	6,223	-	3
Accrued liabilities	19,940	3,656	87,279	1,147
Obligations under security lending agreements	-	-	-	-
Bonds and notes payable	2,135	18,631	-	653
Due to other funds	8,358	49	19,309	972
Due to other governments	-	-	35	-
Unearned revenues	3	82	-	11
Claims and judgments payable	-	-	-	-
Total Current Liabilities	52,872	29,816	114,232	7,976
Noncurrent Liabilities:				
Claims and judgments payable	-	-	-	-
Bonds and notes payable	12,350	232,491	-	9,068
Other long-term liabilities	6,412	449	289,697	2,357
Total Noncurrent Liabilities	18,762	232,940	289,697	11,425
Total Liabilities	71,634	262,756	403,929	19,401
NET ASSETS				
Invested in capital assets, net of related debt	20,959	143,939	308	14,254
Unrestricted	8,044	74,080	49,771	16,333
Total Net Assets (Deficit)	$ 29,003	$ 218,019	$ 50,079	$ 30,587

Other Activities	Total
$ 132,092	$ 294,216
335,309	394,475
-	5,072
5,195	39,939
2,247	21,011
3,134	3,650
59	33,840
18	350
478,054	792,553
1,035,983	1,352,106
168,904	168,904
-	79,072
-	407,397
108	15,516
9,247	63,413
(5,970)	(144,192)
-	36,965
1,208,272	1,979,181
1,686,326	2,771,734
1,511	37,921
46,900	53,126
19,519	131,541
335,309	335,309
33,419	54,838
4,093	32,781
13,548	13,583
-	96
3,130	3,130
457,429	662,325
4,572	4,572
494	254,403
1,059,958	1,358,873
1,065,024	1,617,848
1,522,453	2,280,173
2,704	182,164
161,169	309,397
$ 163,873	$ 491,561

NONMAJOR ENTERPRISE FUNDS

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets

For the Fiscal Year Ended June 30, 2008

(expressed in thousands)

	Liquor	Convention and Trade	Lottery	Institutional
OPERATING REVENUES				
Sales	$ 547,913	$ -	$ -	$ 64,641
Less: Cost of goods sold	395,406	-	-	48,611
Gross profit	152,507	-	-	16,030
Charges for services	1,513	16,761	-	-
Lottery ticket proceeds	-	-	521,103	-
Miscellaneous revenue	152	25	1,524	2,046
Total Operating Revenues	154,172	16,786	522,627	18,076
OPERATING EXPENSES				
Salaries and wages	43,931	7,298	7,010	13,610
Employee benefits	18,990	3,743	2,427	4,514
Personal services	371	7,955	11,686	-
Goods and services	50,775	5,694	54,285	376
Travel	1,125	25	519	254
Premiums and claims	-	-	-	34
Lottery prize payments	-	-	314,923	-
Depreciation and amortization	5,310	8,208	118	1,367
Guaranteed education tuition expense	-	-	-	-
Miscellaneous expenses	63	-	151	32
Total Operating Expenses	120,565	32,923	391,119	20,187
Operating Income (Loss)	33,607	(16,137)	131,508	(2,111)
NONOPERATING REVENUES (EXPENSES)				
Earnings (loss) on investments	-	-	40,527	9
Interest expense	(794)	(13,514)	(22,659)	(353)
Distributions to other governments	(33,963)	-	(4,711)	-
Other revenue (expenses)	63,216	61,507	27	15
Total Nonoperating Revenues (Expenses)	28,459	47,993	13,184	(329)
Income (Loss) Before Contributions and Transfers	62,066	31,856	144,692	(2,440)
Transfers in	4,504	-	12,350	19
Transfers (out)	(78,127)	(12,500)	(137,963)	(19)
Net Contributions and Transfers	(73,623)	(12,500)	(125,613)	-
Change in Net Assets	(11,557)	19,356	19,079	(2,440)
Net Assets (Deficit) - Beginning, as restated	40,560	198,663	31,000	33,027
Net Assets (Deficit) - Ending	$ 29,003	$ 218,019	$ 50,079	$ 30,587

Other Activities	Total
$ 66	$ 612,620
42	444,059
24	168,561
43,554	61,828
-	521,103
4,908	8,655
48,486	760,147
21,609	93,458
6,662	36,336
6,913	26,925
18,332	129,462
1,133	3,056
-	34
-	314,923
1,198	16,201
62,800	62,800
42	288
118,689	683,483
(70,203)	76,664
(8,158)	32,378
(8)	(37,328)
-	(38,674)
16,289	141,054
8,123	97,430
(62,080)	174,094
6,368	23,241
(131)	(228,740)
6,237	(205,499)
(55,843)	(31,405)
219,716	522,966
$ 163,873	$ 491,561

NONMAJOR ENTERPRISE FUNDS

Combining Statement of Cash Flows

For the Fiscal Year Ended June 30, 2008

(expressed in thousands)

	Liquor	Convention and Trade
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 551,416	$ 16,612
Payments to suppliers	(451,151)	(13,233)
Payments to employees	(60,115)	(10,530)
Other receipts (payments)	152	25
Net Cash Provided (Used) by Operating Activities	40,302	(7,126)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers in	4,504	-
Transfers out	(78,127)	(12,500)
Operating grants and donations received	10	-
Taxes and license fees collected	64,278	61,507
Distributions to other governments	(33,963)	-
Other noncapital financing sources	-	-
Net Cash Provided (Used) by Noncapital Financing Activities	(43,298)	49,007
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Interest paid	(736)	(9,371)
Principal payments on long-term capital financing	(2,040)	(19,897)
Proceeds from long-term capital financing	-	20,995
Proceeds from sale of capital assets	1,446	-
Acquisitions of capital assets	(8,659)	(22,211)
Net Cash Provided (Used) by Capital and Related Financing Activities	(9,989)	(30,484)
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipt of interest	-	-
Proceeds from sale of investment securities	-	-
Purchases of investment securities	-	-
Net Cash Provided (Used) by Investing Activities	-	-
Net Increase (Decrease) in Cash and Pooled Investments	(12,985)	11,397
Cash and Pooled Investments, July 1	36,963	68,398
Cash and Pooled Investments, June 30	$ 23,978	$ 79,795
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating Income (Loss)	$ 33,607	$(16,137)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operations:		
Depreciation	5,310	8,208
Change in Assets: Decrease (Increase)		
Receivables (net of allowance)	1,989	(166)
Inventories	12,281	-
Prepaid expenses	59	-
Change in Liabilities: Increase (Decrease)		
Payables	(12,944)	969
Net Cash or Cash Equivalents Provided by (Used in) Operating Activities	$ 40,302	$ (7,126)
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Amortization of annuity prize liability	$ -	$ -
Increase (decrease) in fair value of investments	-	-
Accretion of interest on zero coupon bonds	-	(3,825)

Lottery	Institutional	Other Activities	Total
$ 512,081	$ 65,364	$ 203,426	$ 1,348,899
(427,315)	(50,106)	(118,808)	(1,060,613)
(9,301)	(17,232)	(27,225)	(124,403)
1,524	2,046	4,908	8,655
76,989	72	62,301	172,538
12,350	19	6,368	23,241
(137,963)	(19)	(131)	(228,740)
-	1	-	11
27	-	16,406	142,218
(4,711)	-	-	(38,674)
-	-	4,464	4,464
(130,297)	1	27,107	(97,480)
-	(353)	(8)	(10,468)
-	(433)	(204)	(22,574)
-	1,380	845	23,220
-	64	6	1,516
(38)	(2,350)	(3,140)	(36,398)
(38)	(1,692)	(2,501)	(44,704)
2,421	9	111,159	113,589
135,773	-	438,987	574,760
(71,499)	-	(660,801)	(732,300)
66,695	9	(110,655)	(43,951)
13,349	(1,610)	(23,748)	(13,597)
37,269	9,343	155,840	307,813
$ 50,618	$ 7,733	$ 132,092	$ 294,216
$ 131,508	$ (2,111)	$ (70,203)	$ 76,664
118	1,367	1,198	16,201
(8,955)	736	(14,774)	(21,170)
68	(346)	(59)	11,944
848	69	(7)	969
(46,598)	357	146,146	87,930
$ 76,989	$ 72	$ 62,301	$ 172,538
$ 22,659	$ -	$ -	$ 22,659
38,106	-	(118,088)	(79,982)
-	-	-	(3,825)

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Internal Service Funds

Internal Service Funds account for state activities that provide goods and services to other state departments or agencies on a cost-reimbursement basis. The Internal Service Funds are described below:

General Services Fund

The General Services Fund accounts for the cost of providing the following services to state agencies: (1) legal services; (2) operation and management of real estate; (3) facilities and related services; (4) central stores; (5) operations of the motor pool; (6) auditing of state and local governmental units; (7) administration of the state civil service law; (8) administrative hearings; and (9) archives and records management.

Data Processing Revolving Fund

The Data Processing Revolving Fund accounts for distribution and apportionment of the full cost of data processing and data communication services to other state agencies, and for the payment of other costs incidental to the acquisition, operation, and administration of acquired data processing services, supplies, and equipment.

Printing Services Fund

The Printing Services Fund accounts for the operation of the state printing plant.

Higher Education Revolving Fund

The Higher Education Revolving Fund accounts for stores, data processing, educational, operational printing and duplication, motor pool, and other support service activities at colleges and universities.

Risk Management Fund

The Risk Management Fund accounts for the administration of liability, property, and vehicle claims, including investigation, claim processing, negotiation and settlement, and other expenses relating to settlements and judgments against the state not otherwise budgeted.

Health Insurance Fund

The Health Insurance Fund accounts for premiums collected and payments for employees' insurance benefits.

INTERNAL SERVICE FUNDS

Combining Statement of Fund Net Assets

June 30, 2008

(expressed in thousands)

	General Services	Data Processing Revolving	Printing Services	Higher Education Revolving
ASSETS				
Current Assets:				
Cash and pooled investments	$ 34,118	$ 52,298	$ 2,652	$ 57,453
Investments	299	-	-	409
Other receivables (net of allowance)	8,463	3,938	16	3,081
Due from other funds	38,120	19,061	3,931	68,045
Due from other governments	2,128	4,238	103	94
Inventories	6,337	1,178	507	11,944
Prepaid expenses	1,648	2,642	140	19
Total Current Assets	91,113	83,355	7,349	141,045
Noncurrent Assets:				
Investments, noncurrent	-	-	-	2,280
Other noncurrent assets	129	-	-	-
Capital assets:				
Land and other non-depreciable assets	3,806	-	-	30
Buildings	117,802	-	-	5,455
Other improvements	12,887	4,939	-	97
Furnishings, equipment, and collections	410,881	223,929	9,398	97,977
Infrastructure	478	-	-	-
Accumulated depreciation	(227,842)	(142,532)	(6,401)	(76,889)
Construction in progress	17,587	2,808	-	-
Total Noncurrent Assets	335,728	89,144	2,997	28,950
Total Assets	426,841	172,499	10,346	169,995
LIABILITIES				
Current Liabilities:				
Accounts payable	7,914	12,446	3,141	6,185
Contracts and retainages payable	882	-	-	120
Accrued liabilities	9,547	2,184	337	13,384
Obligations under security lending agreements	295	-	-	-
Bonds and notes payable	8,880	12,378	191	629
Due to other funds	6,261	8,634	137	46,896
Due to other governments	-	7	-	11
Unearned revenues	1,918	726	-	1,166
Claims and judgments payable	-	-	-	6,474
Total Current Liabilities	35,697	36,375	3,806	74,865
Noncurrent Liabilities:				
Claims and judgments payable	-	-	-	41,041
Bonds and notes payable	117,851	35,763	1,193	2,237
Other long-term liabilities	19,522	4,934	459	4,708
Total Noncurrent Liabilities	137,373	40,697	1,652	47,986
Total Liabilities	173,070	77,072	5,458	122,851
NET ASSETS				
Invested in capital assets, net of related debt	208,869	41,004	1,613	23,803
Unrestricted	44,902	54,423	3,275	23,341
Total Net Assets (Deficit)	$ 253,771	$ 95,427	$ 4,888	$ 47,144

Risk Management	Health Insurance	Total
$ 141,819	$ 331,913	$ 620,253
-	29,367	30,075
9	2,904	18,411
902	53,194	183,253
2	718	7,283
-	-	19,966
-	-	4,449
142,732	418,096	883,690
-	62,302	64,582
-	-	129
-	-	3,836
-	-	123,257
-	-	17,923
15	4,164	746,364
-	-	478
(8)	(2,119)	(455,791)
-	-	20,395
7	64,347	521,173
142,739	482,443	1,404,863
92	29,632	59,410
-	16,546	17,548
91	7,110	32,653
-	29,367	29,662
-	16	22,094
5,435	53,888	121,251
-	3	21
55	276	4,141
88,443	69,934	164,851
94,116	206,772	451,631
561,318	-	602,359
-	53	157,097
129	466	30,218
561,447	519	789,674
655,563	207,291	1,241,305
7	1,975	277,271
(512,831)	273,177	(113,713)
$ (512,824)	$ 275,152	$ 163,558

INTERNAL SERVICE FUNDS

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets

For the Fiscal Year Ended June 30, 2008

(expressed in thousands)

	General Services	Data Processing Revolving	Printing Services	Higher Education Revolving
OPERATING REVENUES				
Sales	$ 22,155	$ 42,201	$ 36,385	$ 30,788
Less: Cost of goods sold	18,357	40,188	30,280	16,447
Gross profit	3,798	2,013	6,105	14,341
Charges for services	324,179	158,902	-	196,418
Premiums and assessments	-	-	-	11,649
Miscellaneous revenue	38,676	1,626	-	5,647
Total Operating Revenues	366,653	162,541	6,105	228,055
OPERATING EXPENSES				
Salaries and wages	143,698	41,056	2,272	97,529
Employee benefits	41,868	10,756	657	27,755
Personal services	10,493	2,056	41	6,829
Goods and services	118,366	93,404	1,976	99,341
Travel	2,930	353	26	1,876
Premiums and claims	-	-	-	-
Depreciation and amortization	30,690	27,259	314	9,335
Miscellaneous expenses	223	124	-	480
Total Operating Expenses	348,268	175,008	5,286	243,145
Operating Income (Loss)	18,385	(12,467)	819	(15,090)
NONOPERATING REVENUES (EXPENSES)				
Earnings (loss) on investments	296	-	75	6,584
Interest expense	(5,988)	(1,900)	(60)	(997)
Other revenue (expenses)	1,216	(190)	53	4,478
Total Nonoperating Revenues (Expenses)	(4,476)	(2,090)	68	10,065
Income (Loss) Before Contributions and Transfers	13,909	(14,557)	887	(5,025)
Capital contributions	4,834	-	-	-
Transfers in	4,751	34,663	-	17,622
Transfers (out)	(5,761)	(7,793)	-	(17,495)
Net Contributions and Transfers	3,824	26,870	-	127
Change in Net Assets	17,733	12,313	887	(4,898)
Net Assets (Deficit) - Beginning, as restated	236,038	83,114	4,001	52,042
Net Assets (Deficit) - Ending	$ 253,771	$ 95,427	$ 4,888	$ 47,144

Risk Management	Health Insurance	Total
$ -	$ -	$ 131,529
-	-	105,272
-	-	26,257
2,728	-	682,227
88,156	1,083,121	1,182,926
80	97	46,126
90,964	1,083,218	1,937,536
1,545	6,987	293,087
410	1,988	83,434
158	2,654	22,231
20,380	8,689	342,156
51	145	5,381
134,369	1,041,348	1,175,717
4	684	68,286
-	1	828
156,917	1,062,496	1,991,120
(65,953)	20,722	(53,584)
-	11,326	18,281
-	(3)	(8,948)
-	79	5,636
-	11,402	14,969
(65,953)	32,124	(38,615)
-	-	4,834
-	50,858	107,894
-	(51,467)	(82,516)
-	(609)	30,212
(65,953)	31,515	(8,403)
(446,871)	243,637	171,961
$ (512,824)	$ 275,152	$ 163,558

INTERNAL SERVICE FUNDS

Combining Statement of Cash Flows

For the Fiscal Year Ended June 30, 2008

(expressed in thousands)

	General Services	Data Processing Revolving
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 332,197	$ 221,681
Payments to suppliers	(153,070)	(161,184)
Payments to employees	(184,119)	(51,138)
Other receipts (payments)	38,675	1,611
Net Cash Provided (Used) by Operating Activities	33,683	10,970
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers in	4,751	34,663
Transfers out	(5,761)	(7,793)
Operating grants and donations received	556	-
Other noncapital financing sources	(3)	-
Net Cash Provided (Used) by Noncapital Financing Activities	(457)	26,870
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Interest paid	(5,997)	(1,900)
Principal payments on long-term capital financing	(14,996)	(10,294)
Proceeds from long-term capital financing	20,119	17,039
Proceeds from sale of capital assets	2,305	1,191
Acquisitions of capital assets	(34,321)	(29,347)
Net Cash Provided (Used) by Capital and Related Financing Activities	(32,890)	(23,311)
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipt of interest	282	-
Proceeds from sale of investment securities	-	-
Purchases of investment securities	-	-
Net Cash Provided (Used) by Investing Activities	282	-
Net Increase (Decrease) in Cash and Pooled Investments	618	14,529
Cash and Pooled Investments, July 1	33,500	37,769
Cash and Pooled Investments, June 30	$ 34,118	$ 52,298
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating Income (Loss)	$ 18,385	$ (12,467)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operations:		
Depreciation	30,690	27,259
Change in Assets: Decrease (Increase)		
Receivables (net of allowance)	(14,099)	22,010
Inventories	168	(684)
Prepaid expenses	(1,642)	589
Change in Liabilities: Increase (Decrease)		
Payables	181	(25,737)
Net Cash or Cash Equivalents Provided by (Used In) Operating Activities	$ 33,683	$ 10,970
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Contributions of capital assets	$ 4,834	$ -
Increase (decrease) in fair value of investments	13	-

Printing Services	Higher Education Revolving	Risk Management	Health Insurance	Total
$ 36,300	$ 182,480	$ 91,091	$ 1,067,124	$ 1,930,873
(32,516)	(104,856)	(79,972)	(1,010,444)	(1,542,042)
(2,911)	(125,405)	(1,918)	(8,957)	(374,448)
-	5,647	80	97	46,110
873	(42,134)	9,281	47,820	60,493
-	17,622	-	50,858	107,894
-	(17,495)	-	(51,467)	(82,516)
-	5,054	-	75	5,685
-	-	-	-	(3)
-	5,181	-	(534)	31,060
(60)	(997)	-	(3)	(8,957)
(491)	(1,123)	-	(16)	(26,920)
307	666	-	3	38,134
57	1,767	-	-	5,320
(59)	(16,125)	-	(105)	(79,957)
(246)	(15,812)	-	(121)	(72,380)
75	6,599	-	7,899	14,855
-	1,835	-	228,891	230,726
-	(2,848)	-	(225,589)	(228,437)
75	5,586	-	11,201	17,144
702	(47,179)	9,281	58,366	36,317
1,950	104,632	132,538	273,547	583,936
$ 2,652	$ 57,453	$ 141,819	$ 331,913	$ 620,253
$ 819	$ (15,090)	$ (65,953)	$ 20,722	$ (53,584)
314	9,335	4	684	68,286
(85)	(57,464)	234	(16,010)	(65,414)
89	(870)	-	-	(1,297)
64	21	-	-	(968)
(328)	21,934	74,996	42,424	113,470
$ 873	$ (42,134)	$ 9,281	$ 47,820	$ 60,493
$ -	$ -	$ -	$ -	$ 4,834
-	2	-	1,005	1,020

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Fiduciary Funds

Fiduciary Funds account for assets held in a trustee or agent capacity for outside parties, including individuals, private organizations, and other governments.

AGENCY FUNDS

Agency Funds account for resources held by the state in a custodial capacity for other governments, private organizations, or individuals. The Agency Funds are described below:

Suspense Fund

The Suspense Fund accounts for receipts where final disposition is pending.

Local Government Distributions Fund

The Local Government Distributions Fund accounts for the receipt and allocation of taxes and fees imposed by local governments.

Pooled Investments Fund

The Pooled Investments Fund is used to administer the pooling and investing of surplus state funds, and the accumulation and allocation of interest earned among the various accounts and funds from which such investments and investment deposits were made. These balances are distributed to the owner funds at June 30.

Retiree Health Insurance Fund

The Retiree Health Insurance Fund accounts for premiums collected and payments for retiree insurance benefits.

Other Agency Fund

The Other Agency Fund accounts for (1) assets held for employees, foster children, inmates, patients, and residents of state institutions; (2) the local government share of contracted timber sales; and (3) monies held under other custodial responsibilities of the state.

AGENCY FUNDS

Combining Statement of Assets and Liabilities

June 30, 2008

(expressed in thousands)

	Suspense	Local Government Distributions	Retiree Health Insurance	Other Agency	Total
ASSETS					
Cash and pooled investments	$ 9,751	$ 180,143	$ -	$ 91,768	$ 281,662
Other receivables	-	1,410	47	14,152	15,609
Due from other funds	-	609	-	1,974	2,583
Due from other governments	-	52	13,041	23,639	36,732
Investments, noncurrent	-	16,064	25,103	13,749	54,916
Other noncurrent assets	-	-	-	63,830	63,830
Total Assets	$ 9,751	$ 198,278	$ 38,191	$ 209,112	$ 455,332
LIABILITIES					
Accounts payable	$ -	$ -	$ 10,375	$ 11,112	$ 21,487
Contracts and retainages payable	-	-	27,797	11,669	39,466
Accrued liabilities	6,533	3,902	19	104,547	115,001
Obligations under security lending agreements	-	15,839	-	1,093	16,932
Due to other funds	-	535	-	6,233	6,768
Due to other governments	3,218	178,002	-	10,628	191,848
Other long-term liabilities	-	-	-	63,830	63,830
Total Liabilities	$ 9,751	$ 198,278	$ 38,191	$ 209,112	$ 455,332

AGENCY FUNDS

Combining Statement of Changes in Assets and Liabilities

For the Fiscal Year Ended June 30, 2008

(expressed in thousands)

Continued

Suspense Fund	Balance July 1, 2007 *	Additions	Deductions	Balance June 30, 2008
ASSETS				
Cash and pooled investments	$ 14,548	$ 1,036,720	$ 1,041,517	$ 9,751
Other receivables (net of allowance)	15	15,191	15,206	-
Due from other funds	223	-	223	-
Due from other governments	9	-	9	-
Investments, noncurrent	-	15,294	15,294	-
Total Assets	$ 14,795	$ 1,067,205	$ 1,072,249	$ 9,751
LIABILITIES				
Accounts payable	$ 2,042	$ 12,189	$ 14,231	$ -
Accrued liabilities	6,465	248,875	248,807	6,533
Due to other funds	2,931	3,229	6,160	-
Due to other governments	3,357	100,309	100,448	3,218
Total Liabilities	$ 14,795	$ 364,602	$ 369,646	$ 9,751
Local Government Distributions Fund				
ASSETS				
Cash and pooled investments	$ 193,077	$ 8,551,757	$ 8,564,691	$ 180,143
Other receivables (net of allowance)	-	1,410	-	1,410
Due from other funds	868	82,658	82,917	609
Due from other governments	135	52	135	52
Investments, noncurrent	9,284	91,900	85,120	16,064
Total Assets	$ 203,364	$ 8,727,777	$ 8,732,863	$ 198,278
LIABILITIES				
Accrued liabilities	$ -	$ 4,307	$ 405	$ 3,902
Obligations under security lending agreements	9,689	6,169	19	15,839
Due to other funds	-	535	-	535
Due to other governments	193,675	3,354,147	3,369,820	178,002
Other long-term obligations	-	8,800	8,800	-
Total Liabilities	$ 203,364	$ 3,373,958	$ 3,379,044	$ 198,278
Pooled Investments Fund*				
ASSETS				
Cash and pooled investments	$ -	$ 688,237,746	$ 688,237,746	$ -
Other receivables (net of allowance)	224,254	337,068	561,322	-
Due from other funds	-	34	34	-
Investments, noncurrent	632,076	744,301	1,376,377	-
Total Assets	$ 856,330	$ 689,319,149	$ 690,175,479	$ -
LIABILITIES				
Accounts payable	$ -	$ 483	$ 483	$ -
Accrued liabilities	856,330	656,805	1,513,135	-
Due to other funds	-	17,507	17,507	-
Total Liabilities	$ 856,330	$ 674,795	$ 1,531,125	$ -

* As restated.

AGENCY FUNDS

Combining Statement of Changes in Assets and Liabilities

For the Fiscal Year Ended June 30, 2008

(expressed in thousands)

Concluded

	Balance July 1, 2007 *	Additions	Deductions	Balance June 30, 2008
Retiree Health Insurance Fund				
ASSETS				
Cash and pooled investments	$ -	$ 370,984	$ 370,984	$ -
Other receivables (net of allowance)	3	102,749	102,705	47
Due from other governments	13,176	264,094	264,229	13,041
Investments, noncurrent	18,305	6,798	-	25,103
Total Assets	$ 31,484	$ 744,625	$ 737,918	$ 38,191
LIABILITIES				
Accounts payable	$ 6,334	$ 219,327	$ 215,286	$ 10,375
Contracts and retainages payable	20,901	162,594	155,698	27,797
Accrued liabilities	4,249	19	4,249	19
Total Liabilities	$ 31,484	$ 381,940	$ 375,233	$ 38,191
Other Agency Funds*				
ASSETS				
Cash and pooled investments	$ 75,247	$ 15,908,870	$ 15,892,349	$ 91,768
Other receivables (net of allowance)	21,255	165,558	172,661	14,152
Due from other funds	41,395	24,748	64,169	1,974
Due from other governments	29,937	8,516	14,814	23,639
Investments, noncurrent	20,554	26,583	33,388	13,749
Other noncurrent assets	42,988	20,842	-	63,830
Total Assets	$ 231,376	$ 16,155,117	$ 16,177,381	$ 209,112
LIABILITIES				
Accounts payable	$ 15,035	$ 1,218,379	$ 1,222,302	$ 11,112
Contracts and retainages payable	5,873	311,786	305,990	11,669
Accrued liabilities	132,966	5,174,763	5,203,182	104,547
Obligations under security lending agreements	151	942	-	1,093
Due to other funds	18,044	41,186	52,997	6,233
Due to other governments	16,319	61,309	67,000	10,628
Other long-term obligations	42,988	20,842	-	63,830
Total Liabilities	$ 231,376	$ 6,829,207	$ 6,851,471	$ 209,112
Totals - All Agency Funds*				
ASSETS				
Cash and pooled investments	$ 282,872	$ 714,106,077	$ 714,107,287	$ 281,662
Other receivables (net of allowance)	245,527	621,976	851,894	15,609
Due from other funds	42,486	107,440	147,343	2,583
Due from other governments	43,257	272,662	279,187	36,732
Investments, noncurrent	680,219	884,876	1,510,179	54,916
Other noncurrent assets	42,988	20,842	-	63,830
Total Assets	$ 1,337,349	$ 716,013,873	$ 716,895,890	$ 455,332
LIABILITIES				
Accounts payable	$ 23,411	$ 1,450,378	$ 1,452,302	$ 21,487
Contracts and retainages payable	26,774	474,380	461,688	39,466
Accrued liabilities	1,000,010	6,084,769	6,969,778	115,001
Obligations under security lending agreements	9,840	7,111	19	16,932
Due to other funds	20,975	62,457	76,664	6,768
Due to other governments	213,351	3,515,765	3,537,268	191,848
Other long-term obligations	42,988	29,642	8,800	63,830
Total Liabilities	$ 1,337,349	$ 11,624,502	$ 12,506,519	$ 455,332

* As restated.

Nonmajor
Component Units

Discrete component units are entities which are legally separate from the state but which are financially accountable to the state. The nonmajor component units are described below:

Washington State Housing Finance Commission
The Washington State Housing Finance Commission makes funds available to help provide housing throughout the state, and to finance or refinance nursing homes and capital facilities owned and operated by nonprofit corporations.

Washington Health Care Facilities Authority
The Washington Health Care Facilities Authority makes funds available to qualified, nonprofit health care facilities in the state.

Washington Higher Education Facilities Authority
The Washington Higher Education Facilities Authority provides funding to qualified, nonprofit higher education institutions in the state.

Washington Economic Development Finance Authority
The Washington Economic Development Finance Authority makes funds available to qualified, small and medium-sized businesses in the state for qualifying manufacturing and processing facilities and projects.

NONMAJOR COMPONENT UNITS

Combining Statement of Fund Net Assets

June 30, 2008

(expressed in thousands)

	Housing Finance	Health Care Facilities	Higher Education Facilities	Economic Development Finance	Total
ASSETS					
Current Assets:					
Cash and pooled investments	$ 9,222	$ 22	$ 1,460	$ 177	$ 10,881
Investments	33,371	1,339	-	456	35,166
Other receivables (net of allowance)	735	69	14	-	818
Prepaid expenses	151	39	21	-	211
Total Current Assets	43,479	1,469	1,495	633	47,076
Noncurrent Assets:					
Investments, noncurrent	-	2,408	-	-	2,408
Other noncurrent assets	42,515	-	3	-	42,518
Capital assets:					
Furnishings, equipment, and collections	1,226	-	-	-	1,226
Accumulated depreciation	(1,030)	-	-	-	(1,030)
Total Noncurrent Assets	42,711	2,408	3	-	45,122
Total Assets	$ 86,190	$ 3,877	$ 1,498	$ 633	$ 92,198
LIABILITIES					
Current Liabilities:					
Accounts payable	$ 12,855	$ 21	$ 62	$ -	$ 12,938
Accrued liabilities	-	63	-	2	65
Unearned revenues	2,242	86	77	-	2,405
Total Current Liabilities	15,097	170	139	2	15,408
Total Liabilities	15,097	170	139	2	15,408
NET ASSETS					
Invested in capital assets, net of related debt	196	-	-	-	196
Restricted for other purposes	500	-	-	-	500
Unrestricted	70,397	3,707	1,359	631	76,094
Total Net Assets (Deficit)	$ 71,093	$ 3,707	$ 1,359	$ 631	$ 76,790

NONMAJOR COMPONENT UNITS

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets

For the Fiscal Year Ended June 30, 2008

(expressed in thousands)

	Housing Finance	Health Care Facilities	Higher Education Facilities	Economic Development Finance	Total
OPERATING REVENUES					
Charges for services	$ 14,314	$ 75	$ 498	$ 216	$ 15,103
Total Operating Revenues	14,314	75	498	216	15,103
OPERATING EXPENSES					
Salaries and wages	4,073	381	-	61	4,515
Employee benefits	1,296	106	-	12	1,414
Personal services	1,123	129	173	-	1,425
Goods and services	1,788	185	321	50	2,344
Travel	-	22	-	4	26
Depreciation and amortization	124	-	-	-	124
Miscellaneous expenses	190	20	-	-	210
Total Operating Expenses	8,594	843	494	127	10,058
Operating Income (Loss)	5,720	(768)	4	89	5,045
NONOPERATING REVENUES (EXPENSES)					
Earnings (loss) on investments	2,858	186	62	9	3,115
Operating grants and contributions	240	-	-	-	240
Distributions of operating grants	(240)	-	-	-	(240)
Total Nonoperating Revenues (Expenses)	2,858	186	62	9	3,115
Income (Loss) Before Contributions and Transfers	8,578	(582)	66	98	8,160
Change in Net Assets	8,578	(582)	66	98	8,160
Net Assets - Beginning, as restated	62,515	4,289	1,293	533	68,630
Net Assets - Ending	$ 71,093	$ 3,707	$ 1,359	$ 631	$ 76,790

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SCHEDULES

Schedule of Revenues and Other Financing Sources (Uses)
Governmental Funds

For the Fiscal Year Ended June 30, 2008

(expressed in thousands)

Continued

	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
REVENUES					
Taxes:					
Retail sales	$ 7,744,274	$ -	$ -	$ 77,962	$ 7,822,236
Business and occupation	2,910,334	-	-	94,345	3,004,679
Use (compensating)	512,168	-	-	6,750	518,918
Motor vehicle and fuel	-	-	-	1,169,900	1,169,900
Liquor, beer, and wine	157,166	-	-	57,117	214,283
Cigarette and tobacco	46,855	88,210	-	278,423	413,488
Insurance premiums	260,558	-	-	154,470	415,028
Public utility	415,096	-	-	12,605	427,701
Property	1,494,542	-	-	247,197	1,741,739
Other excise	707,272	-	-	73,681	780,953
Gift and inheritance	4,174	106,428	-	-	110,602
Other taxes	208,574	-	-	227,941	436,515
Subtotal	14,461,013	194,638	-	2,400,391	17,056,042
Tax Credits:					
Business and occupation	(149,909)	-	-	(4,222)	(154,131)
Use (compensating)	(154)	-	-	-	(154)
Other tax credits	(3,862)	-	-	(5,926)	(9,788)
Total Taxes	14,307,088	194,638	-	2,390,243	16,891,969
Licenses, Permits, and Fees:					
Business and professions	75,934	-	-	101,407	177,341
Hunting and fishing	1,375	-	-	29,547	30,922
Motor vehicle	3,869	628	-	482,925	487,422
Motor vehicle operators	-	-	-	61,978	61,978
Other fees	16,315	-	-	136,686	153,001
Total Licenses, Permits, and Fees	97,493	628	-	812,543	910,664
Federal Grants-In-Aid:					
Department of Health & Human Services	4,544,827	552,381	-	5,760	5,102,968
Department of Labor	89,492	4,315	-	121,833	215,640
Department of Agriculture	1,025,361	27,362	-	92,977	1,145,700
Department of Transportation	2,841	4,136	-	759,890	766,867
Department of Education	618,588	254,488	-	7,364	880,440
Other federal grants-in-aid	275,533	246,695	-	133,129	655,357
Total Federal Grants-In-Aid	6,556,642	1,089,377	-	1,120,954	8,766,973
Charges for Services:					
Tuition and student fees	-	1,123,396	-	43,220	1,166,616
Other charges	56,614	352,561	1	495,321	904,497
Total Charges For Services	56,614	1,475,957	1	538,541	2,071,113

Schedule of Revenues and Other Financing Sources (Uses)
Governmental Funds

For the Fiscal Year Ended June 30, 2008

(expressed in thousands)

Concluded

	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
Miscellaneous Revenue:					
Investment income	123,303	108,416	58,857	173,323	463,899
Timber sales	2,847	-	18,995	106,380	128,222
Fines and forfeitures	3,203	5,678	9	127,036	135,926
Other contracts and grants	162,238	613,894	94,900	25,510	896,542
Other	139,122	119,003	8,189	371,097	637,411
Total Miscellaneous Revenue	430,713	846,991	180,950	803,346	2,262,000
TOTAL REVENUES	21,448,550	3,607,591	180,951	5,665,627	30,902,719
OTHER FINANCING SOURCES (USES)					
Bonds issued	-	-	-	1,891,150	1,891,150
Payments to refunded bond escrow agents	-	-	-	(58,125)	(58,125)
Other debt issued	12,084	6,154	-	867	19,105
Bond issue premium	-	-	-	123,487	123,487
Transfers in	72,007	291,663	14,357	2,249,697	2,627,724
Transfers (out)	(1,216,749)	(127,062)	(97,145)	(940,546)	(2,381,502)
Capital lease acquisitions	26	69	-	-	95
TOTAL OTHER FINANCING SOURCES (USES)	(1,132,632)	170,824	(82,788)	3,266,530	2,221,934
TOTAL REVENUES AND OTHER FINANCING SOURCES (USES)	$ 20,315,918	$ 3,778,415	$ 98,163	$ 8,932,157	$ 33,124,653

Schedule of Expenditures
Governmental Funds

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

	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
EXPENDITURES					
By Function:					
General government	$ 702,328	$ -	$ -	$ 2,089,180	$ 2,791,508
Human services	10,946,926	-	-	1,381,274	12,328,200
Natural resources and recreation	361,689	-	4,361	596,896	962,946
Transportation	44,102	1,906	-	3,102,473	3,148,481
Education	8,245,245	3,735,697	424	1,535,093	13,516,459
Total Expenditures	$ 20,300,290	$ 3,737,603	$ 4,785	$ 8,704,916	$ 32,747,594
By Object:					
Salaries and wages	$ 2,927,137	$ 1,291,961	$ 3	$ 1,077,421	$ 5,296,522
Employee benefits	782,653	452,375	-	347,493	1,582,521
Personal services	190,221	43,648	-	113,371	347,240
Goods and services	1,164,176	784,034	372	894,537	2,843,119
Travel	48,841	84,493	1	41,671	175,006
Subtotal	5,113,028	2,656,511	376	2,474,493	10,244,408
Grants and Subsidies:					
K-12 basic education	6,550,082	98,924	-	1,338,954	7,987,960
Public assistance	7,742,180	-	-	449,121	8,191,301
Other miscellaneous	792,087	817,994	36	895,550	2,505,667
Total Grants and Subsidies	15,084,349	916,918	36	2,683,625	18,684,928
Intergovernmental	30,697	-	-	348,524	379,221
Capital Outlays:					
Equipment	35,269	64,263	9	31,021	130,562
All other	21,603	82,028	4,361	2,025,480	2,133,472
Total Capital Outlays	56,872	146,291	4,370	2,056,501	2,264,034
Debt Service:					
Principal	15,014	10,070	-	561,264	586,348
Interest	330	7,812	2	580,510	588,654
Total Debt Service	15,344	17,882	2	1,141,774	1,175,002
TOTAL EXPENDITURES	$ 20,300,290	$ 3,737,603	$ 4,785	$ 8,704,916	$ 32,747,594

CLAIMS DEVELOPMENT INFORMATION

Workers' Compensation Fund
Basic Plan

Fiscal Years 1999 through 2008
(expressed in millions)

The table below illustrates how the fund's earned revenues (net of reinsurance) and investment income compare to the related costs of losses (net of loss assumed by reinsurers) and other expenses assumed by the fund as of the end of each of the last ten fiscal years. The state has not purchased reinsurance since 9/30/02 and has never had a qualifying event that generated a recovery.

The rows of the table are defined as follows:

1. This line shows each fiscal year's earned contribution revenues and investment revenues.
2. This line shows the fund's incurred claims (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).
3. This section shows the cumulative amounts paid as of the end of successive years for each policy year.
4. This section shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, and emergence of new claims not previously known.
5. This line compares the latest reestimated incurred claims amount to the amount originally established (line 2) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and reestimates is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years.

The columns of the table show data for successive fiscal years.

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
1. Net earned required contribution and investment revenues	$ 927	$ 1,057	$ 1,449	$ 1,197	$ 2,111	$ 1,337	$ 2,452	$ 1,392	$ 2,406	$ 1,697
2. Estimated incurred claims and expenses, end of policy year	1,732	1,902	1,925	2,124	2,284	2,505	2,308	2,141	2,196	2,256
3. Paid (cumulative) as of:										
End of policy year	205	218	230	226	233	244	260	278	295	310
One year later	438	473	494	500	501	528	556	589	625	
Two years later	564	608	646	653	650	681	715	754		
Three years later	643	706	747	756	751	784	821			
Four years later	707	777	825	834	824	860				
Five years later	758	837	890	896	882					
Six years later	800	889	943	949						
Seven years later	840	933	989							
Eight years later	876	974								
Nine years later	908									
4. Reestimated incurred claims and expenses:										
End of policy year	1,732	1,902	1,925	2,124	2,284	2,505	2,308	2,141	2,196	2,256
One year later	1,690	1,838	1,963	2,158	2,277	2,203	1,989	2,053	2,234	
Two years later	1,694	1,913	2,067	2,277	2,045	1,971	1,939	2,055		
Three years later	1,770	1,977	2,226	2,079	1,853	1,864	1,954			
Four years later	1,794	2,088	2,039	1,906	1,767	1,886				
Five years later	1,839	1,881	1,864	1,859	1,788					
Six years later	1,682	1,778	1,835	1,879						
Seven years later	1,578	1,755	1,858							
Eight years later	1,560	1,745								
Nine years later	1,567									
5. Increase (decrease) in estimated incurred claims and expenses from end of policy year	(165)	(157)	(67)	(245)	(496)	(619)	(354)	(86)	38	

Source: Washington State Department of Labor and Industries

CLAIMS DEVELOPMENT INFORMATION

Workers' Compensation Fund
Supplemental Pension Plan

Fiscal Years 1999 through 2008

(expressed in millions)

The table below illustrates how the fund's supplemental pension cost-of-living adjustments earned revenues (net of reinsurance) and investment income compare to the related costs of losses (net of loss assumed by reinsurers) as of the end of the last ten fiscal years. The state has not purchased reinsurance since 9/30/02 and has never had a qualifying event that generated a recovery. The unallocated and other expenses of this plan are paid by the Workers' Compensation Basic Plan. This claims development information is reported separate from the basic plan for the following reasons: (1) This plan covers self-insured, while the basic does not; (2) This plan is not experienced rated while the basic plan is; and (3) Statutes restrict the funding of this plan to expected payments of the current year.

The rows of the table are defined as follows:

1. This line shows each fiscal year's earned contribution revenues and investment revenues.
2. This line shows the fund's incurred claims (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).
3. This section shows the cumulative amounts paid as of the end of successive years for each policy year.
4. This section shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, and emergence of new claims not previously known.
5. This line compares the latest reestimated incurred claims amount to the amount originally established (line 2) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and reestimates is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years.

The columns of the table show data for successive fiscal years.

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
1. Net earned required contribution and investment revenues	$ 193	$ 225	$ 267	$ 281	$ 293	$ 288	$ 326	$ 305	$ 283	$ 334
2. Estimated incurred claims and expenses, end of policy year	548	635	628	807	1,029	1,228	724	804	968	1,093
3. Paid (cumulative) as of:										
End of policy year	-	-	-	-	-	-	-	-	-	-
One year later	7	8	5	2	5	2	1	3	6	
Two years later	12	12	8	11	4	3	4	7		
Three years later	18	17	22	6	6	6	8			
Four years later	24	30	15	9	8	11				
Five years later	37	27	19	12	13					
Six years later	37	33	23	17						
Seven years later	43	38	29							
Eight years later	50	46								
Nine years later	58									
4. Reestimated incurred claims and expenses:										
End of policy year	548	635	628	807	1,029	1,228	724	804	968	1,093
One year later	666	730	786	945	1,045	722	721	927	1,176	
Two years later	754	844	910	1,046	676	720	848	1,065		
Three years later	860	959	1,064	701	667	811	971			
Four years later	932	1,099	727	682	759	940				
Five years later	1,034	746	671	811	871					
Six years later	732	722	792	905						
Seven years later	678	834	883							
Eight years later	780	889								
Nine years later	851									
5. Increase (decrease) in estimated incurred claims and expenses from end of policy year	303	254	255	98	(158)	(288)	247	261	208	

Source: Washington State Department of Labor and Industries

CLAIMS DEVELOPMENT INFORMATION

Workers' Compensation Fund

Reconciliation of Claims Liabilities by Plan

Fiscal Years 2008 and 2007

(expressed in thousands)

The schedule below presents the changes in claims liabilities for the past two fiscal years for the fund's two benefit plans: Workers' Compensation Basic Plan and Workers' Compensation Supplemental Pension Plan.

	Basic Plan		Supplemental Pension Plan		Grand Total	
	FY 2008	FY 2007	FY 2008	FY 2007	FY 2008	FY 2007
Unpaid claims and claim adjustment expenses at beginning of year *	$ 9,232,768	$ 8,756,329	$ 10,513,724	$ 8,998,772	$ 19,746,492	$ 17,755,101
INCURRED CLAIMS AND CLAIM ADJUSTMENT EXPENSES						
Provision for insured events of the current year *	1,720,944	1,646,532	552,772	491,863	2,273,716	2,138,395
Increase (decrease) in provision for insured events of prior years *	471,483	258,175	1,277,672	1,324,454	1,749,155	1,582,629
Total incurred claims and claim adjustment expenses	2,192,427	1,904,707	1,830,444	1,816,317	4,022,871	3,721,024
PAYMENTS						
Claims and claim adjustment expenses Attributable:						
To events of the current year	316,086	294,879	-	-	316,086	294,879
To insured events of prior years	1,227,988	1,133,389	338,141	301,365	1,566,129	1,434,754
Total payments	1,544,074	1,428,268	338,141	301,365	1,882,215	1,729,633
Total unpaid claims and claim adjustment expenses at fiscal year end	$ 9,881,121	$ 9,232,768	$ 12,006,027	$ 10,513,724	$ 21,887,148	$ 19,746,492

* Restatement of prior year to correct miscalculations

Source: Washington State Department of Labor and Industries

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STATISTICAL SECTION

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Statistical Section

Narrative & Table of Contents

This part of the state of Washington's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the state's overall financial health.

FINANCIAL TRENDS

These schedules contain trend information to help the reader understand how the state's financial performance and fiscal health has changed over time. The schedules presented from an entity wide perspective only include Fiscal Year 2002 and forward, coinciding with the implementation of GASB Statement No. 34. Fund perspective schedules are presented for the last ten years, except where noted. Schedules included are:

Entity Wide Perspective

Fund Perspective

REVENUE CAPACITY

These schedules contain information to help the reader assess the state's most significant revenue sources: retail sales tax and business and occupation tax. Schedules included are:

DEBT CAPACITY

These schedules present information to help the reader assess the affordability of the state's current levels of outstanding debt and the state's ability to issue additional debt in the future. Schedules included are:

DEMOGRAPHIC INFORMATION

These schedules offer demographic and economic indicators to help the reader understand the environment in which the state's financial activities take place. Schedules included are:

OPERATING INFORMATION

These schedules offer operating data to help the reader understand how the information in the state's financial report relates to the services it provides and the activities it performs. Schedules included are:

FINANCIAL TRENDS

Schedule 1 – Net Assets by Component

Last Seven Fiscal Years (expressed in millions)
(accrual basis of accounting)

	2008	2007	2006	2005
GOVERNMENTAL ACTIVITIES				
Invested in capital assets, net of related debt	$ 17,029	$ 16,189	$ 15,434	$ 14,975
Restricted	5,524	5,072	4,343	4,351
Unrestricted	3,544	4,269	3,384	1,900
Total Governmental Activities Net Assets	$ 26,097	$ 25,530	$ 23,161	$ 21,226
BUSINESS-TYPE ACTIVITIES				
Invested in capital assets, net of related debt	$ 521	$ 598	$ 604	$ 510
Restricted	4,406	3,891	3,164	2,341
Unrestricted	(9,211)	(7,256)	(6,132)	(5,632)
Total Business-Type Activities Net Assets	$ (4,284)	$ (2,767)	$ (2,364)	$ (2,781)
PRIMARY GOVERNMENT				
Invested in capital assets, net of related debt	$ 17,550	$ 16,787	$ 16,039	$ 15,485
Restricted	9,930	8,963	7,507	6,692
Unrestricted	(5,667)	(2,986)	(2,748)	(3,733)
Total Primary Government Net Assets	$ 21,813	$ 22,764	$ 20,798	$ 18,444
COMPONENT UNITS				
Invested in capital assets, net of related debt	$ 365	$ 372	$ 392	$ 410
Restricted	24	31	25	24
Unrestricted	82	74	69	61
Total Component Units Net Assets	$ 471	$ 477	$ 486	$ 495

Notes:

The State did not begin reporting government-wide statements until it implemented GASB Statement No. 34 in 2002.

Figures may not total due to rounding.

Source: State of Washington Agency Financial Reporting System

	2004	2003	2002
	$ 14,288	$ 13,513	$ 12,794
	3,505	2,995	2,694
	1,854	2,346	2,654
	$ 19,646	$ 18,854	$ 18,143
	$ 522	$ 543	$ 355
	1,624	1,513	1,884
	(6,200)	(6,025)	(5,413)
	$ (4,053)	$ (3,968)	$ (3,174)
	$ 14,810	$ 14,056	$ 13,149
	5,129	4,509	4,578
	(4,346)	(3,679)	(2,759)
	$ 15,593	$ 14,886	$ 14,968
	$ 428	$ 448	$ 436
	22	21	15
	58	57	57
	$ 508	$ 526	$ 508

FINANCIAL TRENDS

Schedule 2 – Changes in Net Assets

Last Seven Fiscal Years (expressed in millions)
(accrual basis of accounting)

	2008	2007	2006	2005
EXPENSES				
Governmental Activities:				
General government	$ 1,609	$ 1,525	$ 1,320	$ 925
Education - elementary and secondary (K-12)	7,476	6,871	6,642	6,283
Education - higher education	5,710	5,244	4,804	4,454
Human services	11,260	10,473	10,082	9,852
Adult corrections	1,020	811	749	640
Natural resources and recreation	931	983	777	229
Transportation	1,894	1,588	1,527	1,457
Intergovernmental grants*	-	-	-	335
Interest on long-term debt	643	553	533	505
Total Governmental Activities Expenses	30,543	28,048	26,434	24,680
Business-Type Activities:				
Workers' compensation	4,068	3,841	2,267	2,407
Unemployment compensation	791	697	736	870
Higher education student services	1,470	1,305	1,254	1,170
Health insurance programs**	-	-	1,244	1,138
Other	1,204	1,103	1,042	988
Total Business-Type Activities Expenses	7,533	6,946	6,543	6,573
Total Primary Government Expenses	$ 38,076	$ 34,994	$ 32,977	$ 31,253
PROGRAM REVENUES				
Governmental Activities:				
Charges for services:				
General government	$ 651	$ 576	$ 513	$ 439
Education - elementary and secondary (K-12)	13	14	13	14
Education - higher education	1,718	1,545	1,282	1,316
Human services	251	236	234	311
Adult corrections	10	10	6	11
Natural resources and recreation	376	393	390	385
Transportation	894	844	787	685
Operating grants and contributions	8,725	8,286	8,260	8,238
Capital grants and contributions	746	744	610	675
Total Governmental Activities Program Revenues	13,384	12,648	12,095	12,074
Business-Type Activities:				
Charges for services:				
Workers' compensation	1,596	1,710	1,790	1,719
Unemployment compensation	1,094	1,248	1,411	1,458
Higher education student services	1,444	1,347	1,266	1,188
Health insurance programs *	-	-	1,342	1,200
Other	1,230	1,166	1,102	1,050
Operating grants and contributions	42	46	55	71
Capital grants and contributions	-	-	-	(2)
Total Business-Type Activities Program Revenues	5,406	5,518	6,966	6,684
Total Primary Government Program Revenues	$ 18,790	$ 18,166	$ 19,061	$ 18,758
NET (EXPENSE)/REVENUE				
Governmental Activities	$ (17,159)	$ (15,400)	$ (14,339)	$ (12,606)
Business-Type Activities	(2,127)	(1,427)	423	111
Total Primary Government Net Expense	$ (19,286)	$ (16,827)	$ (13,916)	$ (12,495)

* Intergovernmental grants is zero starting in 2006 due to reclassification to the appropriate governmental activity.

** Health Insurance programs is zero starting in 2007 due to fund reclassifications.

Notes: The State did not begin reporting government-wide statements until it implemented GASB Statement No. 34 in 2002.

Figures may not total due to rounding.

Source: State of Washington Agency Financial Reporting System

continued

2004	2003	2002
$ 918	$ 812	$ 997
6,086	5,960	5,747
4,216	3,750	3,920
9,348	8,971	8,904
644	658	600
651	732	564
1,310	1,422	1,264
329	341	350
478	415	578
23,980	23,061	22,924
2,389	2,617	2,146
1,745	2,329	1,872
1,130	912	810
1,044	1,051	994
951	938	924
7,259	7,847	6,746
$ 31,239	$ 30,908	$ 29,670
$ 449	$ 413	$ 439
11	8	6
1,250	1,095	986
359	335	523
6	7	13
339	321	362
677	621	576
7,942	7,129	6,633
519	588	550
11,552	10,517	10,088
1,515	1,316	1,070
1,345	1,130	1,161
1,128	932	823
1,042	1,070	982
1,028	992	950
468	769	269
4	60	-
6,530	6,269	5,255
$ 18,082	$ 16,786	$ 15,343
$ (12,428)	$ (12,544)	$ (12,836)
(729)	(1,578)	(1,491)
$ (13,157)	$ (14,122)	$ (14,327)

FINANCIAL TRENDS

Schedule 2 – Changes in Net Assets

Last Seven Fiscal Years (expressed in millions)
(accrual basis of accounting)

	2008	2007	2006	2005
GENERAL REVENUES & OTHER CHANGES IN NET ASSETS				
Governmental Activities:				
Taxes:				
Sales and use tax	$ 8,341	$ 7,951	$ 7,429	$ 6,736
Business and occupation	2,851	2,756	2,484	2,291
Property	1,742	1,689	1,630	1,590
Other	3,959	4,308	3,957	3,370
Interest and investment earnings	464	818	475	363
Contributions to endowments	95	97	131	69
Extraordinary loss (asset impairment)	-	-	(84)	-
Transfers	272	204	252	184
Total Governmental Activities	17,724	17,824	16,273	14,603
Business-Type Activities:				
Taxes - other	115	108	100	95
Interest and investment earnings	767	1,316	147	1,249
Transfers	(272)	(204)	(252)	(184)
Total Business-Type Activities	610	1,220	(5)	1,160
Total Primary Government	$ 18,334	$ 19,044	$ 16,268	$ 15,763
CHANGE IN NET ASSETS				
Governmental Activities	$ 565	$ 2,424	$ 1,934	$ 1,997
Business-Type Activities	(1,517)	(207)	418	1,271
Total Primary Government	$ (952)	$ 2,216	$ 2,352	$ 3,268
COMPONENT UNITS				
Total expenses	$ 30	$ 30	$ 29	$ 29
Program revenues:				
Charges for services	16	15	13	12
Operating grants and contributions	-	-	-	1
Capital grants and contributions	1	1	1	1
Total program revenues	17	16	14	13
Net (expense) / revenue	(13)	(14)	(15)	(16)
General revenues - sales and use taxes	-	-	-	-
General revenues - interest and investment earnings	7	5	3	3
Total Component Units - Change in net assets	$ (6)	$ (9)	$ (12)	$ (13)

Notes: The State did not begin reporting government-wide statements until it implemented GASB Statement No. 34 in 2002.

Figures may not total due to rounding.

Source: State of Washington Agency Financial Reporting System

concluded

2004	2003	2002
$ 6,234	$ 5,974	$ 5,879
2,078	1,940	1,934
1,527	1,483	1,426
3,253	2,805	2,791
294	252	189
46	36	29
-	-	-
199	619	148
13,632	13,109	12,397
116	86	83
286	1,316	613
(199)	(619)	(148)
203	783	548
$ 13,835	$ 13,893	$ 12,945
$ 1,204	$ 565	$ (439)
(526)	(795)	(943)
$ 678	$ (229)	$ (1,382)
$ 30	$ 28	$ 11
11	10	10
-	-	55
1	31	-
12	41	65
(18)	14	54
-	2	1
-	2	3
$ (18)	$ 18	$ 59

FINANCIAL TRENDS
Schedule 3 – Fund Balances, Governmental Funds
Last Seven Fiscal Years (expressed in thousands)
(modified accrual basis of accounting)

	2008	2007	2006	2005
GENERAL FUND				
Reserved	$ 200,794	$ 119,687	$ 230,848	$ 55,602
Unreserved, designated for:				
Working capital	1,040,563	1,002,963	1,076,631	1,004,131
Unrealized gains	-	-	-	-
Unreserved, undesignated	677,431	780,510	569,326	865,443
Total General Fund	1,918,788	1,903,160	1,876,805	1,925,176
ALL OTHER GOVERNMENTAL FUNDS				
Reserved	6,549,844	5,435,860	5,061,345	4,546,263
Unreserved, designated for:				
Unrealized gains	-	-	-	-
Higher education	155,679	155,679	155,679	155,679
Special revenue funds	220	221	229	165
Debt service funds	362,122	220,474	206,228	177,961
Other specific purpose	-	-	-	-
Unreserved, undesignated	1,006,121	1,151,829	454,714	573,576
Unreserved, undesignated, reported in:				
Nonmajor special revenue funds	2,432,112	3,040,036	2,585,037	1,528,463
Nonmajor capital project funds	106,741	246,060	70,275	166,393
Total All Other Governmental Funds	10,612,839	10,250,159	8,533,507	7,148,500
Total Governmental Fund Balances	$ 12,531,627	$ 12,153,319	$ 10,410,312	$ 9,073,676

Note: The State did not begin reporting government-wide statements until it implemented GASB Statement No. 34 in 2002.

Source: State of Washington Agency Financial Reporting System

2004	2003	2002
$ 166,043	$ 48,687	$ 91,031
964,631	908,194	848,153
-	6,944	-
385,436	404,376	398,374
1,516,110	1,368,201	1,337,558
4,209,890	3,682,240	3,874,727
3,809	4,814	2,343
155,679	-	-
174	-	-
288,231	100,354	101,557
-	155,847	155,816
515,597	569,134	284,873
1,474,023	1,211,403	1,343,467
-	109,627	31,649
6,647,403	5,833,419	5,794,432
$ 8,163,513	$ 7,201,620	$ 7,131,990

FINANCIAL TRENDS
Schedule 4 – Revenues, Expenditures, and Other Financing Sources (Uses)
All Governmental Fund Types
Last Ten Fiscal Years (expressed in millions)

	2008	2007	2006	2005	2004*
REVENUES					
Taxes:					
Retail sales	$ 7,822	$ 7,441	$ 6,958	$ 6,285	$ 5,841
Business and occupation	2,851	2,756	2,484	2,291	2,078
Use (compensating)	519	511	471	451	394
Motor vehicle and fuel	1,170	1,135	1,030	931	926
Liquor, beer, and wine	214	207	197	152	144
Cigarette and tobacco	413	439	469	354	353
Insurance premiums	415	392	379	357	346
Public utility	428	408	381	345	330
Property	1,742	1,688	1,630	1,590	1,527
Excise	781	1,107	1,067	902	687
Gift and inheritance	111	183	19	(38)	140
Other (less credits)	427	437	419	360	335
Total Taxes	16,892	16,704	15,502	13,981	13,100
Licenses, permits, and fees	911	863	788	707	666
Federal grants-in-aid	8,767	8,317	8,095	8,010	7,702
Charges and miscellaneous revenue	3,869	3,559	3,345	3,350	3,184
Investment income	464	818	475	363	294
Total Revenues	30,903	30,261	28,206	26,411	24,946
EXPENDITURES					
Current:					
General government	1,254	1,146	990	934	860
Human services	12,115	11,242	10,777	10,486	9,962
Natural resources and recreation	897	906	729	704	643
Transportation	1,803	1,647	1,489	1,487	1,297
Education	12,860	11,789	11,103	10,539	10,085
Intergovernmental	379	378	359	335	330
Capital outlays	2,264	2,296	1,710	1,741	1,542
Debt service:					
Principal	586	528	500	461	415
Interest	589	545	509	497	468
Total Expenditures	32,748	30,477	28,165	27,183	25,601
Revenues Over (Under) Expenditures	(1,845)	(216)	41	(772)	(655)
OTHER FINANCING SOURCES (USES):					
Bonds issued, net of refunding	1,957	1,674	1,162	1,190	1,214
Other debt issued	19	63	44	26	18
Transfers in	2,628	3,308	3,312	2,771	2,100
Transfers out	(2,382)	(3,086)	(3,068)	(2,501)	(1,864)
Capital lease acquisitions	-	-	-	-	-
Net Other Financing Sources (Uses)	2,222	1,959	1,451	1,487	1,469
Net Change in Fund Balances	$ 377	$ 1,743	$ 1,492	$ 715	$ 814
Debt service as a percentage of noncapital expenditures	4.0%	4.0%	4.0%	3.9%	3.8%

*Certain fund type reclassifications occurred in Fiscal Years 2002, 2003 and 2004.

Note: Figures may not total due to rounding.

Source: State of Washington Agency Financial Reporting System

2003*	2002*	2001	2000	1999
$ 5,605	$ 5,500	$ 5,525	$ 5,433	$ 4,989
1,940	1,934	2,018	1,830	1,850
369	380	410	380	333
752	743	736	964	718
134	129	125	119	91
362	331	265	277	278
317	291	280	261	239
309	307	303	282	249
1,483	1,426	1,367	1,333	1,277
583	502	509	632	1,135
124	114	106	83	70
223	258	264	215	194
12,203	11,914	11,908	11,808	11,423
651	612	614	596	556
6,974	6,574	5,758	5,304	4,763
2,937	2,769	2,146	2,015	1,725
252	189	228	202	203
23,016	22,060	20,654	19,926	18,670
803	870	881	707	720
9,538	9,339	8,379	7,709	7,045
689	640	637	552	553
1,363	1,283	1,094	873	873
9,472	9,002	8,470	7,962	7,610
341	350	321	646	442
1,489	1,206	1,192	1,189	1,179
441	429	400	388	351
418	402	395	359	350
24,553	23,520	21,770	20,385	19,124
(1,537)	(1,460)	(1,116)	(457)	(454)
797	938	820	581	520
32	10	23	26	13
2,775	2,758	2,286	1,844	1,768
(2,146)	(2,614)	(1,907)	(1,646)	(1,614)
7	-	10	-	-
1,465	1,092	1,234	804	687
$ (73)	$ (368)	$ 118	$ 347	$ 233
3.9%	3.9%	4.0%	4.1%	4.1%

FINANCIAL TRENDS
Schedule 5 – Revenues, Expenditures, and Other Financing Sources (Uses)
General Fund
Last Ten Fiscal Years (expressed in millions)

	2008	2007	2006	2005	2004
REVENUES					
Taxes:					
Retail sales	$ 7,744	$ 7,366	$ 6,892	$ 6,229	$ 5,786
Business and occupation	2,760	2,685	2,412	2,228	2,019
Use (compensating)	512	504	465	446	388
Liquor, beer, and wine	157	154	147	105	100
Cigarette and tobacco	47	58	61	61	62
Insurance premiums	261	249	242	228	218
Public utility	415	395	369	334	318
Property	1,495	1,442	1,384	1,395	1,393
Excise	707	1,014	977	808	623
Gift and inheritance	4	4	(1)	(38)	140
Other taxes	205	226	216	192	178
Total Taxes	14,307	14,097	13,165	11,988	11,225
Licenses, permits, and fees	97	92	85	79	76
Federal grants-in-aid	6,557	6,204	6,113	6,012	5,917
Charges and miscellaneous revenue	364	327	283	429	388
Investment income	123	106	73	36	5
Total Revenues	21,449	20,826	19,720	18,544	17,610
EXPENDITURES					
Current:					
General government	663	640	602	552	515
Human services	10,921	10,191	9,809	9,519	8,989
Natural resources and recreation	336	361	292	271	268
Transportation	42	39	42	27	27
Education	8,235	7,765	7,407	7,243	6,977
Intergovernmental	31	30	28	28	27
Capital outlays	57	49	56	78	67
Debt service:					
Principal	15	15	15	12	10
Interest	-	-	1	2	-
Total Expenditures	20,300	19,090	18,252	17,733	16,880
Revenues Over (Under) Expenditures	1,149	1,736	1,468	811	730
OTHER FINANCING SOURCES (USES)					
Other debt issued	12	5	17	16	5
Transfers in	72	128	248	524	308
Transfers out	(1,217)	(1,843)	(1,825)	(942)	(895)
Net Other Financing Sources (Uses)	(1,133)	(1,710)	(1,560)	(402)	(582)
Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	$ 16	$ 26	$ (92)	$ 409	$ 148

Note: Figures may not total due to rounding.

Source: State of Washington Agency Financial Reporting System

2003	2002	2001	2000	1999
$ 5,579	$ 5,464	$ 5,502	$ 5,420	$ 4,988
1,893	1,889	2,031	1,838	1,847
369	379	410	381	334
93	90	88	84	80
63	77	98	102	87
203	183	178	173	158
298	296	303	282	249
1,349	1,293	1,367	1,333	1,277
515	431	477	553	816
124	114	106	83	70
123	126	116	92	114
10,610	10,342	10,675	10,340	10,019
75	76	124	131	122
5,354	5,131	4,634	4,305	3,864
425	338	501	487	452
36	20	111	107	99
16,498	15,906	16,045	15,369	14,556
496	527	674	551	569
8,538	8,304	7,653	7,055	6,503
271	263	368	297	299
16	29	48	46	41
6,911	6,778	6,608	6,241	5,983
27	23	57	172	186
65	58	95	72	85
16	11	16	16	16
-	2	3	4	2
16,339	15,993	15,523	14,453	13,685
159	(87)	522	916	871
11	7	6	4	3
588	676	432	432	429
(728)	(740)	(1,044)	(1,091)	(1,018)
(129)	(58)	(606)	(655)	(585)
$ 31	$ (144)	$ (84)	$ 262	$ 286

REVENUE CAPACITY
Schedule 6 – Sales Subject to Retail Sales Tax by Industry
Last Ten Calendar Years (dollars in millions)

Industry (1)	2007	2006	2005	2004	2003
Retail trade:					
Building materials, garden equipment and supplies	$ 5,377	$ 5,379	$ 4,936	$ 4,437	$ 3,883
General merchandise stores	9,980	9,538	8,907	8,289	7,773
Motor vehicles & parts	12,741	12,461	12,049	11,482	11,073
All other retail trade	23,565	22,308	20,296	18,516	17,429
Construction	24,435	21,818	18,515	15,934	14,076
Accommodations & food services	11,033	10,253	9,520	8,836	8,259
Wholesale trade	9,328	8,601	8,240	7,584	7,176
Manufacturing	3,085	2,699	2,492	2,268	2,118
Information	4,766	4,614	4,628	4,409	4,325
All other industries	14,647	13,771	12,571	11,681	11,547
Total	$ 118,957	$ 111,442	$ 102,154	$ 93,436	$ 87,659
Direct sales tax rate (2)	6.5%	6.5%	6.5%	6.5%	6.5%

(1) Based on North American Industry Classification System (NAICS) codes.

(2) State tax rate only; excludes local sales tax rate.

Source: Quarterly Business Review, Washington State Department of Revenue

2002	2001	2000	1999	1998
$ 3,501	$ 3,271	$ 3,254	$ 3,227	$ 3,021
7,557	7,354	7,132	6,721	6,282
10,595	10,226	10,253	9,281	8,636
16,959	16,912	17,252	16,604	15,734
13,719	13,878	14,297	13,053	11,615
7,935	7,772	7,614	7,149	6,708
7,225	7,662	8,035	7,907	7,500
2,061	2,116	2,201	2,139	2,211
4,323	4,334	4,168	3,846	3,294
11,486	11,374	11,132	10,300	9,576
$ 85,361	$ 84,899	$ 85,338	$ 80,227	$ 74,577
6.5%	6.5%	6.5%	6.5%	6.5%

REVENUE CAPACITY
Schedule 7 – Number of Retail Sales Tax Payers by Industry
Current Calendar Year and Nine Years Ago

	2007			1998		
Industry (1)	Number of Businesses	Rank	Percentage of Total Businesses	Number of Businesses	Rank	Percentage of Total Businesses
All other industries	65,433	1	33.4%	55,771	1	31.9%
All other retail trade	44,181	2	22.6%	42,863	2	24.6%
Construction	40,783	3	20.8%	33,237	3	19.0%
Accommodations & food services	17,278	4	8.8%	13,958	4	8.0%
Wholesale trade	10,506	5	5.4%	11,119	5	6.4%
Manufacturing	8,577	6	4.4%	7,908	6	4.5%
Retail trade: Motor vehicles & parts	3,343	7	1.7%	3,539	7	2.0%
Information	2,766	8	1.4%	2,599	9	1.5%
Retail trade: Building materials, garden equipment & supplies	2,535	9	1.3%	3,123	8	1.8%
Retail trade: General merchandise stores	373	10	0.2%	498	10	0.3%
Total	195,775		100%	174,615		100%

(1) Based on North American Industry Classification System (NAICS) codes.

Note: The State of Washington is legally prohibited from disclosing the names of individual taxpayers. The information in this table is intended to assist readers in understanding the degree to which the state's retail sales tax revenue may be concentrated.

Source: Washington State Department of Revenue

REVENUE CAPACITY

Schedule 8 – Number of Business and Occupation Tax Payers by Industry

Current Calendar Year and Nine Years Ago

	2007			1998		
Industry (1)	Number of Businesses	Rank	Percentage of Total Businesses	Number of Businesses	Rank	Percentage of Total Businesses
Retailing	180,412	1	41.9%	158,893	1	41.4%
Service and other activities	134,068	2	31.1%	97,059	2	25.3%
Wholesaling	86,284	3	20.1%	75,609	3	19.7%
Other business & occupation tax classifications	18,463	4	4.3%	40,639	4	10.6%
Manufacturing	10,438	5	2.4%	10,209	5	2.7%
Retailing of interstate transportation equipment	967	6	0.2%	1,219	6	0.3%
Total	430,632		100%	383,628		100%

(1) Based on North American Industry Classification System (NAICS) codes.

Note: The State of Washington is legally prohibited from disclosing the names of individual taxpayers. The information in this table is intended to assist readers in understanding the degree to which the state's business and occupation tax revenue may be concentrated.

Source: Washington State Department of Revenue

REVENUE CAPACITY

Schedule 9 – Taxable Sales by Business and Occupation Tax Classification

Last Ten Calendar Years (dollars in millions)

	2007	2006	2005	2004	2003
Retailing	$ 155,997	$ 146,018	$ 133,888	$ 121,453	$ 112,158
Wholesaling	128,820	113,614	110,516	98,988	91,610
Service and other activities	75,729	69,571	63,270	56,575	51,968
Manufacturing	25,829	29,101	29,988	31,814	25,333
Manufacturing, wholesaling, and retailing of airplanes and components	32,672	27,277	5,006	N/A	N/A
Retailing of interstate transportation equipment	1,018	961	8,398	10,996	10,389
Other business & occupation tax classifications	40,013	33,617	30,545	29,043	27,416
Total	$ 460,078	$ 420,159	$ 381,611	$ 348,869	$ 318,875
State B & O tax rate range	0.1 - 1.6%	0.1 - 1.6%	0.1 - 1.6%	0.1 - 1.5%	0.1 - 1.5%

Note: Beginning in 2005, the Department of Revenue stopped tracking data using Standard Industrial Classification (SIC) codes and began using North American Industrial Classification System (NAICS) codes.

N/A indicates data not available.

Source: Quarterly Business Review, Washington State Department of Revenue

2002	2001	2000	1999	1998
$ 108,462	$ 108,329	$ 108,312	$ 101,136	$ 94,738
90,567	109,153	111,698	106,634	98,889
48,204	48,834	47,610	41,857	31,611
25,036	27,471	32,941	31,894	33,533
N/A	N/A	N/A	N/A	N/A
13,401	3,849	3,794	4,722	3,531
26,504	24,043	22,413	20,969	19,260
$ 312,175	$ 321,678	$ 326,766	$ 307,212	$ 281,561
0.1 - 1.5%	0.1 - 1.5%	0.1 - 1.5%	0.1 - 1.5%	0.1 - 1.5%

DEBT CAPACITY

Schedule 10 – Ratios of Outstanding Debt by Type

Last Ten Fiscal Years (dollars in millions, except per capita)

	2008	2007	2006	2005	2004
GOVERNMENTAL ACTIVITIES DEBT					
General obligation bonds	$ 12,927	$ 11,573	$ 10,464	$ 9,842	$ 9,173
Revenue bonds	524	608	615	564	511
Certificates of participation	383	382	333	315	274
Capital leases/installment contracts	15	20	18	24	28
Total Governmental Activities Debt	13,849	12,583	11,430	10,745	9,986
BUSINESS-TYPE ACTIVITIES DEBT					
General obligation bonds	80	101	120	138	155
Higher education revenue bonds	1,115	889	794	585	520
Certificates of participation	261	246	239	251	247
Capital leases	15	21	21	21	14
Total Business-Type Activities Debt	1,471	1,257	1,174	995	936
Total Primary Government Debt	$ 15,320	$ 13,840	$ 12,604	$ 11,740	$ 10,922
DEBT RATIOS					
TOTAL PRIMARY GOVERNMENT					
Ratio of total debt to personal income (1)	5.77%	5.21%	5.13%	5.18%	5.00%
Total debt per capita (2)	$ 2,326	$ 2,133	$ 1,977	$ 1,876	$ 1,771
GENERAL BONDED DEBT					
Ratio of general bonded debt to retail sales subject to tax (3)	10.93%	9.86%	9.55%	9.77%	9.98%
General bonded debt per capita (2)	$ 1,974	$ 1,809	$ 1,669	$ 1,595	$ 1,512

(1) Personal income data can be found in Schedule 13. 2008 personal income data not available. Used 2007 personal income to calculate 2008 ratio.

(2) Population data can be found in Schedule 15.

(3) Retail sales subject to tax can be found in Schedule 6. 2007 Retail sales subject to tax used to calculate 2008 ratio.

Source: Washington State Office of Financial Management, Accounting Division

2003	2002	2001	2000	1999
$ 8,376	$ 7,997	$ 7,475	$ 7,055	$ 6,645
518	N/A	N/A	N/A	N/A
276	249	214	190	169
32	35	18	8	5
9,202	8,281	7,706	7,252	6,819
172	187	205	222	237
455	327	278	218	181
248	236	275	274	96
6	2	2	2	2
881	752	759	716	516
$ 10,083	$ 9,033	$ 8,465	$ 7,968	$ 7,335
4.97%	4.57%	4.37%	4.24%	4.18%
$ 1,653	$ 1,495	$ 1,417	$ 1,352	$ 1,258
9.75%	9.59%	9.05%	8.53%	8.58%
$ 1,402	$ 1,355	$ 1,285	$ 1,235	$ 1,180

DEBT CAPACITY

Schedule 11 – Legal Debt Margin Information

Last Ten Fiscal Years (dollars in millions)

	2008	2007	2006	2005	2004
Debt service limitation	$ 948	$ 928	$ 839	$ 695	$ 639
Total debt service applicable to limit	747	772	740	623	594
Debt service capacity	$ 201	$ 156	$ 99	$ 72	$ 45
Debt service capacity as a percentage of total debt service limitation	21.2%	16.8%	11.8%	10.4%	7.0%
Remaining state general obligation debt capacity (2)	$ 2,889	$ 2,390	$ 1,484	$ 993	$ 607
Debt outstanding bonds issued & projected sales subject to debt service limitation	7,244	7,439	7,304	6,047	5,693
Maximum debt authorization subject to limitation	$ 10,133	$ 9,829	$ 8,788	$ 7,040	$ 6,300
Remaining debt capacity as a percentage of maximum debt authorized	28.5%	24.3%	16.9%	14.1%	9.6%

Legal debt limitation calculation for Fiscal Year 2008

Three year mean, general state revenues	$ 13,545
Legal debt limitation:	
Debt service limitation (7% of above)	948
Less: Projected maximum annual debt service of outstanding	
Bonds as of June 30 of the preceding fiscal year	747
Debt service capacity	$ 201
Remaining state general obligation debt capacity (3)	$ 2,889
Plus: Debt outstanding, bond issues & projected sales subject	
to debt service limitation as of June 30 of the preceding fiscal year	7,244
Maximum debt authorization subject to limitation	$ 10,133

(1) The constraining limit for 2008 is the statutory limitation.

(2) The remaining debt capacity each year is the calculated present value of the debt service capacity utilizing a yearly interest rate assumption.

(3) Interest rate assumption for 2008 is 4.83 percent.

Source: Certification of the Debt Limitation of the State of Washington, Office of the State Treasurer

2003	2002	2001	2000	1999
$ 622	$ 606	$ 581	$ 554	$ 529
560	567	560	531	504
$ 62	$ 39	$ 21	$ 23	$ 25
10.0%	6.4%	3.6%	4.2%	4.7%
$ 846	$ 550	$ 299	$ 294	$ 375
5,622	5,406	5,114	4,870	4,647
$ 6,468	$ 5,956	$ 5,413	$ 5,164	$ 5,022
13.1%	9.2%	5.5%	5.7%	7.5%

DEBT CAPACITY

Schedule 12 – Revenue Bond Coverage (1)

Last Ten Fiscal Years (dollars in millions)

Fiscal Year	Gross Revenues (2)	Less: Operating Expenses (3)	Net Available Revenue	Scheduled Debt Service (4) Principal	Interest	Coverage Ratio
GOVERNMENTAL ACTIVITIES *						
2008	$ 67	$ 2	$ 65	$ 25	$ 36	1.05
2007	48	2	46	7	37	1.04
2006	41	1	40	5	35	0.99
2005	41	-	41	8	34	0.97
2004	39	-	39	7	33	0.96
2003	N/A	N/A	-	N/A	N/A	-
2002	N/A	N/A	-	N/A	N/A	-
2001	N/A	N/A	-	N/A	N/A	-
2000	N/A	N/A	-	N/A	N/A	-
1999	N/A	N/A	-	N/A	N/A	-
BUSINESS-TYPE ACTIVITIES **						
2008	$ 1,355	$ 1,264	$ 91	$ 32	$ 44	1.19
2007	1,270	1,120	150	16	39	2.73
2006	1,176	1,072	104	14	29	2.44
2005	1,102	998	104	12	26	2.74
2004	1,047	971	76	10	16	2.92
2003	991	917	74	8	17	2.96
2002	905	854	51	8	12	2.55
2001	819	806	13	6	12	0.72
2000	745	716	29	5	10	1.93
1999	721	675	46	6	8	3.29

(1) The majority of the state's revenue bonds are issued by higher education agencies which pledge income from acquired or constructed assets. Governmental activities include $490 million of Tobacco Settlement Authority (TSA) revenue bonds. These 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. Governmental activities also include $56.8 million of Tumwater Office Properties (TOP) revenue bonds.

(2) Total operating revenues.

(3) Total operating expenses exclusive of depreciation.

(4) Scheduled debt service amounts are based on previous fiscal year disclosure information collected from individual agencies and reported in Note 7.

N/A - No revenue bonds outstanding for governmental activities prior to 2004.

* There are no state revenues pledged for the Tobacco Settlement Authority bonds.

** The state's higher education revenue bonds pledge income from acquired or constructed assets.

Source: Washington State Office of Financial Management, Accounting Division

DEMOGRAPHIC INFORMATION

Schedule 13 – Personal Income Comparison Washington State vs. United States

Last Ten Calendar Years (dollars in billions)

	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
(In Current Dollars)										
WASHINGTON STATE										
Amount	$ 266	$ 246	$ 227	$ 218	$ 203	$ 198	$ 194	$ 188	$ 176	$ 164
Percent change	8%	9%	4%	8%	3%	2%	3%	7%	7%	9%
Per capita	40,701	38,318	35,955	35,218	33,136	32,567	32,250	31,709	29,973	28,329
UNITED STATES										
Amount	$ 11,663	$ 10,994	$ 10,270	$ 9,727	$ 9,164	$ 8,882	$ 8,724	$ 8,430	$ 7,802	$ 7,423
Percent change	6%	7%	6%	6%	3%	2%	4%	8%	5%	7%
Per capita	38,567	36,698	34,610	33,085	31,457	30,780	30,532	29,806	27,891	26,840
Washington Rate as % of United States Rate	106%	104%	104%	106%	105%	106%	106%	106%	107%	106%

Source: Economic Forecast, November 2008, Washington State Economic and Revenue Forecast Council

DEMOGRAPHIC INFORMATION

Schedule 14 – Personal Income by Component

Last Ten Calendar Years (dollars in billions)

	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Total personal income	$ 266	$ 246	$ 227	$ 218	$ 203	$ 197	$ 194	$ 188	$ 176	$ 164
Percent change	8%	9%	4%	8%	3%	2%	3%	7%	7%	9%
Total earnings	$ 202	$ 189	$ 175	$ 166	$ 157	$ 153	$ 150	$ 147	$ 138	$ 127
Percent change	7%	8%	5%	6%	3%	2%	2%	6%	9%	10%
Wages and salaries	$ 147	$ 136	$ 126	$ 119	$ 114	$ 111	$ 111	$ 110	$ 104	$ 94
Percent change	8%	8%	6%	5%	2%	1%	1%	6%	10%	11%
Other labor income	$ 34	$ 33	$ 31	$ 29	$ 27	$ 25	$ 23	$ 23	$ 21	$ 20
Percent change	5%	5%	7%	9%	5%	10%	1%	8%	6%	9%
Farm proprietor's income	$ 0.5	$ 0.1	$ 0.2	$ 0.5	$ 0.7	$ 0.4	$ 0.2	$ 0.4	$ 0.4	$ 0.7
Percent change	291%	-45%	-58%	-26%	84%	98%	-50%	0%	-43%	0%
Nonfarm proprietor's income	$ 20	$ 19	$ 18	$ 17	$ 16	$ 16	$ 16	$ 14	$ 13	$ 12
Percent change	4%	9%	3%	11%	-1%	-1%	16%	7%	10%	8%
Less:										
Social ins. contributions	$ 24	$ 23	$ 22	$ 20	$ 19	$ 18	$ 18	$ 18	$ 17	$ 16
Percent change	6%	7%	6%	7%	5%	2%	-2%	7%	6%	10%
Plus:										
Residence adjustment	$ 3	$ 3	$ 3	$ 2	$ 2	$ 2	$ 2	$ 2	$ 2	$ 2
Percent change	3%	12%	4%	1%	1%	4%	5%	16%	6%	6%
Dividends, interest, and rent	$ 51	$ 46	$ 41	$ 42	$ 34	$ 34	$ 34	$ 35	$ 31	$ 32
Percent change	12%	12%	-3%	22%	2%	-1%	-2%	10%	0%	9%
Transfer payments	$ 34	$ 32	$ 30	$ 28	$ 28	$ 27	$ 25	$ 22	$ 21	$ 20
Percent change	6%	7%	5%	1%	5%	6%	13%	6%	6%	4%

Note: Figures may not total due to rounding.

Source: Economic Forecast, November 2008, Washington State Economic and Revenue Forecast Council

DEMOGRAPHIC INFORMATION

Schedule 15 – Population and Components of Change
Washington State vs. United States

Last Ten Calendar Years (figures in thousands)

	2008	2007	2006	2005	2004	2003	2002
United States Population (1)	N/A	301,621	298,755	295,896	293,192	290,448	287,888
Percent change	N/A	1.0%	1.0%	0.9%	0.9%	0.9%	1.0%
Washington Population (2)	6,587.6	6,488.0	6,375.6	6,256.4	6,167.8	6,098.3	6,041.7
Percent change	1.5%	1.8%	1.9%	1.4%	1.1%	0.9%	1.1%
Washington Population Change (3)							
Number	99.6	112.4	119.2	88.6	69.5	56.6	66.8
Births number	89.7	88.0	83.2	81.8	81.0	79.1	79.3
Deaths number	49.0	46.1	45.3	45.6	46.0	44.7	44.9
Net migration number	58.9	70.5	81.3	52.4	34.6	22.3	32.4

(1) United States population estimates are as of July 1 of each year. 2008 population estimates not available.

(2) Washington population figures are as of April 1 of each year.

(3) Births, deaths, and migration year figures are April through March. These figures are estimated for 2007 and 2008.

Sources:
2008 Population Trends, Washington State Office of Financial Management, Forecasting Division (Washington State data)
American FactFinder, U.S. Census Bureau (United States data)

DEMOGRAPHIC INFORMATION

Schedule 16 – Annual Average Civilian Labor Force Unemployment Rates
Washington State vs. United States

Last Ten Calendar Years (figures in thousands)

	2007	2006	2005	2004	2003	2002	2001
WASHINGTON STATE							
Civilian labor force	3,408	3,334	3,271	3,208	3,146	3,105	3,053
Employment	3,253	3,171	3,091	3,008	2,913	2,877	2,864
Total Unemployment	155	163	180	200	233	228	189
Unemployment percentage rate	4.5%	4.9%	5.5%	6.2%	7.4%	7.3%	6.2%
UNITED STATES							
Civilian labor force	153,100	151,400	149,300	147,400	146,500	145,100	143,900
Employment	146,000	144,400	141,700	139,200	137,700	136,500	136,900
Total Unemployment	7,100	7,000	7,600	8,200	8,800	8,600	7,000
Unemployment percentage rate	4.6%	4.6%	5.1%	5.6%	6.0%	5.9%	4.9%
Washington Rate as % of United States rate	97.8%	106.5%	107.8%	110.7%	123.3%	123.7%	126.5%

Source: Economic Forecast, November 2008, Washington State Economic and Revenue Forecast Council

2001	2000	1999
285,112	282,194	279,040
1.0%	1.1%	1.2%
5,974.9	5,894.1	5,830.8
1.4%	1.1%	1.4%
80.8	63.3	80.8
80.7	79.9	79.8
43.9	43.7	43.1
44.0	27.2	44.2

2000	1999	1998
3,050	3,066	3,032
2,899	2,918	2,887
151	148	145
5.0%	4.8%	4.8%
142,600	141,000	139,100
136,900	133,500	131,500
5,700	7,500	7,600
4.0%	5.3%	5.5%
125.0%	90.6%	87.3%

DEMOGRAPHIC INFORMATION

Schedule 17 – Employment by Industry (Nonagricultural)

Last Ten Calendar Years (figures in thousands)

	2007	2006	2005	2004	2003
MANUFACTURING					
Food	34.1	33.9	33.8	34.1	34.8
Wood products	19.1	20.3	20.0	18.8	17.8
Paper and paper products	11.2	11.9	12.2	12.7	13.3
Primary and fabricated metals	25.9	24.3	23.1	22.3	22.1
Computer and electronic equipment	22.8	22.5	22.2	22.1	23.4
Machinery and electrical equipment	19.4	19.0	17.8	17.0	16.3
Aerospace	80.1	73.4	65.6	61.5	65.3
Other manufacturing	80.6	80.7	77.9	75.2	74.2
Total Manufacturing	293.2	286.0	272.6	263.7	267.2
NONMANUFACTURING					
Natural resources	8.2	8.7	9.0	9.1	8.6
Construction	207.4	194.9	177.4	164.2	156.2
Transportation, warehousing & utilities	96.0	94.0	92.2	89.8	87.9
Trade	456.9	447.6	438.3	428.7	421.9
Information	102.7	98.4	94.7	92.8	92.3
Financial activities	155.1	156.2	154.5	151.8	151.9
Services	1,078.8	1,043.4	1,011.6	977.3	951.0
State and local government	465.1	460.7	457.2	454.0	450.5
Federal civilian government	68.6	69.3	69.6	69.8	70.2
Total Nonmanufacturing	2,638.8	2,573.2	2,504.5	2,437.5	2,390.5
Total Wage and Salary Workers	2,932.0	2,859.2	2,777.1	2,701.2	2,657.7

Note: Figures may not total due to rounding.

Source: Economic Forecast, November 2008, Washington State Economic and Revenue Forecast Council

2002	2001	2000	1999	1998
35.3	37.3	38.9	38.6	38.3
18.0	19.0	21.9	21.2	21.9
13.2	14.1	14.4	15.2	15.6
23.5	27.0	29.8	30.0	31.4
26.2	32.4	34.4	33.3	35.0
16.7	18.5	19.8	19.2	18.3
75.7	87.2	86.2	98.3	112.0
76.4	80.7	86.6	87.7	88.0
285.0	316.2	332.0	343.5	360.5
9.4	9.8	10.0	10.6	10.3
154.2	158.8	160.6	153.8	143.4
88.3	92.4	95.4	94.3	93.5
421.0	431.4	436.5	424.8	412.5
93.6	99.0	97.6	85.2	77.2
146.1	145.2	142.3	141.9	136.3
940.3	939.2	951.2	919.4	895.2
446.9	437.5	413.5	406.8	398.7
69.2	67.9	69.9	67.6	67.2
2,369.0	2,381.2	2,377.0	2,304.4	2,234.3
2,654.0	2,697.4	2,709.0	2,647.9	2,594.8

DEMOGRAPHIC INFORMATION

Schedule 18 – Average Annual Wage Rates

Last Ten Calendar Years

Industry	2007	2006	2005	2004	2003
Mining	$ 59,366	$ 56,704	$ 53,836	$ 52,272	$ 50,551
Construction	50,403	47,169	44,672	43,061	41,953
Manufacturing	60,516	58,964	55,607	52,728	50,938
Transportation, warehousing & utilities	48,977	47,755	46,163	45,531	42,827
Retail trade	32,138	30,445	29,508	28,442	27,527
Wholesale trade	60,786	58,058	55,063	54,075	50,642
Information	106,569	95,759	88,920	92,189	101,542
Financial activities	61,635	59,651	55,321	54,940	51,542
Services	41,557	39,389	37,505	36,593	35,217
State and local government	42,571	40,420	38,747	37,513	36,579
Federal civilian government	61,862	59,151	57,666	56,032	52,859

Note: Employment and wages are reported on by North American Industry Classification System (NAICS) codes.

Source: Washington State Office of Financial Management, Forecasting Division

2002	2001	2000	1999	1998
$ 48,326	$ 48,330	$ 45,503	$ 42,388	$ 43,159
41,968	41,006	40,499	38,698	36,489
51,432	48,206	47,609	44,829	42,552
42,092	40,886	39,253	37,649	35,723
26,915	25,896	26,254	24,918	23,002
49,515	48,682	48,611	44,749	42,606
102,215	110,669	131,498	154,534	118,159
48,110	46,715	44,731	42,341	40,610
34,025	32,899	30,883	28,893	27,578
35,558	34,193	33,878	32,373	31,292
50,209	47,261	44,716	42,754	42,336

DEMOGRAPHIC INFORMATION

Schedule 19 – Principal Employers by Major Industry (1)

Current Calendar Year and Five Years Ago
(Ranked by Number of Employees)

		2007			2002		
Ranking	Major Industry	Number of Employees (2)	Percentage of Total (3)	Number of Employers	Number of Employees (2)	Percentage of Total (3)	Number of Employers
1	Government	509,022	17.4%	2,052	490,324	18.5%	2,017
2	Retail trade	321,206	11.0%	14,450	297,953	11.3%	16,040
3	Health care & social assistance	296,667	10.1%	13,529	260,778	9.9%	13,028
4	Manufacturing	289,286	9.9%	7,193	280,964	10.6%	7,738
5	Accommodation & food services	230,185	7.9%	12,375	199,896	7.6%	11,595
6	Construction	194,491	6.6%	24,904	142,285	5.4%	24,142
7	Prof., scientific, & technical services	151,728	5.2%	16,805	131,001	5.0%	16,191
8	Administrative & waste services	149,995	5.1%	9,116	118,810	4.5%	8,814
9	Wholesale trade	125,710	4.3%	12,473	111,634	4.2%	12,855
10	Other services	114,718	3.9%	49,316	74,461	2.8%	10,857

(1) The industry classifications are based on North American Industry Classification System (NAICS) codes. For trend analysis purposes, 2002 data is the first available year based on NAICS codes. Prior years are not available in a comparable coding structure.

(2) The number of employees represents only employees covered by unemployment insurance.

(3) The percentage in 2007 is based on total average employment of 2,926,417. The percentage in 2002 is based on total average employment of 2,643,715.

Note: The State of Washington is legally prohibited from disclosing the names of individual employers. The information in this table is intended to assist readers in understanding the degree of concentration in the state's employment base.

Source: Quarterly Census of Employment and Wages (QCEW) Annual Data, Labor Market and Economic Analysis Branch, Employment Security Department

DEMOGRAPHIC INFORMATION

Schedule 20 – Fortune 500 Companies Headquartered in Washington

Last Two Calendar Years
(Ranked by Company Revenues)

Ranking						
2007	2006	Company	Revenues (in millions)	Profit / (Loss) (in millions)	Employees Worldwide	Headquarters
29	32	Costco Wholesale	$ 64,400	$ 1,083	98,500	Issaquah
44	49	Microsoft	51,122	14,065	79,000	Redmond
97	81	Washington Mutual	25,531	(67)	49,403	Seattle
147	105	Weyerhaeuser	16,871	790	37,900	Federal Way
169	141	Paccar	15,222	1,227	21,800	Bellevue
171	237	Amazon	14,835	476	17,000	Seattle
277	310	Starbucks	9,411	673	172,000	Seattle
299	286	Nordstrom	8,828	715	55,000	Seattle
388	363	Safeco	6,209	708	7,057	Seattle
458	477	Expeditors Intl. of Washington	5,235	269	12,310	Seattle

Source: Fortune Magazine, May 5, 2008

DEMOGRAPHIC INFORMATION

Schedule 21 – Ranked Order of Commodities Value*

Last Ten Calendar Years (dollars in millions)

Commodities	Rank 2007	% Change 2007 Vs. 2006	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Apples	1	24.0	$1,746	$1,408	$1,032	$742	$1,178	$1,023	$900	$750	$856	$700
Milk (1)	2	54.4	1,062	688	836	861	675	674	827	716	825	847
Wheat	3	55.8	975	626	456	524	521	497	424	443	345	414
Potatoes	4	21.9	685	562	535	460	489	512	552	446	476	447
Cattle and calves	5	(1.2)	581	588	601	476	476	451	493	561	454	459
Hay, all	6	28.9	517	401	367	380	344	375	375	355	307	313
Nursery (2)	7	41.7	343	242	326	329	310	299	288	288	282	274
Cherries, all	8	19.8	327	273	338	242	176	151	148	157	116	129
Pears, all	9	11.9	178	159	142	128	129	116	109	106	121	108
Grapes, all	10	18.6	172	145	141	122	144	135	138	127	114	105
Hops	11	45.5	128	88	73	76	72	83	92	95	81	73
Farm forest products (3)	12	(15.0)	119	140	150	140	120	140	171	225	235	247
Corn, grain	13	94.9	115	59	46	62	41	38	27	47	42	47
Eggs	14	84.2	105	57	45	77	70	55	63	60	60	70
Aquaculture (4)	15	3.6	87	84	99	89	84	90	83	N/A	N/A	N/A
Sweet corn, all	16	19.7	85	71	70	67	76	72	66	70	64	66
Corn, silage	17	36.7	82	60	59	52	46	53	48	41	41	44
Barley	18	102.9	69	34	27	35	39	50	41	67	51	53
Broilers (5)	19	(17.9)	64	78	103	98	75	65	82	N/A	N/A	N/A
Onions, all	20	(75.0)	60	240	103	36	91	113	67	65	52	84

(1) Value at average returns per 100 pounds of milk in combined marketings of milk and cream plus value of milk used for home consumption and milk fed to calves.

(2) Includes greenhouse products and floriculture.

(3) Value of forest products sold from operations meeting the USDA farm definition.

(4) Includes trout eggs and fish. Excludes value of distributed fish.

(5) Washington Fryer Commission total weight multiplied by USDA U.S. average bird liveweight price per pound.

N/A indicates data not available.

*Acreage and/or yield data is preliminary. The value may not be finalized until up to 2 years after production.

Source: United States Department of Agriculture (USDA), Washington Agricultural Statistics Service

DEMOGRAPHIC INFORMATION

Schedule 22 – International Trade Facts (All Washington Ports)

Last Ten Calendar Years (dollars in millions)

	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Exports (1)	$ 78,453	$ 68,202	$ 51,533	$ 46,051	$ 41,776	$ 41,730	$ 42,935	$ 42,100	$ 46,513	$ 48,780
Imports	85,469	81,953	81,308	65,135	55,762	54,059	58,144	64,991	59,676	55,604
Trade balance	(7,016)	(13,752)	(29,775)	(19,084)	(13,987)	(12,329)	(15,209)	(22,891)	(13,163)	(6,824)
Two-way trade	163,922	150,155	132,841	111,186	97,538	95,789	101,079	107,091	106,189	104,384

(1) These figures indicate total international trade from the state of Washington, including bonded shipments to other states and Canada (includes Boeing Company figures).

Source: Washington State Department of Community, Trade and Economic Development (U.S. Census Bureau)

DEMOGRAPHIC INFORMATION

Schedule 23 – Major Export Trading Partners

Last Ten Calendar Years (dollars in millions)

Partners	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Canada	$ 15,267	$ 12,894	$ 10,581	$ 8,758	$ 7,141	$ 6,414	$ 6,525	$ 7,210	$ 6,904	$ 6,836
Japan	10,567	9,810	9,272	8,779	7,988	6,865	5,938	6,837	7,868	8,754
China (Mainland)	9,357	8,030	6,576	4,219	2,968	3,032	3,445	2,540	2,453	3,852
India	5,868	1,488	516	148	237	288	333	242	356	401
Taiwan	3,702	3,332	3,822	2,761	2,503	1,464	1,970	2,076	1,278	2,409
Korea	3,683	3,161	2,467	3,296	3,014	3,712	3,605	3,445	2,923	1,837
United Arab Emirates	2,937	4,352	2,218	109	683	950	215	248	715	373
Ireland	2,428	1,762	1,873	1,530	903	617	586	492	422	100
Singapore	2,301	2,805	1,395	1,602	2,186	2,459	2,770	690	1,434	1,745
France	2,279	1,760	1,361	2,011	597	1,883	1,157	950	1,337	836
United Kingdom	1,753	1,022	878	1,029	1,369	1,165	2,721	3,203	4,312	4,451
Netherlands	1,400	1,410	796	1,700	2,027	914	834	1,518	1,482	877
Hong Kong	1,395	825	754	754	697	652	824	785	861	1,429
Germany	1,394	974	623	514	758	983	1,728	1,855	2,043	2,278
Malaysia	1,102	1,537	428	696	277	939	742	414	529	1,469

Note: 1998 and 1999 statistics based on all Washington State ports, all methods of transportation.

Source: Washington State Department of Community, Trade and Economic Development (U.S. Census Bureau)

DEMOGRAPHIC INFORMATION

Schedule 24 – Major Import Trading Partners

Last Ten Calendar Years (dollars in millions)

Partners	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
China (Mainland)	$ 28,684	$ 24,198	$ 22,653	$ 16,138	$ 13,955	$ 12,155	$ 9,875	$ 10,651	$ 9,288	$ 8,428
Japan	16,925	18,555	21,390	18,291	15,917	15,658	17,074	20,022	19,622	19,303
Canada	15,858	15,980	15,245	13,367	11,425	10,389	12,659	14,690	11,961	10,429
Korea	4,235	4,264	4,270	3,468	2,788	2,637	2,558	2,793	2,507	2,337
Taiwan	3,610	3,451	3,519	2,776	2,160	2,382	3,200	4,021	3,845	4,105
Singapore	1,413	475	538	538	467	356	302	322	325	291
Thailand	1,221	1,389	1,296	918	813	841	1,015	1,332	1,152	1,195
Malaysia	1,173	1,365	1,091	955	690	724	772	958	808	816
Vietnam	1,130	904	819	473	301	177	37	38	35	34
Indonesia	1,065	1,100	1,069	816	627	879	880	781	739	762
United Kingdom	792	913	746	758	842	1,256	2,342	1,645	2,478	2,172
Saudi Arabia	765	558	382	160	324	32	13	7	2	2
Angola	757	599	167	34	N/A	N/A	N/A	N/A	N/A	N/A
Australia	654	567	501	470	395	738	633	904	841	714
Germany	642	521	523	424	365	497	490	496	444	397

Note: Based on all Washington State ports, all methods of transportation.

N/A indicates data not available.

Source: Washington State Department of Community, Trade and Economic Development (U.S. Census Bureau)

DEMOGRAPHIC INFORMATION
Schedule 25 – Property Value and Construction
Last Ten Calendar Years (dollars in millions)

	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Value of all taxable property:										
Assessed value	$ 841,309	$ 738,395	$ 634,883	$ 573,677	$ 535,208	$ 506,838	$ 478,687	$ 441,192	$ 404,657	$ 378,587
Property value of exemptions:										
Senior citizen	$ 8,022	$ 6,604	$ 5,267	$ 3,839	$ 3,362	$ 3,327	$ 4,066	$ 4,187	$ 4,609	$ 4,796
Head of household	105	44	68	47	56	56	53	47	43	47
Total exemptions	$ 8,127	$ 6,648	$ 5,335	$ 3,886	$ 3,418	$ 3,383	$ 4,119	$ 4,234	$ 4,652	$ 4,843
New construction & improvements:										
Assessed value	$ 20,861	$ 19,680	$ 15,393	$ 12,872	$ 11,356	$ 10,724	$ 10,896	$ 10,527	$ 9,542	$ 9,195

Source: Property Tax Statistics Report, Washington State Department of Revenue

DEMOGRAPHIC INFORMATION
Schedule 26 – Residential Building Activity
Last Ten Calendar Years (dollars in millions)

	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Permits	47,397	50,033	52,988	50,089	42,825	40,200	38,345	39,021	42,752	45,727
Valuations	$ 8,130	$ 8,540	$ 8,742	$ 7,535	$ 6,346	$ 5,473	$ 4,689	$ 4,426	$ 4,578	$ 4,745

Source: U.S. Census Bureau

OPERATING INFORMATION

Schedule 27 – Full-Time Equivalent Staff Comparison (Budgeted Funds)

Last Ten Fiscal Years

Function	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
General government	9,734	9,508	9,330	9,272	9,004	8,867	8,761	8,637	8,510	8,416
Human services	34,720	33,669	32,918	33,368	32,964	32,909	33,080	32,884	32,587	32,003
Natural resources	6,596	6,507	6,254	6,253	6,245	6,275	6,307	6,190	5,955	5,921
Transportation	11,300	11,025	10,662	10,549	10,373	10,410	10,531	10,250	10,254	10,140
Education	49,070	47,984	47,477	47,327	46,491	45,802	45,139	44,081	42,623	41,426
Total	111,420	108,693	106,641	106,769	105,077	104,263	103,818	102,042	99,929	97,906
Percentage change	2.5%	1.9%	-0.1%	1.6%	0.8%	0.4%	1.7%	2.1%	2.1%	3.0%

Notes: A Full-Time Equivalent (FTE) is one full calendar year of paid employment, or the equivalent of 2,088 hours (the number of available work hours in a year). It is not the number of employees on the payroll, nor is it the number of positions in state government. It is a computed average number of state employees based upon cumulative FTE staff months during one fiscal year or cumulative hours paid during one fiscal year.

FTE staff years can be computed two ways:

(1) By accumulating all FTE staff months for a full year and dividing by 12.

(2) By accumulating all paid hours for one full year and dividing by 2,088 (the available work hours in a year).

Figures include operating and capital FTEs and FTEs of nonbudgeted higher education funds.

Source: Washington State Office of Financial Management, Accounting Division

OPERATING INFORMATION

Schedule 28 – Full-Time Equivalent Staff Comparison (General Fund State)

Last Ten Fiscal Years

Function	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
General government	3,225	3,175	3,108	3,102	3,022	3,030	2,904	2,925	2,874	2,870
Human services	17,944	17,548	17,051	17,130	17,167	17,701	17,398	17,132	16,122	16,242
Natural resources	2,462	2,193	2,175	2,166	2,226	2,066	2,189	2,157	1,902	1,787
Transportation	449	343	428	307	334	188	391	416	405	407
Education	21,082	20,171	19,587	19,265	19,297	18,512	18,555	18,464	17,944	17,681
Total	45,162	43,430	42,349	41,970	42,046	41,497	41,437	41,094	39,247	38,987
Percentage change	4.0%	2.6%	0.9%	-0.2%	1.3%	0.1%	0.8%	4.7%	0.7%	2.3%

Notes: A Full-Time Equivalent (FTE) is one full calendar year of paid employment, or the equivalent of 2,088 hours (the number of available work hours in a year). It is not the number of employees on the payroll, nor is it the number of positions in state government. It is a computed average number of state employees based upon cumulative FTE staff months during one fiscal year or cumulative hours paid during one fiscal year.

FTE staff years can be computed two ways:

(1) By accumulating all FTE staff months for a full year and dividing by 12.

(2) By accumulating all paid hours for one full year and dividing by 2,088 (the available work hours in a year).

Figures include operating and capital FTEs.

Source: Washington State Office of Financial Management, Accounting Division

OPERATING INFORMATION

Schedule 29 – Operating and Capital Asset Indicators by Function
General Government

Last Ten Fiscal Years

	2008	2007	2006	2005	2004
Department of Revenue (1)					
Number of state excise taxpayer registered accounts	782,010	774,295	759,235	718,224	692,845
Number of taxable real estate excise tax (REET) sales	250,971	316,432	364,906	364,900	344,056
General Administration (2)					
Number of leases for office space*	626	610	604	549	529
Gross square feet of leased office space (in thousand's)*	7,764	8,662	7,789	6,753	6,650
Number of GA owned buildings	46	44	44	44	44
Gross square feet of GA owned office space (in thousand's)	3,102	3,101	3,101	2,893	2,893
Liquor Control Board (3)					
Retail licensees	12,925	13,006	12,650	12,331	12,121
Non-retail licensees	2,519	2,471	1,954	1,933	1,409
Number of state owned liquor stores**	161	161	161	159	161
Number of contracted stores	154	154	154	153	154
Convention and Trade Center (4)					
Number of national & international events	47	42	46	53	45
Attendance of national & international events	129,836	182,406	176,904	179,493	161,101
Number of local & regional events	624	559	520	454	499
Attendance of local & regional events	352,932	216,149	320,549	219,191	266,717

* Data not available prior to 2000.

** The Liquor Control Board is authorized to have 161 state operated liquor stores. Throughout the year this number may go down temporarily for closures due to relocations, remodels, etc.

Sources:

(1) Tax Statistics, Washington State Department of Revenue
(2) Washington State Department of General Administration
(3) Washington State Liquor Control Board
(4) Annual Report, Washington State Convention and Trade Center

2003	2002	2001	2000	1999
652,373	617,491	580,599	543,380	511,828
316,635	287,851	272,480	279,597	289,890
568	557	621	665	N/A
6,667	6,588	7,174	7,515	N/A
44	44	44	42	42
2,878	2,878	2,878	2,718	2,718
11,791	11,453	11,337	11,244	11,195
1,393	1,166	1,178	1,013	946
157	157	157	154	157
155	157	157	159	159
41	36	38	34	33
141,090	111,163	129,600	118,440	143,201
481	407	347	337	284
284,242	260,702	235,000	280,149	411,949

OPERATING INFORMATION

Schedule 30 – Operating and Capital Asset Indicators by Function
Human Services

Last Ten Fiscal Years

	2008	2007	2006	2005	2004
Department of Social and Health Services (1)					
Mental health programs:					
Mental health state facilities *	3	4	4	4	4
Mental health state facilities available beds	1,359	1,380	1,280	1,247	1,218
Mental health state facilities average daily census**	1,212	1,179	1,151	1,207	1,192
Community outpatient mental health facilities	144	150	150	150	150
Community outpatient mental health programs, clients served	117,578	119,678	120,770	125,929	131,069
Medical assistance programs:					
Monthly average caseload certified eligible	899,043	885,130	884,679	857,599	862,935
Income assistance programs:					
Temporary assistance for needy families caseload	50,118	51,940	55,525	57,026	55,610
Food assistance caseload***	288,271	279,985	273,552	251,455	220,130
Department of Corrections (2)					
Number of correctional institutions	15	15	15	15	15
Prison population	18,551	18,471	17,905	17,580	16,046
Prison operating capacity	15,785	15,222	15,013	15,002	15,341
Department of Health (3)					
Licensed health professionals****	330,850	331,147	287,512	284,439	275,023
Department of Labor & Industries (4)					
Claims filed, injured or ill workers	136,791	140,308	140,887	139,365	137,835
Electrical wiring jobs inspected	265,000	282,100	172,402	180,401	162,503
Workplaces inspected each year by WISHA Program*****	N/A	6,097	6,634	7,535	6,728

* Beginning January 2008, the mental health state facilities count no longer includes the Program for Assisted Living Skills (PALS) as it is now funded by community dollars.

** The average daily census is based on the count of individuals in residence at midnight.

*** Data reflects state fiscal year average, total participating households.

**** Data for 2008 is preliminary. Includes certified, licensed and registered health professionals. The counts for years 1998, 2000 and 2002 are averages of the years before and after because, during that time period, the Department of Health reported this information every other year. Emergency medical technicians were not included in the counts for years prior to 2007.

***** Data available on a calendar year basis. WISHA is the Washington Industrial Safety and Health Act.

Sources:
(1) Washington State Department of Social and Health Services
(2) Washington State Department of Corrections
(3) Washington State Department of Health
(4) Washington State Department of Labor and Industries

2003	2002	2001	2000	1999
4	4	4	4	4
1,287	1,379	1,398	1,398	1,315
1,225	1,328	1,343	1,340	1,317
150	150	150	150	153
127,967	125,524	120,742	112,105	106,911
864,389	840,018	790,244	727,964	728,307
54,636	55,068	54,759	58,797	66,145
192,334	164,531	144,661	139,341	154,662
15	15	15	15	14
15,580	15,405	14,242	13,736	13,473
13,262	13,262	12,867	12,587	11,828
265,607	256,173	246,834	236,497	226,160
140,710	149,061	167,071	180,310	177,707
153,874	133,828	128,048	134,042	136,052
7,688	7,868	6,864	7,339	7,059

OPERATING INFORMATION

Schedule 31 – Operating and Capital Asset Indicators by Function Transportation

Last Ten Fiscal Years

	2008	2007	2006	2005	2004
Department of Transportation (1)					
Number of ferries*	24	28	28	28	28
Vehicles on ferries (in thousands)	10,391	10,827	10,827	10,810	10,867
Passengers on ferries (in thousands)	12,901	13,163	12,960	13,071	13,541
Miles of travel:					
Rural (in thousands) **	N/A	11,564	11,397	11,293	11,354
Urban (in thousands) **	N/A	20,406	20,367	20,336	20,203
Lane miles:					
Rural	13,685	13,668	13,652	13,641	14,337
Urban	6,566	6,505	6,447	6,362	5,633
Total	20,251	20,173	20,099	20,003	19,970
Pavement patching & repair (square feet)***	100,124	92,216	160,280	116,357	N/A
Pavement striping maintenance (miles)***	20,020	20,328	23,145	27,389	N/A
Anti-icing & de-icing					
Liquid application (gallons in thousands)***	3,938	4,541	3,507	3,446	N/A
Litter pickup (cubic yards)***	18,452	17,234	22,916	41,115	N/A
Department of Licensing (2) ****					
Total vehicle registrations (in thousands)	7,028	6,732	6,638	6,494	6,419
Licensed drivers (in thousands)	4,842	4,774	4,690	4,587	4,412
State Patrol (3) *****					
Total contacts	532,578	1,110,689	1,270,727	1,356,300	1,482,090
Citations issued	272,265	609,883	571,045	506,462	518,721
Motorist assists	148,210	306,059	325,621	352,615	329,896
Collisions investigated	17,960	39,758	40,950	40,175	36,449
Number of traffic officers	635	609	630	651	686

* In 2008, four steel electric ferries went out-of-service.

** Data available on a calendar year basis.

*** Data not available prior to 2005.

**** Vehicle count includes all registered vehicles for which registration fees were paid. Drivers count includes all licensed drivers. Years 1999-2002 reflect calendar year counts.

***** Data available on a calendar year basis. 2008 data through June 30, 2008.

N/A indicates data not available.

Sources:
(1) Washington State Department of Transportation
(2) Washington State Department of Licensing
(3) Washington State Patrol

2003	2002	2001	2000	1999
29	29	29	29	29
10,812	11,141	11,463	11,543	11,379
13,703	14,489	15,140	15,330	15,118
12,900	12,732	12,399	12,272	12,168
18,763	18,754	18,272	18,163	17,917
13,978	13,962	13,663	13,665	13,661
5,226	5,203	4,369	4,330	4,320
19,204	19,165	18,032	17,995	17,981
N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A
6,215	6,196	5,978	5,105	5,579
4,319	4,400	4,355	4,299	4,160
1,508,647	1,442,087	1,449,618	782,548	813,350
571,272	N/A	395,747	377,283	359,220
409,954	N/A	541,105	447,206	438,155
32,874	31,401	41,977	41,804	38,606
684	811	N/A	N/A	N/A

OPERATING INFORMATION

Schedule 32 – Operating and Capital Asset Indicators by Function
Natural Resources and Recreation

Last Ten Fiscal Years

	2008	2007	2006	2005	2004
State Parks and Recreation Commission (1)					
Number of developed state parks	120	120	120	114	120
Number of owned or managed properties	231	231	226	227	229
Acreage of state parks *	121,010	120,146	260,487	260, 028	259,453
Attendance at state parks (in thousands)	41,590	39,297	40,026	40,331	40,410
Department of Fish and Wildlife (2)					
Recreational hunting licenses issued	370,235	359,510	342,230	330,453	321,906
Recreational fishing licenses issued	943,904	954,478	929,884	963,088	1,031,213
Hatchery salmon releases (pounds in thousands)**	4,396	4,750	4,753	4,795	4,971
Hatchery trout releases (pounds in thousands)**	1,237	1,492	1,425	1,417	1,484
Department of Natural Resources (3)					
Common schools trust land acreage (in thousands)	1,799	1,757	1,757	1,758	1,752
Total trust land acreage (in thousands)	2,923	2,877	2,876	2,875	2,882
Timber acres harvested	24,625	29,687	N/A	30,529	27,629
Timber volume harvested (mbf) ***	503,923	493,341	657,962	694,999	616,051
Timber volume sold (mbf) ***	660,247	570,531	527,609	598,445	547,749
Natural area preserve sites	52	52	51	49	49
Natural area preserve acreage	31,207	29,991	29,975	29,871	30,074
Natural resources conservation area sites	29	31	30	28	28
Natural resources conservation area acreage	93,534	88,862	87,793	87,357	86,401

* Prior to 2007, acreage owned by the U.S. Bureau of Land Management, leased jointly by State Parks and the Department of Fish and Wildlife (DFW), and managed by DFW was included.

** Data available on a calendar year basis. 2008 data is preliminary.

*** mbf: million board feet.

N/A indicates data not available.

Sources:

(1) Washington State Parks and Recreation Commission

(2) Washington State Department of Fish and Wildlife

(3) Washington State Department of Natural Resources

2003	2002	2001	2000	1999
120	126	126	126	126
231	238	239	240	241
259,244	262,393	262,564	262,292	262,012
45,960	48,864	47,774	46,444	48,138
324,544	332,769	372,858	336,961	N/A
955,037	1,068,136	1,161,682	970,668	N/A
5,296	5,798	6,137	6,571	6,665
1,462	1,503	1,569	1,308	1,418
1,748	1,745	1,746	1,750	1,774
2,862	2,860	2,860	2,863	2,885
24,405	23,921	26,955	32,383	N/A
494,266	492,173	514,951	627,992	627,031
542,607	494,798	460,753	501,431	570,367
48	47	47	47	48
29,786	27,787	27,058	25,253	24,795
28	27	27	27	24
84,795	85,408	84,006	82,020	54,953

OPERATING INFORMATION

Schedule 33 – Operating and Capital Asset Indicators by Function
Education

Last Ten Academic Years

	2007-08	2006-07	2005-06	2004-05	2003-04
K-12 Enrollment (1) *					
K-8	653,868	648,975	649,655	648,526	650,269
9-12	313,678	313,370	311,684	307,451	302,091
Private & home based	19	23	22	52	89
Summer	456	333	332	473	438
Running start	11,182	10,811	10,256	9,761	9,351
UW transition	103	100	109	109	105
Total	979,306	973,612	972,058	966,371	962,343
High school graduates**	N/A	N/A	56,874	57,449	57,926
Higher Education (2) ***					
Community and Technical Colleges:					
Number of campuses	34	34	34	34	34
Enrollment (1)	136,723	132,346	130,933	131,489	138,241
Associate degrees granted	20,825	20,678	21,450	21,632	22,326
Student achievement points ****	308,800	295,259	N/A	N/A	N/A
Public Universities (3) *****					
Number of campuses	10	10	11	11	11
Enrollment (1)	94,310	92,182	91,547	91,358	90,075
Baccalaureate degrees granted	21,584	21,442	20,989	20,882	20,456
Masters degrees granted	4,748	4,711	4,748	4,750	4,685
Doctors degrees granted	691	838	814	739	670
Professional degrees granted	840	718	681	649	648

* A Full-Time Equivalent student is defined as:

- Kindergarten - 4 classroom hours/day for 90 days or 2 classroom hours/day for 180 days.
- Grades 1 through 3 - 4 classroom hours/day for 180 days.
- Grades 4 through 12 - 5 classroom hours/day for 180 days.

Academic year 2007-08 data is preliminary. Data not complete until final report is received in January 2009.

** High school graduates data for academic years 2007-08 and 2006-07 is not available at time of report.

*** A Full-Time Equivalent student is defined as:

- Undergraduate student - 15 credit hours per term.
- Graduate student - 10 credit hours per term.

**** Student Achievement Points are the number of intermediate steps achieved by students that are shown to be predictors of the degree or certificate outcome. Student Achievement Points are essential to the Student Achievement Initiative within the community and technical college system aimed to increase educational attainment in Washington State. The Initiative was implemented in 2007, therefore data is not available for prior academic years.

***** Public Universities include all 4-year public institutions and branch campuses. In 2006, the Spokane campus of Washington State University was combined with the Pullman campus.

2002-03	2001-02	2000-01	1999-00	1998-99
650,596	651,692	650,126	649,978	652,518
298,912	295,890	292,309	290,515	286,311
100	169	185	139	125
352	467	434	347	383
8,814	8,305	7,938	7,467	7,001
71	43	40	38	41
958,845	956,566	951,032	948,484	946,379
60,525	54,359	56,277	58,939	55,418
34	34	34	33	32
139,753	133,962	128,093	125,131	121,302
20,403	18,516	17,526	17,949	17,611
N/A	N/A	N/A	N/A	N/A
11	11	11	11	11
89,511	87,969	84,832	82,778	81,991
19,454	18,635	17,522	18,211	17,663
4,591	4,285	4,051	4,008	3,747
638	613	641	604	663
634	642	645	588	566

Sources:

(1) Washington State Office of Financial Management, Forecasting Division and the Office of Superintendent of Public Instruction

(2) Washington State Board of Community and Technical Colleges

(3) Washington Higher Education Coordinating Board

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