STATE OF WASHINGTON

OFFICE OF FINANCIAL MANAGEMENT

Comprehensive Annual Financial Report

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

DECEMBER 2006

Report Prepared by

Office of Financial Management
Victor A. Moore, Director

Accounting Division
Sadie Rodriguez-Hawkins, Assistant Director

Statewide Accounting
Wendy Jarrett, CPA, Manager
Sue Adamich, CPA
Bret Brodersen
Andrea Brown
Christopher Carlile, CPA
Suzanne Coit, CPA
Cheryl Hainje
Steve Nielson
Lynn Rostvold
Patricia Sanborn, CPA
Michael Schaub
Pam Valencia
Wendy Weeks, CPA
Jayda Williams

Additional assistance provided by
Office of the State Treasurer
Office of the State Actuary
Office of the State Auditor
State Investment Board
Department of Retirement Systems
Department of Transportation
All state fiscal personnel

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For the Fiscal Year Ended June 30, 2006

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STATE OF WASHINGTON

OFFICE OF FINANCIAL MANAGEMENT

Insurance Building, PO Box 43113 • Olympia, Washington 98504-3113 • (360) 902-0555

December 18, 2006

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 (RCW) 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, 2006. 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, 2006. 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.

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

Profile of Washington State

The state of Washington was created by an enabling act of Congress in 1889. The state is located on the Pacific Coast in the northwestern corner of the continental United States. Washington comprises 68,139 square miles and currently has a population of 6.4 million. Washington is famous for its scenery of breathtaking beauty 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 rainiest places in the world. Washington's coastline has hundreds of bays and inlets that make excellent harbors. In the eastern part of the state, the 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 the 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 Cascades Mountain range, farmers raise livestock and grow wheat on large ranches. Washington leads the nation in apple production. The state produces large amounts of lumber, pulp, paper, and other wood products. The mild moist climate in western Washington makes the region excellent for dairy farming and the production of flower bulbs.

Governmental Structure

As established in the State Constitution, the state consists of three branches of government: the Executive Branch, Legislative Branch, and Judicial Branch. The Executive Branch has nine elected officials as follows: the Governor, Lieutenant Governor, Secretary of State, State Treasurer, State Auditor, Attorney General, Superintendent of Public Instruction, Insurance Commissioner, and Commissioner of Public Lands. Thirty-nine agency heads are appointed by, and report to, the Governor. Ninety 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 consisting of forty-nine members, and the House of Representatives with ninety-eight members. The Judicial Branch consists of the State Supreme Court, which is the highest court in the state comprised of 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. These 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 economic recovery began in the fourth quarter of 2001, Washington has gained more than 191,000 jobs, or about 7.2 percent growth. The state job recovery started slowly; it picked up strength in Fiscal Year 2006. A dramatic turnaround in the aerospace industry, very strong growth in the housing sector due to low interest rates, and an increase in disposable household income from home mortgage refinancing have aided the state's recovery.

The relative strength of the state's recovery reflects the underlying strengths of the state economy, 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 that continues to support strong population growth.

Washington State's non-farm payroll employment grew by a robust 3.1 percent in Fiscal Year 2006, improving its 2.4 percent growth in Fiscal Year 2005. Personal income grew at a rate of 4.2 percent in Fiscal Year 2006. While this growth seems anemic compared to the 7.5 percent growth posted in Fiscal Year 2005, about three percentage points of the increase in Fiscal Year 2005 was due to Microsoft's special dividend paid in November 2004. The aerospace industry turned around strongly in Fiscal Year 2006 and posted an increase of 9 percent after six fiscal years of decline and only one year of growth (Fiscal Year 2005). Total manufacturing employment grew by 3.9 percent, only the second year of positive growth since Fiscal Year 1998. In Fiscal Year 2006, Washington's unemployment rate receded to 5.1 percent, significantly lower than the 5.8 percent rate for Fiscal Year 2005 and only slightly above the national unemployment rate of 4.8 percent in Fiscal Year 2006.

Washington's outlook for Fiscal Year 2007 is for a continuation in the strong economic activity. Non-farm payroll employment in Washington is forecasted to increase in Fiscal Year 2007 by 2.9 percent, only slightly slower that growth in Fiscal Year 2006. Personal income growth is also predicted to grow by 7.3 percent in Fiscal Year 2006. General Fund-State revenues are forecasted to grow at an even stronger 17 percent rate in the 2005-07 Biennium, compared to the increase of 10.6 percent in the 2003-05 Biennium.

Economic Condition in Fiscal Year 2006

Washington's non-farm payroll employment grew by 3.1 percent in Fiscal Year 2006, a significantly faster rate than the 1.5 percent increase in U.S. non-farm payroll employment. Washington's non-farm payroll employment increased by 85,000 during Fiscal Year 2006. Personal income in Washington grew at a slower rate than U.S. personal income, 4.2 percent in Washington compared to 5.9 percent for the U.S. However, the lower rate of growth in Washington is due to Microsoft's special dividend in November 2004, boosting Washington personal income in Fiscal Year 2005. Without the dividend, Washington personal income growth in Fiscal Year 2006 would have been approximately 7 percent, well above U.S. personal income growth. Real per capita income growth was up in Washington by 1 percent over the same period, compared to 2.7 percent for the nation as a whole. Again, Microsoft's special dividend significantly affected Washington's growth rate.

Aerospace employment and manufacturing employment provided some bright spots for Washington's employment growth. After adding more than 15,000 employees in Fiscal Year 1998, employment in the aerospace industry fell by nearly 50,000 in Fiscal Years 1999 through 2004. Aerospace employment made a modest comeback in Fiscal Year 2005, increasing by 1,300, but really took off in Fiscal Year 2006 by adding 5,700, a 9 percent increase. Manufacturing employment other than aerospace also grew, rising by 2.4 percent. All durable manufacturing industries experienced higher employment in Fiscal Year 2006. Employment in nondurable manufacturing increased slightly in Fiscal Year 2006.

Employment in durable manufacturing other than aerospace grew by 3.7 percent in Fiscal Year 2006 (an increase of 4,600 jobs) while employment in durable manufacturing nationally inched up by 0.2 percent. Employment increased in all durable manufacturing industries in Washington during Fiscal Year 2006. Employment in other transportation equipment (transportation equipment other than aerospace) increased by 3.8 percent. Employment in wood products rose by 4.3 percent, and employment in fabricated metal products rose by 5.5 percent in Fiscal Year 2006. Machinery manufacturing experienced growing employment at the rate of 7.2 percent. Employment in other durable manufacturing was up by 3.1 percent in Fiscal Year 2006, and primary metals employment rose 4.9 percent. The smallest percentage increases in employment in the durable manufacturing sector during Fiscal Year 2006 occurred in electrical equipment, appliances and components, up by 1.6 percent, and the electrical equipment, appliances and components industry, up only 0.5 percent (an increase of fewer than 100 jobs).

Non-durable manufacturing employment in Washington increased slightly by 0.2 percent in Fiscal Year 2006, a gain of a little more than 200 jobs. Nationally, non-durable manufacturing employment declined by 1.7 percent. In Washington, all non-durable manufacturing industries experienced employment increases in Fiscal Year 2006, except the two largest sectors. The losses in employment occurred in food manufacturing, a 1 percent decline, and paper and paper products manufacturing, a 2.6 percent loss. Employment in the rest of nondurable manufacturing increased by 2.6 percent.

Washington's non-manufacturing employment grew by 3 percent during Fiscal Year 2006, with construction employment growing by 9.7 percent and services employment increasing by 3.6 percent. Wholesale trade employment rose by 2.8 percent, retail trade employment grew by 3 percent, and transportation, warehousing and utilities employment increased by 1.1 percent. Employment in the information sector rose by 3 percent and employment in financial activities industry increased by 2.2 percent. State and local government employment grew by 0.7 percent. Employment in the natural resources industry fell at a rate of 4.2 percent in Fiscal Year 2006 and federal government civilian employment declined by 0.1 percent in Fiscal Year 2006.

Economic Outlook

The economic forecast for Washington State for Fiscal Year 2007 reflects a maturing of the recovery at both the state and national levels. According to the November 2006 forecast by the state Economic and Revenue Forecast Council (ERFC), growth in Washington's non-farm payroll employment is predicted to increase by 2.9 percent in Fiscal Year 2007, a rate closer to the state's long-term average employment growth but still significantly higher than the expected national growth rate of 1.2 percent for non-farm payroll employment in Fiscal Year 2007. Washington's personal income growth will grow by 7.3 percent in Fiscal Year 2007. U.S. personal income growth is predicted to be 6.4 percent in that same fiscal year.

Manufacturing employment in Washington is projected to continue growing in Fiscal Year 2007. Aerospace employment is expected to grow strongly in Fiscal Year 2007, by 9.4 percent. Other manufacturing sectors are also expected to show some increase in employment, adding about 4,900 jobs (2.4 percent increase) in Fiscal Year 2007. Most sectors of durable manufacturing besides aerospace are expected to increase in employment. The fastest employment growth in non-aerospace manufacturing is expected in machinery, 6.8 percent; electrical equipment, appliances and components, 4.4 percent; and fabricated metals, 5.3 percent. Most sectors of non-durable manufacturing are expected to continue to increase employment in Fiscal Year 2007. Employment in food manufacturing is forecasted to rise by 2 percent, and employment in other nondurable manufacturing will grow by 2.8 percent. Employment in paper and paper products manufacturing is expected to fall by 2.3 percent in Fiscal Year 2007.

In the non-manufacturing sectors, the strongest growth is predicted to occur in information and the construction sector. Employment in information is predicted to increase by 6 percent and construction employment is forecasted to grow by 6.5 percent in Fiscal Year 2007. Services employment and transportation, warehousing, and utilities employment growth are also expected to be bright spots in the continuing recovery. Employment in those sectors should grow by a relatively robust 3.2 percent and 3.3 percent, respectively, in Fiscal Year 2007.

With the exception of federal government civilian employment and natural resources, all other non-manufacturing sectors are expected to increase employment. Retail trade employment is forecast to show positive growth of 2 percent, and wholesale trade employment is expected to increase by 2.6 percent in Fiscal Year 2007. Employment growth in financial activities is expected to increase by only 6 percent. State and local government employment is expected to grow by 1.1 percent in Fiscal Year 2007.

A few Washington industries will continue to experience no growth going into Fiscal Year 2007. Federal government civilian employment is forecasted to fall in Fiscal Year 2007, by 0.7 percent. The poorest growth performance among the non-manufacturing sectors is predicted to occur in the natural resources industry. The natural resources industry is forecasted to drop by 1 percent in Fiscal Year 2007.

General Fund-State Revenues

General Fund-State revenues for the 2003-05 Biennium were $23.4 billion, an increase of 10.6 percent in nominal terms over the previous biennium. Revenue growth is expected to be even stronger in the 2005-07 Biennium. General Fund-State collections are forecasted to increase by 17 percent during that two-year period, generating revenue of $27.4 billion. Based on the November 2006 revenue forecast, Washington will have an estimated unrestricted reserve of $1.142 billion by the end of the 2005-07 Biennium, up from $870 million in the previous biennium. In addition, the 2006 Legislature set aside $740 million in dedicated accounts to pay for health services, education, and pension funding obligations in the next biennium. These projected reserves assume no further changes in appropriations for the 2005-07 Biennium.

Major Initiatives

Led by Governor Christine Gregoire, the state of Washington enjoyed a thriving economy in 2006. This positioned the Governor and Legislature to strengthen critical services while setting aside nearly $1 billion to help meet critical education, health, and pension demands in the next two-year budget cycle beginning in July 2007. Strategic policy and budget steps were taken to improve public schools, the state's higher education system, economic development, and the environmental health of Puget Sound. Governor Gregoire and the Legislature also took actions to foster energy independence, better prepare for terrorism and natural disasters, and improve the state transportation system.

Throughout the year, Governor Gregoire continued her own initiatives 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 completed a major study, with recommendations, to create a more seamless education system of lifelong learning. At the same time, Governor Gregoire made significant strides to instill accountability and better performance among state agencies through her Government Management, Accountability and Performance process, which yielded encouraging results.

Education

The Governor and Legislature continued their strong commitment to education, providing significant funding and new policies not only to strengthen public schools, colleges and universities, but to lay groundwork for creating a system of lifelong learning.

Early Learning: The Legislature took an important first step, granting 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 action led to the consolidation of more than a half-dozen child-care and early learning programs, greatly increasing the state's commitment to a broadened and more serious system of early learning.

The agency is charged with improving parent and family supports and early learning choices to achieve better learning outcomes. The agency also is charged with creating a system to rate the quality of early learning opportunities and providers. Eventually, providers whose clients receive subsidized child care through the state will receive higher reimbursement based on their quality ratings.

The Governor and Legislature also established an Early Learning "Thrive by Five" Public-Private Partnership, to support high quality learning services in Washington. As a first step, the partnership, which includes the Bill and Melinda Gates Foundation and The Boeing Company, will develop a coordinated public outreach campaign to selected audiences about the importance of early learning for children and society.

Public Schools: At the Governor's request, the Legislature provided significant new funding to help struggling high school students master academic standards in order to graduate on schedule, beginning with the class of 2008. The nearly $30 million in new funding is being used to offer after-school programs, tutoring and other help to students who have been unsuccessful in one or more Washington Assessment of Student Learning tests. The funding came with accountability requirements. School districts are required to fully report how assistance funds are used, the types of assistance selected by students, the number of students who take part in each option, and the results achieved by students. Funds were set aside to reward districts with unique programs shown to help struggling students succeed.

Additional funding also was provided to help public school students farthest behind in math. New mathematics materials are being incorporated in a course presented as a series of learning experiences. Students focus on one "bite" at a time, submitting math work samples or participating in mini-assessments. Student success with these options leads to meeting the math standard for high school graduation. New math tutorials are developed and offered on the Internet.

Other public school improvement steps taken by Governor Gregoire and the Legislature included creation of sophisticated measures to gauge the effectiveness of education services. The measures will gather valuable data on student learning from kindergarten through 12th grade including a longitudinal student data system allowing public schools to easily track an individual student's progress throughout his or her school years. State budget and policy steps were taken to do a better job of guiding high school students toward career choices including pre-apprenticeships and college degrees as well. The Governor and Legislature also addressed teacher salaries, providing raises of 3.3 percent.

Higher Education: Recognizing the role of higher education in maintaining a strong economy, the Governor and Legislature provided significant funding and policy actions to open college doors to more high school graduates. They created Bachelor of Arts (BA) programs at four Washington technical and community colleges, including one offering a BA degree in applied technology. Funding was provided to community colleges to bring regional universities to campus, giving placebound students the opportunity to complete a BA degree.

Financial help also was provided to the University of Washington (UW) to conduct advanced life sciences research. The funds are being used to pay for operating costs of UW's South

Lake Union biomedical research facility, the site of cutting-edge research in cardiovascular biology, proteomics and more. Governor Gregoire and the Legislature ensured that the state's important community and technical college system will retain its top instructors, providing funding to increase faculty members' pay over time.

In addition, funding was provided to begin construction of a second biotechnology research building at Washington State University. The new building at the school's Research and Education Complex will be used for biological research, including molecular and cellular sciences. The research will focus on development techniques, therapies, devices and research tools. Funding also was provided for new infrastructure at four community and technical colleges.

Energy Independence

The Legislature appropriated nearly $18 million in new funding and tools to help Washington move toward greater energy independence through use of biofuels while strengthening the state's vital farm economy. Steps were taken to provide a new market for Washington-grown energy crops like canola or mustard by requiring fuel sellers in Washington to gradually increase the percentage of biofuels in diesel fuel as state biofuels production rises. Funding was provided for low-interest loans to biofuels developers for equipment, such as seed crushers and anaerobic digesters. Also provided were economic and technical market assessments to help both the public and private sectors complete successful bioenergy projects.

Also created was the Energy Freedom loan program, which provides state loans to local governments for research and development of new and renewable energy sources, including infrastructure and facilities for converting farm crops and waste into energy.

Economic Development

The Governor and Legislature continued their multi-year effort to keep Washington a place where business can locate, grow and thrive.

Among actions was creation of a $4 million fund to be used to aid businesses that might otherwise close or relocate. Help can range from public infrastructure improvements to technical assistance. Start-up funding was provided to launch the Governor's $3 billion Life Sciences Discovery Fund. Beginning in 2008, the Discovery Fund will use tobacco settlement and private funds to finance cutting-edge medical and crop research.

Governor Gregoire and the Legislature also restored balance, stability and equity to the unemployment insurance system. They agreed on changes to eliminate provisions that disproportionately reduced benefits for women, people of color, and low-income workers, and to protect the experience-rated tax structure that many employers want to preserve.

At the Governor's request, the Legislature broadened two aerospace tax incentives to include companies engaged in research, design and engineering of airplanes and airplane components. The incentives include a sales and use tax exemption for certain computer equipment used primarily in this field, as well as a business and occupation (B&O) tax credit for pre-production development spending. Also, a reduced B&O tax rate for aviation repair services, which had been set to expire in 2006, was extended.

Governor Gregoire and the Legislature continued their commitment to reduce the regulatory burden on small business. They granted the Department of Revenue the authority to waive the five percent mandatory penalty on tax returns containing errors under specified circumstances, and moved the date for filing excise tax payments to later in the month. The five percent assessment penalty is unfair to businesses that make every effort to comply with the state's tax laws, yet still make a reporting error. Moving tax payments to later in the month helps small businesses that have cash flow problems because sales taxes frequently are due before payments are received.

At the Governor's request, the Legislature also made common sense improvements to growth management laws. One measure gave farmers added flexibility to use their farmlands for other small business activities in order to keep their farms economically viable. The other eases the cost burden in the growth management law for smaller and slower-growing counties, cities, and towns by allowing them to postpone the required update of their land use plans and regulations for up to three years.

Environment

Governor Gregoire and the Legislature believe Washington's greatest strength in terms of economic development is its natural environment. Along with laying the groundwork for a biofuels industry, they took big steps to protect and improve Puget Sound and to address other environmental problems.

More than $50 million in new Puget Sound funding was provided to speed up the cleanup of toxic underwater sediments and uplands at Bellingham, Tacoma and areas adjacent to the Sound, as well as state-owned aquatic lands near Sequim, Anacortes, Port Angeles, Shelton and the Kitsap Peninsula. The Governor and Legislature also greatly strengthened inspections of oil transfer tankers, vessels, tank trucks and shore facilities to better prevent oil spills and improve hazardous materials spill response in northern Puget Sound. They took steps to help restore Puget Sound estuaries and salmon habitat, and provided significant grants and loans to homeowners through a new pilot program to repair and replace failing septic systems and grants to local governments for low-impact stormwater projects.

Working closely with the Legislature, Governor Gregoire provided the tools to secure water for agriculture, cities and fish on the Columbia River. Historic legislation was enacted to begin developing new storage and water conservation projects on the Columbia. The measure also provided a formula for allocating newly stored water and created mechanisms for jump starting conservation measures and improving current management operations on the Columbia River. One-third of all newly stored water will be allocated to support stream flows for fish. Two-thirds of newly stored water will be available for new out-of-stream water uses, such as farming, industry and municipal growth. A bond authorization of $200 million was created to fund future storage projects

Other significant actions to protect and improve Washington's environment included establishment of a program to properly dispose of recycled computers and other devices containing toxic substances, and to clean up soils contaminated with heavy lead and arsenic at public schools and playgrounds.

Additional action was taken to address climate change. Washington's climate change experts and economists were provided funding and support to analyze the economic impacts of climate change based on the latest scientific and economic information. The state will also establish and maintain an inventory of state greenhouse gas emissions. These processes will provide the foundation to make effective decisions about critical, long-term infrastructure investments, and to take other actions necessary to further reduce greenhouse gases.

Transportation

Major work continued to improve Washington's transportation system, the backbone of its economy. The Governor and Legislature set the stage for a regional transportation solution in the populous Puget Sound region including Seattle. They created a short-term reform commission comprising of nine members appointed by the Governor. The commission defined a Regional Transportation Investment District proposal, and hammered out a proposal for a comprehensive regional transportation finance improvement plan.

New actions were taken to get workers out of their cars and into travel pools, including the state purchase of 150 additional vans for pools and new rules making it easier for employers to participate in commute-trip reduction plans.

Operations at the State Department of Transportation were improved a year after Governor Gregoire assumed control of the agency, formerly under the control of a commission appointed by the Governor. The Legislature approved the Governor's request for clarification of responsibilities. They included shifting a number of responsibilities from the Transportation Commission to the department and to the Office of Financial Management. Among other new responsibilities, the Department of Transportation was charged with developing a sixteen-year transportation investment plan.

Health Care

Governor Gregoire and the Legislature made progress toward improving Washington's health-care system, beginning with a breakthrough in a stubborn decades-long standoff between the medical and legal communities over medical malpractice costs.

The Governor negotiated medical malpractice reforms after bringing to the table key lawmakers, and the medical, insurance and legal communities. The reforms improve patient safety and reduce medical errors while providing processes to resolve medical malpractice claims fairly without imposing mandatory limits on damage awards or fees.

In another successful negotiation, the Governor won federal government agreement to cover low-income seniors' Medicare prescription co-pays. About $14 million in federal funds were provided to cover prescription drug co-pays for approximately 100,000 low-income elderly and disabled individuals whose drug costs were previously covered in full by the state Medicaid program.

The Legislature granted Governor Gregoire the tools to make Washington State government's own health care system a model for the state. The tools included creation of a purchasing process to buy health care shown to work based on hard evidence, ways to limit inappropriate use of prescription drugs in Medicaid, and to root out unnecessary health care practices. The state Department of Social and Health Services was instructed to identify the few health care providers who exhibit unusual practices contributing to above-average treatment costs, and the state Health Care Authority was directed to promote and increase the adoption of health information technology systems by hospitals, integrated delivery systems, and providers.

The Governor and Legislature also provided health coverage for more immigrant children and for enrollments in the Basic Health Program, the state's health insurance program for the working poor.

Welfare

Governor Gregoire took important steps to strengthen the state's welfare-to-work program, WorkFirst. She won increased funding from the Legislature to make sure the program remains healthy. She also imposed tough new rules intended to speed up the movement of clients from welfare into jobs to reduce future costs to society and break the cycle of dependency.

Public Safety

Efforts continued to better protect Washington citizens and businesses from terrorism and natural disasters. Among other things, emergency communications equipment was provided so responders across the state can talk to each other. State ferry security was improved with the addition of 18 troopers to screen state ferry traffic for potential terrorists. Funding was provided to conduct background checks on 5,900 existing security guards and 4,500 expected applicants in the coming year. The background checks are consistent with the federal Intelligence Reform and Terrorism Prevention Act of 2004.

Government Efficiency

Governor Gregoire continued her drive, begun in 2005, to improve the performance of Washington State government.

The Governor followed through on her commitment, launched during her first year in office, to employ a process called Government Management, Accountability and Performance. Modeled on similar endeavors successfully used 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 includes developing new forms of performance measurement data when necessary.

After one year, the process has yielded measurable improvements, including significant reductions in mid-management positions and in unanticipated leave by state employees, as well as faster responses to traffic tie-ups on state highways, and improvements in the protection of vulnerable children and adults.

The Governor also led and completed an exhaustive 18-month study of the state's entire education system – from early learning through higher education. The study and cause accompanying recommendations will be used in the years to come not only to eliminate inefficiencies in the state's education system, but to provide the roadmap for creation of a seamless system of learning from cradle to grave.

The Governor and Legislature continued to employ and refine budgeting principles first used successfully in 2003 under a previous administration. Called Priorities of Government, the principles involve making strategic spending decisions based on what citizens need most in an environment of limited resources. The discipline and performance measures embedded in the principles helped the Governor and Legislature emerge from the 2005 legislative session with a revenue reserve of nearly $1 billion to help fund critical services in succeeding years.

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, 2005. 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 nineteen 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

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, 2005

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.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

State of Washington Elected Officials as of June 30, 2006

Christine Gregoire
Governor

Brad Owen
Lieutenant Governor

Sam Reed
Secretary of State

Michael Murphy
Treasurer

Brian Sonntag
State Auditor

Rob McKenna
Attorney General

Terry Bergeson
Superintendent of Public Instruction

Doug Sutherland
Commissioner of Public Lands

Mike Kreidler
Insurance Commissioner

2005-2006 Organization Chart
Washington State Government

Legislative Branch

Senate | **House of Representatives**

- Joint Legislative Audit and Review Committee
- Legislative Ethics Board
- Legislative Evaluation and Accountability Program
- Office of the State Actuary
- Joint Legislative Systems Committee
- Redistricting Commission *(activated decennially)*

Executive Branch

Judicial Branch

Supreme Court

- Court of Appeals
- Superior Courts
- District Courts
- Municipal Courts
- Supreme Court Clerk
- Supreme Court Commissioner
- Administrator for the Courts
- Office of Public Defense
- Law Library
- Reporter of Decisions
- Commission on Judicial Conduct
- Office of Civil Legal Aid

Agencies Managed by Statewide Elected Officers

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**
  - *Puget Sound Action Team*
  - *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 Managed by Governor-appointed Executives

Environment and Natural Resources
- Department of Ecology
- Department of Agriculture
  - *commodity commissions*
- Interagency Committee for Outdoor Recreation
  - *Salmon Recovery Funding Board*
- Pollution Liability Insurance Program

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

Transportation
- Department of Transportation
- State Patrol
- Department of Licensing
  - *occupational regulatory boards*
- Traffic Safety Commission

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

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

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

Agencies Under Authority of a Board

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

General Government
- Liquor Control Board
- Utilities and Transportation Commission
- Personnel Appeals Board
  - *(abolished 2006)*
- Public Employment Relations Commission
- Board of Tax Appeals
- Public Disclosure Commission
- Board for Volunteer Firefighters and Reserve Officers
- Gambling Commission
- Horse Racing Commission
- Investment Board
- Statute Law Committee
  - *Code Reviser*
- Municipal Research Council
- Economic and Revenue Forecast Council
- Caseload Forecast Council
- Pension Funding Council
- Forensic Investigations Council
- Citizens' Commission on Salaries for Elected Officials
- State Capitol Committee
- Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2 Board

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

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

Education
- Higher Education Coordinating Board
- 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*
- Board for Community and Technical Colleges
- Boards of Trustees
  - *Community Colleges*
  - *Technical Colleges*
- Spokane Intercollegiate Research and Technology Institute
- Higher Education Facilities Authority
- Washington State Historical Society
- Eastern Washington State Historical Society

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

Prepared by the Office of Financial Management 7/06

FINANCIAL SECTION

Washington State Auditor
Brian Sonntag

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

December 18, 2006

The Honorable Christine Gregoire
Governor, State of Washington

Dear Governor Gregoire:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component units and remaining fund information of the State of Washington as of and for the fiscal year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the state's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Workers' Compensation Fund of the Department of Labor and Industries, Washington's Lottery, Department of Retirement Systems, Local Government Investment Pool, University of Washington, Western Washington University, and the funds managed by the State Investment Board. Those financial statements reflect total assets and revenues or additions of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component units and remaining fund information as follows:

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

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

Insurance Building, P.O. Box 40021 • Olympia, Washington 98504-0021 • (360) 902-0370 • (866) 902-3900 • TDD Relay (800) 833-6388
FAX (360) 753-0646 • http://www.sao.wa.gov

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component units and remaining fund information of the State of Washington as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

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

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

BRIAN SONNTAG, CGFM

STATE AUDITOR

Management's Discussion and Analysis

As managers of the state of Washington, we offer this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2006. 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 $20.8 billion (reported as *net assets*). Of this amount, $(2.7) 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 combined ending fund balance of $10.4 billion, an increase of 13 percent compared with the prior year.

- Unreserved fund balance for the General Fund was $569 million, or 3.1 percent of total General Fund expenditures.

- The state's capital assets increased by $1.3 billion while total bond debt increased by $844 million during the current fiscal year.

Overview of the Financial Statements

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

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

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

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

Both of these government-wide financial statements distinguish functions of the state of Washington that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the state of Washington include education, human services, transportation, natural resources, adult corrections, and general government. The business-type activities of the state of Washington include the workers' compensation, unemployment compensation, and health insurance programs, as well as various higher education student services such as housing and dining.

The government-wide financial statements can be found on pages 39-41 of this report.

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

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

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

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

The governmental fund financial statements can be found on pages 44-47 of this report.

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

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, but in greater detail. The proprietary fund financial statements provide separate information for the Workers' Compensation Fund, Unemployment Compensation Fund, and the Higher Education Student Services Fund, which are considered to be major funds, as well as an aggregated total for all non-major enterprise funds. The internal service funds are combined for presentation purposes. Individual fund data for the state's non-major proprietary funds are provided in the form of *combining statements* elsewhere in this report.

The proprietary fund financial statements can be found on pages 48-51 of this report.

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

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

Component Units. Component units that are legally separate from the state and primarily serve or benefit those outside the state are discretely presented. They are either financially accountable to the state, or have relationships with the state such that exclusion would cause the state's financial statements to be misleading or incomplete. The state discretely reports one major component unit, the Washington State Public Stadium Authority, and four non-major component units. Refer to Note 1 on page 58 for more detailed information. Individual fund data for the state's non-major component units are provided in the form of combining statements elsewhere in this report.

The financial statements for the state's component units can be found on pages 54-55 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 56-131 of this report.

Other required information. In addition to this discussion and analysis, this report also presents required supplementary information on budgetary comparisons, pension plan funding, and infrastructure assets reported using the modified approach. Required supplementary information can be found on pages 134-155 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 159-213 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. For the state of Washington, total assets exceed liabilities by $20.8 billion at June 30, 2006 as compared to $18.4 billion at June 30, 2005 (as restated).

The largest portion of the state's net assets (77.1 percent for Fiscal Year 2006 as compared to 84 percent for Fiscal Year 2005 (as restated)) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The state of Washington uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the state of Washington's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

State of Washington's Net Assets

(in millions of dollars)

	Governmental Activities		Business-type Activities		Total	
	2006	2005*	2006	2005	2006	2005
Current and other assets	$ 15,537	$ 14,210	$ 18,297	$ 17,281	$ 33,834	$ 31,491
Capital assets	24,174	22,903	1,587	1,525	25,761	24,428
Total assets	39,711	37,113	19,884	18,806	59,595	55,919
Current and other liabilities	3,510	3,744	1,962	2,091	5,472	5,835
Long-term liabilities outstanding	13,040	12,143	20,285	19,496	33,325	31,639
Total liabilities	16,550	15,887	22,247	21,587	38,797	37,474
Net assets:						
Invested in capital assets, net of related debt	15,434	14,975	605	510	16,039	15,485
Restricted	4,343	4,351	3,164	2,341	7,507	6,692
Unrestricted (defict)	3,384	1,900	(6,132)	(5,632)	(2,748)	(3,732)
Total net assets	$ 23,161	$ 21,226	$ (2,363)	$ (2,781)	$ 20,798	$ 18,445

*Note: 2005 balances for Governmental Activities have been restated to reflect fund-type reclassifications and prior period error corrections.

A portion of the state of Washington’s net assets (36.1 percent for Fiscal Year 2006 as compared to 36.3 percent for Fiscal Year 2005) represents resources that are subject to constitutional or external restrictions on how they may be used. The remaining balance represents *unrestricted (deficit) net assets.* A positive balance indicates that excess assets are available to meet the state’s ongoing obligations to citizens and creditors. The state’s overall negative balance is caused by the workers’ compensation program that provides supplemental pension cost-of-living adjustments for time-loss and disability payments. For reporting purposes an actuarially determined liability has been recorded to comply with applicable accounting standards. However, by statute, these payments are funded on a pay-as-you-go basis.

State of Washington's Changes in Net Assets

(in millions of dollars)

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for services	$ 3,225	$ 3,161	$ 6,911	$ 6,615	$ 10,136	$ 9,776
Operating grants and contributions	8,260	8,238	55	71	8,315	8,309
Capital grants and contributions	610	675	-	(2)	610	673
General revenues:						
Taxes	15,499	13,988	100	95	15,599	14,083
Interest and investment earnings	475	363	147	1,249	622	1,612
Total revenues	28,069	26,425	7,213	8,028	35,282	34,453
Expenses:						
General government	(1,320)	(1,260)	-	-	(1,320)	(1,260)
Education - K-12	(6,642)	(6,283)	-	-	(6,642)	(6,283)
Education - higher education	(4,804)	(4,455)	-	-	(4,804)	(4,455)
Human services	(10,082)	(9,852)	-	-	(10,082)	(9,852)
Adult corrections	(749)	(640)	-	-	(749)	(640)
Natural resources and recreation	(777)	(229)	-	-	(777)	(229)
Transportation	(1,526)	(1,457)	-	-	(1,526)	(1,457)
Interest on long-term debt	(533)	(505)	-	-	(533)	(505)
Workers' compensation	-	-	(2,267)	(2,407)	(2,267)	(2,407)
Unemployment compensation	-	-	(736)	(870)	(736)	(870)
Higher education student services	-	-	(1,254)	(1,170)	(1,254)	(1,170)
Health insurance programs	-	-	(1,244)	(1,138)	(1,244)	(1,138)
Other business-type activities	-	-	(1,042)	(988)	(1,042)	(988)
Total expenses	(26,433)	(24,681)	(6,543)	(6,573)	(32,976)	(31,254)
Excess (deficiency) of revenues over expenses before contributions to endowments, extraordinary loss, and transfers	1,636	1,744	670	1,455	2,306	3,199
Contributions to endowments	131	69	-	-	131	69
Extraordinary loss (asset impairment)	(84)	-	-	-	(84)	-
Transfers	252	184	(252)	(184)	-	-
Increase (decrease) in net assets	1,935	1,997	418	1,271	2,353	3,268
Net assets - July 1, as restated*	21,226	19,842	(2,781)	(4,052)	18,445	15,790
Net assets - June 30	$ 23,161	$ 21,839	$ (2,363)	$ (2,781)	$ 20,798	$ 19,058

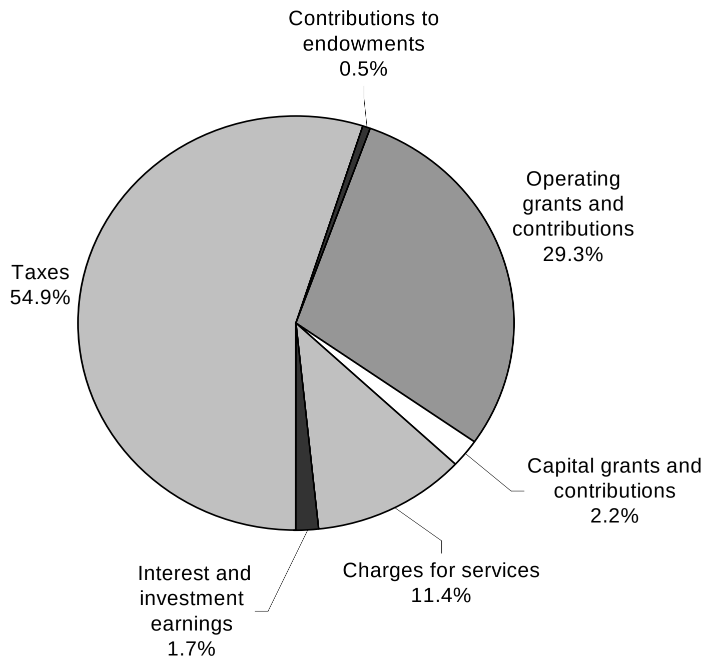
*Note: Governmental Activities net assets as of July 1, 2005, have been restated to reflect fund-type reclassification and prior period error corrections.

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

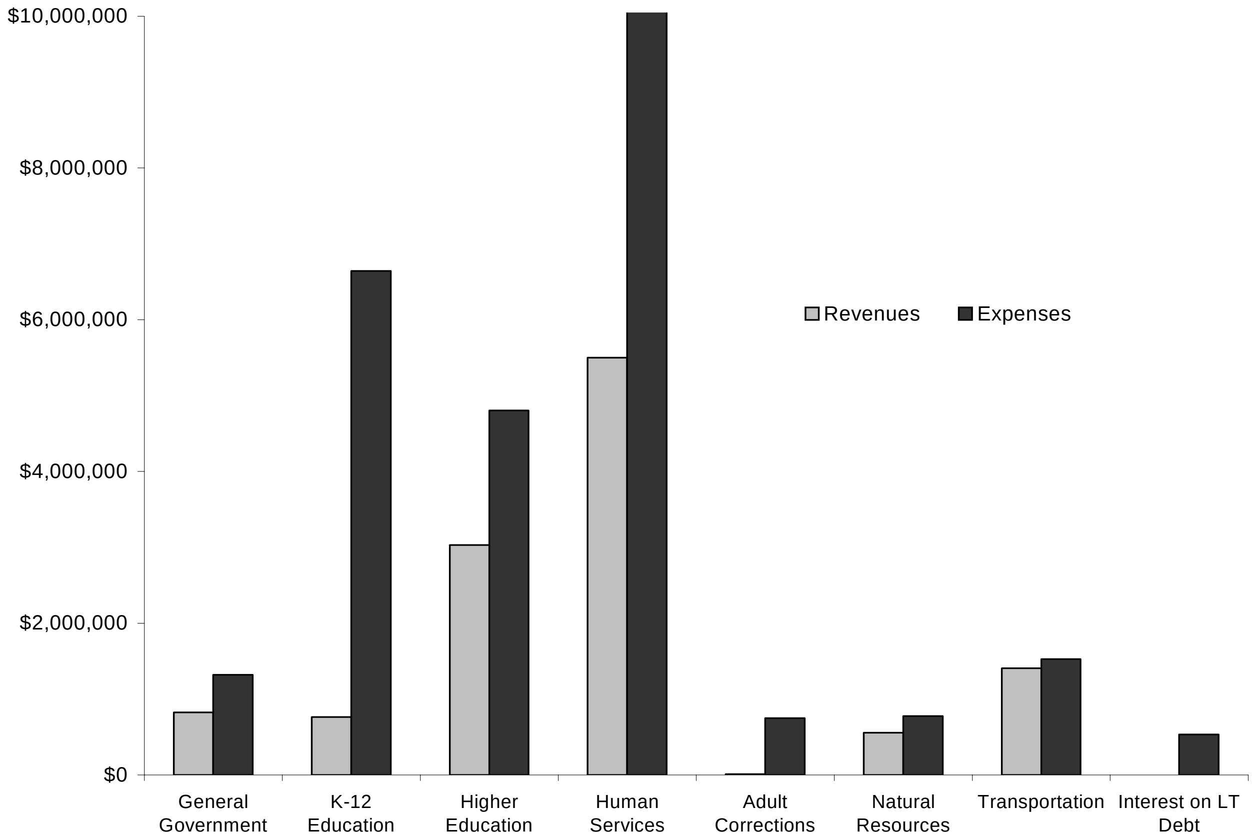
Governmental activities. Governmental activities resulted in an increase in the state of Washington's net assets of $1.9 billion. Key elements of this increase are as follows*:*

- Increases in tax revenues reflect strong economic and personal income growth during Fiscal Year 2006 as well as gains in employment.
- Strong growth in the housing sector due to low interest rates and an increase in disposable household income from home mortgage refinancing also resulted in increases in tax revenues.
- A series of revenue enhancements initiated by the state in Fiscal Years 2004 and 2005 continue to result in increased in tax revenues.

Revenues by Source – Governmental Activities



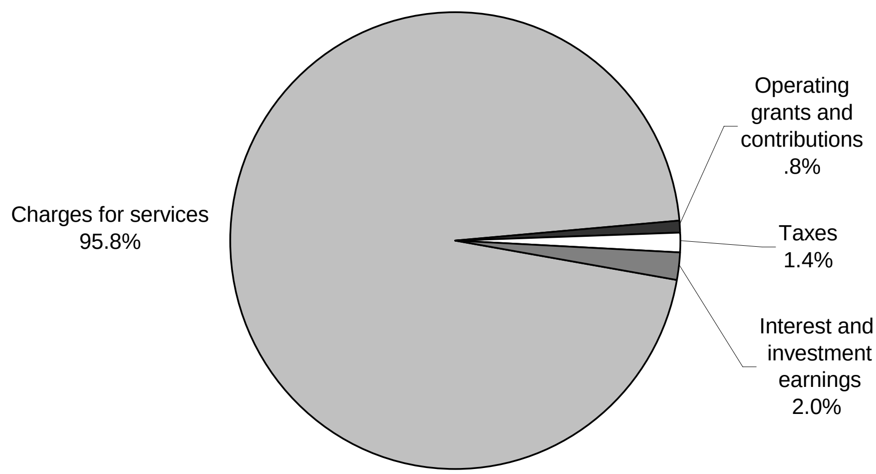
Program Revenues and Expenses - Governmental Activities



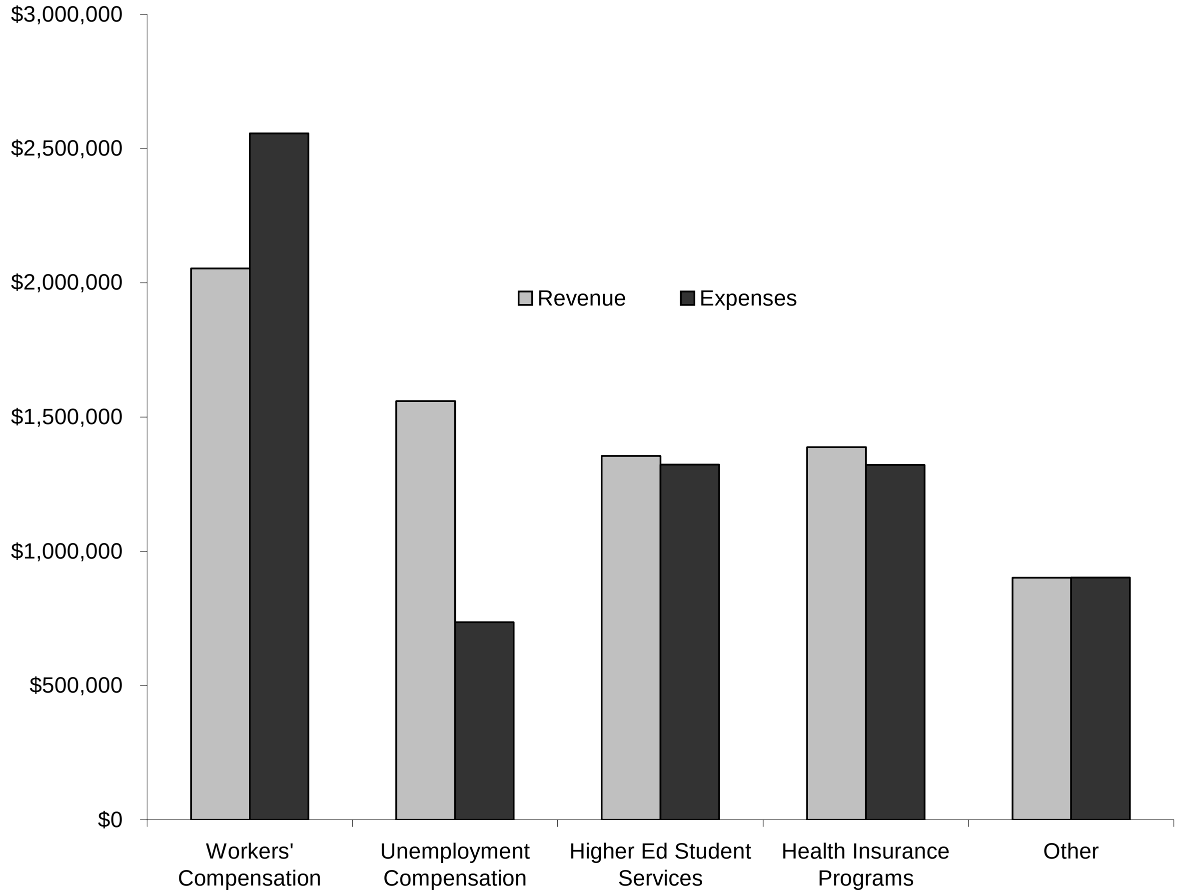
Business-type activities. Business-type activities increased the state of Washington's net assets by $418 million in spite of a $503 million loss in the Workers' Compensation Fund. Key factors contributing to the operating results of business-type activities are:

- Earnings on investments in the Workers' Compensation Fund decreased by 103 percent in Fiscal Year 2006 compared to 2005. The decrease in earnings on investments is primarily due to unrealized losses on fixed income securities and was the significant contributing factor to the Workers' Compensation Fund loss.
- The state's economic recovery was reflected by a reduction in unemployment. Expenditures for unemployment compensation benefits decreased by 15 percent in Fiscal Year 2006 compared to 2005.

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 discussed earlier, 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, the amount considered available to spend, totaled $569 million. $1.1 billion of the General Fund fund balance relates to certain accrued revenues and has been designated for working capital purposes. It is not considered available to spend.

The fund balance of the state of Washington's General Fund decreased by $92 million during the current fiscal year.

State of Washington's General Fund

(in millions of dollars)

	Fiscal Year 2006	Fiscal Year 2005	Difference Increase (Decrease)
Revenues			
Taxes	$ 13,165	$ 11,988	$ 1,177
Federal grants	6,113	6,012	101
Investment revenue	73	36	37
Other	369	508	(139)
Total	19,720	18,544	1,176
Expenditures			
Human services	9,809	9,519	290
Education	7,407	7,243	164
Other	1,036	970	66
Total	18,252	17,732	520
Net transfers in (out)	(1,577)	(418)	(1,159)
Other financing sources	17	15	2
Net increase (decrease) in fund balance	$ (92)	$ 409	$ (501)

The state's improving economy combined with state revenue enhancements measures are reflected in increased tax revenue collection. Expenditure growth continues to be limited to services and programs most vital to citizens – primarily health care, public education, and economic development. Overall revenues were up 6 percent while expenditures increased at a slower pace of 2.9 percent when compared to the prior year. The state took advantage of this opportunity to set aside resources to pay for health services, education, and pension funding in future years by transferring $825 million from the General Fund to non-major governmental funds.

In addition to the General Fund, the state reports the Higher Education Special Revenue and Higher Education Endowment Funds as major governmental funds. The fund balance for the Higher Education Endowment Fund increased by $282 million, which was consistent with the prior year's growth.

Non-major governmental fund revenue increased by $275 million in Fiscal Year 2006 compared with Fiscal Year 2005 primarily related to growth in tax revenues. This revenue increase combined with the $825 million in transfers from the General Fund noted above are primarily responsible for the increase in fund balance of $1.2 billion.

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 $503 million in Fiscal Year 2006. Workers' compensation claims expenses continued to exceed assessment revenue resulting in an operating loss which combined with a loss on investment activities to result in a decrease in net assets in Fiscal Year 2006. The Unemployment Compensation Fund reported income of $823 million in Fiscal Year 2006 compared with an income of $717 million in Fiscal Year 2005. This reflects the continuing reduction in the state's unemployment rate. Activity for the various non-major proprietary funds resulted in an increase to net assets of $65 million.

General Fund Budgetary Highlights

Differences between the original budget of the General Fund and the final amended budget reflect adjustments related to changes in the state's economy during the fiscal year ended June 30, 2006. During that year, significant changes to estimates are summarized as follows:

- Estimated tax revenues increased $1.2 billion.
- Estimated revenues from federal grants-in-aid increased by $399 million.
- Appropriated expenditure authority increased by $1.5 billion.
-

The state did not overspend its legal spending authority for Fiscal Year 2006, the first year of the 2005-07 Biennium. Actual General Fund revenues and expenditures for Fiscal Year 2006 were approximately 50 percent of final budgeted revenues and appropriations for the 2005-07 Biennium.

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

Capital assets. The state of Washington's investment in capital assets for its governmental and business-type activities as of June 30, 2006 amounted to $25.8 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 2006 investment in capital assets, net of current year depreciation, was $1.3 billion, including increases to the state's transportation infrastructure of $874 million and buildings of $527 million. The state's construction in progress includes both new construction and major improvements to state infrastructure and facilities including state highway system, correctional facilities, ferry vessels and terminals, and buildings on the capitol and college and university campuses. Remaining commitments on these construction projects total $3.2 billion.

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

State of Washington's Capital Assets

(net of depreciation)

(in millions of dollars)

	Governmental Activities		Business-type Activities		Total	
	2006	2005*	2006	2005	2006	2005
Land	$ 1,238	$ 1,207	$ 92	$ 87	$ 1,330	$ 1,294
Transportation infrastructure and other assets not depreciated	14,321	13,439	-	-	14,321	13,439
Buildings	5,247	4,737	1,183	1,166	6,430	5,903
Furnishings, equipment, and collections	1,362	1,353	115	135	1,477	1,488
Other improvements and infrastructure	942	921	59	53	1,001	974
Construction in progress	1,064	1,246	138	84	1,202	1,330
Total	$ 24,174	$ 22,903	$ 1,587	$ 1,525	$ 25,761	$ 24,428

*Note: 2005 balances for Governmental Activities have been restated to reflect prior period corrections.

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

The state highway system and emergency airfields continue to meet or exceed targeted condition levels and no significant changes in condition levels were noted. Amounts spent during Fiscal Year 2006 to maintain/preserve these infrastructure assets were not significantly different from estimated spending plans according to the biennial budget. The condition of these assets, along with the rating scales for pavement, bridges, rest areas, and airfields, and additional detail comparing budget to actual preservation and maintenance spending are available in the required supplementary information beginning on page 146.

The Department of Transportation accomplished a net addition of 96 lane miles and 6 bridges in Fiscal Year 2006. The state transportation system asset value increased by $874 million during the fiscal year. Fiscal Year 2007 commitments made for ongoing infrastructure projects that extend beyond the Fiscal Year 2006 amount to $1.4 million representing 766 projects.

Bond debt. At the end of Fiscal Year 2006, the state of Washington had general obligation bond debt outstanding of $10.6 billion, an increase of 6 percent over Fiscal Year 2005. This debt is secured by a pledge of the full faith and credit of the state. Additionally, the state had authorized $10.4 billion general obligation debt that remains unissued.

The state had revenue debt outstanding at June 30, 2006, of $1.4 billion, an increase of $203 million over Fiscal Year 2005. This increase is primarily related to revenue bonds issued by state colleges and universities. Revenue bond debt is secured by specific sources of revenue.

Four times during the year, the state issued general obligation debt, totaling $1.6 billion for various capital and transportation projects as well as for refunding purposes. The state took advantage of the historically low interest rates that prevailed through Fiscal Year 2006 to refund outstanding bonds. This refunding will save taxpayers over $36 million (net present value) in future interest payments. The state ranked 20th in a list of the top 100 issuers ranked by amount financed by municipal issuers in calendar year 2005, according to The Bond Buyer's 2006 Yearbook.

State of Washington's Bond Debt

(in millions of dollars)

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
General obligation (GO) bonds	$ 10,464	$ 9,842	$ 120	$ 138	$ 10,584	$ 9,980
Accreted interest on zero interest rate GO bonds	234	201	27	24	261	225
Revenue bonds	558	564	794	585	1,352	1,149
Total	$ 11,256	$ 10,607	$ 941	$ 747	$ 12,197	$ 11,354

The Washington State Constitution and the Revised Code of Washington limit the amount of general obligation (GO) debt that may be issued, the latter being the most restrictive. For the fiscal year ended June 30, 2006, the maximum GO debt authorized by constitutional limit was $8.8 billion. The debt capacity remaining was $1.5 billion. Specific bond issues and types that are not secured by general state revenues, such as motor fuel tax and reimbursable bonds, are excluded from the limitation.

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, 2006, 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 beginning on page 234 of this report.

Economic Factors and Next Year's Budgets and Rates

- Washington's outlook for Fiscal Year 2007 is for a continuation in the strong economic growth. It reflects the impact of the long awaited recovery at both the state and national levels.
- Revenue growth in the General Fund is expected to be even stronger in the 2005-07 Biennium than in the previous biennium.
- Overall, personal income and employment are expected to continue to grow in Fiscal Year 2007.

Legislative leaders and management will consider these factors in preparing the state's budget for future years.

Requests for Information

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

Basic Financial Statements

Government-wide Financial Statements

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

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

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

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

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

General revenues:
Taxes - sales and use taxes
Taxes - business and occupation taxes
Taxes - property
Taxes - motor vehicle and fuel
Taxes - excise
Taxes - other
Interest and investment earnings
Total general revenues
Excess (deficiency) of revenues over expenses before contributions to endowments, extraordinary loss, and transfers
Contributions to endowments
Extraordinary loss (asset impairment)
Transfers
Change in net assets
Net assets -- restated beginning
Net assets -- ending

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

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

Fund Financial Statements

GOVERNMENTAL FUNDS
Balance Sheet

June 30, 2006
(expressed in thousands)

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

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

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

Total fund balances for governmental funds		$ 10,410,312
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:		
Non-depreciable assets	$ 16,598,513	
Depreciable assets, net of depreciation	7,148,697	
Total capital assets		23,747,210
Some of the state's revenues will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.		1,355,421
Accrued current interest on general obligation bonds		(217,685)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		(51,963)
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
Bonds and notes payable	(11,239,466)	
Accrued interest on bonds	(236,962)	
Claims and judgments	(31,622)	
Other obligations	(573,985)	
Total long-term liabilities		(12,082,035)
Net assets of governmental activities		$ 23,161,260

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

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

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

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

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

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

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

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

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

PROPRIETARY FUNDS
Statement of Fund Net Assets

June 30, 2006
(expressed in thousands)

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

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

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

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

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

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

PROPRIETARY FUNDS
Statement of Cash Flows

Continued

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

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

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

PROPRIETARY FUNDS
Statement of Cash Flows

Concluded

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

	Business-Type Activities Enterprise Funds					Governmental Activities
	Workers' Compensation	Unemployment Compensation	Higher Education Student Services	Nonmajor Enterprise Funds	**Total**	Internal Service Funds
Noncash Investing, Capital and Financing Activities:						
Contributions of capital assets	$ -	$ -	$ 94	$ -	$ 94	$ 2,338
Acquisition of capital assets through capital leases	-	-	-	-	-	56,805
Amortization of long-term lotto prize liability	-	-	-	28,345	28,345	-
Increase (decrease) in fair value of investments	(612,727)	-	(232)	21,721	(591,238)	2
Refunding bonds issued	-	-	1,440	-	1,440	-
Refunded bonds redeemed	-	-	(1,410)	-	(1,410)	-
Amortization of debt premium (issue costs/discount)	-	-	4,409	-	4,409	-
Accretion of interest on zero coupon bonds	-	-	-	3,388	3,388	-

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

FIDUCIARY FUNDS
Statement of Fiduciary Net Assets
June 30, 2006
(expressed in thousands)

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

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

FIDUCIARY FUNDS
Statement of Changes in Fiduciary Net Assets

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

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

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

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

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

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

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

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

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

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

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006

Index to the Notes to the Basic Financial Statements

Note 1 - Summary of Significant Accounting Policies

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

A. Reporting Entity

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Washington State Public Stadium Authority (PSA) was created by the state Legislature to acquire, construct, own, and operate a football/soccer stadium, exhibition center, and parking garage. Construction was completed in 2002. PSA capital assets, net of accumulated depreciation, total $434 million. The state issued general obligation bonds for a portion of the cost of the stadium construction. The total public share of the stadium and exhibition center cost did not exceed $300 million from all state and local government funding sources, as defined in statute. Project costs in excess of $300 million were the responsibility of the project's private partner, First & Goal, Inc. The bonds are being repaid through new state lottery games, a state sales tax credit, extension of the local hotel/motel tax, and parking and admissions taxes at the new facility. Financial reports of the PSA may be obtained at the following address:

Washington State Public Stadium Authority
401 Second Avenue South, Suite 520
Seattle, WA 98104-0280

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

Fund Financial Statements

The state uses 602 accounts that are combined into 58 rollup funds. The state presents separate financial statements for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major individual proprietary funds are reported in separate columns in the fund financial statements, with nonmajor funds being combined into a single column regardless of fund type. Internal service and fiduciary funds are reported by fund type. Major funds include:

Major Governmental Funds:

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

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

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

Major Enterprise Funds:

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

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

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

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

Nonmajor Governmental Funds:

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

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

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

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

Nonmajor Proprietary Funds:

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

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

The state reports the following fiduciary funds:

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

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

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

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

Operating and Nonoperating Revenues and Expenses

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

Application of Restricted/Unrestricted Resources

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

Under modified accrual accounting, expenditures are recognized when the related liability is incurred. Exceptions to the general modified accrual expenditure recognition criteria include unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with available expendable financial resources.

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

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

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

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

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Investments

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

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

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

2. Receivables and Payables

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

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

3. Inventories

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

All merchandise inventories are considered reportable for financial statement purposes. Merchandise inventories are generally valued at cost using the first-in, first-out method.

Inventories of governmental funds are valued at cost and recorded using the consumption method. Proprietary funds expense inventories when used or sold.

For governmental fund financial reporting, inventory balances are also recorded as a reservation of fund balance indicating that they do not constitute "available spendable resources" except for $4.8 million in federally donated consumable inventories, which are offset by deferred revenues because they do not constitute an "available" resource until consumed.

4. Capital Assets

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

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

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

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

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

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

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

- The collection is held for public exhibition, education or research in furtherance of public service, rather than financial gain.
- The collection is protected, kept unencumbered, cared for, and preserved.
- The collection is subject to policy requirements that the proceeds from sales of collection items be used to acquire other items for the collection.

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

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

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

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

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

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

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

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

5. Compensated Absences

State employees accrue vested annual leave at a variable rate based on years of service. In general, accrued annual leave cannot exceed 30 days at the employee's anniversary date.

Employees accrue sick leave at the rate of one day per month without limitation on the amount that can be accumulated. Sick leave is not vested; i.e., the state does not pay employees for unused sick leave upon termination except upon employee death or retirement. At death or retirement, the state is liable for 25 percent of the employee's accumulated sick leave. In addition, the state has a "sick leave buyout option" in which each January, employees who accumulate sick leave in excess of 60 days may redeem sick leave earned but not taken during the previous year at the rate of one day's pay in exchange for each four days of sick leave.

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

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

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

6. Long-Term Liabilities

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

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

7. Fund Equity

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

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

E. Other Information

1. General Budgetary Policies and Procedures

The legal level of budgetary control is at the fund/account, agency, and appropriation level, with administrative controls established at lower levels of detail in certain instances. The accompanying budgetary schedules presented as Required Supplementary Information (RSI) are not presented at the legal level of budgetary control. This is due to the large number of appropriations within individual agencies that would make such a presentation in the accompanying financial schedules extremely cumbersome. Section 2400.121 of the GASB Codification of Governmental Accounting and Financial Reporting Standards provides for the preparation of a separate report in these extreme cases. For the state of Washington, a separate report has been prepared for the 2005-2007 Biennium to illustrate legal budgetary compliance. Appropriated budget versus actual expenditures, and estimated versus actual revenues and other financing sources (uses) for appropriated funds at agency and appropriation level are presented in Report CAF1054 for governmental funds. A copy of this report is available at the Office of Financial Management, 6639 Capitol Boulevard, PO Box 43113, Olympia, Washington 98504-3113. For additional budgetary information, refer to the notes to RSI.

2. Insurance Activities

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

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

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

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

Risk Management

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

Health Insurance

The state of Washington administers and provides medical, dental, basic life, and long-term disability insurance coverage for eligible state employees. In addition, the state offers coverage to K-12 school districts, educational service districts, political subdivisions and employee organizations representing state civil service workers. The state establishes eligibility requirements and approves plan benefits of all participating health care organizations.

The state's share of the cost of coverage for state employees is based on a per capita amount determined annually by the Legislature and allocated to state agencies. The Health Care Authority, as administrator of the health care benefits program, collects this monthly "premium" from agencies for each active employee enrolled in the program. State employees self-pay for coverage beyond the state's contribution. Cost of coverage for non-state employees is paid by their respective employers. Most coverage is available on a self-paid basis to eligible retirees, former employees, and employees who are temporarily not in pay status. For additional information, refer to Note 12.

The state secures commercial insurance for certain coverage offered, but self-insures the risk of loss for the Uniform Medical Plan. The Uniform Medical Plan enrolled 52 percent of the eligible subscribers in Fiscal Year 2006. Claims are paid from premiums collected, and claims adjudication is contracted through a third-party administrator. Considerations in calculating liabilities include frequency of claims, administrative costs, industry inflation trends, advances in medical technology, and other social and economic factors. Liabilities include an amount for claims incurred but not reported.

3. Interfund/Interagency Activities

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

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

4. Donor-restricted Endowments

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

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

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

Note 2 - Accounting and Reporting Changes

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

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

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

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

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

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

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

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

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

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

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

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

Note 3 - Deposits and Investments

A. Deposits

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

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

At June 30, 2006, $2.3 billion of the state's deposits with financial institutions were either insured or collateralized, with the remaining $34.1 million uninsured/uncollateralized. The Federal Deposit Insurance Corporation (FDIC) covers the state's insured deposits and the PDPC provides collateral protection.

B. Investments – Pension and Other Employee Benefit Trust Funds (Pension Trust Funds)

1. SUMMARY OF INVESTMENT POLICIES

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

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

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

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

Pension trust funds can be invested in any appropriate private equity investment opportunity that has the potential for returns superior to traditional investment opportunities and which is not prohibited by the WSIB's policies or by law. These investment types include venture capital investments, corporate finance (including leveraged, management and employee buyouts), distressed, international and mezzanine investments. Private equity investments are made through limited partnership vehicles. The private equity portfolio has diversified investments in companies in a variety of stages of growth. The portfolio also includes a broad cross-section of opportunities in different industries, and geographic regions.

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

2. SECURITIES LENDING

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

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

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

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

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

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

During Fiscal Year 2006, there were no significant violations of legal or contractual provisions, or failures by any borrowers to return loaned securities or to pay distributions thereon. Further, the WSIB incurred no losses during Fiscal Year 2006 resulting from a default by either the borrowers or the securities lending agents.

3. INTEREST RATE RISK

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

The following schedule presents the pension fund investments by type and provides information about the interest rate risks associated with the pension trust funds investments as of June 30, 2006. The schedule displays various asset classes held by maturity in years and credit ratings. Variable-rate securities are presented according to the length of time until the next reset date rather than the stated maturity.

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

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

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

Pension Trust Funds
Investments with Multiple Credit Ratings
June 30, 2006
(expressed in thousands)

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

4. CREDIT RISK

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The WSIB investment policy mitigates credit risk by limiting holdings of below investment grade fixed income securities. Rated debt investments of the pension trust funds as of June 30, 2006, were rated by Moody's and/or an equivalent national rating organization.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The WSIB policy states no corporate fixed income issue shall exceed 3 percent of cost at the time of purchase or 6 percent of market value thereafter of the fund, and no high yield issues shall exceed 1 percent of cost or 2 percent of market value of the fund. There was no concentration of credit risk exceeding these policy guidelines as of June 30, 2006.

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

5. FOREIGN CURRENCY RISK

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

The following schedule presents the exposure of pension fund investments to foreign currency risk. The schedule provides information on deposits and investments held in various foreign currencies, which are stated in U.S. dollars. The pension trust funds also had $4.2 billion invested in an international commingled equity index fund. As such, these currency denominations are not presented in the following schedule.

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

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

6. DERIVATIVES

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

Consistent with the WSIB authority to invest in derivatives, international active equity managers may make limited investments in financial futures, forward contracts or other derivative securities to manage exposure to currency rate risk and equitize excess cash holdings. No such derivative securities were held as of June 30, 2006. Domestic and foreign passive equity index fund managers may also utilize various derivative securities to manage exposure to risk and increase portfolio returns. Information on the extent of use and holdings of derivative securities by passive equity index fund managers is unavailable. At June 30, 2006, the only derivative securities held directly by WSIB were collateralized mortgage obligations (CMOs) of $1.4 billion.

7. REVERSE REPURCHASE AGREEMENTS

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

C. Investments – Workers' Compensation Fund

1. SUMMARY OF INVESTMENT POLICIES

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

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

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

Eligible Investments – Eligible investments include:

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

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

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

- No corporate fixed income issue cost shall exceed 3 percent of the fund's market value at the time of purchase, nor shall its market value exceed 6 percent of the fund's market value at any time.
- Allocation of equity investments between U.S. and International must fall within prescribed limits. The benchmark and structure for U.S. equities is the broad U.S. stock market as defined by the Dow Jones-Wilshire 5000. The benchmark and structure for international equities is the Morgan Stanley Capital Indexes Europe, Australia, Far East (MSCI EAFE) index. Both portfolios are 100 percent passively managed in commingled index funds. The commingled funds may use futures for hedging or establishing a long position.
- The fixed income portfolios' structure varies depending upon the required duration target. The duration targets are reviewed every three years, or sooner, if there are significant changes in the funding levels or the liability durations.
- Sector allocation of fixed income investments must be managed within the prescribed ranges. These targets are long-term in nature. Deviations may occur in the short-term as a result of interim market conditions. However, if a range is exceeded the portfolios must be rebalanced as soon as it is practical to the target allocations.
- Total holdings of below investment grade credit bonds (rated BB+ or below by Standard & Poor's or rated Ba1 or below by Moody's) should not exceed 5 percent of total fixed income holdings.

2. SECURITIES LENDING

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

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

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

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

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

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

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

During Fiscal Year 2006, there were no significant violations of legal or contractual provisions, no failures by any borrowers to return loaned securities or to pay distributions thereon. Further, the WSIB incurred no losses during Fiscal Year 2006 resulting from a default by either the borrowers or the securities lending.

3. INTEREST RATE RISK

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The workers' compensation fixed income investments are actively managed to exceed the return of the Lehman Aggregate Index, with volatility as measured by duration to be similar to or less than the index. As of June 30, 2006, the durations of the various fixed income classes were within the duration targets of the Lehman Aggregate Index.

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

The following schedule presents the workers' compensation fund investments by type and provides information about the interest rate risks associated with the investments as of June 30, 2006. The schedule displays various asset classes held by maturity in years and credit ratings. Variable-rate securities are presented according to the length of time until the next reset date rather than the stated maturity.

Workers' Compensation Fund
June 30, 2006
(expressed in thousands)

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

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

Workers' Compensation Fund
Investments with Multiple Credit Ratings
June 30, 2006
(expressed in thousands)

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

4. CREDIT RISK

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The WSIB investment policy mitigates credit risk by limiting holdings of below investment grade fixed income securities. The rated debt investments of the workers' compensation funds as of June 30, 2006, were rated by Moody's and/or an equivalent national rating organization

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The WSIB policy states that the cost of no corporate fixed income issue shall exceed 3 percent of the fund's market value at the time of purchase, nor shall its market value exceed 6 percent of the fund's market value at any time. There was no concentration of credit risk as of June 30, 2006.

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

5. FOREIGN CURRENCY RISK

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The WSIB does not have a formal policy to limit foreign currency risk. The workers' compensation funds had $321.6 million invested in an international commingled equity index fund. As such, no currency denomination is presented.

6. DERIVATIVES

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

Consistent with the WSIB authority to invest in derivatives, international active equity managers may make limited investments in financial futures, forward contracts or other derivative securities to manage exposure to currency rate risk and equitize excess cash holdings. No such derivative securities were held as of June 30, 2006. Domestic and foreign passive equity index fund managers may also utilize various derivative securities to manage exposure to risk and increase portfolio returns. Information on the extent of use and holdings of derivative securities by passive equity index fund managers is unavailable. At June 30, 2006, the only derivative securities held directly by WSIB were collateralized mortgage obligations (CMOs) of $1.6 billion.

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

D. Investments – Local Government Investment Pool (LGIP)

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

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

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

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

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

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

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

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

- Certificates of deposit with financial institutions qualified by the Washington Public Deposit Protection Commission.
- Obligations of the state of Washington or its political sub-divisions.

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

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

2. SECURITIES LENDING

The LGIP investment policy requires that any securities on loan be made available by the lending agent for next day liquidity at the option of the LGIP. During Fiscal Year 2006, the LGIP had no credit risk exposure to borrowers because the amounts owed to the borrowers exceeded the amounts the borrowers owed the LGIP. Furthermore, the contract with the lending agent requires them to indemnify the LGIP if the borrowers fail to return the securities (and if collateral is inadequate to replace the securities lent) or if the borrower fails to pay the LGIP for income distribution by the securities' issuers while the securities are on loan. The LGIP cannot pledge or sell collateral securities received unless the borrower defaults. The LGIP investment policy limits the amount of reverse repurchase agreements and securities lending to 30 percent of the total portfolio. There were neither violations of legal or contractual provisions nor any losses resulting from a default of a borrower or lending agent during the year.

State statutes permit the LGIP to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The LGIP, which has contracted with a lending agent to lend securities in the LGIP, earns a fee for this activity. The lending agent lends securities and receives collateral, which can be in the form of cash or other securities. The collateral, which must be valued at 102 percent of the fair value of the loaned securities, is priced daily and, if necessary, action is taken to maintain the collateralization level at 102 percent. The cash is invested by the lending agent in repurchase agreements or money market instruments, in accordance with investment guidelines approved by the LGIP. The securities held as collateral and the securities underlying the cash collateral are held by the LGIP's custodian. At June 30, 2006, all LGIP securities on loan were collateralized by cash and other securities and are classified in the following schedule of custodial credit risk according to the category for the collateral received on the securities lent. On June 30, 2006, the average life of both the loans and the investment of cash received as collateral was three days.

3. INTEREST RATE RISK

Interest rate risk is the risk that changes in interest rates of debt instruments will adversely affect the fair value of an investment. The LGIP policy places a 90-day maximum on the weighted average maturity. Further, the maximum maturity of any security may not exceed 397 days, except securities utilized in repurchase agreements and U.S. Agency floating or variable rate notes with reset dates less than a year and which on any reset date can reasonably be expected to have a market value that approximates its amortized cost. As of June 30, 2006, the LGIP had a weighted average maturity of 38 days.

The following schedule presents the LGIP investments by type and provides information about the interest rate risks associated with the LGIP investments as of June 30, 2006.

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

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

4. CREDIT RISK

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

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

5. FOREIGN CURRENCY RISK - None

6. DERIVATIVES – None

7. REVERSE REPURCHASE AGREEMENTS

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

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

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

E. Investments – Higher Education Special Revenue and Endowment Funds

1. SUMMARY OF INVESTMENT POLICIES

The investments of the University of Washington represent 75 percent of the total investments in Higher Education Special Revenue and Endowment Funds.

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

The University combines most short-term cash balances in the Invested Funds Pool. At June 30, 2006, the Invested Funds Pool totaled $727.2 million. The fund also owns units in the Consolidated Endowment Fund valued at $376.4 million on June 30, 2006. By University policy, departments with qualifying funds in the Invested Funds Pool receive one of four rates of return based on the realized yield of the portfolio. Long-term deposits received 3.2 percent for Fiscal Year 2006. Operating and plant fund balances of self-sustaining units received 2.9 percent. Royalty accounts received 1.0 percent and gift accounts received 3.0 percent. The difference between the actual earnings of the Invested Funds Pool and the calculated distributions is used to support activities benefiting all University departments.

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

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

Funds in irrevocable trusts managed by trustees other than the University are not reported in the financial statements. The fair value of these funds was approximately $53.5 million at June 30, 2006. Income received from these trusts was $2.7 million for the year ended June 30, 2006.

2. SECURITIES LENDING

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

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

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

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

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

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

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

3. INTEREST RATE RISK

The University manages interest rate risk through its investment policies and the investment guidelines established with each manager. Each fixed income manager is assigned a maximum boundary for duration as compared to the manager's relevant benchmark index. The goal is to allow the ample freedom for the manager to perform, while controlling the interest rate risk in the portfolio. Modified duration, which estimates the sensitivity of a bond's price to interest rate changes, is based on Macaulay duration. Macaulay duration is the basic calculation developed for a portfolio of bonds assembled to fund a fixed liability. Macaulay duration is calculated as follows: sum of discounted time-weighted cash flows / bond price. Modified duration is calculated using the following formula: Macaulay duration / (1 + yield-to-maturity/ number of coupon payments per year).

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

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

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

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

4. CREDIT RISK
The University investment policies limit investments to investment grade assets. The Investment Policy for the University's operating funds reflects a higher level of credit risk/loss sensitivity and requires each manager to maintain a specific average AA rating as issued by a nationally recognized rating organization. Additionally, the investment policy requires the operating funds to have 50 percent of the assets invested in government and government agency issues. The Investment Policy for the CEF reflects its long-term nature by specifying average quality rating levels by individual manager, but still restricting investments to investment grade credits.

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

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

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

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

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

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

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

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

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

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

7. REVERSE REPURCHASE AGREEMENTS - None

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

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

The overall objective of the OST investment policy is to construct, from eligible investments noted below, an investment portfolio that is optimal or efficient. An optimal or efficient portfolio is one that provides the greatest expected return for a given expected level of risk, or the lowest expected risk for a given expected return. The emphasis on "expected" is to recognize that investment decisions are made under conditions of risk and uncertainty. Neither the actual risk nor return of any investment decision is known with certainty at the time the decision is made.

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

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

- Local Government Investment Pool, for proceeds of bonds or other debt obligations, when the investments are made in order to comply with the Internal Revenue Code of 1986, as amended.
- Obligations of the state of Washington or its political sub-divisions.

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

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

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

2. SECURITIES LENDING

State statutes permit the OST to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The OST, which has contracted with a lending agent to lend securities, earns a fee for this activity. The OST lending agent lends U.S. Government and U.S. Agency securities and receives collateral, which can be in the form of cash or other securities. The collateral, which must be valued at 102 percent of the fair value of the loaned securities, is priced daily and, if necessary, action is taken to maintain the collateralization level at 102 percent. The cash is invested by the lending agent in repurchase agreements or money market instruments, in accordance with investment guidelines approved by the OST. The securities held as collateral and the securities underlying the cash collateral are held by the custodian. The contract with the lending agent requires them to indemnify the OST if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or if the borrower fails to pay the OST for income distribution by the securities' issuers while the securities are on loan. The OST cannot pledge or sell collateral securities received unless the borrower defaults.

At June 30, 2006, securities on loan approximated $244 million. All OST securities on loan were collateralized by cash and other securities and are classified in the schedule of custodial credit risk according to the category for the collateral received on the securities lent. On June 30, 2006, the average life of both the loans and the investment of cash received as collateral was three days.

The OST investment policy requires that any securities on loan be made available by the lending agent for next day liquidity at the option of the OST. During Fiscal Year 2006, the OST had no credit risk exposure to borrowers because the amounts owed to the borrowers exceeded the amounts the borrowers owed the OST. There were no violations of legal or contractual provisions or any losses resulting from a default of a borrower or lending agent during the fiscal year.

3. INTEREST RATE RISK

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

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

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

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

4. CREDIT RISK

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

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

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. For non-governmental securities, the OST limits its exposure to concentration of credit risk by restricting the amount of investments to no more than 5 percent of the portfolio to any single issuer. During Fiscal Year 2006, the non-governmental securities of a single issuer held by the Cash Management Account did not exceed 5 percent of the total portfolio.

5. FOREIGN CURRENCY RISK - None

6. DERIVATIVES - None

7. REVERSE REPURCHASE AGREEMENTS

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

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

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

Note 4 - Receivables and Deferred/Unearned Revenues

A. Governmental Funds

Taxes Receivable

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

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

Other Receivables

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

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

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

(2) Significant long-term portions of loans receivable include $102 million in the Higher Education Special Revenue Fund for student loans and $259 million in Nonmajor Governmental Funds for low income housing, public works, and economic development/revitalization loans.

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

Deferred Revenues

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

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

B. Proprietary Funds

Taxes Receivable

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

Other Receivables

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

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

Unearned Revenues

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

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

C. Fiduciary Funds

Other Receivables

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

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

Unearned Revenues

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

Note 5 - Interfund Balances and Transfers

A. Interfund Balances

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

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

Except as noted, all interfund balances are expected to be paid within one year from the date of the financial statements. These balances resulted from the time lag between the dates that (1) interfund goods and services were provided and when the payments occurred, and (2) interfund transfers were accrued and when the liquidations occurred. A long-term receivable is recorded in the General Fund for the long-term portion of escheat resources due from Other Private-Purpose Trust Funds.

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

B. Interfund Transfers

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

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

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

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

Transfers are used to 1) move revenues from the fund that statute requires to collect them to the fund that statute requires to expend them, 2) move receipts designated for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, 3) move unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, 4) move profits from the Liquor Revolving Account and the State Lottery Account as required by law, and 5) transfer amounts to and from the General Fund as required by law.

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

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

Note 6 - Capital Assets

A. Governmental Capital Assets

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

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

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

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

B. Business-type Capital Assets

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

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

C. Depreciation

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

	Amount
Governmental Activities:	
General Government	$ 46,198
Education - Elementary and Secondary (K-12)	2,149
Education - Higher Education	272,342
Human Services	29,094
Adult Corrections	28,910
Natural Resources and Recreation	46,561
Transportation	72,024
Total Depreciation Expense - Governmental Activities	$ 497,278 *

Business-Type Activities:	
Workers' Compensation	$ 25,551
Unemployment Compensation	-
Higher Education Student Services	67,096
Health Insurance Programs	161
Other	16,039
Total Depreciation Expense - Business-Type Activities	$ 108,847

*Includes $60 million internal service fund depreciation that was allocated to functions as a part of the net internal service fund activity.

D. Construction in Progress

Major construction commitments of the state at June 30, 2006, are as follows (expressed in thousands):

D. Construction in Progress

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

Note 7 – Long-Term Liabilities

A. Bonds Payable

Bonds payable at June 30, 2006, are reported by the state of Washington within Governmental Activities and Business-Type Activities, as applicable.

The State Constitution and enabling statutes authorize the incurrence of state general obligation debt, to which the state's full faith, credit, and taxing power are pledged, either by the State Legislature or by a body designated by statute (presently the State Finance Committee). Legislative authorization arises from an affirmative vote of 60 percent of both legislative houses without voter consent, or from an affirmative vote of more than 50 percent of both legislative houses and a majority of the voters voting thereon. The State Finance Committee debt authorization does not require voter approval; however, it is limited to providing for: (1) temporary deficiencies in the state treasury (must be discharged within 12 months of the date of incurrence); (2) appropriations already made by the legislature; or (3) refunding of outstanding obligations of the state.

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

As certified by the State Treasurer, the maximum debt authorization subject to limitation for Fiscal Year 2006 was $8.8 billion, under the constitutional limitation. This computation excludes specific bond issues and types, which are not secured by general state revenues. Based on the debt limitation calculation, the debt service requirements as of June 30, 2006, did not exceed the authorized debt service limitation.

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

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

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

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

Outstanding general obligations bonds are presented in the Washington State Treasurer's Annual Report for 2006. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington, 98504-0200, phone number (360) 902-9000 or TTY (360) 902-8963.

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

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

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

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

Additionally, governmental activities include revenue bonds outstanding at June 30, 2006 of $497.5 million issued by the Tobacco Settlement Authority (TSA), which is a blended component unit of the state. The bonds are obligations of the TSA and are secured solely by the TSA's right to receive 29.2 percent of the state's tobacco settlement revenues, restricted investments of the TSA, and undistributed TSA bond proceeds. These bonds do not constitute either a legal or moral obligation of the state, nor does the state pledge its full faith, credit or taxing power for payment of these bonds.

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

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

DEBT REFUNDINGS

When advantageous and permitted by statute and bond covenants, the State Finance Committee authorizes the refunding of outstanding bonds and certificates of participation. Colleges and universities may also refund revenue bonds. When the state refunds outstanding bonds, the net proceeds of each refunding issue are used to purchase U.S. government securities that are placed in irrevocable trusts with escrow agents to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered defeased and the liability has been removed from the government-wide statement of net assets.

CURRENT YEAR DEFEASANCES

Governmental Activities:

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

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

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

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

Business-Type Activities:

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

PRIOR YEAR DEFEASANCES

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

General Obligation Bond Debt:

On June 30, 2006, $536.6 million of general obligation bonded debt outstanding is considered defeased.

Revenue Bond Debt:

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

B. Certificates of Participation

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

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

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

C. Claims and Judgments

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

Workers' Compensation

Changes in the balances of workers' compensation claims liabilities during Fiscal Years 2005 and 2006 were as follows (expressed in thousands):

Workers' Compensation Fund	Balances Beginning of Fiscal Year	Incurred Claims and Changes in Estimates	Claim Payments	Balances End of Fiscal Year
FY 2005	$ 16,591,098	2,289,923	(1,602,126)	$ 17,278,895
FY 2006	$ 17,278,895	2,131,407	(1,655,201)	$ 17,755,101

At June 30, 2006, $31.0 billion of unpaid claims and claim adjustment expenses are presented at their net present and settlement value of $17.8 billion. These claims are discounted at assumed interest rates of 2.5 percent (time loss and medical) to 6.5 percent (pensions) to arrive at a settlement value that is net of third party recoveries.

The claims and claim adjustment liabilities of $17.8 billion, as of June 30, 2006, include $9.0 billion for supplemental pension cost of living adjustments (COLAs) that by statute are not to be fully funded. These COLA payments are funded on a pay-as-you-go basis, and the Workers' Compensation actuaries have indicated that future premium payments will be sufficient to pay these claims as they come due. The remaining claims liabilities of $8.8 billion are fully funded by long-term investments, net of obligations under securities lending agreements.

Risk Management

Changes in the balances of risk management claims liabilities during Fiscal Years 2005 and 2006 were as follows (expressed in thousands):

Risk Management Fund	Balances Beginning of Fiscal Year	Incurred Claims and Changes in Estimates	Claim Payments	Tort Defense Payments	Balances End of Fiscal Year
FY 2005	$ 513,331	34,857	(23,130)	(16,945)	$ 508,113
FY 2006	$ 508,113	72,512	(36,750)	(16,677)	$ 527,198

Risk Management reports claims and judgment liabilities when it becomes probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an actuarially determined amount for claims that have been incurred but not reported. It also includes an actuarial estimate of loss adjustment expenses for tort defense. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, it should be recognized that future loss emergence will likely deviate, perhaps materially, from the actuarial estimates. Claims liabilities are re-evaluated annually to take into consideration recently settled claims, the frequency of claims, and other economic or social factors.

The state is a defendant in a significant number of lawsuits pertaining to property and casualty matters. As of June 30, 2006, outstanding and actuarially determined claims against the state and its public authorities including actuarially projected defense costs were $527.2 million for which the state has recorded a liability. The state is restricted by law from accumulating funds in the Self Insurance Liability Program in excess of 50 percent of total outstanding and actuarially determined claims. At June 30, 2006, the Risk Management Fund held $115.7 million in cash and pooled investments designated for payment of these claims under the state's Self Insurance Liability Program.

Health Insurance

Changes in the balances of Health Insurance claim liabilities during Fiscal Years 2005 and 2006 were as follows (expressed in thousands):

Health Insurance Fund	Balances Beginning of Fiscal Year	Incurred Claims and Changes in Estimates	Claim Payments	Balances End of Fiscal Year
FY 2005	$ 66,879	524,106	(512,556)	$ 78,429
FY 2006	$ 78,429	599,782	(606,765)	$ 71,446

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

At June 30, 2006, health insurance claims liabilities totaling $71.4 million are fully funded with cash and investments, net of obligations under securities lending agreements.

D. Leases

The state leases land, office facilities, office and computer equipment, and other assets under a variety of agreements. Although lease terms vary, most leases are subject to appropriation from the state Legislature to continue the obligation. If the possibility of receiving no funding from the Legislature is remote, leases are considered noncancelable for financial reporting purposes. Leases that represent acquisitions are classified as capital leases, and the related assets and liabilities are recorded in the financial records at the inception of the lease. Other leases are classified as operating leases with the lease payments recorded as expenditures or expenses during the life of the lease. Certain operating leases are renewable for specified periods. In most cases, management expects that the leases will be renewed or replaced by other leases.
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Leased land, buildings and equipment under capital leases as of June 30, 2006, include the following (expressed in thousands):

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

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

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

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

Tumwater Office Building Capital Lease

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

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

E. Long-Term Liability Activity

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

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

For Governmental Activities, payments on the certificates of participation are being repaid directly from various governmental funds. The compensated absences liability will be liquidated approximately 53 percent by the General Fund, 24 percent by the Higher Education Special Revenue Funds, and the balance by various other governmental funds. The claims and judgments liability will be liquidated primarily through the risk management fund, an internal service fund. Leases, installment contract obligations, and other liabilities will be repaid from various other governmental funds.

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

Note 8 - No Commitment Debt

The Washington State Housing Finance Commission, Washington Higher Education Facilities Authority, Washington Health Care Facilities Authority, and Washington Economic Development Finance Authority (financing authorities) were created by the state Legislature. For financial reporting purposes, they are discretely presented as component units. These financing authorities issue bonds for the purpose of making loans to qualified borrowers for capital acquisitions, construction, and related improvements.

These bonds do not constitute either a legal or moral obligation of the state or these financing authorities, nor does the state or these financing authorities pledge their faith and credit for the payment of such bonds. Debt service on the bonds is payable solely from payments made by the borrowers pursuant to loan agreements. Due to their no commitment nature, the bonds issued by these financing authorities are excluded from the state's financial statements.

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

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

Note 9 – Fund Balances Reserved for Other Specific Purposes

The nature and purposes of fund balances reserved for other specific purposes as of June 30, 2006, are listed below (expressed in thousands):

Fund Balances	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	**Totals**
Reserved for Other Specific Purposes:					
Long-term student loans	$ -	$ 94,757	$ -	$ -	$ 94,757
Investments with trustees	629	-	-	475	1,104
Long-term receivables	83,764	433	-	1,459,127	1,543,324
Long-term investments	-	153,312	-	47,866	201,178
Petty cash	656	5,225	-	835	6,716
Total Reserved for Other Specific Purposes	$ 85,049	$ 253,727	$ -	$ 1,508,303	$ 1,847,079

Note 10 - Deficit Net Assets

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

The Workers' Compensation Fund, an enterprise fund, had deficit net assets of $7.1 billion at June 30, 2006. The fund is used to account for the workers' compensation program, which provides time-loss, medical, disability, and pension payments to qualifying individuals sustaining work-related injuries. The main benefit plans of the workers' compensation program are funded based on rates that will keep these plans solvent in accordance with recognized actuarial principles. The supplemental pension cost-of-living adjustments (COLA) granted for time-loss and disability payments, however, are funded on a pay-as-you-go basis. By statute, the state is only allowed to collect enough revenue to fund the current COLA payments.

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

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

The Risk Management Fund, an internal service fund, had deficit net assets of $414.0 million at June 30, 2006. The Risk Management Fund is used to account for the claims, torts, and judgments generally arising from automobile and general government operations, and loss adjustment expenses for tort defense. These costs are supported by premium assessments to state agencies that are designed to cover current and future claim losses. Outstanding and incurred but not reported claims are actuarially determined and accrued, resulting in the deficit net assets.

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

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

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

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

Note 11 - Retirement Plans

A. General

The state of Washington, through the Department of Retirement Systems, the Board for Volunteer Fire Fighters, and the Administrative Office of the Courts, administers 12 defined benefit retirement plans, three combination defined benefit/defined contribution retirement plans, and one defined contribution retirement plan covering eligible employees of the state and local governments.

Basis of Accounting

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

Investments

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

DEPARTMENT OF RETIREMENT SYSTEMS
As established in chapter 41.50 of the Revised Code of Washington (RCW), the Department of Retirement Systems (DRS) administers seven retirement systems comprising 11 defined benefit pension plans and three combination defined benefit/defined contribution plans as follows:

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

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

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

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

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

Judicial Retirement System (JRS)
- Defined benefit plan

Judges' Retirement Fund (Judges)
- Defined benefit plan

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

Administration of the PERS, TRS, SERS, and LEOFF systems and plans was funded by an employer rate of .19 percent of employee salaries. Administration of the WSPRS, JRS, and Judges plans is funded by means of legislative appropriations.

The Department of Retirement Systems prepares a stand-alone financial report. Copies of the report that include financial statements and required supplementary information may be obtained by writing to Washington State Department of Retirement Systems, PO Box 48380, Olympia, Washington 98504-8380.

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

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

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

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

Membership of each state administered plan consisted of the following at September 30, 2005, the date of the latest actuarial valuation for all plans except for VFFRPF which had an actuarial valuation performed on December 31, 2005.

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	54,795	2,833	14,904	1,058	73,590
PERS 2	13,471	17,941	80,769	37,631	149,812
PERS 3	343	1,793	8,901	12,315	23,352
TRS 1	35,264	1,328	8,397	195	45,184
TRS 2	1,351	2,536	6,659	546	11,092
TRS 3	706	3,158	21,132	30,341	55,337
SERS 2	1,426	3,073	16,828	2,559	23,886
SERS 3	705	2,491	10,672	20,291	34,159
LEOFF 1	8,149	7	723	-	8,879
LEOFF 2	574	570	11,625	3,543	16,312
WSPRS 1	792	102	883	58	1,835
WSPRS 2	-	-	1	80	81
JRS	131	2	13	-	146
Judges	16	-	-	-	16
JRA	-	17	200	-	217
VFFRPF	3,208	4,891	4,817	7,109	20,025
Total	120,931	40,742	186,524	115,726	463,923

Following is a summary of the number of government employers participating in state administered retirement plans as of June 30, 2006.

Number of Participating Employers

Plan	State Agencies	School Districts	Counties/ Municipalities	Other Political Subdivisions
PERS 1	155	251	201	221
PERS 2	180	-	270	452
PERS 3	159	-	185	243
TRS 1	71	288	-	-
TRS 2	21	275	-	-
TRS 3	31	302	-	-
SERS 2	-	299	-	-
SERS 3	-	301	-	-
LEOFF 1	-	-	85	17
LEOFF 2	8	-	218	150
WSPRS 1	1	-	-	-
WSPRS 2	1	-	-	-
JRS	3	-	-	-
Judges	-	-	-	-
JRA	3	-	-	-
VFFRPF	-	-	-	650

Employers can participate in multiple systems and/or plans.

B. Plan Descriptions

Public Employees' Retirement System (PERS)

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

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

PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and 2 defined benefit plans accrue interest at a rate specified by DRS. During Fiscal Year 2006, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in PERS Plan 1 and 2 can elect to withdraw total employee contributions and interest thereon upon separation from PERS-covered employment. PERS Plan 3 defined contribution benefits are financed from employee contributions and investment earnings. Employees in PERS Plan 3 can elect to withdraw total employee contributions adjusted by earnings and losses from the investment of those contributions upon separation from PERS-covered employment.

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior Courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not in national higher education retirement programs; judges of district and municipal courts; and employees of local governments. The Higher Education Retirement Plans are not administered by DRS. Approximately 50 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in state statute and may be amended only by the state Legislature.

PERS Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. Benefits are also actuarially reduced when a Plan 1 member chooses a survivor option. The annual benefit is 2 percent of the average final compensation (AFC) per year of service (AFC is based on the greatest compensation during any 24 eligible consecutive compensation months), capped at 60 percent.

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

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the AFC per year of service. (AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Effective June 7, 2006, PERS Plan 3 members may be vested either after 10 years of service or after five years of service, as long as 12 consecutive months of service were accrued after attainment of age 44. Plan 3 members are immediately vested in the defined contribution portion of their plan. Vested Plan 3 members are eligible to retire with full benefits at age 65. Plan 3 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. Refer to section I of this note for a description of the defined contribution component of PERS Plan 3.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity payable to the age of 60. The allowance amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any worker's compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60. A member with five years of membership service is eligible for non-duty disability retirement. Prior to the age of 55, the allowance amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option

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

In addition, a $150,000 death benefit is provided to the estate (or duly designated nominee) of a PERS member who dies in the line of service as a result of injuries sustained in the course of employment, if found eligible by the Department of Labor and Industries.

Legislation passed in recent sessions effective in Fiscal Year 2006:

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

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

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

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

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

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

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

Teachers' Retirement System (TRS)

TRS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. TRS participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977, and by June 30, 1996, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. TRS participants joining the system on or after July 1, 1996, and those who exercised their transfer option, are members of TRS Plan 3.

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

TRS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the TRS Plan 1 and 2 defined benefit plans accrue interest at a rate specified by DRS. During Fiscal Year 2006, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in TRS Plan 1 and 2 can elect to withdraw total employee contributions and interest thereon upon separation from TRS-covered employment. TRS Plan 3 defined contribution benefits are financed from employee contributions and investment earnings. Employees in TRS Plan 3 can elect to withdraw total employee contributions adjusted by earnings and losses from the investment of those contributions upon separation from TRS-covered employment.

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

TRS Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The annual pension is 2 percent of the average final compensation (AFC) per year of service (AFC is based on the greatest compensation during the highest of any consecutive two compensation contract years), capped at 60 percent.

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

TRS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the AFC per year of service. (AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Effective June 7, 2006, TRS Plan 3 members may be vested either after 10 years of service or after five years of service, as long as 12 consecutive months of service were accrued after attainment of age 44. Plan 3 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. Refer to section I of this note for a description of the defined contribution component of TRS Plan 3.

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

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

In addition, a $150,000 death benefit is provided to the estate (or duly designated nominee) of a TRS member who dies in the line of service as a result of injuries sustained in the course of employment, if found eligible by the Department of Labor and Industries.

Legislation passed in recent sessions effective in Fiscal Year 2006:

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

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

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

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

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

School Employees' Retirement System (SERS)

SERS is a cost-sharing multiple-employer retirement system comprised of two separate plans for membership purposes: Plan 2 is a defined benefit plan and Plan 3 is a combination defined benefit/defined contribution plan. As of September 1, 2000, the membership of classified school employees in PERS Plan 2 was transferred to SERS Plan 2. Those who joined on or after October 1, 1977, and by August 31, 2000, are SERS Plan 2 members unless they exercised an option to transfer their membership to Plan 3. SERS participants joining the system on or after September 1, 2000, and those who exercised their transfer option, are members of SERS Plan 3.

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

SERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the SERS Plan 2 defined benefit plan accrue interest at a rate specified by DRS. During Fiscal Year 2006, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in SERS Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from SERS-covered employment. SERS Plan 3 defined contribution benefits are financed from employee contributions and investment earnings. Employees in SERS Plan 3 can elect to withdraw total employee contributions adjusted by earnings and losses from the investment of those contributions upon separation from SERS-covered employment.

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

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

SERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the AFC per year of service. (AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Effective June 7, 2006, allows SERS Plan 3 members to be vested either after 10 years of service or after five years of service, as long as 12 consecutive months of service were accrued after attainment of age 44. Plan 3 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. Refer to section I of this note for a description of the defined contribution component of SERS Plan 3.

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

In addition, a $150,000 death benefit is provided to the estate (or duly designated nominee) of a SERS member who dies in the line of service as a result of injuries sustained in the course of employment, if found eligible by the Department of Labor and Industries.

Legislation passed in recent sessions effective in Fiscal Year 2006:

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

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

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

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

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

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

LEOFF defined benefit retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations. Employee contributions to the LEOFF Plan 1 and 2 defined benefit plans accrue interest at a rate specified by DRS. During Fiscal Year 2006, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in LEOFF Plan 1 and 2 can elect to withdraw total employee contributions and interest earnings thereon upon separation from LEOFF-covered employment.

LEOFF was established in 1970 by the Legislature. Membership includes all full-time, fully compensated, local law enforcement officers and firefighters. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers who were first included prospectively effective July 27, 2003, being a major exception. LEOFF retirement benefit provisions are established in state statute and may be amended only by the state Legislature. Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established by Initiative 790 to provide governance of LEOFF Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the Legislature for the LEOFF Plan 2 retirement plan.

LEOFF Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50. The benefit per year of service calculated as a percent of final average salary (FAS) is as follows:

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

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. If membership was established in LEOFF after February 18, 1974, the service retirement benefit is capped at 60 percent of FAS. A cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index).

LEOFF Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 50 with 20 years of service, or at the age of 53 with five years of service, with an allowance of 2 percent of the FAS per year of service (FAS is based on the highest consecutive 60 months). Plan 2 retirements prior to the age of 53 are reduced 3 percent for each year that the benefit commences prior to age 53. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

LEOFF Plan 1 provides death and disability benefits. Death benefits for Plan 1 members on active duty consist of the following: (1) If eligible spouse, 50 percent of the FAS, plus 5 percent of FAS for each surviving child, with a limitation on the combined allowances of 60 percent of the FAS; or (2) If no eligible spouse, 30 percent of FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of FAS. In addition, a duty death benefit of $150,000 is provided to Plan 1 and Plan 2 members.

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

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is 2 percent of the FAS for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 53, and to reflect the choice of a survivor option.

Members of LEOFF Plan 2 who leave service because of a line of duty disability are allowed to withdraw 150 percent of accumulated member contributions. This withdrawal benefit is not subject to federal income tax. Alternatively, members of LEOFF Plan 2 who leave service because of a line of duty disability can receive a retirement allowance, not actuarially reduced, of at least 10 percent of FAS. If the unreduced 2 percent per year of service disability benefit results in a greater benefit than the minimum 10 percent, the member receives the greater benefit. The first 10 percent of the line-duty disability benefit is not subject to federal income tax. The line-duty disability benefit applies to all LEOFF Plan 2 members disabled in the line of duty on or after January 1, 2001.

Legislation passed in recent sessions effective in Fiscal Year 2006:

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

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

Effective July 24, 2005, LEOFF Plan 2 retirees may return to work in an eligible position covered by another retirement system, choose membership in that system and suspend their pension benefits, or not choose membership and continue receiving pension benefits without interruption (Chapter 372, Laws of 2005).

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

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

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

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

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

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

LEOFF pension benefit provisions are established by chapter 41.26 RCW.

Washington State Patrol Retirement System (WSPRS)

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

WSPRS retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to WSPRS accrue interest at a rate specified by DRS. During Fiscal Year 2006, the DRS-established rate on employee contributions was 5.5 percent annually, compounded monthly. Employees in WSPRS can elect to withdraw total employee contributions and interest earnings thereon upon separation from WSPRS-covered employment.

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

WSPRS retirement benefits are vested after an employee completes five years of eligible service. Members are eligible for retirement at the age of 55 with five years of service, or after 25 years of service. The annual pension is 2 percent of the average final salary (AFS), capped at 75 percent, per year of service. A cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

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

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

For WSPRS Plan 2 members, AFS is based on the average of the five consecutive highest-paid service credit years and excludes both voluntary overtime and cash-outs of annual and holiday leave. At retirement, Plan 2 members also have the option of selecting an actuarially reduced benefit in order to provide for post-retirement survivor benefits. Death benefits for active-duty Plan 2 members consist of the following: (1) If the member is single or has less than 10 years of service, the return of the member's accumulated contributions; or (2) If the member is married, has an eligible child, or has completed 10 years of service, a reduced benefit allowance reflecting a joint and 100 percent survivor option *or* 150 percent of the member's accumulated contributions, at the survivor's option.

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

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

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

WSPRS pension benefit provisions are established by chapter 43.43 RCW.

Judicial Retirement System (JRS)

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

During Fiscal Year 2006, the DRS established rate on employee contributions was 5.5 percent, compounded quarterly. JRS employees who are vested in the plan may not elect to withdraw their contributions upon termination. However, any JRS member that left the system before July 1, 1988, or his/her spouse, who was ineligible to receive a benefit at that time, may apply and receive a refund of such contributions from DRS, if said contributions have not been already refunded via a sundry claims appropriation from the state legislature.

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

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

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

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

Death and disability benefits are also provided. Eligibility for death benefits while on active duty requires 10 or more years of service. A monthly spousal benefit is provided which is equal to 50 percent of the benefit a member would have received if retired. If the member is retired, the surviving spouse receives the greater of 50 percent of the member's retirement benefit or 25 percent of the AFC. For members with 10 or more years of service, a disability benefit of 50 percent of AFC is provided.

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

JRS pension benefit provisions are established by chapter 2.10 RCW.

Judges' Retirement Fund (Judges)

The Judges' Retirement Fund is an agent multiple-employer retirement system comprised of a single defined benefit plan. There are currently no active members in this plan. Retirement benefits were financed on a pay-as-you-go basis from a combination of past employee contributions, past employer contributions, and a special funding situation in which the state paid the remaining contributions. Retirees did not earn interest on their contributions, nor could they elect to withdraw their contributions upon termination.

The Judges' Retirement Fund was created by the Legislature on March 22, 1937, pursuant to RCW 2.12, to provide retirement benefits to judges of the Supreme Court, Court of Appeals, or Superior Courts of the state of Washington. Subsequent legislation required that all judges first appointed or elected to office on or after August 9, 1971, enter the Judicial Retirement System. Judges' retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Judges' members are eligible for retirement at the age of 70 with ten years of service, or at any age with 18 years of service. Members are eligible to receive a partial retirement allowance after 12 years of credited service as a judge. With the exception of a partial retirement allowance, the member receives a benefit equal to one-half of the monthly salary being received as a judge at the time of retirement, or at the end of the term immediately prior to retirement if retirement occurs after the expiration of the member's term in office. A partial retirement allowance is based on the proportion of the member's 12 or more years of service in relation to 18 years of service.

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

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

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

VFFRPF is a cost-sharing multiple-employer retirement system that provides death and active duty disability benefits to all members, and optional defined benefit pension plan payments.

VFFRPF retirement benefits are financed from a combination of investment earnings, member contributions, municipality contributions, and a special funding situation where the state pays the remaining contributions. VFFRPF members accrue no interest on contributions and may elect to withdraw their contributions upon termination.

The Volunteer Fire Fighters' Relief Act was created by the Legislature in 1935 and the pension portion of the act was added in 1945. Membership in the system requires volunteer firefighter service with a fire department of an electing municipality of Washington State, emergency work as an emergency medical technician with an emergency medical service district, or work as a commissioned reserve law enforcement officer.

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

After 25 years of active membership, members having reached the age of 65 and who have paid their annual retirement fee for 25 years are entitled to receive a monthly benefit of $50 plus $10 per year of service. The maximum monthly benefit is $300. Reduced pensions are available for members under the age of 65 or with less than 25 years of service.

Death and active duty disability benefits are provided at no cost to the member. Death benefits in the line of duty consist of a lump sum of $152,000. Funeral and burial expenses are also paid in a lump sum of $2,000 for members on active duty. Members receiving disability benefits at the time of death shall be paid $500. Members on active duty shall receive disability payments of $2,550 per month for up to six months; thereafter, payments are reduced. Disabled members receive $1,275 per month, their spouse $255, and dependent children $110. Benefit provisions for VFFRPF are established under the authority of chapter 41.24 RCW.

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

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

C. Funding Policies

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

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

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

Public Employees' Retirement System (PERS)

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. There are no employer contributions to PERS Plan 3 defined contribution. Employees who participate in the defined contribution portion of PERS Plan 3 contribute to the defined contribution plan instead of the defined benefit portion of PERS Plan 3. The employee chooses from six rate options provided in statute ranging from 5 to 15 percent, two of the options are graduated rates dependent on the employee's age. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates.

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

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

PERS Actual Contribution Rates

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

*The employer rates include an administrative expense rate of 0.19 percent

**Plan 3 defined benefit portion only.

***Variable from 5% to 15% based on rate selected by the member.

Teachers' Retirement System (TRS)

Each biennium the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state elected officials. . The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. There are no employer contributions to TRS Plan 3 defined contribution. Employees who participate in the defined contribution portion of TRS Plan 3 contribute to the defined contribution plan instead of the defined benefit portion of TRS Plan 3. The employee chooses from six rate options provided in statute ranging from 5 to 15 percent, two of the options are graduated rates dependent on the employee's age. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates.

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

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

TRS Actual Contribution Rates

	Plan 1	Plan 2	Plan 3
Employer Rates *	2.92%	2.92%	2.92%**
Employee Rates:			
State agencies	6.00%	2.48%	***
Local governmental units	6.00%	2.48%	***
State gov't elected officials	7.50%	2.48%	***

*The employer rates include an administrative expense rate of 0.19 percent.

** Plan 3 defined benefit portion only.

*** Variable from 5% to 15% based on rate selected by the member.

School Employees' Retirement System (SERS)

Each biennium the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 employer contribution rates. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. There are no employer contributions to SERS Plan 3 defined contribution. Employees who participate in the defined contribution portion of SERS Plan 3 contribute to the defined contribution plan instead of the defined benefit portion of SERS Plan 3. The employee chooses from six rate options provided in statute ranging from 5 to 15 percent, two of the options are graduated rates dependent on the employee's age. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates.

The methods used to determine the contribution requirements are established under state statute in chapters 41.35 and 41.45 RCW.

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

SERS Actual Contribution Rates

	Plan 2	Plan 3
Employer Rates:		
State agencies*	2.94%	2.94% **
Local governmental units*	2.94%	2.94% **
Employee Rates:		
State agencies	2.75%	***
Local governmental units	2.75%	***

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

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

Beginning July 1, 2000, Plan 1 employers and employees contribute zero percent as long as the plan remains fully funded. Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plan. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF 2 Board. All employers are required to contribute at the level required by state statute.

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

LEOFF Actual Contribution Rates

	Plan 1	Plan 2
Employer Rates:		
Ports and Universities*	NA	7.18%
Local governmental units* (cities, counties, fire districts, etc)	0.19%	4.39%
Employee Rates:		
Ports and Universities	NA	6.99%
Local governmental units (cities, counties, fire districts, etc)	NA	6.99%
State of Washington	NA	2.79%

*The employer rates include an administrative expense rate of 0.19 percent.

The Legislature, by means of a special funding arrangement, appropriated money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 1 and Plan 2 in accordance with the requirements of the Pension Funding Council and the LEOFF 2 Board. However, this special funding situation is not mandated by the State Constitution and this funding requirement could be returned to the employers by a change of statute. For Fiscal Year 2006, the state contributed $31.7 million to LEOFF Plan 2.

Washington State Patrol Retirement System (WSPRS)

Each biennium, the state Pension Funding Council adopts the employee and the state contribution rates. The employee and the state contribution rates are developed by the Office of the State Actuary to fully fund the plan. State statute also requires employees to contribute at a rate of at least 2 percent. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 43.43 and 41.45 RCW.

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

WSPRS Actual Contribution Rates

	Plan 1	Plan 2
Employer rate	4.70%	4.70%
Employee rate	4.51%	4.51%

*The employer rates include an administrative expense rate of 0.19 percent

Judicial Retirement System (JRS)

Contributions made are based on rates set in chapter 2.10 RCW. By statute, employees are required to contribute 7.5 percent with an equal amount contributed by the state. In addition, the state guarantees the solvency of the JRS on a pay-as-you-go basis. Each biennium, the Legislature, through biennial appropriations from the state General Fund, contributes amounts sufficient to meet benefit payment requirements. For Fiscal Year 2006, the state contributed $6.6 million.

Judges' Retirement Fund (Judges)

Contributions made are based on rates set in chapter 2.12 RCW. By statute, employees are required to contribute 6.5 percent with an equal amount contributed by the state. In addition, the state guarantees the solvency of the Judges' Retirement Fund on a pay-as-you-go basis. As of June 30, 2006, there are no active members remaining in the Judges Retirement Fund and member contributions are no longer collected. Each biennium, the Legislature, through biennial appropriations from the state General Fund, contributes amounts sufficient to meet benefit payment requirements. For Fiscal Year 2006, the state contributed $0.3 million.

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

The retirement provisions of VFFRPF is funded through member contributions of $30 per year, employer contributions of $30 per year, and 40 percent of the Fire

Insurance Premium Tax, as per chapter 41.24 RCW. VFFRPF members earn no interest on contributions and may elect to withdraw their contributions upon termination. The death and disability provisions of VFFRPF are funded by an employer contribution rate, which as of July 24, 2005 increased from $10 to $30 per member (Chapter 37, Laws of 2005).

Administrative expenses are funded through fire insurance premium taxes and are maintained in a separate fund. Amounts not needed for administrative expenses are transferred to VFFRPF.

D. Employer Contributions Required and Paid

The following table presents the state of Washington's required contributions in millions of dollars to cost-sharing plans in accordance with the funding policy. All contributions required by the funding method were paid.

	2006	2005	2004
PERS Plan 1	$15.0	$11.3	$11.5
PERS Plan 2/3	73.1	36.7	34.3
TRS Plan 1	0.5	0.3	0.3
TRS Plan 2/3	0.5	0.2	0.2
SERS Plan 2/3	0.0	0.0	0.0
LEOFF Plan 1	0.0	0.0	0.0
LEOFF Plan 2	32.2	21.6	20.5
VFFRPF	4.6	4.4	4.4

There are no long-term contracts for contributions for any of the retirement plans administered by the state.

E. Annual Pension Cost and Other Related Information

Current year annual pension cost, net pension obligation (NPO) and related information for the current year for the State's single employer and agent multiple-employer defined benefit plans are as follows (amounts in millions);

	WSPRS	JRS	Judges
Annual Pension Cost and Net Pension Obligation:			
Annual required contribution	$ 6.1	$27.7	$ 0.1
Interest on NPO	(1.6)	4.9	(0.2)
Adjustment to annual required contribution	2.6	(19.3)	0.8
Annual pension cost	7.1	13.3	0.7
Less contributions made	3.1	6.7	0.3
Increase (decrease) in NPO	4.0	6.6	0.4
NPO at beginning of year	(20.2)	61.4	(2.6)
NPO at end of year	$(16.2)	$68.0	$(2.2)

Actuarial Assumptions:			
Valuation date	9/30/05	9/30/05	9/30/05
Actuarial cost method	Aggregate*	Entry age	Entry age
Amortization method	n/a	Level $	Level $
Remaining amortization period (closed)	n/a	12/31/08	12/31/08
Asset valuation method	8 year graded smoothed fair value	Market	Market
Actuarial assumptions:			
Investment rate of return	8%	8%	8%
Projected salary increases	4.5%**	4.5%	4.5%
Includes inflation at	3.5%	3.5%	3.5%
Cost-of-living adjustments	CPI increase, maximum 3%	3.00%	none

* The aggregate cost method does not identify or separately amortize unfunded actuarial liabilities.

** WSPRS also assumes a 6 percent salary merit increase for a merit period of 20 years.

F. Three Year Historical Trend Information

The following table presents three-year trend information in millions for the plans listed:

	2006	2005	2004
WSPRS			
Annual Pension Cost	$7.1	$4.4	$3.8
% of APC contributed	44.0	0.0	0.0
NPO	$(16.2)	$(20.2)	$(24.6)
JRS			
Annual Pension Cost	$13.3	$12.1	$11.8
% of APC contributed	50.5	50.8	52.5
NPO	$68.0	$61.4	$55.5
Judges			
Annual Pension Cost	$0.7	$0.5	$0.6
% of APC contributed	42.9	100.0	83.3
NPO	$(2.2)	$(2.6)	$(2.6)

There are no long-term contracts for contributions for any of the retirement plans administered by the state.

G. Changes in Actuarial Assumptions and Methods

Pension funding legislation was adopted during the 2005 legislative session (Chapter 370, Laws of 2005), which creates a short-term change in funding policy. The policy is to adopt annual contribution rates over a four-year "phase-in" period from 2005-09, to suspend payments on the Plan 1 Unfunded Actuarial Accrued Liability (UAAL) in PERS and TRS during the 2005-07 biennium, and to delay recognition of the cost of future gain-sharing benefits until the 2007-09 biennium.

Legislation enacted during the 2006 session called for a resumption of Plan 1 UAAL contributions, also on a phase-in basis, on September 1, 2006 for TRS and SERS employers, and on January 1, 2007 for PERS employers.

New valuation software was used to produce the 2005 actuarial valuation results. As part of the new implementation, the present value of future salaries is calculated differently to produce the normal cost contribution rate.

The estimated value of future gain-sharing benefits is included in the liabilities for accounting disclosure purposes, as well as for funding purposes.

The demographic assumptions for LEOFF Plan 2 were modified for a disability benefit enhancement.

PERS Plan 1 and TRS Plan 1 retirement rates were increased slightly to reflect the increased cost for the post-retirement employment program offered to those members.

Mortality rates for PERS, TRS, SERS, LEOFF, and WSP now recognize a trend toward increased longevity over time. The Retirement Plan (RP)-2000 continues to serve as the base mortality table. In addition, generational mortality improvements are projected using 50 percent of Scale AA, published by the Society of Actuaries. The estimated value of this assumption change is included in the liabilities for accounting disclosure purposes, but not for funding purposes.

H. Changes in Benefit Provisions

The 2006 legislative session provided the following changes in benefit provisions.

Judges in PERS may increase their benefit multiplier. Member pays all increased costs for this benefit enhancement (Chapter 189, Laws of 2006).

The PERS and TRS Plan 1 $1,000 minimum benefit already afforded to annuitants with at least 25 years of service who have been retired at least 20 years was extended to those annuitants with at least 20 years of service who have been retired at least 25 years. This minimum benefit is also increased by 3 percent annually (Chapter 244, Laws of 2006).

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

Members of TRS Plans 2 and 3 may purchase up to seven years of service credit for educational service earned outside the state of Washington (Chapter 257, Laws of 2006).

The thirty-year service cap has been removed for those LEOFF Plan 1 members hired on or after February 19, 1974 (Chapter 350, Laws of 2006).

The $150,000 line-of-duty death benefit is extended to those LEOFF Plan 2 members who die of a duty-related illness (Chapter 351, Laws of 2006).

LEOFF Plan 2 members who are catastrophically disabled in the line-of-duty may receive a benefit equal to 70 percent of their average final salary, subject to offsets for other sources of disability income (Chapter 39, Laws of 2006).

LEOFF Plan 2 survivors may receive reimbursement for payment of health care premiums (Chapter 34,5 Laws of 2006).

Benefits for surviving spouses of disabled WSP members will be based on the current salaries of members of the same rank the member held at the time of disablement (Chapter 94, Laws of 2006).

I. Defined Contribution Plans

Public Employees' Retirement System Plan 3 (PERS 3)

The Public Employees' Retirement System (PERS) Plan 3 is a combination defined benefit/defined contribution plan administered by the state through the Department of Retirement Systems (DRS). Eligible employees include: elected officials; state employees; employees of the Supreme, Appeals, and Superior Courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not in national higher education retirement programs; judges of district and municipal courts; and employees of local governments. PERS participants who joined on or after October 1, 1977, and by either, February 28, 2002, for state and higher education employees, or August 31, 2002, for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants who joined the system on or after March 1, 2002, for state and higher education employees, or September 1, 2002, for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. Refer to section B of this note for PERS plan descriptions.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. As established by RCW 41.40, employee contribution rates to the defined contribution component range from 5 to 15 percent of salaries based on member choice. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are solely dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions as authorized by the Employee Retirement Benefits Board. Any expenses caused in conjunction with self-directed investments are to be paid by members. Absent a member's self-direction, PERS Plan 3 investments are made in the same portfolio as that of the PERS 2/3 defined benefit plan.

For Fiscal Year 2006, employee contributions required and made were $64.8 million, and plan refunds paid out were $35.5 million.

Teachers' Retirement System Plan 3 (TRS 3)

The Teachers' Retirement System (TRS) Plan 3 is a combination defined benefit/defined contribution plan administered by the state through the Department of Retirement Systems (DRS). Eligibility for membership requires service as a certificated public school employee working in an instructional, administrative or supervisory capacity. TRS participants who joined on or after October 1, 1977, and by June 30, 1996, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. TRS participants joining the system on or after July 1, 1996, and those who exercised their transfer option, are members of TRS Plan 3. Refer to Section B of this note for TRS plan descriptions.

TRS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. As established by RCW 41.34, employee contribution rates to the defined contribution component range from 5 to 15 percent of salaries based on member choice. There are currently no requirements for employer contributions to the defined contribution component of TRS Plan 3.

TRS Plan 3 defined contribution retirement benefits are solely dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions as authorized by the Employee Retirement Benefits Board. Any expenses caused in conjunction with self-directed investments are to be paid by members. Absent a member's self-direction, TRS Plan 3 investments are made in the same portfolio as that of the TRS 2/3 defined benefit plan.

For Fiscal Year 2006, employee contributions required and made were $195.9 million and plan refunds paid out were $41.9 million.

School Employees' Retirement System Plan 3 (SERS 3)

The School Employees' Retirement System (SERS) Plan 3 is a combination defined benefit/defined contribution plan administered by the state through the Department of Retirement Systems (DRS). Eligible employees include classified employees of school districts and educational service districts who joined PERS Plan 2 on or after October 1, 1977, and by August 31, 2000, and were transferred to SERS Plan 2 on September 1, 2000. Members transferred from PERS Plan 2 to SERS Plan 2 may exercise an option to transfer their membership to SERS Plan 3. SERS participants joining the system on or after September 1, 2000, are also members of SERS Plan 3. Refer to Section B of this note for SERS plan descriptions.

SERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. As established by RCW 41.35, employee contribution rates to the defined contribution component range from 5 to 15 percent of salaries based on member choice. There are currently no requirements for employer contributions to the defined contribution component of SERS Plan 3.

SERS Plan 3 defined contribution retirement benefits are solely dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions as authorized by the Employee Retirement Benefits Board. Any expenses caused in conjunction with self-directed investments are to be paid by members. Absent a member's self-direction, SERS Plan 3 investments are made in the same portfolio as that of the SERS 2/3 defined benefit plan.

For Fiscal Year 2006, employee contributions required and made were $49.8 million and plan refunds paid out were $24.9 million.

Judicial Retirement Account (JRA)

The Judicial Retirement Account Plan was established by the Legislature in 1988 to provide supplemental retirement benefits. It is a defined contribution plan administered by the state Administrative Office of the Courts, under the direction of the Board for Judicial Administration. Membership includes judges elected or appointed to the Supreme Court, Court of Appeals, and Superior Courts, and who are members of the PERS for their services as a judge. Vesting is full and immediate. There are three participating employers in JRA.

Member contributions equal 2.5 percent of covered salary and the state, as employer, matches this amount. Contributions are collected by the Administrative Office of the Courts. The employer and employee obligations to contribute are established per chapter 2.14 RCW. Plan provisions and contribution requirements are established in state statute and may be amended only by the State Legislature.

Current-year covered payroll for JRA employees was $25.4 million for the Fiscal Year ended June 30, 2006. For Fiscal Year 2006, the contribution requirement for JRA was $1.3million. Actual employer and employee contributions were $635 thousand each, for a total of $1.3 million. Plan benefits paid out for Fiscal Year 2006 totaled $207 thousand.

A JRA member who separates from judicial service for any reason is entitled to receive a lump-sum distribution of the accumulated contributions. The administrator of JRA may adopt rules establishing other payment options. If a member dies, the amount of accumulated contributions standing to the member's credit at the time of the member's death shall be paid to the member's estate, or such person or persons, trust or organization as the member has nominated by written designation.

The Administrator of JRA has entered an agreement with DRS for accounting and reporting services, and the Washington State Investment Board (SIB) for investment services. DRS is responsible for all record keeping, accounting, and reporting of member accounts. The SIB has the full power to establish investment policy, develop participant investment options, and manage the investment funds from the JRA plan, consistent with the provisions of RCW 2.14.080 and RCW 43.84.150.

Higher Education Retirement Plans

The Higher Education Retirement Plans are privately administered defined contribution plans with a supplemental plan component. As authorized by RCW 28B.10, the plans cover higher education faculty and other positions as designated by each institution. The state and regional universities, the state college, and the state community and technical colleges each participate in a plan. Contributions to the plans are invested in annuity contracts or mutual fund accounts offered by one or more fund sponsors. Benefits from fund sponsors are available upon separation or retirement at the member's option. Employees have at all times a 100 percent vested interest in their accumulations. RCW 28.B.10.400 et. seq. assigns the authority to establish and amend benefit provisions to: the board of regents of the state universities, the boards of trustees of the regional universities and the state college, and the state board for community colleges.

Employee contribution rates, based on age, range from 5 to 10 percent of salary. The employers match the employee contributions. The employer and employee obligations to contribute are established per chapter 28B.10 RCW. For Fiscal Year 2006, covered payroll was $1.4 billion. Employer and employee contributions were $114.7 million each, for a total of $229.4 million. These contribution amounts represent approximately 8 percent each of covered payroll for employers and employees.

The plans have a supplemental payment component which guarantees a minimum retirement benefit based upon a one-time calculation at each employee's retirement date. Institutions make direct payments to qualifying retirees when the retirement benefits provided by the fund sponsors do not meet the benefit goals. The supplemental component is financed on a pay-as-you-go basis.

An actuarial evaluation of the supplemental component of the Higher Education Retirement plans was done at the end of Fiscal Year 2004. The previous evaluation was performed in 1999. The Unfunded Actuarial Accrued Liability (UAAL) calculated as of June 30, 2004 and 1999 was $48.1 million and $26.2 million, respectively, and is amortized over a 19.5-year period. The Annual Required Contribution (ARC) of $5.1 million consists of amortization of the UAL ($2.8 million) and normal cost (or current cost) ($2.1 million). The UAL and ARC were established using the entry age normal cost method. The actuarial assumptions included an investment rate of return of 6 to 8 percent and projected salary increases ranging from 2 to 4 percent. Approximately $1.1 billion and $573.9 million of payroll were covered under these plans during 2004 and 1999, respectively.

The following table reflects the activity in the Net Pension Obligation for the years ended June 30 (in millions):

	2006	2005	2004
Annual required contribution	$ 5.1	$ 5.1	$ 5.1
Payments to beneficiaries	(1.6)	(2.1)	(2.3)
Increase (decrease) in NPO	3.5	3.0	2.8
NPO at beginning of year	5.8	2.8	0.0
NPO at end of year	$ 9.3	$ 5.8	$ 2.8

J. Plan Net Assets and Changes in Plan Net Assets

The Combining Statement of Plan Net Assets that follows presents the principal components of receivables, investments, and liabilities. The Combining Statement of Changes in Plan Net Assets presents the additions and deductions to plan net assets.

Combining Statement of Plan Net Assets

Pension and Other Employee Benefit Funds

June 30, 2006

(expressed in thousands)

	PERS Plan 1	PERS Plan 2/3 Defined Benefit	PERS Plan 3 Defined Contribution	TRS Plan 1	TRS Plan 2/3 Defined Benefit	TRS Plan 3 Defined Contribution	SERS Plan 2/3 Defined Benefit
Assets:							
Cash and pooled investments	$ 371	$ 5,835	$ 158	$ 765	$ 4,072	$ 2,917	$ 1,466
Receivables:							
Interest and dividends	31,747	43,643	1,907	26,849	15,445	5,548	6,240
Due from other funds	15	207	6,431	14	3,434	15,034	817
Due from other governments	4,476	16,256	3,039	3,743	7,139	16,778	3,797
Other (net of allowance)	42,212	57,711	2,518	35,461	20,367	7,314	8,223
Total Receivables	78,450	117,817	13,895	66,067	46,385	44,674	19,077
Investments, Noncurrent:							
Asset backed securities	3,066	4,247	186	2,596	1,500	541	605
Certificates of deposit	77,257	107,010	4,696	65,401	37,785	13,619	15,250
Commercial paper	67,537	93,546	4,105	57,172	33,031	11,906	13,332
Corporate bonds	837,426	1,159,926	50,905	708,911	409,573	147,626	165,306
Corporate stock	1,430,527	1,981,435	86,957	1,210,992	699,649	252,181	282,382
Currencies	20,834	28,858	1,266	17,637	10,190	3,673	4,113
Govt securities - domestic	11,815	16,366	718	10,002	5,779	2,082	2,333
Govt securities - foreign	17,082	23,660	1,038	14,460	8,354	3,011	3,372
Investments on loan	1,059,162	1,467,054	64,383	896,618	518,020	186,715	209,076
Mortgages	789,270	1,093,225	47,977	668,145	386,020	139,137	155,799
Mutual funds	2,892,877	4,006,950	647,167	2,448,924	1,414,863	1,860,857	571,047
Private equity	1,719,271	2,381,377	104,509	1,455,424	840,870	303,083	339,380
Real estate	1,077,151	1,491,971	65,477	911,847	526,819	189,886	212,627
Repurchase agreements	300,300	415,612	18,221	254,190	146,997	52,841	59,299
Short term investments	992,929	1,384,403	57,958	841,353	501,048	173,841	203,703
Other noncurrent investments	-	-	-	-	-	-	-
Total Investments, Noncurrent	11,296,504	15,655,640	1,155,563	9,563,672	5,540,498	3,340,999	2,237,624
Total Assets	$ 11,375,325	$ 15,779,292	$ 1,169,616	$ 9,630,504	$ 5,590,955	$ 3,388,590	$ 2,258,167
Liabilities:							
Obligations under security lending agreements	$ 1,080,221	$ 1,496,145	$ 65,373	$ 914,422	$ 528,918	$ 189,856	$ 213,585
Accrued liabilities	42,890	51,158	2,198	36,371	18,071	6,384	7,329
Due to other funds	173	7,356	158	111	15,482	3,403	5,782
Deferred revenues	126	210	-	294	76	-	2
Total Liabilities	1,123,410	1,554,869	67,729	951,198	562,547	199,643	226,698
Net Assets							
Net Assets Held in Trust for:							
Pension Benefits	10,251,915	14,224,423	1,101,887	8,679,306	5,028,408	3,188,947	2,031,469
(Schedule of funding progress by plan begins on page 138)							
Deferred Compensation Participants	-	-	-	-	-	-	-
Total Net Assets	$ 10,251,915	$ 14,224,423	$ 1,101,887	$ 8,679,306	$ 5,028,408	$ 3,188,947	$ 2,031,469

SERS Plan 3 Defined Contribution	LEOFF Plan 1	LEOFF Plan 2	WSPRS Plan 1/2	JRS	JRA	Judges	VFFRPF	Deferred Compensation	**Total**
$ 703	$ 383	$ 560	$ 304	$ 27	$ 7	$ 4,083	$ 25,041	$ 524	$ 47,216
1,925	17,174	12,644	2,517	2	-	-	371	-	166,012
5,584	22	12	2	1	-	14	76	1	31,664
4,316	-	8,466	264	9	-	-	-	-	68,283
2,538	22,629	16,709	3,318	-	-	3	490	1,855	221,348
14,363	39,825	37,831	6,101	12	-	17	937	1,856	487,307
188	1,664	1,229	244	-	-	-	37	-	16,103
4,737	41,932	30,962	6,156	-	-	-	912	-	405,717
4,141	36,656	27,067	5,381	-	-	-	796	-	354,670
51,344	454,521	335,617	66,725	-	-	-	9,873	-	4,397,753
87,708	776,432	573,315	113,981	-	-	-	16,869	-	7,512,428
1,277	11,308	8,350	1,660	-	-	-	246	-	109,412
725	6,413	4,735	940	-	-	-	141	-	62,049
1,047	9,271	6,846	1,361	-	-	-	202	-	89,704
64,940	574,871	424,482	84,392	-	-	-	12,490	-	5,562,203
48,392	428,385	316,317	62,887	-	-	-	9,305	-	4,144,859
400,522	1,570,138	1,159,384	230,499	-	11,596	-	34,109	1,488,913	18,737,846
105,412	933,152	689,035	136,988	-	-	-	20,272	-	9,028,773
66,043	584,635	431,692	85,825	-	-	-	12,699	-	5,656,672
18,378	162,882	120,188	23,919	10	-	227	4,921	29	1,578,014
58,710	537,233	408,192	79,717	-	-	-	11,635	-	5,250,722
-	-	-	-	-	5,524	-	-	695,920	701,444
913,564	6,129,493	4,537,411	900,675	10	17,120	227	134,507	2,184,862	63,608,369
$ 928,630	$ 6,169,701	$ 4,575,802	$ 907,080	$ 49	$ 17,127	$ 4,327	$ 160,485	$ 2,187,242	$ 64,142,892
$ 65,865	$ 586,193	$ 432,759	$ 86,063	$ 11	$ -	$ 227	$ 14,117	$ 28	$ 5,673,783
2,215	20,062	14,577	3,074	37	-	4	434	31	204,835
810	10	188	8	-	-	-	17	1	33,499
-	-	17	-	-	-	-	-	-	725
68,890	606,265	447,541	89,145	48	-	231	14,568	60	5,912,842
859,740	5,563,436	4,128,261	817,935	1	17,127	4,096	145,917	-	56,042,868
-	-	-	-	-	-	-	-	2,187,182	2,187,182
$ 859,740	$ 5,563,436	$ 4,128,261	$ 817,935	$ 1	$ 17,127	$ 4,096	$ 145,917	$ 2,187,182	$ 58,230,050

Combining Statement of Changes in Plan Net Assets
Pension and Other Employee Benefit Funds
For the Fiscal Year Ended June 30, 2006
(expressed in thousands)

	PERS Plan 1	PERS Plan 2/3 Defined Benefit	PERS Plan 3 Defined Contribution	TRS Plan 1	TRS Plan 2/3 Defined Benefit	TRS Plan 3 Defined Contribution	SERS Plan 2/3 Defined Benefit
Additions:							
Contributions:							
Employers	$ 29,601	$ 149,579	$ -	$ 15,077	$ 75,353	$ -	$ 30,419
Members	51,279	131,383	64,776	38,587	9,157	195,910	11,976
State	-	-	-	-	-	-	-
Participants	-	-	-	-	-	-	-
Total Contributions	80,880	280,962	64,776	53,664	84,510	195,910	42,395
Investment Income:							
Net appreciation (depreciation) in fair value	1,249,839	1,644,879	107,045	1,052,524	579,465	320,531	233,623
Interest and dividends	332,581	439,592	24,001	280,602	153,757	62,617	62,083
Less: Investment expenses	(48,038)	(63,769)	(4,023)	(40,553)	(20,727)	(11,533)	(8,482)
Net Investment Income	1,534,382	2,020,702	127,023	1,292,573	712,495	371,615	287,224
Transfers from other pension plans	68	239	1,213	78	261	620	2,589
Other additions	-	-	-	-	-	-	-
Total Additions	1,615,330	2,301,903	193,012	1,346,315	797,266	568,145	332,208
Deductions:							
Pension benefits	929,423	121,096	-	763,613	22,352	-	13,500
Pension refunds	6,553	26,477	35,540	1,042	2,398	41,909	2,477
Transfers to other pension plans	-	3,747	239	2	673	296	331
Administrative expenses	458	421	-	153	37	-	82
Distributions to participants	-	-	-	-	-	-	-
Total Deductions	936,434	151,741	35,779	764,810	25,460	42,205	16,390
Net Increase (Decrease)	678,896	2,150,162	157,233	581,505	771,806	525,940	315,818
Net Assets - Beginning	9,573,019	12,074,261	944,654	8,097,801	4,256,602	2,663,007	1,715,651
Net Assets - Ending	$ 10,251,915	$ 14,224,423	$ 1,101,887	$ 8,679,306	$ 5,028,408	$ 3,188,947	$ 2,031,469

SERS Plan 3 Defined Contribution	LEOFF Plan 1	LEOFF Plan 2	WSPRS Plan 1/2	JRS	JRA	Judges	VFFRPF	Deferred Compensation	**Total**
$ -	$ 70	$ 48,472	$ 3,134	$ 115	$ 635	$ -	$ 1,074	$ -	$ 353,529
49,767	143	82,085	3,152	115	635	-	129	-	639,094
-	-	31,665	-	6,601	-	300	4,621	-	43,187
-	-	-	-	-	-	-	-	168,000	168,000
49,767	213	162,222	6,286	6,831	1,270	300	5,824	168,000	1,203,810
86,642	666,522	469,212	96,783	1	1,207	3	14,543	158,739	6,681,558
22,428	177,608	126,219	25,833	63	346	154	4,491	47,926	1,760,301
(3,762)	(25,788)	(19,292)	(3,761)	(3)	(21)	(18)	(518)	(2,724)	(253,012)
105,308	818,342	576,139	118,855	61	1,532	139	18,516	203,941	8,188,847
334	101	1	8	-	-	-	-	-	5,512
-	-	-	-	-	11	-	-	1,536	1,547
155,409	818,656	738,362	125,149	6,892	2,813	439	24,340	373,477	9,399,716
-	288,209	14,433	30,666	9,247	207	624	9,323	-	2,202,693
24,946	3	7,115	125	-	-	-	10	-	148,595
121	1	102	-	-	-	-	-	-	5,512
-	75	115	65	-	-	-	56	-	1,462
-	-	-	-	-	-	-	-	109,318	109,318
25,067	288,288	21,765	30,856	9,247	207	624	9,389	109,318	2,467,580
130,342	530,368	716,597	94,293	(2,355)	2,606	(185)	14,951	264,159	6,932,136
729,398	5,033,068	3,411,664	723,642	2,356	14,521	4,281	130,966	1,923,023	51,297,914
$ 859,740	$ 5,563,436	$ 4,128,261	$ 817,935	$ 1	$ 17,127	$ 4,096	$ 145,917	$ 2,187,182	$ 58,230,050

Note 12 – Other Post Employment 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. It is available on a self-paid basis.

Sick Leave Buy-Out
At the time of separation from state service due to retirement or death, as disclosed in Note 1.D., 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.

Post Retirement Benefits
In addition to pension benefits as described in Note 11, the state also offers medical, dental, and life insurance benefits to eligible retirees. Per RCW 41.05.022, retirees who are not yet eligible for Medicare benefits may continue participation in the state's single, community-rated health insurance risk pool on a self-pay basis. State retirees who are enrolled in both Parts A and B of Medicare are offered several benefit plan options for which the Legislature annually determines the state's share of the premium. In 2006, the state-funded contribution was $131.87 per retiree per month.

The Governmental Accounting Standards Board (GASB) has issued Statement 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Both Statements 43 and 45, which are effective for Fiscal Years 2007 and 2008, respectively, will require that the long-term cost of retirement health care and other postemployment benefits be determined on an actuarial basis and reported similar to pension plans. The GASB standards do not require the pre-funding of these postemployment 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 $3.2 billion at June 30, 2006.

B. Summary of Significant 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 state agencies that could significantly impact expenditures. There is a recurring volume of tort and other claims for compensation and damages against the state and some specific state agencies, including the Departments of Transportation, Corrections, Social and Health Services, Revenue and the University of Washington. A significant portion of pending litigation relates to the implementation of specific state programs, and funds are reserved each biennium for handling this litigation.

Social and Health Services

Arc of Washington v. Braddock. Plaintiffs allege that Medicaid eligible developmentally disabled clients are not receiving adequate services in violation of Medicaid law and the Americans with Disabilities Act. Those plaintiffs have filed a related case in federal court entitled *Boyle v. Arnold Williams, et al*. A potential award based on the biennial cost of providing the services sought in these lawsuits was originally estimated at approximately $165 to $222 million. An intermediate ruling of the Ninth Circuit Court of Appeals, however, stated that plaintiffs had no right under the Americans with Disabilities Act to be placed on the State's Medicaid waiver program.

Braam v. State. This class action is pending in Whatcom County Superior Court. Plaintiff's damage claim was resolved through the Self Insured Liability Account. The injunctive relief portion of the case was tried and appealed on behalf of all foster children with three or more placements. The original verdict was set aside on appeal and a new trial was ordered. As part of a pretrial mediated settlement the State agreed to supplement its child welfare reform plan in six areas identified in Plaintiff's complaint. A five member panel is overseeing these settlement activities. The panel's initial report setting forth benchmarks, professional standards, and action steps was released in late November 2005. The panel issued the first semi-annual monitoring report in March 2006, citing numerous deficiencies in meeting the established outcomes and benchmarks. The panel rejected the initial compliance plan submitted by the Children's Administration (CA). CA submitted a revised compliance plan in early September 2006, which was largely acceptable to the panel. CA still is working on two issues: reducing caseload sizes and having social workers visit children in out of home care on a monthly basis. The panel issued its second monitoring report in September. It also cited a number of potential deficiencies in meeting established outcomes and benchmarks. In late November, CA delivered its compliance plan in response to this monitoring report. If there were to be a court enforcement action, the fiscal impact would depend on the nature and extent of relief ordered. Based on projections made at the time the settlement agreement was entered in mid-2004, estimated additional program costs to implement the settlement and related systemic child welfare reforms was approximately $55 million.

<u>Transportation</u>

Foss Waterway Superfund Site. The State of Washington was named a potentially responsible party in 1990 for sediment contamination at the Foss Waterway in Tacoma. Seventy parties have assigned their claims against the State to three major utilities. The cleanup costs are estimated at approximately $20 million. The utilities have stated to Washington State Department of Transportation (WSDOT) that they intend to file their complaint in January 2007.

J. M. Martinac Shipbuilding Corporation v. WSDOT, et al. Martinac filed a $2.5 million lawsuit in King County Superior Court on October 23, 2006, against WSDOT, Douglas MacDonald, Secretary of Transportation, and other Washington State Ferries' (WSF) executives alleging, among other things, racketeering, fraud, and defamation claims related to WSF procurement of four new 144-auto ferry vessels. WSF removed the case to Federal District Court in Seattle on October 26, 2006. In addition to this lawsuit Martinac and Todd Shipyards, the only two bidders on the vessel project, each filed administrative protests on October 2, 2006. WSF denied both protests on November 6, 2006. Martinac filed a Petition for Review of WSF's protest decision with the Thurston County Superior Court on November 13, 2006. Todd Shipyards has chosen not to pursue its protest.

Lower Elwha Klallam Tribe, et al. v. WSDOT, et al. Plaintiff Tribe brought suit in Thurston County Superior Court alleging that the WSDOT and the State Department of Archaeology and Historic Preservation negligently disturbed a significant archaeology site during construction of a graving dock near Port Angeles. In August, WSDOT and the Tribe settled their case. As part of the settlement, WSDOT is required to complete some site remediation and pay cash to the Tribe. WSDOT paid $500,000 in October and will pay another $2 million when the remediation work is complete, likely in 2008. As part of the settlement concluded in August, the State, Port of Port Angeles, and the City of Port Angeles executed an agreement that is designed to replace and enhance the economic stimulus that would have been generated by the graving dock project. The agreement provides that the Governor's capital budget will include $15 million dollars to fund capital projects for the benefit of the Port and the City and $480,000 for archaeological purposes. Finally, the agreement includes a provision for potential state funding in the amount of $500,000 for business development in Clallam County. In November, WSDOT settled the cross-claims by Shotwell. That settlement requires WSDOT to pay $5,150 per month to resolve the trespass and inverse condemnation claims for the right to maintain the stockpile on that property.

U.S. v. Washington. In this federal court lawsuit, various Tribes seek significantly accelerated remediation schedules associated with eliminating or replacing existing transportation structures that block fish passage. The State has already identified over $200 million in remedial costs associated with the remediation of these structures. Absent litigation, WSDOT would address these costs over a 20 year period based on available resources. Additional costs are associated with repair of blocking culverts on forest roads under the control of state natural resource agencies. Trial is scheduled for June of 2007.

United States v. WSDOT & Southgate. This is a federal court action under federal environmental law seeking restitution to the U.S. Environmental Protection Agency (EPA) arising from remediation of a contaminated well field in Tumwater. EPA settled with Southgate Development Corporation. The EPA seeks the remaining $11 million plus prejudgment interest from WSDOT.

<u>Personnel and Wage and Hour</u>

Davis, Ben et al. v. DOT. This lawsuit involves 400 class members who are current or former employees of the Washington State Ferries. Plaintiffs work 12 hour shifts on seven day intervals. Oncoming crews relieve retiring crews during their shift so there is no gap between shifts. Plaintiffs rely on two different wage recovery statutes, Department of Labor and Industries regulations and collective bargaining agreements, to seek additional compensation for the work performed during shift overlap periods. The plaintiffs prevailed at summary judgment. Appeals and oral argument will occur this winter. Plaintiffs claim approximately $8 million in damages and our estimate of damages is approximately $2 million.

Moore v HCA and State of Washington. This class action claims the state has misclassified employees to deny health benefits. This is a follow on case to *Mader v State* where similar claims were made for part-time community college instructors. *Moore* impacts any state agency that employed seasonal, part-time or on-call workers. The suit is pending in King County seeking compensatory damages, declaratory and injunctive relief and attorney fees and costs. Although difficult to predict at this time without more documentation, damages could exceed $15 million.

Washington Public Employees Association v. State; and, Shroll v. State. A consolidated class action suit brought on behalf of state employees in "common classes," general government agencies and higher education institutions under the jurisdiction of the Personnel Resources Board. Plaintiffs seek back pay and prospective wage adjustments to rectify alleged discrepancies between the highest and lowest salaries within the common class. Plaintiffs prevailed in the State Court of Appeals and the State has sought Supreme Court review. The state agreed to a settlement in principal in time for the 2006 Legislature to appropriate $21 million needed for the retrospective payments and $1 million for the first year of the prospective five year phase in plan. On October 20, 2006, the court approved the settlement. Retrospective payment was made to the third party administrator in November 2006.

Revenue

There is a recurring volume of lawsuits seeking refunds of taxes paid to the state. All are not reported here.

United States Tobacco Sales & Marketing Co., Inc. v. Department of Revenue. This appeal involves the valuation of tobacco product samples for purposes of the Other Tobacco Products (OTP) tax. Following a trial, the Thurston County Superior Court entered judgment largely in the taxpayer's favor. The Department appealed. Division II of the Court of Appeals reversed and remanded for a new trial, concluding that substantial evidence did not support the trial court's findings of fact. The Washington Supreme Court accepted the taxpayer's petition for discretionary review and heard oral argument on September 19, 2006. U.S. Tobacco is seeking approximately $6 million in refunds in this appeal and in administrative refund appeals pending before the Department Appeals Division. Moreover, other tobacco manufacturers have filed for administrative refunds with the Department. In total, approximately $87 million in OTP taxes is at risk in 51 appeals pending before the Appeals Division.

Washington State Farm Bureau Federation, et al. v. Gregoire. Plaintiffs in this action challenged the validity of revenue measures enacted by the 2005 Legislature, including sales and use tax on extended warranties, cigarettes and liquor, and a tax on the transfer of decedents' estates. The trial court ruled that the measure raised revenue for expenditure in excess of the general fund expenditure limit, and held the measure invalid for failure to comply with the voter approval requirement of Initiative 601. The trial court also concluded that curative legislation adopted in 2006 to clarify the expenditure limit could not be given effect. The State appealed. Plaintiffs cross appealed from the trial court's denial of their motion to compel discovery with regard to a series of emails from the Legislature and Office of Financial Management, which the trial court concluded were protected by the legislative and executive privileges. The Washington Supreme Court heard oral argument on November 28, 2006.

Education

School Districts' Alliance for Adequate Funding of Special Education, et al. v. State of Washington, et al. Plaintiffs challenge the Legislature's method and adequacy of funding for special education based on a flat, per capita rate per eligible student and the limitation of excess funding to 12.7 percent of the total district student population. Trial is completed, and a decision will be issued in the near future. Additional costs resulting from a ruling in plaintiffs' favor could be as much as $360 million per biennium.

General Government

ASARCO Bankruptcy. ASARCO filed for Chapter 11 bankruptcy on September 9, 2005. ASARCO's smelter operation in Tacoma/Ruston is a Superfund site under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA). The "Groundwater/Sediments Unit" of the Superfund site includes about 110 acres of state-owned aquatic land. The primary contaminants of aquatic lands are arsenic and copper. Under CERCLA, the State is also a Potentially Responsible Party (PRP) because it owns the contaminated property and the State could be responsible for much of the cost of clean up if ASARCO evades liability through bankruptcy. The U.S. Environmental Protection Agency (EPA) currently estimates the cost of clean up for the entire site at $22 million. The clean up of state-owned aquatic lands is estimated at $11 million.

Squaxin Tribe and Swinomish Tribe v. Stephens and Department of Licensing. In this case the Plaintiff Tribes seek a federal court injunction prohibiting the imposition of the state gas tax on gasoline sales at tribally owned gas stations. The Tribes rely primarily on various federal pre-emption theories to support their claim. The Federal District Court recently ruled that the incidence of the fuel tax was on the retailers, thus it cannot be imposed on Indian tribes for fuel delivered to, or sold by, tribal retailers. The state appealed the Federal Court ruling in March 2006. If upheld on appeal, this ruling for the two Plaintiff Tribes will likely reduce fuel tax revenues by at least $730,000 per year. A more significant impact on fuel tax revenues will follow if other Tribes seek similar exemptions based on this case. However, the parties have entered into new agreements, the effect of which will be to reduce the state revenues from fuel tax that was previously collected from retail sales on these two reservations from $672,000 to $168,000.

The estimated cumulative dollar loss directly to the state over a 16-year period (FY2007-2023) under the Court's decision is about $14.9 million. However, because of these agreements the state will get back $3.7 million of that figure, and the remainder will still be spent on transportation projects.

WEC v. Sutherland. This case involves judicial review of the adequacy of a Final Environmental Impact Statement (FEIS) for the Board of Natural Resources and Department of Natural Resources' (DNR) decision establishing a new sustainable harvest level for DNR-managed forested lands in Western Washington. This harvest level set in September 2004 would have averaged 597 MMBF/year (million board feet per year) over the 2005-2014 decade, estimated to result in net revenue of $151 million per year. The King County Superior Court found the FEIS to be inadequate. No final order has been entered as of this writing.

Should an order be entered and upheld consistent with the Judge's memorandum decision, the September 2004 harvest level for Western Washington would be invalidated and a revised EIS would need to be developed along with a new harvest level decision based on the revised EIS. The short-term impact of this decision will be to return harvest levels to the no-action alternative, which is estimated to result in net revenue of $121 million per year over the planning decade, or about $30 million less per year than the level set in 2004. The Department estimates it would take two years to prepare the needed additional environmental and economic analyses. The long-term impact will depend on any new harvest level decision.

Tort Cases and Claims

Thelma Taylor/Amanda Morgan-Hayes/Karen Peterson v. DOC. Plaintiffs, in three separate lawsuits, claim substantial damages because the Department of Corrections allegedly failed to properly assess and supervise offender Michael J. Braae. The case is stayed, with no trial date yet set. This case is significant because if the State is found liable for negligent supervision of Michael J. Braae the combined damages to his numerous victims will be substantial.

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 in the range of $136 to $137.5 million in Fiscal Year 2007 and is subject to various offsets, reductions, and adjustments.

Early in 2006, a determination was made that disadvantages experienced as a result of participating in the MSA were a significant factor contributing to the market share loss by manufacturers. This determination related to 2003 sales data. Washington faces a potential "NPM adjustment" of between $0 and $130 million for the year 2003.

Washington and 37 other states each filed court actions seeking a declaration that they had diligently enforced their escrow statutes. In the Consent Decree, the King County superior Court retained jurisdiction to enforce and interpret the MSA as to Washington. The participating manufacturers oppose having the diligent enforcement issue decided by numerous state courts. They believe the issue is governed by an arbitration clause in the MSA that they claim requires a panel of arbitrators to decide, in a single national proceeding, whether individual states diligently enforced their own statutes.

The King County Superior Court heard Washington's motion and, in late September 2006, entered an order compelling arbitration and dismissing the state's action. The court's ruling was not entirely unexpected given that 18 other state courts had entered orders compelling arbitration and only one court, North Dakota, has agreed that the courts should determine the issue. Washington filed an appeal. A decision may not be issued before the next MSA payment is due in April 2007.

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 2006, the state had guaranteed 185 school districts' voter-approved general obligation debt with a total outstanding principal of $5.8 billion. The state estimates that school bond guarantee liability, if any, will be immaterial to its overall financial condition.

Local Option Capital Asset Lending Program (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, 2006, outstanding certificates of participation notes totaled $54.7 million for 193 local governments participating in LOCAL. The state estimates that LOCAL program liability, if any, will be immaterial to its overall financial condition.

Note 14 - Subsequent Events

A. Bond Issues

In August 2006, the state issued $333.2 million in Various Purpose General Obligation Bonds, Series 2007A, $176.1 million in Motor Vehicle Fuel Tax General Obligation Bonds, Series 2007B, and $71.9 million in General Obligation Taxable Bonds, Series 2007T.

In November 2006, the state issued $321.1 million in Various Purpose General Obligation Refunding Bonds, Series R-2007A, and $63.8 million in Motor Vehicle Fuel Tax General Obligation Refunding Bonds, Series R-2007B.

B. Certificates of Participation

In July 2006, the state issued $16.0 million in Certificates of Participation for various state and local government real estate purchases, Series 2006F.

In August 2006, the state issued $15.4 million in Certificates of Participation for a state real estate purchase, Series 2006G.

In September 2006, the state issued $5.6 million in Certificates of Participation for various state and local government equipment purchases, Series 2006H.

In November 2006, the state issued $16.5 million in Certificates of Participation for a state real estate purchase, Series 2006I.

In December 2006, the state plans to issue $8.2 million in Certificates of Participation for various state and local government equipment and real estate purchases, Series 2006J.

Required Supplementary Information

Budgetary Information

Budgetary Comparison Schedule

General Fund

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

	General Fund			
	Original Budget 2005-07 Biennium	Final Budget 2005-07 Biennium	Actual 2005-07 Biennium	Variance with Final Budget
Budgetary fund balance, July 1	$ 869,659	$ 869,659	$ 869,659	$ -
Resources:				
Taxes	24,760,740	26,005,932	13,136,704	(12,869,228)
Licenses, permits, and fees	157,669	165,138	84,935	(80,203)
Other contracts and grants	246,203	233,210	112,780	(120,430)
Timber sales	6,485	6,492	2,823	(3,669)
Federal grants-in-aid	11,272,200	11,671,242	5,440,943	(6,230,299)
Charges for services	96,035	111,589	51,070	(60,519)
Interest income	85,659	137,689	70,731	(66,958)
Miscellaneous revenue	91,786	89,539	50,022	(39,517)
Escheated property	-	-	51,901	51,901
Transfers from other funds	427,316	384,276	244,783	(139,493)
Total Resources	38,013,752	39,674,766	20,116,351	(19,558,415)
Charges to appropriations:				
General government	2,687,901	3,616,639	2,147,114	1,469,525
Human services	18,937,160	19,221,819	9,172,444	10,049,375
Natural resources and recreation	582,257	606,137	268,298	337,839
Transportation	75,415	79,055	41,469	37,586
Education	15,270,796	15,554,633	7,552,357	8,002,276
Capital outlays	241,483	251,598	50,588	201,010
Transfers to other funds	119,429	109,548	122,652	(13,104)
Total Charges to appropriations	37,914,441	39,439,429	19,354,922	20,084,507
Excess available for appropriation				
Over (Under) charges to appropriations	99,311	235,337	761,429	526,092
Reconciling Items:				
Changes in reserves (net)	-	-	(75,579)	(75,579)
Entity adjustments (net)	-	-	12,915	12,915
Total Reconciling Items	-	-	(62,664)	(62,664)
Budgetary Fund Balance, June 30	$ 99,311	$ 235,337	$ 698,765	$ 463,428

Budgetary Information

Budgetary Comparison Schedule

Budget to GAAP Reconciliation

General Fund

For the Fiscal Year Ended June 30, 2006

(expressed in thousands)

	General Fund
Sources/inflows of resources	
Actual amounts (budgetary basis) "Total Resources" from the Budgetary Comparison Schedule	$ 20,116,351
Differences - budget to GAAP:	
The following items are inflows of budgetary resources but are not revenue for financial reporting purposes:	
Transfers from other funds	(244,783)
Budgetary fund balance at the beginning of the year	(869,659)
The following items are not inflows of budgetary resources but are revenue for financial reporting purposes:	
Noncash commodities and electronic food stamp benefits	658,779
Unanticipated receipts	16,320
Noncash revenues	12,917
Revenues collected for other governments	29,924
Total revenues (GAAP basis) as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	$ 19,719,849
Uses/outflows of resources	
Actual amounts (budgetary basis) "Total Charges to Appropriations" from the Budgetary Comparison Schedule.	$ 19,354,922
Differences - budget to GAAP:	
Budgeted expenditure transfers are recorded as expenditures in the budget statement but are recorded as other financing source (use) for financial reporting purposes.	(1,699,493)
The following items are outflows of budgetary resources but are not expenditures for financial reporting purposes.	
Transfers to other funds	(122,652)
Loan disbursements	(3,400)
The following items are not outflows of budgetary resources but are recorded as current expenditures for financial reporting purposes.	
Noncash commodities and electronic food stamp benefits	658,779
Expenditures related to unanticipated receipts	16,320
Capital lease acquisitions	17,252
Distributions to other governments	29,924
Total expenditures (GAAP basis) as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	$ 18,251,652

Budgetary Information

Notes to Required Supplementary Information

General Budgetary Policies and Procedures

The Governor is required to submit a budget to the state Legislature no later than December 20 of the year preceding odd-numbered year sessions of the Legislature. The budget is a proposal for expenditures in the ensuing biennial period based upon anticipated revenues from the sources and rates existing by law at the time of submission of the budget. The Governor may additionally submit, as an appendix to the budget, a proposal for expenditures in the ensuing biennium from revenue sources derived from proposed changes in existing statutes.

The appropriated budget and any necessary supplemental budgets are legally required to be adopted through the passage of appropriation bills by the Legislature and approved by the Governor. Operating appropriations are generally made at the fund/account and agency level; however, in a few cases, appropriations are made at the fund/account and agency/program level. Operating appropriations cover either the entire biennium or a single fiscal year within the biennium. Capital appropriations are biennial and are generally made at the fund/account, agency, and project level.

The legal level of budgetary control is at the fund/account, agency, and appropriation level, with administrative controls established at lower levels of detail in certain instances. The accompanying budgetary schedules are not presented at the legal level of budgetary control. This is due to the large number of appropriations within individual agencies that would make such a presentation in the accompanying financial schedules extremely cumbersome. Section 2400.121 of the GASB Codification of Governmental Accounting and Financial Reporting Standards provides for the preparation of a separate report in these extreme cases. For the state of Washington, a separate report has been prepared for the 2005-07 Biennium to illustrate legal budgetary compliance. Appropriated budget versus actual expenditures, and estimated versus actual revenues and other financing sources (uses) for appropriated funds at agency and appropriation level are presented in Report CAF1054 for governmental funds. A copy of this report is available at the Office of Financial Management, 6639 Capitol Boulevard, PO Box 43113, Olympia, Washington 98504-3113.

Legislative appropriations are strict legal limits on expenditures/expenses, and overexpenditures are prohibited. All appropriated and certain nonappropriated funds are further controlled by the executive branch through the allotment process. This process allocates the expenditure/expense plan into monthly allotments by program, source of funds, and object of expenditure. According to statute RCW 43.88.110(2), except under limited circumstances, the original allotments are approved by the Governor and may be revised on a quarterly basis and must be accompanied by an explanation of the reasons for significant changes. Because allotments are not the strict legal limit on expenditures/expenses, the budgetary schedules presented as required supplementary information (RSI) are shown on an appropriation versus actual comparison rather than an allotment versus actual comparison.

Proprietary funds typically earn revenues and incur expenses (i.e., depreciation or budgeted asset purchases) not covered by the allotment process. Budget estimates are generally made outside the allotment process according to prepared business plans. These proprietary fund business plan estimates are adjusted only at the beginning of each fiscal year.

Additional fiscal control is exercised through various means. OFM is authorized to make expenditure/expense allotments based on availability of unanticipated receipts, mainly federal government grant increases made during a fiscal year. State law does not preclude the over expenditure of allotments, although RCW 43.88.110(3) requires that the Legislature be provided an explanation of major variances.

Operating encumbrances lapse at the end of the applicable appropriation. Capital outlay encumbrances lapse at the end of the biennium unless reappropriated by the Legislature in the ensuing biennium. Encumbrances outstanding against continuing appropriations at fiscal year end are reported as reservations of fund balance.

Budgetary Reporting versus GAAP Reporting

Governmental funds are budgeted materially in conformance with GAAP. However, the presentation in the accompanying budgetary schedules is different in certain respects from the corresponding Statements of Revenues, Expenditures, and Changes in Fund Balance (governmental operating statement). In the accompanying budgetary schedules, budget and actual expenditures are reported only for appropriated activities. Expenditures are classified based on whether the appropriation is from the operating or capital budget. Expenditures funded by operating budget appropriations are reported as current expenditures classified by the function of the agency receiving the appropriation. Expenditures funded by capital budget appropriations are reported as capital outlays.

However, in the governmental operating statements, all governmental funds are included and expenditures are classified according to what was actually purchased. Capital outlays are fixed asset acquisitions such as land, buildings, and equipment. Debt service expenditures are principal and interest payments. Current expenditures are all other governmental fund expenditures classified based on the function of the agency making the expenditures.

Additionally, certain governmental activities are excluded from the budgetary schedules because they are not appropriated. These activities include: activities designated as nonappropriated by the Legislature, such as the Higher Education Special Revenue Fund, Higher Education Endowment Fund, Tobacco Settlement Securitization Bond Debt Service Fund, federal surplus food commodities, electronic food stamp benefits, capital leases, note proceeds, and resources collected and distributed to other governments.

Further, certain expenditures are appropriated as operating transfers. These transfers are reported as operating transfers on the budgetary schedules and as expenditures on the governmental operating statements. The factors contributing to the differences between the Budgetary Comparison Schedule and the Statement of Revenues, Expenditures, and Changes in Fund Balance are noted in the previous Budget to GAAP reconciliation.

Budgetary Fund Balance includes the following as reported on the Governmental Funds Balance Sheet: Unreserved, undesignated fund balance; and Reserved for encumbrances.

Pension Plan Information

Public Employees' Retirement System - Plan 1

Schedule of Funding Progress

Valuation Years 2005 through 2000 (dollars in millions)

	2005	2004	2003	2002	2001	2000
Actuarial Valuation Date	9/30/2005	9/30/2004	9/30/2003	9/30/2002	9/30/2001	12/31/2000
Actuarial Value of Plan Assets	$ 9,707	$ 9,928	$ 10,227	$ 10,757	$ 10,990	$ 11,111
Actuarial Accrued Liability	13,704	12,855	12,692	12,560	12,088	11,695
Unfunded Actuarial Liability	3,997	2,927	2,465	1,803	1,098	584
Percentage Funded	71%	77%	81%	86%	91%	95%
Covered Payroll	786	863	945	1,023	1,085	1,132
Unfunded Actuarial Liability as a Percentage of Covered Payroll	509%	339%	261%	176%	101%	52%

Source: Washington State Office of the State Actuary

Teachers' Retirement System - Plan 1

Schedule of Funding Progress

Valuation Years 2005 through 2000 (dollars in millions)

	2005	2004	2003	2002	2001	2000
Actuarial Valuation Date	9/30/2005	9/30/2004	9/30/2003	9/30/2002	9/30/2001	6/30/2000
Actuarial Value of Plan Assets	$ 8,450	$ 8,728	$ 9,086	$ 9,365	$ 9,342	$ 9,372
Actuarial Accrued Liability	10,894	10,401	10,325	10,235	9,895	9,566
Unfunded Actuarial Liability	2,444	1,673	1,239	869	553	194
Percentage Funded	78%	84%	88%	91%	94%	98%
Covered Payroll	546	616	692	741	800	957
Unfunded Actuarial Liability as a Percentage of Covered Payroll	448%	272%	179%	117%	69%	20%

Source: Washington State Office of the State Actuary

Pension Plan Information

Law Enforcement Officers' and Fire Fighters' Retirement System- Plan 1

Schedule of Funding Progress

Valuation Years 2005 through 2000 (dollars in millions)

	2005	2004	2003	2002	2001	2000
Actuarial Valuation Date	9/30/2005	9/30/2004	9/30/2003	9/30/2002	9/30/2001	12/31/2000
Actuarial Value of Plan Assets	$ 4,800	$ 4,666	$ 4,803	$ 5,095	$ 5,369	$ 5,440
Actuarial Accrued Liability	4,243	4,266	4,275	4,259	4,153	4,002
Unfunded (Assets in Excess of)						
Actuarial Liability	(557)	(400)	(528)	(836)	(1,216)	(1,438)
Percentage Funded	113%	109%	112%	120%	129%	136%
Covered Payroll	56	64	71	80	87	95
Unfunded Actuarial Liability as a						
Percentage of Covered Payroll	N/A	N/A	N/A	N/A	N/A	N/A

Source: Washington State Office of the State Actuary

Judicial Retirement System

Schedule of Funding Progress

Valuation Years 2005 through 2000 (dollars in millions)

	2005	2004	2003	2002	2001	2000
Actuarial Valuation Date	9/30/2005	9/30/2004	9/30/2003	9/30/2002	9/30/2001	12/31/2000
Actuarial Value of Plan Assets	$ 2	$ 4	$ 6	$ 8	$ 10	$ 10
Actuarial Accrued Liability	89	89	91	92	92	93
Unfunded Actuarial Liability	87	85	85	84	82	83
Percentage Funded	2%	4%	7%	9%	11%	11%
Covered Payroll	1.7	2.4	2.6	3.0	3.0	4.0
Unfunded Actuarial Liability as a						
Percentage of Covered Payroll	5118%	3542%	3269%	2800%	2733%	2075%

Source: Washington State Office of the State Actuary

Pension Plan Information

Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund

Schedule of Funding Progress

Valuation Years 2005 through 2000 (dollars in millions)

	2005	2004	2003	2002	2001	2000
Actuarial Valuation Date	12/31/2005	12/31/2004	12/31/2003	12/31/2002	12/31/2001	12/31/2000
Actuarial Value of Plan Assets	$ 127	$ 120	$ 120	$ 124	$ 129	$ 126
Actuarial Accrued Liability*	140	115	112	110	99	96
Unfunded (Assets in Excess of)						
Actuarial Liability	13	(5)	(8)	(14)	(30)	(30)
Percentage Funded	91%	104%	107%	113%	130%	131%
Covered Payroll**	N/A	N/A	N/A	N/A	N/A	N/A
Unfunded Actuarial Liability as a						
Percentage of Covered Payroll	N/A	N/A	N/A	N/A	N/A	N/A

* Pension plan liability only - excludes Relief benefits.

**Covered Payroll is not presented because it is not applicable since this is a volunteer organization.

Source: Washington State Office of the State Actuary

Judges' Retirement Fund

Schedule of Funding Progress

Valuation Years 2005 through 2000 (dollars in millions)

	2005	2004	2003	2002	2001	2000
Actuarial Valuation Date	9/30/2005	9/30/2004	9/30/2003	9/30/2002	9/30/2001	12/31/2000
Actuarial Value of Plan Assets	$ 4.2	$ 4.4	$ 4.5	$ 4.7	$ 4.9	$ 4.7
Actuarial Accrued Liability	4.5	4.7	5.2	5.5	6.0	6.1
Unfunded Actuarial Liability	0.3	0.3	0.7	0.8	1.1	1.4
Percentage Funded	93%	94%	87%	85%	82%	77%
Covered Payroll	0.0	0.0	0.0	0.1	0.1	0.1
Unfunded Actuarial Liability as a						
Percentage of Covered Payroll	N/A	N/A	N/A	800%	1100%	1400%

Source: Washington State Office of the State Actuary

Pension Plan Information

Schedules of Contributions from Employers and Other Contributing Entities

For the Fiscal Years Ended June 30, 2006 through 2001
(expressed in millions)

	2006	2005	2004	2003	2002	2001
Public Employees' Retirement Plan System - Plan 1						
Employers' Annual Required Contribution	$ 438.5	$ 340.3	$ 295.1	$ 228.9	$ 164.3	$ 118.8
Employers' Actual Contribution	29.6	22.4	22.8	56.6	68.6	181.7
Percentage Contributed	7%	7%	8%	25%	42%	153%
Public Employees' Retirement Plan System - Plan 2/3						
Employers' Annual Required Contribution	$ 307.6	$ 227.7	$ 192.6	$ 141.7	$ 72.0	$ 55.6
Employers' Actual Contribution	149.6	74.7	69.4	38.2	51.0	115.0
Percentage Contributed	49%	33%	36%	27%	71%	207%
Teachers' Retirement System - Plan 1						
Employers' Annual Required Contribution	$ 287.5	$ 224.3	$ 185.7	$ 153.4	$ 119.8	$ 90.6
Employers' Actual Contribution	15.1	8.8	11.4	20.4	59.5	141.3
Percentage Contributed	5%	4%	6%	13%	50%	156%
Teachers' Retirement System - Plan 2/3						
Employers' Annual Required Contribution	$ 166.4	$ 117.4	$ 96.2	$ 79.5	$ 66.7	$ 40.4
Employers' Actual Contribution	75.4	33.8	29.9	18.2	46.4	69.6
Percentage Contributed	45%	29%	31%	23%	70%	172%
School Employees' Retirement System - Plan 2/3						
Employers' Annual Required Contribution	$ 81.4	$ 64.0	$ 52.3	$ 44.2	$ 19.5	$ 6.7
Employers' Actual Contribution	30.4	10.2	9.1	6.2	11.3	19.9
Percentage Contributed	37%	16%	17%	14%	58%	297%

Source: Washington State Office of the State Actuary

The Annual Required Contribution (ARC) changes each year with the experience of the plans. Factors influencing the experience include changes in funding methods, assumptions, plan provisions, and economic and demographic gains and losses. The methods used to derive the ARC for this accounting disclosure are different from that used to derive the actual contributions required by law. These differences include the use of different actuarial valuations (actual contributions may be based on an earlier valuation), and different actuarial cost methods. For these reasons the actual contributions will not match the Annual Required Contributions.

Pension Plan Information

Schedules of Contributions from Employers and Other Contributing Entities

For the Fiscal Years Ended June 30, 2006 through 2001

(expressed in millions)

	2006	2005	2004	2003	2002	2001
Law Enforcement Officers' and Fire Fighters' Retirement System - Plan 1						
Employers' Annual Required Contribution	$ -	$ -	$ -	$ -	$ -	$ -
Employers' Actual Contribution	0.1	-	-	0.1	0.1	0.1
Percentage Contributed	N/A	N/A	N/A	N/A	N/A	N/A
State Annual Required Contribution	-	-	-	-	-	-
State Actual Contribution	-	-	-	-	-	-
Percentage Contributed	N/A	N/A	N/A	N/A	N/A	N/A
Law Enforcement Officers' and Fire Fighters' Retirement System - Plan 2						
Employers' Annual Required Contribution	$ 60.8	$ 48.5	$ 41.5	$ 34.1	$ 26.2	$ 20.3
Employers' Actual Contribution	48.5	32.8	30.8	25.6	24.0	31.5
Percentage Contributed	80%	68%	74%	75%	92%	155%
State Annual Required Contribution	40.5	32.3	27.7	22.7	17.5	13.5
State Actual Contribution	31.7	21.3	20.2	16.4	15.6	20.9
Percentage Contributed	78%	66%	73%	72%	89%	155%
Washington State Patrol Retirement System						
Employers' Annual Required Contribution	$ 6.1	$ 3.4	$ 2.6	$ -	$ -	$ -
Employers' Actual Contribution	3.1	-	-	-	-	-
Percentage Contributed	51%	0%	0%	N/A	N/A	N/A

N/A indicates data not available.

Source: Washington State Office of the State Actuary

The Annual Required Contribution (ARC) changes each year with the experience of the plans. Factors influencing the experience include changes in funding methods, assumptions, plan provisions, and economic and demographic gains and losses. The methods used to derive the ARC for this accounting disclosure are different from that used to derive the actual contributions required by law. These differences include the use of different actuarial valuations (actual contributions may be based on an earlier valuation), and different actuarial cost methods. For these reasons the actual contributions will not match the Annual Required Contributions.

Pension Plan Information

Schedules of Contributions from Employers and Other Contributing Entities

For the Fiscal Years Ended June 30, 2006 through 2001
(expressed in millions)

	2006	2005	2004	2003	2002	2001
Judicial Retirement System						
Employers' Annual Required Contribution	$ 27.7	$ 21.7	$ 18.5	$ 16.2	$ 14.2	$ 13.3
Employers' Actual Contribution	6.7	6.2	6.2	6.2	6.2	7.3
Percentage Contributed	24%	29%	34%	38%	44%	55%
Judges' Retirement Fund						
Employers' Annual Required Contribution	$ 0.1	$ 0.1	$ 0.2	$ 0.1	$ 0.2	$ 0.2
Employers' Actual Contribution	0.3	0.5	0.5	0.3	0.3	0.8
Percentage Contributed	300%	500%	250%	300%	150%	400%
Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund						
Employers' Annual Required Contribution	$ 1.0	$ 0.7	$ 0.8	$ 0.8	$ 0.8	$ 0.7
Employers' Actual Contribution	1.0	0.7	0.8	0.8	0.8	0.7
Percentage Contributed	100%	100%	100%	100%	100%	100%
State Annual Required Contribution	3.6	1.8	1.5	0.7	-	-
State Actual Contribution	4.6	4.4	4.4	3.3	3.3	3.3
Percentage Contributed	128%	244%	293%	471%	N/A	N/A

N/A indicates data not available.

Source: Washington State Office of the State Actuary

The Annual Required Contribution (ARC) changes each year with the experience of the plans. Factors influencing the experience include changes in funding methods, assumptions, plan provisions, and economic and demographic gains and losses. The methods used to derive the ARC for this accounting disclosure are different from that used to derive the actual contributions required by law. These differences include the use of different actuarial valuations (actual contributions may be based on an earlier valuation), and different actuarial cost methods. For these reasons the actual contributions will not match the Annual Required Contributions.

Pension Plan Information

Notes to the Required Supplementary Information
Defined Benefit Pension Plans

For the Fiscal Year Ended June 30, 2006

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated below. Additional information as of the latest valuation follows.

	PERS Plan 1	PERS Plan 2/3	TRS Plan 1	TRS Plan 2/3
Valuation Date	9/30/2005	9/30/2005	9/30/2005	9/30/2005
Actuarial Cost Method	frozen initial liability[1]	aggregate[2]	frozen initial liability[1]	aggregate[2]
Amortization Method				
Funding	level %[3]	n/a	level %[3]	n/a
GASB	level $	n/a	level $	n/a
Remaining amortization period (closed)	7/1/07-6/30/24	n/a	9/1/07-6/30/24	n/a
Asset valuation method	8-year graded smoothed fair value[4]	8-year graded smoothed fair value[4]	8-year graded smoothed fair value[4]	8-year graded smoothed fair value[4]
Actuarial assumptions:				
Investment Rate of Return	8.00%	8.00%	8.00%	8.00%
Projected Salary Increases				
Salary Inflation at 4.5%, plus the merit increases described below:				
initial salary merit (grades down to 0%)	6.1%	6.1%	6.2%	6.2%
merit period (years of service)	17 yrs	17 yrs	17 yrs	17 yrs
Includes inflation at		3.50%		3.50%
Cost of living adjustments	Uniform COLA[5] Gainsharing COLA[5]	CPI increase, maximum 3%	Uniform COLA[5] Gainsharing COLA[5]	CPI increase, maximum 3%

N/A indicates data not applicable.

1 Based on a variation of the Frozen Initial Liability (FIL) cost method.

2 The aggregate cost method does not identify or separately amortize unfunded actuarial liabilities.

3 Level percent of payroll, including system growth.

4 Asset Valuation Method (8 year smoothed fair value): The actuarial value of assets is calculated under an adjusted market value method by starting with the market value of assets. For subsequent years the actuarial value of assets is determined by adjusting the market value of assets to reflect the difference between the actual investment return and the expected investment return during each of the last 8 years or, if fewer, the completed years since adoption, at the following rates per year (annual recognition):

Annual Gain/Loss			Annual Gain/Loss		
Rate of Return	Smoothing Period	Annual Recognition	Rate of Return	Smoothing Period	Annual Recognition
15% and up	8 years	12.50%	6-7%	2 years	50.00%
14-15%	7 years	14.29%	5-6%	3 years	33.33%
13-14%	6 years	16.67%	4-5%	4 years	25.00%
12-13%	5 years	20.00%	3-4%	5 years	20.00%
11-12%	4 years	25.00%	2-3%	6 years	16.67%
10-11%	3 years	33.33%	1-2%	7 years	14.29%
9-10%	2 years	50.00%	1% and lower	8 years	12.50%
7-9%	1 year	100.00%			

The actuarial value of assets is subject to a 30% market value corridor, so it will lie between 70% and 130% of the market value of assets.

SERS Plan 2/3	LEOFF Plan 1	LEOFF Plan 2	VFFRPF
9/30/2005	9/30/2005	9/30/2005	12/31/2005
aggregate[2]	frozen initial liability[1]	aggregate[2]	entry age
n/a	level %[3]	n/a	level $
n/a	level $	n/a	level $
n/a	7/1/07-6/30/24	n/a	12/31/2017
8-year graded smoothed fair value[4]	8-year graded smoothed fair value[4]	8-year graded smoothed fair value[4]	4-year smoothed fair value
8.00%	8.00%	8.00%	8.00%
7.0%	11.7%	11.7%	n/a
17 yrs	21 yrs	21 yrs	
3.50%	3.50%	3.50%	n/a
CPI increase, maximum 3%	CPI increase	CPI increase, maximum 3%	none

5 The Uniform COLA and Gainsharing COLA
Generally, all retirees over age 66 receive an increase in their monthly benefit at least once a year. The Gainsharing COLA is added every even-numbered year if certain extraordinary investment gains are achieved. The Uniform COLA amount is calculated as the last Uniform COLA amount plus any Gainsharing COLA amount, all increased by 3%.

Date	Prior Uniform COLA	+ Gainsharing COLA	X 1.03	= Uniform COLA
7/1/2002	$1.11	0.00		$1.14
7/1/2003	$1.14	0.00		$1.18
7/1/2004	$1.18	0.00		$1.21
7/1/2005	$1.21	0.00		$1.25
7/1/2006	$1.25	0.00		$1.29

Information about Infrastructure Assets Reported Using the Modified Approach

Condition Assessment

The state's highway system is divided into three main categories: pavement, bridges and rest areas. Condition information about each as well as the state's emergency airfields follows.

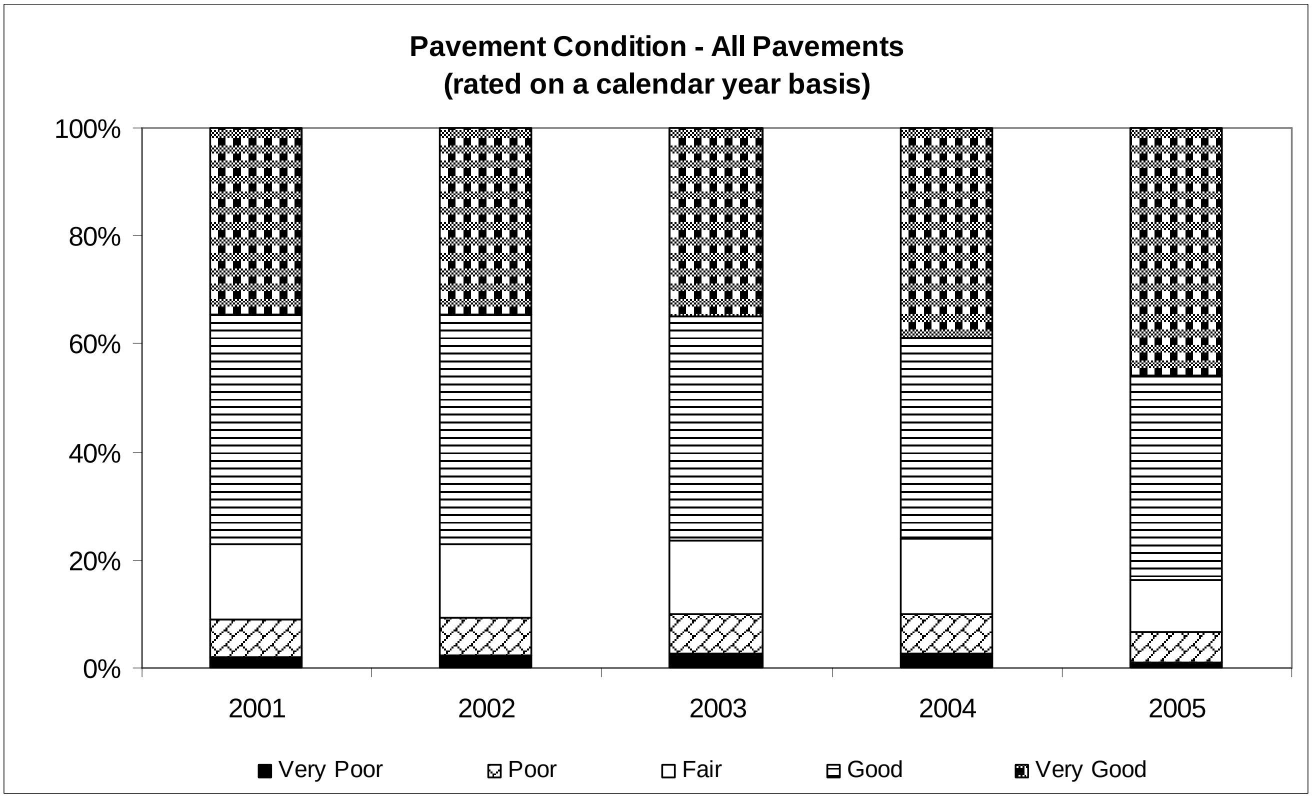
Pavement Condition

The Washington State Department of Transportation (WSDOT) owns and maintains 20,099 lane miles of highway, including ramps, collectors and special use lanes. Special use lanes include High Occupancy Vehicle (HOV), climbing, chain-up, holding, slow vehicle turnout, two-way turn, weaving/speed change, bicycle, transit, truck climbing shoulder, turn and acceleration lanes. Special use and ramp/collector lane miles make up 1,736 of the total lane miles.

WSDOT has been rating pavement condition since 1969. Pavement rated in *good* condition is smooth and has few defects. Pavement in *poor* condition is characterized by cracking, patching, roughness and rutting. Pavement condition is rated using three factors: Pavement Structural Condition (PSC), International Roughness Index (IRI), and Rutting.

In 1993 the Legislature required WSDOT to rehabilitate pavements at the Lowest Life Cycle Cost (LLCC), which has been determined to occur at a PSC range between 40 and 60, or when triggers for roughness or rutting are met. The trend over the last five years has shown that the percentage of pavements in poor or very poor condition has remained fairly stable at 9 to 10 percent with a slight improvement to 7 percent in 2005. WSDOT uses LLCC analysis to manage its pavement preservation program. The principles behind LLCC are basic – if rehabilitation is done too early, pavement life is wasted; if rehabilitation is done too late, very costly repair work may be required, especially if the underlying structure is compromised. WSDOT continually looks for ways to best strike the balance between these two basic principles.

While the goal for pavements is zero miles in 'poor' condition, marginally good pavements may deteriorate into poor condition during the lag time between assessment and actual rehabilitation. As a result, a small percentage of marginally good pavements will move into the 'poor' condition category for any given assessment period.



The Department of Transportation manages state highways targeting the LLCC per the Pavement Management System due date. While the department has a long-term goal of no pavements in poor condition (a pavement condition index less than 40, on a 100 point scale), the current policy is to maintain 90 percent of all highway pavement types at a pavement condition index of 40 or better with no more than 10 percent of its highways at a pavement condition below 40. The most recent assessment found that state highways were within the prescribed parameters with only seven percent of all pavement types with a pavement condition index below 40.

WSDOT uses the following scale for Pavement Structural Condition (PSC):

Category	PSC Range	Description
Very Good	80 – 100	Little or no distress. Example: Flexible pavement with 5% of wheel track length having "hairline" severity alligator cracking will have a PSC of 80.
Good	60 - 80	Early stage deterioration. Example: Flexible pavement with 15% of wheel track length having "hairline" alligator cracking will have a PSC of 70.
Fair	40 - 60	This is the threshold value for rehabilitation. Example: Flexible pavement with 25% of wheel track length having "hairline" alligator cracking will have a PSC of 50.
Poor	20 - 40	Structural deterioration. Example: Flexible pavement with 25% of wheel track length having "medium (spalled)" severity alligator cracking will have a PSC of 30.
Very Poor	0 - 20	Advanced structural deterioration. Example: Flexible pavement with 40% of wheel track length having "medium (spalled)" severity alligator cracking will have a PSC of 10. May require extensive repair and thicker overlays.

The PSC is a measure based on distresses such as cracking and patching, which are related to the pavement's ability to carry loads. Pavements develop structural deficiencies due to truck traffic and cold weather. WSDOT attempts to program rehabilitation for pavement segments when they are projected to reach a PSC of 50. A PSC of 50 can occur due to various amounts and severity of distress. For rigid pavements (such as Portland cement concrete), a PSC of 50 represents 50 percent of the concrete slabs exhibiting joint faulting with a severity of 1/8 to 1/4 inch (faulting is the elevation difference at slab joints and results in a rough ride – particularly in large trucks). Further, a PSC of 50 can also be obtained if 25 percent of concrete slabs exhibit two to three cracks per panel.

The International Roughness Index (IRI) uses a scale in inches per mile. WSDOT considers pavements with a ride performance measures greater than 220 inches per mile to be in poor condition. For example, new asphalt overlays typically have ride values below 75 inches per mile, which is very smooth.

Rutting is measured in millimeters: a pavement with more than 12 millimeters of rutting is considered in poor condition. The three indices (PSC, IRI, and Rutting) are combined to rate a section of pavement, which is assigned the lowest category of any of the three ratings.

The following table shows the combined explanatory categories and the ratings for each index.

Category	PSC	IRI	Rutting
Very Good	100 – 80	< 95	< 4
Good	80 – 60	95 – 170	4 – 8
Fair	60 – 40	170 – 220	8 – 12
Poor	40 – 20	220 – 320	12 – 16
Very Poor	0 – 20	> 320	> 16

Since 1999, WSDOT has used an automated pavement distress survey procedure. In the automated survey, high-resolution video images are collected at highway speed and these video images are then rated on special workstations at 3-6 mph speed. This change has also resulted in a more detailed classification and recording of various distresses that are rated.

Pavement condition surveys are generally conducted in the fall of each year and analyzed during the winter and spring, with the previous year's results available in July each year. In 2005, WSDOT rated pavement condition on 17,779 of the 20,099 lane miles of highway. The chart on the following page shows recent pavement condition ratings for the State Highway System, using the combination of the three indices described above.

Percentage of Pavement in Fair or Better Condition

	2005*	2004*	2003*	2002*	2001*
Statewide - Chip Seals	91	86	86	89	89
Statewide - Asphalt	95	92	91	91	92
Statewide - Concrete	91	85	93	92	92
Statewide - All Pavements	93	90	90	91	91

Percentage of Pavement in Poor or Very Poor Condition

	2005*	2004*	2003*	2002*	2001*
Statewide - Chip Seals	9	14	14	11	11
Statewide - Asphalt	5	8	9	9	8
Statewide - Concrete	9	15	7	8	8
Statewide - All Pavements	7	10	10	9	9

* Calendar year data. Assessments are typically made in the summer and fall of each year, and processed during the winter and spring, with final results released in July. Years indicated are when the physical assessment was done in the summer and fall.

Note: The All Pavements percentages are calculated from total database averages, not a statistical average of the three pavement type percentages. Numbers are rounded to full percentage points. IRI or rutting is not used for sections identified as under construction in rating distress.

More information about pavement management at the Department of Transportation may be obtained at:
http://www.wsdot.wa.gov/biz/mats/pavement/

Bridge Condition

During Fiscal Year 2006 there were 3,088 state-owned vehicular structures over 20 feet in length with a total area of 43,933,923 square feet. In addition to bridges, the 3,088 structures include 84 culverts and 31 ferry terminal structures (while ferry terminals are included in a depreciable asset category, they are included here with bridge condition information since they are evaluated by the WSDOT Bridge Office on a periodic basis). All bridges are inspected on a two to four year interval, with no more than 10 percent of the bridges inspected less than every three years. Divers inspect underwater bridge components at least once every five years in accordance with Federal Highway Administration requirements. Special emphasis is given to the ongoing inspection and maintenance of major bridges representing a significant public investment due to size, complexity or strategic location. Information related to public bridges is maintained in the Washington State Bridge Inventory System (WSBIS). This system is used to develop preservation strategies and comprehensive recommendations for maintenance and construction, and for reporting to the Federal Highway Administration (FHWA).

WSDOT's policy is to maintain 95 percent of its bridges at a structural condition of at least fair, meaning that all primary structural elements are sound. The most recent assessment found that state-owned bridges were within the prescribed parameters with 97.5 percent having a condition rating of fair or better and only 2.5 percent of bridges having a condition rating of poor. Bridges rated as poor may have structural deficiencies that restrict the weight and type of traffic allowed. No bridges that are currently rated as poor are unsafe for public travel. Any bridges determined to be unsafe are closed to traffic. WSDOT had no closed bridges at June 30, 2006.

WSDOT's Bridge Seismic Retrofit Program prioritizes state bridges for seismic retrofit, and performs these retrofits as funding permits. Retrofit priorities are based on seismic risk of a site, structural detail deficiencies, and route importance. The Seismic Retrofit Program includes 920 bridges that have been classified as needing retrofitting. From 1991 to the end of June 2006, WSDOT has fully or partially retrofitted 358 bridges. Of those, 195 are completely retrofitted, 163 are partially retrofitted. There are also 15 bridges under contract to be retrofitted.

The following condition rating data is based on the structural sufficiency standards established in the FHWA "Recording and Coding Guide for the Structural Inventory and Appraisal of the Nation's Bridges." This structural rating relates to the evaluation of bridge superstructure, deck, substructure, structural adequacy and waterway adequacy. Three categories of condition were established in relation to the FHWA criteria as follows:

Category	National Bridge Inventory Code	Description
Good	6, 7, or 8	A range from no problems noted to some minor deterioration of structural elements.
Fair	5	All primary structural elements are sound but may have deficiencies such as minor section loss, deterioration, cracking, spalling or scour.
Poor	4 or less	Advanced deficiencies such as section loss, deterioration, cracking, spalling, scour or seriously affected primary structural components.

Note: Bridges rated in poor condition may be restricted for the weight and type of traffic allowed.

Condition Rating of Washington State Department of Transportation's Bridges

Percentage of Bridges in Fair or Better Condition					
Bridge Type	**2006**	**2005**	**2004**	**2003**	**2002**
Reinforced Concrete (1,298 bridges in FY 2006)	98.6	98.6	98	98	97
Prestressed Concrete (1,299 bridges in FY2006)	99.4	99.5	99.5	99.5	99.5
Steel (351 bridges* in FY 2006)	94.1	94.3	93	93	92
Timber (62 bridges in FY 2006)	68.1	69.2	70	69	70
Statewide - All Bridges (3,010 out of 3,088 bridges in FY 2006)	97.5	97.6	97.4	97	96.7

Percentage of Bridges in Poor Condition					
Bridge Type	**2006**	**2005**	**2004**	**2003**	**2002**
Reinforced Concrete (18 bridges in FY 2006)	1.4	1.4	2	2	3
Prestressed Concrete (9 bridges in FY 2006)	0.7	0.5	0.5	0.5	0.5
Steel (22 bridges* in FY 2006)	5.9	5.7	6.5	7	8
Timber (29 bridges in FY 2006)	31.9	30.8	30	31	30
Statewide - All Bridges (78 out of 3,088 bridges in FY 2006)	2.5	2.4	2.6	3	3.3

***The steel bridge ratings for FY2006 include 28 ferry terminal structures rated as fair or better and three ferry terminal structures rated as poor.

Note: Bridges rated as poor may have structural deficiencies that restricted the weight and type of traffic allowed. WSDOT currently has 13 posted bridges and 141 restricted bridges. Posted bridges have signs posted which inform of legal weight limits. Restricted bridges are those where overweight permits will not be issued for travel by overweight vehicles. Refer to http://www.wsdot.wa.gov/commercialvehicle/bridgelist.cfm. for more information. Any bridges determined to be unsafe are closed to traffic. WSDOT had no closed bridges as of June 30, 2006.

Additional information regarding the Department of Transportation's bridge inspection program may be obtained at: http://www.wsdot.wa.gov/eesc/bridge/index.cfm

Safety Rest Area Condition

The Washington State Department of Transportation (WSDOT) owns, operates, and maintains 42 developed safety rest area (SRA) facilities. Within these facilities, the department manages the following assets: 83 buildings, 566 acres, 29 on-site public drinking water systems, 36 on-site sewage pre-treatment/treatment systems, and 19 recreational vehicle sanitary disposal facilities.

In 2005 WSDOT performed the second round of SRA building and site condition assessments to determine the facility deficiencies. This biennial process, which began in 2003, helps prioritize renovation and replacement projects. Sites and buildings are divided into functional components that are assessed with a numerical rating of 1 to 5 based on guideline criteria (1 meets current standards, 5 is poor). In addition, a weighting multiplier is applied based on the criticality of the individual component. For instance, a safety deficiency adds a weighting multiplier of 10 while a department image deficiency has a weighting multiplier of two. The combined total building and site ratings are used to determine each facility's overall condition, and fall into one of five categories.

WSDOT SRA condition assessment rating parameters are not based on other state or national guidelines for safety rest areas. The model used is based on the capital facility program software already in use, with minor modifications to the rating parameters to better match the unique needs of SRA facilities.

The SRA Program goal is to have no more than 5 percent of the facilities rated Poor.

	2003	2005
Percentage of facilities in Fair or Good condition	95	95
Percentage of facilities in Poor condition	5	5

Category	Definition	Number of Safety Rest Areas in Category
Good Condition	Facility is new construction and/or meets current standards.	11
Fair-High Condition	Facility meets current standards and/or is in adequate condition with minimal component deficiencies.	2
Fair-Mid Condition	Facility is functional, and in adequate condition with minor component deficiencies.	9
Fair-Low Condition	Facility has multiple system deficiencies.	18
Poor	Facility is at or beyond its service life, with multiple major deficiencies.	2

Emergency Air Field Condition

The Washington State Department of Transportation (WSDOT), through its Aviation Division is authorized by RCW 47.68.100 to acquire and maintain airports.

Under this authority, WSDOT owns eight emergency airfields and leases several others. Most of the airfields are located near or adjacent to state highways and range in character from paved to gravel or turf. The primary purpose for the airports is to provide emergency facilities in remote locations. They serve as landing sites for medical evacuations, forest firefighting operations, and search and rescue. In addition, they allow access to local communities and recreation areas. Two airfields are in operational condition 12 months of the year, with five operational from June to October each year. One is only available for emergency search and rescue use. In accordance with WSDOT policy, maintenance is done on each airfield annually to keep it at its existing condition of use. Each airfield is inspected a minimum of three times per year.

The definitions below form the rating criteria for the current airfield condition ratings that follow.

Category	Definition
General Use Community Airport	An airport with a paved runway capable of handling aircraft with a maximum gross certificated takeoff weight of 12,500 pounds.
Limited Use Community Airport	An airport with an unpaved runway capable of handling aircraft with a maximum gross certificated takeoff weight of 12,500 pounds.
General Recreational Use Airport	An airport with a turf (unpaved) runway near access to recreational opportunities with capacity for aircraft less than 12,500 pounds.
Limited Search and Rescue Forward Operating Location	An airport with a landing pad only capable of accommodating rotorcraft.

Condition Rating of Washington State Emergency Airfields

	Number of Airports
Owned airports:	
Acceptable for general use as a community airport	1
Acceptable for limited use as a community airport	1
Acceptable for general recreation use	5
Limited search and rescue forward operating location	1
Total owned airports	8

	2006	2005	2004	2003	2002
Percentage of airports acceptable for general recreational use or better	88	88	88	88	88
Percentage of airports not acceptable for general recreational use or better	12	12	12	12	12

Note: One airport is open only as a limited search and rescue operating location and is expected to remain in that status. For pictures of specific airfields, refer to the Department of Transportation's website at:

http://www.wsdot.wa.gov/Aviation/airports/

Information about Infrastructure Assets Reported Using the Modified Approach

Comparison of Budgeted-to-Actual Preservation and Maintenance

For the Fiscal Years Ended June 30, 2002 through 2006
(expressed in thousands)

	2002			2003		
Highway System						
Pavement	Budget	Actual	Variance	Budget	Actual	Variance
Preservation	$ 134,810	$ 127,946	$ 6,864	$ 119,160	$ 123,883	$ (4,723)
Maintenance	23,746	19,485	4,261	22,796	24,123	(1,327)
Total	$ 158,556	$ 147,431	$ 11,125	$ 141,956	$ 148,006	$ (6,050)
Bridges						
Preservation	$ 24,270	$ 16,307	$ 7,963	$ 22,460	$ 23,988	$ (1,528)
Maintenance	11,430	11,012	418	11,222	12,853	(1,631)
Total	$ 35,700	$ 27,319	$ 8,381	$ 33,682	$ 36,841	$ (3,159)
Rest Areas						
Preservation	$ 155	$ 122	$ 33	$ 390	$ 386	$ 4
Maintenance	4,744	4,462	282	4,744	4,688	56
Total	$ 4,899	$ 4,584	$ 315	$ 5,134	$ 5,074	$ 60
Emergency Air Fields						
Preservation & Maint.	$ 70	$ 64	$ 6	$ 70	$ 58	$ 12

In addition to increasing and improving the state highway system, WSDOT places a high priority on preserving and maintaining the current highway system. WSDOT breaks out preservation and maintenance into two separate functions. Preservation can be described as projects that maintain the structural integrity of the existing highway system including roadway pavements, safety features, bridges, and other structures/facilities. The Maintenance function handles the day-to-day needs that occur such as guardrail replacement, patching pot holes, installing signs, vegetation control, etc.

In 1996 WSDOT embarked on an initiative to use outcome based performance measures for evaluating the effectiveness of the Maintenance Program. The Maintenance Accountability Process (MAP) is a comprehensive planning, measuring and managing process that provides a means for communicating the impacts of policy and budget decisions on program service delivery. WSDOT uses it to identify investment choices and affects of those choices in communicating with the legislature and other stakeholders. The MAP measures and communicates the outcomes of 34 distinct highway maintenance activities. Maintenance results are measured via field condition surveys and reported as Level of Service (LOS) ratings, which range from A to F. LOS targets are defined in terms of the condition of various highway features (i.e. percent of guardrail on the highway system that is damaged) and are set commensurate with the level of funding provided for the WSDOT highway maintenance program. More information about MAP may be obtained at: http://www.wsdot.wa.gov/maintenance/mgmt/accountability.htm.

Notes: Numbers for the Pavement and Bridges budget amounts are calculated based on biennial plans as shown in the WSDOT *Monthly Financial* Report for subprograms P1 (Roadway Preservation), P2 (Structures Preservation), and M2 (Roadway, Bridge & Tunnel Maintenance). For FY 2006, the annual budget was calculated as half the biennial amount. The Preservation budgeted and actual amounts were adjusted for capitalized infrastructure and equipment in FY 2006.

The Emergency Airfields (program F3, State Airport Construction and Maintenance) budget amount came from the same sources as for pavements and bridges described above but is only one-fourth of the biennial total because the budget is split evenly between state owned and leased airports.

2004			2005			2006		
Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance
$ 116,902	$ 107,229	$ 9,673	$ 118,055	$ 122,868	$ (4,813)	$ 108,409	$ 130,340	$ (21,931)
21,254	18,064	3,190	20,657	18,715	1,942	19,219	18,586	633
$ 138,156	$ 125,293	$ 12,863	$ 138,712	$ 141,583	$ (2,871)	$ 127,628	$ 148,926	$ (21,298)
$ 30,637	$ 24,780	$ 5,857	$ 16,768	$ 14,332	$ 2,436	$ 52,507	$ 20,338	$ 32,169
11,292	11,267	25	11,159	11,151	8	11,552	11,820	(268)
$ 41,929	$ 36,047	$ 5,882	$ 27,927	$ 25,483	$ 2,444	$ 64,059	$ 32,158	$ 31,901
$ 331	$ 222	$ 109	$ 381	$ 333	$ 48	$ 188	$ 129	$ 59
4,268	4,833	(565)	4,268	5,527	(1,259)	5,021	5,187	(166)
$ 4,599	$ 5,055	$ (456)	$ 4,649	$ 5,860	$ (1,211)	$ 5,209	$ 5,316	$ (107)
$ 70	$ 71	$ (1)	$ 108	$ 129	$ (21)	$ 83	$ 67	$ 16

The Rest Areas Maintenance budget is based on the biennial plan as shown in the WSDOT *Monthly Financial Report* for subprogram M2 under maintenance group "Rest Area Maintenance". For FY 2006, the annual budget was calculated as half the biennial amount. The Preservation budget is part of the P3 subprogram and consists of programmed rest area preservation projects of a non-capitalized nature. For Fiscal Years 2002 through 2005, the budget amounts are based on biennial plans as shown in the WSDOT *Monthly Financial Report* for subprogram P3 (Other Preservation), the annual budgets were calculated as half of the biennial amount times the percentage if non-capitalized rest area costs to the total costs in subprogram P3. Fiscal Year 2006's budget amount was provided by the rest area program manager.

Combining and Individual Fund Financial Statements – Nonmajor Funds

Nonmajor Governmental Funds

The nonmajor governmental funds fall into the four categories as described below.

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 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 (other than those financed by proprietary funds for individuals, private organizations, or other governments).

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.

Combining Balance Sheet - by Fund Type

Nonmajor Governmental Funds

June 30, 2006

(expressed in thousands)

	Special Revenue	Debt Service	Capital Projects	Permanent	**Total**
Assets:					
Cash and pooled investments	$ 3,125,302	$ 183,207	$ 284,251	$ 40 ,277	$ 3,633,037
Investments	26,569	7,221	19,682	163,853	217,325
Taxes receivable (net of allowance)	110,901	-	-	-	110,901
Other receivables (net of allowance)	480,694	18,102	10,703	1,801	511,300
Due from other funds	237,322	10,869	32,501	110	280,802
Due from other governments	1,767,723	-	5,471	-	1,773,194
Inventories	37,054	-	-	-	37,054
Total Assets	$ 5,785,565	$ 219,399	$ 352,608	$ 206,041	$ 6,563,613
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	$ 190,736	$ -	$ 29,424	$ -	$ 220,160
Contracts and retainages payable	51,577	-	14,622	-	66,199
Accrued liabilities	77,466	9	909	168	78,552
Obligations under security lending agreements	89,345	5,159	2,957	40,225	137,686
Due to other funds	265,820	8,003	32,631	606	307,060
Due to other governments	118,645	-	3,702	-	122,347
Deferred revenues	568,063	-	22,554	-	590,617
Claims and judgments payable	10,610	-	-	-	10,610
Total Liabilities	1,372,262	13,171	106,799	40,999	1,533,231
Fund Balances:					
Reserved for:					
Encumbrances	302,843	-	155,371	-	458,214
Inventories	37,054	-	-	-	37,054
Permanent funds	-	-	-	165,042	165,042
Other specific purposes	1,488,140	-	20,163	-	1,508,303
Unreserved, designated for, reported in:					
Special revenue funds	229	-	-	-	229
Debt service funds	-	206,228	-	-	206,228
Unreserved, undesignated reported in:					
Special revenue funds	2,585,037	-	-	-	2,585,037
Capital project funds	-	-	70,275	-	70,275
Total Fund Balances	4,413,303	206,228	245,809	165,042	5,030,382
Total Liabilities and Fund Balances	$ 5,785,565	$ 219,399	$ 352,608	$ 206,041	$ 6,563,613

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - by Fund Type

Nonmajor Governmental Funds

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

	Special Revenue	Debt Service	Capital Projects	Permanent	Total
Revenues:					
Retail sales and use taxes	$ 72,090	$ -	$ -	$ -	$ 72,090
Business and occupation taxes	71,880	-	-	-	71,880
Property taxes	245,204	-	-	-	245,204
Excise taxes	90,231	-	-	-	90,231
Motor vehicle and fuel taxes	1,030,003	-	-	-	1,030,003
Other taxes	707,978	-	-	-	707,978
Licenses, permits, and fees	702,654	-	-	-	702,654
Timber sales	151,980	-	6,533	-	158,513
Other contracts and grants	16,239	-	1,442	-	17,681
Federal grants-in-aid	915,309	-	6,765	2	922,076
Charges for services	435,973	-	37,169	-	473,142
Investment income (loss)	83,662	4,081	2,150	(299)	89,594
Miscellaneous revenue	311,581	42,897	15,685	550	370,713
Total Revenues	4,834,784	46,978	69,744	253	4,951,759
Expenditures:					
Current:					
General government	308,020	89	79,123	-	387,232
Human services	960,638	-	8,051	-	968,689
Natural resources and recreation	402,671	-	34,944	-	437,615
Transportation	1,442,075	-	4,201	-	1,446,276
Education	519,092	-	129,149	-	648,241
Intergovernmental	330,770	-	-	-	330,770
Capital outlays	991,218	-	555,411	-	1,546,629
Debt service:					
Principal	2,406	462,769	-	-	465,175
Interest	4,646	492,596	36	-	497,278
Total Expenditures	4,961,536	955,454	810,915	-	6,727,905
Excess of Revenues Over (Under) Expenditures	(126,752)	(908,476)	(741,171)	253	(1,776,146)
Other Financing Sources (Uses):					
Bonds issued	585,004	-	512,088	-	1,097,092
Refunding bonds issued	-	461,170	-	-	461,170
Payment to refunded bond escrow agent	-	(499,778)	-	-	(499,778)
Certificates of participation proceeds	5,865	-	4,057	-	9,922
Bond issue premium	32,409	40,356	30,803	-	103,568
Transfers in	1,576,915	975,981	146,141	-	2,699,037
Transfers (out)	(782,967)	(40,986)	(31,972)	(7,220)	(863,145)
Total Other Financing Sources (Uses)	1,417,226	936,743	661,117	(7,220)	3,007,866
Net change in fund balances	1,290,474	28,267	(80,054)	(6,967)	1,231,720
Fund Balances - Beginning, as restated	3,122,829	177,961	325,863	172,009	3,798,662
Fund Balances - Ending	$ 4,413,303	$ 206,228	$ 245,809	$ 165,042	$ 5,030,382

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 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 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.

Common School Construction Fund revenues are obtained principally from the sale of timber and investment earnings. This fund provides financing to local school districts under the control of the State Board of Education for construction of common school facilities.

The Central Administrative and Regulatory Fund accounts for operating expenditures of certain administrative and regulatory agencies.

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.

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.

The Local Construction and Loan Fund accounts for construction and loan programs for local public works projects.

Combining Balance Sheet

Nonmajor Special Revenue Funds

June 30, 2006
(expressed in thousands)

	Motor Vehicle	Multimodal Transportation	Common School Construction	Central Administrative and Regulatory	Human Services
Assets:					
Cash and pooled investments	$ 647,165	$ 91,587	$ 120,524	$ 1,039,013	$ 516,533
Investments	175	-	-	3,302	13,796
Taxes receivable (net of allowance)	90,669	1	-	4,783	8,248
Other receivables (net of allowance)	33,555	5,353	51,581	54,302	258,697
Due from other funds	80,011	8,584	36,429	17,044	39,853
Due from other governments	59,555	43,486	3,619	25,106	164,881
Inventories	35,325	201	-	138	1,083
Total Assets	$ 946,455	$ 149,212	$ 212,153	$ 1,143,688	$ 1,003,091
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	$ 100,007	$ 11,233	$ 153	$ 10,196	$ 54,211
Contracts and retainages payable	21,693	3,354	11,442	1,678	386
Accrued liabilities	32,286	1,555	328	4,807	12,797
Obligations under security lending agreements	29,280	5,341	6,709	5,588	21,605
Due to other funds	79,867	14,042	5,798	88,982	27,501
Due to other governments	49,861	17,120	32,677	9,619	964
Deferred revenues	20,048	7,715	48,613	103,787	313,222
Claims and judgments payable	500	-	-	10,110	-
Total Liabilities	333,542	60,360	105,720	234,767	430,686
Fund Balances:					
Reserved for:					
Encumbrances	3,740	958	73,068	7,832	22,235
Inventories	35,325	201	-	138	1,083
Other specific purposes	2,499	952	3,585	10,435	56,632
Unreserved, designated for, reported in:					
Special revenue funds	-	-	-	-	133
Unreserved, undesignated	571,349	86,741	29,780	890,516	492,322
Total Fund Balances	612,913	88,852	106,433	908,921	572,405
Total Liabilities and Fund Balances	$ 946,455	$ 149,212	$ 212,153	$ 1,143,688	$ 1,003,091

Wildlife and Natural Resources	Local Construction and Loan	Total
$ 512,946	$ 197,534	$ 3,125,302
9,296	-	26,569
899	6,301	110,901
69,470	7,736	480,694
47,274	8,127	237,322
487,163	983,913	1,767,723
307	-	37,054
$ 1,127,355	$ 1,203,611	$ 5,785,565
$ 11,737	$ 3,199	$ 190,736
13,023	1	51,577
7,744	17,949	77,466
12,301	8,521	89,345
37,182	12,448	265,820
8,021	383	118,645
60,418	14,260	568,063
-	-	10,610
150,426	56,761	1,372,262
185,676	9,334	302,843
307	-	37,054
466,349	947,688	1,488,140
-	96	229
324,597	189,732	2,585,037
976,929	1,146,850	4,413,303
$ 1,127,355	$ 1,203,611	$ 5,785,565

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Nonmajor Special Revenue Funds

For the Fiscal Year Ended June 30, 2006

(expressed in thousands)

	Motor Vehicle	Multimodal Transportation	Common School Construction	Central Administrative and Regulatory	Human Services
Revenues:					
Retail sales and use taxes	$ -	$ 57,577	$ -	$ 13,801	$ 95
Business and occupation taxes	-	-	-	-	71,880
Property taxes	-	-	-	245,204	-
Excise taxes	5	34	-	1,718	26,468
Motor vehicle and fuel taxes	1,016,593	2,427	-	-	-
Other taxes	25	-	-	115,542	417,636
Licenses, permits, and fees	357,327	93,442	-	90,867	56,161
Timber sales	90	-	60,148	2,930	-
Other contracts and grants	4,022	22	-	3,810	5,083
Federal grants-in-aid	403,482	208,036	-	74,281	185,388
Charges for services	160,196	68,261	-	55,052	149,968
Investment income (loss)	18,082	2,336	1,816	25,943	8,279
Miscellaneous revenue	27,496	21,937	15,462	24,595	140,818
Total Revenues	1,987,318	454,072	77,426	653,743	1,061,776
Expenditures:					
Current:					
General government	2,883	-	200	204,921	90,300
Human services	-	-	4,243	45,764	907,635
Natural resources and recreation	430	-	-	11,674	1,208
Transportation	1,059,809	349,004	-	24,509	6,504
Education	-	-	174,729	293,631	49,223
Intergovernmental	235,219	1,595	-	92,893	1,017
Capital outlays	894,631	69,097	993	6,918	1,108
Debt service:					
Principal	398	207	-	834	304
Interest	312	185	-	858	222
Total Expenditures	2,193,682	420,088	180,165	682,002	1,057,521
Excess of Revenues Over (Under) Expenditures	(206,364)	33,984	(102,739)	(28,259)	4,255
Other Financing Sources (Uses):					
Bonds issued	567,002	-	-	-	-
Certificates of participation proceeds	1,897	3,860	-	-	-
Bond issue premium	32,409	-	-	-	-
Transfers in	124,251	17,579	226,854	816,272	345,148
Transfers (out)	(305,756)	(51,160)	(90,960)	(120,452)	(167,042)
Total Other Financing Sources (Uses)	419,803	(29,721)	135,894	695,820	178,106
Net change in fund balances	213,439	4,263	33,155	667,561	182,361
Fund Balances - Beginning, as restated	399,474	84,589	73,278	241,360	390,044
Fund Balances - Ending	$ 612,913	$ 88,852	$ 106,433	$ 908,921	$ 572,405

Wildlife and Natural Resources	Local Construction and Loan	**Total**
$ 617	$ -	$ 72,090
-	-	71,880
-	-	245,204
-	62,006	90,231
10,983	-	1,030,003
134,140	40,635	707,978
104,710	147	702,654
88,812	-	151,980
3,302	-	16,239
44,122	-	915,309
2,496	-	435,973
13,832	13,374	83,662
81,145	128	311,581
484,159	116,290	4,834,784
2,658	7,058	308,020
2,996	-	960,638
372,612	16,747	402,671
2,249	-	1,442,075
1,509	-	519,092
46	-	330,770
18,456	15	991,218
663	-	2,406
3,069	-	4,646
404,258	23,820	4,961,536
79,901	92,470	(126,752)
8,500	9,502	585,004
108	-	5,865
-	-	32,409
38,155	8,656	1,576,915
(30,541)	(17,056)	(782,967)
16,222	1,102	1,417,226
96,123	93,572	1,290,474
880,806	1,053,278	3,122,829
$ 976,929	$ 1,146,850	$ 4,413,303

Combining Schedule of Revenues, Expenditures, and Other Financing Sources (Uses) - Budget and Actual

Nonmajor Special Revenue Funds

For the Fiscal Year Ended June 30, 2006

(expressed in thousands)

	Motor Vehicle			
	Original Budget 2005-07 Biennium	Final Budget 2005-07 Biennium	Actual 2005-07 Biennium	Variance with Final Budget
Budgetary fund balance, July 1	$ 368,226	$ 368,226	$ 368,226	$ -
Resources:				
Taxes	1,725,162	2,284,395	781,404	(1,502,991)
Licenses, permits, and fees	651,094	724,811	356,659	(368,152)
Other contracts and grants	-	8,581	4,022	(4,559)
Timber sales	3	-	90	90
Federal grants-in-aid	723,616	906,134	397,023	(509,111)
Charges for services	348,158	357,822	160,196	(197,626)
Interest income	10,726	27,887	18,134	(9,753)
Miscellaneous revenue	19,417	40,936	25,422	(15,514)
Transfers from other funds	272,792	198,344	124,251	(74,093)
Total Resources	4,119,194	4,917,136	2,235,427	(2,681,709)
Charges to appropriations:				
General government	32,940	17,796	2,936	14,860
Human services	-	-	-	-
Natural resources and recreation	1,305	1,306	381	925
Transportation	1,369,892	1,412,922	688,266	724,656
Education	-	-	-	-
Capital outlays	3,579,456	3,600,229	1,257,536	2,342,693
Transfers to other funds	550,615	616,454	305,524	310,930
Total Charges to appropriations	5,534,208	5,648,707	2,254,643	3,394,064
Excess available for appropriation Over (Under) charges to appropriations	(1,415,014)	(731,571)	(19,216)	712,355
Reconciling Items:				
Bond sale proceeds	1,627,566	2,170,034	567,002	(1,603,032)
Bond issue premium (discount)	8,364	-	32,409	32,409
Changes in reserves (net)	-	-	(6,308)	(6,308)
Entity adjustments (net)	-	-	1,202	1,202
Total Reconciling Items	1,635,930	2,170,034	594,305	(1,575,729)
Budgetary Fund Balance, June 30	$ 220,916	$ 1,438,463	$ 575,089	$ (863,374)

Continued

Multimodal Transportation				Common School Construction			
Original Budget 2005-07 Biennium	Final Budget 2005-07 Biennium	Actual 2005-07 Biennium	Variance with Final Budget	Original Budget 2005-07 Biennium	Final Budget 2005-07 Biennium	Actual 2005-07 Biennium	Variance with Final Budget
$ 83,257	$ 83,257	$ 83,257	$ -	$ 69,673	$ 69,673	$ 69,673	$ -
117,848	120,331	60,037	(60,294)	-	-	-	-
121,691	225,234	92,249	(132,985)	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	474,831	342,645	60,148	(282,497)
25,967	46,751	13,342	(33,409)	261	-	-	-
1,028	8,542	145	(8,397)	-	-	-	-
1,712	3,896	2,272	(1,624)	4,040	3,813	2,020	(1,793)
25,304	31,538	11,771	(19,767)	24,090	31,286	15,464	(15,822)
5,385	47,630	17,579	(30,051)	571,692	571,340	226,854	(344,486)
382,192	567,179	280,652	(286,527)	1,144,587	1,018,757	374,159	(644,598)
399	405	-	405	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
256,603	293,181	115,490	177,691	-	-	-	-
-	-	-	-	-	-	-	-
136,912	166,335	28,676	137,659	814,853	880,696	263,931	616,765
26,766	83,290	38,160	45,130	14,886	13,056	7,194	5,862
420,680	543,211	182,326	360,885	829,739	893,752	271,125	622,627
(38,488)	23,968	98,326	74,358	314,848	125,005	103,034	(21,971)
46,038	49,684	-	(49,684)	(8,035)	-	-	-
1,062	-	-	-	-	-	-	-
-	-	179	179	-	-	20	20
-	-	(10,806)	(10,806)	-	-	(206)	(206)
47,100	49,684	(10,627)	(60,311)	(8,035)	-	(186)	(186)
$ 8,612	$ 73,652	$ 87,699	$ 14,047	$ 306,813	$ 125,005	$ 102,848	$ (22,157)

Combining Schedule of Revenues, Expenditures, and Other Financing Sources (Uses) - Budget and Actual

Nonmajor Special Revenue Funds

For the Fiscal Year Ended June 30, 2006

(expressed in thousands)

	Central Administrative and Regulatory			
	Original Budget 2005-07 Biennium	Final Budget 2005-07 Biennium	Actual 2005-07 Biennium	Variance with Final Budget
Budgetary fund balance, July 1	$ 231,910	$ 231,910	$ 231,910	$ -
Resources:				
Taxes	756,879	566,359	266,973	(299,386)
Licenses, permits, and fees	166,135	214,224	55,777	(158,447)
Other contracts and grants	1,843	2,657	-	(2,657)
Timber sales	1,798	7,933	2,930	(5,003)
Federal grants-in-aid	89,979	89,715	29,979	(59,736)
Charges for services	85,109	83,417	42,511	(40,906)
Interest income	25,803	24,514	23,233	(1,281)
Miscellaneous revenue	38,422	37,396	12,152	(25,244)
Transfers from other funds	161,475	937,818	798,148	(139,670)
Total Resources	1,559,353	2,195,943	1,463,613	(732,330)
Charges to appropriations:				
General government	293,245	322,089	121,625	200,464
Human services	98,479	111,090	44,163	66,927
Natural resources and recreation	20,448	21,285	12,174	9,111
Transportation	49,707	57,460	22,859	34,601
Education	629,356	668,835	280,759	388,076
Capital outlays	16,192	18,204	6,399	11,805
Transfers to other funds	145,304	111,469	94,797	16,672
Total Charges to appropriations	1,252,731	1,310,432	582,776	727,656
Excess available for appropriation Over (Under) charges to appropriations	306,622	885,511	880,837	(4,674)
Reconciling Items:				
Bond sale proceeds	2,765	2,765	-	(2,765)
Bond issue premium (discount)	473	473	-	(473)
Changes in reserves (net)	-	-	(396)	(396)
Entity adjustments (net)	-	-	17,907	17,907
Total Reconciling Items	3,238	3,238	17,511	14,273
Budgetary Fund Balance, June 30	$ 309,860	$ 888,749	$ 898,348	$ 9,599

Continued

Human Services: Original Budget 2005-07 Biennium *	Human Services: Final Budget 2005-07 Biennium	Human Services: Actual 2005-07 Biennium	Human Services: Variance with Final Budget	Wildlife and Natural Resources: Original Budget 2005-07 Biennium	Wildlife and Natural Resources: Final Budget 2005-07 Biennium	Wildlife and Natural Resources: Actual 2005-07 Biennium	Wildlife and Natural Resources: Variance with Final Budget
$ 338,253	$ 338,253	$ 338,253	$ -	$ 484,597	$ 484,597	$ 484,597	$ -
944,060	1,005,718	506,956	(498,762)	213,365	260,405	145,656	(114,749)
117,825	82,590	54,045	(28,545)	212,196	221,308	71,112	(150,196)
1,350	5,006	3,056	(1,950)	13,848	9,144	3,279	(5,865)
-	-	-	-	136,727	194,726	75,264	(119,462)
415,930	407,198	138,263	(268,935)	182,845	192,348	39,226	(153,122)
213,916	316,489	97,935	(218,554)	3,713	4,608	2,483	(2,125)
13,295	14,597	7,635	(6,962)	25,479	95,182	12,548	(82,634)
444,218	298,570	133,292	(165,278)	300,494	211,628	79,108	(132,520)
298,994	518,808	341,086	(177,722)	48,639	88,978	34,810	(54,168)
2,787,841	2,987,229	1,620,521	(1,366,708)	1,621,903	1,762,924	948,083	(814,841)
203,642	218,539	88,183	130,356	4,969	5,240	2,498	2,742
1,696,122	1,761,726	824,088	937,638	7,123	7,145	2,969	4,176
2,777	2,788	1,269	1,519	558,252	573,523	234,988	338,535
18,829	16,150	6,906	9,244	1,544	1,469	620	849
2,950	2,950	996	1,954	-	-	-	-
109,291	140,571	30,508	110,063	690,420	782,750	166,349	616,401
326,568	299,299	162,451	136,848	55,632	86,841	29,105	57,736
2,360,179	2,442,023	1,114,401	1,327,622	1,317,940	1,456,968	436,529	1,020,439
427,662	545,206	506,120	(39,086)	303,963	305,956	511,554	205,598
-	-	-	-	32,000	43,711	8,500	(35,211)
-	-	-	-	-	-	-	-
-	-	(672)	(672)	-	-	(451)	(451)
-	-	9,242	9,242	-	-	(9,330)	(9,330)
-	-	8,570	8,570	32,000	43,711	(1,281)	(44,992)
$ 427,662	$ 545,206	$ 514,690	$ (30,516)	$ 335,963	$ 349,667	$ 510,273	$ 160,606

*Amount changed due to fund reclassification.

Combining Schedule of Revenues, Expenditures, and Other Financing Sources (Uses) - Budget and Actual

Nonmajor Special Revenue Funds

Concluded

For the Fiscal Year Ended June 30, 2006

(expressed in thousands)

	Local Construction and Loan Fund			
	Original Budget 2005-07 Biennium	Final Budget 2005-07 Biennium	Actual 2005-07 Biennium	Variance with Final Budget
Budgetary fund balance, July 1	$ 173,260	$ 173,260	$ 173,260	$ -
Resources:				
Taxes	186,154	193,394	102,641	(90,753)
Licenses, permits, and fees	416	534	-	(534)
Other contracts and grants	-	-	-	-
Timber sales	-	-	-	-
Federal grants-in-aid	-	-	-	-
Charges for services	-	-	-	-
Interest income	5,189	18,383	13,608	(4,775)
Miscellaneous revenue	403,272	158,978	77,984	(80,994)
Transfers from other funds	12,812	12,812	8,656	(4,156)
Total Resources	781,103	557,361	376,149	(181,212)
Charges to appropriations:				
General government	4,209	4,246	2,030	2,216
Human services	-	-	-	-
Natural resources and recreation	384	386	172	214
Transportation	-	-	-	-
Education	-	-	-	-
Capital outlays	791,376	801,507	168,195	633,312
Transfers to other funds	21,212	21,212	17,056	4,156
Total Charges to appropriations	817,181	827,351	187,453	639,898
Excess available for appropriation Over (Under) charges to appropriations	(36,078)	(269,990)	188,696	458,686
Reconciling Items:				
Bond sale proceeds	43,674	333,846	9,502	(324,344)
Bond issue premium (discount)	-	-	-	-
Changes in reserves (net)	-	-	1,710	1,710
Entity adjustments (net)	-	-	(746)	(746)
Total Reconciling Items	43,674	333,846	10,466	(323,380)
Budgetary Fund Balance, June 30	$ 7,596	$ 63,856	$ 199,162	$ 135,306

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:

The General Obligation Bond Fund accounts for the accumulation of resources for, and the payment of, non-transportation related general obligation long-term debt principal and interest.

The Transportation General Obligation Bond Fund accounts for the accumulation of resources for, and payment of, general obligation transportation bond principal and interest.

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.

Combining Balance Sheet

Nonmajor Debt Service Funds

June 30, 2006
(expressed in thousands)

	General Obligation Bond	Transportation General Obligation Bond	Tobacco Settlement Securitization Bond	Total
Assets:				
Cash and pooled investments	$ 8,521	$ 112,361	$ 62,325	$ 183,207
Investments	7,221	-	-	7,221
Other receivables (net of allowance)	34	-	18,068	18,102
Due from other funds	10,596	273	-	10,869
Total Assets	$ 26,372	$ 112,634	$ 80,393	$ 219,399
Liabilities and Fund Balances				
Liabilities:				
Accrued liabilities	$ -	$ -	$ 9	$ 9
Obligations under security lending agreements	396	4,763	-	5,159
Due to other funds	8,003	-	-	8,003
Total Liabilities	8,399	4,763	9	13,171
Fund Balances:				
Unreserved, designated	17,973	107,871	80,384	206,228
Total Fund Balances	17,973	107,871	80,384	206,228
Total Liabilities and Fund Balances	$ 26,372	$ 112,634	$ 80,393	$ 219,399

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Nonmajor Debt Service Funds

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

	General Obligation Bond	Transportation General Obligation Bond	Tobacco Settlement Securitization Bond	**Total**
Revenues:				
Investment income (loss)	$ 204	$ 1,397	$ 2,480	$ 4,081
Miscellaneous revenue	8,114	-	34,783	42,897
Total Revenues	8,318	1,397	37,263	46,978
Expenditures:				
General government	-	-	89	89
Debt service:				
Principal	367,109	90,315	5,345	462,769
Interest	367,861	92,466	32,269	492,596
Total Expenditures	734,970	182,781	37,703	955,454
Excess of Revenues Over (Under) Expenditures	(726,652)	(181,384)	(440)	(908,476)
Other Financing Sources (Uses):				
Refunding bonds issued	461,170	-	-	461,170
Payment to refunded bond escrow agent	(499,778)	-	-	(499,778)
Bond issue premium	40,356	-	-	40,356
Transfers in	763,620	212,361	-	975,981
Transfers (out)	(40,986)	-	-	(40,986)
Total Other Financing Sources (Uses)	724,382	212,361	-	936,743
Net change in fund balances	(2,270)	30,977	(440)	28,267
Fund Balances - Beginning	20,243	76,894	80,824	177,961
Fund Balances - Ending	$ 17,973	$ 107,871	$ 80,384	$ 206,228

Combining Schedule of Revenues, Expenditures, and Other Financing Sources (Uses) - Budget and Actual

Nonmajor Debt Service Funds

For the Fiscal Year Ended June 30, 2006

(expressed in thousands)

	General Obligation Bond			
	Original Budget 2005-07 Biennium	Final Budget 2005-07 Biennium	Actual 2005-07 Biennium	Variance with Final Budget
Budgetary fund balance, July 1	$ 20,243	$ 20,243	$ 20,243	$ -
Resources:				
Federal grants-in-aid	-	-	-	-
Charges for services	9,013	14,130	-	(14,130)
Interest income	428	599	-	(599)
Miscellaneous revenue	29,728	27,781	-	(27,781)
Transfers from other funds	283,572	256,530	70,669	(185,861)
Total Resources	342,984	319,283	90,912	(228,371)
Charges to appropriations:				
General government	147,315	139,583	69,350	70,233
Transfers to other funds	32,601	42,100	-	42,100
Debt service	1,748	-	1,748	(1,748)
Total Charges to appropriations	181,664	181,683	71,098	110,585
Excess available for appropriation Over (Under) charges to appropriations	161,320	137,600	19,814	(117,786)
Reconciling Items:				
Proceeds of refunding bonds	243,155	-	461,170	461,170
Payments to refunded bond escrow agents	(255,622)	-	(499,778)	(499,778)
Bond issue premium (discount)	14,214	-	40,356	40,356
Entity adjustments (net)	-	-	(3,589)	(3,589)
Total Reconciling Items	1,747	-	(1,841)	(1,841)
Budgetary Fund Balance, June 30	$ 163,067	$ 137,600	$ 17,973	$ (119,627)

Transportation General Obligation Bond			
Original Budget 2005-07 Biennium	Final Budget 2005-07 Biennium	Actual 2005-07 Biennium	Variance with Final Budget
$ 76,894	$ 76,894	$ 76,894	$ -
-	-	-	-
-	-	-	-
1,986	1,922	1,412	(510)
-	-	-	-
397,858	412,822	212,361	(200,461)
476,738	491,638	290,667	(200,971)
424,822	403,477	182,781	220,696
-	-	-	-
1,422	-	-	-
426,244	403,477	182,781	220,696
50,494	88,161	107,886	19,725
213,520	-	-	-
(225,378)	-	-	-
13,280	-	-	-
-	-	(15)	(15)
1,422	-	(15)	(15)
$ 51,916	$ 88,161	$ 107,871	$ 19,710

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 described below:

The State Facilities Fund accounts for the construction and remodeling of public buildings.

The Higher Education Facilities Fund accounts for the acquisition, construction, and remodeling of higher education facilities.

Combining Balance Sheet
Nonmajor Capital Projects Funds
June 30, 2006
(expressed in thousands)

	State Facilities	Higher Education Facilities	**Total**
Assets:			
Cash and pooled investments	$ 101,470	$ 182,781	$ 284,251
Investments	-	19,682	19,682
Other receivables (net of allowance)	8,865	1,838	10,703
Due from other funds	19,288	13,213	32,501
Due from other governments	3,984	1,487	5,471
Total Assets	$ 133,607	$ 219,001	$ 352,608
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	$ 17,447	$ 11,977	$ 29,424
Contracts and retainages payable	11,720	2,902	14,622
Accrued liabilities	859	50	909
Obligations under security lending agreements	124	2,833	2,957
Due to other funds	10,745	21,886	32,631
Due to other governments	3,702	-	3,702
Deferred revenues	9,866	12,688	22,554
Total Liabilities	54,463	52,336	106,799
Fund Balances:			
Reserved for:			
Encumbrances	78,888	76,483	155,371
Other specific purposes	256	19,907	20,163
Unreserved, undesignated	-	70,275	70,275
Total Fund Balances	79,144	166,665	245,809
Total Liabilities and Fund Balances	$ 133,607	$ 219,001	$ 352,608

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Nonmajor Capital Projects Funds

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

	State Facilities	Higher Education Facilities	**Total**
Revenues:			
Timber sales	$ 6,533	$ -	$ 6,533
Other contracts and grants	-	1,442	1,442
Federal grants-in-aid	-	6,765	6,765
Charges for services	-	37,169	37,169
Investment income (loss)	48	2,102	2,150
Miscellaneous revenue	8,939	6,746	15,685
Total Revenues	15,520	54,224	69,744
Expenditures:			
Current:			
General government	77,800	1,323	79,123
Human services	8,051	-	8,051
Natural resources and recreation	34,944	-	34,944
Transportation	4,201	-	4,201
Education	76,388	52,761	129,149
Capital outlays	318,275	237,136	555,411
Debt service:			
Principal	-	-	-
Interest	4	32	36
Total Expenditures	519,663	291,252	810,915
Excess of Revenues Over (Under) Expenditures	(504,143)	(237,028)	(741,171)
Other Financing Sources (Uses):			
Bonds issued	410,768	101,320	512,088
Certificates of participation proceeds	-	4,057	4,057
Bond issue premium	24,254	6,549	30,803
Transfers in	957	145,184	146,141
Transfers (out)	(8,786)	(23,186)	(31,972)
Total Other Financing Sources (Uses)	427,193	233,924	661,117
Net change in fund balances	(76,950)	(3,104)	(80,054)
Fund Balances - Beginning	156,094	169,769	325,863
Fund Balances - Ending	$ 79,144	$ 166,665	$ 245,809

Combining Schedule of Revenues, Expenditures, and Other Financing Sources (Uses) - Budget and Actual

Nonmajor Capital Projects Funds

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

	State Facilities			
	Original Budget 2005-07 Biennium	Final Budget 2005-07 Biennium	Actual 2005-07 Biennium	Variance with Final Budget
Budgetary fund balance, July 1	$ 155,462	$ 155,462	$ 155,462	$ -
Resources:				
Timber sales	-	13,743	6,533	(7,210)
Charges for services	-	-	-	-
Interest income	-	47	44	(3)
Miscellaneous revenue	273	16,075	9,100	(6,975)
Transfers from other funds	2,730	2,457	957	(1,500)
Total Resources	158,465	187,784	172,096	(15,688)
Charges to appropriations:				
General government	5,156	7,621	1,831	5,790
Capital outlays	1,833,540	1,932,361	517,828	1,414,533
Transfers to other funds	17,649	17,607	8,786	8,821
Total Charges to appropriations	1,856,345	1,957,589	528,445	1,429,144
Excess available for appropriation Over (Under) charges to appropriations	(1,697,880)	(1,769,805)	(356,349)	1,413,456
Reconciling Items:				
Bond sale proceeds	1,853,832	1,821,330	410,768	(1,410,562)
Bond issue premium (discount)	27,475	27,475	24,254	(3,221)
Changes in reserves (net)	-	-	249	249
Entity adjustments (net)	-	-	(34)	(34)
Total Reconciling Items	1,881,307	1,848,805	435,237	(1,413,568)
Budgetary Fund Balance, June 30	$ 183,427	$ 79,000	$ 78,888	$ (112)

Higher Education Facilities			
Original Budget 2005-07 Biennium	Final Budget 2005-07 Biennium	Actual 2005-07 Biennium	Variance with Final Budget
$ 133,890	$ 133,890	$ 133,890	$ -
120	216	-	(216)
83,409	90,715	37,169	(53,546)
4,973	2,055	1,504	(551)
5,399	275	94	(181)
79,730	60,796	53,420	(7,376)
307,521	287,947	226,077	(61,870)
1,667	1,847	516	1,331
538,626	568,895	189,056	379,839
21,754	15,391	14,669	722
562,047	586,133	204,241	381,892
(254,526)	(298,186)	21,836	320,022
512,777	315,272	101,320	(213,952)
5,368	-	6,549	6,549
-	-	15,972	15,972
-	-	1,081	1,081
518,145	315,272	124,922	(190,350)
$ 263,619	$ 17,086	$ 146,758	$ 129,672

Nonmajor 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 state's nonmajor permanent fund is described below:

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

Balance Sheet
Nonmajor Permanent Funds
June 30, 2006
(expressed in thousands)

	Common School Permanent
Assets:	
Cash and pooled investments	$ 40,277
Investments	163,853
Other receivables (net of allowance)	1,801
Due from other funds	110
Total Assets	$ 206,041
Liabilities and Fund Balance	
Liabilities:	
Accrued liabilities	$ 168
Obligations under security lending agreements	40,225
Due to other funds	606
Total Liabilities	40,999
Fund Balance:	
Reserved for:	
Permanent funds	165,042
Total Fund Balance	165,042
Total Liabilities and Fund Balance	$ 206,041

Statement of Revenues, Expenditures, and Changes in Fund Balances

Nonmajor Permanent Funds

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

	Common School Permanent
Revenues:	
Investment income (loss)	$ (299)
Federal grants-in-aid	2
Miscellaneous revenue	550
Total Revenues	253
Other Financing Sources (Uses):	
Transfers (out)	(7,220)
Total Other Financing Sources (Uses)	(7,220)
Net change in fund balance	(6,967)
Fund Balance - Beginning	172,009
Fund Balance - Ending	$ 165,042

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:

The Liquor Fund accounts for the administration and operation of state liquor stores, warehouses, and the distribution of net proceeds.

The Convention and Trade Fund accounts for the acquisition, design, construction, promotion, and operation of the State Convention and Trade Center.

The Lottery Fund accounts for lottery ticket revenues, administrative and operating expenses of the Lottery Commission, and the distribution of revenue.

The Institutional Fund accounts for the enterprise activities (industries) carried out through vocational/education programs at the correctional institutions.

The Health Insurance Fund accounts for payment of health care coverage to low-income residents and premiums for employees' insurance benefit contracts.

The Other Activities Fund accounts for the following: (1) the guaranteed college tuition program; (2) the operation of computer systems for legislative information; (3) the production and sale of statute law publications and official reports; and (4) Judicial Information System users.

Combining Statement of Fund Net Assets

Nonmajor Enterprise Funds

June 30, 2006
(expressed in thousands)

	Liquor	Convention and Trade	Lottery	Institutional
Assets				
Current Assets:				
Cash and pooled investments	$ 16,215	$ 51,240	$ 39,026	$ 9,990
Investments	-	-	66,478	-
Taxes receivable (net of allowance)	4,994	-	-	-
Other receivables (net of allowance)	7,554	2,858	16,085	219
Due from other funds	597	87	417	8,303
Due from other governments	2,939	-	-	372
Inventories	36,876	-	250	11,252
Prepaid expenses	-	267	522	130
Total Current Assets	69,175	54,452	122,778	30,266
Noncurrent Assets:				
Investments, noncurrent	-	-	370,362	-
Other noncurrent assets	-	-	-	-
Capital Assets:				
Land	177	77,355	-	1,540
Buildings	15,219	379,328	-	6,874
Other improvements	134	9,447	780	2,941
Furnishings, equipment, and collections	26,167	5,150	583	17,109
Accumulated depreciation	(16,132)	(84,298)	(1,102)	(10,158)
Construction in progress	2,938	-	-	4,163
Total Noncurrent Assets	28,503	386,982	370,623	22,469
Total Assets	$ 97,678	$ 441,434	$ 493,401	$ 52,735
Liabilities				
Current Liabilities:				
Accounts payable	$ 17,772	$ 932	$ 2,204	$ 3,139
Contracts and retainages payable	-	2,666	-	-
Accrued liabilities	9,436	2,585	90,185	1,419
Obligations under security lending agreements	-	-	-	-
Bonds and notes payable	2,305	18,953	-	340
Due to other funds	5,252	66	8,656	2,036
Due to other governments	-	-	-	-
Unearned revenues	4	44	-	24
Claims and judgments payable	-	-	-	-
Total Current Liabilities	34,769	25,246	101,045	6,958
Noncurrent Liabilities:				
Claims and judgments payable	-	-	-	-
Bonds and notes payable	4,890	242,629	-	8,680
Other long-term liabilities	6,842	-	357,162	1,162
Total Noncurrent Liabilities	11,732	242,629	357,162	9,842
Total Liabilities	46,501	267,875	458,207	16,800
Net Assets:				
Invested in capital assets, net of related debt	21,308	125,401	260	13,450
Unrestricted	29,869	48,158	34,934	22,485
Total Net Assets (Deficit)	$ 51,177	$ 173,559	$ 35,194	$ 35,935

Health Insurance	Other Activities	**Total**
$ 213,968	$ 113,624	$ 444,063
12,017	268,940	347,435
-	-	4,994
344	5,287	32,347
28,719	800	38,923
15,021	3,630	21,962
-	-	48,378
-	12	931
270,069	392,293	939,033
78,866	704,623	1,153,851
-	128,196	128,196
-	-	79,072
-	-	401,421
-	261	13,563
1,455	12,531	62,995
(1,295)	(9,851)	(122,836)
-	-	7,101
79,026	835,760	1,723,363
$ 349,095	$ 1,228,053	$ 2,662,396
$ 23,890	$ 2,070	$ 50,007
17,090	3	19,759
283	16,551	120,459
12,017	268,939	280,956
-	25,555	47,153
28,319	16,548	60,877
-	1,609	1,609
260	-	332
71,446	1,775	73,221
153,305	333,050	654,373
-	2,916	2,916
-	38	256,237
361	770,333	1,135,860
361	773,287	1,395,013
153,666	1,106,337	2,049,386
160	2,855	163,434
195,269	118,861	449,576
$ 195,429	$ 121,716	$ 613,010

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets

Nonmajor Enterprise Funds

For the Fiscal Year Ended June 30, 2006

(expressed in thousands)

	Liquor	Convention and Trade	Lottery	Institutional
Operating Revenues:				
Sales	$ 472,480	$ -	$ -	$ 56,755
Less: Cost of goods sold	321,286	-	-	40,599
Gross profit	151,194	-	-	16,156
Charges for services	2,299	17,623	-	-
Premiums and assessments	-	-	-	-
Lottery ticket proceeds	-	-	477,885	-
Miscellaneous revenue	152	3	6	2,059
Total Operating Revenues	153,645	17,626	477,891	18,215
Operating Expenses:				
Salaries and wages	35,376	6,144	6,671	11,494
Employee benefits	12,739	2,770	1,840	3,130
Personal services	455	5,656	6,644	-
Goods and services	39,455	5,289	49,332	388
Travel	397	17	407	162
Premiums and claims	-	-	-	24
Lottery prize payments	-	-	291,773	-
Depreciation and amortization	5,273	8,309	95	1,224
Miscellaneous expenses	27	-	44	59
Total Operating Expenses	93,722	28,185	356,806	16,481
Operating Income (Loss)	59,923	(10,559)	121,085	1,734
Nonoperating Revenues (Expenses):				
Earnings (loss) on investments	-	-	(5,664)	9
Interest expense	(430)	(15,612)	(28,345)	(209)
Distributions to other governments	(31,256)	-	(4,355)	-
Other revenue (expenses)	61,033	48,782	(104)	3
Total Nonoperating Revenues (Expenses)	29,347	33,170	(38,468)	(197)
Income (Loss) Before Contributions and Transfers	89,270	22,611	82,617	1,537
Transfers in	4,974	-	10,961	340
Transfers (out)	(81,212)	(5,150)	(131,695)	(12)
Net Contributions and Transfers	(76,238)	(5,150)	(120,734)	328
Change in Net Assets	13,032	17,461	(38,117)	1,865
Net Assets (Deficit) - Beginning, as restated	38,145	156,098	73,311	34,070
Net Assets (Deficit) - Ending	$ 51,177	$ 173,559	$ 35,194	$ 35,935

Health Insurance	Other Activities	Total
$ -	$ -	$ 529,235
-	-	361,885
-	-	167,350
-	47,877	67,799
1,340,753	-	1,340,753
-	-	477,885
675	4,543	7,438
1,341,428	52,420	2,061,225
5,058	17,685	82,428
1,284	4,574	26,337
1,262	6,483	20,500
5,219	13,528	113,211
99	959	2,041
1,230,969	-	1,230,993
-	-	291,773
161	1,138	16,200
-	60,493	60,623
1,244,052	104,860	1,844,106
97,376	(52,440)	217,119
9,970	50,424	54,739
-	(5)	(44,601)
-	-	(35,611)
-	10,695	120,409
9,970	61,114	94,936
107,346	8,674	312,055
36,410	-	52,685
(77,555)	(4,073)	(299,697)
(41,145)	(4,073)	(247,012)
66,201	4,601	65,043
129,228	117,115	547,967
$ 195,429	$ 121,716	$ 613,010

Combining Statement of Cash Flows

Nonmajor Enterprise Funds

For the Fiscal Year Ended June 30, 2006

(expressed in thousands)

	Liquor	Convention and Trade	Lottery	Institutional
Cash Flows from Operating Activities:				
Receipts from customers	$ 468,231	$ 15,926	$ 476,664	$ 65,374
Payments to suppliers	(379,349)	(9,320)	(412,514)	(41,098)
Payments to employees	(47,999)	(8,841)	(8,554)	(14,410)
Other receipts (payments)	152	3	5	2,059
Net Cash Provided (Used) by Operating Activities	41,035	(2,232)	55,601	11,925
Cash Flows from Noncapital Financing Activities:				
Transfers in	4,974	-	10,961	340
Transfers out	(81,212)	(5,150)	(131,695)	(12)
Operating grants and donations received	5	-	-	-
Taxes and license fees collected	60,842	48,783	18	-
Distributions to other governments	(31,256)	-	(4,355)	-
Other noncapital financing sources	-	-	-	(29)
Net Cash Provided (Used) by Noncapital Financing Activities	(46,647)	43,633	(125,071)	299
Cash Flows from Capital and				
Interest paid	(430)	(11,387)	-	(209)
Principal payments on long-term capital financing	(2,220)	(18,265)	-	(330)
Proceeds from long-term capital financing	2,938	-	-	-
Proceeds from sale of capital assets	33	242	4	1,080
Acquisitions of capital assets	(5,209)	(1,167)	(25)	(14,731)
Net Cash or Pooled Investments Provided by (Used in) Capital and Related Financing Activities	(4,888)	(30,577)	(21)	(14,190)
Cash Flows from Investing Activities:				
Receipt of interest	-	-	2,330	9
Proceeds from sale of investment securities	-	-	141,503	-
Purchases of investment securities	-	-	(74,299)	-
Net Cash Provided by (Used in) Investing Activities	-	-	69,534	9
Net Increase (Decrease) in Cash	(10,500)	10,824	43	(1,957)
Cash and Pooled Investments, July 1	26,715	40,416	38,983	11,947
Cash and Pooled Investments, June 30	$ 16,215	$ 51,240	$ 39,026	$ 9,990
Cash Flows from Operating Activities:				
Operating Income (Loss)	$ 59,923	$ (10,559)	$ 121,085	$ 1,734
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operations:				
Depreciation	5,273	8,309	95	1,224
Change in Assets: Decrease (Increase)				
Receivables (net of allowance)	(6,530)	(1,710)	(1,178)	8,619
Inventories	(2,701)	-	80	335
Prepaid expenses	-	-	(415)	24
Change in Liabilities: Increase (Decrease)				
Payables	(14,930)	1,728	(64,066)	(11)
Net Cash or Cash Equivalents Provided by (Used in) Operating Activities	$ 41,035	$ (2,232)	$ 55,601	$ 11,925
Noncash Investing, Capital, and Financing Activities:				
Contributions of capital assets	$ -	$ -	$ -	$ -
Amortization of interest on long-term prize liability	-	-	28,345	-
Increase (decrease) in fair value of investments	-	-	(7,994)	-
Accretion of interest on zero coupon bonds	-	3,388	-	-

	Health Insurance	Other Activities	Total
	$ 1,337,462	$ 31,023	$ 2,394,680
	(1,241,215)	76,724	(2,006,772)
	(6,267)	(22,106)	(108,177)
	675	4,543	7,437
	90,655	90,184	287,168
	36,410	-	52,685
	(77,555)	(4,073)	(299,697)
	-	-	5
	-	10,680	120,323
	-	-	(35,611)
	-	-	(29)
	(41,145)	6,607	(162,324)
	-	(5)	(12,031)
	-	(136)	(20,951)
	-	-	2,938
	-	19	1,378
	(39)	(1,250)	(22,421)
	(39)	(1,372)	(51,087)
	9,859	18,900	31,098
	1	245,182	386,686
	(3,017)	(374,110)	(451,426)
	6,843	(110,028)	(33,642)
	56,314	(14,609)	40,115
	157,654	128,233	403,948
	$ 213,968	$ 113,624	$ 444,063
	$ 97,376	$ (52,440)	$ 217,119
	161	1,138	16,200
	(3,337)	(16,709)	(20,845)
	23	-	(2,263)
	-	(2)	(393)
	(3,568)	158,197	77,350
	$ 90,655	$ 90,184	$ 287,168
	$ -	$ -	$ -
	-	-	28,345
	(25)	29,740	21,721
	-	-	3,388

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:

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.

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.

The Printing Services Fund accounts for the operation of the state printing plant.

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.

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.

Combining Statement of Fund Net Assets

Internal Service Funds

June 30, 2006
(expressed in thousands)

	General Services	Data Processing Revolving	Printing Services	Higher Education Revolving
Assets				
Current Assets:				
Cash and pooled investments	$ 38,401	$ 16,556	$ 791	$ 96,377
Investments	260	-	-	477
Other receivables (net of allowance)	5,596	75	-	1,217
Due from other funds	39,342	17,442	3,518	8,330
Due from other governments	3,806	2,908	143	93
Inventories	7,445	361	471	13,226
Prepaid expenses	23	1,983	121	23
Total Current Assets	94,873	39,325	5,044	119,743
Noncurrent Assets:				
Investments, noncurrent	-	-	-	1,656
Capital Assets:				
Land	3,797	-	-	30
Buildings	112,936	-	-	5,455
Other improvements	12,906	5,241	-	97
Furnishings, equipment, and collections	374,977	182,298	10,927	85,627
Accumulated depreciation	(203,307)	(108,945)	(7,236)	(68,777)
Construction in progress	14,960	5,326	-	463
Total Noncurrent Assets	316,269	83,920	3,691	24,551
Total Assets	$ 411,142	$ 123,245	$ 8,735	$ 144,294
Liabilities				
Current Liabilities:				
Accounts payable	$ 14,761	$ 13,836	$ 2,901	$ 3,398
Contracts and retainages payable	589	-	-	13
Accrued liabilities	7,817	1,647	294	11,413
Obligations under security lending agreements	270	-	-	-
Bonds and notes payable	5,074	4,391	177	785
Due to other funds	5,578	2,447	168	23,994
Due to other governments	25	4	-	-
Unearned revenues	2,206	3,352	-	72
Claims and judgments payable	-	-	-	7,000
Total Current Liabilities	36,320	25,677	3,540	46,675
Noncurrent Liabilities:				
Claims and judgments payable	-	-	-	36,853
Bonds and notes payable	111,494	33,561	1,568	3,303
Other long-term liabilities	17,481	4,307	437	4,206
Total Noncurrent Liabilities	128,975	37,868	2,005	44,362
Total Liabilities	165,295	63,545	5,545	91,037
Net Assets:				
Invested in capital assets, net of related debt	199,701	45,967	1,946	18,807
Unrestricted	46,146	13,733	1,244	34,450
Total Net Assets (Deficit)	$ 245,847	$ 59,700	$ 3,190	$ 53,257

Risk Management	**Total**
$ 115,697	$ 267,822
-	737
122	7,010
858	69,490
9	6,959
-	21,503
-	2,150
116,686	375,671
-	1,656
-	3,827
-	118,391
-	18,244
15	653,844
(1)	(388,266)
-	20,749
14	428,445
$ 116,700	$ 804,116
$ 19	$ 34,915
-	602
147	21,318
-	270
-	10,427
3,226	35,413
-	29
16	5,646
74,245	81,245
77,653	189,865
452,953	489,806
-	149,926
51	26,482
453,004	666,214
530,657	856,079
14	266,435
(413,971)	(318,398)
$ (413,957)	$ (51,963)

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets

Internal Service Funds

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

	General Services	Data Processing Revolving	Printing Services	Higher Education Revolving
Operating Revenues:				
Sales	$ 23,332	$ 35,005	$ 32,605	$ 38,522
Less: Cost of goods sold	19,317	33,407	28,022	31,500
Gross profit	4,015	1,598	4,583	7,022
Charges for services	269,484	121,950	-	174,878
Premiums and assessments	-	-	-	-
Miscellaneous revenue	31,128	3,392	-	5,407
Total Operating Revenues	304,627	126,940	4,583	187,307
Operating Expenses:				
Salaries and wages	125,208	32,671	2,311	93,103
Employee benefits	32,843	7,872	667	24,051
Personal services	10,964	6,816	36	2,150
Goods and services	96,588	71,783	1,627	70,540
Travel	2,399	354	34	1,343
Premiums and claims	-	-	-	-
Depreciation and amortization	30,319	20,395	427	8,841
Miscellaneous expenses	354	242	-	310
Total Operating Expenses	298,675	140,133	5,102	200,338
Operating Income (Loss)	5,952	(13,193)	(519)	(13,031)
Nonoperating Revenues (Expenses):				
Earnings (loss) on investments	228	181	37	3,763
Interest expense	(2,630)	(931)	(74)	(1,117)
Other revenue (expenses)	(309)	(3)	(68)	557
Total Nonoperating Revenues (Expenses)	(2,711)	(753)	(105)	3,203
Income (Loss) Before Contributions and Transfers	3,241	(13,946)	(624)	(9,828)
Capital contributions	2,301	-	-	37
Transfers in	3,659	11,098	-	18,603
Transfers (out)	(7,217)	-	-	(18,510)
Net Contributions and Transfers	(1,257)	11,098	-	130
Change in Net Assets	1,984	(2,848)	(624)	(9,698)
Net Assets (Deficit) - Beginning, as restated	243,863	62,548	3,814	62,955
Net Assets (Deficit) - Ending	$ 245,847	$ 59,700	$ 3,190	$ 53,257

Risk Management	**Total**
$ -	$ 129,464
-	112,246
-	17,218
2,947	569,259
83,824	83,824
-	39,927
86,771	710,228
1,379	254,672
317	65,750
40	20,006
31,405	271,943
30	4,160
36,751	36,751
1	59,983
-	906
69,923	714,171
16,848	(3,943)
-	4,209
-	(4,752)
-	177
-	(366)
16,848	(4,309)
-	2,338
-	33,360
-	(25,727)
-	9,971
16,848	5,662
(430,805)	(57,625)
$ (413,957)	$ (51,963)

Combining Statement of Cash Flows

Internal Service Funds

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

	General Services	Data Processing Revolving	Printing Services	Higher Education Revolving
Cash Flows from Operating Activities:				
Receipts from customers	$ 277,140	$ 175,819	$ 32,024	$ 214,320
Payments to suppliers	(126,111)	(113,505)	(28,662)	(88,146)
Payments to employees	(157,058)	(40,450)	(2,965)	(113,177)
Other receipts (payments)	31,127	3,392		5,367
Net Cash Provided (Used) by Operating Activities	25,098	25,256	397	18,364
Cash Flows from Noncapital Financing Activities:				
Transfers in	3,659	11,098	-	18,603
Transfers out	(7,217)	-	-	(18,510)
Operating grants and donations received	373	-	-	350
Taxes and license fees collected	12	-	-	-
Net Cash Provided (Used) by Noncapital Financing Activities	(3,173)	11,098	-	443
Cash Flows from Capital and				
Interest paid	(2,639)	(931)	(74)	(1,117)
Principal payments on long-term capital financing	(4,933)	(3,281)	(170)	(1,585)
Proceeds from long-term capital financing	19,058	4,958	-	1,091
Proceeds from sale of capital assets	8,160	531	(182)	1,120
Acquisitions of capital assets	(39,746)	(38,932)	-	(9,048)
Net Cash or Pooled Investments Provided by (Used in) Capital and Related Financing Activities	(20,100)	(37,655)	(426)	(9,539)
Cash Flows from Investing Activities:				
Receipt of interest	226	181	37	4,120
Proceeds from sale of investment securities	-	-	-	46,217
Purchases of investment securities	-	-	-	(2,043)
Net Cash Provided by (Used in) Investing Activities	226	181	37	48,294
Net Increase (Decrease) in Cash	2,051	(1,120)	8	57,562
Cash and Pooled Investments, July 1	36,350	17,676	783	38,815
Cash and Pooled Investments, June 30	$ 38,401	$ 16,556	$ 791	$ 96,377
Cash Flows from Operating Activities:				
Operating Income (Loss)	$ 5,952	$ (13,193)	$ (519)	$ (13,031)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operations:				
Depreciation	30,319	20,395	427	8,841
Change in Assets: Decrease (Increase)				
Receivables (net of allowance)	(15,943)	15,667	(581)	1,261
Inventories	(1,351)	116	(60)	(56)
Prepaid expenses	(11)	(805)	(47)	(23)
Change in Liabilities: Increase (Decrease)				
Payables	6,132	3,076	1,177	21,372
Net Cash or Cash Equivalents Provided by (Used in) Operating Activities	$ 25,098	$ 25,256	$ 397	$ 18,364
Noncash Investing, Capital, and Financing Activities:				
Contributions of capital assets	$ 2,301	$ -	$ -	$ 37
Acquisition of capital assets through capital leases	56,805	-	-	-
Increase (decrease) in fair value of investments	2	-	-	-

Risk Management	Total
$ 87,265	$ 786,568
(47,524)	(403,948)
(1,669)	(315,319)
-	39,886
38,072	107,187
-	33,360
-	(25,727)
-	723
-	12
-	8,368
-	(4,761)
-	(9,969)
-	25,107
-	9,629
(15)	(87,741)
(15)	(67,735)
-	4,564
-	46,217
-	(2,043)
-	48,738
38,057	96,558
77,640	171,264
$ 115,697	$ 267,822
$ 16,848	$ (3,943)
1	59,983
494	898
-	(1,351)
-	(886)
20,729	52,486
$ 38,072	$ 107,187
$ -	$ 2,338
-	56,805
-	2

Fiduciary Funds

Fiduciary Funds account for assets held in a trustee or agent capacity for outside parties, including individuals, private organizations, and other governments.

Private-Purpose Trust Funds

Private-Purpose Trust Funds are used to report trust arrangements, other than pension and investment trusts, under which principal and income benefit individuals, private organizations, or other governments. The Private-Purpose Trust Funds are described below:

The Human Services Trust Fund accounts for miscellaneous human services activities such as recoveries on behalf of children receiving support payments from non-custodial parents.

The Other Private-Purpose Trust Fund accounts for various assets held in trust for other governments, individuals, or the public at large, such as the administration of unclaimed property.

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:

The Suspense Fund accounts for receipts where final disposition is pending.

The Local Government Distributions Fund accounts for the receipt and allocation of taxes and fees imposed by local governments.

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.

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.

Combining Statement of Fiduciary Net Assets

Private-Purpose Trust Funds

June 30, 2006
(expressed in thousands)

	Human Services Trust	Other Private-Purpose Trust	**Total**
Assets			
Current Assets:			
Cash and pooled investments	$ 283	$ 11,722	$ 12,005
Other receivables (net of allowance)	4,970	-	4,970
Total Current Assets	5,253	11,722	16,975
Noncurrent Assets:			
Investments, noncurrent	-	93,578	93,578
Capital Assets:			
Furnishings, equipment, and collections	-	86	86
Accumulated depreciation	-	(84)	(84)
Total Noncurrent Assets	-	93,580	93,580
Total Assets	$ 5,253	$ 105,302	$ 110,555
Liabilities:			
Accounts payable	$ 3,700	$ 282	$ 3,982
Accrued liabilities	22	101	123
Due to other funds	-	53,569	53,569
Total Liabilities	3,722	53,952	57,674
Net Assets:			
Net assets held in trust for:			
Individuals, organizations & other governments	1,531	51,350	52,881
Total Net Assets	$ 1,531	$ 51,350	$ 52,881

Combining Statement of Changes in Fiduciary Net Assets

Private-Purpose Trust Funds

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

	Human Services Trust	Other Private-Purpose Trust	**Total**
Additions:			
Escheated property	$ -	$ 32,115	$ 32,115
Other contracts, grants and miscellaneous	221	-	221
Total Additions	221	32,115	32,336
Deductions:			
Payments to or on behalf of individuals, organizations and other governments in accordance with trust agreements	212	21,595	21,807
Administrative expenses	2	2,930	2,932
Total Deductions	214	24,525	24,739
Net Increase (Decrease)	7	7,590	7,597
Net Assets - Beginning, as restated	1,524	43,760	45,284
Net Assets - Ending	$ 1,531	$ 51,350	$ 52,881

Combining Statement of Assets and Liabilities

Agency Funds

June 30, 2006

(expressed in thousands)

	Suspense	Local Gov't Distrib.	Pooled Investments	Other Agency	Total
Assets:					
Cash and pooled investments	$ 22,580	$ 194,387	$ -	$ 55,372	$ 272,339
Other receivables (net of allowance)	64	-	249,801	6,296	256,161
Due from other funds	33	790	34,037	5,047	39,907
Due from other governments	63	-	18,386	4,632	23,081
Investments, noncurrent	-	10,086	-	999	11,085
Other noncurrent assets	-	-	-	52,924	52,924
Total Assets	$ 22,740	$ 205,263	$ 302,224	$ 125,270	$ 655,497

	Suspense	Local Gov't Distrib.	Pooled Investments	Other Agency	Total
Liabilities:					
Accounts payable	$ 2,352	$ -	$ 4,543	$ 10,404	$ 17,299
Contracts and retainages payable	-	-	3,932	10,549	14,481
Accrued liabilities	15,683	-	236,839	42,575	295,097
Obligations under security lending agreements	-	10,499	-	728	11,227
Due to other funds	1,366	5,313	56,910	1,121	64,710
Due to other governments	3,339	189,451	-	6,969	199,759
Other long-term liabilities	-	-	-	52,924	52,924
Total Liabilities	$ 22,740	$ 205,263	$ 302,224	$ 125,270	$ 655,497

Combining Statement of Changes in Assets and Liabilities

Agency Funds

Continued

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

Suspense Fund	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Assets:				
Cash and pooled investments	$ 13,891	$ 831,333	$ 822,644	$ 22,580
Other receivables (net of allowance)	31	10,105	10,072	64
Due from other funds	11,186	2,837	13,990	33
Due from other governments	136	3	76	63
Investments, noncurrent	-	9	9	-
Total Assets	$ 25,244	$ 844,287	$ 846,791	$ 22,740
Liabilities:				
Accounts payable	$ 2,175	$ 18,654	$ 18,477	$ 2,352
Accrued liabilities	6,462	204,210	194,989	15,683
Due to other funds	2,118	1,484	2,236	1,366
Due to other governments	14,489	71,009	82,159	3,339
Total Liabilities	$ 25,244	$ 295,357	$ 297,861	$ 22,740

Local Government Distributions Fund	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Assets:				
Cash and pooled investments	$ 169,210	$ 7,188,884	$ 7,163,707	$ 194,387
Due from other funds	278,503	18,550	296,263	790
Investments, noncurrent	24,654	55	14,623	10,086
Total Assets	$ 472,367	$ 7,207,489	$ 7,474,593	$ 205,263
Liabilities:				
Accrued liabilities	$ -	$ 54	$ 54	$ -
Obligations under security lending agreements	25,122	-	14,623	10,499
Due to other funds	7	5,306	-	5,313
Due to other governments	438,174	2,889,127	3,137,850	189,451
Other long-term obligations	9,064	264	9,328	-
Total Liabilities	$ 472,367	$ 2,894,751	$ 3,161,855	$ 205,263

Pooled Investments Fund*	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Assets:				
Cash and pooled investments	$ 25,268	$ 451,868,042	$ 451,893,310	$ -
Investments	1,980	312,285	314,265	-
Other receivables (net of allowance)	74,543	472,878	297,620	249,801
Due from other funds	53,769	10,715	30,447	34,037
Due from other governments	18,913	5,997	6,524	18,386
Investments, noncurrent	13,194	398,245	411,439	-
Total Assets	$ 187,667	$ 453,068,162	$ 452,953,605	$ 302,224
Liabilities:				
Accounts payable	$ 5,887	$ 10,985	$ 12,329	$ 4,543
Contracts and retainages payable	3,718	264,221	264,007	3,932
Accrued liabilities	119,121	442,716	324,998	236,839
Due to other funds	58,940	25,928	27,958	56,910
Due to other governments	1	-	1	-
Total Liabilities	$ 187,667	$ 743,850	$ 629,293	$ 302,224

* Beginning balances, as restated

Combining Statement of Changes in Assets and Liabilities

Agency Funds

Concluded

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

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Other Agency Funds*				
Assets:				
Cash and pooled investments	$ 53,870	$ 12,566,283	$ 12,564,781	$ 55,372
Other receivables (net of allowance)	6,722	69,726	70,152	6,296
Due from other funds	32,400	-	27,353	5,047
Due from other governments	8,221	171	3,760	4,632
Investments, noncurrent	1,650	-	651	999
Other noncurrent assets	52,724	44,706	44,506	52,924
Total Assets	$ 155,587	$ 12,680,886	$ 12,711,203	$ 125,270
Liabilities:				
Accounts payable	$ 9,541	$ 105,467	$ 104,604	$ 10,404
Contracts and retainages payable	14,546	64,917	68,914	10,549
Accrued liabilities	34,945	4,246,781	4,239,151	42,575
Obligations under security lending agreements	1,375	-	647	728
Due to other funds	33,384	-	32,263	1,121
Due to other governments	9,072	73,586	75,689	6,969
Other long-term obligations	52,724	44,706	44,506	52,924
Total Liabilities	$ 155,587	$ 4,535,457	$ 4,565,774	$ 125,270
Totals - All Agency Funds				
Assets:				
Cash and pooled investments	$ 262,240	$ 472,454,542	$ 472,444,443	$ 272,339
Investments	1,980	312,285	314,265	-
Other receivables (net of allowance)	81,295	552,709	377,843	256,161
Due from other funds	375,857	32,102	368,052	39,907
Due from other governments	27,270	6,171	10,360	23,081
Investments, noncurrent	39,498	398,309	426,722	11,085
Other noncurrent assets	52,724	44,706	44,506	52,924
Total Assets	$ 840,864	$ 473,800,824	$ 473,986,191	$ 655,497
Liabilities:				
Accounts payable	$ 17,603	$ 135,106	$ 135,410	$ 17,299
Contracts and retainages payable	18,263	329,138	332,920	14,481
Accrued liabilities	160,529	4,893,761	4,759,193	295,097
Obligations under security lending agreements	26,497	-	15,270	11,227
Due to other funds	94,449	32,718	62,457	64,710
Due to other governments	461,735	3,033,722	3,295,698	199,759
Other long-term obligations	61,788	44,970	53,834	52,924
Total Liabilities	$ 840,864	$ 8,469,414	$ 8,654,781	$ 655,497

* Beginning balances, 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:

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.

The Washington Health Care Facilities Authority makes funds available to qualified, nonprofit health care facilities in the state.

The Washington Higher Education Facilities Authority provides funding to qualified, nonprofit higher education institutions in the state.

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.

Combining Statement of Fund Net Assets

Nonmajor Component Units

June 30, 2006
(expressed in thousands)

	Housing Finance	Health Care Facilities	Higher Education Facilities	Economic Development Finance	**Total**
Assets					
Current Assets:					
Cash and pooled investments	$ 2,813	$ 269	$ 1,040	$ 65	$ 4,187
Investments	29,944	2,708	-	334	32,986
Other receivables (net of allowance)	1,573	216	-	-	1,789
Prepaid expenses	365	33	7	-	405
Total Current Assets	34,695	3,226	1,047	399	39,367
Noncurrent Assets:					
Investments, noncurrent	-	920	-	-	920
Other noncurrent assets	23,960	-	-	-	23,960
Capital Assets:					
Furnishings, equipment, and collections	1,193	-	-	-	1,193
Accumulated depreciation	(949)	-	-	-	(949)
Total Noncurrent Assets	24,204	920	-	-	25,124
Total Assets	$ 58,899	$ 4,146	$ 1,047	$ 399	$ 64,491
Liabilities					
Current Liabilities:					
Accounts payable	$ 2,118	$ 33	$ 58	$ -	$ 2,209
Accrued liabilities	-	54	-	22	76
Unearned revenues	704	103	15	-	822
Total Current Liabilities	2,822	190	73	22	3,107
Total Liabilities	2,822	190	73	22	3,107
Net Assets:					
Invested in capital assets, net of related debt	244	-	-	-	244
Restricted for other purposes	600	-	-	-	600
Unrestricted	55,233	3,956	974	377	60,540
Total Net Assets (Deficit)	$ 56,077	$ 3,956	$ 974	$ 377	$ 61,384

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets

Nonmajor Component Units

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

	Housing Finance	Health Care Facilities	Higher Education Facilities	Economic Development Finance	Total
Operating Revenues:					
Charges for services	$ 10,529	$ 858	$ 399	$ 360	$ 12,146
Total Operating Revenues	10,529	858	399	360	12,146
Operating Expenses:					
Salaries and wages	3,784	328	-	136	4,248
Employee benefits	1,078	61	-	19	1,158
Personal services	427	163	92	-	682
Goods and services	1,970	189	206	88	2,453
Travel	-	9	-	11	20
Depreciation and amortization	101	-	-	-	101
Miscellaneous expenses	-	9	-	-	9
Total Operating Expenses	7,360	759	298	254	8,671
Operating Income (Loss)	3,169	99	101	106	3,475
Nonoperating Revenues (Expenses):					
Earnings (loss) on investments	580	160	27	10	777
Interest expense	(307)	-	-	-	(307)
Operating grants and contributions	490	-	-	-	490
Distributions of operating grants	(490)	-	-	-	(490)
Total Nonoperating Revenues (Expenses)	273	160	27	10	470
Income (Loss) Before Contributions and Transfers	3,442	259	128	116	3,945
Change in Net Assets	3,442	259	128	116	3,945
Net Assets - Beginning	52,635	3,697	846	261	57,439
Net Assets - Ending	$ 56,077	$ 3,956	$ 974	$ 377	$ 61,384

Schedules

Schedule of Revenues and Other Financing Sources (Uses) - Governmental Funds

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

	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
Taxes:					
Retail sales	$ 6,892,217	$ -	$ -	$ 65,702	$ 6,957,919
Business and occupation	2,534,920	-	-	71,880	2,606,800
Use (compensating)	464,868	-	-	6,388	471,256
Motor vehicle and fuel	-	-	-	1,030,003	1,030,003
Liquor, beer, and wine	147,178	-	-	50,016	197,194
Cigarette and tobacco	61,085	100,503	-	307,061	468,649
Insurance premiums	241,560	-	-	137,245	378,805
Public utility	369,449	-	-	11,254	380,703
Property	1,384,359	-	-	245,204	1,629,563
Motor vehicle excise	-	-	-	8	8
Other excise	977,087	-	-	90,223	1,067,310
Gift and inheritance	(781)	19,341	-	-	18,560
Other taxes	216,459	-	-	202,402	418,861
Subtotal	13,288,401	119,844	-	2,217,386	15,625,631
Tax Credits:					
Business and occupation	(123,033)	-	-	-	(123,033)
Use (compensating)	(237)	-	-	-	(237)
Other tax credits	(1)	-	-	-	(1)
Total Taxes	13,165,130	119,844	-	2,217,386	15,502,360
Licenses, Permits, and Fees:					
Business and professions	64,130	-	-	88,114	152,244
Hunting and fishing	1,402	-	-	28,526	29,928
Motor vehicle	3,709	533	-	403,270	407,512
Motor vehicle operators	-	-	-	59,669	59,669
Other fees	15,694	-	-	123,075	138,769
Total Licenses, Permits, and Fees	84,935	533	-	702,654	788,122
Federal Grants-In-Aid:					
Department of Health and Human Services	4,114,272	554,816	-	6,777	4,675,865
Department of Labor	100,762	1,802	-	102,757	205,321
Department of Agriculture	934,778	29,771	-	93,261	1,057,810
Department of Transportation	1,806	4,612	-	601,192	607,610
Department of Education	621,782	234,886	-	7,181	863,849
Other federal grants-in-aid	340,038	233,921	-	110,908	684,867
Total Federal Grants-In-Aid	6,113,438	1,059,808	-	922,076	8,095,322
Charges For Services:					
Tuition and student fees	-	966,492	-	37,350	1,003,842
Other charges	51,070	222,692	-	435,792	709,554
Total Charges For Services	51,070	1,189,184	-	473,142	1,713,396
Miscellaneous Revenue:					
Investment income	72,873	68,482	243,842	89,594	474,791
Timber sales	2,823	-	15,106	158,513	176,442
Fines and forfeitures	2,313	6,405	36	98,056	106,810
Other contracts and grants	112,780	608,383	-	17,681	738,844
Other	114,487	89,867	132,575	272,657	609,586
Total Miscellaneous Revenue	305,276	773,137	391,559	636,501	2,106,473
Total Revenues	19,719,849	3,142,506	391,559	4,951,759	28,205,673
Other Financing Sources (Uses):					
Bonds issued	-	-	-	1,097,092	1,097,092
Refunding bonds issued	-	-	-	461,170	461,170
Payment to refunded bond escrow agent	-	-	-	(499,778)	(499,778)
Other debt issued	17,200	17,179	-	9,922	44,301
Bond issue premium (discount)	-	-	-	103,568	103,568
Transfers in	247,894	363,633	1,281	2,699,037	3,311,845
Transfers (out)	(1,825,256)	(268,128)	(111,012)	(863,145)	(3,067,541)
Capital lease acquisitions	51	64	-	-	115
Total Other Financing Sources (Uses)	(1,560,111)	112,748	(109,731)	3,007,866	1,450,772
Total Revenues and Other Financing Sources (Uses)	$ 18,159,738	$ 3,255,254	$ 281,828	$ 7,959,625	$ 29,656,445

Schedule of Expenditures - Governmental Funds

For the Fiscal Year Ended June 30, 2006

(expressed in thousands)

	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	**Total**
By Function:					
General government	$ 645,361	$ -	$ -	$ 1,696,964	$ 2,342,325
Human services	9,832,801	-	-	1,063,245	10,896,046
Natural resources and recreation	309,046	-	-	482,144	791,190
Transportation	43,292	813	-	2,411,978	2,456,083
Education	7,421,152	3,184,377	60	1,073,574	11,679,163
Total Expenditures	$ 18,251,652	$ 3,185,190	$ 60	$ 6,727,905	$ 28,164,807
By Object:					
Salaries and wages	$ 2,562,685	$ 1,125,360	$ 3	$ 911,611	$ 4,599,659
Employee benefits	666,002	391,167	-	235,112	1,292,281
Personal services	112,451	33,659	-	68,609	214,719
Goods and services	1,037,475	709,113	28	726,437	2,473,053
Travel	37,965	71,591	5	33,923	143,484
Subtotal	4,416,578	2,330,890	36	1,975,692	8,723,196
Grants and Subsidies:					
K-12 basic education	6,030,728	10,217	-	326,844	6,367,789
Public assistance	6,939,942	-	-	401,590	7,341,532
Other miscellaneous	764,044	706,896	24	1,183,927	2,654,891
Total Grants and Subsidies	13,734,714	717,113	24	1,912,361	16,364,212
Intergovernmental	28,427	-	-	330,770	359,197
Capital Outlays:					
Equipment	35,264	51,093	-	30,162	116,519
All other	20,402	56,679	-	1,516,467	1,593,548
Total Capital Outlays	55,666	107,772	-	1,546,629	1,710,067
Debt Service:					
Principal	15,022	19,385	-	465,175	499,582
Interest	1,245	10,030	-	497,278	508,553
Total Debt Service	16,267	29,415	-	962,453	1,008,135
Total Expenditures	$ 18,251,652	$ 3,185,190	$ 60	$ 6,727,905	$ 28,164,807

Workers' Compensation Fund - Basic Plan
Claims Development Information
Fiscal Years 1997 through 2006 (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.

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
1.	Net earned required contribution and investment revenues	$ 1,257	$ 2,013	$ 927	$ 1,057	$ 1,449	$ 1,197	$ 2,111	$ 1,337	$ 2,452	$ 1,392
2.	Estimated incurred claims and expenses, end of policy year	1,681	1,700	1,732	1,902	1,925	2,124	2,284	2,505	2,308	2,141
3.	Paid (cumulative) as of:										
	End of policy year	191	196	205	218	230	226	233	244	260	278
	One year later	409	420	438	473	494	500	501	528	556	
	Two years later	522	545	564	608	646	653	650	681		
	Three years later	596	627	643	706	747	756	751			
	Four years later	651	684	707	777	825	834				
	Five years later	693	731	758	837	890					
	Six years later	731	770	800	889						
	Seven years later	763	805	840							
	Eight years later	794	838								
	Nine years later	825									
4.	Reestimated incurred claims and expenses:										
	End of policy year	1,681	1,700	1,732	1,902	1,925	2,124	2,284	2,505	2,308	2,141
	One year later	1,602	1,627	1,690	1,838	1,963	2,158	2,277	2,203	1,989	
	Two years later	1,553	1,651	1,694	1,913	2,067	2,277	2,045	1,971		
	Three years later	1,575	1,643	1,770	1,977	2,226	2,079	1,853			
	Four years later	1,576	1,678	1,794	2,088	2,039	1,906				
	Five years later	1,601	1,690	1,839	1,881	1,864					
	Six years later	1,593	1,687	1,682	1,778						
	Seven years later	1,575	1,554	1,578							
	Eight years later	1,478	1,503								
	Nine years later	1,425									
5.	Increase (decrease) in estimated incurred claims and expenses from end of policy year	(256)	(197)	(154)	(124)	(61)	(218)	(431)	(534)	(319)	

Source: Washington State Department of Labor and Industries

Workers' Compensation Fund - Supplemental Pension Plan
Claims Development Information
Fiscal Years 1997 through 2006 (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.
(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.

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
1.	Net earned required contribution and investment revenues	$ 154	$ 170	$ 193	$ 225	$ 267	$ 281	$ 293	$ 288	$ 326	$ 305
2.	Estimated incurred claims and expenses, end of policy year	795	790	548	635	628	807	1,029	1,228	724	804
3.	Paid (cumulative) as of:										
	End of policy year	-	-	-	-	-	-	-	-	-	-
	One year later	4	6	7	8	5	2	5	2	1	
	Two years later	11	14	12	12	8	11	4	3		
	Three years later	13	17	18	17	22	6	6			
	Four years later	20	24	24	30	15	9				
	Five years later	27	30	37	27	19					
	Six years later	34	41	37	33						
	Seven years later	40	44	43							
	Eight years later	49	51								
	Nine years later	57									
4.	Reestimated incurred claims and expenses:										
	End of policy year	795	790	548	635	628	807	1,029	1,228	724	804
	One year later	812	527	666	730	786	945	1,045	722	721	
	Two years later	610	727	754	844	910	1,046	676	720		
	Three years later	753	798	860	959	1,064	701	667			
	Four years later	817	860	932	1,099	727	682				
	Five years later	864	924	1,034	746	671					
	Six years later	898	971	732	722						
	Seven years later	936	695	678							
	Eight years later	705	670								
	Nine years later	658									
5.	Increase (decrease) in estimated incurred claims and expenses from end of policy year	(137)	(120)	130	87	43	(125)	(362)	(508)	(3)	

Source: Washington State Department of Labor and Industries

Workers' Compensation Fund
Reconciliation of Claims Liabilities by Plan
Fiscal Years 2006 and 2005 (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 2006	FY 2005	FY 2006	FY 2005	FY 2006	FY 2005
Unpaid claims and claim adjustment expenses at beginning of year	$ 8,555,911	$ 8,361,558	$ 8,722,984	$ 8,229,540	$ 17,278,895	$ 16,591,098
Incurred claims and claim adjustment expenses:						
Provision for insured events of the current year	1,833,937	1,741,476	615,713	1,574,029	2,449,650	3,315,505
Increase (decrease) in provision for insured events of prior years	(268,051)	(239,709)	(50,192)	(785,873)	(318,243)	(1,025,582)
Total incurred claims and claim adjustment expenses	1,565,886	1,501,767	565,521	788,156	2,131,407	2,289,923
Payments:						
Claims and claim adjustment expenses attributable:						
To events of the current year	277,626	259,673	-	-	277,626	259,673
To insured events of prior years	1,087,842	1,047,741	289,733	294,712	1,377,575	1,342,453
Total payments	1,365,468	1,307,414	289,733	294,712	1,655,201	1,602,126
Total unpaid claims and claim adjustment expenses at fiscal year end	$ 8,756,329	$ 8,555,911	$ 8,998,772	$ 8,722,984	$ 17,755,101	$ 17,278,895

Source: Washington State Department of Labor and Industries

STATISTICAL SECTION

Statistical Section Narrative and 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.

Contents

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 FY 2002 and forward, coinciding with the implementation of GASB 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:

Schedule 1
Net Assets by Component

Last Five Fiscal Years (expressed in millions)
(accrual basis of accounting)

	2006	2005*	2004*	2003*	2002*
Primary Government					
Governmental activities					
Invested in capital assets, net of related debt	$ 15,434.3	$ 14,974.6	$ 14,287.5	$ 13,512.7	$ 12,794.2
Restricted	4,343.0	4,351.3	3,505.0	2,995.4	2,694.3
Unrestricted	3,384.0	1,900.0	1,853.9	2,346.3	2,654.3
Total governmental activities net assets	$ 23,161.3	$ 21,225.9	$ 19,646.4	$ 18,854.4	$ 18,142.8
Business-type activities					
Invested in capital assets, net of related debt	$ 604.3	$ 510.3	$ 522.3	$ 543.3	$ 355.1
Restricted	3,164.4	2,340.8	1,624.2	1,513.4	1,883.7
Unrestricted	(6,132.3)	(5,632.5)	(6,199.6)	(6,025.1)	(5,413.2)
Total business-type activities net assets	$ (2,363.6)	$ (2,781.4)	$ (4,053.1)	$ (3,968.4)	$ (3,174.4)
Total Primary government					
Invested in capital assets, net of related debt	$ 16,038.6	$ 15,484.9	$ 14,809.8	$ 14,056.0	$ 13,149.3
Restricted	7,507.4	6,692.1	5,129.2	4,508.8	4,578.0
Unrestricted	(2,748.3)	(3,732.5)	(4,345.7)	(3,678.8)	(2,758.9)
Total primary government net assets	$ 20,797.6	$ 18,444.5	$ 15,593.3	$ 14,886.0	$ 14,968.4
Component Units					
Invested in capital assets, net of related debt	$ 391.5	$ 409.9	$ 428.1	$ 448.1	$ 436.1
Restricted	25.3	24.4	22.2	21.3	14.9
Unrestricted	68.9	60.9	57.7	56.5	57.3
Total component units net assets	$ 485.7	$ 495.2	$ 508.0	$ 525.9	$ 508.3

* Governmental activities' net assets were restated for 2002-2005.

Schedule 2
Changes in Net Assets

Continued

Last Five Fiscal Years (expressed in millions)
(accrual basis of accounting)

	2006	2005	2004	2003	2002
Expenses					
Governmental Activities:					
General Government	$ 1,320.1	$ 925.3	$ 918.2	$ 812.3	$ 997.3
Education--elementary and secondary (K-12)	6,642.2	6,283.4	6,085.8	5,959.9	5,747.1
Education--higher education	4,804.1	4,454.5	4,216.0	3,750.1	3,920.2
Human services	10,081.7	9,851.7	9,347.7	8,971.4	8,903.5
Adult corrections	748.9	639.7	643.8	657.6	600.3
Natural resources and recreation	777.2	229.1	651.3	731.5	563.7
Transportation	1,526.3	1,456.6	1,309.9	1,422.3	1,263.7
Intergovernmental grants	-	334.8	329.5	341.4	349.6
Interest on long-term debt	532.9	504.8	478.2	415.0	578.3
Total governmental activities expenses	26,433.5	24,680.0	23,980.3	23,061.5	22,923.9
Business-type Activities:					
Workers' compensation	2,266.9	2,406.7	2,388.8	2,616.6	2,146.6
Unemployment compensation	736.2	870.5	1,744.7	2,328.8	1,871.8
Higher education student services	1,254.1	1,170.3	1,130.5	911.9	809.9
Health insurance programs	1,244.1	1,137.7	1,043.7	1,051.3	994.0
Other	1,042.2	987.7	951.2	937.7	923.8
Total business-type activities expenses	6,543.4	6,572.8	7,258.9	7,846.3	6,746.1
Total primary government expenses	32,976.8	31,252.7	31,239.2	30,907.8	29,670.0
Program Revenues					
Governmental activities:					
Charges for services:					
General government	513.1	439.4	448.5	412.9	439.4
Education--elementary and secondary (K-12)	13.1	13.7	10.9	7.8	6.3
Education--higher education	1,281.4	1,315.6	1,250.4	1,095.3	986.4
Human services	233.7	310.7	358.8	335.1	523.3
Adult corrections	6.4	10.7	5.6	7.3	13.0
Natural resources and recreation	390.4	385.3	339.4	321.4	361.9
Transportation	786.7	685.5	677.4	620.9	576.1
Operating grants and contributions	8,260.1	8,237.9	7,942.4	7,128.3	6,632.2
Capital grants and contributions	610.4	675.4	518.6	588.0	549.6
Total governmental activities program revenues	12,095.3	12,074.1	11,551.9	10,517.0	10,088.1
Business-type activites:					
Charges for services:					
Workers' compensation	1,790.4	1,718.7	1,515.4	1,315.6	1,069.6
Unemployment compensation	1,410.8	1,458.0	1,345.0	1,130.3	1,161.0
Higher education student services	1,265.8	1,187.5	1,128.0	932.2	823.5
Health insurance programs	1,341.4	1,200.2	1,041.6	1,069.5	982.2
Other	1,102.4	1,050.2	1,027.6	991.6	950.3
Operating grants and contributions	55.1	71.2	468.5	769.5	268.8
Capital grants and contribtuions	0.1	(2.2)	4.3	60.3	0.0
Total business-type activities program revenues	6,966.0	6,683.5	6,530.4	6,269.0	5,255.4
Total primary government program revenues	19,061.3	18,757.6	18,082.3	16,786.0	15,343.5
Net (Expense)/Revenue					
Governmental activities	(14,338.1)	(12,605.9)	(12,428.4)	(12,544.5)	(12,835.8)
Business-type activities	422.6	110.8	(728.5)	(1,577.3)	(1,490.7)
Total primary governmental net (expense)/revenue	$ (13,915.6)	$ (12,495.1)	$ (13,156.9)	$ (14,121.7)	$ (14,326.5)

Schedule 2
Changes in Net Assets

Concluded

Last Five Fiscal Years (expressed in millions)
(accrual basis of accounting)

	2006	2005	2004	2003	2002
General Revenues and Other Changes in Net Assets					
Governmental activities:					
Taxes:					
Sales and use tax	$ 7,428.9	$ 6,736.2	$ 6,234.5	$ 5,974.4	$ 5,879.3
Business and occupation	2,483.8	2,291.0	2,078.3	1,940.0	1,934.0
Property	1,629.6	1,590.3	1,527.2	1,483.1	1,426.2
Other	3,957.1	3,370.1	3,252.6	2,805.0	2,790.8
Interest and investment earnings	474.8	362.8	294.4	251.9	189.3
Contributions to endowments	131.2	69.1	45.9	36.1	29.3
Extraordinary loss (asset impairment)	(84.2)	-	-	-	-
Transfers	251.9	183.8	199.2	618.7	147.8
Total governmental activities	16,273.0	14,603.3	13,632.0	13,109.3	12,396.7
Business-type activities:					
Taxes - other	99.7	94.7	116.2	85.7	82.7
Interest and investment earnings	147.4	1,249.2	285.9	1,316.4	613.2
Transfers	(251.9)	(183.8)	(199.2)	(618.7)	(147.8)
Total business-type activities	(4.8)	1,160.2	202.9	783.3	548.1
Total primary government	16,268.2	15,763.5	13,834.9	13,892.6	12,944.8
Change in Net Assets					
Governmental activities	1,934.8	1,997.4	1,203.6	564.9	(439.1)
Business-type activites	417.8	1,270.9	(525.6)	(794.0)	(942.6)
Total change in net assets - primary government	2,352.6	3,268.3	678.0	(229.1)	(1,381.7)
Total Component Units					
Total expenses	28.7	28.7	29.9	27.8	11.3
Program Revenues:					
Charges for services	13.0	11.6	11.1	10.1	10.1
Operating grants and contributions	0.5	0.6	0.4	0.2	55.2
Capital grants and contributions	0.7	0.6	0.5	31.2	-
Total program revenues	14.2	12.8	12.0	41.5	65.3
Net (expense) / revenue	(14.5)	(15.9)	(17.9)	13.7	54.0
General revenues - Sales and use taxes	-	-	-	1.9	1.3
General revenues - Interest and investment earnings	2.6	3.2	-	2.1	3.4
Change in net assets - Total component units	$ (11.9)	$ (12.7)	$ (17.9)	$ 17.7	$ 58.7

Source: State of Washington Comprehensive Annual Financial Reporting System

Schedule 3
Fund Balances, Governmental Funds

Last Five Fiscal Years (expressed in thousands)
(modified accrual basis of accounting)

	2006	2005	2004	2003	2002
General Fund					
Reserved	$ 230,848	$ 55,602	$ 166,043	$ 48,687	$ 91,031
Unreserved, designated for:					
Working capital	1,076,631	1,004,131	964,631	908,194	848,153
Unrealized gains	-	-	-	6,944	-
Unreserved, undesignated	569,326	865,443	385,436	404,376	398,374
Total General Fund	1,876,805	1,925,176	1,516,110	1,368,201	1,337,558
All Other Governmental Funds					
Reserved	5,061,345	4,546,263	4,209,890	3,682,240	3,874,727
Unreserved, designated for:					
Unrealized gains	-	-	3,809	4,814	2,343
Higher education	155,679	155,679	155,679	-	-
Special revenue funds	229	165	174	-	-
Debt service funds	206,228	177,961	288,231	100,354	101,557
Other specific purpose		-	-	155,847	155,816
Unreserved, undesignated	454,714	573,576	515,597	569,134	284,873
Unreserved, undesignated, reported in:					
Nonmajor special revenue funds	2,585,037	1,528,463	1,474,023	1,211,403	1,343,467
Nonmajor capital projects funds	70,275	166,393	-	109,627	31,649
Total all other governmental funds	8,533,507	7,148,500	6,647,403	5,833,419	5,794,432
Total Governmental Fund Balances	$ 10,410,312	$ 9,073,676	$ 8,163,513	$ 7,201,620	$ 7,131,990

Source: State of Washington Comprehensive Annual Financial Reporting System

Schedule 4
Revenues, Expenditures, and Other Financing Sources (Uses)
All Governmental Fund Types

Last Ten Fiscal Years (expressed in millions)

	2006	2005	2004*	2003*	2002*	2001	2000	1999	1998	1997
Revenues:										
Taxes:										
Retail sales	$ 6,957.9	$ 6,285.2	$ 5,841.0	$ 5,605.1	$ 5,499.6	$ 5,525.0	$ 5,432.5	$ 4,989.0	$ 4,652.4	$ 4,436.5
Business and occupation	2,483.8	2,291.0	2,078.3	1,940.0	1,934.0	2,018.3	1,829.5	1,850.4	1,862.9	1,787.7
Use (compensating)	471.0	451.1	393.5	369.3	379.7	409.6	380.0	333.3	330.3	333.0
Motor vehicle and fuel	1,030.0	931.0	925.7	752.4	742.7	736.1	964.0	717.8	708.2	685.2
Liquor, beer, and wine	197.2	152.2	144.4	134.0	129.3	125.3	119.2	91.0	129.7	117.0
Cigarette and tobacco	468.6	354.0	352.5	362.4	330.7	264.9	277.3	278.5	276.7	277.6
Insurance premiums	378.8	357.4	345.6	316.7	291.3	279.7	261.2	239.0	228.8	212.2
Public utility	380.7	344.5	329.8	309.0	306.5	302.6	282.1	249.0	242.3	234.4
Property	1,629.6	1,590.3	1,527.2	1,483.1	1,426.2	1,366.7	1,332.8	1,276.8	1,230.9	1,170.6
Excise	1,067.3	901.5	687.3	583.3	501.8	509.4	631.5	1,134.7	1,060.8	921.5
Gift and inheritance	18.6	(37.7)	139.9	124.4	114.2	106.3	82.6	69.7	82.2	88.5
Other (less credits)	418.9	360.5	335.1	222.8	258.4	263.8	215.3	193.5	193.1	148.5
Total Taxes	15,502.4	13,980.8	13,100.3	12,202.6	11,914.4	11,907.7	11,808.1	11,422.7	10,998.3	10,412.7
Licenses, permits, and fees	788.1	706.7	665.6	650.9	612.3	614.2	596.2	556.0	510.7	492.0
Federal grants-in-aid	8,095.3	8,010.1	7,701.6	6,973.9	6,574.3	5,757.5	5,303.9	4,763.0	4,623.5	4,576.9
Charges and miscellaneous revenue	3,345.1	3,350.4	3,184.2	2,936.6	2,769.4	2,146.0	2,015.4	1,724.6	1,683.1	1,646.5
Interest income	474.8	362.8	294.4	251.9	189.2	228.1	202.3	203.3	192.7	175.2
Total Revenues	28,205.7	26,410.8	24,946.0	23,015.9	22,059.6	20,653.6	19,925.9	18,669.7	18,008.3	17,303.3
Expenditures:										
Current:										
General government	989.5	933.9	860.3	803.1	870.1	881.4	706.7	720.4	739.2	1,122.2
Human services	10,777.2	10,485.9	9,962.4	9,537.8	9,339.1	8,379.4	7,708.6	7,045.0	6,827.7	6,526.4
Natural resources and recreation	729.1	704.1	643.0	689.2	640.0	637.2	552.3	553.0	529.4	522.8
Transportation	1,488.8	1,486.5	1,297.0	1,362.7	1,283.1	1,093.7	872.8	873.2	787.0	931.4
Education	11,102.7	10,538.7	10,084.8	9,472.0	9,001.8	8,469.8	7,962.1	7,609.7	7,246.3	7,071.9
Intergovernmental	359.2	334.7	329.5	341.4	349.6	321.1	645.9	441.8	424.4	N/A
Capital outlays	1,710.1	1,741.3	1,541.7	1,488.6	1,205.6	1,192.5	1,188.8	1,179.2	991.3	1,112.2
Debt service										
Principal	499.6	460.8	414.7	441.0	428.9	399.9	388.2	351.1	336.0	300.0
Interest	508.6	497.1	467.7	417.6	401.6	394.9	359.1	350.1	338.2	318.7
Total Expenditures	28,164.8	27,183.0	25,601.1	24,553.4	23,519.8	21,769.9	20,384.5	19,123.5	18,219.5	17,905.6
Revenues Over (Under) Expenditures	40.9	(772.2)	(655.1)	(1,537.5)	(1,460.2)	(1,116.2)	(457.1)	(453.8)	(211.2)	(602.3)
Other Financing Sources (Uses):										
Bonds issued, net of refunding	1,162.1	1,189.8	1,214.2	796.7	937.8	820.5	581.1	519.8	739.8	638.9
Other debt issued	44.3	26.4	18.1	32.1	9.9	23.3	25.9	12.9	15.6	7.8
Transfer In	3,311.8	2,771.4	2,099.9	2,775.1	2,758.3	2,286.2	1,843.9	1,768.3	1,673.1	1,319.1
Transfer Out	(3,067.5)	(2,500.8)	(1,863.6)	(2,146.3)	(2,613.6)	(1,906.5)	(1,646.4)	(1,613.7)	(1,531.3)	(1,185.7)
Capital lease acquisitions	0.1	0.1	-	7.0	-	10.3	-	-	1.5	0.2
Net Other Financing Sources (Uses)	1,450.8	1,486.9	1,468.6	1,464.6	1,092.4	1,233.7	804.4	687.3	898.7	780.3
Net Change in Fund Balances	$ 1,491.6	$ 714.7	$ 813.5	$ (72.9)	$ (367.8)	$ 117.5	$ 347.3	$ 233.5	$ 687.5	$ 178.0
Debt service as a percentage of noncapital expenditures	4.0%	3.9%	3.8%	3.9%	3.9%	4.0%	4.1%	4.1%	4.1%	3.8%

*Certain fund type reclassifications occurred in Fiscal Years 2002, 2003 and 2004.

Source: State of Washington Comprehensive Annual Financial Reporting System, GAAP Basis.

Schedule 5
Revenues, Expenditures, and Other Financing Sources (Uses)
General Fund
Last Ten Fiscal Years (expressed in millions)

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Revenues:										
Taxes:										
Retail sales	$ 6,892.2	$ 6,228.8	$ 5,785.8	$ 5,578.8	$ 5,464.2	$ 5,502.4	$ 5,419.5	$ 4,988.4	$ 4,651.1	$ 4,435.4
Business and occupation	2,411.9	2,227.9	2,018.7	1,893.0	1,889.3	2,031.2	1,838.3	1,846.5	1,867.7	1,750.0
Use (compensating)	464.6	445.6	388.2	369.3	379.0	410.3	380.8	334.0	331.4	333.0
Liquor, beer, and wine	147.2	105.4	100.2	93.3	90.2	87.7	83.7	79.8	77.2	74.6
Cigarette and tobacco	61.1	61.3	62.2	63.2	76.7	97.6	102.0	86.6	84.5	86.3
Insurance premiums	241.6	228.0	217.6	202.9	182.5	177.8	173.4	158.3	153.9	141.3
Public utility	369.4	333.7	318.2	298.2	296.3	302.6	282.1	249.0	242.3	234.4
Property	1,384.4	1,394.8	1,393.0	1,349.2	1,293.1	1,366.7	1,332.8	1,276.8	1,230.9	1,170.6
Excise	977.1	807.7	623.0	514.6	431.1	476.5	552.7	815.8	815.4	695.3
Gift and inheritance	(0.8)	(37.7)	139.9	124.4	114.2	106.3	82.6	69.7	82.2	88.5
Other (less credits)	216.5	192.3	178.4	122.9	125.6	116.3	91.9	114.0	87.9	82.9
Total Taxes	13,165.1	11,987.8	11,225.1	10,609.7	10,342.2	10,675.4	10,339.7	10,019.0	9,624.5	9,092.3
Licenses, permits, and fees	84.9	79.0	75.5	74.9	75.5	123.9	131.2	122.4	101.5	95.1
Federal grants-in-aid	6,113.4	6,012.0	5,916.8	5,353.9	5,130.9	4,633.6	4,304.6	3,864.0	3,794.5	3,595.8
Charges and miscellaneous revenue	283.5	429.3	387.8	424.5	337.8	500.7	487.2	451.5	473.1	443.6
Interest income	72.9	35.8	4.8	35.5	19.6	111.4	106.6	99.1	90.1	82.9
Total Revenues	19,719.8	18,543.8	17,609.9	16,498.5	15,906.0	16,045.0	15,369.3	14,556.0	14,083.7	13,309.7
Expenditures:										
Current:										
General government	602.3	552.4	514.6	495.6	526.6	673.7	551.0	569.3	610.6	736.8
Human services	9,808.6	9,518.8	8,988.7	8,538.4	8,303.8	7,653.1	7,055.2	6,502.7	6,338.9	5,999.8
Natural resources and recreation	291.5	271.1	268.1	270.5	262.9	368.4	296.6	299.3	274.4	279.3
Transportation	41.7	26.7	27.0	16.0	28.6	48.3	45.5	41.3	26.5	24.5
Education	7,407.2	7,243.1	6,977.4	6,910.8	6,777.8	6,608.2	6,241.0	5,982.8	5,755.4	5,557.1
Intergovernmental	28.4	27.7	26.7	26.8	23.1	57.1	172.4	185.7	179.6	N/A
Capital outlays	55.7	78.1	67.4	65.1	57.5	95.4	71.5	85.1	72.2	72.0
Debt service										
Principal	15.0	12.3	10.1	15.8	10.5	15.8	15.9	16.2	21.5	10.1
Interest	1.2	2.3	0.1	0.2	1.7	2.7	3.8	2.3	4.4	3.1
Total Expenditures	18,251.6	17,732.5	16,880.1	16,339.2	15,992.5	15,522.7	14,452.9	13,684.7	13,283.5	12,682.7
Revenues Over (Under) Expenditures	1,468.2	811.3	729.8	159.3	(86.5)	522.3	916.4	871.3	800.2	627.0
Other Financing Sources (Uses):										
Other debt issued	17.2	15.5	5.0	11.4	7.0	5.7	4.0	3.5	2.0	3.3
Transfer In	247.9	524.4	308.1	587.9	675.6	432.0	432.4	429.1	526.2	268.1
Transfer Out	(1,825.3)	(942.2)	(895.0)	(727.9)	(740.3)	(1,044.0)	(1,091.0)	(1,017.9)	(962.3)	(787.2)
Capital lease acquisitions	0.1	-	-	-	-	-	-	-	-	-
Net Other Financing Sources (Uses)	(1,560.1)	(402.3)	(581.9)	(128.6)	(57.7)	(606.3)	(654.6)	(585.3)	(434.1)	(515.8)
Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	$ (91.9)	$ 409.0	$ 147.9	$ 30.7	$ (144.2)	$ (84.0)	$ 261.9	$ 285.9	$ 366.1	$ 111.2

Source: State of Washington Comprehensive Annual Financial Reporting System, GAAP Basis.

Schedule 6
Sales Subject to Retail Sales Tax by Category[1]

Last Ten Calendar Years (dollars in millions)

	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Retail: Building & garden materials/supplies	$ 4,936	$ 4,437	$ 3,883	$ 3,501	$ 3,271	$ 3,254	$ 3,227	$ 3,021	$ 2,861	$ 2,684
Retail: General merchandise	8,907	8,289	7,773	7,557	7,354	7,132	6,721	6,282	5,968	5,604
Retail: Motor vehicles and parts	12,049	11,482	11,073	10,595	10,226	10,253	9,281	8,636	7,921	7,164
All other retail trade	20,296	18,516	17,429	16,959	16,912	17,252	16,604	15,734	14,938	13,717
Construction	18,515	15,934	14,076	13,719	13,878	14,297	13,053	11,615	10,376	9,135
Accomodation & food services	9,520	8,836	8,259	7,935	7,772	7,614	7,149	6,708	6,346	5,925
Wholesale trade	8,240	7,584	7,176	7,225	7,662	8,035	7,907	7,500	7,084	6,700
-	2,492	2,268	2,118	2,061	2,116	2,201	2,139	2,211	2,069	1,918
Information/Telecommunications	4,628	4,409	4,325	4,323	4,334	4,168	3,846	3,294	3,393	3,131
All other industries	12,571	11,681	11,547	11,486	11,374	11,132	10,300	9,576	9,018	8,322
Total	$ 102,154	$ 93,436	$ 87,659	$ 85,361	$ 84,899	$ 85,338	$ 80,227	$ 74,577	$ 69,974	$ 64,300
State direct sales tax rate[2]	6.5%	6.5%	6.5%	6.5%	6.5%	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

Schedule 7
Number of Retail Sales Tax Payers by Category[1]

Current Year and Nine Years Ago

	2005			1996		
	Number of Businesses	Rank	Percentage of Total Businesses	Number of Businesses	Rank	Percentage of Total Businesses
All other industries	62,595	1	32.9%	56,855	1	32.0%
All other retail trade	44,794	2	23.5%	45,006	2	25.3%
Construction	38,262	3	20.1%	32,195	3	18.1%
Accomodation & food services	16,672	4	8.7%	13,874	4	7.8%
Wholesale trade	10,097	5	5.3%	11,432	5	6.4%
Manufacturing	8,519	6	4.5%	8,489	6	4.8%
Retail: Motor vehicles and parts	3,471	7	1.8%	3,588	7	2.0%
Information/Telecommunications	2,970	8	1.6%	2,680	9	1.5%
Retail: Building & garden materials/supplies	2,622	9	1.4%	3,255	8	1.8%
Retail: General merchandise	451	10	0.2%	505	10	0.3%
Total	190,453		100%	177,879		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

Schedule 8
Taxable Sales by Business and Occupation Tax Classification

Last Ten Calendar Years (dollars in millions)

	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Retailing	$ 133,888	$ 121,453	$ 112,158	$ 108,462	$ 108,329	$ 108,312	$ 101,136	$ 94,738	$ 89,057	$ 84,111
Wholesaling	110,516	98,988	91,610	90,567	109,153	111,698	106,634	98,889	91,335	76,907
Service and Other Activities	63,270	56,575	51,968	48,204	48,834	47,610	41,857	31,611	38,297	34,135
Manufacturing	29,988	31,814	25,333	25,036	27,471	32,941	31,894	33,533	34,311	33,442
Retailing of Interstate Transportation Equipment	8,398	10,996	10,389	13,401	3,849	3,794	4,722	3,531	2,834	2,696
Other Business & Occupation Classifications	35,551	29,043	27,416	26,504	24,043	22,413	20,969	19,260	22,376	22,020
Total	$ 381,611	$ 348,869	$ 318,875	$ 312,175	$ 321,678	$ 326,766	$ 307,212	$ 281,561	$ 278,209	$ 253,312
State B&O tax rate range	.1 - 1.6%	.138 - 1.5%	.138 - 1.5%	.138 - 1.5%	.138 - 1.5%	.138 - 1.5%	.138 - 1.5%	.138 - 1.5%	.011 - 1.5%	.011 - 1.5%

Source: Quarterly Business Review, Washington State Department of Revenue

Schedule 9
Number of Business and Occupation Tax Payers by Category

Current Year and Nine Years Ago

	2005			1996		
	Number of Businesses	Rank	Percentage of Total Businesses	Number of Businesses	Rank	Percentage of Total Businesses
Retailing	172,843	1	41.2%	172,680	1	43.1%
Service and Other Activities	126,612	2	30.2%	107,500	2	26.9%
Wholesaling	82,352	3	19.6%	79,002	3	19.7%
Other Business & Occupation Classifications	25,699	4	6.1%	30,982	4	7.7%
Manufacturing	11,085	5	2.6%	9,280	5	2.3%
Retailing of Interstate Transportation Equipment	1,067	6	0.3%	1,263	6	0.3%
Total	419,658		100%	400,707		100%

Note: The State of Washington is legally prohibited from disclosing 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

Schedule 10
Ratios of Outstanding Debt by Type

Last Ten Fiscal Years (expressed in millions, except per capita)

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Governmental Activities Debt										
General Obligation Bonds	$ 10,464	$ 9,842	$ 9,173	$ 8,376	$ 7,997	$ 7,475	$ 7,055	$ 6,645	$ 6,357	$ 5,931
Revenue Bonds	558	564	511	518	N/A	N/A	N/A	N/A	N/A	N/A
Certificates of Participation	333	315	274	276	249	214	190	169	156	156
Capital leases/Installment contracts	74	24	28	32	35	18	8	5	6	5
Total Governmental Activities Debt	11,429	10,745	9,986	9,202	8,281	7,706	7,252	6,819	6,519	6,092
Business-Type Activities Debt										
General Obligation Bonds	120	138	155	172	187	205	222	237	250	261
Higher Education Revenue Bonds	794	585	520	455	327	278	218	181	146	147
Certificates of Participation	239	251	247	248	236	275	274	96	83	81
Capital Leases	21	21	14	6	2	2	2	2	2	2
Total Business-Type Activities Debt	1,174	995	936	881	752	759	716	516	481	491
Total Primary Government Debt	$ 12,603	$ 11,740	$ 10,922	$ 10,083	$ 9,033	$ 8,465	$ 7,968	$ 7,335	$ 7,000	$ 6,583
Debt Ratios										
Ratio of Total Debt to Personal Income [1]	5.65%	5.26%	5.46%	5.07%	4.65%	4.51%	4.54%	4.48%	4.66%	4.71%
Per Capita Debt [2]	$ 1,977	$ 1,873	$ 1,767	$ 1,650	$ 1,495	$ 1,417	$ 1,352	$ 1,258	$ 1,217	$ 1,162
Net General Obligation Bonded Debt										
Gross Bonded Debt	$ 11,936	$ 11,129	$ 10,359	$ 9,521	$ 8,511	$ 7,957	$ 7,495	$ 7,063	$ 6,753	$ 6,339
Less: Debt Service Funds	206	178	288	100	102	83	211	88	88	80
Net Bonded Debt	$ 11,730	$ 10,951	$ 10,071	$ 9,421	$ 8,409	$ 7,874	$ 7,284	$ 6,975	$ 6,665	$ 6,259
Estimated Actual Property Value	N/A	707,348	625,112	585,655	563,601	532,296	492,681	452,962	419,425	389,447
Ratio of Net Bonded Debt to Estimated Actual Property Value [3]	1.66%	1.55%	1.82%	1.70%	1.59%	1.59%	1.58%	1.65%	1.71%	1.74%
Per Capita Net Bonded Debt [2]	$ 1,840	$ 1,747	$ 1,629	$ 1,541	$ 1,391	$ 1,318	$ 1,236	$ 1,196	$ 1,159	$ 1,105

[1] Personal income data can be found in Schedule 13. 2006 Personal Income data not available. Used 2005 Personal Income to calculate 2006 ratio.

[2] Population data can be found in Schedule 15.

[3] 2006 Property tax roll not assessed until 2007. 2005 Estimated Actual Value used to calculate 2006 ratio.

Sources: Washington State Office of Financial Management - Accounting Division
Tax Statistics, Washington State Department of Revenue (Estimated Actual Property Value)

Schedule 11
Legal Debt Margin Information [1]

Last Ten Fiscal Years (dollars in millions)

Legal Debt Limitation Calculation for Fiscal Year 2006

Three year mean, general state revenues	$ 9,323
Legal Debt Limitation:	
Debt service limitation (9 percent of above)	839
Less: Projected maximum annual debt service of outstanding bonds as of June 30 of the preceding fiscal year	740
Debt service capacity	$ 99
Remaining State general obligation debt capacity [2]	$ 1,484
Plus: Debt outstanding bond issued & projected sales subject to limitation as of June 30 of the preceding fiscal year	7,304
Maximum Debt Authorization Subject to Limitation	$ 8,788

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Debt service limitation	$ 839	$ 695	$ 639	$ 622	$ 606	$ 581	$ 554	$ 529	$ 510	$ 494
Total debt service applicable to limit	740	623	594	560	567	560	531	504	480	436
Debt service capacity	$ 99	$ 72	$ 45	$ 62	$ 39	$ 21	$ 23	$ 25	$ 30	$ 58
Debt service capacity as a % of total debt service limitation	11.8%	10.4%	7.0%	10.0%	6.4%	3.6%	4.2%	4.7%	5.9%	11.7%
Remaining State general obligation debt capacity [3]	$ 1,484	$ 993	$ 607	$ 846	$ 550	$ 299	$ 294	$ 375	$ 417	$ 764
Debt outstanding bonds issued & projected sales subject to debt service limitation	7,304	6,047	5,693	5,622	5,406	5,114	4,870	4,647	4,231	3,974
Maximum debt authorization subject to limitation	$ 8,788	$ 7,040	$ 6,300	$ 6,468	$ 5,956	$ 5,413	$ 5,164	$ 5,022	$ 4,648	$ 4,738
Remaining debt capacity as a % of maximum debt authorized	16.9%	14.1%	9.6%	13.1%	9.2%	5.5%	5.7%	7.5%	9.0%	16.1%

[1] The constraining limit for 2006 is the constitutional limitation.

[2] Interest rate assumption for 2006 is 4.43 percent.

[3] The remaining debt capacity each year is the calculated present value of the debt service capacity utilizing a yearly interest rate assumption.

Schedule 12
Revenue Bond Coverage [1]

Last Ten Fiscal Years (expressed in millions)

Fiscal Year	Gross Revenues [2]	Less: Operating Expenses [3]	Net Available Revenue	Debt Service Principal	Debt Service Interest	Coverage
Governmental Activities*						
2006	$ 38	$ -	$ 38	$ -	$ 37	1.02
2005	41	-	41	1	34	1.16
2004	39	-	39	-	33	1.16
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	-
1998	N/A	N/A	-	N/A	N/A	-
1997	N/A	N/A	-	N/A	N/A	-
Business-Type Activities**						
2006	$ 1,195	$ 1,071	$ 124	$ 16	$ 28	2.87
2005	1,102	998	104	12	26	2.74
2004	1,068	971	97	10	16	3.73
2003	1,015	917	98	8	17	3.92
2002	912	854	58	8	12	2.90
2001	838	806	32	6	12	1.78
2000	775	716	59	5	10	3.93
1999	758	674	84	6	8	6.00
1998	712	603	109	6	8	7.79
1997	636	548	88	6	8	6.29

[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 $497 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.

[2] Total revenues (including earnings on investments).

[3] Total operating expenses exclusive of depreciation.

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.

Schedule 13
Personal Income Comparison
Washington vs. United States
Last Ten Calendar Years (dollars in billions)

	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
In Current Dollars:										
Washington										
Amount	$ 223.2	$ 216.9	$ 202.9	$ 197.5	$ 193.5	$ 187.9	$ 175.5	$ 163.8	$ 150.1	$ 139.7
Percent change	2.9%	6.9%	2.7%	2.1%	3.0%	7.1%	7.1%	9.1%	7.4%	7.6%
Per Capita	35,423	34,966	33,124	32,567	32,250	31,709	29,973	28,329	26,353	24,919
United States										
Amount	$ 10,239.2	$ 9,731.4	$ 9,163.6	$ 8,881.9	$ 8,724.1	$ 8,429.7	$ 7,802.4	$ 7,423.0	$ 6,915.1	$ 6,520.6
Percent change	5.2%	6.2%	3.2%	1.8%	3.5%	8.0%	5.1%	7.3%	6.1%	6.0%
Per Capita	34,481	33,072	31,442	30,779	30,533	29,807	27,891	26,840	25,295	24,139
Washington as % of U.S.	102.7%	105.7%	105.3%	105.8%	105.6%	106.4%	107.5%	105.5%	104.2%	103.2%

Source: Washington State Economic and Revenue Forecast Council - November 2006 forecast.

Schedule 14
Personal Income by Component
Last Ten Calendar Years (dollars in billions)

	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Total personal income	$ 223.2	$ 216.9	$ 202.9	$ 197.5	$ 193.5	$ 187.9	$ 175.5	$ 163.8	$ 150.1	$ 139.7
Percent change	2.9%	6.9%	2.7%	2.1%	3.0%	7.1%	7.1%	9.1%	7.4%	7.6%
Total earnings	$ 175.8	$ 166.3	$ 157.3	$ 153.0	$ 150.0	$ 147.0	$ 138.2	$ 126.7	$ 115.1	$ 106.7
Percent change	5.7%	5.7%	2.8%	2.0%	2.0%	6.4%	9.1%	10.1%	7.9%	6.9%
Wages and salaries	$ 125.7	$ 119.2	$ 114.1	$ 111.4	$ 110.6	$ 110.0	$ 103.8	$ 94.2	$ 85.2	$ 77.2
Percent change	5.5%	4.5%	2.4%	0.7%	0.5%	6.0%	10.2%	10.6%	10.4%	7.8%
Other labor income	$ 31.2	$ 28.9	$ 26.8	$ 25.5	$ 23.2	$ 22.9	$ 21.3	$ 20.1	$ 18.5	$ 17.8
Percent change	8.0%	7.8%	5.1%	9.9%	1.3%	7.5%	6.0%	8.6%	3.9%	2.9%
Farm proprietor's income	$ 0.3	$ 0.6	$ 0.7	$ 0.4	$ 0.2	$ 0.4	$ 0.4	$ 0.7	$ 0.7	$ 1.0
Percent change	-50.0%	-14.3%	75.0%	100.0%	-50.0%	0.0%	-42.9%	0.0%	-30.0%	42.9%
Nonfarm proprietor's income	$ 18.6	$ 17.6	$ 15.6	$ 15.7	$ 15.9	$ 13.7	$ 12.8	$ 11.6	$ 10.7	$ 10.7
Percent change	5.7%	12.8%	-0.6%	-1.3%	16.1%	7.0%	10.3%	8.4%	0.0%	4.9%
Less: Personal contributions for										
Social insurance	$ 21.6	$ 20.3	$ 19.0	$ 18.2	$ 17.8	$ 18.2	$ 17.0	$ 16.1	$ 14.6	$ 13.8
Percent change	6.4%	6.8%	4.4%	2.2%	-2.2%	7.1%	5.6%	10.3%	5.8%	4.5%
Plus: Residence adjustment	$ 2.6	$ 2.4	$ 2.3	$ 2.4	$ 2.3	$ 2.2	$ 1.9	$ 1.8	$ 1.7	$ 1.6
Percent change	8.3%	4.3%	-4.2%	4.3%	4.5%	15.8%	5.6%	5.9%	6.2%	14.3%
Dividends, interest and rent	36.6	40.1	34.3	33.6	33.9	34.5	31.4	31.5	28.9	26.8
Percent change	-8.7%	16.9%	2.1%	-0.9%	-1.7%	9.9%	-0.3%	9.0%	7.8%	9.4%
Transfer payments	29.8	28.3	27.9	26.6	25.1	22.3	21.0	19.8	19.1	18.4
Percent change	5.3%	1.4%	4.9%	6.0%	12.6%	6.2%	6.1%	3.7%	3.8%	5.1%

Note: Figures may not total due to rounding.
Source: Washington State Economic and Revenue Forecast Council - November 2006 forecast.

Schedule 15
Total Resident Population and Components of Change

Last Ten Calendar Years (figures in thousands)

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
United States Population[1]	N/A	296,410.4	293,656.8	290,850.0	287,984.8	285,107.9	282,193.5	279,040.1	275,854.1	272,646.9
Percent Change[1]	N/A	0.9%	1.0%	1.0%	1.0%	1.0%	1.1%	1.2%	1.2%	1.2%
Washington Population	6,375.6	6,256.4	6,167.8	6,098.3	6,041.7	5,974.9	5,894.1	5,830.8	5,750.0	5,663.8
Percent Change	1.9%	1.4%	1.1%	0.9%	1.1%	1.4%	1.1%	1.4%	1.5%	1.7%
Washington Population change:										
Number	119.2	88.6	69.6	56.7	66.8	80.8	63.4	80.9	86.2	96.0
Births number	85.2	82.0	81.0	79.1	79.3	80.7	79.9	79.8	78.8	78.0
Deaths number	47.0	44.3	46.0	44.7	44.9	43.9	43.7	43.1	41.6	42.6
Net migration number	81.0	50.9	34.6	22.3	32.4	44.0	27.2	44.2	49.0	60.6

Notes: Births, deaths, and migration year figures are April through March.
Population figures are as of April 1 of each year.
Birth and death figures are estimated for the years 2005 and 2006.
[1] 2006 U.S. Population number not available.

Source: Washington State Office of Financial Management - November 2006 forecast.

Schedule 16
Annual Average Civilian Labor Force, Unemployment and Unemployment Rates

Washington vs. United States

Last Ten Calendar Years (figures in thousands)

	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Washington State										
Civilian Labor Force	3,292	3,224	3,159	3,111	3,053	3,050	3,066	3,032	2,967	2,882
Employment	3,110	3,022	2,925	2,882	2,864	2,899	2,918	2,887	2,822	2,712
Total Unemployment	182	202	234	229	189	151	148	145	145	170
Unemployment Percentage Rate	5.5%	6.3%	7.4%	7.4%	6.2%	5.0%	4.8%	4.8%	4.9%	5.9%
United States										
Civilian Labor Force	149,300	147,400	146,500	145,100	143,900	142,600	139,400	137,700	136,300	134,000
Employment	141,700	139,200	137,700	136,500	136,900	136,900	133,500	131,500	129,600	126,700
Total Unemployment	7,600	8,200	8,800	8,600	7,000	5,700	5,900	6,200	6,700	7,300
Unemployment Percentage Rate	5.1%	5.6%	6.0%	5.9%	4.9%	4.0%	4.2%	4.5%	4.9%	5.4%
Washington Rate as % of U.S. Rate	107.8%	112.5%	123.3%	125.4%	126.5%	125.0%	114.3%	106.7%	100.0%	109.3%

Source: Washington State Economic and Revenue Forecast Council - November 2006 forecast.

Schedule 17
Employment by Sector

Last Ten Calendar Years (figures in thousands)

	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Nonagricultural Wage and Salary										
Workers Employed in Washington State										
Manufacturing:										
Food	33.7	34.1	34.8	35.3	37.3	38.9	38.6	38.3	39.1	40.1
Wood products	20.0	18.8	17.8	18.0	19.0	21.9	21.2	21.9	22.9	22.7
Paper and paper products	12.2	12.7	13.3	13.2	14.1	14.4	15.2	15.6	15.6	15.6
Primary and fabricated metals	23.3	22.3	22.1	23.5	27.0	29.8	30.0	31.4	30.7	29.4
Computer and electronic equipment	22.2	22.1	23.4	26.2	32.4	34.4	33.3	35.0	33.5	30.1
Machinery and electrical equipment	17.8	17.0	16.3	16.7	18.5	19.8	19.2	18.3	17.8	16.5
Aerospace	65.7	61.5	65.3	75.7	87.2	86.2	98.3	112.0	105.1	86.4
Other manufacturing	77.2	75.3	74.2	76.4	80.7	86.6	87.7	88.0	85.7	84.2
Total Manufacturing	271.9	263.7	267.0	285.0	316.2	331.9	343.4	360.6	350.4	325.0
Nonmanufacturing:										
Natural resources	9.0	9.1	8.6	9.4	9.8	10.0	10.6	10.3	10.8	10.5
Construction	177.4	164.1	156.2	154.2	158.8	160.6	153.8	143.4	137.3	127.4
Transportation, warehousing and utilities	91.3	89.7	87.9	88.3	92.4	95.4	94.3	93.5	90.1	89.4
Trade	439.8	428.6	421.9	421.0	431.4	436.5	424.8	412.5	400.7	390.8
Information	94.9	92.9	92.3	93.6	99.0	97.6	85.2	77.2	72.4	68.3
Financial activities	154.0	151.8	151.9	146.2	145.2	142.3	141.9	136.3	128.5	124.9
Services	1,012.0	977.2	951.0	940.2	939.2	951.2	919.4	895.2	866.0	828.5
State and local government	457.1	454.0	450.5	446.9	437.5	413.5	406.8	398.7	390.2	382.0
Federal civilian government	69.5	69.7	70.2	69.2	67.9	69.9	67.6	67.2	67.9	68.6
Total Nonmanufacturing	2,505.1	2,437.2	2,390.4	2,368.9	2,381.2	2,377.1	2,304.4	2,234.3	2,163.8	2,090.5
Total Wage and Salary Workers	2,777.0	2,700.9	2,657.4	2,654.0	2,697.4	2,709.0	2,647.8	2,594.9	2,514.2	2,415.5

Notes: Average of monthly data.
Figures may not total due to rounding.

Source: Washington State Economic and Revenue Forecast Council - November 2006 forecast.

Schedule 18
Average Annual Wage Rates

Last Ten Calendar Years

	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Mining	$ 53,733	$ 52,287	$ 50,542	$ 48,322	$ 48,328	N/A	N/A	N/A	N/A	N/A
Construction	44,667	43,074	41,960	41,971	41,008	N/A	N/A	N/A	N/A	N/A
Manufacturing	55,717	52,648	50,907	51,434	48,206	N/A	N/A	N/A	N/A	N/A
Transportation, warehousing and utilities	45,887	45,000	42,824	42,092	40,887	N/A	N/A	N/A	N/A	N/A
Retail trade	29,666	28,444	27,531	26,917	25,897	N/A	N/A	N/A	N/A	N/A
Wholesale trade	55,146	54,589	50,643	49,517	48,683	N/A	N/A	N/A	N/A	N/A
Information	89,050	92,421	101,530	102,206	110,659	N/A	N/A	N/A	N/A	N/A
Financial activities	55,409	54,903	51,547	48,111	46,715	N/A	N/A	N/A	N/A	N/A
Services	37,282	36,514	35,211	34,025	32,899	N/A	N/A	N/A	N/A	N/A
State and local government	38,704	37,495	36,579	35,558	34,193	33,878	32,373	31,292	30,252	29,532
Federal civilian government	57,304	56,033	52,865	50,210	47,261	44,716	42,754	42,336	41,203	39,802

Note: Employment and wages are reported on by North American Industry Classification System (NAICS). Wages are not available before 2001 on a NAICS basis for most industry sectors.

Source: Washington State Economic and Revenue Forecast Council - November 2006 forecast.

Schedule 19
Principal Employers by Major Industry
(Ranked by Number of Employees)

Ranking	Industry	2005 Number of Employees	2005 Percentage of Total [1]	2005 Number of Employers
1	Trade, Transportation and Utilities	502,333	18.6%	30,626
2	Government (including public education)	498,770	18.5%	2,032
3	Education and Health Services	299,572	11.1%	14,758
4	Professional and Business Services	292,711	10.9%	23,629
5	Manufacturing	259,349	9.6%	7,145
6	Leisure and Hospitality	250,747	9.3%	13,656
7	Construction	151,691	5.6%	21,856
8	Financial Activities	148,123	5.5%	11,712
9	Information	91,741	3.4%	2,217
10	Natural Resources, Agriculture, Forestry, Fishing, and Mining	85,275	3.2%	8,506

[1] The percentage is based on total employment of 2,694,194.

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: Washington State Employment Security Department

Schedule 20
Fortune 500 Companies Headquartered in Washington

Ranking 2005	Ranking 2004	Company	Revenues (in millions)	Profits (in millions)	Employees Worldwide	Headquarters/ Location
28	29	Costco Wholesale Corp.	$ 52,935	$ 1,063	85,250	Issaquah
48	41	Microsoft Corp.	39,788	12,254	61,000	Redmond
90	89	Weyerhaeuser Co.	23,000	733	49,900	Federal Way
99	131	Washington Mutual Inc.	21,326	3,432	60,798	Seattle
157	188	Paccar Inc.	14,057	1,133	21,900	Bellevue
272	303	Amazon.com Inc.	8,490	359	12,000	Seattle
293	294	Nordstrom Inc.	7,723	551	51,400	Seattle
338	372	Starbucks Corp.	6,369	494	115,000	Seattle
339	285	Safeco Corp.	6,351	691	9,181	Seattle

Source: Fortune, April 17, 2006

Schedule 21
Value of Agricultural Production

Last Ten Calendar Years (dollars in millions)

	% Change 2005 Vs 2004	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Field crops	(1.8)	$1,766.1	$1,798.5	$1,737.0	$1,799.0	$1,750.2	$1,697.5	$1,617.7	$1,648.1	$1,869.7	$2,083.2
Fruit and nut crops	25.7	1,885.8	1,499.9	1,647.7	1,450.7	1,315.2	1,164.7	1,233.0	1,070.3	1,235.8	1,232.8
Vegetable crops	32.6	391.1	295.0	355.0	361.8	306.8	325.8	299.3	357.0	357.6	307.6
Berry crops	(2.4)	75.7	77.6	66.1	62.4	61.5	46.8	66.2	40.4	50.2	54.4
Total Crops	12.2	4,118.7	3,671.0	3,805.8	3,673.9	3,433.7	3,234.8	3,216.2	3,115.8	3,513.3	3,678.0
Specialty products (1)	0.7	543.9	540.0	503.7	515.3	535.4	588.0	592.5	584.5	577.0	619.7
Livestock and livestock products	4.3	1,750.1	1,678.1	1,449.2	1,396.5	1,604.1	1,519.0	1,553.4	1,542.5	1,450.0	1,457.4
State Total		$ 6,412.7	$ 5,889.1	$ 5,758.7	$ 5,585.7	$ 5,573.2	$ 5,341.8	$ 5,362.1	$ 5,242.8	$ 5,540.3	$ 5,755.1

Note: (1) Includes forest products, christmas trees, floriculture, nursery and other horticultural products, and mushrooms.

Source: United States Department of Agriculture (USDA), Washington Agricultural Statistics Service.

Schedule 22
Rank Order of Principal Commodities Value

Last Ten Calendar Years (dollars in thousands)

Commodities	Rank 2005	% Change 2005 Vs 2004	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Apples	1	25.2	$1,234,324	$986,215	$1,178,020	$1,023,000	$900,250	$750,200	$856,000	$700,000	$821,400	$912,700
Milk (4)	2	(3.0)	835,592	861,144	675,301	674,400	827,100	715,904	824,715	846,834	732,423	792,277
Cattle and calves	3	26.3	601,336	476,099	475,522	451,016	492,641	560,729	454,222	458,719	468,580	409,697
Potatoes, fall	4	16.3	534,688	459,669	489,038	512,487	552,240	446,250	476,000	447,480	431,984	451,203
Wheat, all	5	(13.0)	456,316	524,493	521,163	496,873	423,681	443,369	345,299	414,218	560,608	755,680
Hay, all	6	(2.8)	365,940	376,512	343,610	375,366	375,328	355,261	307,027	312,588	361,824	371,347
Cherries, all	7	39.9	338,463	242,018	175,610	151,385	147,598	157,228	115,860	128,801	132,694	118,940
Nursery & greenhouse products (1)	8	(0.8)	326,259	328,908	310,085	298,533	288,399	288,432	282,211	273,793	262,620	245,000
Forest products, farm (2)	9	7.1	150,000	140,000	120,000	140,000	171,000	225,000	235,000	247,000	255,000	300,000
Pears, all	10	11.6	142,840	128,005	129,152	116,437	108,627	105,995	121,204	107,886	123,670	125,768
Grapes, all	11	16.5	141,950	121,855	144,336	134,605	138,195	126,760	114,400	105,276	124,410	57,744
Onions, all	12	208.8	111,105	35,979	91,487	112,538	67,497	64,605	51,795	84,255	99,569	55,452
Broilers (3)	13	4.4	102,581	98,224	74,904	65,078	81,704	N/A	N/A	N/A	N/A	N/A
Aquaculture (includes trout eggs & fish)(5)	14	10.9	99,110	89,363	84,239	89,690	83,271	N/A	N/A	N/A	N/A	N/A
Hops	15	(2.6)	73,808	75,811	71,513	83,288	91,911	94,591	80,930	73,457	89,306	93,953
Sweet corn, all	16	3.4	69,609	67,298	76,396	72,247	66,268	70,261	64,103	65,752	61,905	57,584
Corn, silage	17	14.8	59,157	51,545	45,750	53,040	48,360	40,755	41,470	43,500	45,430	37,700
Christmas trees	18	(9.1)	50,000	55,000	60,000	60,000	59,000	60,000	60,000	48,000	45,000	45,000
Corn, grain	19	(27.7)	45,100	62,370	40,950	37,772	26,752	46,805	41,940	46,550	54,150	69,930
Eggs	20	(42.1)	44,791	77,348	70,323	55,460	62,544	59,759	59,031	69,023	75,024	89,961
Mint oil	21	(3.1)	44,617	46,061	41,768	43,254	35,740	34,309	37,236	54,501	53,066	54,413
Red raspberries	22	(14.5)	39,275	45,960	36,554	36,985	37,784	25,888	48,291	22,664	28,020	30,459
Haylage	23	32.8	28,675	21,600	20,250	18,011	26,075	21,924	43,763	36,685	N/A	N/A
Asparagus	24	(13.3)	27,580	31,802	31,627	44,893	48,910	54,876	51,216	61,217	64,204	63,312
Barley	25	(22.0)	27,011	34,643	38,756	49,504	41,160	66,199	50,882	53,404	80,630	72,019
Kentucky bluegrass seed	26	(19.0)	22,680	28,000	20,625	18,915	22,875	25,840	18,160	17,500	17,466	17,457
Blueberries	27	19.8	19,160	16,000	12,068	9,741	11,688	9,364	7,833	6,565	7,769	5,639
Mushrooms	28	10.4	17,711	16,043	13,666	14,497	16,711	14,160	15,307	15,751	14,392	14,731
Green peas, processing	29	(2.1)	17,240	17,610	20,439	13,804	18,148	24,638	22,588	26,921	25,342	20,408
Dry Edible Beans	30	13.6	16,949	14,921	11,025	16,517	N/A	N/A	N/A	N/A	N/A	N/A

Note: (1) Includes floriculture.

(2) Value of forest products sold from operations meeting the USDA farm definition.

(3) Washington Fryer Commission total weight multiplied by USDA US average bird liveweight price per pound.

(4) 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.

(5) Excludes value of distributed fish.

N/A indicates data not available.

Source: United States Department of Agriculture (USDA), Washington Agricultural Statistics Service.

Schedule 23
International Trade Facts
All Washington Ports
Last Ten Calendar Years (dollars in millions)

	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Exports (1)	$ 51,533	$ 46,051	$ 41,776	$ 41,730	$ 42,935	$ 42,100	$ 46,513	$ 48,780	$ 47,685	$ 40,380
Imports	81,308	65,135	55,762	54,059	58,144	64,991	59,676	55,604	53,193	46,849
Trade balance	(29,775)	(19,084)	(13,987)	(12,329)	(15,209)	(22,891)	(13,163)	(6,824)	(5,508)	(6,469)
Two-way trade	132,841	111,186	97,538	95,789	101,079	107,091	106,189	104,384	100,878	87,229

Note: (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).

Schedule 24
Major Export Trading Partners
Last Ten Calendar Years (dollars in millions)

Partners	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Canada	$ 10,581	$ 8,758	$ 7,141	$ 6,414	$ 6,525	$ 7,210	$ 6,904	$ 6,836	$ 7,131	$ 6,230
Japan	9,272	8,779	7,988	6,865	5,938	6,837	7,868	8,754	9,871	9,026
China (mainland)	6,576	4,219	2,968	3,032	3,445	2,540	2,453	3,852	2,273	2,091
Taiwan	3,822	2,761	2,503	1,464	1,970	2,076	1,278	2,409	2,246	2,330
Korea	2,467	3,296	3,014	3,712	3,605	3,445	2,923	1,837	4,290	4,609
United Arab Emirates	2,218	109	683	950	215	248	715	373	620	462
Ireland	1,873	1,530	903	617	586	492	422	100	80	50
Singapore	1,395	1,602	2,186	2,459	2,770	690	1,434	1,745	1,968	1,545
France	1,361	2,011	597	1,883	1,157	950	1,337	836	250	299
Australia	999	918	1,278	2,124	481	517	617	576	599	702
United Kingdom	878	1,029	1,369	1,165	2,721	3,203	4,312	4,451	4,551	1,788
Netherlands	796	1,700	2,027	914	834	1,518	1,482	877	1,216	1,052
Hong Kong	752	751	696	652	824	785	861	1,429	1,331	1,724
Germany	623	509	746	983	1,728	1,855	2,043	2,278	1,497	1,120
Philippines	585	718	483	431	378	396	352	363	581	N/A

Note: 1996-1999 statistics 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).

Schedule 25
Major Import Trading Partners
Last Ten Calendar Years (dollars in millions)

Partners	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
China	$ 22,653	$ 16,138	$ 13,955	$ 12,155	$ 9,875	$ 10,651	$ 9,288	$ 8,428	$ 7,612	$ 6,655
Japan	21,390	18,291	15,917	15,658	17,074	20,022	19,622	19,303	20,833	18,877
Canada	15,245	13,367	11,425	10,389	12,659	14,690	11,961	10,429	9,663	8,107
Korea	4,270	3,468	2,788	2,637	2,558	2,793	2,507	2,337	2,354	2,124
Taiwan	3,519	2,776	2,160	2,382	3,200	4,021	3,845	4,105	3,217	3,062
Thailand	1,296	918	813	841	1,015	1,332	1,152	1,195	1,179	977
Hong Kong	1,092	978	882	913	1,634	1,345	1,116	1,183	1,380	1,237
Malaysia	1,091	955	690	724	772	958	808	816	599	669
Indonesia	1,069	816	627	879	880	781	739	762	647	600
France	873	507	472	750	859	726	736	341	121	162
Vietnam	819	473	301	177	37	38	35	34	35	10
United Kingdom	746	758	842	1,256	2,342	1,645	2,478	2,172	1,744	836
Argentina	565	422	326	206	136	167	235	52	78	N/A
Philippines	557	418	405	550	1,011	1,089	1,070	813	381	380
Singapore	538	536	507	356	302	322	325	291	237	306

Note: Based on all Washington State ports, all methods of transportation.

Source: Washington State Department of Community, Trade and Economic Development (U.S. Census Bureau).

Schedule 26
Property Value and Construction

Last Ten Calendar Years (dollars in millions)

	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Value of All Taxable Property:										
Assessed value	$ 634,883	$ 573,677	$ 535,208	$ 506,838	$ 478,687	$ 441,192	$ 404,657	$ 378,587	$ 378,587	$ 330,443
Property Value of Exemptions:										
Senior citizen	$ 5,267	$ 3,839	$ 3,362	$ 3,327	$ 4,066	$ 4,187	$ 4,609	$ 4,796	$ 2,883	$ 2,999
Head of household	68	47	56	56	53	47	43	47	44	54
Total Exemptions	$ 5,335	$ 3,886	$ 3,418	$ 3,383	$ 4,119	$ 4,234	$ 4,652	$ 4,843	$ 2,927	$ 3,053
New Construction and Improvements:										
Value	$ 15,393	$ 12,872	$ 11,356	$ 10,724	$ 10,896	$ 10,527	$ 9,542	$ 9,195	$ 8,497	$ 6,818

Source: Tax Statistics, Washington State Department of Revenue.

Schedule 27
Residential Building Activity

Last Ten Calendar Years (dollars in millions)

	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Permits	52,988	50,089	42,825	40,200	38,345	39,021	42,752	45,727	41,089	39,597
Valuations	$ 8,742	$ 7,535	$ 6,346	$ 5,473	$ 4,689	$ 4,426	$ 4,578	$ 4,745	$ 4,225	$ 3,773

Source: U.S. Department of Commerce, Bureau of the Census.

Schedule 28
Accrued State Retail Sales Tax*

Last Ten Calendar Years (dollars in millions)

	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Gross Sales Subject to Retail Sales Tax	$ 158,705	$ 144,549	$ 132,285	$ 126,515	$ 127,819	$ 128,778	$ 118,527	$ 110,400	$ 102,800	$ 95,648
Taxable Sales	102,154	93,436	87,659	85,361	84,899	85,339	80,228	74,577	69,975	64,301
Accrued State Retail Sales Tax*	6,640	6,073	5,698	5,549	5,518	5,547	5,215	4,847	4,548	4,179

*State tax only, excludes accrued local sales tax revenues.
Source: Quarterly Business Review, Washington State Department of Revenue.

Schedule 29
Full-Time Equivalent Staff Comparison
Budgeted Funds
Last Ten Fiscal Years

Function	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
General government	9,330	9,272	9,004	8,867	8,761	8,637	8,510	8,416	8,179	8,228
Human services	32,918	33,368	32,964	32,909	33,080	32,884	32,587	32,003	30,665	30,201
Natural resources and recreation	6,254	6,253	6,245	6,275	6,307	6,190	5,955	5,921	5,910	6,057
Transportation	10,662	10,549	10,373	10,410	10,531	10,250	10,254	10,140	9,827	9,958
Education	47,477	47,327	46,491	45,802	45,139	44,081	42,623	41,426	40,448	39,238
Total	106,641	106,769	105,077	104,263	103,818	102,042	99,929	97,906	95,029	93,682
Percentage Change	-0.1%	1.6%	0.8%	0.4%	1.7%	2.1%	2.1%	3.0%	1.4%	2.1%

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.

Schedule 30
Full-Time Equivalent Staff Comparison
General Fund State
Last Ten Fiscal Years

Function	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
General government	3,108	3,102	3,022	3,030	2,904	2,925	2,874	2,870	2,763	2,874
Human services	17,051	17,130	17,167	17,701	17,398	17,132	16,122	16,242	16,159	15,593
Natural resources and recreation	2,175	2,166	2,226	2,066	2,189	2,157	1,902	1,787	1,637	1,842
Transportation	428	307	334	188	391	416	405	407	211	222
Education	19,656	19,265	19,297	18,512	18,555	18,464	17,944	17,681	17,358	16,846
Total	42,418	41,970	42,046	41,497	41,437	41,094	39,247	38,987	38,128	37,377
Percentage Change	1.1%	-0.2%	1.3%	0.1%	0.8%	4.7%	0.7%	2.3%	2.0%	3.9%

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.

Schedule 31
Operating and Capital Asset Indicators by Function
General Government

Last Ten Fiscal years

	2006	2005	2004	2003	2002
Department of Revenue (1)					
Number of state excise taxpayer registered accounts *	N/A	718,224	692,845	652,373	617,491
Number of taxable real estate excise tax (REET) sales *	N/A	364,900	344,056	316,635	287,851
Convention and Trade Center (2)					
Number of national/international/regional events	46	53	45	41	36
Attendance of national/international/regional events	176,904	179,493	161,101	141,090	111,163
Number of local events	520	454	499	481	407
Attendance of local events	320,549	219,191	266,717	284,242	260,702
General Administration (GA) (3)					
Number of state motor pool vehicles **	1,365	1,375	1,382	1,389	1,379
Total state motor pool mileage (in 000's) **	20,324	19,395	19,387	19,789	19,060
Number of leases for office space ***	604	549	529	568	557
Gross square feet of leased office space (in 000's)***	7,789	6,753	6,650	6,667	6,588
Number of GA owned buildings	44	44	44	44	44
Gross square feet of GA owned office space (in 000's)	3,101	2,893	2,893	2,878	2,878
Liquor Control Board (4)					
Retail licensees	12,651	12,331	12,121	11,791	11,453
Non-retail licensees	1,954	1,933	1,409	1,393	1,166
Number of state owned liquor stores	159	159	161	157	157
Number of contracted stores	151	153	154	155	157

* Data available on a calendar year basis.

** Data not available prior to 1999.

*** Data not available prior to 2000.

Sources:

(1) Tax Statistics, Washington State Department of Revenue

(2) Washington State Convention and Trade Center

(3) Washington State Department of General Administration

(4) Washington State Liquor Control Board

2001	2000	1999	1998	1997
580,599	543,380	511,828	481,526	447,489
272,480	279,597	289,890	277,638	246,871
38	34	33	39	40
129,600	118,440	143,201	200,644	204,373
347	337	284	326	305
235,000	280,149	411,949	278,062	275,420
1,378	1,403	1,413	N/A	N/A
21,004	20,300	20,841	N/A	N/A
621	665	N/A	N/A	N/A
7,174	7,515	N/A	N/A	N/A
44	42	42	40	40
2,878	2,718	2,718	2,653	2,653
11,337	11,244	11,195	11,151	11,064
1,178	1,013	946	949	908
157	154	157	156	159
157	159	159	159	160

Schedule 32
Operating and Capital Asset Indicators by Function
Human Services
Last Ten Fiscal Years

	2006	2005	2004	2003	2002
Department of Social and Health Services (1)					
Mental Health Programs					
Mental health state facilities	4	4	4	4	4
Mental health state facilities available beds	1,280	1,247	1,218	1,287	1,379
Mental health state facilities average daily census	1,262	1,207	1,192	1,225	1,328
Community mental health facilities	150	150	150	150	150
Community mental health programs total clients served *	N/A	125,945	131,069	127,967	125,524
Medical Assistance Programs					
Monthly average caseload certified eligible	843,683	851,109	862,935	864,389	840,018
Income Assistance Programs					
Temporary Assistance for Needy Families (TANF) caseload	55,515	57,024	55,610	54,659	55,068
Food assistance caseload	273,542	251,453	220,130	192,310	164,531
Department of Corrections (2)					
Number of correctional institutions	15	15	15	15	15
Prison population	17,817	15,810	16,046	15,580	15,405
Prison operating capacity	15,002	15,002	15,341	13,262	13,262
Department of Health (3)					
Licensed health professionals **	287,512	284,439	275,023	265,607	256,173
Department of Labor & Industries (4)					
Claims filed, injured or ill workers	140,887	139,365	137,835	140,710	149,061
Electrical wiring jobs inspected	172,402	180,401	162,503	153,874	133,828
Workplaces inspected each year by WISHA program ***	N/A	7,535	6,728	7,688	7,868

* Data not available for Fiscal Year 2006

** 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.

*** Data available on a calendar year basis

Sources:

(1) Data Book, Washington State Office of Financial Management

(2) Washington State Department of Corrections

(3) Washington State Department of Health

(4) Washington State Department of Labor and Industries

2001	2000	1999	1998	1997
4	4	4	4	4
1,398	1,398	1,315	1,315	1,315
1,343	1,340	1,317	1,276	N/A
150	150	153	164	174
120,742	112,105	106,911	106,737	99,237
790,244	727,964	728,307	746,110	749,743
54,759	58,797	66,145	84,029	N/A
144,661	139,341	154,662	182,563	190,969
15	15	14	14	12
14,242	13,736	13,473	12,814	11,695
12,867	12,587	11,828	11,529	10,563
246,834	236,497	226,160	219,519	212,877
167,071	180,310	177,707	181,906	182,556
128,048	134,042	136,052	132,542	122,887
6,864	7,339	7,059	7,171	6,565

Schedule 33
Operating and Capital Asset Indicators by Function
Transportation
Last Ten Fiscal Years

	2006	2005	2004	2003	2002	2001
Department of Transportation (1)						
Number of ferries	28	28	28	29	29	29
Vehicles on ferries (in '000s)	10,827	10,810	10,867	10,812	11,141	11,463
Passengers on ferries (in '000s)	12,960	13,071	13,541	13,703	14,489	15,140
Miles of Travel						
Rural (in '000s) *	N/A	11,293	11,354	12,900	12,732	12,399
Urban (in '000s) *	N/A	20,336	20,203	18,763	18,754	18,272
Lane Miles						
Rural	13,652	13,641	14,337	13,978	13,962	13,663
Urban	6,447	6,362	5,633	5,226	5,203	4,369
Total	20,099	20,003	19,970	19,204	19,165	18,032
Pavement patching and repair ** (square feet)	160,280	116,357	N/A	N/A	N/A	N/A
Pavement striping maintenance ** (miles)	23,145	27,389	N/A	N/A	N/A	N/A
Anti-icing & de-icing liquid application ** (gallons in 000's)	3,507	3,446	N/A	N/A	N/A	N/A
Litter pickup ** (cubic yards)	22,916	41,115	N/A	N/A	N/A	N/A
Department of Licensing (2)						
Vehicle registrations (in 000's)	4,056	3,974	3,924	3,805	3,749	3,719
Licensed drivers (in 000's)	4,791	4,682	4,505	4,441	4,400	4,355
State Patrol (3)						
Total contacts ***	650,655	1,356,300	1,482,090	1,508,647	1,442,087	1,449,618
Citations issued ***	290,394	506,462	518,721	571,272	N/A	395,747
Motorist assists ***	163,398	352,615	329,896	409,954	N/A	541,105
Collisions investigated ***	18,452	40,175	36,449	32,874	31,401	41,977
Number of traffic officers ***	667	651	686	684	811	N/A

* Data available on a calendar year basis.

** Data not available prior to 2005.

*** Data available on a calendar year basis. N/A data not available. Data for 2006 through June 30, 2006.

Sources:

(1) Washington State Department of Transportation

(2) Washington State Department of Licensing

(3) Washington State Patrol

2000	1999	1998	1997
29	29	25	26
11,543	11,379	11,214	10,914
15,330	15,118	14,701	13,968
12,272	12,168	11,904	11,624
18,163	17,917	17,416	16,919
13,665	13,661	13,655	13,647
4,330	4,320	4,318	4,312
17,995	17,981	17,973	17,959
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
3,799	3,315	3,394	3,318
4,299	4,160	4,157	4,010
782,548	813,350	840,913	889,285
377,283	359,220	365,677	377,134
447,206	438,155	428,946	438,716
41,804	38,606	42,861	N/A
N/A	N/A	N/A	N/A

Schedule 34
Operating and Capital Asset Indicators by Function
Natural Resources and Recreation

Last Ten Fiscal Years

	2006	2005	2004	2003	2002
State Parks and Recreation Commission (1)					
Number of developed state parks	120	114	120	120	126
Number of owned or managed properties	226	227	229	231	238
Acreage of state parks	260,487	260, 028	259,453	259,244	262,393
Attendance at state parks (in 000s)	40,026	40,331	40,410	45,960	48,864
Department of Fish and Wildlife (2)					
Recreational hunting licenses issued *	342,230	330,453	321,906	324,544	332,769
Recreational fishing licenses issued *	836,609	963,088	1,031,213	955,037	1,068,136
Hatchery salmon releases (pounds in 000s)	4,744	4,795	4,971	5,296	5,798
Hatchery trout releases (pounds in 000s)	1,522	1,417	1,484	1,462	1,503
Department of Natural Resources (3)					
Common schools trust land acreage (in 000s)	1,757	1,758	1,752	1,748	1,745
Total trust land acreage (in 000s)	2,876	2,875	2,882	2,862	2,860
Timber acres harvested *	N/A	30,529	27,629	24,405	23,921
Timber volume harvested (mbf)**	N/A	694,999	616,051	494,266	492,173
Timber volume sold (mbf)**	N/A	598,445	547,749	542,607	494,798
Natural area preserve sites	51	49	49	48	47
Natural area preserve acreage	29,975	29,871	30,074	29,786	27,787
Natural resources conservation area sites	30	28	28	28	27
Natural resources conservation area acreage	87,793	87,357	86,401	84,795	85,408

* Data not available prior to 2000.

** mbf: thousand board feet. N/A 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

2001	2000	1999	1998	1997
126	126	126	126	126
239	240	241	241	241
262,564	262,292	262,012	261,711	261,200
47,774	46,444	48,138	52,732	48,840
372,858	336,961	N/A	N/A	N/A
1,161,682	970,668	N/A	N/A	N/A
6,137	6,571	6,665	6,015	6,790
1,569	1,308	1,418	1,278	1,287
1,746	1,750	1,774	1,785	1,785
2,860	2,863	2,885	2,895	2,893
26,955	32,383	N/A	N/A	N/A
514,951	627,992	627,031	553,506	648,254
460,753	501,431	570,367	579,494	573,122
47	47	48	47	45
27,058	25,253	24,795	23,430	24,817
27	27	24	24	24
84,006	82,020	54,953	50,973	48,307

Schedule 35
Operating and Capital Asset Indicators by Function
Education

Last Ten Academic Years

	2005-06	2004-05	2003-04	2002-03	2001-02	2000-01
K-12 Enrollment [1] (1)						
K-8	649,655	648,526	650,269	650,596	651,692	650,126
9-12	311,684	307,451	302,091	298,912	295,890	292,309
Private & Homebased	22	52	89	100	169	185
Summer	332	473	438	352	467	434
Running Start	10,256	9,761	9,351	8,814	8,305	7,938
UW Transition	109	109	105	71	43	40
Total	972,058	966,371	962,343	958,845	956,566	951,032
High school graduates*	N/A	57,449	57,926	60,525	54,359	56,277
Higher Education [2] (2)						
Community and Technical Colleges						
Number of campuses	34	34	34	34	34	34
Enrollment	130,933	131,489	138,241	139,753	133,962	128,093
Associate degrees granted	21,450	21,632	22,326	20,403	18,516	17,526
Public Universities (3)						
Number of campuses	11	11	11	11	11	11
Enrollment**	91,571	91,358	90,075	89,511	87,969	84,832
Baccalaureate degrees granted	20,989	20,882	20,456	19,454	18,635	17,522
Masters degrees granted	4,748	4,750	4,685	4,591	4,285	4,051
Doctors degrees granted	814	739	670	638	613	641
Professional degrees granted	681	649	648	634	642	645

[1] 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.

Data may not add due to rounding

Preliminary data. Data not complete until final report is received in January 2006.

*2005-06 high school graduates data not available at time of report.

[2] A Full-Time Equivalent student is defined as:

Undergraduate student -- 15 credit hours per term.

Graduate student -- 10 credit hours per term.

Beginning in 1997-98, figures include Private Career College (PCC) enrollments.

** Include all 4-year public institutions and branch campuses.

Sources:

(1) Washington State Office of Financial Management - Forecasting Division (Office of the Superintendent of Public Instruction)

(2) Washington State Board of Community and Technical Colleges

(3) Washington State Institutions of Higher Education

1999-00	1998-99	1997-98	1996-97
649,978	652,518	648,748	643,671
290,515	286,311	280,856	273,768
139	125	189	231
347	383	347	246
7,467	7,001	6,251	5,510
38	41	43	41
948,484	946,379	936,434	923,467
58,939	55,418	54,472	51,741
33	32	32	32
125,131	121,302	117,925	118,515
17,949	17,611	18,155	18,145
11	11	11	11
82,778	81,991	80,605	79,571
18,211	17,663	18,006	17,801
4,008	3,747	3,771	3,757
604	663	649	699
588	566	472	475