Index

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2008

Note 1
Summary of Significant Accounting Policies

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

A. REPORTING ENTITY

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-wide Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

Fund Financial Statements

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

Major Governmental Funds:

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

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

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

Major Enterprise Funds:

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

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

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

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

Nonmajor Governmental Funds:

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

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

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

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

Nonmajor Proprietary Funds:

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

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

The state reports the following fiduciary funds:

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

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

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

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

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

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

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

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

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

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

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

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

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

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

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

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

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

1. Cash and Investments

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

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

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

2. Receivables and Payables

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

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

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

3. Inventories

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

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

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

4. Capital Assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5. Compensated Absences

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

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

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

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

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

6. Long-Term Liabilities

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

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

7. Fund Equity

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

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

E. OTHER INFORMATION

1. Insurance Activities

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

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

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

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

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

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

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

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

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

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

2. Postemployment Benefits

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

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

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

3. Interfund/Interagency Activities

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

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

4. Donor-restricted Endowments

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

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

Note 2
Accounting and Reporting Changes

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

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

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

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

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

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

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

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

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

Note 3
Deposits and Investments

A. DEPOSITS

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

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

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

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

1. Summary of Investment Policies

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

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

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

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

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

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

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

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

2. Unfunded Commitments

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

3. Securities Lending

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

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

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

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

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

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

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

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

4. Interest Rate Risk

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

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

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

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

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

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

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

5. Credit Risk

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

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

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

6. Foreign Currency Risk

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

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

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

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

7. Derivatives

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

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

8. Reverse Repurchase Agreements

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

C. INVESTMENTS – WORKERS' COMPENSATION FUND

1. Summary of Investment Policies

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

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

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

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

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

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

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

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

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

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

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

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

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

2. Securities Lending

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

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

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

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

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

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

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

3. Interest Rate Risk

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

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

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

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

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

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

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

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

4. Credit Risk

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

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

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

5. Foreign Currency Risk

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

6. Derivatives

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

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

7. Reverse Repurchase Agreements

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

D. INVESTMENTS – LOCAL GOVERNMENT INVESTMENT POOL (LGIP)

1. Summary of Investment Policies

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

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

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

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

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

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

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

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

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

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

2. Securities Lending

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

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

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

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

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

3. Interest Rate Risk

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

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

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

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

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

4. Credit Risk

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

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

5. Foreign Currency Risk - None.

6. Derivatives - None.

7. Reverse Repurchase Agreements

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

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

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

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

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

E. INVESTMENTS – HIGHER EDUCATION SPECIAL REVENUE AND ENDOWMENT FUNDS

1. Summary of Investment Policies

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

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

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

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

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

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

2. Unfunded Commitments

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

3. Securities Lending

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

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

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

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

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

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

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

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

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

4. Interest Rate Risk

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

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

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

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

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

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

These investments, which are managed by the University or by the University's affiliates, are not invested under the same investment strategy or with the same custodian as those detailed in the following schedule.

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

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

5. Credit Risk

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

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

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

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

6. Foreign Currency Risk

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

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

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

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

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

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

7. Derivatives

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

8. Reverse Repurchase Agreements – None

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

1. Summary of Investment Policies

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

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

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

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

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

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

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

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

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

2. Securities Lending

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

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

The securities held as collateral and the securities underlying the cash collateral are held by the custodian. The contract with the lending agent requires them to indemnify the OST if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or if the borrower fails to pay the OST for income distribution by the securities' issuers while the securities are on loan. The OST cannot pledge or sell collateral securities received unless the borrower defaults.
At June 30, 2008, securities on loan approximated $507 million. All OST securities on loan were collateralized by cash and other securities and the average life of both the loans and the investment of cash received as collateral was one day.

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

3. Interest Rate Risk

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

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

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

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

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

4. Credit Risk

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

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

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

5. Foreign Currency Risk - None.

6. Derivatives - None.

7. Reverse Repurchase Agreements

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

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

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

Note 4
Receivables and Deferred/Unearned Revenues

A. GOVERNMENTAL FUNDS

Taxes Receivable

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

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

Other Receivables

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

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

Notes:

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

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

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

Deferred Revenues

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

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

B. PROPRIETARY FUNDS

Taxes Receivable

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

Other Receivables

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

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

Unearned Revenues

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

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

C. FIDUCIARY FUNDS

Other Receivables

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

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

Unearned Revenues

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

Note 5
Interfund Balances and Transfers

A. INTERFUND BALANCES

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

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

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

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

B. INTERFUND TRANSFERS

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

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

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

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

Note 6
Capital Assets

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

A. GOVERNMENTAL CAPITAL ASSETS

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

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

*Beginning balances restated to reflect change in fund reclassification.

B. BUSINESS-TYPE CAPITAL ASSETS

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

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

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

C. DEPRECIATION

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

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

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

D. CONSTRUCTION IN PROGRESS

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

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

Note 7
Long-Term Liabilities

A. BONDS PAYABLE

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

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

Legal Debt Limitation

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

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

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

Authorized But Unissued

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

Interest Rates

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

Debt Service Requirements to Maturity

General Obligations Bonds

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

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

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

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

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

Revenue Bonds

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

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

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

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

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

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

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

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

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

* Total future principal and interest payments.

** Construction in-progress.

Debt Refundings

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

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

Current Year Defeasances

Business-Type Activities

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

Prior Year Defeasances

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

General Obligation Bond Debt

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

Revenue Bond Debt

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

B. CERTIFICATES OF PARTICIPATION

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

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

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

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

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

C. CLAIMS AND JUDGMENTS

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

Workers' Compensation

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

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

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

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

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

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

Risk Management

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

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

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

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

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

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

Health Insurance

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

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

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

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

D. LEASES

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

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

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

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

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

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

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

E. LONG-TERM LIABILITY ACTIVITY

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

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

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

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

** Beginning balance has been restated to reflect reclassification.

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

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

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

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

Note 8
No Commitment Debt

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

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

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

Note 9
Fund Balances Reserved for Other Specific Purposes

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

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

Note 10
Deficit Net Assets

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

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

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

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

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

Note 11
Retirement Plans

A. GENERAL

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

Basis of Accounting

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

Investments

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

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

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

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

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

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

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

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

- Judicial Retirement System (JRS)
  Defined benefit plan

- Judges' Retirement Fund (Judges)
  Defined benefit plan

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

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

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

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

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

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

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

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

Number of Participating Members

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

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

Number of Participating Employers

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

Employers can participate in multiple systems and/or plans.

B. PLAN DESCRIPTIONS

Public Employees' Retirement System (PERS)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Members who chose to participate would:

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

Members who did not choose to participate would:

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

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

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

Legislation passed in recent sessions effective in Fiscal Year 2008:

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

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

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

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

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

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

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

Teachers' Retirement System (TRS)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Members who chose to participate would:

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

Members who did not choose to participate would:

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

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

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

Legislation passed in recent sessions effective in Fiscal Year 2008:

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

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

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

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

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

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

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

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

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

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

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

School Employees' Retirement System (SERS)

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

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

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

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

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

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

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

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

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

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

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

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

Legislation passed in recent sessions effective in Fiscal Year 2008:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Legislation passed in recent sessions effective in Fiscal Year 2008:

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

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

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

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

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

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

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

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

Washington State Patrol Retirement System (WSPRS)

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

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

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

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

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

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

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

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

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

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

Legislation passed in recent sessions effective in Fiscal Year 2008:

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

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

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

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

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

Public Safety Employees' Retirement System (PSERS)

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

PSERS Plan 2 membership includes:

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

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

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

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

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

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

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

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

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

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

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

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

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

Legislation passed in recent sessions effective in Fiscal Year 2008:

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

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

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

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

Judicial Retirement System (JRS)

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

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

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

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

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

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

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

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

Judges' Retirement Fund (Judges)

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

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

Judges' members are eligible for retirement at the age of 70 with ten years of service, or at any age with 18 years of service. Members are eligible to receive a partial retirement allowance after 12 years of credited service as a judge. With the exception of a partial retirement allowance, the member receives a benefit equal to one-half of the monthly salary being received as a judge at the time of retirement, or at the end of the term immediately prior to retirement if retirement occurs after the expiration of the member's term in office. A partial retirement allowance is based on the proportion of the member's 12 or more years of service in relation to 18 years of service. There were no material changes in Judges' benefit provisions for the Fiscal Year ended June 30, 2008. Judges' pension benefit provisions are established by chapter 2.12 RCW.

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

VFFRPF is a cost-sharing multiple-employer retirement system that provides death and active duty disability benefits to all members, and optional defined benefit pension plan payments. VFFRPF retirement benefits are financed from a combination of investment earnings, member contributions, municipality contributions, and a special funding situation where the state pays the remaining contributions. VFFRPF members accrue no interest on contributions and may elect to withdraw their contributions upon termination.

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

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

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

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

Effective July 1, 2001, the disability income benefits and the maximum survivor benefits under the Relief Plan are increased for increases in the Consumer Price Index. There were no material changes in VFFRPF benefit provisions for the Fiscal Year ended June 30, 2008.

C. FUNDING POLICIES

The Legislature provided for minimum contribution rates (Chapter 365, Laws of 2006 and Chapter 300, Laws of 2007). The LEOFF 2 Board also provided for minimum contribution rates. These minimum rates will go into effect beginning with the 2009-11 biennium.

Public Employees' Retirement System (PERS)

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials.

The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age.

As a result of the implementation of the Judicial Benefit Multiplier (JBM) Program in January 2007, a second tier of employer and employee rates were developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program. These new higher rates are detailed below.

Required employer contribution rates:

- PERS employer of Supreme Court justices – PERS contribution rate plus 2.5 percent of pay.
- PERS employer of Court of Appeals and Superior Court judges – PERS contribution rate only (member pays the 2.5 percent difference).

Required member contribution rates:

- PERS 1 Supreme Court justices – PERS contribution rate of 6 percent plus 3.76 percent.
- PERS 1 Court of Appeals and Superior Court judges – PERS 1 rate of 6 percent plus 3.76 percent, plus the difference of 2.5 percent from employer listed above.
- PERS 2 Supreme Court justices – 250 percent of the PERS 2 member contribution rate less 2.5 percent of pay.
- PERS 2 Court of Appeals and Superior Court judges – 250 percent of the PERS 2 member contribution rate.
- PERS 3 Supreme Court justices, Court of Appeals and Superior Court judges – variable based on member's selection, subject to a 7.5 percent minimum.

The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW. Required contribution rates (expressed as a percentage of current year covered payroll) at the close of Fiscal Year 2008 were as follows:

PERS Actual Contribution Rates

	Plan 1	Plan 2	Plan 3
Members Not Participating in JBM			
Employer Rates:			
State agencies*	6.13%	6.13%	6.13%**
Local governmental units*	6.13%	6.13%	6.13%**
State gov't elected officials*	9.12%	6.13%	6.13%
Employee Rates:			
State agencies	6.00%	4.15%	***
Local governmental units	6.00%	4.15%	***
State gov't elected officials	7.50%	4.15%	***
Members Participating in JBM:			
Employer Rates:			
State agencies*	8.63%	8.63%	8.63%
Local governmental units*	6.13%	6.13%	6.13%
Employee Rates:			
State agencies	9.76%	7.88%	7.50%****
Local governmental units	12.26%	10.38%	7.50%****

* Includes an administrative expense rate of 0.16%.

** Plan 3 defined benefit portion only.

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

**** Minimum rate.

Teachers' Retirement System (TRS)

Each biennium the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature.

Under TRS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.32 and 41.45 RCW.

As a result of the implementation of the Judicial Benefit Multiplier (JBM) Program in January 2007, a second tier of employee rates were developed to fund, along with investment earnings, the increased retirement benefits of those judges that participate in the program.

The required employer contribution rate for a TRS employer of Supreme Court Justices, Court of Appeals Judges and Superior Court Judges equals the TRS contribution rate. The required member contribution rate of TRS 1 Supreme Court Justices, Court of Appeals Judges and Superior Court Judges is the TRS 1 rate of 6 percent plus 3.76 percent of pay. These higher rates, along with investment earnings, are intended to fund the increased retirement benefits of those judges that choose to participate in the JBM program.

Required contribution rates (expressed as a percentage of current-year covered payroll) at the close of Fiscal Year 2008 were as follows:

TRS Actual Contribution Rates

	Plan 1	Plan 2	Plan 3
Members Not Participating in JBM			
Employer Rates*	5.82%	5.82%	5.82%**
Employee Rates:			
State agencies	6.00%	2.90%	***
Local governmental units	6.00%	2.90%	***
State gov't elected officials	7.50%	2.90%	***
Members Participating in JBM:			
Employer Rates*	5.82%	n/a	n/a
Employee Rates:			
State agencies	9.76%	n/a	n/a

* Includes an administrative expense rate of 0.16%.

** Plan 3 defined benefit portion only.

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

School Employees' Retirement System (SERS)

Each biennium the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 employer contribution rates. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under SERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age.

The methods used to determine the contribution requirements are established under state statute in chapters 41.35 and 41.45 RCW. Required contribution rates (expressed as a percentage of current year covered payroll) at the close of Fiscal Year 2008 were as follows:

SERS Actual Contribution Rates

	Plan 2	Plan 3
Employer Rates:		
State agencies*	5.88%	5.88%**
Local governmental units*	5.88%	5.88%**
Employee Rates:		
State agencies	3.90%	***
Local governmental units	3.90%	***

* Includes an administrative expense rate of 0.16%.

** Plan 3 defined benefit portion only.

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

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

Beginning July 1, 2000, Plan 1 employers and employees contribute 0 percent as long as the plan remains fully funded. Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plan. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF 2 Board. All employers are required to contribute at the level required by state statute.

Required contribution rates (expressed as a percentage of current year covered payroll) at the close of Fiscal Year 2008 were as follows:

LEOFF Actual Contribution Rates

	Plan 1	Plan 2
Employer Rates:		
Ports and Universities*	n/a	8.80%
Local governmental units* (cities, counties, fire districts, etc)	0.16%	5.35%
Employee Rates:		
Ports and Universities	n/a	8.64%
Local governmental units* (cities, counties, fire districts, etc)	n/a	8.64%
State of Washington	n/a	3.45%

* Includes an administrative expense rate of 0.16%.

The Legislature, by means of a special funding arrangement, appropriated money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 1 and Plan 2 in accordance with the requirements of the Pension Funding Council and the LEOFF 2 Board. However, this special funding situation is not mandated by the State Constitution and this funding requirement could be returned to the employers by a change of statute. For Fiscal Year 2008, the state contributed $45.9 million to LEOFF Plan 2.

Washington State Patrol Retirement System (WSPRS)

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

Required contribution rates (expressed as a percentage of current year covered payroll) at the close of Fiscal Year 2008 were as follows:

WSPRS Actual Contribution Rates

	Plan 1	Plan 2
Employer Rates*	7.86%	7.86%
Employee Rates	6.65%	6.65%

* Includes an administrative expense rate of 0.16%.

Public Safety Employees' Retirement System (PSERS)

Each biennium the state Pension Funding Council adopts Plan 2 employers and employee contribution rates. The employer and employee contribution rates for Plan 2 are developed by the Office of the State Actuary to fully fund Plan 2. All employers are required to contribute at the level established by the Legislature. The methods used to determine the contribution requirements are established under state statute in chapters 41.37 and 41.45 RCW.

Required contribution rates (expressed as a percentage of current year covered payroll) at the close of Fiscal Year 2008 were as follows:

PSERS Actual Contribution Rates

	Plan 2
Employer Rates:	
State agencies*	8.55%
Local governmental units*	8.55%
Employee Rates:	
State agencies	6.57%
Local governmental units	6.57%

* Includes an administrative expense rate of 0.16%.

Judicial Retirement System (JRS)

Contributions made are based on rates set in chapter 2.10 RCW. By statute, employees are required to contribute 7.5 percent with an equal amount contributed by the state. In addition, the state guarantees the solvency of the JRS on a pay-as-you-go basis. Each biennium, the Legislature, through biennial appropriations from the state General Fund, contributes amounts sufficient to meet benefit payment requirements. For Fiscal Year 2008, the state contributed $ 9.6 million.

Judges' Retirement Fund (Judges)

Contributions made are based on rates set in chapter 2.12 RCW. By statute, employees are required to contribute 6.5 percent with an equal amount contributed by the state. In addition, the state guarantees the solvency of the Judges' Retirement Fund on a pay-as-you-go basis. As of June 30, 2008, there are no active members remaining in the Judges Retirement Fund and member contributions are no longer collected. Each biennium, the Legislature, through biennial appropriations from the state General Fund, contributes amounts sufficient to meet benefit payment requirements. For Fiscal Year 2008, however, no appropriations or contributions were made.

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

The retirement provisions of VFFRPF is funded through member contributions of $30 per year, employer contributions of $30 per year, and 40 percent of the Fire Insurance Premium Tax, as per chapter 41.24 RCW. VFFRPF members earn no interest on contributions and may elect to withdraw their contributions upon termination.

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

D. EMPLOYER CONTRIBUTIONS REQUIRED AND PAID

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

	2008	2007	2006
PERS Plan 1	$115.5	$59.9	$15.0
PERS Plan 2/3	159.6	118.3	73.1
TRS Plan 1	4.3	2.1	0.5
TRS Plan 2/3	0.5	0.6	0.5
SERS Plan 2/3	0.0	0.0	0.0
PSERS Plan 2	5.9	2.8	n/a
LEOFF Plan 1	0.0	0.0	0.0
LEOFF Plan 2	45.9	38.6	31.7
VFFRPF	5.0	6.0	4.6

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

E. FUNDED STATUS AND FUNDING PROGRESS

The funded status of each plan as of June 30, 2007, the most recent actuarial valuation date, is as follows (amounts in millions):

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
PERS Plan 1	$ 9,715.0	$ 13,740.0	$ 4,025.0	71%	$ 676.0	595%
PERS Plan 2/3*	14,888.0	14,661.0	(227.0)	102%	7,157.0	0%
TRS Plan 1	8,302.0	10,826.0	2,524.0	77%	426.0	592%
TRS Plan 2/3*	5,277.0	4,682.0	(594.0)	113%	3,318.0	0%
SERS Plan 2/3*	2,133.0	1,998.0	(136.0)	107%	1,283.0	0%
LEOFF Plan 1	5,298.0	4,340.0	(958.0)	122%	43.0	0%
LEOFF Plan 2*	4,360.0	3,626.0	(734.0)	120%	1,234.0	0%
WSPRS 1/2*	800.0	702.0	(98.0)	114%	72.0	0%
PSERS 2*	14.0	12.0	(1.0)	117%	134.0	0%
JRS	1.0	85.0	85.0	1%	1.3	6,538%
Judges	4.0	3.9	(0.1)	103%	N/A	N/A
VFFRPF	151.0	136.0	(15.0)	111%	N/A	N/A

N/A indicates data not applicable

* These plans use the aggregate actuarial cost method which does not identify or separately amortize unfunded actuarial liabilities. For this reason, the information shown above has been prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress of these plans.

Source: Washington State Office of the State Actuary

The Schedules of Funding Progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs (Actuarial Accrued Liability) for benefits.

Additional information for the state's defined benefit plans as of the latest valuation date is presented on the following page.

Defined Benefit Pension Plans Administered by the State

For the Fiscal Year Ended June 30, 2008

The information was determined as part of the actuarial valuations at the dates indicated below. Additional information as of the latest valuation follows.

	PERS Plan 1	PERS Plan 2/3	TRS Plan 1	TRS Plan 2/3
Valuation date	6/30/2007	6/30/2007	6/30/2007	6/30/2007
Actuarial cost method	Frozen Initial Liability[1]	Aggregate[2]	Frozen Initial Liability[1]	Aggregate[2]
Amortization method				
Funding	Level %[4]	N/A	Level %[4]	N/A
GASB	Level $	N/A	Level $	N/A
Remaining amortization period (closed)	7/01/2008 - 6/30/2024	N/A	7/01/2008 - 6/30/2024	N/A
Asset valuation method	8-year Graded Smoothed Fair Value[6]	8-year Graded Smoothed Fair Value[6]	8-year Graded Smoothed Fair Value[6]	8-year Graded Smoothed Fair Value[6]
Actuarial assumptions				
Investment rate of return	8.00%	8.00%	8.00%	8.00%
Projected salary increases				
Salary inflation at 4.5%, plus the merit increases described below:				
Initial salary merit (grades down to 0%)	6.1%	6.1%	5.8%	5.8%
Merit period (years of service)	17 yrs	17 yrs	26 yrs	26 yrs
Includes inflation at	N/A	3.50%	N/A	3.50%
Cost of living adjustments	Uniform COLA[7]	CPI Increase, Maximum 3%	Uniform COLA[7]	CPI Increase, Maximum 3%

N/A indicates data not applicable.

[1] Based on a variation of the Frozen Initial Liability (FIL) cost method.

[2] The aggregate cost method does not identify or separately amortize unfunded actuarial liabilities.

[3] Pay As You Go basis for funding.

[4] Level percent of payroll, including system growth.

[5] LEOFF Plan 2 assumes 4.5% of Salary Inflation

[6] Asset Valuation Method (8 year smoothed fair value): The actuarial value of assets is calculated under an adjusted market value method by starting with the market value of assets. For subsequent years the actuarial value of assets is determined by adjusting the market value of assets to reflect the difference between the actual investment return and the expected investment return during each of the last 8 years or, if fewer, the completed years since adoption, at the following rates per year (annual recognition). We set the VFFRPF Annual Gain/Loss around their 7% expected rate of return instead of 8%.

Annual Gain/Loss			Annual Gain/Loss		
Rate of Return	Smoothing Period	Annual Recognition	Rate of Return	Smoothing Period	Annual Recognition
15% and up	8 years	12.50%	6-7%	2 years	50.00%
14-15%	7 years	14.29%	5-6%	3 years	33.33%
13-14%	6 years	16.67%	4-5%	4 years	25.00%
12-13%	5 years	20.00%	3-4%	5 years	20.00%
11-12%	4 years	25.00%	2-3%	6 years	16.67%
10-11%	3 years	33.33%	1-2%	7 years	14.29%
9-10%	2 years	50.00%	1% and lower	8 years	12.50%
7-9%	1 year	100.00%			

The actuarial value of assets is subject to a 30% market value corridor, so it will lie between 70% and 130% of the market value of assets.

SERS Plan 2/3	LEOFF Plan 1	LEOFF Plan 2	PSERS Plan 2	VFFRPF[8]
6/30/2007	6/30/2007	6/30/2007	6/30/2007	6/30/2007
Aggregate[2]	Frozen Initial Liability[1]	Aggregate[2]	Aggregate[2]	Entry Age[3]
N/A	Level %[4]	N/A	N/A	Level $
N/A	Level $	N/A	N/A	Level $
N/A	7/01/2008 - 6/30/2024	N/A	N/A	15 - Year Rolling
8-Year Graded Smoothed Fair Value[6]	8-Year Graded Smoothed Fair Value[6]	8-Year Graded Smoothed Fair Value[6]	8-Year Graded Smoothed Fair Value[6]	8-Year Smoothed Fair Value[6]
8.00%	8.00%	8.00%	8.00%	7.00%
6.9%	11.0%	11.0%	6.1%	N/A
17 yrs	21 yrs	21 yrs	17 yrs	N/A
3.50%	3.50%	3.50%	3.50%	N/A
CPI Increase, Maximum 3%	CPI Increase	CPI Increase, Maximum 3%	CPI Increase, Maximum 3%	None

[7] The Uniform COLA

Generally, all retirees over age 66 receive an increase in their monthly benefit at least once a year.

The Uniform COLA amount is calculated as the last unrounded Uniform COLA amount increased by 3%, rounded to the nearest penny.

These are some historical monthly COLA amounts per year of service

Date	Uniform COLA
7/1/2002	$1.14
7/1/2003	$1.18
7/1/2004	$1.21
7/1/2005	$1.25
7/1/2006	$1.29
7/1/2007	$1.33
7/1/2008	$1.73

[8] VFFRPF uses the Entry Funding Method for Pensions, and the Pay-As-You-Go Method for the Relief Costs

F. ANNUAL PENSION COST AND OTHER RELATED INFORMATION

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

	WSPRS	JRS	Judges
Annual Pension Cost and Net Pension Obligation:			
Annual required contribution	$ 6.8	$ 26.6	$ -
Interest on NPO	(1.1)	4.9	(0.2)
Adjustment to annual required contribution	1.8	(19.3)	0.6
Annual pension cost	7.5	12.2	0.5
Less: Contributions made	6.1	9.6	-
Increase (decrease) in NPO	1.4	2.5	0.5
NPO at beginning of year	(14.1)	72.3	(2.0)
NPO at end of year	$(12.7)	$74.8	$(1.5)
Actuarial assumptions:			
Valuation date	6/30/07	6/30/07	6/30/07
Actuarial cost method	Aggregate*	Entry age	Entry age
Amortization method	n/a	Level $	Level $
Remaining amortization Period (closed)	n/a	12/31/08	12/31/08
Asset valuation method	8 year graded smoothed fair value	Market	Market
Investment rate of return	8%	8%	8%
Projected salary increases	4.25%**	4.5%	N/A
Includes inflation at	3.5%	3.5%	3.5%
cost-of-living adjustments	CPI increase, max. 3%	3.0%	none

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

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

G. THREE YEAR HISTORICAL TREND INFORMATION

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

	2008	2007	2006
WSPRS			
Annual pension cost	$ 7.5	$ 5.3	$ 7.1
% of APC contributed	89.2	61.8	44.0
NPO	$(12.7)	$(14.1)	$(16.2)
JRS			
Annual pension cost	$ 12.2	$ 13.9	$ 13.3
% of APC contributed	79.5	69.1	50.5
NPO	$ 74.8	$ 72.3	$ 68.0
Judges			
Annual pension cost	$ 0.5	$ 0.5	$ 0.7
% of APC contributed	0.0	60.0	42.9
NPO	$ (1.5)	$ (2.0)	$ (2.2)

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

H. CHANGES IN ACTUARIAL ASSUMPTIONS AND METHODS

The demographic assumptions were updated as a result of the 2001 – 2006 Experience study. For details refer to the experience study available at: http://osa.leg.wa.gov/Actuarial_Services/Publications/experience_studies.htm.

The salary growth economic assumption for all retirement plans (except LEOFF 2) was decreased by the Pension Funding Council from 4.50 percent to 4.25 percent. The projected mortality tables were modified to recognize the fact that people are living longer.

I. CHANGES IN BENEFIT PROVISIONS

Pension funding legislation was adopted during the 2005 legislative session (Chapter 370, Laws of 2005), which created a short-term change in funding policy. The policy is to adopt annual contribution rates over a four-year "phase-in" period from 2005-2009, to suspend payments on the Plan 1 Unfunded Actuarial Accrued Liability (UAAL) in PERS and TRS during the 2005-07 biennium and to delay recognition of the cost of future gain-sharing benefits until the 2007-09 biennium. Legislation adopted during the 2007 legislative session (Chapter 491, Laws of 2007) repealed gain-sharing after the 2008 event. Additional legislation adopted a phase-in period to smooth the Plan 1 UAAL contribution rate increases from 2006-2009 (Chapter 56, Laws of 2006).

Legislation for 2006 and 2007 provided for target funding ratios and contribution rate floors for PERS, TRS, SERS, and WSPRS (Chapter 365, Laws of 2006 and Chapter 300, Laws of 2007). The LEOFF 2 Board in 2006 provided for minimum contribution rates. These changes will become effective July 1, 2009.

J. DEFINED CONTRIBUTION PLANS

Public Employees' Retirement System Plan 3 (PERS 3)

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

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

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

For Fiscal Year 2008, employee contributions required and made were $82.7 million, and plan refunds paid out were $38.3 million.

Teachers' Retirement System Plan 3 (TRS 3)

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

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

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

For Fiscal Year 2008, employee contributions required and made were $234.7 million and plan refunds paid out were $84.8 million.

School Employees' Retirement System Plan 3 (SERS 3)

The School Employees' Retirement System (SERS) Plan 3 is a combination defined benefit/defined contribution plan administered by the state through the Department of Retirement Systems (DRS). Eligible employees include classified employees of school districts and educational service districts who joined PERS Plan 2 on or after October 1, 1977, and by August 31, 2000, and were transferred to SERS Plan 2 on September 1, 2000. Members transferred from PERS Plan 2 to SERS Plan 2 may exercise an option to transfer their membership to SERS Plan 3. SERS participants joining the system on or after September 1, 2000, and before July 1, 2007, are also members of SERS Plan 3. SERS members hired on or after July 1, 2007 have 90 days to choose between SERS Plan 2 and SERS Plan 3. Individuals who fail to make a choice will default to SERS Plan 3. Refer to section B of this note for SERS plan descriptions.

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

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

For Fiscal Year 2008, employee contributions required and made were $58.4 million and plan refunds paid out were $39.8 million.

Judicial Retirement Account (JRA)

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

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

Beginning January 1, 2007 through December 31, 2007 any judicial members of the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS) eligible to participate in JRA were able to make a one-time irrevocable election to discontinue future contributions to JRA, in lieu of prospective contributions to the Judicial Benefit Multiplier Program (JBM). Beginning January 1, 2007 any newly elected or appointed Supreme Court justice, Court of Appeals judge or Superior Court judge is no longer able to participate in JRA and is enrolled in the Judicial Benefit Multiplier Program (enacted in 2006). As of June 30, 2008, 189 JRA member judges have elected to enroll in JBM.

Current-year covered payroll for JRA employees was $4.3 million for the Fiscal Year ended June 30, 2008. For Fiscal Year 2008, the contribution requirement for JRA was $140 thousand. Actual employer and employee contributions were $70 and $70 thousand respectively. Plan benefits paid out for Fiscal Year 2008 totaled $6.5 million.

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

The Administrator of JRA has entered an agreement with DRS for accounting and reporting services, and the Washington State Investment Board (SIB) for investment services. DRS is responsible for all record keeping, accounting, and reporting of member accounts. As of April 2006, DRS also became responsible for collection of JRA contributions. The SIB has the full power to establish investment policy, develop participant investment options, and manage the investment funds from the JRA plan, consistent with the provisions of RCW 2.14.080 and RCW 43.84.150.

Higher Education Retirement Plans

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

Employee contribution rates, based on age, range from 5 to 10 percent of salary. The employers match the employee contributions. The employer and employee obligations to contribute are established per chapter 28B.10 RCW. For Fiscal Year 2008, covered payroll was $1.7 billion. Employer and employee contributions were $141.7 million each, for a total of $141.6 million. These contribution amounts represent approximately 8 percent each of covered payroll for employers and employees.

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

An actuarial valuation of the supplemental component of the Higher Education Retirement plans was done at the end of Fiscal Year 2007. The previous valuation was performed in 2004. The Unfunded Actuarial Accrued Liability (UAAL) calculated as of June 30, 2007 and 2004 was $120.2 million and $48.1 million, respectively, and is amortized over a 16.5-year period. The Annual Required Contribution (ARC) of $16.6 million consists of amortization of the UAL ($8.3 million) and normal cost (or current cost) ($7.8 million). The UAL and ARC were established using the entry age normal cost method. The actuarial assumptions included an investment rate of return of 6 to 8 percent and projected salary increases ranging from 2 to 4 percent. Approximately $1.5 billion and $1.1 billion of payroll were covered under these plans during 2007 and 2004, respectively.

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

	2008	2007	2006
Annual required contribution	$16.6	$16.6	$5.1
Payments to beneficiaries	(1.9)	(1.9)	(1.6)
Increase (decrease) in NPO	14.6	14.7	3.5
NPO at beginning of year	24.0	9.3	5.8
NPO at end of year	$38.6	$24.0	$9.3

K. PLAN NET ASSETS AND CHANGES IN PLAN NET ASSETS

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

Combining Statement of Plan Net Assets
Pension and Other Employee Benefit Funds

June 30, 2008

(expressed in thousands)

continued

	PERS Plan 1	PERS Plan 2/3 Defined Benefit	PERS Plan 3 Defined Contribution	TRS Plan 1	TRS Plan 2/3 Defined Benefit	TRS Plan 3 Defined Contribution
ASSETS						
Cash and pooled investments	$ 48,196	$ 84,341	$ 121	$ 40,564	$ 40,943	$ 5,172
Receivables:						
Employer accounts receivable	5,230	39,367	4,004	3,317	13,091	20,452
Member accounts receivable (net of allowance)	586	158	-	359	5	-
Due from other funds	964	-	10,991	725	5,167	19,874
Interest and dividends	32,436	53,472	2,580	27,172	17,939	8,016
Investment trades pending	63,757	108,034	2,545	53,229	43,275	7,903
Total Receivables	102,973	201,031	20,120	84,802	79,477	56,245
Investments, Noncurrent:						
Public equity	4,073,647	7,286,706	326,779	3,400,955	2,302,282	2,513,777
Fixed income	2,331,202	3,856,179	187,004	1,946,245	1,317,513	553,749
Private equity	2,366,373	3,914,357	189,825	1,975,608	1,337,391	562,103
Real estate	1,485,876	2,457,875	119,194	1,240,509	839,765	352,952
Security lending	678,991	1,121,731	54,377	566,783	383,898	161,018
Liquidity	234,117	-	563,869	245,159	144,115	59,259
Tangible assets	76,573	126,663	6,142	63,928	43,276	18,189
Other	95,018	23,650	7,622	79,328	53,701	22,570
Total Investments, Noncurrent	11,341,797	18,787,161	1,454,812	9,518,515	6,421,941	4,243,617
Total Assets	$ 11,492,966	$ 19,072,533	$ 1,475,053	$ 9,643,881	$ 6,542,361	$ 4,305,034
LIABILITIES						
Obligations under security lending agreements	$ 678,991	$ 1,121,987	$ 54,121	$ 566,783	$ 376,862	$ 168,053
Accrued liabilities	167,954	276,723	6,600	140,608	109,696	20,490
Due to other funds	98	12,351	120	65	20,963	5,172
Unearned revenues	127	379	-	171	37	-
Total Liabilities	847,170	1,411,440	60,841	707,627	507,558	193,715
NET ASSETS						
Net assets held in trust for:						
Pension Benefits	10,645,796	17,661,093	1,414,212	8,936,254	6,034,803	4,111,319
(Schedule of Funding Progress by Plan begins on Page 149)						
Deferred compensation participants	-	-	-	-	-	-
Total Net Assets	$ 10,645,796	$ 17,661,093	$ 1,414,212	$ 8,936,254	$ 6,034,803	$ 4,111,319

Combining Statement of Plan Net Assets
Pension and Other Employee Benefit Funds

June 30, 2008

(expressed in thousands)

continued

	SERS Plan 2/3 Defined Benefit	SERS Plan 3 Defined Contribution	LEOFF Plan 1	LEOFF Plan 2	WSPRS Plan 1/2	PSERS Plan 2
ASSETS						
Cash and pooled investments	$ 16,705	$ 1,501	$ 27,234	$ 24,534	$ 5,080	$ 450
Receivables:						
Employer accounts receivable	5,984	5,030	-	14,466	488	1,498
Member accounts receivable (net of allowance)	4	-	38	25	117	-
Due from other funds	1,513	6,898	4	7	2	1
Interest and dividends	7,396	2,585	18,374	16,064	2,828	101
Investment trades pending	17,125	2,547	36,181	31,674	5,574	194
Total Receivables	32,022	17,060	54,597	62,236	9,009	1,794
Investments, Noncurrent:						
Public equity	929,459	594,022	2,311,730	2,023,728	356,106	12,384
Fixed income	531,896	187,388	1,322,921	1,158,107	203,786	7,087
Private equity	539,920	190,215	1,342,879	1,175,579	206,861	7,194
Real estate	339,023	119,439	843,211	738,161	129,890	4,517
Security lending	155,019	54,488	385,067	336,902	59,384	2,089
Liquidity	65,891	15,981	127,349	128,381	20,163	3,180
Tangible assets	17,471	6,155	43,454	38,040	6,694	233
Other	21,679	7,638	53,921	47,203	8,307	289
Total Investments, Noncurrent	2,600,358	1,175,326	6,430,532	5,646,101	991,191	36,973
Total Assets	$ 2,649,085	$ 1,193,887	$ 6,512,363	$ 5,732,871	$ 1,005,280	$ 39,217
LIABILITIES						
Obligations under security lending agreements	$ 155,337	$ 54,170	$ 385,066	$ 336,902	$ 59,383	$ 2,089
Accrued liabilities	43,460	6,604	92,118	80,348	14,315	495
Due to other funds	7,133	1,501	16	145	7	76
Unearned revenues	30	-	-	68	-	-
Total Liabilities	205,960	62,275	477,200	417,463	73,705	2,660
NET ASSETS						
Net assets held in trust for:						
Pension Benefits	2,443,125	1,131,612	6,035,163	5,315,408	931,575	36,557
(Schedule of Funding Progress by Plan begins on Page 149)						
Deferred compensation participants	-	-	-	-	-	-
Total Net Assets	$ 2,443,125	$ 1,131,612	$ 6,035,163	$ 5,315,408	$ 931,575	$ 36,557

Combining Statement of Plan Net Assets
Pension and Other Employee Benefit Funds

June 30, 2008

(expressed in thousands)

concluded

	JRS	JRA	Judges	VFFRPF	Deferred Compensation	Total
ASSETS						
Cash and pooled investments	$ 344	$ 8	$ 3,617	$ 36,969	$ 802	$ 336,581
Receivables:						
Employer accounts receivable	9	-	-	-	-	112,936
Member accounts receivable (net of allowance)	-	-	4	-	1,760	3,056
Due from other funds	1	-	10	93	1	46,251
Interest and dividends	4	-	-	394	-	189,361
Investment trades pending	-	-	-	779	-	372,817
Total Receivables	14	-	14	1,266	1,761	724,421
Investments, Noncurrent:						
Public equity	-	13,023	-	45,787	2,431,642	28,622,027
Fixed income	-	-	-	23,316	-	13,626,393
Private equity	-	-	-	28,902	-	13,837,207
Real estate	-	-	-	18,148	-	8,688,560
Security lending	46	1	332	19,626	78	3,979,830
Liquidity	625	-	5	3,955	1	1,612,050
Tangible assets	-	-	-	935	-	447,753
Other	-	-	-	1,087	-	422,013
Total Investments, Noncurrent	671	13,024	337	141,756	2,431,721	71,235,833
Total Assets	$ 1,029	$ 13,032	$ 3,968	$ 179,991	$ 2,434,284	$ 72,296,835
LIABILITIES						
Obligations under security lending agreements	$ 46	$ -	$ 332	$ 11,617	$ 79	$ 3,971,818
Accrued liabilities	30	-	3	1,999	11	961,454
Due to other funds	-	-	-	-	-	47,647
Unearned revenues	-	-	-	-	-	812
Total Liabilities	76	-	335	13,616	90	4,981,731
NET ASSETS						
Net assets held in trust for:						
Pension Benefits	953	13,032	3,633	166,375	-	64,880,910
(Schedule of Funding Progress by Plan begins on Page 149)						
Deferred compensation participants	-	-	-	-	2,434,194	2,434,194
Total Net Assets	$ 953	$ 13,032	$ 3,633	$ 166,375	$ 2,434,194	$ 67,315,104

Combining Statement of Changes in Plan Net Assets
Pension and Other Employee Benefit Funds

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

continued

	PERS Plan 1	PERS Plan 2/3 Defined Benefit	PERS Plan 3 Defined Contribution	TRS Plan 1	TRS Plan 2/3 Defined Benefit	TRS Plan 3 Defined Contribution
ADDITIONS						
Contributions:						
Employers	$ 221,787	$ 318,740	$ -	$ 113,088	$ 109,522	$ -
Members	50,949	278,445	82,707	30,794	15,631	234,661
State	-	-	-	-	-	-
Participants	-	-	-	-	-	-
Total Contributions	272,736	597,185	82,707	143,882	125,153	234,661
Investment Income:						
Net appreciation (depreciation) in fair value	(425,711)	(713,629)	(74,910)	(355,165)	(238,142)	(256,969)
Interest and dividends	353,150	554,915	32,613	296,470	186,703	91,247
Less: investment expenses	(42,149)	(66,215)	(3,984)	(35,384)	(22,132)	(11,923)
Net investment income (loss)	(114,710)	(224,929)	(46,281)	(94,079)	(73,571)	(177,645)
Transfers from other pension plans	343	316	68,408	5	339	168,817
Other additions	-	-	-	-	-	-
Total Additions	158,369	372,572	104,834	49,808	51,921	225,833
DEDUCTIONS						
Pension benefits	1,027,934	170,317	22	844,986	36,016	45
Pension refunds	5,573	26,575	38,291	1,000	2,190	84,776
Transfers to other pension plans	62	70,761	262	-	168,770	513
Administrative expenses	530	2,567	-	114	116	-
Distributions to participants	-	-	-	-	-	-
Total Deductions	1,034,099	270,220	38,575	846,100	207,092	85,334
Net Increase (Decrease)	(875,730)	102,352	66,259	(796,292)	(155,171)	140,499
Net Assets - Beginning	11,521,526	17,558,741	1,347,953	9,732,546	6,189,974	3,970,820
Net Assets - Ending	$ 10,645,796	$ 17,661,093	$ 1,414,212	$ 8,936,254	$ 6,034,803	$ 4,111,319

Combining Statement of Changes in Plan Net Assets
Pension and Other Employee Benefit Funds

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

continued

	SERS Plan 2/3 Defined Benefit	SERS Plan 3 Defined Contribution	LEOFF Plan 1	LEOFF Plan 2	WSPRS Plan 1/2	PSERS Plan 2
ADDITIONS						
Contributions:						
Employers	$ 52,139	$ -	$ 8	$ 73,363	$ 6,064	$ 11,700
Members	20,911	58,381	927	116,441	5,345	11,740
State	-	-	-	45,926	-	-
Participants	-	-	-	-	-	-
Total Contributions	73,050	58,381	935	235,730	11,409	23,440
Investment Income:						
Net appreciation (depreciation) in fair value	(97,536)	(55,130)	(242,251)	(215,478)	(37,472)	(1,435)
Interest and dividends	76,711	30,780	197,810	165,778	30,063	748
Less: investment expenses	(9,135)	(3,620)	(23,676)	(20,615)	(3,594)	(78)
Net investment income (loss)	(29,960)	(27,970)	(68,117)	(70,315)	(11,003)	(765)
Transfers from other pension plans	2,118	89,449	-	117	90	3
Other additions	-	-	-	-	-	-
Total Additions	45,208	119,860	(67,182)	165,532	496	22,678
DEDUCTIONS						
Pension benefits	22,628	8	313,530	27,505	32,963	-
Pension refunds	2,044	39,815	150	7,639	268	152
Transfers to other pension plans	89,448	183	4	-	-	2
Administrative expenses	64	-	174	198	23	11
Distributions to participants	-	-	-	-	-	-
Total Deductions	114,184	40,006	313,858	35,342	33,254	165
Net Increase (Decrease)	(68,976)	79,854	(381,040)	130,190	(32,758)	22,513
Net Assets - Beginning	2,512,101	1,051,758	6,416,203	5,185,218	964,333	14,044
Net Assets - Ending	$ 2,443,125	$ 1,131,612	$ 6,035,163	$ 5,315,408	$ 931,575	$ 36,557

Combining Statement of Changes in Plan Net Assets
Pension and Other Employee Benefit Funds

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

concluded

	JRS	JRA	Judges	VFFRPF	Deferred Compensation	Total
ADDITIONS						
Contributions:						
Employers	$ 112	$ 70	$ -	$ 1,082	$ -	$ 907,675
Members	112	70	-	117	-	907,231
State	9,600	-	-	5,020	-	60,546
Participants	-	-	-	-	188,735	188,735
Total Contributions	9,824	140	-	6,219	188,735	2,064,187
Investment Income:						
Net appreciation (depreciation) in fair value	1	(1,311)	13	(5,097)	(238,553)	(2,958,775)
Interest and dividends	99	426	171	5,671	72,425	2,095,780
Less: investment expenses	(2)	(20)	(6)	(559)	(3,264)	(246,356)
Net investment income (loss)	98	(905)	178	15	(169,392)	(1,109,351)
Transfers from other pension plans	-	-	-	-	-	330,005
Other additions	-	6	-	-	829	835
Total Additions	9,922	(759)	178	6,234	20,172	1,285,676
DEDUCTIONS						
Pension benefits	9,514	6,540	545	9,866	-	2,502,419
Pension refunds	-	-	-	9	-	208,482
Transfers to other pension plans	-	-	-	-	-	330,005
Administrative expenses	-	-	-	-	-	3,797
Distributions to participants	-	-	-	-	135,876	135,876
Total Deductions	9,514	6,540	545	9,875	135,876	3,180,579
Net Increase (Decrease)	408	(7,299)	(367)	(3,641)	(115,704)	(1,894,903)
Net Assets - Beginning	545	20,331	4,000	170,016	2,549,898	69,210,007
Net Assets - Ending	$ 953	$ 13,032	$ 3,633	$ 166,375	$ 2,434,194	$ 67,315,104

Note 12
Other Postemployment Benefits

Plan Description and Funding Policy

In addition to pension benefits as described in Note 11, the state, through the Health Care Authority (HCA), administers an agent multiple-employer other postemployment benefit plan (OPEB). Per RCW 41.05.065, the Public Employees Benefits Board (PEBB) created within the Health Care Authority, is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage, including establishment of eligibility criteria for both active and retired employees. PEBB programs include medical, dental, life and long-term disability.

Employers participating in the PEBB plan include the state (which includes general government agencies and higher education institutions), 52 of the state's K-12 schools and educational service districts (ESDs) and 200 political subdivisions. Additionally, the PEBB plan is available to the retirees of the remaining 249 K-12 schools and ESDs. As of June 2008, membership in the PEBB plan consisted of the following:

	Active Employees	Retirees[1]	Total
State	111,681	24,963	136,644
K-12 schools and ESDs[2]	2,132	26,013	28,145
Political subdivisions	11,393	900	12,293
Total	125,206	51,876	177,082

[1]Retirees include retired employees, surviving spouses, and terminated members entitled to a benefit.

[2]In Fiscal Year 2008, there were 100,208 full-time equivalent active employees in the 249 K-12 schools and ESDs that elected to limit participation in PEBB only to their retirees.

For Fiscal Year 2008, the estimated monthly cost for PEBB benefits for active employees (average across all plans and tiers) is as follows:

Required Premium[3]	
Medical	$694
Dental	71
Life	5
Long-term disability	2
Total	$772
Employer contribution	$697
Employee contribution	75
Total	$772

[3]Per 2008 Collective Bargaining Model 4.0.

The relationship between the PEBB OPEB plan and its member employers and their employees and retirees is not formalized in a contract or plan document. Rather, the benefits are provided in accordance with a substantive plan. A substantive plan is one in which the plan terms are understood by the employers and plan members. This understanding is based on communications between the HCA, employers and plan members and the historical pattern of practice with regard to the sharing of benefit costs.

The PEBB retiree OPEB plan is available to employees who elect to continue coverage and pay the administratively established premiums at the time they retire under the provisions of the retirement system to which they belong. Retirees' access to PEBB plans depends on the retirement eligibility of their respective retirement system. PEBB members are covered in the following retirement systems: PERS, PSERS, TRS, SERS, WSPRS, and Higher Education.

Per RCW 41.05.022, retirees who are not yet eligible for Medicare benefits may continue participation in the state's Non-Medicare community-rated health insurance risk pool on a self-pay basis. Retirees in the Non-Medicare risk pool receive an implicit subsidy. The implicit subsidy exists because retired members pay a premium based on a claims experience for active employees and other Non-Medicare retirees. The subsidy is valued using the difference between the age-based claims costs and the premium. In Calendar Year 2007, the average weighted implicit subsidy was valued at $250 per member per month, and in Calendar Year 2008, the average weighted implicit subsidy is projected to be $253 per member per month.

Retirees who are enrolled in both Parts A and B of Medicare may participate in the state's Medicare community-rated health insurance risk pool. Medicare retirees receive an explicit subsidy in the form of reduced premiums. Annually, the Health Care Authority administrator recommends an amount for the next calendar year's explicit subsidy for inclusion in the Governor's budget. In Calendar Year 2007, the explicit subsidy was $150 per member per month, and in Calendar Year 2008, the explicit subsidy is $164 per member per month.

Retirees participating in the PEBB life insurance program received an explicit subsidy of $5 per member per month in Calendar Year 2007. The explicit subsidy is also $5 per member per month in Calendar Year 2008.

Administrative costs as well as implicit and explicit subsidies are funded by required contributions from participating employers. The subsidies provide monetary assistance for medical and life insurance benefits.

Contributions are set each biennium as part of the budget process. In Fiscal Year 2008, the cost of the subsidies was approximately 6.8 percent of the cost of benefits for active employees. The benefits are funded on a pay-as-you-go basis.

Each participating employer in the plan is required to disclose additional information with regard to funding policy, the employer's annual OPEB costs and contributions made, the funded status and funding progress of the employers individual plan and actuarial methods and assumptions used.

The PEBB OPEB plan is accounted for as an agency fund on an accrual basis. The plan has no investments or other assets. The PEBB OPEB plan does not issue a publicly available financial report.

For information on the results of an actuarial valuation of the employer provided subsidies associated with the PEBB plan, refer to: http://osa.leg.wa.gov/Actuarial_services/OPEB/OPEB.htm.

Annual OPEB Cost and Net OPEB Obligation

The state's (general government agencies and higher education institutions) annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the state as the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following tables show the components of the state's annual OPEB cost for Fiscal Year 2008, the amount actually contributed to the plan, and changes in the state's net OPEB obligation (NOO) (expressed in thousands):

Annual required contribution	$313,970
Interest on NOO	-
Amortization of NOO	-
Annual OPEB cost	$313,970

NOO beginning of year	$ -
Annual OPEB cost	313,970
Contributions made	(68,115)
NOO end of year	$245,855

The state's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for Fiscal Year 2008 was as follows (expressed in thousands):

Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
$313,970	21.69%	$245,855

Funded Status and Funding Progress

The funded status of the plan as of June 30, 2008, was as follows (expressed in thousands):

Actuarial accrued liability (AAL)	$3,799,530
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$3,799,530

Funded ratio (actuarial value of plan assets/AAL)	0.00%
Covered payroll (active plan members)	$5,427,219
UAAL as a percentage of covered payroll	70.01%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Significant methods and assumptions were as follows:

Actuarial valuation date	January 1, 2007
Actuarial cost method	Projected Unit Credit (PUC)
Amortization method	Closed, level percentage of projected payroll amortization method
Remaining amortization period	30 years
Asset valuation method	n/a - no assets
Actuarial assumptions:	
Investment rate of return	4.5%
Projected salary increases	4.5%
Health care inflation rate	11% initial rate, 5% ultimate rate in 2015
Inflation rate	3.5%

The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents the results of the OPEB valuation for the fiscal year ending June 30, 2008. Looking forward, the schedule will provide additional multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Note 13
Commitments and Contingencies

A. CONSTRUCTION AND OTHER COMMITMENTS

Outstanding commitments related to state infrastructure and facility construction, improvement, and/or renovation totaled $3.3 billion at June 30, 2008.

B. SUMMARY OF SIGNIFICANT LITIGATION

Pending Litigation

The state and its agencies are parties to numerous routine legal proceedings that normally occur in governmental operations. At any given point, there may be numerous lawsuits involving the implementation of specific state programs that could significantly impact expenditures and potentially have future budgetary impact.

The state is the defendant in a number of cases seeking damages in excess of $60 million involving claims of inadequate funding for care of the disabled and elderly. The state is also defending a number of cases alleging inadequacies and inequities in K-12 funding. Adverse rulings in these cases could result in significant future costs.

The Department of Revenue routinely has claims for refunds in various stages of administrative and legal review. Claims for refunds are approximately $117 million.

The Washington State Department of Transportation (WSDOT) is a defendant in a number of lawsuits related to environmental clean-up and habitat restoration/enhancement associated with highway construction projects and storm water discharge from state highways. While estimates are not available for all lawsuits, claims for damages exceed $35 million. If the efforts of the plaintiffs are successful, the financial impact could be significant and would need to be addressed in future budgets. The WSDOT also faces a lawsuit related to the state's procurement of four new ferry boats.

The state is the defendant in numerous lawsuits by employees accusing the state of various infractions of law or contract. These suits claim back pay and damages in excess of $15 million. The state is also defending complaints by the United States Department of Labor claiming the state violated the Fair Labor Standards Act. Total monetary damages sought in these actions are approximately $65 million. Additionally, the state is being sued as a result of the recent legislative repeal of the gain sharing provision associated with select state pension plans. No estimate of damage is currently available.

The state is contesting these lawsuits and the outcomes are uncertain at this time.

Tobacco Settlement

In November 1998, Washington joined 45 other states in a Master Settlement Agreement (MSA) with the nation's largest tobacco manufacturers to provide restitution for monies spent under health care programs for the treatment of smoking-related illnesses. Washington's share of the settlement is expected to be approximately $138 million in Fiscal Year 2008 and is subject to various offsets, reductions, and adjustments. Beginning in 2008, Washington received the first of ten "strategic contribution payments" under the MSA. This payment, which is subject to the same offsets, reductions, and adjustments as are applicable to the base payment, is estimated to be approximately $48-$49 million.

In 2006, 2007, and 2008, determinations were made under a process established by the MSA that disadvantages experienced as a result of participating in the MSA were a significant factor contributing to the market share loss by manufacturers. These determinations related to sales data for the years 2003, 2004, and 2005. Washington faces a potential "NPM adjustment" of between $0 and $130 million for the year 2003, $0 and $137 million for the year 2004, and $0 and $131 million for the year 2005.

Washington and 37 other states each filed court actions seeking a declaration that they had diligently enforced their escrow statutes. In the Consent Decree, the King County Superior Court retained jurisdiction to enforce and interpret the MSA as to Washington. The participating manufacturers oppose having the diligent enforcement issue decided by numerous state courts. They believe the issue is governed by an arbitration clause in the MSA that they claim requires a panel of arbitrators to decide, in a single national proceeding, whether individual states diligently enforced their own statutes.

The King County Superior Court heard Washington's motion and, in late September 2006, entered an order compelling arbitration and dismissing the state's action. Washington's appeal was dismissed and the trial court's order compelling arbitration is now final. The vast majority of states have final orders compelling them to arbitrate. It appears likely that a substantial number of disputes will be resolved through a multistate arbitration. It is uncertain when such arbitration would commence, but a decision on the merits of the disputes is not likely until 2010.

C. FEDERAL ASSISTANCE

The state has received federal financial assistance for specific purposes that are generally subject to review or audit by the grantor agencies. Entitlement to this assistance is generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of assistance for allowable purposes. Any disallowance resulting from a review or audit may become a liability of the state. The state does estimate and recognize a claims and judgments liability for disallowances when determined by the grantor agency or for probable disallowances based on experience pertaining to these grants; however, these recognized liabilities and any unrecognized disallowances are considered immaterial to the state's overall financial condition.

D. ARBITRAGE REBATE

Rebatable arbitrage is defined by the Internal Revenue Service Code Section 148 as earnings on investments purchased from the gross proceeds of a bond issue that are in excess of the amount that would have been earned if the investments were invested at a yield equal to the yield on the bond issue. The rebatable arbitrage must be paid to the federal government. State agencies and universities responsible for investments from bond proceeds carefully monitor their investments to restrict earnings to a yield less than the bond issue, and therefore limit any state arbitrage liability. The state estimates that rebatable arbitrage liability, if any, will be immaterial to its overall financial condition.

E. OTHER COMMITMENTS AND CONTINGENCIES

School Bond Guarantee Program

Washington voters passed a constitutional amendment in November 1999, creating the Washington State School Bond Guarantee Program. The program's purpose is to provide savings to state taxpayers by pledging the full faith and credit of the state of Washington to the full and timely payment of voter-approved school district general obligation bonds in the event a school district is unable to make a payment. The issuing school district remains responsible for the repayment of the bonds, including any payment the state makes under the guarantee.

The State Treasurer introduced the School Bond Guarantee Program in March 2000. At the end of Fiscal Year 2008 the state had guaranteed 199 school districts' voter-approved general obligation debt with a total outstanding principal of $7.3 billion. The state estimates that school bond guarantee liability, if any, will be immaterial to its overall financial condition.

Local Option Capital Asset Lending Program (LOCAL)

On September 1, 1998, the state lease-purchase program was extended to local governments seeking low cost financing of essential equipment. The program allows local governments to pool their financing requests together with Washington State agencies in Certificates of Participation (COPs). Refer to Note 7.B for the state's COP disclosure. These COP's do not constitute a debt or pledge of the faith and credit of the state, rather local governments pledge their full faith and credit in a general obligation pledge. In the event that any local government fails to make any payment, the state is obligated to withhold an amount sufficient to make such payment from the local government's share, if any, of state revenues or other amounts authorized or required by law to be distributed by the state to such local government, if otherwise legally permissible.

Upon failure of any local government to make a payment, the state is further obligated, to the extent of legally available appropriated funds to make such payment on behalf of such local government. The local government remains obligated to make all COP payments and reimburse the state for any conditional payments.

As of June 30, 2008, outstanding certificates of participation notes totaled $77.7 million for 185 local governments participating in LOCAL. The state estimates that LOCAL program liability, if any, will be immaterial to its overall financial condition.

Note 14

Subsequent Events

A. BOND ISSUES

In July 2008, the state issued $492.5 million in Various Purpose General Obligation Bonds, Series 2009A, $260 million in Motor Vehicle Fuel Tax General Obligation Bonds, Series 2009B, and $70.6 million in General Obligation Taxable Bonds, Series 2009T.

B. CERTIFICATES OF PARTICIPATION

In September 2008, the state issued $11.8 million in Certificates of Participation for various state and local government equipment purchases, Series 2008D.

In December 2008, the state plans to issue $14 million in Certificates of Participation for various state and local government equipment purchases, Series 2008E.

C. FINANCIAL MARKET LOSSES

Subsequent to June 30, 2008, the Washington State Investment Board (WSIB), which manages the state's pension trust, workers' compensation, and certain permanent fund investments, realized investment losses upon the failures of Lehman Brothers Holdings, Inc., Washington Mutual, Inc., and American International Group, Inc. Overall losses of $225 million were realized, allocated 79 percent, 18 percent and 3 percent to pension trust, workers' compensation and permanent funds, respectively. These losses are not reflected in the accompanying financial statements since the losses arose subsequent to June 30, 2008.

Also, subsequent to June 30, 2008, the state sustained other unrealized losses on investments due to turmoil within the capital markets. These losses are deemed temporary in nature and, given that they occurred after June 30, 2008, are not reflected in the accompanying financial statements.