Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2006

Index to the Notes to the Basic Financial Statements

Page

1. Summary of Significant Accounting Policies
   - A. Reporting Entity C-37
   - B. Government-wide and Fund Financial Statements C-39
   - C. Measurement Focus and Basis of Accounting C-41
   - D. Assets, Liabilities, and Net Assets or Equity C-41
     - 1. Cash and Investments C-41
     - 2. Receivables and Payables C-42
     - 3. Inventories C-42
     - 4. Capital Assets C-42
     - 5. Compensated Absences C-43
     - 6. Long-Term Liabilities C-44
     - 7. Fund Equity C-44
   - E. Other Information C-44
     - 1. General Budgetary Policies and Procedures C-44
     - 2. Insurance Activities C-44
     - 3. Interfund/Interagency Activities C-45
     - 4. Donor-restricted Endowments C-45
2. Accounting and Reporting Changes C-46
3. Deposits and Investments C-47
4. Receivables and Deferred/Unearned Revenues C-65
5. Interfund Balances and Transfers C-68
6. Capital Assets C-72
7. Long-Term Liabilities C-76
8. No Commitment Debt C-84
9. Fund Balances Reserved for Other Specific Purposes C-84
10. Deficit Net Assets C-85
11. Retirement Plans C-86
12. Other Post Employment Benefits C-106
13. Commitments and Contingencies C-106
14. Subsequent Events C-111

Note 1 - Summary of Significant Accounting Policies

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

A. Reporting Entity

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

Fund Financial Statements

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

Major Governmental Funds:

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

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

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

Major Enterprise Funds:

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

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

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

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

Nonmajor Governmental Funds:

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

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

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

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

Nonmajor Proprietary Funds:

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

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

The state reports the following fiduciary funds:

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

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

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

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

Operating and Nonoperating Revenues and Expenses

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

Application of Restricted/Unrestricted Resources

When both restricted and unrestricted resources are available for use, it is the state's policy to use restricted

resources first and then use unrestricted resources as they are needed.

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

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

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

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Investments

Investments of surplus or pooled cash balances are reported on the accompanying Statements of Net Assets, Balance Sheets and Statements of Cash Flows as "Cash and Pooled Investments." The Office of the State Treasurer invests state treasury cash surpluses where funds can be disbursed at any time without prior notice

or penalty. As a result, the cash balances of funds with surplus pooled balances are not reduced for these investments. For reporting purposes, pooled cash is stated at fair value or amortized cost, which approximates fair value. For the purposes of the Statement of Cash Flows, the state considers cash and short-term, highly-liquid investments, that are both readily convertible to cash and are so near their maturity dates that they present insignificant risk of changes in value because of changes in interest rates, to be cash equivalents.

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

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

2. Receivables and Payables

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

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

3. Inventories

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

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

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

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

4. Capital Assets

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

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

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

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

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

factoring price levels from the current period to the time of acquisition.

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

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

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

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

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

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

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

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

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

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

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

5. Compensated Absences

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

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

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

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

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

6. Long-Term Liabilities

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

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

7. Fund Equity

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

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

E. Other Information

1. General Budgetary Policies and Procedures

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

2. Insurance Activities

Workers' Compensation

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

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

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

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

the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

Risk Management

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

Health Insurance

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

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

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

3. Interfund/Interagency Activities

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

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

4. Donor-restricted Endowments

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

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

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

Note 2 - Accounting and Reporting Changes

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

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

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

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

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

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

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

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

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

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

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

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

Note 3 - Deposits and Investments

A. Deposits

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

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

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

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

1. SUMMARY OF INVESTMENT POLICIES

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

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

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

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

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

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

2. SECURITIES LENDING

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

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

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

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

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

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

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

3. INTEREST RATE RISK

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

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

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

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

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

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

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

4. CREDIT RISK

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

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

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

5. FOREIGN CURRENCY RISK

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

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

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

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

6. DERIVATIVES

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

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

7. REVERSE REPURCHASE AGREEMENTS

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

C. Investments – Workers' Compensation Fund

1. SUMMARY OF INVESTMENT POLICIES

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

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

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

Eligible Investments – Eligible investments include:

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

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

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

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

2. SECURITIES LENDING

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

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

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

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

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

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

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

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

3. INTEREST RATE RISK

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

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

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

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

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

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

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

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

4. CREDIT RISK

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

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

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

5. FOREIGN CURRENCY RISK

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

6. DERIVATIVES

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

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

7. REVERSE REPURCHASE AGREEMENTS

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

D. Investments – Local Government Investment Pool (LGIP)

1. SUMMARY OF INVESTMENT POLICIES

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

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

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

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

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

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

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

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

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

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

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

2. SECURITIES LENDING

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

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

3. INTEREST RATE RISK

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

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

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

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

4. CREDIT RISK

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

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

5. FOREIGN CURRENCY RISK - None

6. DERIVATIVES – None

7. REVERSE REPURCHASE AGREEMENTS

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

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

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

E. Investments – Higher Education Special Revenue and Endowment Funds

1. SUMMARY OF INVESTMENT POLICIES

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

The Board of Regents of the University of Washington is responsible for the management of the University's investments. The Board establishes investment policy, which is carried out by the Chief Investment Officer. The University of Washington Investment Committee (UWINCO), comprised of Board members and investment professionals, advise on matters relating to the management of the University's investment portfolios. The majority of the University's investments are insured, registered, and held by the University's

custodial bank as an agent for the University. Investments not held by the custodian include lent securities, mutual funds, venture capital, private equity, distressed, marketable alternatives, mortgages, real estate, and miscellaneous investments.

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

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

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

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

2. SECURITIES LENDING

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

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

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

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

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

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

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

3. INTEREST RATE RISK

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

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

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

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

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

4. CREDIT RISK

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

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

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

5. FOREIGN CURRENCY RISK

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

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

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

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

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

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

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

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

7. REVERSE REPURCHASE AGREEMENTS - None

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

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

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

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

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

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

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

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

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

2. SECURITIES LENDING

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

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

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

3. INTEREST RATE RISK

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

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

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

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

4. CREDIT RISK

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

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

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

5. FOREIGN CURRENCY RISK - None

6. DERIVATIVES - None

7. REVERSE REPURCHASE AGREEMENTS

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

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

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

Note 4 - Receivables and Deferred/Unearned Revenues

A. Governmental Funds

Taxes Receivable

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

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

Other Receivables

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

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

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

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

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

Deferred Revenues

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

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

B. Proprietary Funds

Taxes Receivable

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

Other Receivables

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

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

Unearned Revenues

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

	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	$ -	$ 30,154	$ 328	$ 30,487	$ 2,783
Miscellaneous	12,883	-	341	4	13,228	2,863
Total Unearned Revenues	$ 12,888	$ -	$ 30,495	$ 332	$ 43,715	$ 5,646

C. Fiduciary Funds

Other Receivables

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

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

Unearned Revenues

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

Note 5 - Interfund Balances and Transfers

A. Interfund Balances

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

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

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

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

B. Interfund Transfers

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

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

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

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

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

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

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

Note 6 - Capital Assets

A. Governmental Capital Assets

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

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

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

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

B. Business-type Capital Assets

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

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

C. Depreciation

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

	Amount
Governmental Activities:	
General Government	$ 46,198
Education - Elementary and Secondary (K-12)	2,149
Education - Higher Education	272,342
Human Services	29,094
Adult Corrections	28,910
Natural Resources and Recreation	46,561
Transportation	72,024
Total Depreciation Expense - Governmental Activities	$ 497,278 *
Business-Type Activities:	
Workers' Compensation	$ 25,551
Unemployment Compensation	-
Higher Education Student Services	67,096
Health Insurance Programs	161
Other	16,039
Total Depreciation Expense - Business-Type Activities	$ 108,847

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

D. Construction in Progress

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

D. Construction in Progress

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

Note 7 – Long-Term Liabilities

A. Bonds Payable

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

General Obligation Bond Debt:
On June 30, 2006, $536.6 million of general obligation bonded debt outstanding is considered defeased.

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

B. Certificates of Participation

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

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

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

C. Claims and Judgments

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

Workers' Compensation

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

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

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

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

Risk Management

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

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

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

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

Health Insurance

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

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

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

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

D. Leases

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

Leased land, buildings and equipment under capital leases as of June 30, 2006, include the following (expressed in thousands):

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

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

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

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

Tumwater Office Building Capital Lease

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

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

E. Long-Term Liability Activity

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

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

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

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

Note 8 - No Commitment Debt

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

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

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

Note 9 – Fund Balances Reserved for Other Specific Purposes

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

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

Note 10 - Deficit Net Assets

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

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

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

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

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

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

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

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

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

Note 11 - Retirement Plans

A. General

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

Basis of Accounting

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

Investments

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

DEPARTMENT OF RETIREMENT SYSTEMS

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

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

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

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

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

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

Judicial Retirement System (JRS)
- Defined benefit plan

Judges' Retirement Fund (Judges)
- Defined benefit plan

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

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

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

BOARD FOR VOLUNTEER FIRE FIGHTERS

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

ADMINISTRATIVE OFFICE OF THE COURTS

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

HIGHER EDUCATION

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

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

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

Number of Participating Members

Plans Administered by the State	Retirees and Beneficiaries Receiving Benefits	Terminated Members Entitled to but not yet Receiving Benefits	Active Plan Members Vested	Active Plan Members Nonvested	Total Members
PERS 1	54,795	2,833	14,904	1,058	73,590
PERS 2	13,471	17,941	80,769	37,631	149,812
PERS 3	343	1,793	8,901	12,315	23,352
TRS 1	35,264	1,328	8,397	195	45,184
TRS 2	1,351	2,536	6,659	546	11,092
TRS 3	706	3,158	21,132	30,341	55,337
SERS 2	1,426	3,073	16,828	2,559	23,886
SERS 3	705	2,491	10,672	20,291	34,159
LEOFF 1	8,149	7	723	-	8,879
LEOFF 2	574	570	11,625	3,543	16,312
WSPRS 1	792	102	883	58	1,835
WSPRS 2	-	-	1	80	81
JRS	131	2	13	-	146
Judges	16	-	-	-	16
JRA	-	17	200	-	217
VFFRPF	3,208	4,891	4,817	7,109	20,025
Total	120,931	40,742	186,524	115,726	463,923

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

Number of Participating Employers

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

Employers can participate in multiple systems and/or plans.

B. Plan Descriptions

Public Employees' Retirement System (PERS)

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

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

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

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

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

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

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the AFC per year of service. (AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Effective June 7, 2006, PERS Plan 3 members may be vested either after 10 years of service or after five years of service, as long as 12 consecutive months of service were accrued after attainment of age 44. Plan 3 members

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

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

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

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

Legislation passed in recent sessions effective in Fiscal Year 2006:

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

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

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

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

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

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

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

Teachers' Retirement System (TRS)

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

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

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

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

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

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

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

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

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

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

Legislation passed in recent sessions effective in Fiscal Year 2006:

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

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

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

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

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

School Employees' Retirement System (SERS)

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

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

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

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

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

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

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

In addition, a $150,000 death benefit is provided to the estate (or duly designated nominee) of a SERS member

who dies in the line of service as a result of injuries sustained in the course of employment, if found eligible by the Department of Labor and Industries.

Legislation passed in recent sessions effective in Fiscal Year 2006:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Legislation passed in recent sessions effective in Fiscal Year 2006:

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

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

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

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

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

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

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

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

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

LEOFF pension benefit provisions are established by chapter 41.26 RCW.

Washington State Patrol Retirement System (WSPRS)

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

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

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

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

WSPRS benefit provisions include death benefits; however, the system provides no disability benefits. Disability benefits may be available from the Washington State Patrol. If disability benefits are received, the member may be eligible to acquire service

credit for the period of disability. In addition, a duty death benefit of $150,000 is provided to all WSPRS members.

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

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

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

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

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

WSPRS pension benefit provisions are established by chapter 43.43 RCW.

Judicial Retirement System (JRS)

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

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

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

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

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

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

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

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

JRS pension benefit provisions are established by chapter 2.10 RCW.

Judges' Retirement Fund (Judges)

The Judges' Retirement Fund is an agent multiple-employer retirement system comprised of a single defined benefit plan. There are currently no active members in this plan. Retirement benefits were financed on a pay-as-you-go basis from a combination of past

employee contributions, past employer contributions, and a special funding situation in which the state paid the remaining contributions. Retirees did not earn interest on their contributions, nor could they elect to withdraw their contributions upon termination.

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

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

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

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

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

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

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

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

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

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

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

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

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

C. Funding Policies

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

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

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

Public Employees' Retirement System (PERS)

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

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

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

PERS Actual Contribution Rates

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

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

**Plan 3 defined benefit portion only.

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

Teachers' Retirement System (TRS)

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

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

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

TRS Actual Contribution Rates

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

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

** Plan 3 defined benefit portion only.

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

School Employees' Retirement System (SERS)

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

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

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

SERS Actual Contribution Rates

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

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

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

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

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

LEOFF Actual Contribution Rates

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

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

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

Washington State Patrol Retirement System (WSPRS)

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

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

WSPRS Actual Contribution Rates

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

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

Judicial Retirement System (JRS)

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

Judges' Retirement Fund (Judges)

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

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

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

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

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

D. Employer Contributions Required and Paid

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

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

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

E. Annual Pension Cost and Other Related Information

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

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

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

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

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

F. Three Year Historical Trend Information

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

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

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

G. Changes in Actuarial Assumptions and Methods

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

biennium, and to delay recognition of the cost of future gain-sharing benefits until the 2007-09 biennium.

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

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

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

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

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

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

H. Changes in Benefit Provisions

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

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

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

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

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

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

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

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

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

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

I. Defined Contribution Plans

Public Employees' Retirement System Plan 3 (PERS 3)

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

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

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

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

Teachers' Retirement System Plan 3 (TRS 3)

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

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

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

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

School Employees' Retirement System Plan 3 (SERS 3)

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

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

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

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

Judicial Retirement Account (JRA)

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

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

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

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

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

Higher Education Retirement Plans

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

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

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

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

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

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

J. Plan Net Assets and Changes in Plan Net Assets

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

Combining Statement of Plan Net Assets

Pension and Other Employee Benefit Funds

June 30, 2006

(expressed in thousands)

	PERS Plan 1	PERS Plan 2/3 Defined Benefit	PERS Plan 3 Defined Contribution	TRS Plan 1	TRS Plan 2/3 Defined Benefit	TRS Plan 3 Defined Contribution	SERS Plan 2/3 Defined Benefit
Assets:							
Cash and pooled investments	$ 371	$ 5,835	$ 158	$ 765	$ 4,072	$ 2,917	$ 1,466
Receivables:							
Interest and dividends	31,747	43,643	1,907	26,849	15,445	5,548	6,240
Due from other funds	15	207	6,431	14	3,434	15,034	817
Due from other governments	4,476	16,256	3,039	3,743	7,139	16,778	3,797
Other (net of allowance)	42,212	57,711	2,518	35,461	20,367	7,314	8,223
Total Receivables	78,450	117,817	13,895	66,067	46,385	44,674	19,077
Investments, Noncurrent:							
Asset backed securities	3,066	4,247	186	2,596	1,500	541	605
Certificates of deposit	77,257	107,010	4,696	65,401	37,785	13,619	15,250
Commercial paper	67,537	93,546	4,105	57,172	33,031	11,906	13,332
Corporate bonds	837,426	1,159,926	50,905	708,911	409,573	147,626	165,306
Corporate stock	1,430,527	1,981,435	86,957	1,210,992	699,649	252,181	282,382
Currencies	20,834	28,858	1,266	17,637	10,190	3,673	4,113
Govt securities - domestic	11,815	16,366	718	10,002	5,779	2,082	2,333
Govt securities - foreign	17,082	23,660	1,038	14,460	8,354	3,011	3,372
Investments on loan	1,059,162	1,467,054	64,383	896,618	518,020	186,715	209,076
Mortgages	789,270	1,093,225	47,977	668,145	386,020	139,137	155,799
Mutual funds	2,892,877	4,006,950	647,167	2,448,924	1,414,863	1,860,857	571,047
Private equity	1,719,271	2,381,377	104,509	1,455,424	840,870	303,083	339,380
Real estate	1,077,151	1,491,971	65,477	911,847	526,819	189,886	212,627
Repurchase agreements	300,300	415,612	18,221	254,190	146,997	52,841	59,299
Short term investments	992,929	1,384,403	57,958	841,353	501,048	173,841	203,703
Other noncurrent investments	-	-	-	-	-	-	-
Total Investments, Noncurrent	11,296,504	15,655,640	1,155,563	9,563,672	5,540,498	3,340,999	2,237,624
Total Assets	$ 11,375,325	$ 15,779,292	$ 1,169,616	$ 9,630,504	$ 5,590,955	$ 3,388,590	$ 2,258,167
Liabilities:							
Obligations under security lending agreements	$ 1,080,221	$ 1,496,145	$ 65,373	$ 914,422	$ 528,918	$ 189,856	$ 213,585
Accrued liabilities	42,890	51,158	2,198	36,371	18,071	6,384	7,329
Due to other funds	173	7,356	158	111	15,482	3,403	5,782
Deferred revenues	126	210	-	294	76	-	2
Total Liabilities	1,123,410	1,554,869	67,729	951,198	562,547	199,643	226,698
Net Assets							
Net Assets Held in Trust for:							
Pension Benefits (Schedule of funding progress by plan begins on page C-118)	10,251,915	14,224,423	1,101,887	8,679,306	5,028,408	3,188,947	2,031,469
Deferred Compensation Participants	-	-	-	-	-	-	-
Total Net Assets	$ 10,251,915	$ 14,224,423	$ 1,101,887	$ 8,679,306	$ 5,028,408	$ 3,188,947	$ 2,031,469

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

Combining Statement of Changes in Plan Net Assets

Pension and Other Employee Benefit Funds

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

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

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

Note 12 – Other Post Employment Benefits

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

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

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

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

Note 13 - Commitments and Contingencies

A. Construction and Other Commitments

Outstanding commitments related to state infrastructure and facility construction, improvement, and/or renovation totaled $3.2 billion at June 30, 2006.

B. Summary of Significant Litigation

The state and its agencies are parties to numerous routine legal proceedings that normally occur in governmental operations. At any given point, there may be numerous lawsuits involving state agencies that could significantly impact expenditures. There is a recurring volume of tort and other claims for compensation and damages against the state and some specific state agencies, including the Departments of Transportation, Corrections, Social and Health Services, Revenue and the University of Washington. A significant portion of pending litigation relates to the implementation of specific state programs, and funds are reserved each biennium for handling this litigation.

Social and Health Services

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

Braam v. State. This class action is pending in Whatcom County Superior Court. Plaintiff's damage claim was resolved through the Self Insured Liability Account. The injunctive relief portion of the case was tried and appealed on behalf of all foster children with three or more placements. The original verdict was set aside on

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

Transportation

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

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

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

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

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

Personnel and Wage and Hour

Davis, Ben et al. v. DOT. This lawsuit involves 400 class members who are current or former employees of the Washington State Ferries. Plaintiffs work 12 hour shifts on seven day intervals. Oncoming crews relieve retiring crews during their shift so there is no gap between shifts. Plaintiffs rely on two different wage

recovery statutes, Department of Labor and Industries regulations and collective bargaining agreements, to seek additional compensation for the work performed during shift overlap periods. The plaintiffs prevailed at summary judgment. Appeals and oral argument will occur this winter. Plaintiffs claim approximately $8 million in damages and our estimate of damages is approximately $2 million.

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

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

Revenue

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

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

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

Education

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

General Government

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

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

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

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

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

Tort Cases and Claims

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

Tobacco Settlement

In November 1998, Washington joined 45 other states in a Master Settlement Agreement (MSA) with the nation's largest tobacco manufacturers to provide restitution for monies spent under health care programs for the treatment of smoking-related illnesses. Washington's share of the settlement is expected to be in the range of $136 to $137.5 million in Fiscal Year 2007 and is subject to various offsets, reductions, and adjustments.

Early in 2006, a determination was made that disadvantages experienced as a result of participating in the MSA were a significant factor contributing to the market share loss by manufacturers. This determination related to 2003 sales data. Washington faces a potential "NPM adjustment" of between $0 and $130 million for the year 2003.

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

The King County Superior Court heard Washington's motion and, in late September 2006, entered an order compelling arbitration and dismissing the state's action. The court's ruling was not entirely unexpected given that 18 other state courts had entered orders compelling arbitration and only one court, North Dakota, has agreed that the courts should determine the issue. Washington filed an appeal. A decision may not be issued before the next MSA payment is due in April 2007.

C. Federal Assistance

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

D. Arbitrage Rebate

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

E. Other Commitments and Contingencies

School Bond Guarantee Program

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

The State Treasurer introduced the School Bond Guarantee Program in March 2000. At the end of Fiscal Year 2006, the state had guaranteed 185 school districts' voter-approved general obligation debt with a total outstanding principal of $5.8 billion. The state estimates that school bond guarantee liability, if any, will be immaterial to its overall financial condition.

Local Option Capital Asset Lending Program (LOCAL)

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

As of June 30, 2006, outstanding certificates of participation notes totaled $54.7 million for 193 local governments participating in LOCAL. The state estimates that LOCAL program liability, if any, will be immaterial to its overall financial condition.

Note 14 - Subsequent Events

A. Bond Issues

In August 2006, the state issued $333.2 million in Various Purpose General Obligation Bonds, Series 2007A, $176.1 million in Motor Vehicle Fuel Tax General Obligation Bonds, Series 2007B, and $71.9 million in General Obligation Taxable Bonds, Series 2007T.

In November 2006, the state issued $321.1 million in Various Purpose General Obligation Refunding Bonds, Series R-2007A, and $63.8 million in Motor Vehicle Fuel Tax General Obligation Refunding Bonds, Series R-2007B.

B. Certificates of Participation

In July 2006, the state issued $16.0 million in Certificates of Participation for various state and local government real estate purchases, Series 2006F.

In August 2006, the state issued $15.4 million in Certificates of Participation for a state real estate purchase, Series 2006G.

In September 2006, the state issued $5.6 million in Certificates of Participation for various state and local government equipment purchases, Series 2006H.

In November 2006, the state issued $16.5 million in Certificates of Participation for a state real estate purchase, Series 2006I.

In December 2006, the state plans to issue $8.2 million in Certificates of Participation for various state and local government equipment and real estate purchases, Series 2006J.