OFFICIAL STATEMENT DATED AUGUST 1, 2006

Moody's Rating: Aaa (Underlying Aa2)

NEW ISSUE, BOOK-ENTRY ONLY **(See "Other Certificate Information—Insurance" and "—Rating.")**

In the opinion of Orrick, Herrington & Sutcliffe LLP, Certificate Counsel, based upon an analysis of existing laws, regulations, rulings, and court decisions and assuming, among other matters, compliance with certain covenants, interest represented by the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended. In the further opinion of Certificate Counsel, interest represented by the Certificates is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Certificate Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Certificate Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of the interest represented by, the Certificates. See "Tax Matters" herein.

$15,390,000

STATE OF WASHINGTON

CERTIFICATES OF PARTICIPATION, SERIES 2006G

(STATE BOARD FOR COMMUNITY AND TECHNICAL COLLEGES FOR AND ON BEHALF OF SHORELINE COMMUNITY COLLEGE)

Evidencing and Representing Undivided Proportionate Interests of the Owners Thereof in Base Rent Payments to be Made by the State of Washington Pursuant to the State Agency Financing Lease

DATED: DATE OF INITIAL DELIVERY (EXPECTED TO BE AUGUST 16, 2006) **DUE: JULY 1, AS SHOWN ON PAGE i HEREOF**

The State of Washington Certificates of Participation, Series 2006G (State Board for Community and Technical Colleges for and on behalf of Shoreline Community College) (the "Certificates"), will be executed and delivered in fully registered form and, when executed and delivered, will be registered initially in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Certificates. Individual purchases of the Certificates will be made in book-entry form only, in denominations of $5,000 and any integral multiple thereof. Purchasers will not receive certificates representing their beneficial ownership interests in the Certificates purchased, except as described herein.

The interest component of Base Rent Payments is payable semiannually on each January 1 and July 1, beginning on January 1, 2007. Principal and interest evidenced and represented by the Certificates is payable directly to DTC by The Bank of New York, as Fiscal Agent for the Certificates (the "Fiscal Agent"). Upon receipt of payments of principal and interest represented by the Certificates, DTC in turn is obligated to remit such payments to the DTC Participants (as described herein) for subsequent disbursement to the purchasers of beneficial ownership interests in the Certificates.

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

The Certificates are being executed and delivered to finance the acquisition and/or construction of a real property project for the benefit of the State Board for Community and Technical Colleges (the "State Agency"), acting for an on behalf of Shoreline Community College, and to fund issuance costs with respect to the Certificates. The Certificates are being executed and delivered by the Fiscal Agent pursuant to a Trust Agreement among the Fiscal Agent, the State Treasurer and the Washington Finance Officers Association (the "Corporation"), a Washington non-profit corporation. The Certificates represent undivided proportionate interests in Base Rent Payments to be made by the State of Washington (the "state") under the State Agency Financing Lease (the "Lease") between the Corporation and the state.

Payments by the state of Base Rent Payments are subject to appropriation by the State Legislature and Executive Order reduction by the Governor and may be terminated as provided in the Lease.

Payment of the principal of and interest with respect to the Certificates when due will be insured by a municipal bond insurance policy to be issued simultaneously with the delivery of the Certificates by XL Capital Assurance Inc.

XL CAPITAL ASSURANCE

THE CERTIFICATES DO NOT CONSTITUTE A DEBT OR GENERAL OBLIGATION OF THE STATE OR OF THE STATE AGENCY, THE CONTRACTING OF AN INDEBTEDNESS BY THE STATE OR BY THE STATE AGENCY, OR A PLEDGE OF THE FAITH AND CREDIT OR TAXING POWER OF THE STATE OR OF THE STATE AGENCY, FOR PURPOSES OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION UPON DEBT OR THE CONTRACTING OF INDEBTEDNESS. THE CERTIFICATES REPRESENT UNDIVIDED PROPORTIONATE INTERESTS IN BASE RENT PAYMENTS TO BE MADE UNDER THE LEASE. THE BASE RENT PAYMENTS TO BE MADE UNDER THE LEASE ARE PAYABLE SOLELY FROM THE SOURCES IDENTIFIED HEREIN, AND ARE SUBJECT TO TERMINATION UPON THE OCCURRENCE OF CERTAIN EVENTS SPECIFIED IN THE LEASE. NOTHING IN THE CERTIFICATES OR THE LEASE SHOULD BE CONSIDERED OR CONSTRUED TO IMPLY A MORAL OBLIGATION ON THE PART OF THE STATE OR THE STATE AGENCY TO MAKE THE PAYMENTS DUE.

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

The Certificates are offered when, as and if executed and delivered, and are subject to receipt of the legal opinion of Orrick Herrington & Sutcliffe LLP, Seattle, Washington, Certificate Counsel to the state, and certain other conditions. It is expected that the Certificates will be available for delivery through the facilities of DTC in New York, New York, or to the Fiscal Agent on behalf of DTC by Fast Automated Securities Transfer on or about August 16, 2006.

No dealer, broker, sales representative, or other person has been authorized to give any information or make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the State of Washington (the "state"). This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Certificates by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information set forth herein has been obtained from sources which are believed to be current and reliable but is not guaranteed as to its accuracy or completeness. However, the state makes no representation regarding the accuracy or completeness of the information in Appendix E—Book-Entry Transfer System, provided by DTC, or the information provided by XL Capital Assurance Inc. under "Other Certificate Information—Insurance" and in Appendix F—Municipal Insurance Policy Specimen. Estimates, forecasts, projections, and expressions of opinion included herein should not be interpreted as statements of fact. The statements and information herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale of the securities offered hereby will create under any circumstances an implication that there has been no change in the affairs of the State of Washington, or any other party described herein, since the date hereof. Neither this Official Statement nor any statement made herein is to be construed as a contract with the purchasers of any of the Certificates.

Certain statements included or incorporated by reference in this Official Statement, including but not limited to Appendix A, constitute "forward looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "forecast," "estimate," "budget," or other similar words. The achievement of certain results or other expectations contained in such forward looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. The state does not plan to issue any updates or revisions to those forward looking statements if or when its expectations or events, conditions or circumstances on which such statements are based occur.

$15,390,000

STATE OF WASHINGTON

CERTIFICATES OF PARTICIPATION, SERIES 2006G

(STATE BOARD FOR COMMUNITY AND TECHNICAL COLLEGES FOR AND ON BEHALF OF SHORELINE COMMUNITY COLLEGE)

Evidencing and Representing Undivided Proportionate Interests of the Owners Thereof in Base Rent Payments to be Made by the State of Washington Pursuant to the State Agency Financing Lease

PRINCIPAL PAYMENT SCHEDULE

Principal Payment Date (July 1)	Principal Component	Interest Rate	Yield	Price	CUSIP Number
2007	$ 595,000	3.800%	3.600%	100.167%	939719TN0
2008	540,000	3.800	3.630	100.302	939719TP5
2009	560,000	3.800	3.650	100.402	939719TQ3
2010	580,000	3.800	3.680	100.426	939719TR1
2011	600,000	3.800	3.720	100.350	939719TS9
2012	625,000	3.800	3.760	100.205	939719TT7
2013	650,000	3.850	3.800	100.296	939719TU4
2014	675,000	3.900	3.850	100.333	939719TV2
2015	700,000	3.900	3.900	100.000	939719TW0
2016	725,000	3.900	3.950	99.590	939719TX8
2017	755,000	4.000	4.000	100.000	939719TY6
2018	785,000	4.000	4.050	99.528	939719TZ3
2019	820,000	4.125	4.150	99.748	939719UA6
2020	850,000	4.200	4.250	99.475	939719UB4
2021	885,000	4.250	4.300	99.450	939719UC2
2022	925,000	4.300	4.400	98.861	939719UD0
2023	965,000	4.375	4.450	99.112	939719UE8
2024	1,005,000	4.375	4.500	98.471	939719UF5
2025	1,050,000	4.500	4.550	99.366	939719UG3
2026	1,100,000	4.500	4.570	99.087	939719UH1
Total	$15,390,000				

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STATE FINANCE COMMITTEE
of the
STATE OF WASHINGTON

Michael J. Murphy ..... State Treasurer and Chairman
Christine O. Gregoire ..... Governor and Member
Brad Owen..... Lieutenant Governor and Member

Allan J. Martin.....Deputy State Treasurer

Rob McKenna.....Attorney General

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

http://www.tre.wa.gov

The availability of this publication via the Internet will not under any circumstances create any implication that there has been no change in the affairs of the state since the date hereof, or that the statements and information herein are current as of any date after the date hereof.

The state's website is not part of this Official Statement, and investors should not rely on information presented in the state's website in determining whether to purchase the Certificates. This inactive textual reference to the state's website is not a hyperlink and does not incorporate the state's website by reference.

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Information set forth in this summary is qualified by the entire Official Statement.
A full review of the entire Official Statement should be made by potential investors.

SUMMARY DESCRIPTION OF THE CERTIFICATES

Certificates:	The State of Washington Certificates of Participation, Series 2006G (State Board for Community and Technical Colleges for and on behalf of Shoreline Community College) (the "Certificates"), represent undivided proportionate interests in Base Rent Payments to be made by the State of Washington (the "state") pursuant to a State Agency Financing Lease (the "Lease") between the Washington Finance Officers Association (the "Corporation"), which is a Washington nonprofit corporation, and the state, acting by and through the State Board for Community and Technical Colleges (the "State Agency"). The Certificates are dated their date of initial delivery, which is expected to be August 16, 2006.
Interest Payments:	The interest component of Base Rent Payments is payable semiannually on each January 1 and July 1, beginning on January 1, 2007.
Principal Payments:	The principal component of Base Rent Payments is payable annually beginning July 1, 2007, through July 1, 2026, inclusive.
Prepayment:	The Certificates are subject to optional and extraordinary mandatory prepayment prior to their respective Principal Payment Dates. See "The Certificates—Prepayment."
Form of Certificates:	The Certificates will be executed and delivered in fully registered, book-entry only form in denominations of $5,000 or any integral multiple thereof.
Fiscal Agent:	The Bank of New York will act as Fiscal Agent for the Certificates (the "Fiscal Agent"). Payments of principal and interest represented by the Certificates will be paid to the Fiscal Agent, which in turn will be obligated to remit such payments to the Depository Trust Company ("DTC"). DTC will be obligated to remit payments to its Participants, who in turn will be obligated to remit such payments to the beneficial owners in accordance with the operational arrangements then in effect at DTC.
Security:	Except as otherwise described herein, Base Rent Payments are due from the state on behalf of the State Agency for and on behalf of Shoreline Community College under the Lease between the Corporation and the state. Payments by the state of Base Rent Payments are subject to appropriation by the State Legislature and Executive Order reduction by the Governor. Upon a failure of the State Legislature to appropriate or Executive Order reduction by the Governor, the State Agency is permitted to terminate the Lease as provided therein. THE CERTIFICATES DO NOT CONSTITUTE A DEBT OR GENERAL OBLIGATION OF THE STATE OR OF THE STATE AGENCY, THE CONTRACTING OF AN INDEBTEDNESS BY THE STATE OR BY THE STATE AGENCY, OR A PLEDGE OF THE FAITH AND CREDIT OR TAXING POWER OF THE STATE OR OF THE STATE AGENCY, FOR PURPOSES OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION UPON DEBT OR

THE CONTRACTING OF INDEBTEDNESS. THE CERTIFICATES REPRESENT UNDIVIDED PROPORTIONATE INTERESTS IN BASE RENT PAYMENTS TO BE MADE UNDER THE LEASE. THE BASE RENT PAYMENTS TO BE MADE UNDER THE LEASE ARE PAYABLE SOLELY FROM THE SOURCES IDENTIFIED HEREIN, AND ARE SUBJECT TO TERMINATION UPON THE OCCURRENCE OF CERTAIN EVENTS SPECIFIED IN THE LEASE. NOTHING IN THE CERTIFICATES OR THE LEASE SHOULD BE CONSIDERED OR CONSTRUED TO IMPLY A MORAL OBLIGATION ON THE PART OF THE STATE OR THE STATE AGENCY TO MAKE THE PAYMENTS DUE.

The Corporation has assigned and transferred to the Fiscal Agent all of its right, title and interest in, to and under the Lease and the State Agency Site Lease dated as of the Dated Date pursuant to an Assignment between the Corporation and the Fiscal Agent.

Purpose: The Certificates are being executed and delivered to finance the acquisition and/or construction of a real property project for the benefit of the State Agency and to fund issuance costs with respect to the Certificates. See "The Project" and "Sources and Uses of Funds."

Legal Opinion: The Certificates are offered when, as and if executed and delivered, subject to the approving legal opinion of Orrick Herrington & Sutcliffe LLP, Seattle, Washington, Certificate Counsel, and certain other conditions. The proposed form of such opinion is set forth in Appendix C.

Certificate Ratings: The Certificates have been rated "Aaa" (underlying "Aa2") by Moody's Investors Service. See "Other Certificate Information—Insurance" and "—Rating."

Continuing Disclosure: The state will enter into an undertaking for the benefit of the holders of the Certificates to provide certain financial information and operating data to certain information repositories annually and to provide notice to each of those repositories or to the Municipal Securities Rulemaking Board and to a state information depository for the state, if one is created, of certain events pursuant to the requirements of Section (b)(5)(i) of Securities and Exchange Commission Rule 15c2-12 (the "Rule"). See "Continuing Disclosure Undertaking."

OFFICIAL STATEMENT

$15,390,000

STATE OF WASHINGTON

CERTIFICATES OF PARTICIPATION, SERIES 2006G

(STATE BOARD FOR TECHNICAL AND COMMUNITY COLLEGES FOR AND ON BEHALF OF SHORELINE COMMUNITY COLLEGE)

Evidencing and Representing Undivided Proportionate Interests of the Owners Thereof in Base Rent Payments to be Made by the State of Washington Pursuant to the State Agency Financing Lease

INTRODUCTION

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

The proceeds of the Certificates will be used to finance the acquisition and/or construction of a real property project (the "Project") for the benefit of the State Board for Community and Technical Colleges (the "State Agency"), acting for and on behalf of Shoreline Community College (the "College"), and to fund issuance costs with respect to the Certificates.

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

The Corporation and the state, acting by and through the State Agency and the State Treasurer, have entered into a State Agency Site Lease, dated as of the Dated Date (the "Site Lease"), for the lease of the site of the Project (the "Site") to the Corporation. Pursuant to the Lease, the state is further subleasing the Site and the Project thereon (collectively, the "Property") from the Corporation for the benefit of the State Agency.

Pursuant to an Assignment dated as of the Dated Date (the "Assignment"), the Corporation is assigning and transferring to the Fiscal Agent, without recourse, all of its rights to the Site pursuant to the Site Lease, all of its rights to receive the Base Rent Payments from the state pursuant to the Lease; its right to take all actions, exercise all remedies and give all consents under and pursuant to the Site Lease and the Lease, and all of its remaining right, title and interest in, to and under the Site Lease and the Lease, and in and to the Property. For summaries of the Trust Agreement, the Lease, the Assignment, and the Site Lease, see Appendix B—Definitions and Summary of Certain Legal Documents.

The Lease constitutes a special, limited obligation of the state payable solely from the sources and subject to the limitations set forth therein. Neither the Base Rent Payments nor the Certificates constitute or represent debt or general obligations of the state, and neither the full faith and credit nor the taxing power of the state is pledged to the payment of any Base Rent Payments or the principal or interest evidenced

and represented by the Certificates. Payments by the State Treasurer of any Base Rent Payments are subject to appropriation by the State Legislature and Executive Order reduction by the Governor. An election by the State Legislature not to appropriate, or any Executive Order reduction by the Governor, would not constitute an event of default under the Trust Agreement or the Lease.

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

Document Summaries

Certain financial information regarding the state has been taken or derived from the audited financial statements and other financial reports of the state. Reference should be made to said audited financial statements and other financial reports, and their accompanying notes, for complete information. Copies thereof are available for inspection at the Office of the State Treasurer upon request.

The summaries and descriptions herein of the Certificates, the Trust Agreement, the Lease, the Assignment, the Site Lease, the Committee's authorizing resolutions, and certain provisions of state law do not purport to be complete and are qualified in their entirety by reference to the complete provisions thereof, copies of which are available for inspection at the Office of the State Treasurer upon request. Any statements herein involving estimates, projections or forecasts are to be construed as such, rather than as statements of fact or representations that such estimates, projections or forecasts will be realized.

State Finance Committee

The Committee is composed of the Governor, Lieutenant Governor and State Treasurer, the latter being designated by law as Chairman. Pursuant to Chapter 3, Laws of 1981 (RCW 43.33.030), the Office of the State Treasurer provides administrative support to the Committee. By statutory provision, the Committee is delegated authority to supervise and control the issuance of all state bonds and approve all financing contracts and certificate of participation issues. A Deputy State Treasurer acts as recording officer for the Committee and is responsible for the administration of its official duties in accordance with prescribed policies of the Committee.

THE CERTIFICATES

Authorization

The state is authorized by chapter 39.94 RCW, as amended (the "Act"), to enter into financing contracts, for the state and its agencies or on behalf of certain local agencies specified in the Act, to acquire real and personal property to be used by the state or its agencies or such local agencies, and to issue certificates of participation in those contracts. Financing contracts may include, but are not limited to, conditional sales contracts, financing leases, lease purchase contracts, and refinancing contracts that provide for payment by the state over a term of more than one year.

All financing contracts of the state must be approved by the Committee, and financing contracts for the acquisition of real property by the state must receive the prior approval of the State Legislature. The Washington Supreme Court in *State Department of Ecology v. State Finance Committee*, 116 Wn.2d 246, 804 P.2d 1241 (1991), held that a financing contract for the state's Department of Ecology did not create debt within the meaning of Article 8, Section 1, of the Washington State Constitution. The State Legislature authorized the State Agency to enter into a financing contract for the Project on behalf of the College pursuant to Chapter 488, Laws of 2005, Regular Session, Sections 909(5)(h).

On July 12, 2005, the Committee approved a Finance Plan under which the aggregate principal amount for certificates of participation issued for the state during the 2005-2007 Biennium was set at $316,500,100 plus financing expenses and required reserves, including certificates expected to be issued to finance acquisition of real estate and equipment for State Agencies and Local Agencies.

By Resolution No. 1037, approved May 23, 2006, the Committee authorized and approved the execution and delivery of the Certificates, payments to be made by the state pursuant to the Master Financing Lease.

General Description

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

The interest component of Base Rent Payments will be payable semiannually on January 1 and July 1 of each year (each an "Interest Payment Date" and together with Principal Payment Dates, "Certificate Payment Dates"), beginning January 1, 2007, at the rates shown on page i of this Official Statement. Such interest will be computed using a 360-day year comprised of twelve 30-day months.

The interest component of the Base Rent Payments will be payable to the person whose name appears on the certificate register of the Fiscal Agent as of the close of business on the 15th day of the month immediately preceding the month in which the Interest Payment Date occurs (the "Record Date"), whether or not such day is a business day. Interest is to be paid by check or draft mailed by first class mail on each Interest Payment Date to each Owner at the address as it appears on the certificate register of the Fiscal Agent, or at the request of any Owner of at least $1,000,000 in aggregate principal amount of Certificates, by wire transfer within the United States of America of immediately available funds to the bank account specified in writing by such Owner to the Fiscal Agent no later than the applicable Record Date.

Payment of the Principal Component or Prepayment Price evidenced and represented by each Certificate is required to be made on the Principal Payment Date upon presentation and surrender thereof at the principal corporate trust office of the Fiscal Agent.

So long as the Depository Trust Company ("DTC") book-entry system is used for the Certificates, principal and interest represented by the Certificates will be paid to DTC for distribution to its Participants and payment to the beneficial owners of the Certificates. See Appendix E—Book-Entry System.

Prepayment

Optional Prepayment. The Certificates with Principal Payment Dates on and after July 1, 2017, are subject to optional prepayment prior to their respective Principal Payment Dates, as a whole or in part, in Authorized Denominations, on any date on or after July 1, 2016, upon the exercise by the state of its option to prepay the Principal Components evidenced and represented by those Certificates, at the price of par plus accrued interest, if any, evidenced and represented thereby to the Prepayment Date.

Extraordinary Mandatory Prepayment. The Certificates are subject to extraordinary mandatory prepayment on any date prior to their respective Principal Payment Dates, as a whole, or in part by lot in Authorized Denominations, upon certain governmental takings, loss of title and casualty loss, from amounts deposited in the Prepayment Account in the amount of the Principal Component evidenced and represented thereby being prepaid, plus accrued interest evidenced and represented thereby to the Prepayment Date, without premium.

Selection of Certificates for Prepayment. If the Certificates are in book-entry form at the time of prepayment, and less than all of the Base Rent Payments are being prepaid, the Fiscal Agent will direct DTC to instruct the DTC Participants to select such Certificates for prepayment *pro rata* among all Owners of the Principal Payment Date being prepaid. Neither the state nor the Fiscal Agent will have responsibility to insure that DTC or its participants properly select such Certificates for prepayment. If the Certificates are not then in book-entry form at the time of mandatory prepayment, the Fiscal Agent shall select such Certificates for prepayment, *pro rata* among Owners, to the greatest extent possible, subject to maintaining Authorized Denominations.

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

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

Book-Entry System

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

Defeasance

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

THE PROJECT

Proceeds of the Certificates will be used to pay the cost of remodeling a student union building on the main campus of Shoreline Community College (the "College") and the costs of issuance for the Certificates.

The remodel of the student union building includes the addition of a third floor and additional space for a total area of approximately 54,000 square feet. A construction contract has been entered into and construction was started in June 2006. Construction is expected to be completed by September 2007. The total project budget is approximately $18,800,000, of which $15,000,000 will be paid from proceeds of the Certificates and the balance from State Agency funds. The financing contract for the College will have a 20-year term.

Shoreline Community College. Shoreline Community College is a comprehensive college that offers two-year degrees in Academic Transfer and Professional/ Technical Programs. It also has a successful Developmental Program, a large International Program and Running Start. It offers one-year certificates in Worker Retraining and Workforce. The College is the fifth largest community college in the state.

The campus is located in the City of Shoreline and is one of the largest employers in the area. The College operates a small campus in the nearby City of Lake Forest Park for non-traditional students who need a flexible schedule and for technical training and community services. The College serves approximately 5,500 full-time-equivalent students, both state and contracted. Nearly 20,000 students and community members participate in activities on the College campus each year.

SOURCES AND USES OF FUNDS

The following table shows the sources and uses of funds:

Sources of Funds	
Principal Component of Certificates	$ 15,390,000
Net Original Issue Discount	(54,346)
Total Sources	$ 15,335,654
Uses of Funds	
Deposit to Project Fund	$ 15,000,000
Costs of Issuance[(1)]	83,939
Underwriting Spread[(2)]	251,715
Total Uses	$ 15,335,654

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

(2) Includes insurance premium, which is paid by the Underwriter.

SOURCES OF PAYMENT AND SECURITY FOR THE CERTIFICATES

Base Rent Payments

The Certificates will evidence and represent undivided proportionate interests in the Base Rent Payments payable by the state on behalf of the State Agency pursuant to the Lease. Pursuant to the Lease, the Corporation will sublease the Property to the state, and in consideration thereof the state is required to make Base Rent Payments to the Fiscal Agent, as assignee of the Corporation, during the term of the Lease. Base Rent Payments are composed of Principal Components and Interest Components represented by the Certificates. Base Rent Payments are due on each Certificate Payment Date. Base Rent Payments are payable solely from appropriated funds of the State Agency.

The Lease (including any right of the Corporation to receive Base Rent Payments thereunder) has been assigned to the Fiscal Agent pursuant to the Assignment.

The obligation of the state to make Base Rent Payments under the Lease is subject to appropriation from time to time by the State Legislature and does not constitute a debt of the state or the State Agency within the meaning of any constitutional or statutory debt limit or restriction, and does not constitute an obligation for which the state or the State Agency has levied or pledged any form of taxation. If at any time during the fiscal period the Governor projects a cash deficit, the Governor, by Executive Order, is authorized to make across-the-board reductions by fund source in allotments in order to prevent a cash deficit, unless the State Legislature has directed the liquidation of the cash deficit over one or more fiscal periods. The Governor may place any portion of an across-the-board reduction in reserve status and remove these amounts from reserve status if the across-the-board reduction is modified.

Limited Obligations of the State and the State Agency

THE CERTIFICATES DO NOT CONSTITUTE A DEBT OR GENERAL OBLIGATION OF THE STATE OF WASHINGTON OR OF THE STATE AGENCY, THE CONTRACTING OF AN INDEBTEDNESS BY THE STATE OR BY THE STATE AGENCY, OR A PLEDGE OF THE FAITH AND CREDIT OR TAXING POWER OF THE STATE OR OF THE STATE AGENCY, FOR PURPOSES OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION UPON DEBT OR THE CONTRACTING OF INDEBTEDNESS. THE CERTIFICATES REPRESENT AN UNDIVIDED PROPORTIONATE INTEREST IN BASE RENT PAYMENTS TO BE MADE UNDER THE LEASE. THE BASE RENT PAYMENTS TO BE MADE UNDER THE LEASE ARE PAYABLE SOLELY FROM THE SOURCES IDENTIFIED HEREIN, AND ARE

SUBJECT TO TERMINATION UPON THE OCCURRENCE OF CERTAIN EVENTS SPECIFIED IN THE LEASE. NOTHING IN THE CERTIFICATES OR THE LEASE SHOULD BE CONSIDERED OR CONSTRUED TO IMPLY A MORAL OBLIGATION ON THE PART OF THE STATE OR THE STATE AGENCY TO MAKE THE PAYMENTS DUE.

Non-Appropriation and Executive Order Reduction

Upon a failure of the State Legislature to appropriate or Executive Order reduction, the State Agency is permitted to terminate the Lease as provided therein. See "Permitted Termination Events" below under this caption.

PAYMENTS BY THE STATE AND THE STATE AGENCY OF BASE RENT PAYMENTS ARE SUBJECT TO APPROPRIATION BY THE STATE LEGISLATURE AND EXECUTIVE ORDER REDUCTION BY THE GOVERNOR AND MAY BE TERMINATED AS PROVIDED IN THE LEASE.

Permitted Termination Events; Remedies

Under the Lease, each of the following constitutes a "Permitted Termination Event":

(i) the State Legislature elects not to appropriate sufficient funds within any biennial budget for the purpose of paying the Base Rent Payments due thereunder during the next occurring biennium; or

(ii) the Governor of the state issues an Executive Order mandating an emergency reduction in state funding;

provided, that the State Agency delivers written notice thereof to the State Treasurer as required by the Lease.

If, as of five Business Days following (i) the enactment of each biennial budget by the State Legislature, or (ii) an Executive Order reduction in funding, the State Agency determines as a result of such legislation or Executive Order that sufficient funds will not be available to make scheduled Base Rent Payments for the Project in the next occurring biennium or upon a reduction in funding in the manner as set forth above, the State Agency is required to deliver not less than 45 days' prior written notice to the State Treasurer, which notice must describe the Permitted Termination Event, state the Permitted Termination Date and state that the State Agency has determined that such Permitted Termination Event will result in the cancellation of the Lease.

Upon the occurrence of a Permitted Termination Event, the State Treasurer is required to immediately deliver written notice thereof to the Corporation that identifies the election not to appropriate the necessary funds or the Executive Order reduction as the reason for cancellation thereof. If practicable, the State Treasurer must request a supplemental appropriation in the event that an appropriation has not been made to the State Agency. In the event of an Executive Order reduction, the State Treasurer is required to determine whether or not the Project and Site and the obligations of the State Agency under the Lease may be transferred to the Office of the State Treasurer or to another agency or department of the state authorized under the Act to enter into financing agreements. No Permitted Termination Event following an Executive Order reduction in funding will be effective unless or until the State Treasurer has determined that neither the State Treasurer nor any other agency or department of the state authorized under the Act to enter into financing agreements is willing and able to assume the rights and obligations of the State Agency under the Lease.

Upon the occurrence and effectiveness of a Permitted Termination Event, the State Treasurer and the State Agency must vacate the Project and Site at the beginning of the period for which funds have not been appropriated or for which funding has been reduced and deliver possession and control thereof to the Corporation for the remaining term of the Site Lease and thereupon be released of its obligations to make payments in an amount equal to the then unpaid balance of Base Rent Payments with respect to the

Project; *provided*, that the state and the State Agency deliver the Project in good repair, working order and condition, ordinary wear and tear excepted, as of the end of the last month for which funding has been provided, or the end of the last month for which funding is available in the event of an Executive Order reduction in funding, and written notice is provided by the State Agency directly to the State Treasurer as set forth above. Upon the occurrence and effectiveness of a Permitted Termination Event, the Corporation would be entitled to retain all sums theretofore transmitted to the Corporation (or to the Fiscal Agent as assignee of the Corporation) by or on behalf of the State Treasurer or the State Agency for the benefit of the Owners of the Certificates.

The occurrence of a Permitted Termination Event does not constitute an Event of Default, and the remedies described above relating to the return of the Project are the sole remedies available to the State Treasurer and the Corporation upon such occurrence. If the State Legislature provides a supplemental appropriation or the Executive Order is withdrawn prior to the expiration of the notice period specified above and the State Treasurer or the Corporation has not yet re-let or otherwise disposed of the Project, the State Agency and the State Treasurer may, by written notice to the Corporation, revoke the notice of termination and continue their obligations under the Lease.

Payment History

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

Rent Payments Not Subject to Abatement

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

Substitution and Release of Property

Under the Lease, the State Agency is permitted to substitute or release all or a portion of the Project and Site. See Appendix B—Definitions and Summary of Certain Legal Documents.

Acceleration

All or a portion of the Certificates may be subject to acceleration upon the occurrence of an Event of Default under the Lease.

Limitation on Exercise of Remedies

Upon the occurrence of an Event of Default under the Lease, the Fiscal Agent, as assignee of the Corporation, may pursue any available legal or equitable remedy, which may include suing for rent as the same becomes due, re-entering and re-letting the Project for the benefit of the owners of the Certificates, terminating the Lease, as appropriate, and accelerating the unpaid rent or suing for damages.

However, the remedies provided in the Lease and/or the Trust Agreement may be unenforceable under certain circumstances due to the application of principles of equity, or due to state or federal laws relating to bankruptcy, moratorium, reorganization, and creditors' rights generally and to limitations on remedies against the state and its agencies under the laws of the State of Washington. Moreover, due to the essential governmental nature of the Project or portions thereof, it is not certain whether a court would permit the exercise of the remedies of repossession and re-letting with respect thereto. In addition, the

enforcement of remedies provided in the Lease and the Trust Agreement could prove both expensive and time-consuming. In any event, although the Fiscal Agent has the right, upon the occurrence of an Event of Default, to re-enter and re-let the Project during the terms of the Site Lease, it is unknown whether any such re-entry, re-letting or other disposition would result in the collection of amounts sufficient to make the Base Rent Payments. Moreover, the Fiscal Agent would not be obligated to re-let the Project in a manner so as to preserve the tax-exempt nature of interest represented by the Certificates.

Additional Certificates

The State Agency may make additions or improvements to or alterations of the Project so long as such additional improvements are constructed and installed in accordance with applicable laws and regulations and do not diminish the value or usefulness of the Property.

The State Agency may enter into Additional State Agency Financing Leases with the Corporation to finance all or any portion of the costs of such additions or improvements so long as such leases do not reduce the obligation of the state to make Base Rent Payments under the Lease and will not, in the opinion of Certificate Counsel, adversely affect the tax-exempt status of the Interest Component of Base Rent Payments evidenced and represented by the Certificates. The owners of certificates of participation in any Additional State Agency Financing Lease will be secured proportionally, without preference, with the Owners with respect to any payments received by the Fiscal Agent in regards to the Property following the occurrence of an Event of Default or Permitted Termination Event.

STATE BOARD FOR COMMUNITY AND TECHNICAL COLLEGES

In 1967, the State Legislature created a system of community colleges in Washington and established a State Board of Community College Education, with members appointed by the Governor. In 1991, the State Legislature made significant changes to the two-year college system and the title of the board was changed to the State Board for Community and Technical Colleges (referred to in this section as the "State Board").

The State Board's primary responsibility is to submit single system operating and capital budget requests to the Governor and the State Legislature, to represent the two-year colleges on state-level policy issues, to allocate funds to the colleges, to provide research and information about the two-year college system, and to provide policy guidance to the colleges.

The State Board office is administered by an executive director, who is appointed by the State Board. Charles N. Earl was appointed as Executive Director by the State Board on February 1, 2006. He was the former president of Everett Community College and served in the King County Executive's office. He also has served as the general manager for the Snohomish County Public Utilities District. The State Board's office is located in Olympia and is divided into three divisions, each led by division directors who report directly to the executive director.

Appropriations and full-time equivalent ("FTE") employment for the State Board in the current and prior two biennia are shown below.

Biennium	State Appropriations	FTE Employees
2005-2007	$1,140,000,000	12,014
2003-2005	1,025,814,000	11,297
2001-2003	1,050,517,000	11,843

Source: State Board for Community and Technical Colleges

WASHINGTON FINANCE OFFICERS ASSOCIATION

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

INITIATIVE AND REFERENDUM

Under the State Constitution, the voters of the state have the ability to initiate legislation and to modify, approve and reject existing statutes through the powers of initiative and referendum. Initiatives and referenda are submitted to the voters upon receipt of a petition signed by at least eight percent (initiatives) and four percent (referenda) of the number of voters registered and voting for the office of Governor at the preceding regular gubernatorial election. Any law approved in this manner by a majority of the voters may not be amended or repealed by the State Legislature within a period of two years following enactment, except by a vote of two-thirds of all the members elected to each house of the State Legislature. After two years, the law is subject to amendment or repeal by the State Legislature in the same manner as other laws. The State Constitution may not be amended by initiative or referendum.

ECONOMIC AND REVENUE FORECASTS

Revenue, budgetary and economic information concerning the state government and the State of Washington as a whole is contained in Appendix A. Pursuant to state law the Office of Economic and Revenue Forecast Council (the "Council") provides state economic and tax revenue results and forecasts on a quarterly basis. The most recent release of data occurred on June 15, 2006. A press release summarizing portions of the June 15, 2006, report is available on the state's website (*www.erfc.wa.gov)*. The next forecast will be released on or about September 20, 2006. Copies of the report and subsequent reports are available from the Office of Economic and Revenue Forecast Council, P.O. Box 40912, Olympia, Washington 98504-0912. See Appendix A—General and Economic Information—Revenues, Expenditures and Fiscal Controls—State Economic and Revenue Forecasting Process.

CERTAIN STATEMENTS INCLUDED OR INCORPORATED BY REFERENCE IN THIS OFFICIAL STATEMENT, INCLUDING BUT NOT LIMITED TO APPENDIX A, CONSTITUTE "FORWARD LOOKING STATEMENTS" WITHIN THE MEANING OF THE UNITED STATES PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995,

SECTION 21E OF THE UNITED STATES SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, AND SECTION 27A OF THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED. SUCH STATEMENTS ARE GENERALLY IDENTIFIABLE BY THE TERMINOLOGY USED SUCH AS "PLAN," "EXPECT," "FORECAST," "ESTIMATE," "BUDGET," OR OTHER SIMILAR WORDS. THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD LOOKING STATEMENTS. THE STATE DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD LOOKING STATEMENTS IF OR WHEN ITS EXPECTATIONS OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED OCCUR.

LITIGATION

There is no litigation now pending against the state to the knowledge of the Deputy State Treasurer based on an inquiry with the Attorney General's Office in any way restraining or enjoining the sale, issuance, execution, or delivery of the Certificates or in any other manner affecting the validity of the Certificates, the Trust Agreement, the Site Lease, or the Lease or of the proceedings or authority pursuant to which they are to be executed and delivered.

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

During the reporting period, there were a number of lawsuits challenging the management and administration of state programs. Some lawsuits seek an expansion of program social services for certain constituents. In *Allen* v. *Western State Hospital,* for instance, the Washington Protection and Advocacy System has filed a class action lawsuit on behalf of patients with developmental disabilities at Western State Hospital alleging that the state programs are inadequate and the state has failed to provide community-based services when appropriate. This case has been stayed by the court to allow the Department of Social and Health Services to attempt to implement a work plan. The parties reached a partial settlement which the court approved on February 15, 2006. The parties are attempting to negotiate a final settlement. A similar lawsuit, *Marr* v. *Eastern State Hospital,* was filed on behalf of patients at Eastern State Hospital. This case has also been stayed pursuant to an agreement between the parties to allow the Department to make improvements to the treatment offered at Eastern State Hospital for patients with developmental disabilities.

In another case associated with a potentially comprehensive challenge to the operation of the State's mental health system, *Pierce County, et al.* v. *DSHS,* plaintiffs assert that the state agency and the State Legislature have failed in their duty to provide care for the mentally ill and developmentally disabled. Following a two week trial in November 2005 the court ruled in favor of the plaintiffs. The State has appealed this ruling to the Court of Appeals and is currently awaiting a briefing schedule.

The Department of Social and Health Services also faces legal challenges in *Arc, et al.* v. *Quasim* and *Boyle* v. *Braddock,* two actions filed on behalf of persons with developmental disabilities that are seeking

access to Medicaid-funded services. Both actions were denied class certification, dismissed at the trial court level and appealed to the United States Court of Appeals in the Ninth Circuit. The Ninth Circuit affirmed the orders denying class certifications, but held that Arc had representational standing to pursue the claims. The Ninth Circuit also affirmed the trial court's ruling that upheld the cap on enrollment in the Medicaid waiver, but remanded for trial on Plaintiffs' claim that the state, by offering institutional care but not community-based care, violates the Americans with Disabilities Act. Trial has been re-scheduled for January 2007 in *Arc* and March 2007 in *Boyle*. None of these lawsuits, however, are expected to have a material impact on state revenues or expenditures. If relief is granted in any of the actions, there would be a need to reprioritize agency program expenditures in the budget process to provide necessary changes in program support.

A number of ongoing routine lawsuits pertain to the collection of state revenues. Over the past ten years, the state has reported on the recurring litigation challenging the state's business and occupation tax structure (referred to as the interstate manufacturers litigation). This litigation represents the claims of corporate taxpayers for business and occupation tax refunds for periods from 1980 to the present. In the most recent round of this litigation, the United States Supreme Court denied *certiorari* review of an April 1999 decision by the State Supreme Court. *WR. Grace & Co. - Conn. and Chrysler Motors Corporation* v. *State of Washington, Department of Rev., and Buffelen Woodworking Co., et al.* v. *State of Washington, Department of Rev*. The State Supreme Court denied claims for a refund except to the extent the taxpayers could demonstrate entitlement to credits against their state tax liability measured by gross receipt of taxes paid to other taxing jurisdictions outside of the state. The taxpayers continue to use other refund claims to try to re-present the issue to the United States Supreme Court. Sizeable refund awards, however, are considered remote.

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

In a class action against the Department of Personnel, *WPEA* v. *State*, employees in "common classes" in general government agencies and higher education institutions seek back pay and current adjustments to rectify salary differentials between each set of common classes. The salary differentials amount to approximately $10 million per year, beginning in 1996. Plaintiffs' claims, which are based on equal protection violations, were rejected by the Superior Court. The Court of Appeals reversed and held that the salary differentials constitute an equal protection violation. A petition for discretionary review is pending in the Washington Supreme Court but the parties have reached a settlement in principle that was conditioned upon an appropriation of the Legislature, which was carried out in the 2006 supplemental budget in the amount of $22,502,000 for retrospective pay and the first year of a five-year phase-in of prospective salary equalization. The parties have not yet finalized a settlement agreement.

In July 2005, the Washington Farm Bureau Federation, Washington Grange, National Federation of Independent Business, Building Industry of Washington, and other plaintiffs brought a Complaint for Declaratory Relief in Snohomish County, Washington, seeking to declare that the state’s 2005-2007

biennial budget violated statutory spending limits and revenue collection limitations. On March 17, 2006, the superior court partially granted plaintiff's request by declaring that the state expenditure limit, as determined by the State Expenditure Limit Committee in November 2005, was $250 million higher than it should have been in the judgment of the court. The court also ruled that certain revenues authorized in support of the 2005-2007 biennial budget may have required a vote of the people prior to implementation. This ruling has been appealed to the Washington Supreme Court under the case name *Washington Farm Bureau, et.al. v. Gregoire* , and that court has ordered a stay pending its review.

APPROVAL OF LEGAL PROCEEDINGS

Certain legal matters incident to the authorization, issuance and sale by the state of the Certificates are subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP ("Certificate Counsel"), and certain other conditions. The proposed form of the legal opinion of Certificate Counsel is set forth in Appendix C hereto.

Certificate Counsel will deliver a legal opinion to the state to the effect that the statements in the section of the Official Statement entitled "The Certificates" and "Sources of Payment and Security for the Certificates," but only insofar as such statements summarize or describe the terms of the Certificates, the Trust Agreement, the Lease, and the Assignment, are accurate in all material aspects. Certificate Counsel does not assume any responsibility or liability for the accuracy or completeness of this Official Statement. The payment of compensation to Certificate Counsel is contingent upon the successful delivery of the Certificates to, and full payment for the Certificates by, the successful bidders.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Certificate Counsel, based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest represented by the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Certificate Counsel is of the further opinion that such interest is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Certificate Counsel observes that such interest is included in adjusted current earnings when calculating federal corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Certificate Counsel is set forth in Appendix C hereto.

To the extent the issue price of the Certificates payable on any given Principal Payment Date is less than the amount to be paid with respect to such Certificate on such date (excluding amounts stated to be interest and payable at least annually over the term of such Certificates), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest with respect to the Certificates which is excluded from gross income for federal income tax purposes. For this purpose, the issue price of Certificates of a particular Principal Payment Date is the first price at which a substantial amount of the Certificates of such Principal Payment Date is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to Certificates of a particular Principal Payment Date accrues daily over the term to such payment date on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Certificates to determine taxable gain or loss upon disposition (including sale, prepayment or payment on the final Principal Payment Date) of such Certificates. Beneficial Owners of the Certificates should consult their own tax advisors with respect to the tax consequences of ownership of Certificates with original issue discount, including the treatment of Beneficial Owners who do not purchase such

Certificates in the original offering to the public at the first price at which a substantial amount of such Certificates is sold to the public.

Certificates purchased, whether at original issuance or otherwise, for an amount greater than their final principal amount (or, in some cases, at their earlier call date) ("Premium Certificates") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of obligations, like the Premium Certificates, the interest with respect to which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Certificate, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Certificates should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating the exclusion from gross income for federal income tax purposes of interest with respect to obligations such as the Certificates. The state and the State Agency have covenanted to comply with certain restrictions, conditions and requirements designed to insure that interest with respect to the Certificates will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest with respect to the Certificates being included in gross income for federal income tax purposes, possibly from the date of original delivery of the Certificates. The opinion of Certificate Counsel assumes the accuracy of these representations and compliance with these covenants. Certificate Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring), or any other matters coming to Certificate Counsel's attention after the date of delivery of the Certificates may adversely affect the value of, or the tax status of interest represented by, the Certificates.

Certain requirements and procedures contained or referred to in the Lease, the Trust Agreement, the Tax Certificate, and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Certificates) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Certificate Counsel expresses no opinion as to any Certificate or the interest represented thereby if any such change occurs or action is taken or omitted upon the advice or approval of Certificate Counsel other than Orrick, Herrington & Sutcliffe LLP.

Although Certificate Counsel is of the opinion that interest represented by the Certificates is excluded from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of interest represented by, the Certificates may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Certificate Counsel expresses no opinion regarding any such other tax consequences.

Future legislation, if enacted into law, or clarification of the Code may cause interest represented by the Certificates to be subject, directly or indirectly, to federal income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislation or clarification of the Code may also affect the market price for, or marketability of, the Certificates. Prospective purchasers of the Certificates should consult their own tax advisers regarding any pending or proposed federal tax legislation, as to which Certificate Counsel expresses no opinion.

The opinion of Certificate Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Certificate Counsel's judgment as to the proper treatment of the Certificates for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Certificate Counsel cannot give and has not given any opinion or assurance

about the future activities of the state or the State Agency, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The state and the State Agency have covenanted, however, to comply with the requirements of the Code.

Certificate Counsel's engagement with respect to the Certificates ends with the delivery of the Certificates, and, unless separately engaged, Certificate Counsel is not obligated to defend the state, the State Agency or the Beneficial Owners regarding the tax-exempt status of the Certificates in the event of an audit examination by the IRS. Under current procedures, parties other than the state and the State Agency and their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt Certificates is difficult, obtaining an independent review of IRS positions with which the state and the State Agency legitimately disagrees may not be practicable. Any action of the IRS, including but not limited to selection of the Certificates for audit, or the course or result of such audit, or an audit of bonds or other obligations presenting similar tax issues may affect the market price for, or the marketability of, the Certificates, and may cause the state, the State Agency or the Beneficial Owners to incur significant expense.

CONTINUING DISCLOSURE UNDERTAKING

In accordance with paragraph (b)(5) of Securities and Exchange Commission (the "SEC") Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended (the "Rule"), the State Treasurer, on behalf of the Committee, has agreed in the Lease to enter into a written undertaking in the form of a Disclosure Agreement for the benefit of the holders of the Certificates (the "Undertaking").

Annual Disclosure Report. The state covenants and agrees that not later than seven months after the end of each fiscal year (the "Submission Date"), beginning January 31, 2007, for the fiscal year ending June 30, 2006, the state will provide or cause to be provided to each then existing nationally recognized municipal securities information repository ("NRMSIR") and to the state information depository for the state of Washington, if one is created ("SID"), an annual report (the "Annual Disclosure Report"), which will consist of the following:

(i) audited financial statements of the state prepared (except as noted in the financial statements) in accordance with generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board, as such principles may be changed from time to time, except that if the audited financial statements are not available by the Submission Date, the Annual Disclosure Report will contain unaudited financial statements in a format similar to the audited financial statements most recently prepared for the state, and the state's audited financial statements will be filed in the same manner as the Annual Disclosure Report when and if they become available;

(ii) financial and operating data for the state as set forth in Appendix A to this Official Statement;

(iii) a summary of the state debt structure by revenue pledge; and

(iv) a narrative explanation of any reasons for any amendments to this Undertaking made during the previous fiscal year and the effect of such amendments on the Annual Disclosure Report being provided.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the state, or of any related entity, that have been submitted to each of the NRMSIRs and the SID, if any, or to the SEC. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board ("MSRB"). The state will identify clearly each document so included by reference.

The Annual Disclosure Report may be submitted as a single document or as separate documents comprising a package and may include by reference other information as provided herein; provided, that any audited financial statements may be submitted separately from the balance of the Annual Disclosure Report and later than the Submission Date if such statements are not available by the Submission Date.

If the state's fiscal year changes, the state may adjust the Submission Date by giving notice of such change in the same manner as notice is given of the occurrence of a Material Event.

The state agrees to provide or cause to be provided, in a timely manner, to each NRMSIR or to the MSRB and to the SID, if any, notice of its failure to provide the Annual Disclosure Report on or prior to the Submission Date.

Material Events. The state agrees to provide or cause to be provided to the SID, if any, and to each NRMSIR or to the MSRB, timely notice of the occurrence of any of the following events with respect to the Certificates, if material (the "Material Events"):

(i) principal and interest payment delinquencies;

(ii) nonpayment-related defaults;

(iii) unscheduled draws on debt service reserves reflecting financial difficulties;

(iv) unscheduled draws on credit enhancements reflecting financial difficulties;

(v) substitution of credit or liquidity providers, or their failure to perform;

(vi) adverse tax opinions or events affecting the tax-exempt status of the Certificates;

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

(viii) optional, contingent or unscheduled Certificate calls (other than scheduled mandatory sinking fund redemptions for which notice is given pursuant to Exchange Act Release 34-23856);

(ix) defeasances;

(x) release, substitution or sale of property securing the repayment of the Certificates; and

(xi) rating changes.

Termination or Modification of Undertaking. The state's obligations under the Undertaking will terminate upon the legal defeasance, prior prepayment or payment in full of all of the Certificates. The Undertaking, or any provision hereof, will be null and void if the state:

(i) obtains an opinion of nationally recognized bond counsel to the effect that those portions of the Rule which require the Undertaking, or any such provision, have been repealed retroactively or otherwise do not apply to the Certificates; and

(ii) notifies each then existing NRMSIR and the SID, if any, of such opinion and the cancellation of the Undertaking.

The state may amend the Undertaking without the consent of any holder of any Certificate or any other person or entity under the circumstances and in the manner permitted by the Rule. The State Treasurer will give notice to each NRMSIR or the MSRB and the SID, if any, of the substance of any such amendment, including a brief statement of the reasons therefor.

If the amendment changes the type of Annual Disclosure Report to be provided, the Annual Disclosure Report containing the amended financial information will include a narrative explanation of the effect of that change on the type of information to be provided (or in the case of a change of accounting principles,

the presentation of such information). In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements:

(i) notice of such change will be given in the same manner as for a Material Event, and

(ii) the Annual Disclosure Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Remedies; Beneficiaries. The right to enforce the provisions of the Undertaking will be limited to a right to obtain specific enforcement of the state's obligations thereunder, and any failure by the state to comply with the provisions of the Undertaking will not be a default with respect to the Certificates. The Undertaking inures to the benefit of the State Treasurer and any holder of the Certificates, and does not inure to the benefit of or create any rights in any other person.

Additional Information. Nothing in the Undertaking will be deemed to prevent the state from disseminating any other information, using the means of dissemination set forth in the Undertaking or any other means of communication, or including any other information in any Annual Disclosure Report or notice of occurrence of a Material Event, in addition to that which is required by the Undertaking. If the state chooses to include any information in any Annual Disclosure Report or notice of the occurrence of a Material Event in addition to that specifically required by the Undertaking, the state will have no obligation to update such information or to include it in any future Annual Disclosure Report or notice of occurrence of a Material Event.

Prior Compliance. The state has complied in all material respects with all prior written undertakings under the Rule.

OTHER CERTIFICATE INFORMATION

Insurance

The following information has been supplied by XL Capital Assurance Inc. (the "Insurer" or "XLCA") for inclusion in this Official Statement. No representation is made by the state as to the accuracy or completeness of the information.

The Insurer accepts no responsibility for the accuracy or completeness of this Official Statement or any other information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Insurer and its affiliates set forth under this heading. In addition, the Insurer makes no representation regarding the Certificates or the advisability of investing in the Certificates.

General. XL Capital Assurance Inc. (the "Insurer" or "XLCA") is a monoline financial guaranty insurance company incorporated under the laws of the State of New York. The Insurer is currently licensed to do insurance business in, and is subject to the insurance regulation and supervision by, all 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and Singapore.

The Insurer is an indirect wholly owned subsidiary of XL Capital Ltd, a Cayman Islands exempted company ("XL Capital Ltd"). Through its subsidiaries, XL Capital Ltd is a leading provider of insurance and reinsurance coverages and financial products and services to industrial, commercial and professional service firms, insurance companies and other enterprises on a worldwide basis. The ordinary shares of XL Capital Ltd are publicly traded in the United States and listed on the New York Stock Exchange (NYSE: XL). **XL Capital Ltd is not obligated to pay the debts of or claims against the Insurer.**

The Insurer was formerly known as The London Assurance of America Inc. ("London"), which was incorporated on July 25, 1991 under the laws of the State of New York. On February 22, 2001, XL Reinsurance America Inc. ("XL Re") acquired 100% of the stock of London. XL Re merged its former financial guaranty subsidiary, known as XL Capital Assurance Inc. (formed September 13, 1999) with and into London, with London as the surviving entity. London immediately changed its name to XL Capital Assurance Inc. All previous business of London was 100% reinsured to Royal Indemnity Company, the previous owner at the time of acquisition. Effective July 1, 2006, XL Re transferred its ownership in XLCA to XL Insurance (Bermuda) Ltd.

XL Capital Ltd announced on April 7, 2006 that Security Capital Assurance Ltd ("SCA"), a newly-created holding company for XL Capital Ltd's financial guaranty insurance and reinsurance businesses conducted through XLCA and XL Financial Assurance Ltd. ("XLFA"), had filed a registration statement on Form S-1 (the "Registration Statement") with the U.S. Securities and Exchange Commission relating to a proposed initial public offering of a portion of its common shares. For further information, investors should refer to the Registration Statement.

Under the registration statement, a portion of SCA's shares will be issued and sold by SCA and a portion will be sold by SCA's parent, XL Insurance (Bermuda) Ltd, as selling shareholder. After the consummation of the offering, XL Capital Ltd is expected to beneficially own approximately 65% of SCA's outstanding shares.

SCA expects to use the proceeds it receives from the offering primarily for capital contributions to its financial guaranty subsidiaries to support future business growth. SCA intends to apply to have its shares listed on the New York Stock Exchange under the ticker symbol "SCA".

A copy of the registration statement is available on the U.S. Securities and Exchange Commission website at *www.sec.gov* under Filings & Forms (EDGAR).

Reinsurance. The Insurer has entered into a facultative quota share reinsurance agreement with XLFA, an insurance company organized under the laws of Bermuda, and an affiliate of the Insurer. Pursuant to this reinsurance agreement, the Insurer expects to cede up to 75% of its business to XLFA. The Insurer may also cede reinsurance to third parties on a transaction-specific basis, which cessions may be any or a combination of quota share, first loss or excess of loss. Such reinsurance is used by the Insurer as a risk management device and to comply with statutory and rating agency requirements and does not alter or limit the Insurer's obligations under any financial guaranty insurance policy. With respect to any transaction insured by XLCA, the percentage of risk ceded to XLFA may be less than 75% depending on certain factors including, without limitation, whether XLCA has obtained third party reinsurance covering the risk. As a result, there can be no assurance as to the percentage reinsured by XLFA of any given financial guaranty insurance policy issued by XLCA, including the Policy.

Based on the audited financials of XLFA, as of December 31, 2005, XLFA had total assets, liabilities, redeemable preferred shares and shareholders' equity of $1,394,081,000, $704,007,000, $39,000,000 and $651,074,000, respectively, determined in accordance with generally accepted accounting principles in the United States ("US GAAP"). XLFA's insurance financial strength is rated "Aaa" by Moody's and "AAA" by S&P and Fitch Inc. In addition, XLFA has obtained a financial enhancement rating of "AAA" from S&P.

The rating agencies have taken certain actions with respect to XL Capital Ltd and various insurance operating subsidiaries of XL Capital Ltd, as described below. On November 22, 2005, Moody's downgraded the senior debt rating of XL Capital Ltd from "A2" to "A3" and downgraded the other insurance financial strength ratings of various insurance operating subsidiaries of XL Capital Ltd (other

than XLCA and XLFA) from “Aa2” to “Aa3”. On November 28, 2005, Standard & Poor’s downgraded the senior debt rating of XL Capital Ltd from “A” to “A-” and downgraded the counterparty credit and financial strength ratings of various insurance operating subsidiaries of XL Capital Ltd (other than XLCA and XLFA) from “AA-” to “A+”. On February 28, 2006, Fitch revised the long term issuer rating of XL Capital Ltd from “A-” to “A”. On October 26, 2005, Fitch downgraded the insurer financial strength ratings of various insurance operating subsidiaries of XL Capital Ltd (other than XLCA and XLFA) from “AA” to “AA-”.

The ratings of XLFA or any other member of the XL Capital Ltd group of companies are not recommendations to buy, sell or hold securities, including the Certificates, and are subject to revision or withdrawal at any time by Moody’s, Standard & Poor’s or Fitch.

Notwithstanding the capital support provided to the Insurer described in this section, the Certificate holders will have direct recourse against the Insurer only, and XLFA will not be directly liable to the Certificate holders.

Financial Strength and Financial Enhancement Ratings of XLCA. The Insurer’s insurance financial strength is rated “Aaa” by Moody’s and “AAA” by Standard & Poor’s and Fitch, Inc. (“Fitch”). In addition, XLCA has obtained a financial enhancement rating of “AAA” from Standard & Poor’s. These ratings reflect Moody’s, Standard & Poor’s and Fitch’s current assessment of the Insurer’s creditworthiness and claims-paying ability as well as the reinsurance arrangement with XLFA described under “Reinsurance” above.

The above ratings are not recommendations to buy, sell or hold securities, including the Certificates, and are subject to revision or withdrawal at any time by Moody’s, Standard & Poor’s or Fitch. Any downward revision or withdrawal of these ratings may have an adverse effect on the market price of the Certificates. The Insurer does not guaranty the market price of the Certificates nor does it guaranty that the ratings on the Certificates will not be revised or withdrawn.

Capitalization of the Insurer. Based on the audited financials of XLCA, as of December 31, 2005, XLCA had total assets, liabilities, and shareholder’s equity of $953,706,000, $726,758,000, and $226,948,000, respectively, determined in accordance with U.S. GAAP.

Based on the audited statutory financial statements for XLCA as of December 31, 2005 filed with the State of New York Insurance Department, XLCA has total admitted assets of $328,231,000, total liabilities of $139,392,000, total capital and surplus of $188,839,000 and total contingency reserves of $13,031,000 determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities (“SAP”).

Incorporation by Reference of Financials. For further information concerning XLCA and XLFA, see the financial statements of XLCA and XLFA, and the notes thereto, incorporated by reference in this Official Statement. The financial statements of XLCA and XLFA are included as exhibits to the periodic reports filed with the Securities and Exchange Commission (the “Commission”) by XL Capital Ltd and may be reviewed at the EDGAR website maintained by the Commission. All financial statements of XLCA and XLFA included in, or as exhibits to, documents filed by XL Capital Ltd pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 on or prior to the date of this Official Statement, or after the date of this Official Statement but prior to termination of the offering of the Certificates, shall be deemed incorporated by reference in this Official Statement. Except for the financial statements of XLCA and XLFA, no other information contained in XL Capital Ltd’s reports filed with the Commission is incorporated by reference. Copies of the statutory quarterly and annual statements filed with the State of New York Insurance Department by XLCA are available upon request to the State of New York Insurance Department.

Regulation of the Insurer. The Insurer is regulated by the Superintendent of Insurance of the State of New York. In addition, the Insurer is subject to regulation by the insurance laws and regulations of the other jurisdictions in which it is licensed. As a financial guaranty insurance company licensed in the State of New York, the Insurer is subject to Article 69 of the New York Insurance Law, which, among other things, limits the business of each insurer to financial guaranty insurance and related lines, prescribes minimum standards of solvency, including minimum capital requirements, establishes contingency, loss and unearned premium reserve requirements, requires the maintenance of minimum surplus to policyholders and limits the aggregate amount of insurance which may be written and the maximum size of any single risk exposure which may be assumed. The Insurer is also required to file detailed annual financial statements with the New York Insurance Department and similar supervisory agencies in each of the other jurisdictions in which it is licensed.

The extent of state insurance regulation and supervision varies by jurisdiction, but New York and most other jurisdictions have laws and regulations prescribing permitted investments and governing the payment of dividends, transactions with affiliates, mergers, consolidations, acquisitions or sales of assets and incurrence of liabilities for borrowings.

THE FINANCIAL GUARANTY INSURANCE POLICIES ISSUED BY THE INSURER, INCLUDING THE INSURANCE POLICY, ARE NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

The principal executive offices of the Insurer are located at 1221 Avenue of the Americas, New York, New York 10020 and its telephone number at this address is (212) 478-3400.

Rating

The Certificates have been rated "Aaa" by Moody's Investors Service ("Moody's"), as noted on the cover of this Official Statement, on the understanding that the bond insurance policy insuring the payment when due of principal of and interest on the Certificates will be issued by the Insurer upon delivery of the Certificates as described on the cover page of this Official Statement. The Certificates have been assigned an underlying rating of "Aa2" by Moody's. The state has furnished certain information and materials to Moody's regarding the Certificates and the state. Such rating reflects only the view of such rating agency and is not intended to be a recommendation to buy, sell or hold the Certificates. Generally, rating agencies base their ratings on the information and materials furnished to them and on their own investigations, studies and assumptions. An explanation of the significance of such rating may be obtained from Moody's Investors Service, located at 99 Church Street, New York, New York 10007-2296.

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

Underwriter of the Certificates

The Certificates are being purchased by Citigroup Global Markets, Inc. (the "Underwriter") at a price of $15,083,938.57. The Underwriter has represented that the Certificates will be reoffered at the prices or yields set forth on page i of this Official Statement. The Underwriter may offer and sell the Certificates to certain dealers (including dealers depositing Certificates into investment trusts) and others at prices lower than the initial offering prices set forth on the cover hereof, and such initial offering prices may be

changed from time to time by the Underwriter. After the initial public offering, the public offering prices may be varied from time to time.

Financial Advisor

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

Official Statement

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

Excerpts from the state's 2005 Comprehensive Annual Financial Report ("CAFR") are attached as Appendix D. Copies of the state's entire 2005 CAFR are available on the Office of Financial Management's website at *http://www.ofm.wa.gov/cafr/default.asp* or upon request from the Office of the State Treasurer.

THE STATE OF WASHINGTON

/s/

Deputy Treasurer

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APPENDIX A

GENERAL AND ECONOMIC INFORMATION

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INTRODUCTION

State Overview

The state of Washington (the "state") is located in the northwest corner of the contiguous 48 states and is the 20th largest state by land area and the 15th largest state by population. Based on the U.S. Census Bureau's 2000 Census, the state's resident population is 5,894,121, an increase of 21.1 percent over 1990.

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

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

For an assessment of the current economic and budgetary outlook of the state, see "Outlook for the 2003-05 and 2005-07 Biennia." For certain economic and demographic information with respect to the state, see "Economic Information."

State Finance Committee

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

REVENUES, EXPENDITURES AND FISCAL CONTROLS

Revenues

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

Excise Taxes. Certain select sales and gross receipts taxes accounted for approximately 52.94 percent of total state revenues for the fiscal year ending June 30, 2005.

The retail sales tax and its companion use tax represent the largest source of state tax revenue, accounting for 48.18 percent of total collections. The retail sales and use tax is applied to a broad base of tangible personal property and selected services purchased by consumers, including construction (labor and materials), some machinery and supplies used by businesses, services and repair of real and personal property, and other transactions not taxed in many other states. Among the various items not subject to this tax are most personal services, motor vehicle fuel, food for off-premises consumption, trade-ins, manufacturing machinery, and purchases for resale. The current state retail sales and use tax rate is 6.5 percent.

Business and occupation tax collections represented approximately 16.39 percent of total state taxes for the fiscal year ending June 30, 2005. The business and occupation tax is applied to gross receipts of all business activities conducted within the state. Business and occupation tax rates include a principal rate

of 0.484 percent of gross income for most manufacturing and wholesaling businesses. Retail firms pay 0.471 percent, and services pay 1.5 percent.

The motor vehicle fuel tax represented approximately 6.66 percent of all state taxes for Fiscal Year 2005. The tax rate on December 31, 2005, was 31 cents per gallon.

Property Taxes. The state's property tax is levied against the true and fair value of property as determined by the Department of Revenue. The property tax for local taxing districts is levied against the assessed value as determined by county assessors. For property taxes payable in 2003, assessed value averaged 91.8 percent of fair market value.

The state property tax levy represented approximately 11.37 percent of all state tax revenues for Fiscal Year 2005. The state property tax levy is limited to the lesser of 101 percent or 100 percent plus the percentage change in inflation (as measured by the Implicit Price Deflator for Personal Consumption (the "IPD")) of the dollar amount of property taxes levied in the highest of the three most recent years plus an additional dollar amount calculated by multiplying the increase in assessed value resulting from new construction and improvements by the property tax rate for the preceding year. The state levy rate for taxes due in 2004 was $2.759 per $1,000 of true and fair property value.

By statute, all of the income from the state's property tax levy is dedicated to the support of public schools.

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

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

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

Under Initiative 601, the state generally is prohibited from increasing expenditures from the General Fund-State during any fiscal year by more than the fiscal growth factor, which is calculated annually and is defined as the average of the sum of inflation and population change for each of the three prior fiscal years. The inflation index used for the computation of the fiscal growth factor is the IPD, which is determined from the same data used to establish the U.S. gross national product. This growth factor is used to determine a state spending limit for programs and expenditures supported by the General Fund-State. The spending limit became operational on July 1, 1995, based on the population and inflation growth factor determined in November 1994, which is based upon data accumulated for Fiscal Years 1992, 1993 and 1994. Annual adjustments to the expenditure limit are made by the Expenditure Limit Committee ("ELC"), which is comprised of members from the Office of Financial Management ("OFM"), legislative fiscal committees and the Office of the Attorney General. The annual adjustment to the limit is based on the previous year's actual General Fund-State expenditure and changes in population and inflation growth. The fiscal growth factors for the 1997-99 Biennium were 4.05 percent for Fiscal Year 1998 and 4.18 percent for Fiscal Year 1999. The fiscal growth factors for the 1999-01 Biennium were 3.32 percent for Fiscal Year 2000 and 2.87 percent for Fiscal Year 2001. The fiscal growth factors for the 2001-03 Biennium were 2.79 percent for

Fiscal Year 2002 and 3.29 percent for Fiscal Year 2003. However, statutory changes to the expenditure limit adopted in the 2000 Legislative Session make it possible for the effective rate of increase in expenditures to be higher than the fiscal growth factors (Engrossed House Bill 3169 ("EHB 3169")). The fiscal growth factors for the 2003-05 Biennium were 3.2 percent for Fiscal Year 2004 and 3.02 percent for Fiscal Year 2005. The fiscal growth factors for the 2005-07 Biennium are 2.82 percent for Fiscal Year 2006 and 3.38 percent for Fiscal Year 2007.

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

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

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

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

Initiative 601 in its original form allowed the Legislature to access and appropriate money from the Emergency Reserve Fund ("ERF") based on a two-thirds majority. A measure adopted in the 2002 Legislative Session temporarily allows access to money in the ERF based on a simple majority. EHB 3169, adopted in the 2000 Legislative Session, provides the Office of the State Treasurer with the authority to transfer monies between the General Fund-State and the ERF at the conclusion of each fiscal year, to ensure that revenues deposited in the ERF for that year are exactly equal to the amount of revenues collected in excess of the expenditure limit for that year. During the 2003 special session, the Legislature authorized the transfer of the ERF balance to the General Fund-State in Fiscal Year 2004.

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

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

In the 2005 legislative session, the I-601 statute was again changed to allow revenue increases to be passed with a simple majority for funding the 2005-07 Biennial Budget. SSB 6078 will also change the calculation of the I-601 expenditure limit, but not until the 2007-09 Biennium, basing it on average growth in state personal income for the prior ten fiscal years. In addition, the calculation will be based not just on the state General Fund, but will also include related funds or "near-General Fund" accounts, including the Health Services Account, Violence Reduction and Drug Enforcement Account, Public Safety and Education Account, Water Quality Account, and Student Achievement Account. Preliminary fiscal growth factors under this new calculation for the 2007-09 Biennium are 5.49 percent for Fiscal Year 2008, and 5.25 percent for Fiscal Year 2009.

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

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

Expenditures

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

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

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

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

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

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

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

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

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

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

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

Corrections. The Department of Corrections operates 15 correctional institutions, including two prerelease facilities and 15 work-training release facilities. The rapid growth in inmate population (the primary cost driver) is, in part, the result of various crime initiatives enacted in the state. These include the Omnibus Drug Act of 1989, the Community Protection Act of 1990, Initiative 593—"Three Strikes and You're Out," approved by Washington voters in November 1993, and the Violence Prevention Act of 1994. Over the past several years the Department of Corrections has constructed nearly 5,000 new prison beds. The last major construction of a new facility was the Stafford Creek Corrections Center, a 1,936-bed, multi-custody facility that opened in April 2000 near Aberdeen, approximately 50 miles west of Olympia. In 2007, an expansion at the Washington Penitentiary in Walla Walla will open an additional 568 close custody and intensive management beds. Even with the additional prison beds, the Department of Corrections continues to have overcrowding issues, and relies on renting prison beds from out-of-state. As of the end of April 2005, approximately 540 inmates have been transported to prisons in Nevada, Colorado, Arizona, and Minnesota. In addition, the state rents 474 beds from local jurisdictions in Washington. The 2005 Legislature funded the construction of a new 1,258-bed prison expansion at the Coyote Ridge Correctional Center, which is scheduled to be completed by June 2006 and operational for the 2007-09 Biennium..

Budgeting, Accounting and Fiscal Controls

Budgeting. The state operates on a July 1 to June 30 fiscal year and on a biennial budget basis, the constitutionally prescribed period. Formulation of the state's operating budget is initiated by OFM, the Governor's budget agency, with the distribution of instructions to all state agencies establishing guidelines and information requirements. Development of agency budgets begins approximately nine months prior to the regular legislative sessions, which convene in odd-numbered years. Formal budget requests are forwarded by each agency to the Director of the OFM in the summer. The budget requests are revised and evaluated by the Director of the OFM and his or her staff, and alternative methods of

delivering services are examined and evaluated. Following this evaluation, recommended budget levels are prepared for the Governor by the Director of the OFM. These recommendations, based on the priorities of the administration, are the result of an examination of the relative merits of each program, projections of caseload, enrollment and population statistics, an assessment of the state's overall priorities, and the availability of revenue. The Expenditure Limit Committee, staffed by Senate Ways and Means, House Appropriations, and OFM have the responsibility for calculation and adoption of the expenditure limit each November.

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

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

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

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

Accounting. The state's accounting records are maintained in conformance with GAAP, as promulgated by the Governmental Accounting Standards Board ("GASB"). GAAP accounting is mandated by RCW 43.88.037. The state's Comprehensive Annual Financial Report ("CAFR") is accounted on a GAAP basis. The accounting system produces monthly financial statements at the state-wide combined level and at the agency level, which are used in the preparation of the state's fiscal year CAFR, including its 2005 CAFR. The state's fiscal 2005 CAFR contains Annual Financial Statements prepared in accordance with GAAP as promulgated by GASB (the "2005 Annual Financial Statements"), a copy of which has been filed with each nationally recognized municipal securities information repository ("NRMSIR"). Excerpts from the state's 2005 CAFR are attached as Appendix D. Copies of the state's entire 2005 CAFR are available on the Office of Financial Management's website at *http://www.ofm.wa.gov/accounting/financial.htm* or upon request from the Office of the State Treasurer.

The Government Finance Officers Association of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the state for its CAFR for each of the Fiscal Years 1987 through 2005. To be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report, the content of which conforms to program standards. Such reports must satisfy both GAAP and applicable legal requirements.

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

The 2005-07 Biennium began July 1, 2005. State law requires a balanced biennial budget. If at any time during the fiscal period the Governor projects a cash deficit because disbursements will exceed the aggregate of estimated receipts plus beginning cash surplus, the Governor is required to make across-the-board reductions in allotments in order to prevent a cash deficit, thereby reducing expenditures of appropriated funds, unless the Legislature has directed the liquidation of the cash deficit over one or more fiscal periods. Across-the-board reductions occur only in those funds estimated to have a cash deficit. For example, if the General Fund-State were projected to have a deficit, the portion of an agency's budget provided by the General Fund-State would be subject to reduction. Across-the-board reductions are placed in reserve status until needed to avert a budget deficit; if the deficit does not materialize, the across-the-board reductions are returned to the agencies.

Debt Issuance Policy

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

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

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

State Investment Programs

The State Treasurer's Office is responsible for the investment management of the state's operating funds totaling approximately $2 billion to $4 billion from time to time through its Treasurer's Cash Management Account (the "CMA"). The Treasurer also is responsible for administering the Washington State Local Government Investment Pool (the "LGIP"), an approximately $5 billion fund that invests money on behalf of more than 400 cities, counties, special municipal districts, and higher education institutions.

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

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

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

certain restrictions on portfolio composition. Internal controls and reporting requirements are mandated by the Investment Policy to allow for oversight and monitoring of performance.

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

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

Asset Liability Management

Up to ten percent of the state's total general obligation debt may be in variable rate form under a policy adopted by the Committee in July 1995. The purpose of this feature of debt management policy is to coordinate state debt and investment practices through asset liability management, which is defined as the management of the exposure to interest rate risk through active management of certain financial elements of the state's balance sheet. Coordinating the management of state debt and state investment is expected to reduce the volatility and the impact of interest rate changes in the General Fund-State.

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

State Economic and Revenue Forecasting Process

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

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

The quarterly forecast process starts with a preliminary review of the Forecast Council's findings by the workgroup. At approximately the same time, the Governor's Council of Economic Advisors is convened to provide a view of the state and national economy from outside state government. These views and

cumulative and recent revenue performance are taken into account in the preparation of forecast scenarios. The Forecast Council meets to consider the economic outlook and, after a two-week interval, considers the revenue forecast and pessimistic and optimistic projections.

The state forecast by the Forecast Council that is discussed and analyzed in this Appendix A is the state forecast that was released on June 15, 2006. This forecast is the basis for the projections described under "Summary of Recent and Projected Operating Results" and "Outlook for the 2003-05 and 2005-07 Biennia." The next forecast will be released on or about September 20, 2006. Copies of the report and subsequent reports may be obtained from the Office of Economic and Revenue Forecast Council (*www.erfc.wa.gov)*.

SUMMARY OF RECENT AND PROJECTED OPERATING RESULTS

The following tables display projected revenues and expenditures for the 2003-05 and 2005-07 Biennia. Revenues for the 2003-05 and 2005-07 Biennia are based on the June 2006 Forecast. Expenditures for the 2003-05 and 2005-07 Biennia are based on the 2005 Supplemental Operating Budget, the 2005-07 Operating Budget passed by the Legislature in April 2005 and signed by the Governor on May 17, 2005, and the 2006 Supplemental Budget passed by the Legislature on March 8, 2006, and signed by the Governor on March 31, 2006. The outlook for the 2003-05 and 2005-07 Biennia immediately follows the tables.

WASHINGTON STATE REVENUE
MODIFIED ACCRUAL BASIS
(in Millions)

	2003-05 Biennium Estimate (1)	2005-07 Biennium Estimate (1)
Beginning General Fund-State Balance	$ 405	$ 870
GENERAL FUND-STATE REVENUE		
Retail Sales and Use Taxes	$ 12,742	$ 14,848
Real Estate Excise	1,327	1,798
Business and Occupation	4,202	4,921
Property Tax	2,783	2,824
Other Taxes	1,871	2,036
Subtotal Tax Revenue	**$ 22,925**	**$ 26,427**
Other Nontax Revenue	$ 461	$ 580
Other Financing	2	(40)
Transfers from Other Funds into State General Fund	453	206
Federal Fiscal Relief (Grant Portion)	90	0
Changes in Reserves/Other Adjustments	205	0
Spillover Transfer to Emergency Reserve Account	0	0
TOTAL GENERAL FUND-STATE REVENUE (2)	**$ 24,541**	**$ 28,043**
Federal Revenue	$ 10,665	$ 11,683
Private/Local Revenue	600	340
TOTAL GENERAL FUND-STATE REVENUE	**$ 35,806**	**$ 40,066**

(1) Based on the June 2006 General Fund-State Revenue Forecast and changes in the 2006 legislative session.
(2) Including balance from previous biennium.

Note: Totals may not add due to rounding.

Source: Office of Financial Management

WASHINGTON STATE EXPENDITURES
MODIFIED ACCRUAL BASIS
(in Millions)

GENERAL FUND-STATE EXPENDITURES	2003-05 Biennium Estimate [2]	2005-07 Biennium Estimate [2]
Education		
Public Schools	$ 10,179	$ 11,099
Higher Education	2,696	2,949
Other Education	40	77
Total Education	**$ 12,915**	**$ 14,125**
Human Services		
Department of Social and Health Services	$ 6,804	$ 8,016
Federal Fiscal Relief—FMAP	(108)	0
Department of Corrections	1,261	1,447
Other Human Services	171	186
Total Human Services	**$ 8,128**	**$ 9,649**
Natural Resources and Recreation	$ 347	$ 383
Governmental Operations	426	467
Other Expenditures [3]		
Debt Service	$ 1,236	$ 1,378
Other Expenditures	620	1,296
Total Other Expenditures	**$ 1,856**	**$ 2,674**
TOTAL GENERAL FUND-STATE EXPENDITURES	**$ 23,672**	**$ 27,298**
Federal	$ 10,665	$ 11,683
Private/Local	600	340
TOTAL GENERAL FUND-STATE EXPENDITURES	**$ 34,937**	**$ 39,321**
Ending General Fund-State Balance	**$ 870**	**$ 745**
Emergency Reserve Account Projected Balance	**$ 0**	**$ 0**

(1) Based on the 2003-05 Budget as amended by the 2004 and 2005 Supplemental Budgets that were passed by the Legislature and signed by the Governor.

(2) Based on the 2005-07 Budget and the 2006 Supplemental Budget as passed by the Legislature and signed by the Governor.

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

Note: Totals may not add due to rounding.

Source: Office of Financial Management

OUTLOOK FOR THE 2003-05 AND 2005-07 BIENNIA

U.S. Economic Forecast

The June 2006 economic and revenue forecast incorporated the advance gross domestic product ("GDP") estimate for the first quarter of 2006. According to the advance estimate, real GDP grew at a 4.8 percent rate in the first quarter of 2006, up from 1.7 percent in the fourth quarter of 2005. The rebound in final sales was higher, from a negative 0.2 percent to a positive 5.4 percent. The strong first quarter was expected as the economy recovered from the weak fourth quarter. Personal consumption expenditures grew at a 5.5 percent annual rate in the first quarter, led by a 20.6 percent surge in purchases of durable goods. Fixed investment grew at a 9.9 percent rate in the first quarter, mainly as a result of a 16.4 percent increase in business spending on equipment and software. The 3.9 percent increase in government purchases in the first quarter was mostly due to a 10.3 percent increase in military spending. Net exports subtracted 0.8 percentage points from GDP growth in the first quarter, as a 13.0 percent increase in imports more than offset a 12.1 percent increase in exports.

Payroll employment growth improved to 1.7 percent in the first quarter from 1.2 percent in the fourth quarter. This apparent improvement mainly reflects the adverse impact of Hurricane Katrina on fourth quarter employment. Excluding Louisiana, national employment growth slowed slightly to 1.6 percent from 1.7 percent. The unemployment rate declined from 4.93 percent in the fourth quarter to 4.73 percent in the first quarter. Inflation, as measured by the Consumer Price Index, slowed to 2.2 percent in the first quarter of 2006, following increases of 5.5 percent and 3.2 percent in the final two quarters of 2005, due to moderating energy cost increases. Core inflation, which excludes food and energy, was unchanged at 2.4 percent in the first quarter. Housing starts climbed at a 14.8 percent rate in the first quarter, reaching a nearly 33-year-high 2.131 million units, while the mortgage rate edged up to 6.24 percent from 6.22 percent. On March 28th, the Federal Open Market Committee ("FOMC") raised its target for the federal funds rate by 25 basis points to 4.75 percent.

U.S. economic growth grew at a 4.8 percent pace in the first quarter, but is expected to slow over the rest of the year to below 3.0 percent in the second half. Growth should ease as the housing market cools and consumers begin to exhibit more caution. Strong news on growth around the world is fanning inflation fears and pushing up global bond yields, which probably have further to rise. Oil prices at $70/barrel are complicating the outlook by threatening to fuel inflation and undermine economic growth at the same time. The forecast expects GDP growth to slow from 3.5 percent in 2005 to 3.3 percent this year and 2.7 percent in 2007. GDP growth is expected to pick up to 3.2 percent and 3.3 percent in 2008 and 2009, respectively. Nonfarm payroll employment growth improved to 1.5 percent in 2005 from 1.1 percent in 2004. The forecast assumes a slowing trend in employment growth as the recovery matures. Employment is expected to grow 1.5 percent again this year, followed by increases of 1.4 percent, 1.4 percent, and 1.2 percent in 2007, 2008, and 2009, respectively. The unemployment rate also improved in 2005, declining to 5.06 percent from 5.52 percent in 2004 and 6.00 percent in 2003. With the economy expected to grow at about its potential rate during the next four years, the unemployment rate should be fairly stable. The forecast calls for unemployment rates of 4.70 percent this year, 4.83 percent in 2007, 4.81 percent in 2008, and 4.65 percent in 2009. Inflation, as measured by the implicit price deflator for personal consumption expenditures, accelerated to 2.8 percent in 2005 from 2.6 percent in 2004. Rising energy costs continue to boost overall inflation. Excluding food and energy, inflation was unchanged at 2.0 percent in 2005. Energy will add to inflation again this year, but will help restrain inflation during the next three years as energy prices finally decline. The forecast expects an inflation rate of 2.6 percent this year, 1.6 percent in 2007, 1.7 percent in 2008, and 1.6 percent in 2009. Inflation risks suggest that the FOMC has not finished raising interest rates. The forecast anticipates two more hikes in the federal funds rate, to 5.00 percent in May and to 5.25 percent at the end of June.

Washington State Economic Forecast

The state's employment growth rate increased to 5.2 percent in the first quarter of 2006 from 3.6 percent rate in the fourth quarter. The fourth quarter growth rate was distorted by the Boeing-IAM labor dispute, which reduced average employment in the third quarter by 5,300. Excluding this transitory impact, employment growth in the fourth quarter would have been 2.8 percent. Manufacturing employment rose at a 4.7 percent rate in the first quarter, led by aerospace employment, which rose at a 7.9 percent rate. Manufacturing employment other than aerospace was also strong, rising at a 3.6 percent rate. Employment in every major nonmanufacturing sector also expanded in the first quarter, led by construction employment, which rose at a 19.6 percent rate. Information employment grew 10.9 percent ,led by a 17.3 percent increase in software employment. Information other than software was also strong, rising at a 6.2 percent rate. Leisure and hospitality; professional and business services; and trade, transportation, and utilities were also strong, rising 7.0 percent, 6.1 percent, and 6.0 percent, respectively. Other services, education and health services, and financial activities posted more moderate increases, at 2.9 percent, 1.5 percent, and 0.8 percent, respectively. In the public sector, state and local government employment rose at a 1.5 percent rate, while federal government employment increased 0.8 percent.

Washington's personal income in the fourth quarter of 2005 was $1.037 billion (0.5 percent) lower than the estimate made in February. Total wages were $1.026 billion (0.8 percent) lower than expected in February. Software wages were $0.230 billion (4.7 percent) higher than expected, but non-software wages were $1.256 billion (1.0 percent) lower. Nonwage personal income was $0.010 billion (0.0 percent) above the February estimate for the fourth quarter. The forecast assumes that income growth increased to 8.1 percent in the first quarter of 2006 from 1.5 percent in the fourth quarter of 2005. Stock awards and bonuses in the software industry artificially inflated the third quarter, however, which depressed the fourth quarter growth rate. Excluding software wages, income growth in the first quarter would still have improved to 9.1 percent from 5.2 percent in the fourth quarter. Supported by strong employment growth, the forecast assumes wages grew at a 7.9 percent rate in the first quarter. The forecast also assumes that income other than wages grew at an 8.4 percent rate.

The number of housing units authorized by building permit fell 10,200 in the first quarter of 2006 to 47,500 from 57,700 in the fourth quarter. This was the weakest showing for housing permits in the state in two years. Single-family permits fell 7,800 to 35,800, and multi-family permits fell 2,300 to 11,700.

The forecast also reflects Seattle consumer price data through April. After trailing the national average during 2002, 2003, and 2004, December-December Seattle core inflation (excluding food and energy) edged ahead of the national average, rising 2.3 percent compared to 2.2 percent. During the first four months of 2006, core inflation in Seattle increased at an annual rate of 6.0 percent, twice the 3.0 percent U.S. rate. Because energy costs rose less locally than elsewhere in the U.S., the gap in overall inflation was smaller. The overall Seattle CPI rose at an annual rate of 6.2 percent in the first four months of the year, compared to 5.1 percent for the U.S. city average.

The Washington aerospace employment forecast incorporates a downward revision of 1,800 to the April 2006 level, due to a revision in the historical data and weaker than expected growth. The forecast expects another 8,900 new aerospace jobs by mid-2008, when it is expected to level off at 80,700. This is still 32,400 (28.7 percent) lower than the previous peak in June 1998. The software wage forecast is essentially unchanged since February. Software employment is expected to grow about 7,300 from now through the end of 2009, which translates into a growth rate of 2,000 jobs per year. Higher interest rates will have an adverse impact on the state housing market, but this will be offset by strong population growth. In addition, nonresidential construction is expected to recover. Overall, state construction employment is expected to continue to expand, but at a much reduced rate.

Washington nonfarm payroll employment growth grew to 2.8 percent in 2005 from 1.6 percent in 2004 and 0.1 percent in 2003. An even stronger year is expected in 2006, with employment growth increasing

to 3.4 percent. Weaker growth is expected during the next three years, as the U.S. expansion matures and the aerospace expansion slows down. The forecast calls for employment growth rates of 2.4 percent, 2.1 percent, and 1.7 percent in 2007, 2008, and 2009, respectively. Washington personal income growth declined to 2.9 percent in 2005 from 7.6 percent in 2004. Microsoft's special dividend in November 2004 temporarily boosted Washington personal income by nearly three percentage points. Without the special dividend in 2004, growth would have grown to 5.6 percent in 2005 from 4.9 percent in 2004. The forecast expects even stronger income growth during the next four years. Growth is expected to climb to 7.1 percent per year this year and next year, declining to 6.7 percent and 6.4 percent in 2008 and 2009, respectively. Housing permits increased 2,900 in 2005 to 53,000, which is the highest annual total since 1978. The strength in housing has been mostly in the single-family market, which continues to benefit from low mortgage rates. Higher mortgage rates are expected to depress the single-family market during the next four years. Offsetting this will be stronger population growth, which should boost multi-family activity. The forecast expects total housing permits to dip to 48,900 in 2006 before edging up to 50,400 in 2007. Permits are expected to decline to 49,200 in 2008 and 46,700 in 2009 as population growth subsides. Inflation, as measured by the Seattle consumer price index ("CPI"), jumped to 2.8 percent in 2005 from 1.2 percent in 2004. Core inflation (excluding food and energy) was more moderate, rising at a 1.8 percent rate in 2005. Still, this is up from core inflation rates of 0.7 percent and 0.2 percent in 2003 and 2004. While core inflation should continue to edge up due to the strengthening economy, energy prices are expected to fall. As a result, overall inflation should remain moderate during the next four years. The forecast expects the Seattle CPI to rise 3.2 percent, 2.0 percent, 2.1 percent, and 1.7 percent in 2006, 2007, 2008, and 2009, respectively.

Alternative Economic Forecasts

The Washington State Economic and Revenue Forecast Council also provided an optimistic forecast and a pessimistic forecast in June 2006.

Optimistic Forecast. Seven assumptions distinguish the optimistic scenario from the baseline forecast. First, productivity is stronger. Underlying this assumption is the view that the information-driven technology boom, which may have accelerated in recent years, continues. Second, foreign economic growth is stronger. A stronger world economy boosts U.S. exports and strengthens domestic manufacturing. Third, the optimistic alternative assumes a stronger dollar, resulting in expansion of U.S. demand for foreign goods and services. Fourth, business investment is stronger. Fifth, the federal government budget deficit is lower. Sixth, housing starts are stronger. Finally, the optimistic scenario assumes that energy prices are lower than in the baseline. These assumptions produce an improved outlook, with the U.S. economy growing 3.6 percent in 2006 and 3.7 percent in 2007. Although economic growth and labor markets are stronger, inflation is lower because of the stronger dollar and the higher productivity gains. The lower inflation rate allows the FOMC to keep the federal funds rate below the baseline value. Since productivity growth is stronger, potential GDP is higher and remains so throughout the forecast period. For the state, the optimistic forecast assumes a more typical, vigorous aerospace employment expansion than the modest growth assumed in the baseline. The state's wages also grow faster than in the baseline. The strong regional economy raises Seattle CPI inflation above the baseline forecast in the optimistic scenario, in spite of strong productivity growth. The initial level of Washington personal income is also higher in the optimistic scenario, and population growth is stronger. Construction employment continues to rise in the optimistic scenario, rather than leveling off as in the baseline. By the end of the 2005-07 Biennium, the state's nonagricultural employment is higher by 38,800 jobs than in the baseline forecast and personal income is $8.5 billion higher. The optimistic scenario generated $491 million (1.8 percent) more revenue in the 2005-07 Biennium than did the baseline forecast.

Pessimistic Forecast. The pessimistic alternative assumes that there is less spare capacity than thought, both globally and in the U.S. economy. It assumes that the dollar weakens quickly as foreign investors avoid the spiraling U.S. trade deficit. Interest rates rise as foreign investors diversify away from the

dollar, and the federal deficit widens relative to the baseline. The falling dollar adds to the upward pressure on inflation. The FOMC responds by accelerating the pace of tightening. Despite the more aggressive stance, both the stock and bond markets slip on signs that the FOMC may have let inflation build up an unstoppable momentum. The FOMC cannot permit this acceleration to continue, and so it continues hiking interest rates. This simulation also has a deeper housing downturn than the baseline. Between the higher interest rates and persistently high energy prices, consumer confidence suffers. Consumers rein in their discretionary spending and the U.S. economy slows. At the same time, hiring falters, causing the unemployment rate to climb. Debt-laden consumers retrench further. The economy does not sink into recession in the pessimistic alternative, but merely fails to come as close to its potential as in the baseline, with GDP growth coming in 2.7 percent in 2006 and just 0.9 percent in 2007. At the state level, the recovery in aerospace employment is much slower than in the baseline. Data revisions show that the initial level of personal income in the state is lower than was assumed in the baseline. Population growth is also slower in this scenario. Construction employment begins to decline again in the third quarter of 2006, rather than leveling off as in the baseline. Because of the weak economy, wage growth in the state is weaker than in the baseline forecast, in spite of the higher inflation assumption in the national pessimistic forecast. Seattle inflation is initially about the same as in the baseline, but falls below the baseline in 2007, 2008, and 2009. By the end of the 2005-07 Biennium, nonagricultural employment is 52,900 lower than the baseline forecast, and personal income is $8.3 billion lower. The pessimistic scenario produced $566 million (2.1 percent) less revenue in the 2005-07 Biennium than did the baseline forecast.

Budgetary Outlook

For the 2003-05 Biennium, General Fund-State revenues are projected to be $23.389 billion, an increase of 10.6 percent from the 2001-03 Biennium, plus a carry-forward of $405 million. Additionally, there was $542 million in revenue from other funds that was deposited into the General Fund, as well as $206 million in adjustments, which are attributable to prior biennium recoveries and a one-time charge to the working capital reserve.

The operating budget for the 2003-05 Biennium calls for an overall expenditure level of $23.7 billion for General Fund-State, which is an increase of $1.1 billion or 4.2 percent over the 2001-03 Biennium. This is among the smallest of the biennial growth rates in the past decade, and is within the $23.91 billion expenditure limit imposed by Initiative 601.

In the 2003-05 Biennium, 54 percent of the General Fund-State budget will go to support public schools and higher education. Most of the increase in public school funding covers the increased cost of teacher and staff health benefits for increases in K-12 enrollment. Higher education funding provided for at least 1,800 student enrollment increases in public universities and colleges and increases in need grants.

The spending for human service delivery systems provided by the Department of Social and Health Services made up approximately 28 percent of the state budget. The largest program in the Human Services budget is the Medical Assistance Program, which comprised 30 percent of the Human Services budget in the 2003-05 Biennium.

For the 2005-07 Biennium, General Fund-State revenues are projected to be $27.2 billion, a 16 percent increase from the 2003-05 Biennium, plus a carry-forward of $870 million. This figure includes $354 million of new or revised revenue sources passed by the 2005 legislature, including an increase to the liquor liter tax, the extension of sales tax to warranties, an adjustment to the high-tech business and occupations tax credit, and a number of other small changes. Also included is $206 million in shift of revenue from other funds into the General Fund.

The operating budget for the 2005-07 Biennium contains an overall expenditure level of $27.3 billion for General Fund-State, which is an increase of $3.6 billion or 15.3 percent over the 2003-05 Biennium. This expenditure level is within the $27.77 billion expenditure limit imposed by Initiative 601.

In the 2005-07 Biennium, 53 percent of the General Fund-State budget will go to support public schools and higher education. Most of the public school funding covers the increased cost of teacher and staff health benefits for increases in K-12 enrollment. The higher education funding provided for at least 7,900 student enrollment increases in public two- and four-year colleges and universities, and increases in need grants.

The spending for human service delivery systems provided by DSHS makes up approximately 36 percent of the state budget. Washington's WorkFirst program has helped more than 153,000 people get off and stay off welfare since the program began in 1997. Welfare caseloads have dropped by 40 percent and the percentage of the state's population on welfare is at the lowest point in more than 30 years. Most program participants who go to work earn more than $8 an hour. The largest DSHS program is the Medical Assistance Program, which, at $3.1 billion, comprises 39 percent of the 2005-07 DSHS budget.

The 2005-07 Biennial Budget contains compensation increases for K-12 teachers and state employees, including salary cost-of-living increases ("COLAs"), partial salary survey implementation, pension rate increases, and health benefit rate increases. The COLAs are the first in four years for state employees and K-12 teachers. The 2005-07 Biennium also marks the effective date of collective bargaining and wider union representation among classified employees of state government.

The following tables provide the General Fund-State budget for the 2003-05 and 2005-07 Biennia.

2003-05 BIENNIUM
GENERAL FUND-STATE BUDGET
(Modified Accrual Basis)
(in Millions)

Beginning Fund Balance	$ 405
Revenue	
June 2003 Forecast	$ 22,295
2003 Legislative Changes	587
September 2003 Forecast	15
November 2003 Forecast	65
February 2004 Forecast	76
2004 Legislative Changes	(25)
June 2004 Forecast	186
September 2004 Forecast	106
November 2004 Forecast	70
March 2005 Forecast	58
June 2005 Forecast	109
September 2005 Forecast	(142)
November 2005 Forecast	(5)
2005 Legislative Changes	(8)
Changes in Reserves and Other Adjustments	659
Total Sources	**$ 24,451**
Total Expenditures	**$ 23,672**
Ending General Fund-State Balance	**$ 779**
Emergency Reserve Fund Account Balance	**0**
Additional Federal Funding (Assumed to Replace General Fund-State Appropriations)	**$ 100**
Less Local Government Assistance Appropriations	**$ (10)**
Revised Ending General Fund-State Balance	**$ 870**

Note: Totals may not add due to rounding.

Source: Office of Financial Management

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

Beginning Fund Balance	$ 870
Revenue	
June 2005 Forecast	$ 25,031
September 2005 Forecast	645
November 2005 Forecast	305
2005 Legislative Changes	354
February 2006 Forecast	107
June 2006 Forecast	518
2006 Supplemental Budget Legislative Changes	6
Changes in Reserves and Other Adjustments	206
Total Sources	**$ 28,043**
Total Expenditures	**$ 27,298**
Ending General Fund-State Balance	**$ 745**
Emergency Reserve Fund Account Balance	**0**
Revised Ending General Fund-State Balance	**$ 745**

Note: Totals may not add due to rounding.

Source: Office of Financial Management

State Transportation Budget

The Legislature passed the state transportation budget for the 2003-05 Biennium on April 26, 2003, and the Governor signed the bill on May 19, 2003. The total $4.8 billion budget bill contained funding for $2.9 billion in capital expenditures, including $2.6 billion for the Department of Transportation capital funding for roads, bridges, ferries, rail, and transit improvements. The bill also contained funding for the Washington State Patrol, the Department of Licensing and other transportation agencies.

The state gas tax historically has been pledged for debt service retirement of transportation bonds. An increase in the state gas tax to 31 cents per gallon went into effect on July 1, 2005.

The Legislature passed the state transportation budget for the 2005-07 Biennium on April 24, 2005, and the Governor signed the bill on May 9, 2005. The 2006 Supplemental transportation budget was passed on March 8, 2006, and signed by the Governor on March 31, 2006. The total $6.0 billion budget contains funding for $3.8 billion in capital expenditures, including $3.5 billion for the Department of Transportation capital funding for roads, bridges, ferries, rail, and transit improvements. The transportation budget bill also contains funding for the Washington State Patrol, the Department of Licensing and other transportation agencies.

CAPITAL BUDGET AND STATE DEBT

State Capital Budget

The state's 2003-05 biennial capital budget adopted by the 2003 Legislature provided for $2.57 billion expenditures in new projects. Of this total, $1.35 billion in expenditures are to be funded from the sale of general obligation bonds that are subject to the state's statutory debt limit.

The 2003-05 biennial capital budget provides for $798 million for higher education projects, $540 million for K-12 education and $386 million for natural resource projects. Other capital funds are divided across the remaining state governmental functions. The 2004 Supplemental Capital Budget provided another $150 million in funding, primarily for higher education facilities and for projects that protect the state's water resources. The 2005 Supplemental Capital Budget provided an additional $213 million, most of which was additional funding from the Public Works Assistance Account program.

The state's 2005-07 biennial capital budget adopted by the 2005 Legislature provided for $3.27 billion expenditures in new projects. Of this total, $1.56 billion in expenditures are to be funded from the sale of general obligation bonds that are subject to the state's statutory debt limit.

The 2005-07 biennial capital budget provides for $1.400 billion for higher education projects, $900 million for K-12 education and $1.272 billion for natural resource projects. Other capital funds are divided across the remaining state governmental functions.

General Obligation Debt

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

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

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

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

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

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

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

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

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

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

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

(b) debt which has been refunded;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Current General Obligation Debt Capacity. By applying the statutory and constitutional limitations on general obligation debt, the state's estimated general obligation debt capacity (excluding Committee-authorized short-term debt described above) is calculated as follows (as of August 1, 2006; preliminary, subject to change):

	Statutory (7 Percent)*	Constitutional (9 Percent)*
Estimated arithmetic mean of general state revenues for fiscal years ending June 30, 2004, 2005, and 2006 (1)	$ 12,368,745,567	$ 10,236,497,739
Debt service limitation (7% or 9% of above) (maximum annual debt service on general obligation debt to be outstanding may not exceed this sum)	$ 865,812,190	$ 921,284,797
Maximum annual debt service on outstanding general obligation debt (8/1/2006)	$ 690,293,991	$ 773,834,157
Uncommitted portion of debt service limitation (8/1/2006)	$ 175,518,199	$ 147,450,640
Remaining state general obligation principal debt capacity after sale of current and projected issues (assuming a 25-year amortization and an interest rate of 6.00% on future issues) (2)	$ 2,243,711,648	$ 1,884,914,042

(1) The arithmetic means of general state revenues for recent previous three-year fiscal periods are shown below. Source: "Certification of the Debt Limitation of the State of Washington" for fiscal years 1999 through 2006.

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

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

* Preliminary, subject to change.

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

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

Motor Vehicle Fuel Tax Obligations

As of August 1, 2006, there will be outstanding $3,032,785,657 motor vehicle fuel tax bonds secured by a pledge of, and first payable from, excise taxes levied against motor vehicle and special fuels. Additionally, these bonds are secured by the full faith, credit and taxing power of the state. Such bonds are not subject to the constitutional or statutory debt limitation.

Motor Vehicle Fuel Tax Rates. Chapter 49, Laws of 1983, 1st Ex. Sess., established a motor vehicle fuel tax at a fixed cents-per-gallon rate. Effective April 1, 1990, the fuel tax was raised to 22 cents per gallon from 18 cents. Effective April 1, 1991, the fuel tax was raised to 23 cents per gallon. Effective July 1,

2003, the fuel tax was raised to 28 cents per gallon. The State Legislature enacted Engrossed Substitute Senate Bill 6103, Chapter 314, Laws of 2005 (ESSB 6103) during its 2005 regular session. Among other things, ESSB 6103 provides for incremental increases in the tax rate on motor vehicle fuels and special fuels that total nine and a half cents per gallon over a period of four years. The initial increase in the tax rate for motor vehicle fuels and special fuels of three cents per gallon (from 28 cents per gallon to 31 cents per gallon) became effective on July 1, 2005. The tax rate for both types of fuels would increase an additional three cents per gallon on July 1, 2006, two cents per gallon on July 1, 2007, and one and one-half cents per gallon on July 1, 2008.

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

Revenue Available for Debt Service. The following table presents the state's motor vehicle fuel excise tax collection experience at various rates per gallon, including a revenue projection based upon the tax rate of 31 cents per gallon tax effective July 1, 2005, and the allocations of excise tax pledged for bond principal and interest payments.

	Revenue Pledge	**County-City Allocation(1)**	**State Allocation (2)**
July 1, 1991 – June 30, 1992	$610,681,244	$81,153,690	$305,143,075
July 1, 1992 – June 30, 1993	596,015,283	79,888,937	297,161,376
July 1, 1993 – June 30, 1994	614,890,069	82,418,884	306,571,969
July 1, 1994 – June 30, 1995	615,525,077	82,503,999	306,888,571
July 1, 1995 – June 30, 1996	655,427,980	87,887,898	327,133,159
July 1, 1996 – June 30, 1997	672,095,589	89,661,476	336,186,110
July 1, 1997 – June 30, 1998	688,474,782	91,846,557	344,379,077
July 1, 1998 – June 30, 1999	712,559,355	95,059,580	356,426,320
July 1, 1999 – June 30, 2000	721,684,773	96,276,797	365,130,833
July 1, 2000 – June 30, 2001	723,945,995	96,578,457	366,272,623
July 1, 2001 – June 30, 2002	720,305,001	96,092,728	364,429,773
July 1, 2002 – June 30, 2003	732,805,981	97,760,429	370,749,618
July 1, 2003 – June 30, 2004	888,237,589	99,866,758	512,808,590
July 1, 2004 – June 30, 2005	911,683,662	99,265,533	538,209,753
July 1, 2005 – June 30, 2006 (3)	1,002,731,346.	100,413,860	611,792,224
July 1, 2006 – June 30, 2007 (3)	1,118,221,285	102,074,822	704,799,860

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

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

(3) Department of Transportation forecast (June 2006).

Revenue Pledge and Distribution Percentages. Each legislative act authorizing the issuance and sale of motor vehicle fuel tax bonds provides that the principal of and interest on such bonds are secured by a pledge of the excise taxes levied on motor vehicle and special fuels imposed by chapters 82.36 and 82.38 RCW (formerly by chapters 82.36 and 82.40 RCW). That pledge constitutes a charge against the revenues from such motor vehicle and special fuels excise taxes equal to the charge of any other general

obligation bonds of the state that have been and may hereafter be authorized that also pledge motor vehicle and special fuels excise taxes for their payment. By statutory provision the Legislature has covenanted to continue to levy that excise tax in amounts sufficient to pay, when due, the principal and interest on all of those bonds issued under the respective legislative authorizations. All motor vehicle fuel tax general obligation bonds of the state are further secured by a pledge of the full faith, credit and taxing power of the state. The act authorizing the issuance of refunding bonds requires, as to bonds to be refunded that are secured by motor vehicle fuel taxes, that the refunding bonds be secured by the same taxes in addition to the pledge of the state's full faith and credit and taxing power.

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

Sources of Repayment

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

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

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

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

GENERAL STATE REVENUES
STATUTORY
(in Millions)

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

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

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

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

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

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

State Bonds Outstanding

The following table summarizes as of August 1, 2006, the state's general obligation bonds and general obligation bonds secured by motor vehicle fuel tax revenue.

General Obligation Bonds.....	$ 7,982,623,946
Motor Vehicle Fuel Tax General Obligation.....	3,032,785,657
	$ 11,015,409,604

An additional $2,503,968,029 principal amount of general obligation bonds and $7,364,194,343 principal amount of motor vehicle fuel tax general obligation bonds will be authorized but unissued as of August 1, 2006. Issuance of additional general obligation bonds is subject to constitutional and statutory debt limitations. By statute, additional general obligation bonds (with certain exceptions) may not be issued if, after giving effect thereto, maximum annual debt service would exceed seven percent of the three-year average of general state revenues. State motor vehicle fuel tax general obligation bonds and certain other bonds are not subject to that limitation.

The maximum annual debt service on all outstanding general obligation bonds is covered 15.15 times by general state revenues of $12.286 billion for the fiscal year ending June 30, 2005. Coverage of the projected annual debt service on all outstanding motor vehicle fuel tax general obligation bonds is 4.08 times based upon estimated gasoline tax revenues of $996.684 million for the fiscal year ending June 30, 2006.

Schedules

Schedules Nos. 1 through 3 show debt service on outstanding and proposed general obligation bonds and motor vehicle fuel tax bonds and analyses of the various types of revenues pledged to secure these bonds.

SCHEDULE NO. 1 (Combined — General State Revenues and Components, Motor Vehicle Fuel Tax, and Other Revenues)

TOTAL BONDS OUTSTANDING AND AUGUST 1, 2006 BOND OFFERING

Fiscal Year Ending June 30th	Outstanding 8/1/2006 [1] Principal	Outstanding 8/1/2006 [1] Interest [4]	August 1, 2006 Bond Offering [2,5] Principal	August 1, 2006 Bond Offering [2,5] Interest	Total [3,5]
2007	$ 351,435,000	$ 276,457,579	$ -	$ 12,353,128	$ 640,245,707
2008	519,141,495	481,202,115	11,545,000	29,335,123	1,041,223,733
2009	517,750,442	460,427,343	12,185,000	28,691,731	1,019,054,516
2010	500,842,538	440,319,416	12,870,000	28,007,504	982,039,459
2011	481,613,541	419,319,917	13,605,000	27,275,169	941,813,626
2012	469,158,890	401,522,372	14,390,000	26,494,473	911,565,735
2013	493,408,288	376,586,169	15,220,000	25,662,736	910,877,192
2014	516,843,050	351,716,566	16,100,000	24,775,151	909,434,767
2015	542,109,557	337,555,877	17,015,000	23,863,736	920,544,170
2016	556,446,703	328,327,975	17,915,000	22,961,875	925,651,553
2017	555,042,755	326,215,163	18,835,000	22,043,125	922,136,043
2018	534,488,144	301,022,660	19,800,000	21,077,250	876,388,054
2019	514,823,568	280,410,653	20,815,000	20,061,875	836,111,097
2020	497,340,293	263,478,514	21,885,000	18,994,375	801,698,182
2021	453,290,193	215,216,114	23,010,000	17,872,000	709,388,306
2022	435,681,560	174,365,425	24,190,000	16,692,000	650,928,985
2023	416,732,177	156,835,230	25,430,000	15,451,500	614,448,907
2024	400,948,812	139,858,295	26,730,000	14,147,500	581,684,607
2025	365,956,658	124,049,893	28,100,000	12,776,750	530,883,301
2026	339,840,038	107,873,103	29,545,000	11,335,625	488,593,766
2027	295,835,803	93,219,707	31,060,000	9,820,500	429,936,010
2028	241,480,100	82,273,255	32,655,000	8,227,625	364,635,980
2029	213,046,038	74,327,337	34,325,000	6,553,125	328,251,500
2030	154,438,960	65,954,790	36,080,000	4,793,000	261,266,750
2031	66,590,000	2,496,250	37,940,000	2,942,500	109,968,750
2032	-	-	39,880,000	997,000	40,877,000
	$ 10,434,284,604	$ 6,281,031,716	$ 581,125,000	$ 453,206,376	$ 17,749,647,695

Note: Totals may not add due to rounding.

	Principal	Interest
(1) **Outstanding Bonds by Revenue Pledge**		
(a) General State Revenues	$ 7,577,558,946	$ 4,215,094,531
(b) Motor Vehicle Fuel Tax	2,856,725,657	2,065,937,185
Total Bonds Outstanding	$ 10,434,284,604	$ 6,281,031,716
(2) **August 1, 2006 Bond Offering [5]**		
(a) Series 2007A, dated 8/1/2006	$ 333,165,000	$ 298,370,813
(b) Series 2007B, dated 8/1/2006	176,060,000	136,020,417
(c) Series 2007T, dated 8/1/2006	71,900,000	18,815,147
Total August 1, 2006 Offering	$ 581,125,000	$ 453,206,376
(3) **Total Bonds Outstanding Following August 1, 2006 Offering**	$ 11,015,409,604	$ 6,734,238,092

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

(5) Preliminary, subject to change.

SCHEDULE NO. 2

SUMMARY - DEBT STRUCTURE BY REVENUE PLEDGE

General Obligation [1]

	6/30/2002	6/30/2003	6/30/2004	6/30/2005	6/30/2006	8/1/2006 [2]
Outstanding						
General State Revenues and Components						
General State Revenues	$ 6,786,803,651	$ 6,827,099,728	$ 7,215,204,278	$ 7,575,311,302	$ 7,702,642,072	$ 7,982,623,946
Retail Sales Tax Revenue	1,490,000	445,000	- - - - - -	- - - - - -	- - - - - -	- - - - - -
Subtotal	$ 6,788,293,651	$ 6,827,544,728	$ 7,215,204,278	$ 7,575,311,302	$ 7,702,642,072	$ 7,982,623,946
Motor Vehicle Fuel Tax Revenue	$ 1,395,980,000	$ 1,720,296,935	$ 2,113,536,136	$ 2,404,758,801	$ 2,881,445,657	$ 3,032,785,657
Total - Outstanding	$ 8,184,273,651	$ 8,547,841,664	$ 9,328,740,413	$ 9,980,070,103	$ 10,584,087,730	$ 11,015,409,604
Annual Debt Service Requirements						
Fiscal Year	$ 825,972,401	$ 836,219,533	$ 827,723,419	$ 896,463,314	$ 939,827,748	$ 1,017,274,873
Authorized -- Unissued						
General State Revenues	$ 1,196,003,029	$ 2,033,548,029	$ 2,446,723,029	$ 3,165,528,029	$ 2,909,033,029	$ 2,503,968,029
Motor Vehicle Fuel Tax Revenue	1,915,200,000	1,514,793,065	3,655,958,864	3,087,256,199	7,540,254,343	7,364,194,343
Total - Unissued	$ 3,111,203,029	$ 3,548,341,094	$ 6,102,681,893	$ 6,252,784,228	$ 10,449,287,372	$ 9,868,162,372
Issued (New Money and Refunding)						
Fiscal Year	$ 1,017,470,000	$ 1,528,646,935	$ 1,624,334,200	$ 1,523,297,666	$ 1,558,261,856	$ 581,125,000

(1) No limited obligation debt is outstanding or authorized.
(2) Includes current Bond offering dated August 1, 2006; preliminary, subject to change.

Note: Totals may not add due to rounding

SCHEDULE NO. 3

TOTAL DEBT SERVICE REQUIREMENTS [1]
by Pledge of Revenues

Fiscal Year Ending June 30th	General State Revenues (or Components)	Motor Vehicle Fuel Tax Revenues	Total Principal	Total Interest	Total Debt Service Requirements
2007	$801,393,641	$215,881,232	$501,238,126	$516,036,747	$1,017,274,873
2008	811,045,382	230,178,351	530,686,495	510,537,237	1,041,223,733
2009	784,629,086	234,425,431	529,935,442	489,119,074	1,019,054,516
2010	752,206,658	229,832,801	513,712,538	468,326,921	982,039,459
2011	717,285,502	224,528,125	495,218,541	446,595,086	941,813,626
2012	693,929,115	217,636,620	483,548,890	428,016,845	911,565,735
2013	688,152,996	222,724,196	508,628,288	402,248,904	910,877,192
2014	678,671,330	230,763,437	532,943,050	376,491,717	909,434,767
2015	690,336,772	230,207,398	559,124,557	361,419,613	920,544,170
2016	689,273,414	236,378,140	574,361,703	351,289,850	925,651,553
2017	677,793,424	244,342,619	573,877,755	348,258,288	922,136,043
2018	631,889,359	244,498,694	554,288,144	322,099,910	876,388,054
2019	591,647,203	244,463,893	535,638,568	300,472,528	836,111,097
2020	558,466,917	243,231,265	519,225,293	282,472,889	801,698,182
2021	476,035,678	233,352,628	476,300,193	233,088,114	709,388,306
2022	420,017,297	230,911,688	459,871,560	191,057,425	650,928,985
2023	394,895,922	219,552,985	442,162,177	172,286,730	614,448,907
2024	367,288,094	214,396,513	427,678,812	154,005,795	581,684,607
2025	317,026,344	213,856,957	394,056,658	136,826,643	530,883,301
2026	277,340,281	211,253,485	369,385,038	119,208,728	488,593,766
2027	233,690,750	196,245,260	326,895,803	103,040,207	429,936,010
2028	191,243,250	173,392,730	274,135,100	90,500,880	364,635,980
2029	164,943,375	163,308,125	247,371,038	80,880,462	328,251,500
2030	116,367,125	144,899,625	190,518,960	70,747,790	261,266,750
2031	65,624,875	44,343,875	104,530,000	5,438,750	109,968,750
2032	28,541,125	12,335,875	39,880,000	997,000	40,877,000
Total	$12,819,734,914	$5,306,941,948	$11,165,212,730	$6,961,464,131	$18,126,676,861

(1) Includes current Bond offering dated August 1, 2006; preliminary, subject to change.

Note: Totals may not add due to rounding

SELECTED DEBT RATIOS

Debt Ratios

Year	State Debt Per Capita	State Debt/ Personal Income (Percentage)	Total Debt Service/ Personal Income (Percentage)	State Debt/ Market Value Taxable Property (Percentage)
2002	$ 1,389.88	4.26%	0.42%	1.58%
2003	1,460.84	4.42%	0.41%	1.58%
2004	1,500.38	4.28%	0.41%	1.58%
2005*	1,636.63	4.59%	0.42%	1.75%
2006*	1,729.07	4.60%	0.43%	1.88%

Factors for the Debt Ratios

Year	Population (1) (000)	Personal Income (2) (000,000)	Debt Service (3) (000)	Market Value Taxable Property (4) (000)	State Debt (5) (000)
2002	6,041.70	$ 197,323	$ 836,220	$ 532,296,068	$ 8,397,260
2003	6,098.30	201,342	827,723	563,600,366	8,908,653
2004	6,167.80	216,427	896,463	585,655,515	9,254,055
2005*	6,256.40	223,217	939,828	585,655,515	10,239,381
2006*	6,370.70	239,207	1,017,275	585,655,515	11,015,410

(1) Population -- Office of the Forecast Council, "Washington Economic and Revenue Forecast February 2006," Table A5.1.

(2) Personal Income -- Office of the Forecast Council, "Washington Economic and Revenue Forecast February 2006," Table A3.3.

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

(4) True and fair market value (100%) as reported by the Department of Revenue for state taxes due and payable in calendar years 2001 through 2004 -- Department of Revenue, "Property Tax Statistics 2004," Table 25. Under current law, business inventories are exempt from any property tax.

(5) State Debt -- Reported by the Office of State Treasurer for December 31 each year. Outstanding as of August 1, 2006.

* Estimate.

State Bonded Debt by Source of Payments

General Obligation		
Payable from General State Revenues	$6,913,454,440 (1)	
First Payable from Other Sources	4,101,955,164 (2)	
Limited Obligation	0	$11,015,409,604

	General Obligation Debt		
	Payable From General State Revenues	First Payable from Other Sources	Total State Bonded Debt
Debt to True Market Value.....	1.18%	0.70%	1.88%
Per Capita Debt.....	$1,144.29	$678.94	$1,823.23

(1) Outstanding bonds as of August 1, 2006.

(2) Certain state general obligation bonds are payable first from sources other than general state revenues ($1,069,169,506 from tuition fees, patient fees, admissions taxes, parking taxes, certain King County sales and use taxes, or hotel and motel taxes) and are additionally full faith and credit obligations of the state.

OTHER OBLIGATIONS

Workers' Compensation Program

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

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

Certificates of Participation/Financing Contracts

The following table displays outstanding state certificates of participation/financing contracts as of June 30, 2006.

	Outstanding	2005-2007 Debt Service Requirement	Final Maturity
Big Bend, Clark, Spokane, SPSC, Walla Wall CCs, 2004A	$ 12,305,000	$ 2,509,835	2024
The Evergreen State College, Childcare Center, 2003	1,025,000	713,991	2008
WA State Liquor Control Board, 1996	7,195,000	5,270,383	2010
Master Installment Program -- RE, 1993	2,815,000	2,189,518	2016
State Board for Community and Tech Colleges, COP Series 2006C	9,835,000	292,604	2026
Shoreline Community College, 1992	0	0	2012
DOC, 2005, Tumwater and Airway Heights	9,350,000	864,385	2025
WSU, Consolidated Information Center, 1996 Taxable	0	564,044	2017
DOE Refunding, 2003B	25,715,000	2,280,975	2016
UW, Sandpoint Phase 2B, 2001D	3,195,000	552,173	2022
Highline Community College, RE-2003F	11,945,000	1,831,388	2023
UW, McCarty-Lander, 2001C	3,985,000	1,192,255	2013
Quarterly Pooled Financings; since 2004	96,799,147	32,463,744	2019
LOCAL Real Property	4,419,281	1,387,639	2017
South Puget Sound Community College, 1999	4,140,000	897,598	2020
Equipment Series, Competitive; since 1997	39,675,489	27,193,550	2015
GA, Yakima Building Project, 1999B	7,080,000	1,460,130	2019
UW, Sandpoint Bldg 5 Phase IIC, 2002E	2,425,000	401,208	2023
CWU, Edmonds, 2002D	4,605,000	770,605	2023
Whatcom, Columbia Basin and Yakima CC, 2000A	4,325,000	950,305	2020
GA, Olympia Capitol Court and Federal Building, 1999A	8,895,000	1,435,671	2022
Parks and Recreation 1999, Cama Beach Cabins	0	0	2016
Pierce College, 1998 - Steilacoom Classroom Building	275,000	194,194	2008
Tacoma, Peninsula, Green River and Whatcom CCs, 2001A	4,250,000	1,660,678	2017
UW, Sandpoint Bldg 29, 2002A	4,355,000	741,680	2022
GA Cherberg Bldg Rehabilitation, COP Series 2006D	8,000,000	192,252	2026
Veterans Affairs, 2001	3,275,000	737,148	2016
DOT, Southwest Regional Complex, 1999	0	2,796,885	2005
Series 2006A Refunding of WSU 1996A; Consolidated Info Cntr	6,370,000	574,878	2018
DOL, WSP, Vancouver and Union Gap Project, Series 1998	5,360,000	1,117,914	2018
State Equipment Series A, 1991	0	0	2001
DOT Acquisitions, CCs and Adams Cnty COP, Series 2005D	16,615,000	1,673,647	2025
Washington State Convention and Trade Center	166,940,000	28,219,860	2018
DOE Refunding, 2001	30,745,000	11,677,125	2012
Parks and Recreation Commission, 1996A	40,000	79,206	2006
Edmonds CC - Music Building, 2000C	3,425,000	709,134	2018
DOE, Series 1991A (State Office Building Project)	0	0	2016
GA, Isabella Bush Record Center, 2002	3,590,000	585,179	2023
State Equipment Series C, 1994	0	0	2004
Whatcom Community College, 1997 - Child Care Center	540,000	164,421	2013
Washington State Patrol, 1997 - Port Angeles Office	305,000	122,698	2012
State Equipment Series B, 1993	0	0	2000
Bellingham Technical College Classroom Additions, 1998	135,000	92,320	2008
UW, Husky Den, 2001B	5,425,000	955,453	2022
UW, Sandpoint Phase 2, 2001A	1,395,000	242,830	2021
DOC, 1998 Kennewick Work Release Facility and Monroe Dairy	1,064,372	764,999	2009
Bellevue Community College, RE-2003C	14,940,000	2,308,655	2023
Bellevue, Spokane Falls, Shoreline and Edmonds CCs, 2001B	4,850,000	1,940,350	2015
LOCAL Real Property B - Taxable	220,000	74,875	2016
Master Installment Program -- EQ, 1993	79,794	289,687	2007
Columbia Basin CC, 2004F	8,510,000	1,092,335	2020
UW, Sandpoint Bldgs 5 and 29, RE-2003E	4,165,000	618,120	2024
UW, 1999, Sandpoint and Primate Center	8,155,000	2,196,590	2021
Dept. of Personnel Human Resources Systems, 2004D	36,275,000	8,283,538	2016
SOS, Records Center EWU, 2002	11,240,000	2,272,775	2018
GA, Kelso Building and Land, 2000	3,590,000	930,475	2015
Seattle Community College District VI, 1997	0	0	2002
DOC, 1993 (Correctional Facilities Project, Spokane)	0	0	2003
DOC, 2001 Workrelease Facility- Spokane Brownstone	2,630,000	471,945	2021
Bates Technical College-Communications Center, 2000B	3,330,000	634,359	2020
GA, Tacoma Co-location Project, 1996	12,315,000	2,716,650	2020
	$ 632,133,084	$ 162,354,849	

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

Other Contingencies

The following table displays other contingencies as of June 30, 2006.

	Outstanding	2005-2007 Debt Service Requirement	Final Maturity
Tumwater Office Properties Lease Revenue Bonds, 2004	$ 56,805,000	$ 5,676,075	2028
Total	$ 56,805,000	$ 5,676,075	

State Unemployment Compensation Fund

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

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

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

UNEMPLOYMENT COMPENSATION FUND
(Dollars in Millions)

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

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

State Retirement Systems

The table below presents details regarding liabilities and assumptions of the Washington State Retirement System Funds. These retirement plans are defined benefit plans, providing monthly cash payments in accordance with a specific schedule but providing neither pre-retirement nor post-retirement medical benefits. The benefit amount may be determined by a combination of service and/or salary. The state also participates in the Judicial Retirement System and the Volunteer Fire-Fighter System, which are minor in relation to those illustrated.

The Office of the State Actuary is overseen by the State Actuary Appointment Committee and the Executive Committee of the Select Committee on Pension Policy and performs all actuarial services for the Department of Retirement Systems, including all studies required by law. The tables included hereunder have been reviewed by the State Actuary and will be subject to revision at subsequent dates.

The pertinent items disclosed below are as follows:

(i) *Contribution Rates.* These are rates of contribution developed based upon the 2004 actuarial valuations, expressed as a percentage of the active members' compensation.

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

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

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

The Public Employees' Retirement System ("PERS"), the Teachers' Retirement System ("TRS"), the School Employees' Retirement System ("SERS"), and the Law Enforcement and Fire Fighters' Retirement System

("LEOFF") each include more than one plan. In the table below, contribution rates are shown for members entering before October 1, 1977 (Plan 1), and after October 1, 1977 (Plan 2). Plan 3 members do not make contributions to the Defined Benefit portion of the plan. SERS Plan 2/3 is composed of school employees hired on or after October 1, 1977, who were previously included in PERS Plan 2. School employees hired before October 1, 1977, remain in PERS Plan 1. A portion of the employer contribution for Plan 2/3 employees of SERS, PERS and TRS is contributed to the respective Plan 1 for purposes of amortizing the Plan 1 UAAL.

At least once every six years, the State Actuary is required to perform studies in which the demographic assumptions used in each system are evaluated in light of actual experience. These studies were performed for the 1995-2000 period. As a result of these studies, significant changes were made in these assumptions and in the asset valuation method. The results shown below reflect the new assumptions.

The major economic assumptions used, developed and adopted by the Pension Funding Council, are as follows:

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

(ii) general salary increases: 4.5 percent per annum;

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

CONTRIBUTION RATES AND UNFUNDED LIABILITIES—RETIREMENT SYSTEMS[6]
(Dollars in Millions)

	PERS [3]		TRS		SERS[3]		LEOFF		WSP	System Totals
Contribution Rates[4]	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)		
State	3.50%	3.50%	3.25%	3.25%	NA	7.56%	0.00%	3.11%	4.51%	
Employee	6.00%	3.50%	6.00%	3.00%	NA	3.51%	0.00%	7.79%	4.51%	
Employer (Other than State)	3.50%	3.50%	3.25%	3.25%	NA	7.56%	0.00%	4.68%	NA	
Unfunded Actuarial Present Value of Credited Projected Benefits	$ (357)		$ (235)		$ (176)		$ (811)		$ (100)	$ (1,679)
Funding Ratio (Assets/Actuarial Present Value of Credited Projected Benefits)	103%		102%		137%		112%		118%	105%
Unfunded Actuarial Accrued Liability (Modified Aggregate Cost Method)	$ 1,359		$ 1,415		NA		$ (345)		NA	$ 2,429
Contribution Rate[5] to Fund Unfunded Actuarial Accrued Liability (Modified Aggregate Cost Method)	2.23%		3.06%		2.23%		NA		NA	
Remaining Funding Period for Unfunded Actuarial Accrued Liability (Modified Aggregate Cost Method)	June 30, 2024		June 30, 2024		June 30, 2024		NA		NA	

(1) Contribution rate for members entering system before October 1, 1977 (Plan 1).

(2) Contribution rate for members entering system after October 1, 1977 (applies to Plan 2 members, not Plan 3 members).

(3) The Public Employees Retirement System and School Employees Retirement System cover employees of the state and its political subdivisions as provided by statute. The figures shown above for Unfunded Actuarial Present Value of Credited Projected Benefits and UAAL represent the state's portion only, approximately 53 percent for PERS and 40 percent for SERS. The contribution rate in respect of the UAAL is paid by all employers, and all these contributions go into the Public Employees Retirement System Plan 1, which covers both public and school employees.

(4) Contribution rates are effective July 1, 2006 (September 1, 2006, for the Teachers Retirement System and the School Employees Retirement System). These are the rates for the second year of a four-year phase-in of contribution rates as provided for by the 2005 Legislature.

(5) The contribution rates shown for PERS 1 and TRS 1 are from the 2004 valuations. The Plan 1 UAAL rates were suspended for the 2005-2007 Biennium by the 2005 Legislature. Contribution rates for the UAAL are scheduled to resume on July 1, 2007 (September 1, 2007, for the TRS and SERS).

(6) The costs associated with future gain-sharing benefits are not recognized in these liabilities and contribution rates, as provided for by the 2005 Legislature.

Source: Office of State Actuary

STATE CONTRIBUTIONS TO RETIREMENT SYSTEMS
(Dollars in Thousands)

Fiscal Year Ending June 30	PERS [1]	TRS [2]	SERS [2]	LEOFF [2]	Volunteer Firefighters [2][3]	WSP [4]	Judicial [1][2]
2001	$152,200	$210,900	$ 10,600	$ 20,900	$ 3,300	$ 0	$ 7,300
2002	61,600	105,800	6,000	15,600	3,300	0	6,300
2003	47,300	38,600	6,200	16,400	3,300	0	6,200
2004	45,900	41,300	9,100	20,200	4,400	0	6,200
2005	48,000	42,600	10,200	21,300	4,400	0	6,200

(1) State Agency Appropriations. Contributions commingled in each agency's operations budget.

(2) General Fund-State transfers. Prior to the 2000 valuation, school employees were members of PERS 2.

(3) Nonappropriated: the volunteer firefighters system receives 40 percent of state tax on fire insurance premiums.

(4) When WSPRS is fully funded, the state's contribution rate is zero percent..

Source: Office of State Actuary

ECONOMIC INFORMATION

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

Overview

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

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

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

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

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

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

Population Characteristics

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

		Population Change		Components of Change From Previous Period						
				Births		Deaths		Natural	Net Migration	
April 1	Population	Number	%	Number	% (1)	Number	% (1)	Increase	Number	% (1)
1993	5,265.7	124.5	2.4	79.1	15.2	39.4	7.6	39.7	84.8	16.3
1994	5,364.3	98.6	1.9	78.2	14.7	39.5	7.4	38.7	60.0	11.3
1995	5,470.1	105.8	2.0	77.5	14.3	40.0	7.4	37.5	68.3	12.6
1996	5,567.8	97.7	1.8	77.0	13.9	41.2	7.5	35.9	61.8	11.2
1997	5,663.8	96.0	1.7	78.0	13.9	42.6	7.6	35.4	60.6	10.8
1998	5,750.0	86.3	1.5	78.8	13.8	41.6	7.3	37.3	49.0	8.6
1999	5,830.8	80.8	1.4	79.8	13.8	43.1	7.5	36.6	44.2	7.6
2000	5,894.1	63.3	1.1	79.9	13.6	43.7	7.5	36.1	27.2	4.6
2001	5,974.9	80.8	1.4	80.7	13.6	43.9	7.4	36.8	44.0	7.4
2002(2)	6,041.7	66.8	1.1	79.2	13.2	44.8	7.5	34.4	32.4	5.4
2003(2)`	6,098.3	56.6	0.9	82.0	13.5	46.2	7.6	35.8	20.8	3.4

(1) Rates are per 1,000 midpoint population and are computed on unrounded numbers.
(2) Estimates.

Source: Office of Financial Management, available at www.ofm.wa.gov/databook/contents.htm#population

DISTRIBUTION OF POPULATION BY AGE
(Population Numbers in Thousands)

	Washington State				United States			
Age	1990 Number	% of Total	2000 Number	% of Total	1990 Number	% of Total	2000 Number	% of Total
Under 5	374	7.7	394	6.7	18,354	7.4	19,176	6.8
5 to 19	1,031	21.2	1,289	21.9	52,967	21.3	61,298	21.8
20 to 24	353	7.2	390	6.6	19,020	7.6	18,964	6.7
25 to 34	856	17.6	841	14.3	43,176	17.4	39,892	14.2
35 to 44	801	16.5	975	16.5	37,579	15.1	45,149	16.0
45 to 54	500	10.3	846	14.4	25,223	10.1	37,678	13.4
55 to 64	381	7.8	497	8.4	21,148	8.5	24,274	8.6
65 and over	571	11.7	662	11.2	31,242	12.6	34,992	12.4

Source: Office of Financial Management, available at www.ofm.wa.gov/databook/contents.htm#population, and the U.S. Bureau of Census, available at www.census.gov/statab/www/

Income Characteristics

The following table provides a comparison of personal income for the state and the nation for the last ten years.

PERSONAL INCOME COMPARISON
WASHINGTON AND U.S.
1997-2006
(Dollars in Billions)

	Current Dollars[1]				2000 Chained Dollars[2]			
	Washington		United States		Washington		United States	
Year	Amount	Percent[4]	Amount	Percent[4]	Amount	Percent[4]	Amount	Percent[4]
1997	150.1	7.5%	6,915.1	6.1%	157.8	5.7%	7,269.9	4.3%
1998	163.8	9.1	7,423.0	7.3	170.6	8.1	7,734.4	6.4
1999	175.5	7.2	7,802.4	5.1	179.9	5.4	7,997.1	3.4
2000	187.9	7.0	8,429.7	8.0	187.9	4.4	8,430.1	5.4
2001	193.5	3.0	8,724.1	3.5	189.5	0.9	8,545.4	1.4
2002	197.5	2.0	8,881.9	1.8	190.7	0.6	8,578.4	0.4
2003	201.6	2.1	9,169.1	3.2	191.1	0.2	8,689.8	1.3
2004	217.0	7.6	9,713.3	5.9	200.5	4.9	8,974.0	3.3
2005	223.3	2.9	10,248.3	5.5	200.7	0.1	9,207.4	2.6
2006[3]	239.1	7.1	10,878.7	6.2	209.3	4.3	9,524.3	3.4

(1) Current dollars: the actual price of something when it was bought, not adjusted for cost of living index (commonly called inflation).
(2) Chained dollars: created from the geometric mean of two growth calculations; allows for a comparison of data in a time series to accurately indicate growth or decline in indicators.
(3) Revenue forecast as of June 2006.
(4) Percent change; annual rate.

Source: Washington State Office of the Forecast Council and U.S. Department of Commerce, Bureau of Economic Analysis

Employment Characteristics

AVERAGE ANNUAL EMPLOYMENT[1]
RESIDENT CIVILIAN LABOR FORCE AND EMPLOYMENT IN WASHINGTON STATE
(Employment Numbers in Thousands)

	2001	2002	2003	2004	2005
Resident Civilian Labor Force	3,052.7	3,110.7	3,159.3	3,224.0	3,292.2
Unemployment	189.0	228.2	234.0	201.7	182.3
Unemployment Rate[2]	6.2%	7.3%	7.4%	6.3%	5.5%
Total Employment	2,863.7	2,882.5	2,925.3	3,022.3	3,109.9
Nonagricultural Wage and Salary Workers Employed in Washington					
Nonfarm Employment	2,697.4	2,654.0	2,657.7	2,700.9	2,777.6
Durable Manufacturing Employment	225.0	199.3	183.7	182.4	191.1
Aerospace Employment	87.2	75.7	65.3	61.5	65.7
Computer Employment	32.4	26.2	23.4	22.1	22.2
Nondurable Manufacturing Employment	91.2	85.7	83.3	81.3	80.8
Natural Employment	9.8	9.4	8.6	9.1	9.0
Construction Employment	158.8	154.2	156.2	164.1	177.4
Trade, Transportation, Communication, and Utilities Employment	523.8	509.3	509.8	518.4	531.3
Information Employment	99.0	93.6	92.3	92.9	94.8
Software Employment	35.9	36.1	37.4	39.3	41.3
Financial Employment	145.2	146.2	151.9	151.8	154.0
Professional Employment	296.9	290.2	290.3	301.7	316.7
Education Employment	298.3	306.9	312.9	319.7	329.3
Leisure Employment	247.0	245.4	248.9	255.6	263.6
Other Service Employment	96.9	97.8	98.9	100.3	102.9
Government Employment	505.4	516.2	520.7	523.7	526.7

(1) Averages of monthly data.

(2) Unemployment rate as of June 2006 equals 4.7 percent.

Source: Washington State Office of the Forecast Council

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

	State		United States	
	1995	**2005**	**1995**	**2005**
Manufacturing				
Nondurable Manufacturing				
Food and Kindred	1.7	1.2	1.3	1.1
Pulp and Paper	0.7	0.4	0.5	0.4
Other	1.8	1.3	4.0	2.5
Subtotal	4.2	2.9	5.9	4.0
Durable Manufacturing				
Lumber and Wood	1.0	0.7	0.5	0.4
Primary Metals	0.5	0.2	0.5	0.4
Fabricated Metals	0.7	0.7	1.4	1.1
Machinery	0.5	0.5	1.2	0.9
Computers	1.2	0.8	1.4	1.0
Transportation Equipment	4.0	2.8	1.7	1.3
Other	1.2	1.2	2.1	1.6
Subtotal	9.1	6.9	8.8	6.7
Total Manufacturing	13.3	9.8	14.7	10.7
Nonmanufacturing				
Natural Products	0.4	0.3	0.5	0.5
Construction	5.2	6.4	4.5	5.5
Trade, Transportation, Communication, Utilities	20.0	19.1	20.3	19.4
Information Services	2.7	3.4	2.4	2.3
Financial Services	5.2	5.5	5.8	6.1
Professional	10.0	11.4	11.0	12.6
Education	10.7	11.9	11.3	13.0
Leisure	9.4	9.5	9.0	9.6
Other Services	4.1	3.7	3.9	4.0
Government	18.9	19.0	16.6	16.3
Total Nonmanufacturing	86.7	90.2	85.3	89.3
Total[2]	100.0	100.0	100.0	100.0

(1) Figures are calculated as a percentage of total wage and salary employment.
(2) Numbers may not add due to rounding.

Source: Washington State Office of the Forecast Council

ANNUAL AVERAGE CIVILIAN LABOR FORCE, UNEMPLOYMENT AND UNEMPLOYMENT RATES FOR WASHINGTON AND THE UNITED STATES

1999-2006

(Employment Numbers in Thousands)

	Civilian Labor Force		Number of Unemployed		Unemployment Rate		Wash. Unemployment as Percent of U.S.
Year	**Wash.**	**U.S.**	**Wash.**	**U.S.**	**Wash.(%)**	**U.S.(%)**	**Rate(%)**
1999	3,066	141,012	149	7,511	4.8	4.2	114.9
2000	3,050	142,610	151	5,710	5.0	4.0	125.1
2001	3,053	143,925	189	6,986	6.2	4.7	130.6
2002	3,111	145,125	228	8,645	7.3	5.8	126.9
2003	3,159	146,503	234	8,773	7.4	6.0	123.5
2004	3,224	147,386	202	8,143	6.3	5.5	113.4
2005	3,292	149,299	182	7,580	5.5	5.1	109.5
2006*	3,362	151,171	159	7,091	4.7	4.7	100.4

* The 2006 figures are based on the February 2006 forecast.

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

Companies. The following two tables provide information on the top companies headquartered in the state, ranked by revenues. The Boeing Company, headquartered in Chicago, Illinois, is the largest employer in the state, with revenues in 2005 of $54.9 million.

WASHINGTON'S TWENTY-FIVE LARGEST PUBLIC COMPANIES, RANKED BY 2005 REVENUES
(in Millions)

		Revenues			Revenues
1.	Costco Wholesale Corp.	$ 52,935	14.	Nextel Partners Inc.	$ 1,801
2.	Microsoft Corp.	39,788	15.	Plum Creek Timber Co. Inc.	1,576
3.	Weyerhaeuser	22,629	16.	Potlatch Corp.	1,496
4.	Washington Mutual	21,667	17.	Avista Corp.	1,359
5.	Paccar Inc.	14,057	18.	Labor Ready Inc.	1,236
6.	Amazon.com Inc.	8,490	19.	Longview Fibre Co.	898
7.	Nordstrom Inc.	7,722	20.	Intermec (formerly Unova Inc.)	875
8.	Starbucks Corp.	6,369	21.	Esterline Technology Corp.	835
9.	Safeco Corp.	6,351	22.	Getty Images Inc.	733
10.	Expeditors International Inc.	3,901	23.	The Nautilus Group Inc.	631
11.	Alaska Air Group Inc.	2,975	24.	Zones Inc.	631
12.	Puget Sound Energy	2,573	25.	Itron Inc.	552
13.	Expedia	2,119			

Source: Puget Sound Business Journal, 2006 Book of Lists

WASHINGTON COMPANIES IN FORTUNE 500 IN 2005
(Dollars in Millions)

	Company	Rank	Revenues	Headquarters/ Location
1	Costco Wholesale	28	$52,935.2	Issaquah
2	Microsoft	48	39,788.0	Redmond
3	Weyerhaeuser	90	23,000.0	Federal Way
4	Washington Mutual	99	21,326.0	Seattle
5	Paccar	157	14,057.4	Bellevue
6	Amazon.com	272	8,490.0	Seattle
7	Nordstrom	293	7,722.9	Seattle
8	Starbucks	338	6,369.3	Seattle
9	Safeco	339	6,351.1	Seattle
10	Expeditors International	506	3,901.8	Seattle
11	Alaska Air Group	621	2,975.3	Seattle
12	Puget Energy	623	2,966.5	Bellevue
13	Nextel Partners	858	1,801.7	Kirkland
14	Plum Creek Timber	937	1,576.0	Seattle
15	Potlatch	972	1,496.1	Spokane

Source: Fortune Magazine Fortune 500, July 2006

Annual Retail Sales Activity

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

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

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

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

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

Trade

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

Ports. The Ports of Seattle and Tacoma serve as one of the three major gateways for marine commerce into the United States from the Pacific Rim, and each rank among the top 20 ports in the world based

upon volume of containerized cargo shipped. The ten largest shipping lines in the world call at these ports, and on a combined basis, these ports rank as the second-largest load center for the shipment of containerized cargo in the United States.

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

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

Manufacturing

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

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

BOEING SALES AND EARNINGS

Year	Sales (Billions) [(1)]	Earnings (Millions)
2000	$ 51.3	$ 2,128
2001	58.2	2,827
2002	53.8	492[(2)]
2003	50.3	718[(3)]
2004	52.5	1,872

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

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

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

Source: The Boeing Company

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

Technology-Related Industries

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

Services/Tourism

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

Timber

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

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

Agriculture and Food Processing

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

Construction

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

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

Calendar Year	Washington	United States (1)
2000	39,021	1,573,333
2001	38,345	1,601,167
2002	40,200	1,710,250
2003	42,825	1,853,750
2004	50,089	1,949,750
2005	52,988	2,071,750
2006(2)	48,865	1,921,581
2007(2)	50,351	1,760,721

(1) Actual housing starts prior to current year.
(2) 2006 and 2007 figures are based on the June 2006 forecast.

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

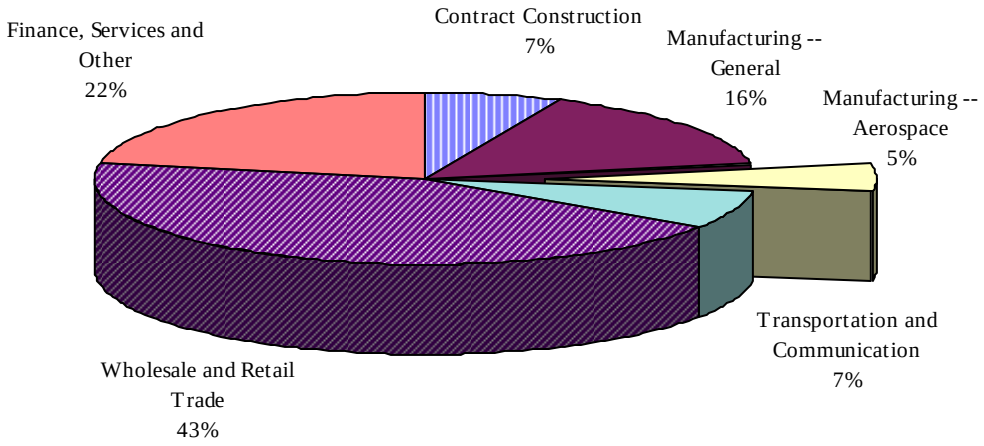
Federal, State and Local Government

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

Summary

The following diagram provides an overall description of business income by industry sector for 2004.

Gross Business Income by Industry Sector 2004



Source: Department of Revenue, "Quarterly Business Review Calendar Year 2004", Table 1.

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APPENDIX B

DEFINITIONS AND SUMMARY OF CERTAIN LEGAL DOCUMENTS

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DEFINITIONS AND SUMMARY OF CERTAIN LEGAL DOCUMENTS

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

CERTAIN DEFINITIONS

The following are definitions of certain terms used in this Appendix B and elsewhere in this Official Statement. Unless otherwise indicated the following definitions are applicable to agreements relating to the Certificates.

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

"Additional Rent" means all costs, expenses, insurance premiums, Impositions and other payments, including Administrative Fees and Expenses, that are the obligations of the State Treasurer or the State Agency pursuant to the terms of the Lease.

"Additional Site Lease" means any future lease of the Site by the State Agency in connection with an Additional State Agency Financing Lease.

"Additional State Agency Financing Lease" means any future lease entered into by the State Agency for the purpose of financing additions, betterments and improvements to the Property pursuant to Section 2.02(c) of the Lease.

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

"Assignment" means the Assignment from the Corporation to the Fiscal Agent, dated as of the Dated Date, executed and delivered in connection with the Certificates.

"Authorized Agency Representative" means the natural person or persons (a) designated on the certificate of the State Agency in the form of Exhibit C to the Lease and (b) whose signature is on file with the Fiscal Agent and the Treasurer Representative.

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

"Base Rent Payment" means a rent payment to be made by the State Agency as set forth in Exhibit B to the Lease.

"Base Rent Payment Date" means each January 1 and July 1, as specified in the Trust Agreement, on which a Base Rent Payment evidenced and represented by the Certificates is due; *provided*, however, that each such Base Rent Payment shall be payable on the June 1 and December 1, respectively, prior to its respective due date, as set forth in the Lease.

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

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

"Certificate Agreement" means, as the context requires, the Trust Agreement, the Site Lease, the Lease, the Assignment or the Disclosure Agreement, and collectively means all such agreements in connection with the Certificates.

"Certificate Counsel" means a firm of attorneys appointed by the State Treasurer of recognized national standing in the field of law relating to the issuance of certificates of participation, bonds and other obligations by states and their political subdivisions.

"Certificate Fund" means the "State of Washington Certificates of Participation, Series 2006G (State Board for Community and Technical Colleges for and on behalf of Shoreline Community College), Certificate Fund" established pursuant to Section 5.02 of the Trust Agreement.

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

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

"Certificates" means the certificates of participation in the Base Rent Payments executed and delivered by the Fiscal Agent pursuant to the Trust Agreement in the Initial Principal Amount and designated as the "State of Washington Certificates of Participation, Series 2006G (State Board for Community and Technical Colleges for and on behalf of Shoreline Community College)."

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

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

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

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

"Dated Date" means August 16, 2006.

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

"Event of Default" means an Event of Default as set forth in Section 8.01 of the Lease.

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

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

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

"Government Obligations" means obligations described in paragraph (a) of the definition of Qualified Investments herein.

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

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

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

"Interest Account" means the account by that name established pursuant to Section 5.02 of the Trust Agreement.

"Interest Component" means that portion of each Base Rent Payment denominated as and comprising interest as set forth in Exhibit A to the Lease.

"Interest Payment Date" means each January 1 and July 1 on which an Interest Component is due as set forth in Exhibit A to the Lease.

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

"Lease Termination Date" has the meaning given such term in the Lease.

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

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

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

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

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

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

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

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

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

(b) Certificates for which the payment or prepayment of the Base Rent Payments evidenced and represented thereby has been made or duly provided for pursuant to Section 4.01(b) of the Lease and Article X of the Trust Agreement; and

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

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

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

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

"Permitted Encumbrances" means, as of any particular time:

(a) Liens for general *ad valorem* taxes and assessments, if any, that are not then delinquent;

(b) The Site Lease;

(c) The Lease;

(d) The Assignment;

(e) Any right or claim of any mechanic, laborer, materialmen, supplier or vendor filed or perfected in the manner provided by law;

(f) Easements, rights of way, mineral rights, drilling rights, and other rights, reservations, covenants, conditions or restrictions which (i) exist of record as of the Dated Date and which the respective State Agency certifies in writing will not materially impair the use of the Property by such State Agency, and (ii) arise thereafter and to which the State Treasurer and the Corporation consent in writing; and

(g) Any Additional Site Lease or Additional State Agency Financing Lease and any assignment thereof to the Fiscal Agent.

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

"Prepaid Site Lease Rent" has the meaning given such term in Section 4 of the Site Lease.

"Prepayment Account" means the account by that name established pursuant to Section 5.02 of the Trust Agreement.

"Prepayment Date" means each date, other than a Principal Payment Date, on which Principal Component evidenced and represented by the Certificates is to be prepaid.

"Prepayment Price" means the price payable pursuant to the Lease upon any prepayment of Principal Components evidenced and represented by the Certificates.

"Principal Account" means the account by that name established pursuant to Section 5.02 of the Trust Agreement.

"Principal Component" means that portion of each Base Rent Payment denominated as and comprising principal as set forth in Exhibit B to the Lease.

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

"Principal Payment Date" means each July 1 on which a Principal Component is due as set forth in Exhibit B to the Lease.

"Project Costs" means all costs incurred by or on behalf of the Corporation, or the State or the State Agency, as agent of the Corporation, on, prior to or after the effective date of the Lease in connection with the refinancing of the acquisition or construction of the Property or the Project, as applicable, and shall include, but not be limited to, (a) the cost of the escrow securities used to effect such refinancing; (b) the expenses of the State Treasurer and the State Agency in connection with the refinancing of the acquisition or construction of the Property or the Project, including but not limited to the Costs of Issuance; (c) any taxes, assessments and other charges, if any, payable in connection with the refinancing of the acquisition or construction of the Property or the Project; and (d) any amounts required to reimburse the State Treasurer or the State Agency for advances or payments made prior to the effective date of the Lease for any of the above costs.

"Project Fund" means the "State of Washington Certificates of Participation, Series 2006G (State Board for Community and Technical Colleges for and on behalf of Shoreline Community College) Project Fund" established by the State Treasurer pursuant to the Trust Agreement and the Lease.

"Property" means collectively the Site and the Project leased by the Corporation to the State Treasurer and the State Agency pursuant to the Lease.

"Qualified Investments" shall include the following:

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

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

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

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

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

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

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

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

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

(j) The LGIP; and

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

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

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

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

"Rebate Fund" means the fund or account or any portion of a fund or account used to accumulate amounts payable to the Internal Revenue Service in respect of the Rebate Requirement. The State may or may not formally establish a separate fund or account to serve this purpose.

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

"Resolution" means Resolution No. 923 adopted by the State Finance Committee on July 17, 2000 together with Resolution No. 1037 adopted on May 23, 2006 and the 2005-2007 Biennium financing plan approved by the State Finance Committee on July 12, 2005.

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

"Securities Depositories" means: The Depository Trust Company in accordance with then-current guidelines of the SEC, such other addresses and/or such other securities depositories as the State Treasurer may designate in a Certificate of the State Treasurer delivered to the Fiscal Agent.

"Site" means the real property legally described in Exhibit A to the Site Lease, including the improvements thereon as of the Dated Date.

"Site Lease" means the State Agency Site Lease, dated as of the Dated Date, by and between the State, acting by and through the State Agency and the State Treasurer, and the Corporation for the lease of a parcel or parcels of the Property by the State Agency to the Corporation.

"State" means the state of Washington.

"State Agency" means the State Board for Community and Technical Colleges or any successor to its functions, acting for and on behalf of Shoreline Community College.

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

"State Legislature" means the Legislature of the state of Washington.

"State Treasurer" means the Treasurer of the state of Washington.

"Supplemental Agreement" means any agreement duly authorized and entered into following the Closing Date between or among the State Treasurer, the State Agency, the Corporation, and the Fiscal Agent supplementing, modifying or amending the Trust Agreement, the Site Lease, the Lease or the Assignment.

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

"Term Certificates" means the Certificates, if any, identified as such in the Trust Agreement.

"Toxic or Hazardous Substances" shall be interpreted broadly to include, but not be limited to, any material or substance that is defined or classified under federal, State or local laws as: (a) a "hazardous substance" pursuant to Section 101 of the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. § 9601(14) or Section 311 of the Federal Water Pollution Control Act, 33 U.S.C. § 1321, each as now or hereafter amended; (b) a "hazardous waste" pursuant to Section 1004 or Section 3001 of the Resource Conservation and Recovery Act, 42 U.S.C. § 6903, 42 U.S.C. § 6921, as now or hereafter amended; (c) a toxic pollutant under Section 307(1)(a) of the Federal Water Pollution Control Act, 33 U.S.C. § 1317(1)(a); (d) a "hazardous air pollutant" under Section 112 of the Clean Air Act, 42 U.S.C. § 7412, as now or hereafter amended; (e) a "hazardous material" under the Hazardous Material Transportation Act, 49 U.S.C. § 1802(2), as now or hereafter amended; (f) toxic or hazardous pursuant to regulations promulgated now or hereafter under the aforementioned laws; or (g) presenting a risk to human health or the environment under other applicable federal, State or local laws, ordinances, or regulations, as now or as may be posed or promulgated in the future. "Toxic or Hazardous Substances" shall also mean any substance that after release into the environment and upon exposure, ingestion, inhalation or assimilation, either directly from the environment or indirectly by ingestion through food chains, will or may reasonably be anticipated to cause death, disease, behavior abnormalities, cancer or genetic abnormalities. "Toxic or Hazardous Substances" specifically includes, but is not limited to, asbestos, polychlorinated biphenyls (PCBs), petroleum and petroleum-based derivatives, flammable explosives, radioactive materials and urea formaldehyde.

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

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

"Underwriter" means the original purchaser of the Certificates.

THE LEASE

Sublease of Property

Financing Lease. The Lease constitutes a "financing lease," and a "financing contract," each within the meaning of the Act.

Sublease of Property. The Corporation subleases to the State for the benefit of the State, and the State hires from the Corporation, upon the terms and conditions set forth in the Lease, the real property and all improvements thereon, including but not limited to the Project described in the Lease (the "Property"), subject to all easements, covenants, conditions and restrictions existing as of the date thereof. The State Treasurer agrees to pay, for the benefit of the State Agency, in consideration thereof the Base Rent Payments and Additional Rent therefor in accordance with the Lease, and all other amounts required to be paid by the State Agency thereunder.

Right of Entry. Under the Lease, the Corporation reserves the right for any of its duly authorized representatives to enter upon the Property at any reasonable time (or in an emergency at any time) to inspect the same, or to make any repairs, improvements or changes necessary for the preservation thereof, or otherwise in connection with the Corporation's rights and obligations thereunder.

Quiet Enjoyment. The State Agency and its authorized assignees and sublessees at all times during the term of Lease, subject to the provisions of Article VIII thereof, shall peaceably and quietly have, hold and enjoy all of the Property leased thereunder without suit, trouble or hindrance from the Corporation.

Appointment of Agents; Acquisition, Construction and Reimbursement of Project; Substitution and Release of Property

Appointment of Agents. The Corporation appoints the State Treasurer and the State Agency, respectively, as its agents in connection with the disbursement of the proceeds of the Certificates and the refinancing of the Project, and the State Treasurer and the State Agency each accept and agree to such designation and appointment.

Acquisition and Construction of Project. The State Treasurer and the State Agency, respectively, as agents of the Corporation, agree that they have caused or will cause the Project to be designed, acquired and/or constructed or refinanced with all reasonable dispatch, in accordance with the plans, specifications, bidding documents, and construction contracts theretofore or thereafter approved by the State Agency, and in accordance with applicable laws and regulations. This appointment of the State Treasurer and the State Agency to act as the respective agents of the Corporation in connection with the disbursement of the proceeds of the Certificates and the design, acquisition and/or construction and financing or refinancing of the Project, and all authority conferred thereby is made and conferred irrevocably by the Corporation, and shall not be terminated by any act of the State, the State Agency, the Corporation or otherwise.

The State Agency shall negotiate or call for bids for the design, acquisition and/or construction of the Property and/or the Project in accordance with the requirements and limitations, if any, imposed by State or local law. It is intended by the Parties thereto that the Corporation shall not have any responsibility, liability or obligation with respect thereto.

Changes to Project; Additions to Property. The State Agency, with the prior written consent of the State Treasurer, may revise the Project or the description thereof; *provided*, that (i) the Project as so revised shall satisfy the requirements under the Lease with respect to the substitution of Property previously acquired, constructed, financed or refinanced; (ii) the Project Costs shall not be materially reduced thereby; and (iii) any such revision shall not relieve the State Treasurer or the State Agency of their obligation to design, acquire, reimburse, construct, finance, or refinance the Project in accordance therewith.

The State Agency shall have the right during the term of the Lease, at its own cost and expense, to make or permit additions, betterments and improvements to the Property, and to attach fixtures, structures and signs thereto; *provided*, that such additions, betterments and improvements and fixtures, structures and signs (i) shall be constructed and installed in accordance with applicable laws and regulations, and not in violation of any easements, restrictions, conditions or covenants affecting title to the Property; and (ii) shall not diminish the value, capacity or usefulness of the Property. The State Agency also is permitted, without the consent of the Owners, to enter into Additional State Agency Financing Leases with the Corporation to finance all or any portion of the cost of such additions, betterments and improvements to the Property so long as such leases do not reduce the obligation of the State to perform its obligations under the Lease, including without limitation its obligation to make Base Rent Payments, and will not, in the Opinion of Counsel, adversely affect the tax-exempt status of the Interest Component of Base Rent Payments evidenced and represented by the Certificates. If the State Agency enters into any Additional State Agency Financing Lease for this purpose, the Corporation may be granted an interest in the Property under an Additional Site Lease of all or any portion of the Property, which leasehold interest may be assigned to the Fiscal Agent for the benefit of owners of certificates of participation in such Additional State Agency Financing Lease. The occurrence of an Event of Default or Permitted Termination Event with respect to the Lease shall constitute a like event under any Additional State Agency Financing Lease, and the occurrence of any such like event under any Additional State Agency Financing Lease shall constitute an Event of Default or Permitted Termination Event, as the case may be, under the Lease. The

owners of certificates of participation in any Additional State Agency Financing Lease shall be secured *pari passu* with the Owners with respect to any amounts received by the Fiscal Agent with respect to the Property following the occurrence of an Event of Default or Permitted Termination Event.

Substitution of Property. After acquisition, construction, reimbursement, financing, or refinancing of the Project, the State Agency, with the prior written consent of the State Treasurer, may substitute and consent to the substitution of the Property for another parcel or parcels of real property by first filing with the Fiscal Agent, as assignee of the Corporation, (i) an Opinion of Counsel to the effect that such substitution (A) is permitted under the Lease, and (B) in and of itself, will not adversely affect the exclusion from gross income for federal income tax purposes of the Interest Component of the Base Rent Payments evidenced and represented by the Certificates; (ii) an appraisal or other written evidence from an independent, disinterested real property appraiser acceptable to the Fiscal Agent to the effect that such substitute Property has an estimated fair rental value for the remaining term of the Lease equal to or greater than the Base Rent Payments due thereunder from time to time thereafter; (iii) a certificate of the State Agency to the effect that such substitute Property (A) is free and clear of any mortgages, deeds of trust, liens or other similar encumbrances, other than Permitted Encumbrances, and (B) is essential to the State Agency's ability to carry out its governmental functions and responsibilities; and (iv) written evidence from each Rating Agency then rating the Certificates that such substitution, in and of itself, will not result in the suspension, reduction or withdrawal of any ratings on the Certificates by such Rating Agency. The State Treasurer, the Fiscal Agent, as assignee of the Corporation, and the State Agency shall execute, deliver and record such amendments and modifications to the Site Lease, the Lease, and the Assignment, and such other documents, agreements and instruments, as the State Treasurer or the Fiscal Agent shall deem necessary or desirable in connection with such substitution.

Release of Property. After acquisition, construction, reimbursement, financing, or refinancing of the Project, the State Agency, with the prior written consent of the State Treasurer, may release and consent to the release of a portion of the Property leased under the Site Lease, and subleased under and pursuant to the Lease, by first filing with the Fiscal Agent, as assignee of the Corporation, (i) an Opinion of Counsel to the effect that such release is (A) permitted under the Lease, and (B) in and of itself, will not adversely affect the exclusion from gross income for federal income tax purposes of the Interest Component of the Base Rent Payments evidenced and represented by the Certificates; (ii) an appraisal or other written evidence from an independent, disinterested real property appraiser acceptable to the State Treasurer and the Fiscal Agent to the effect that the remaining portion of the Property has an estimated fair rental value for the remaining term of the Lease equal to or greater than the Base Rent Payments due from time to time thereunder; (iii) provision by the State Agency of any necessary easements, reciprocal agreements or other rights as may be necessary to provide comparable pedestrian and vehicular access, and other uses and amenities (including but not limited to water, sewer, electrical, gas, telephone and other utilities) as existed prior to such release; and (iv) written evidence from each Rating Agency then rating the Certificates that such release, in and of itself, will not result in the suspension, reduction or withdrawal of any ratings on the Certificates by such Rating Agency. The State Treasurer, the Fiscal Agent, as assignee of the Corporation, and the State Agency shall execute, deliver and record such amendments and modifications to the Site Lease, the Lease and the Assignment, and such other documents, agreements and instruments, as the State Treasurer or the Fiscal Agent shall deem necessary or desirable in connection with such release.

Project Fund. In consideration of the mutual covenants and agreements of the Parties set forth in the Lease, the Corporation and the State Treasurer shall enter into a Trust Agreement concurrently with the execution and delivery of the Lease under which the Corporation authorizes and directs the State Treasurer to establish the Project Fund and to make disbursements therefrom in accordance with the provisions thereof and to pay the Project Costs on behalf of the Corporation. Proceeds of the sale of the Certificates shall be deposited in the Project Fund. Moneys on deposit in the Project Fund shall be invested by the State Treasurer as provided in the Trust Agreement. Disbursements from the Project Fund shall be made as provided in the Trust Agreement.

Subject to Article VI of the Lease, if moneys in the Project Fund are not sufficient to pay the Project Costs in full, such Project Costs in excess of the amount in the Project Fund will be paid from other moneys provided by the State Agency. The Corporation makes no representation or warranty, either express or implied, that the moneys which will be deposited into the Project Fund will be sufficient to pay the Project Costs. If the State Treasurer or the State Agency shall pay or cause the payment of any Project Costs in excess of the amount in the Project Fund available for such purpose, the State shall not be entitled to any reimbursement from the Corporation for such payments, nor shall the State be entitled to any diminution, reduction, abatement, postponement, counterclaim, defense or set-off of the Base Rent Payments, Additional Rent or other amounts otherwise required to be paid under the Lease.

The Fiscal Agent, as assignee of the Corporation, shall have no responsibility, liability or obligation under the Lease or otherwise with respect to the acquisition, reimbursement or construction of the Project or payment of the Project Costs thereof.

Title to the Property. Fee title to the Property subject to Permitted Encumbrances, and all additions, modifications, repairs and improvements thereto, is required to be and remain and vest in the State Agency, subject to the respective leasehold estates under the Site Lease and Lease, without any further action by the State or the Corporation.

Disclaimer of Warranties. The State acknowledges and agrees that it has had adequate opportunity to inspect the Property and that such Property, including but not limited to the structures and improvements thereon, is acceptable to the State in its present condition. The State subleases the Property in its present condition, "as is." The Corporation MAKES NO WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AND ASSUMES NO RESPONSIBILITY, LIABILITY OR

OBLIGATION, AS TO THE VALUE, DESIGN, STRUCTURAL OR OTHER CONDITION, USE, USABILITY, SUITABILITY, OCCUPANCY OR MANAGEMENT OF THE PROPERTY, AS TO THE INCOME FROM OR EXPENSE OF THE USE OR OPERATION THEREOF, AS TO TITLE TO THE PROPERTY, AS TO COMPLIANCE WITH APPLICABLE ZONING, SUBDIVISION, PLANNING, SAFETY, FIRE, HEALTH OR ENVIRONMENTAL LAWS, REGULATIONS, ORDINANCES, CODES OR REQUIREMENTS, OR AS TO COMPLIANCE WITH APPLICABLE COVENANTS, CONDITIONS OR RESTRICTIONS, OR ANY OTHER REPRESENTATION OR WARRANTY WITH RESPECT TO THE PROPERTY.

Rent Payments

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

Base Rent Payments. On each Base Rent Payment Date, the Base Rent Payment set forth in the Lease, consisting of a Principal Component and/or an Interest Component as set forth in the Lease; and

Additional Rent. All Additional Rent incurred by the Corporation in connection with the lease of the Site from the State Agency, the sublease of the Property to the State Agency, the execution and delivery of the Certificates, and the observance and performance of the Certificate Agreements, within thirty (30) days following receipt of an invoice from the Corporation with respect thereto which includes (i) a brief description of each item of such Additional Rent, (ii) the party to whom payment is due, (iii) the amount thereof, and (iv) such additional information as the State Agency or the State Treasurer may reasonably request.

Such payments of Base Rent Payments and Additional Rent for each rental payment period during the term of the Lease shall constitute the total rental due for such period, and shall be paid for and in consideration of the use and occupancy and continued quiet enjoyment of the Property for such period. The Parties thereto have determined and agreed that such total rental does not exceed the fair rental value of the Property for each such rental period, given the purposes, terms and provisions of the Lease. Anything therein to the contrary notwithstanding, the State waives any right that it may have under the laws of the State to a rebate or repayment of any portion of such rental in the event that there is substantial interference with the use or right to possession by the State of the Property or any portion thereof as a result of material damage, destruction or condemnation.

Each Base Rent Payment shall consist of a Principal Component and/or an Interest Component as set forth in the Lease. Interest shall accrue and be calculated as provided in the Trust Agreement. Each Base Rent Payment payable thereunder shall be paid by electronic funds transfer in lawful money of the United States of America. Payments of Additional Rent shall be made to or upon the order of the Corporation. Each Base Rent Payment shall be applied first to the Interest Component due thereunder, and then to the Principal Component due thereunder.

The Corporation directs the State Treasurer, and the State Treasurer agrees, to make all Base Rent Payments directly to the Fiscal Agent, as assignee of the Corporation.

Source of Base Rent Payments

The obligation of the State Treasurer to make Base Rent Payments shall be subject to appropriation by the State Legislature and to Executive Order reduction. The State Treasurer shall not be obligated to make Base Rent Payments other than from appropriated funds of the State Agency.

Net Lease

The Lease shall be deemed and construed to be a "triple net lease," and the State shall pay absolutely net during the term of the Lease the Base Rent Payments, Additional Rent and all other amounts due thereunder, without notice or demand, and free of any charges, assessments, Impositions or deductions whatsoever, and without any diminution, reduction, postponement, abatement, counterclaim, defense or set-off as a result of any dispute, claim or right of action by, against or among the State, the Corporation, the Fiscal Agent, any State Agency, and/or any other Person, or for any other reason; *provided*, that nothing in the Lease shall be construed to release or excuse the Corporation from the observance or performance of its obligations thereunder. If the Corporation shall fail to observe or perform any such obligation, the State may institute such legal action and pursue such other remedies against the Corporation as the State deems necessary or desirable, including, but not limited to actions for specific performance, injunction and/or the recovery of damages.

Limited Obligation

THE LEASE SHALL CONSTITUTE A SPECIAL, LIMITED OBLIGATION OF THE STATE PAYABLE SOLELY FROM THE SOURCES AND SUBJECT TO THE LIMITATIONS SET FORTH THEREIN. THE LEASE SHALL NOT CONSTITUTE A DEBT OR A GENERAL OBLIGATION OF THE STATE OR OF THE STATE AGENCY, THE CONTRACTING OF AN INDEBTEDNESS BY THE STATE OR THE STATE AGENCY, OR A PLEDGE OF THE FAITH AND CREDIT OR TAXING POWER OF THE STATE OR THE STATE AGENCY, FOR PURPOSES OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION UPON DEBT OR THE CONTRACTING OF INDEBTEDNESS. THE OBLIGATION OF THE

STATE TO MAKE BASE RENT PAYMENTS IS SUBJECT TO APPROPRIATION AND TO EMERGENCY REDUCTION IN FUNDING UNDER CERTAIN CIRCUMSTANCES, ALL AS SET FORTH IN THE LEASE. NOTHING IN THE LEASE SHOULD BE CONSIDERED AS OR CONSTRUED TO IMPLY A MORAL OBLIGATION ON THE PART OF THE STATE OR THE STATE AGENCY TO MAKE THE BASE RENT PAYMENTS DUE THEREUNDER.

Optional Prepayment

The State may, at its option, prepay all or any portion of the Principal Component then unpaid, in whole or in part, on any date on or after July 1, 2016, in Authorized Denominations from any source of available funds, at a Prepayment Price equal to 100 percent of the Principal Components to be prepaid, plus accrued interest, if any, evidenced and represented thereby to the Prepayment Date.

The State may, at its option, provide for the payment of all or any portion of the Base Rent Payments then unpaid, in whole or in part on any date, by causing to be deposited with the Fiscal Agent, as assignee of the Corporation, (i) moneys and/or Government Obligations in accordance with the Trust Agreement; and (ii) an Opinion of Counsel to the effect such actions are permitted thereunder.

Mandatory Prepayment; Special Prepayment

Eminent Domain; Loss of Title. The State shall prepay or cause to be prepaid, from eminent domain awards or sale proceeds received pursuant to the Lease and from the net proceeds of title insurance, if any, pursuant thereof, the Principal Components of Base Rent Payments then unpaid, in whole or in part (and if in part, from Principal Payment Dates and Principal Components that will result in approximately equal aggregate annual Base Rent Payments from the related Prepayment Date) on any date, in Authorized Denominations, at a Prepayment Price equal to the sum of the Principal Components so prepaid, without premium, plus accrued interest evidenced and represented thereby to the Prepayment Date.

Insurance Proceeds. The State shall prepay or cause to be prepaid from net insurance proceeds received pursuant to the Lease, the Principal Components of Base Rent Payments then unpaid, in whole or in part (and if in part, from Principal Payment Dates and Principal Components that will result in approximately equal aggregate annual Base Rent Payments from the related Prepayment Date), on any date, in Authorized Denominations, at a Prepayment Price equal to the sum of the Principal Components so prepaid, without premium, plus accrued interest evidenced and represented thereby to the Prepayment Date.

To the extent such award, sale proceeds or net proceeds are not sufficient, in whole or in part, to prepay or cause the prepayment of Principal Components of Base Rent Payments in Authorized Denominations, such amounts shall be deposited by the State Treasurer with the Trustee to provide for Base Rent Payment next due as provided in the Trust Agreement.

Notice to Fiscal Agent

The State Treasurer shall provide the Fiscal Agent, as assignee of the Corporation, with not less than 45 days' prior written notice of its intention (i) to prepay any Principal Components, which notice shall specify the reason for such prepayment, the Prepayment Date, and the amount and the Principal Payment Dates of the Principal Components to be prepaid; or (ii) to provide for the payment of any Base Rent Payments pursuant to the Lease.

Revision of Base Rent Payments upon Prepayment

The Principal Components and Interest Components due on each Base Rent Payment Date after a Prepayment Date pursuant to the Lease shall be reduced by the Fiscal Agent, as assignee of the Corporation, to reflect such prepayment; *provided*, that the aggregate reduction in such Principal Components shall be equal to the aggregate Principal Components prepaid by the State Treasurer.

Discharge of the Lease

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

(a) all Base Rent Payments and all Additional Rent and other amounts due thereunder have been paid in accordance therewith; or

(b) (i) the State Treasurer shall have delivered a written notice to the Corporation and the Fiscal Agent of its intention to prepay all of Base Rent Payments remaining unpaid; (ii) the State Treasurer shall cause to be deposited with the Fiscal Agent, as assignee of the Corporation, (A) moneys and/or Government Obligations in accordance with the Trust Agreement; and (B) an Opinion of Counsel to the effect that such actions are permitted under the Lease; and (iii) for so long as any Base Rent Payments remain

unpaid, provision shall have been made satisfactory to the Corporation and the Fiscal Agent for payment of all Additional Rent, including but not limited to the fees and expenses of the Fiscal Agent.

Eminent Domain

If all of the Property subleased to the State and the State Agency pursuant thereto, or so much thereof so as to render the remainder unsuitable for the purposes for which it was used by the State Agency at the time of such taking, shall be taken under the power of eminent domain (or sold under threat of condemnation), the sublease of such Property pursuant to the Lease shall cease as of the day that the State and the State Agency are required to vacate such Property. If less than all of the Property is taken under the power of eminent domain (or sold under threat of condemnation), and the remainder is suitable for the purposes for which it was used by the State Agency at the time of such taking, as reasonably determined by the State Treasurer, then the sublease thereof pursuant to the Lease shall continue in full force and effect as to such remainder, and the Parties waive any benefits of the law to the contrary. In such event, there shall be no abatement of the rental due thereunder. So long as any Base Rent Payments remain unpaid, any eminent domain award and any proceeds of sale under threat of condemnation for all or any part of the Property, in excess of $250,000, shall be applied to the prepayment of Base Rent Payments as provided in the Lease. Any award or proceeds in excess of the amount necessary to prepay such Base Rent Payments due under the Lease shall be paid to the Corporation and the State Agency as their respective interests may appear.

Loss of Title

If there is a loss of title to the Property which is insured under a policy or policies of title insurance, if any, or so much thereof so as to render the remainder unsuitable for the purposes for which it was used by the State and State Agency at the time of such loss, the sublease of the Property pursuant to the Lease shall cease as of the day that the State and the State Agency are required to vacate the Property. If there is a loss of title to less than all of the Property, and the remainder is suitable for the purposes for which it was used by the State Agency at the time of such loss, as reasonably determined by the State Treasurer, then the sublease thereof pursuant to the Lease shall continue in full force and effect as to such remainder, and the Parties waive any benefits of the law to the contrary. In such event, there shall be no abatement of the rental due pursuant to the Lease. So long as any Base Rent Payments under the Lease remain unpaid, any payments under such title insurance policy or policies, if any, with respect to the Property, if in excess of $250,000, shall be applied to the prepayment of Base Rent Payments as provided in the Lease. Any payment in excess of the amount necessary to prepay such Base Rent Payments shall be paid to the Corporation, the State and the State Agency as their respective interests may appear.

Damage or Destruction

If all or any portion of the Property subleased to the State and the State Agency pursuant thereto shall be damaged or destroyed by fire or other casualty, the sublease thereof pursuant to the Lease shall not terminate, nor shall there be any abatement of the rent payable thereunder. So long as any Base Rent Payments remain unpaid, any payments under the property insurance policy or policies with respect to the Property may be applied to the prepayment of Base Rent Payments as provided therein, or may be paid to the State Treasurer and applied as provided in the Trust Agreement.

Permitted Termination Event

As described in the forepart of this Official Statement, the Lease is subject to termination under certain circumstances.

Covenants and Agreements of the State

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

Application of Appropriation . To the extent permitted by law, the State Agency agrees that, to the extent that any amounts are included in its budget for purposes or facilities served, or functions or operations supported or provided by the Property, the State Agency will allocate a sufficient portion of such amounts to the payment of the Base Rent Payments and Additional Rent due under the Lease.

Tax-Exemption. Neither the State nor the State Agency shall make any use of the proceeds of the Lease or the Certificates or of any other amounts, regardless of the source, or of any property, and shall not take or refrain from taking any action, that would cause the Lease or the Certificates to be "arbitrage bonds" within the meaning of Section 148 of the Code. Neither the State nor the State Agency shall use or permit the use of the Property or any part thereof by any Person other than a "governmental unit" as that term is defined in Section 141 of the Code, in such manner or to such extent as would result in the loss of the exclusion from gross

income for federal income tax purposes of the Interest Component of the Base Rent Payments under Section 103 of the Code. Neither the State nor the State Agency shall make any use of the proceeds of the Lease or the Certificates or of any other amounts, and shall not take or refrain from taking any action, that would cause the Lease or the Certificates to be "federally guaranteed" within the meaning of Section 149(b) of the Code, or "private activity bonds" within the meaning of Section 141 of the Code, or "hedge bonds" within the meaning of Section 149 of the Code. To that end, for so long as any Base Rent Payments remain unpaid, the State and the State Agency, with respect to such proceeds and other amounts, will comply with all requirements under such Sections and all applicable regulations of the United States Department of the Treasury promulgated thereunder. The State and the State Agency will at all times do and perform all acts and things permitted by law which are necessary or desirable in order to assure that the Interest Components of the Base Rent Payments will not be included in gross income of the Owners of the Certificates for federal income tax purposes under the Code, and will take no action that would result in such interest being so included. The State and the State Agency shall comply with the provisions of the Tax Certificate.

The State Agency shall deposit in the Rebate Fund the Rebate Requirement as provided in the Tax Certificate. Subject to the other provisions of the Lease, moneys held in the Rebate Fund are hereby pledged to secure the rebate payments to the United States, and the State, the State Agency, the Corporation, the Fiscal Agent and the Owners shall have no rights in or claim to such moneys.

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

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

Duties Imposed by Law. To the extent permitted by law, the covenants, agreements and other obligations on the part of the State and the State Agency contained therein shall be deemed and construed to be ministerial and non-discretionary duties imposed by law, and it shall be the duty of the State, the State Agency and each and every public official thereof to take such actions in the performance of the official duties of such officials to enable the State and the State Agency to observe and perform the covenants, agreements, terms, conditions and other obligations contained therein and in the other Certificate Agreements to which the State or the State Agency is a party to be observed and performed by the State or the State Agency.

Liens; Assignments and Subleases. Neither the State nor the State Agency shall create, incur, assume or suffer to exist any mortgage, pledge, lien, charge, encumbrance or claim on or with respect to the Property or any part thereof, except for Permitted Encumbrances. The State Agency shall promptly, at its own expense, take such action as may be necessary to duly discharge any such mortgage, pledge, lien, charge, encumbrance or claim if the same shall arise at any time. Neither the State nor the State Agency shall grant, sell, assign, pledge, transfer, convey, mortgage, sublet or otherwise dispose any of its right, title or interest in, to or under the Lease or the Property except as otherwise provided in the Lease, and any such attempted grant, sale, assignment, pledge, transfer, conveyance, mortgage, sublease or disposal shall be void.

Performance. The State Agency shall punctually pay the Base Rent Payments and Additional Rent in strict conformity with the terms and provisions of the Lease, and the State and the State Agency will faithfully observe and perform all the covenants, agreements, terms, conditions and other obligations which are therein contained required to be observed and performed by the State or the State Agency. Except for a Permitted Termination Event, neither the State nor the State Agency will suffer or permit any default to occur under the Lease, or do or permit anything to be done, or omit or refrain from doing anything, in any case where any such act done or permitted to be done, or any such omission or refraining from doing anything, would or might be ground for cancellation or termination of the Lease.

Maintenance; Repairs. For so long as the State Agency is in possession of the Property, the State Agency shall be solely responsible for the maintenance and repair, both ordinary and extraordinary, thereof. The State Agency will (i) keep and maintain the Property in good repair and condition, protect the same from deterioration other than normal wear and tear, and pay or cause to be paid all charges for utility services to the Property; (ii) comply with the requirements of applicable laws, ordinances and regulations and the requirements of any insurance or self-insurance program required thereunder in connection with the use, occupation and maintenance of the Property; (iii) obtain all permits and licenses, if any, required by law for the use, occupation and maintenance of the Property; and (iv) pay all costs, claims, damages, fees and charges arising out of its possession, use or maintenance of the Property.

Hazardous Substances.

(a) *Use*. None of the State Agency, the State or their officers, agents, employees, contractors, or invitees, shall use the Property in a manner that violates any applicable federal, state or local law, regulation or ordinance, including, but not limited to, any

such law, regulation or ordinance pertaining to air and water quality, the handling, transportation, storage, treatment, usage and disposal of Toxic or Hazardous Substances, air emissions, other environmental matters, and all zoning and other land use matters. Neither the State nor the State Agency shall cause or permit the unlawful release or unlawful disposal of any Toxic or Hazardous Substances on or from the Property.

(b) *Indemnity*. The State Agency, to the extent permitted by law, agrees to protect, indemnify, defend and hold the Corporation and the Fiscal Agent, and their respective directors, officers, employees and agents harmless from any claims, judgments, damages, penalties, fines, expenses, liabilities or losses arising out of or in any way relating to the presence, release or disposal of Toxic or Hazardous Substances on or from the Property; *provided, however*, that the State Agency shall not be obligated to indemnify itself, in its capacity as Lessor under the Site Lease, from any such claims, judgments, damages, penalties, fines, expenses, liabilities or losses relating to the presence, release or disposal of Toxic or Hazardous Substances on or from the Property occurring when the State is or was not in possession of the Property. Such indemnity shall include, without limitation, costs incurred in connection with:

(i) Toxic or Hazardous Substances present or suspected to be present in the soil, groundwater or soil vapor on or under the Property; or

(ii) Toxic or Hazardous Substances that migrate, flow, percolate, diffuse, or in any way move onto or under the Property; or

(iii) Toxic or Hazardous Substances present on or under the Property as a result of any discharge, dumping, spilling (accidental or otherwise) onto the Property by any person, corporation, partnership, or entity other than the State, the State Agency or their officials, officers, employees or agents.

The indemnification provided by this subsection shall also specifically cover, without limitation, costs incurred in connection with any investigation of site conditions or any cleanup, remedial, removal or restoration work required by any federal, state or local governmental agency or political subdivision or other third party because of the presence or suspected presence of Toxic or Hazardous Substances in the soil, groundwater, or soil vapor on or under the Property. Such costs may include, but not be limited to, damages for the loss or restriction on use of rentable or usable space or of any amenity of the Property, sums paid in settlements of claims, attorneys fees, consultants fees, and expert fees.

(c) *Notification Requirements*. The State Agency shall promptly notify the other Parties in writing of all spills or unlawful releases of any Toxic or Hazardous Substances, all failures to comply with any federal, state, or local law, regulation or ordinance, all inspections of the Property by any regulatory entity concerning the same, all notices, orders, fines or communications of any kind by or from any governmental entity or third party that relate to the existence of or potential for environmental pollution of any kind existing on or resulting from the use of the Property or any activity conducted thereon, and all responses or interim cleanup action taken by or proposed to be taken by any government entity or private party on the Property.

Upon request by any Party, the State Agency shall provide such Party with a written report (A) listing the Toxic or Hazardous Substances that were used or stored on the Property; (B) discussing all releases of Toxic or Hazardous Substances that occurred or were discovered on the Property and all compliance activities related to Toxic or Hazardous Substances, including all contacts with and all requests from third parties for cleanup or compliance; (C) providing copies of all permits, manifests, business plans, consent agreements or other contracts relating to Toxic or Hazardous Substances executed or requested during that time period; and (D) including such other information requested by such Party.

(d) *Inspection Rights*. The Parties and their officers, employees and agents shall have the right, but not the duty, to inspect the Property and the State Agency's relevant environmental and land use documents at any time and to perform such tests on the Property as are reasonably necessary to determine whether the State Agency is complying with the terms of the Lease. The State Agency shall be responsible for paying for any testing that is conducted if the State Agency is not in compliance with the Lease and such Party has reason to believe such noncompliance is due to the State Agency's operations or use of such Property. If the State Agency is not in compliance with the Lease, such Party, without waiving or releasing any right or remedy it may have with respect to such noncompliance, shall have the right to immediately enter upon the Property to remedy any contamination caused by the State Agency's failure to comply, notwithstanding any other provision of the Lease. The Party shall use reasonable efforts to minimize interference with the State Agency's business but shall not be liable for any interference caused thereby.

(e) *Corrective Action*. In the event any investigation, site monitoring, containment, cleanup, removal, restoration or other remedial work ("Remedial Work") of any kind is necessary under any applicable federal, state or local laws, regulations or ordinances, or is required by any governmental entity or other third person because of or in connection with the presence or suspected presence of Toxic or Hazardous Substances on or under the Property, the State Agency shall assume responsibility for all such Remedial Work and shall promptly commence and thereafter diligently prosecute to completion all such Remedial Work. The State Agency shall pay for all costs and expenses of such Remedial Work, including, without limitation, the Party's reasonable attorneys' fees and costs incurred in connection with monitoring or review of such Remedial Work. In the event the State Agency shall fail to

timely commence, or cause to be commenced, or fail to diligently prosecute to completion, such Remedial Work, such Party may, but shall not be required to, cause such Remedial Work to be performed and all costs and expenses thereof, or incurred in connection therewith, shall become immediately due and payable as Additional Rent due to the Corporation from the State Agency.

(f) *Insurance.*

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

(ii) The State Agency shall maintain or cause to be maintained in full force and effect fire and extended coverage insurance with respect to the Property in such amounts as the State Agency may reasonably determine from time to time, but in any event not less than the aggregate amount of the Principal Components which remain unpaid. Such insurance may be carried under a policy or policies covering other property of the State Agency or the State. Such property insurance shall be "all risk" insurance, and shall cover physical loss or damage as a result of fire, lightning, theft, vandalism, malicious mischief, flood, earthquake, and boiler and machinery; provided, that the State Agency shall not be required to maintain earthquake or flood insurance if it determines, based on consultation with risk management or insurance advisors of the State, that the same is not available from reputable insurers at commercially reasonable rates. Such extended coverage insurance shall, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as the State Agency may reasonably determine from time to time. Such policies of insurance shall provide that all proceeds thereunder shall be payable to the Fiscal Agent, as assignee of the Corporation, pursuant to a lender's loss payable endorsement. The net proceeds of such insurance shall be applied as provided in the Trust Agreement. Such insurance may at any time include deductibles not to exceed amounts permitted by the State Office of Risk Management for losses in any year (currently the greater of $100,000 or one percent of the value of the damaged property).

(iii) The insurance required under paragraphs (i) and (ii) above (A) shall be provided by a financially responsible insurance company authorized to do business in the State; (B) shall name the Fiscal Agent, as assignee of the Corporation, as loss-payees thereunder; (C) shall provide that the same may not be canceled or given notice of non-renewal, nor shall the terms or conditions thereof be altered, amended or modified, without at least 45 days' prior written notice being given by the insurer to the State Treasurer and the Fiscal Agent, as assignee of the Corporation; and (D) may be provided in whole or in part through a funded program of self-insurance reviewed at least annually by an insurance consultant, which may include risk management personnel of the State.

(iv) A certificate of insurance with respect to the coverages required under the Lease shall be provided by the State Agency to the State Treasurer and the Fiscal Agent, as assignee of the Corporation, annually on or prior to the December 1 with respect to any required insurance maintained pursuant to the Lease.

(v) The State Agency will pay or cause to be paid when due the premiums for all insurance policies required thereunder.

The Corporation Not Liable. The Corporation and its directors, officers and employees shall not be liable to the State, the State Agency or to any other Person whomsoever for any death, injury or damage that may result to any Person or property by or from any cause whatsoever in, on, about or relating to the Property.

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

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

Disclosure Agreement. Concurrently with the execution and delivery thereof, the State Treasurer will execute and deliver the Disclosure Agreement in order to assist the Underwriter in complying with the requirements under the Rule. The State Treasurer shall

comply with the requirements of the Disclosure Agreement; *provided*, that failure to so comply shall not constitute a default under the Lease.

Events of Default

Each of the following shall constitute an "Event of Default" under the Lease:

(a) Failure by the State and the State Agency to pay or cause to be paid any Base Rent Payment required to be paid thereunder at the time set forth therein;

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

(c) Inability of the State to generally pay its debts as such debts become due, or admission by the State, in writing, of its inability to pay its debts generally, or the making by the State of a general assignment for the benefit of creditors, or the institution of any proceeding by or against the State seeking to adjudicate it as bankrupt or insolvent, or seeking liquidation, winding-up, reorganization, reimbursement, adjustment, protection, relief or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or for appointment of a receiver, trustee, or other similar officer of it or any substantial part of its property, or the taking of any action by the State Agency to authorize any of the actions set forth above in this Section (c); and

(d) If the State's interest under the Lease or any part thereof shall be assigned, sublet or transferred other than as provided therein, either voluntarily or by operation of law; and

(e) If the State shall abandon or vacate the Property; and

(f) The occurrence of an event of default under any Additional State Agency Financing Lease.

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

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

ANYTHING IN THE LEASE TO THE CONTRARY NOTWITHSTANDING, A PERMITTED TERMINATION EVENT SHALL NOT CONSTITUTE AN EVENT OF DEFAULT UNDER THE LEASE.

Remedies

Whenever an Event of Default under the Lease shall have occurred and be continuing, the Corporation shall have the following rights and remedies:

(a) *Continuation; Reentry and Reletting*. The Corporation may continue the Lease in full force and effect, and (i) collect rent and other amounts as they become due thereunder, (ii) enforce every other term and provision thereof to be observed or performed by the State or the State Agency, and (iii) exercise any and all rights of entry and reentry upon the Property. In the event that the Corporation does not elect to terminate the Lease in the manner provided pursuant to the Lease, the State agrees to observe and perform all terms and provisions therein to be observed or performed by it, and, if the Property is not relet, to pay the full amount of the rent and other amounts due thereunder for the term of the Lease, or, if the Property or any part thereof is relet, to pay any deficiency that results therefrom, in each case at the same time and in the same manner as otherwise provided therein, and notwithstanding any reentry or reletting by the Corporation, or suit in unlawful detainer or otherwise brought by the Corporation for the purpose of effecting such re-entry or obtaining possession of all or any part of the Property. Should the Corporation elect to re-enter or obtain possession of all or any part of the Property, the State and the State Agency irrevocably appoint the Corporation as

their agent and attorney-in-fact (i) to relet the Property, or any part thereof, from time to time either in the name of the Corporation or otherwise, upon such terms and conditions and for such use and period as the Corporation may determine in its discretion, (ii) to remove all persons in possession thereof and all personal property whatsoever situated upon such Property and (iii) to place such personal property in storage in any warehouse or other suitable place for the State in the county in which such personal property is located, for the account of and at the expense of the State. The State shall be liable for, and agrees to pay to the Corporation, the Corporation's costs and expenses in connection with reentry of the Property, removal and storage of any personal property, and reletting of such Property. The State agrees that the terms of the Lease constitute full and sufficient notice of the right of the Corporation to reenter and relet the Property or any part thereof without effecting a surrender or termination of the Lease. Termination of the Lease upon an Event of Default shall be effected solely as provided in the Lease. The State further waives any right to, and releases, any rental obtained by the Corporation upon reletting in excess of the rental and other amounts otherwise due under the Lease.

(b) *Termination*. The Corporation may terminate the Lease, but solely upon written notice by the Corporation to the State Treasurer of such election. No notice to pay rent, notice of default, or notice to deliver possession of the Property or of any part thereof, nor any entry or reentry upon the Property or any part thereof by the Corporation, nor any proceeding in unlawful detainer or otherwise brought by the Corporation for the purpose of effecting such reentry or obtaining possession, nor any other act shall operate to terminate the Lease, and no termination of the Lease on an account of an Event of Default shall be or become effective by operation of law or acts of the Parties thereto or otherwise, unless and until such notice of termination shall have been given by the Corporation. The State agrees that no surrender of the Property or any part thereof, nor any termination of the Lease by the State shall be valid or effective in any manner or for any purpose whatsoever unless such notice of termination shall have been given by the Corporation. Upon such termination, the Corporation may (i) reenter the Property or any part thereof and remove all persons in possession thereof and all personal property whatsoever situated upon such Property, and (ii) place such personal property in storage in any warehouse or other suitable place for the State in the county in which such personal property is located, for the account of and at the expense of the State. Upon such termination, the State's right to possession of the Property shall terminate, and the State shall surrender possession thereof to the Corporation. In the event of such termination, the State shall remain liable to the Corporation for damages in an amount equal to the rent and other amounts that would have been due under the Lease for the balance of the term thereof, less the net proceeds, if any, of any reletting of the Property or any part thereof by the Corporation subsequent to such termination, after deducting the expenses incurred by the Corporation in connection with any such reentry, removal and storage of personal property, and reletting. the Corporation shall be entitled to collect damages from the State on the respective Base Rent Payment Dates, or alternatively, the Corporation may accelerate the State's obligations under the Lease and recover from the State (i) the worth at the time of award of the unpaid rental which had been earned at the time of termination, (ii) the worth at the time of award of the amount by which the unpaid rental which would have been earned after the termination until the time of award exceeds the amount of such rental loss that the State proves could have been reasonably avoided, (iii) the worth at the time of award by which the unpaid rental for the balance of the term of the Lease after the time of award exceeds the amount of rental loss that the State proves could reasonably have been avoided, and (iv) any other amount necessary to compensate the Corporation for all the detriment proximately caused by the State's failure to perform its obligations under the Lease, or which in the ordinary course would be likely to result therefrom, including but not limited to the Corporation's expenses in connection with reentry of the Property, removal and storage of any personal property, and reletting of such Property. The worth at the time of award shall be computed using a discount rate equal to the composite Interest Component evidenced and represented by the Certificates.

(c) *Other Remedies*. In addition to the other remedies set forth in the Lease, upon the occurrence and continuance of an Event of Default, the Corporation shall be entitled to proceed to protect and enforce the rights vested in them by the Lease or by law. The terms and provisions of the Lease and the duties and obligations of the State thereunder, and the officers and employees thereof, shall be enforceable by the Corporation by an action at law or in equity, for damages or for specific performance, or for writ of mandate, or by other appropriate action, suit or proceeding in any court of competent jurisdiction. Without limiting the generality of the foregoing, the Corporation shall have the right to bring the following actions:

(i) Accounting. By action or suit in equity to require the State or any State Agency and its officers and employees to account as the trustee of an express trust;

(ii) Injunction. By action or suit in equity to enjoin the violation of the rights of the Corporation; and

(iii) Mandate. By writ of mandate or other action, suit or proceeding at law or in equity to enforce the Corporation's rights against the State or the State Agency and its officers and employees, and to compel the State to perform and carry out its duties and obligations under the law and its covenants and agreements with the Corporation as provided therein.

In the event that the Corporation shall prevail in any action, suit or proceeding brought to enforce any of the terms of provisions of the Lease, the State shall be liable for the reasonable attorneys' fees of the Corporation in connection therewith.

The State waives any and all claims for damages caused or which may be caused by the Corporation in reentering and taking possession of the Property or any part thereof as provided in the Lease, and all claims for damages that may result from the destruction

of or injury to the Property or any part thereof, and all claims for damages to or loss of any personal property that may be in or upon the Property.

No Remedy Exclusive; Non-Waiver

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

No acceptance of less than the full amount of a rental payment due shall constitute an accord and satisfaction or compromise of any such payment unless the Corporation specifically agrees to such accord and satisfaction or compromise in writing.

Default by the Corporation

Anything in the Lease to the contrary notwithstanding, the Corporation shall not be in default in the observance or performance of any of the covenants, agreements, terms or conditions to be observed or performed by it thereunder unless and until the Corporation shall have failed to observe or perform such covenant, agreement, term or condition for a period of sixty (60) days after written notice by the State Treasurer to the Corporation specifying such failure and requesting that it be remedied; *provided, however*, that such period shall be extended for such additional time as shall be reasonably required to correct such failure if corrective action is commenced by the Corporation within such period and diligently pursued until the failure is corrected.

Term

The term of the Lease shall commence on the Dated Date, and shall end on the final scheduled Principal Payment Date, unless such term is extended or sooner terminated as hereinafter described. If on such date, all amounts due shall not have been paid or the payment thereof duly provided for pursuant to the Lease, then the term of the Lease shall be extended until ten (10) days after all amounts due thereunder shall have been paid or the payment thereof so provided for, except that the term of the Lease shall in no event be extended more than five years beyond its scheduled termination date. If prior to the scheduled termination date, all amounts due under the Lease shall have been paid or the payment thereof so provided for, the term of the Lease shall end ten (10) days thereafter or ten (10) days after written notice by the State Treasurer to the Corporation, whichever is earlier.

Termination

The State agrees, upon the termination or expiration of the Lease as to any parcel of Property, to quit and surrender such Property in the same good order, condition and repair as the same was in at the time of commencement of the term of the Lease, except for acts of God, reasonable wear and tear, and any actions by the State Agency in accordance herewith that affect the condition of the Property. The State agrees that any permanent improvements and structures existing upon the Property at the time of such termination or expiration of the Lease shall remain thereon. The State shall thereafter execute, acknowledge and deliver to the Corporation such instruments of further assurance as in the reasonable opinion of the Corporation are necessary or desirable to confirm the Corporation's leasehold right, title and interest in and to such Property.

THE SITE LEASE

Sublease of the Site; Ownership

Under the Site Lease,

(a) The State leases to the Corporation and the Corporation hires from the State, on the terms and conditions therein set forth, the real property and all improvements thereon described in the Site Lease subject to all easements, covenants, conditions and restrictions existing as of the date thereof.

(b) The State Agency represents and warrants that it is holder in fee title of the Site, subject to Permitted Encumbrances.

Term

The term of the Site Lease commences on the Dated Date, and ends on the scheduled termination date of the Lease, unless such term is extended or sooner terminated as hereinafter described. If on such date, the Lease shall not be discharged by its terms, then the term of Site Lease shall be extended until ten (10) days after all amounts due under the Lease shall have been paid and the Lease shall have been discharged by its terms, except that the term of the Site Lease shall in no event be extended beyond the final possible termination date for the Lease. If prior to the scheduled termination date, all amounts due under the Lease shall have been paid and the Lease shall have been discharged by its terms, the term of the Site Lease shall end ten (10) days thereafter or ten (10) days after written notice by the State Agency to the Corporation, whichever is earlier.

Rental

The Corporation shall pay to the State, for the benefit of the State Agency pursuant to the Lease, as and for the total rental due under the Site Lease, the aggregate amount set forth therein (the "Prepaid Site Lease Rent"), all of which prepaid rental shall be payable on the Closing Date. The Parties to each Site Lease agree that said amount represents fair consideration for the leasehold interest being transferred thereunder, given the purposes, terms and provisions of each Site Lease. Such rental shall be paid from the proceeds of sale of the Certificates. The Corporation shall not be obligated to pay such rental other than from the proceeds of the Certificates. The State Agency covenants and agrees to apply such rental payment solely for the purpose of paying or reimbursing its Project Costs and related costs as set forth in the Lease. Anything therein to the contrary notwithstanding, the Corporation waives any right that it may have under the laws of the State to a rebate or repayment of any portion of such rental in the event that there is substantial interference with the use or right to possession by the Corporation of the Site or any portion thereof as a result of material damage, destruction or condemnation.

Purpose

The Corporation shall use the Site solely for the purpose of leasing the Property to the State pursuant to the Lease and for such purposes as may be incidental thereto; *provided*, that in the event of a default by the State under the Lease, the Corporation may exercise the remedies provided therein.

Assignments and Subleases

(a) Under the Site Lease, the Corporation is not permitted to grant, sell, assign, mortgage, pledge, sublet or transfer any of its right, title or interest in, to or under the Site Lease or the Site except as expressly provided in the Assignment and the Lease, without the prior written consent of the State Agency. The State consents to the sublease of the Property pursuant to the Lease, and the assignment of the Corporation's right, title and interest thereunder to the Fiscal Agent pursuant to the Assignment for the benefit of the Owners of the Certificates.

(b) Upon the occurrence and continuance of an Event of Default or Permitted Termination Event with respect to the Property, the Corporation has the right, pursuant to the Assignment, the Trust Agreement and the Lease, to sublease all or any portion of the Property; provided, that the subtenant and the terms and provisions of such sublease shall be subject to the prior written approval of the State, which approval shall not be unreasonably withheld or delayed.

Right of Entry

The State Agency reserves the right for any of its duly authorized representatives to enter upon the Site at any reasonable time (or in an emergency at any time) to inspect the same, or to make any repairs, improvements or changes necessary for the preservation thereof.

Termination

The Corporation agrees, upon the termination or expiration of the Site Lease, to quit and surrender the Site in the same good order, condition and repair as the same was in at the time of commencement of the term thereunder, except for acts of God, reasonable wear and tear, and any actions by the State or the State Agency that affect the condition of such Site. The Corporation agrees that any permanent improvements and structures existing upon such Site at the time of such termination or expiration of the Site Lease shall remain thereon and title thereto shall vest in the State Agency. The Corporation shall thereafter execute, acknowledge and deliver to the State Agency such instruments of further assurance as in the reasonable opinion of the State Agency are necessary or desirable to confirm the State Agency's right, title and interest in and to such Site.

Default

In the event that the Corporation shall be in default in the performance of any obligation on its part to be performed under the terms of the Site Lease, which default continues for sixty (60) days following notice and demand for correction thereof to the

Corporation, the State may exercise any and all remedies granted by law, except that, as described in Appendix I thereto, no merger of the Site Lease shall be deemed to occur as a result thereof; *provided, however*, that the State shall have no power to terminate the Site Lease by reason of any default on the part of the Corporation; and *provided further*, that so long as any Certificates are outstanding and unpaid in accordance with the terms of the Trust Agreement and the Lease, the Base Rent Payments or Additional Rent or any part thereof payable to the Corporation shall continue to be paid to the Corporation. So long as the Fiscal Agent shall duly perform the terms and conditions of the Site Lease, the Lease and the Trust Agreement, the Fiscal Agent shall be deemed to be and shall become the tenant of the State Agency under the Site Lease and shall be entitled to all of the rights and privileges granted to the Corporation hereunder and under the Assignment, the Lease and the Trust Agreement.

Waiver

No delay or omission to exercise any right or remedy accruing upon a default under the Site Lease shall impair any such right or remedy or shall be construed to be a waiver of such default, but any such right or remedy may be exercised from time to time and as often as may be deemed necessary or expedient. In order to exercise any remedy reserved to the State Agency under the Site Lease, it shall not be necessary to give any notice, other than such notice as may be required under the Site Lease. A waiver by the State Agency of any default under the Site Lease shall not constitute a waiver of any subsequent default thereunder, and shall not affect or impair the rights or remedies of the State Agency in connection with any such subsequent default.

Quiet Enjoyment

The Corporation and its authorized assignees and sublessees at all times during the term of the Site Lease, subject to the provisions thereof, shall peaceably and quietly have, hold and enjoy the Site without suit, trouble or hindrance from the State.

Taxes

The State covenants and agrees to pay any and all Impositions of any kind or character, including but not limited to possessory interest taxes, levied or assessed upon the Property (including both land and improvements), or with respect to the Site Lease or the lease of the Property pursuant to the Lease; *provided, however*, that the State shall not pay any possessory interest taxes levied as a result of any assignment or sublease of or with respect to all or any part of the Property then in effect between the Corporation and any assignee or subtenant of the Corporation (other than as lessee under the Lease).

Eminent Domain; Loss of Title

In the event the whole or any part of the Property is taken permanently or temporarily under the power of eminent domain (or sold under threat of condemnation), or there is a loss of title to the whole or any part of such Property, the interest of the Corporation in the Property shall be recognized and is determined to be an amount not less than the then unpaid indebtedness incurred by the State Agency under the Lease. The term "unpaid indebtedness," as used in the preceding sentence, includes all unpaid Principal Components, Interest Components and all other payments required to be made by the State pursuant to the Lease, until all Rent Payments due thereunder have been paid or the payment thereof provided for in accordance therewith. The amount of any such award, judgment or payment shall be paid to the Corporation, and the balance, if any, in excess of the unpaid indebtedness shall be paid to the State.

THE TRUST AGREEMENT

Project Fund

The State Treasurer shall establish and maintain the Project Fund as agent for the Corporation. The moneys in the Project Fund shall be held by the State Treasurer in trust for the benefit of the Owners and applied to the payment of the Project Costs (including reimbursement to the Corporation, or to the State Treasurer or the State Agency, in their capacity as agent of the Corporation, for any such costs theretofore paid by such Party), including but not limited to the Costs of Issuance as described in the Trust Agreement. When the Project and the Property have been acquired, constructed, reimbursed, financed, or refinanced and all of the Project Costs and Costs of Issuance have been paid, the State Treasurer shall transfer any remaining balance in the Project Fund to the Certificate Fund.

Base Rent Payments; Funds and Accounts; Investments

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

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

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

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

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

(c) Prepayment Account. On each date on which the State Treasurer makes a prepayment of Principal Components at the Prepayment Price therefor (and related payments of Interest Components, if any) pursuant to the Lease, the Fiscal Agent shall deposit in the Prepayment Account the amount of such prepayment and related payments. Moneys in the Prepayment Account shall be withdrawn and used by the Fiscal Agent solely for the purpose of paying the Prepayment Price evidenced and represented by Certificates prepaid on such date pursuant to the Trust Agreement and the accrued interest, if any, evidenced and represented by the Certificates so prepaid.

(d) Application of Insurance Proceeds and Eminent Domain Awards. The proceeds of any casualty insurance with respect to any of the Property, if received by the State or the State Agency, shall immediately be paid to the Fiscal Agent. Within ninety (90) days of payment of such proceeds to the Fiscal Agent, the State Agency shall notify the Fiscal Agent in writing as to whether it elects to repair or replace such Property. In the event that the State Agency elects to repair or replace such Property, such amounts shall be disbursed by the Fiscal Agent to pay the costs of such repair or replacement. In the event that the State Agency elects not to repair or replace the property damaged, destroyed or taken, the Fiscal Agent shall transfer all such amounts to the Prepayment Account and apply such amounts to the prepayment of Outstanding Certificates pursuant to the Trust Agreement at the earliest possible Prepayment Date. Any eminent domain award, the proceeds of any sale under threat of condemnation, and the net proceeds of any title insurance in connection with a loss of title with respect to any Property, if received by the State or the State Agency and in excess of $250,000, shall immediately be paid to the Fiscal Agent. The Fiscal Agent shall transfer all such amounts to the Prepayment Account and apply such amounts to the prepayment of Outstanding Certificates pursuant to the Trust Agreement at the earliest possible Prepayment Date. To the extent that such amounts are not sufficient, in whole or in part, to prepay Principal Components evidenced and represented by the Certificates in Authorized Denominations, such amounts shall be deposited in the Certificate Fund and applied on the next Base Rent Payment Dates in the manner set forth in the Trust Agreement.

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

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

Moneys in all funds and accounts maintained by the Fiscal Agent shall be invested in Qualified Investments maturing not later than the date on which such moneys will be required for the purposes specified in the Trust Agreement. Notwithstanding anything else in the Trust Agreement, any moneys held for the payment of Certificates pursuant to the Trust Agreement shall be invested only at the written direction of the State Treasurer and only in Government Obligations (or in shares of a taxable government

money market fund restricted to Government Obligations rated in the highest rating category applicable to such funds by at least one Rating Agency) which mature not later than the date on which it is estimated that such moneys will be required to pay such Certificates (but in any event maturing in not more than thirty days).

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

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

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

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

Covenants of the Corporation, the State and the Fiscal Agent

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

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

Neither the State nor the Corporation will alter, amend or modify the Lease without the prior written consent of the Fiscal Agent. Such consent of the Fiscal Agent shall be given only (i) if the Fiscal Agent receives an Opinion of Counsel to the effect that such alterations, amendments or modifications will not have a material adverse effect on the interests of the Owners of the Certificates, or (ii) if the Fiscal Agent first obtains the written consent of the Owners of a majority in aggregate Principal Component evidenced and represented by the Certificates then Outstanding to such alterations, amendments or modifications; *provided*, that no such alteration, amendment or modification shall reduce the amount or extend the time for payment of any Base Rent Payment without the prior written consent of the Owners of the Certificates evidencing and representing any portion thereof.

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

Prosecution and Defense of Suits. The State will defend against every action, suit or other proceeding at any time brought against the Corporation, the Fiscal Agent or any Owner upon any claim arising out of the receipt, deposit or disbursement of any of the Base Rent Payments or involving the rights or obligations of the Corporation, the Fiscal Agent or any Owner; *provided*, *however*, that the Corporation, the Fiscal Agent or any Owner, at its election and at its sole cost and expense, may appear in and defend any such action, suit or other proceeding.

Accounting Records and Statements. The Fiscal Agent will keep proper accounting records in accordance with corporate trust accounting standards in which complete and correct entries shall be made of all transactions relating to the receipt, investment,

deposit, application and disbursement of the Base Rent Payments, and such accounting records shall be available for inspection by the State Treasurer or any Owner or agent duly authorized in writing at reasonable hours and under reasonable conditions. Not later than December 1 in each year, commencing on December 1, 2006, and continuing for so long as any Certificates are Outstanding, the Fiscal Agent will furnish, or cause to be furnished to the State Treasurer and any Owner who may so request (at the expense of such Owner) a complete statement covering the receipts, investment, deposits, application and disbursements of the Base Rent Payments for the twelve-month period ending on the preceding July 1.

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

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

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

Events of Default; Remedies

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

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

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

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

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

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

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

Non-Waiver. A waiver of any default or breach of duty or contract by the Fiscal Agent shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No

delay or omission by the Fiscal Agent to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Fiscal Agent by law or by this article may be enforced and exercised from time to time and as often as shall be deemed expedient by the Fiscal Agent.

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

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

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

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

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

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

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

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

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

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

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

No Liability by the Fiscal Agent to the Owners. Except as expressly provided in the Trust Agreement, the Fiscal Agent shall not have any obligation or liability to the Owners with respect to the payment when due of the Base Rent Payments by the State, or

with respect to the observance or performance by the State or the Corporation of the other agreements and covenants required to be observed and performed by the them contained in the Lease or the Trust Agreement.

The Fiscal Agent and Paying Agents

Appointment of Fiscal Agent; Duties, Immunities and Liabilities. The Corporation and the State Treasurer appoint the Fiscal Agent to receive, deposit and disburse the Base Rent Payments, to prepare, execute, deliver and transfer the Certificates, and to perform the other functions and responsibilities set forth in the Trust Agreement; all in the manner and subject to the terms and conditions set forth in the Trust Agreement. By executing and delivering the Trust Agreement, the Fiscal Agent accepts such appointment.

The Fiscal Agent shall, prior to an Event of Default, and after the curing of all Events of Default which may have occurred, perform such duties and only such duties as are specifically set forth in the Trust Agreement. The Fiscal Agent shall, during the existence of any Event of Default (which has not been cured), exercise such of the rights and powers vested in it by the Trust Agreement, and use the same degree of care and skill in their exercise as prudent persons would exercise or use under the circumstances in the conduct of their own affairs. Notwithstanding any other provision of the Trust Agreement, the Fiscal Agent shall perform all duties required of it under the Trust Agreement.

No provision of the Trust Agreement shall be construed to relieve the Fiscal Agent from liability for its own negligent action or its own negligent failure to act, except that:

(a) Prior to an Event of Default under the Trust Agreement and after the curing of all Events of Default which may have occurred,

(1) the duties and obligations of the Fiscal Agent shall be determined solely by the express provisions of the Trust Agreement, and the Fiscal Agent shall not be liable except for the performance of such duties and obligations as are specifically set forth in the Trust Agreement, and no implied covenants or obligations shall be read into the Trust Agreement against the Fiscal Agent; and

(2) in the absence of bad faith on the part of the Fiscal Agent, the Fiscal Agent may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon any certificate or opinion furnished to the Fiscal Agent conforming to the requirements of the Trust Agreement; but in the case of any such certificate or opinion which by any provision of the Trust Agreement is specifically required to be furnished to the Fiscal Agent the Fiscal Agent shall be under a duty to examine the same to determine whether or not it conforms to the requirements of the Trust Agreement; and

(b) At all times, regardless of whether or not any Event of Default shall exist,

(1) the Fiscal Agent shall not be liable for any error of judgment made in good faith by a duly authorized officer of the Fiscal Agent unless it shall be proved that the Fiscal Agent was negligent in ascertaining the pertinent facts; and

(2) the Fiscal Agent shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of not less than a majority, or such other percentage as may be required under the Trust Agreement, in aggregate Principal Component evidenced and represented by the Certificates at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Fiscal Agent, or exercising any trust or power conferred upon the Fiscal Agent under the Trust Agreement.

Right of Fiscal Agent to Rely upon Documents, Etc. Except as otherwise provided therein:

(c) The Fiscal Agent may rely and shall be protected in acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, certificate or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;

(d) Any notice, request, direction, election, order or demand of the State Treasurer referred to therein shall be sufficiently evidenced by an instrument signed in the name of the State Treasurer by a Treasurer Representative, and any resolution of the State Treasurer may be evidenced to the Fiscal Agent by a certified copy thereof;

(e) The Fiscal Agent may consult with counsel (who may be counsel for the State or Certificate Counsel) and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it under the Trust Agreement in good faith and in accordance with the opinion of such counsel;

(f) Whenever in the administration of the trusts of the Trust Agreement the Fiscal Agent shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Trust Agreement, such matter (unless other evidence in respect thereof be in the Trust Agreement specifically prescribed) may, in the absence of negligence or bad faith on the part of the Fiscal Agent, be deemed to be conclusively proved and established by a Certificate of the State Treasurer; and such Certificate of the State Treasurer shall, in the absence of negligence or bad faith on the part of the Fiscal Agent, be full warrant to the Fiscal Agent for any action taken or suffered by it under the provisions of the Trust Agreement in reliance thereon; and

(g) The Fiscal Agent may execute any of the trusts or powers under the Trust Agreement or perform any duties under the Trust Agreement either directly or by or through agents or attorneys, and the Fiscal Agent shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it under the Trust Agreement.

Fiscal Agent Not Responsible for Recitals.

(h) The recitals contained in the Trust Agreement and in the Certificates shall be taken as the statements of the State Treasurer, and the Fiscal Agent assumes no responsibility for the correctness of the same except (with respect to the Fiscal Agent) for its execution thereof. The Fiscal Agent makes no representation as to the validity or sufficiency of the Trust Agreement or the Lease or of the assignment of the right to receive Base Rent Payments or of the Certificates. The Fiscal Agent shall not be accountable for the use or application by the Corporation or the State of the proceeds of any of the Certificates executed or delivered under the Trust Agreement.

(i) In accepting the trust created by the Trust Agreement, the Fiscal Agent acts solely as Fiscal Agent for the Owners of Certificates and not in its individual capacity, and all Persons, including, without limitation, the Owners, having any claim against the Fiscal Agent arising from the Trust Agreement shall look only to the funds and accounts held by the Fiscal Agent under the Trust Agreement for payment, except as otherwise provided in the Trust Agreement. Under no circumstances shall the Fiscal Agent be liable in its individual capacity for the obligations evidenced and represented by the Certificates.

(j) The Fiscal Agent makes no representation or warranty, express or implied as to the title, value, design, compliance with specification or legal requirements, quality, durability, operation, condition, merchantability or fitness for any particular purpose or fitness for the use contemplated by the State or the State Agency of the Property. In no event shall the Fiscal Agent be liable for incidental, indirect, special or consequential damages in connection with or arising from the Lease or the Trust Agreement or for the existence, lease or use of the Property.

(k) No provision of the Trust Agreement shall require the Fiscal Agent to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under the Trust Agreement, or in the exercise of any of its rights or powers.

(l) The Fiscal Agent shall not be deemed to have knowledge of any default or Event of Default, except for the failure by the State to timely make any Base Rent Payments, unless and until an officer at the Fiscal Agent's corporate trust offices responsible for the administration of its duties under the Trust Agreement shall have actual knowledge thereof or the Fiscal Agent shall have received written notice thereof at its corporate trust offices.

Right of Fiscal Agent to Acquire Certificates. The Fiscal Agent and its officers and directors may buy, sell, own, hold and deal in, or become the pledgee of, Certificates, may otherwise deal with or be engaged or have an interest in, any financial or other transaction with the State or the Corporation, as either principal or agent, in the manner and to the same extent and with like effect as though it were not the Fiscal Agent under the Trust Agreement, and may act as agent, depositary or trustee for any committee or body of the Owners, of owners of other obligations of the State or the Corporation as though it were not the Fiscal Agent under the Trust Agreement.

Compensation of Fiscal Agent. The State shall from time to time, subject to any written agreement then in effect with the Fiscal Agent, pay the Fiscal Agent compensation for its services and reimburse the Fiscal Agent for all its advances and expenditures under the Trust Agreement, including but not limited to advances to and fees and expenses of accountants, agents, appraisers, consultants, counsel or other experts employed by it in the exercise and performance of its rights and obligations under the Trust Agreement; *provided, however*, that the Fiscal Agent shall not have any lien for such compensation or reimbursement against any moneys held by it in any of the funds or accounts established under the Trust Agreement, although it may take whatever legal actions are lawfully available to it directly against the State.

Qualifications of Fiscal Agent. There shall at all times be a Fiscal Agent under the Trust Agreement which shall either be (a) the fiscal agency of the State selected pursuant to RCW Chapter 43.80; or (b) a bank, trust company or national association organized and doing business under the laws of the United States of America or of a state thereof, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least fifty million dollars ($50,000,000), and subject to supervision or examination by federal or state authority. If such corporations or banking associations publish reports of condition at

least annually, pursuant to law or to the requirements of any supervising or examining authority referred to above, then for the purposes of this paragraph the combined capital and surplus of such corporations or banking associations shall be deemed to be their combined capital and surplus as set forth in their most recent reports of condition so published. In case at any time the Fiscal Agent shall cease to be eligible in accordance with these provisions, the Fiscal Agent shall resign immediately in the manner and with the effect specified in the Trust Agreement.

Resignation and Removal of Fiscal Agent and Appointment of Successor Fiscal Agent.

(m) The Fiscal Agent may at any time resign by giving written notice to the State Treasurer, the Paying Agents and to the Owners. Upon receiving such notice of resignation, the State Treasurer shall promptly appoint a successor Fiscal Agent by an instrument in writing. If no successor Fiscal Agent shall have been so appointed and have accepted such appointment within thirty (30) days after the giving of such notice of resignation, the resigning Fiscal Agent may petition any court of competent jurisdiction for the appointment of a successor Fiscal Agent, or any Owner who has been a *bona fide* Owner of a Certificate for at least six months may, on behalf of itself and others similarly situated, petition any such court for the appointment of a successor Fiscal Agent. Such court may thereupon, after such notice, if any, as it may deem proper and may prescribe, appoint a successor Fiscal Agent.

(n) In case at any time either of the following shall occur:

(i) the Fiscal Agent shall cease to be eligible in accordance with the provisions of the Trust Agreement and shall fail to resign after written request therefor by the State Treasurer or by any Owner who has been a *bona fide* Owner of a Certificate for at least six months, or

(ii) the Fiscal Agent shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Fiscal Agent or of its property shall be appointed, or any public officer shall take charge or control of the Fiscal Agent or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in any such case, the State Treasurer may remove the Fiscal Agent and appoint a successor Fiscal Agent by an instrument in writing, or any such Owner may, on behalf of itself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Fiscal Agent and the appointment of a successor Fiscal Agent. Such court may thereupon, after such notice, if any, as it may deem proper and may prescribe, remove the Fiscal Agent and appoint a successor Fiscal Agent.

(o) The State Treasurer or the Owners of a majority in aggregate Principal Component evidenced and represented by the Certificates at the time Outstanding may at any time remove the Fiscal Agent and appoint a successor Fiscal Agent by an instrument or concurrent instruments in writing signed by the State Treasurer or such Owners, as the case may be.

(p) Any resignation or removal of the Fiscal Agent and appointment of a successor Fiscal Agent pursuant to any of the provisions of this section shall become effective upon acceptance of appointment by the successor Fiscal Agent, as provided therein. Anything therein to the contrary notwithstanding, the State Treasurer may not remove the Fiscal Agent without cause if an Event of Default shall have occurred and be continuing.

Acceptance of Trust by Successor Fiscal Agent. Any successor Fiscal Agent appointed as provided therein shall execute, acknowledge and deliver to the State Treasurer and to its predecessor Fiscal Agent an instrument accepting such appointment under the Trust Agreement, and thereupon the resignation or removal of the predecessor Fiscal Agent shall become effective and such successor Fiscal Agent, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts, duties and obligations of its predecessor in the trusts under the Trust Agreement, with like effect as if originally named as Fiscal Agent in the Trust Agreement; but, nevertheless, on the Written Request of the State Treasurer or the request of the successor Fiscal Agent, the Fiscal Agent ceasing to act shall execute and deliver an instrument transferring to such successor Fiscal Agent, upon the trusts expressed in the Trust Agreement, all the rights, powers and trusts of the Fiscal Agent so ceasing to act. Upon request of any such successor Fiscal Agent, the State Treasurer and the Corporation shall execute any and all instruments in writing necessary or desirable for more fully and certainly vesting in and confirming to such successor Fiscal Agent all such rights, powers and duties.

No successor Fiscal Agent shall accept appointment as provided therein unless at the time of such acceptance such successor Fiscal Agent shall be eligible under the provisions thereof. Upon acceptance of appointment by a successor Fiscal Agent as provided therein, the State Treasurer or such successor Fiscal Agent shall give the Owners notice of the succession of such Fiscal Agent to the trusts under the Trust Agreement in the manner prescribed therein for the giving of notice of resignation of the Fiscal Agent.

Merger or Consolidation of Fiscal Agent. Any corporation or banking association into which the Fiscal Agent may be merged or with which it may be consolidated, or any corporation or banking association resulting from any merger or consolidation to which the Fiscal Agent shall be a party, or any corporation or banking association succeeding to the business of the Fiscal Agent, shall be the successor of the Fiscal Agent under the Trust Agreement without the execution or filing of any paper or any further act on the part of any of the parties to the Trust Agreement, anything therein to the contrary notwithstanding; provided, that such successor Fiscal Agent shall be eligible under the provisions thereof.

General Applicability. Whether or not expressly so provided, every provision of the Trust Agreement, the Lease and the Assignment relating to the conduct or affecting the liability of or affording protection to the Fiscal Agent shall be subject to the provisions thereof.

Paying Agents. The State Treasurer may appoint one or more Paying Agents (which shall meet the qualifications of the Fiscal Agent set forth therein) in such place or places as the State Treasurer may designate, for the payment of the principal, Prepayment Price and the interest evidenced and represented by the Certificates. All provisions thereof which apply to any Fiscal Agent shall apply to any Paying Agent appointed under the Trust Agreement. It shall be the duty of the Fiscal Agent to make such arrangements with any such Paying Agent as may be necessary to assure, to the extent of the moneys held by the Fiscal Agent for such payment, the prompt payment of the principal, Prepayment Price and the interest evidenced and represented by the Certificates. The State Treasurer, in the Trust Agreement, appoints the fiscal agencies of the State as designated from time to time pursuant to RCW Chapter 43.80 as Paying Agents thereunder.

Amendment or Supplement of Trust Agreement

Amendment or Supplement; Consents. The Trust Agreement and the rights and obligations of the State, the Owners, the Fiscal Agent or any Paying Agent thereunder may be amended or supplemented at any time as provided in such Trust Agreement. No such amendment or supplement shall (1) extend the stated Principal Payment Date of any Certificate, or reduce the rate of interest evidenced and represented thereby, or extend the time of payment of such interest, or reduce the amount of the Principal Component evidenced and represented thereby, or reduce any Prepayment Price evidenced and represented thereby, without the prior written consent of the Owner of the Certificate so affected; or (2) reduce the percentage of Owners whose consent is required for the execution of any amendment thereof or supplement thereto; or (3) modify any of the rights or obligations of the Fiscal Agent or any Paying Agent without its prior written consent thereto.

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

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

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

Defeasance of Certificates; Discharge of Trust Agreement

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

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

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

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

(a) lawful money of the United States of America in an amount equal to the principal amount evidenced and represented by such Certificates and all unpaid interest evidenced and represented thereby to the respective Principal Payment Dates thereof, except that, in the case of Certificates which are to be prepaid prior to their respective Principal Payment Dates and in respect of which notice of such prepayment shall have been given as in the Trust Agreement provided or provision satisfactory to the Fiscal Agent shall have been made for the giving of such notice, the amount to be deposited or held shall be the Prepayment Price plus accrued interest to such date of prepayment, if any, evidenced and represented by such Certificates; or

(b) Government Obligations, the principal of and interest on which when due will provide money sufficient, without reinvestment, to pay the principal or Prepayment Price, and accrued interest to the Principal Payment Date or to the Prepayment Date, as the case may be, evidenced and represented by the Certificates to be paid or prepaid, as such amounts become due; *provided* that, in the case of Certificates which are to be prepaid prior to the Principal Payment Date thereof, notice of such prepayment shall have been given as in the Trust Agreement provided or provision satisfactory to the Fiscal Agent shall have been made for the giving of such notice;

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

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

Miscellaneous

Execution of Documents by Owners. Any declaration, request or other instrument which is permitted or required therein to be executed by Owners may be in one or more instruments of similar tenor and may be executed by Owners in person or by their attorneys duly appointed in writing. The fact and date of the execution by any Owner or his or her attorney of any declaration, request or other instrument or of any writing appointing such attorney may be proved by the certificate of any notary public or other officer authorized to take acknowledgments of deeds to be recorded in the state or territory in which he or she purports to act that the person signing such declaration, request or other instrument or writing acknowledged to him or her the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer, or by such other proof as the Fiscal Agent may accept which it may deem sufficient. The ownership of any Certificates and the amount, payment date, number and date of owning the same may be proved by the records required to be kept by the Fiscal Agent pursuant to the provisions of the Trust Agreement.

Binding Effect. Any declaration, request, consent, direction or other instrument in writing of the Owner of any Certificate shall bind all future Owners of such Certificate with respect to anything done or suffered to be done by the State Treasurer or the Fiscal Agent in good faith and in accordance therewith.

Acquisition of Certificates by State; Destruction of Certificates. All Certificates acquired by the State, whether by purchase or gift or otherwise, shall be surrendered to the Fiscal Agent for cancellation. Whenever in the Trust Agreement provision is made for the cancellation by the Fiscal Agent of any Certificates, the Fiscal Agent shall, unless otherwise instructed by a Written Request of the State Treasurer, in lieu of such cancellation, destroy such Certificates and deliver a certificate of such destruction to the State Treasurer upon its request.

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

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

ASSIGNMENT

Assignment. Under the Assignment, the Corporation grants to the Fiscal Agent without recourse (i) all of its rights to the Site pursuant to the Site Lease, (ii) all of its rights to receive the Base Rent Payments and any Additional Rent under and pursuant to the Lease; (iii) its right to take all actions, exercise all remedies, and give all consents under and pursuant to the Site Lease and the Lease; (iv) all of its remaining right, title and interest in, to and under the Site Lease and the Lease and in and to the Property and any rents or profits generated therefrom; and (v) its right of access more particularly described in the Lease.

Acceptance. The Fiscal Agent accepts the foregoing grant, sale, assignment, transfer and conveyance for the benefit of the Owners of the Certificates, subject to the conditions and terms of the Trust Agreement, and all such Base Rent Payments and Additional Rent shall be applied and all of such right, title and interest shall be exercised by the Fiscal Agent as provided in the Trust Agreement. The Fiscal Agent agrees to keep, perform and observe all of the terms, conditions, covenants and agreements under the Site Lease and the Lease from and after the date thereof.

Acknowledgement. The Fiscal Agent and the Corporation acknowledge and agree that (i) the foregoing grant, sale, assignment, transfer and conveyance by the Corporation is intended to be a true sale of the Corporation's right, title and interest in, to and under the Site Lease, the Lease and in and to the Property; (ii) the Corporation shall thereafter cease to have any rights, duties or obligations under the Site Lease, the Lease or with respect to the Property; (iii) the Fiscal Agent shall thereafter have all the rights, duties and obligations of the Corporation thereunder as if the Fiscal Agent had been the original party thereto; and (iv) every reference to the Corporation in the Site Lease and the Lease shall be deemed and construed to refer to the Fiscal Agent, except where the context otherwise requires.

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APPENDIX C

PROPOSED FORM OF CERTIFICATE COUNSEL OPINION

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August 16, 2006

State of Washington
Office of the State Treasurer
Olympia, Washington

$15,390,000
State of Washington Certificates of Participation, Series 2006G
(State Board for Community and Technical Colleges for and on behalf of Shoreline Community College)
Series 2006G

(Final Opinion)

Ladies and Gentlemen:

We have acted as special counsel to the State of Washington in connection with the execution and delivery of $15,390,000 aggregate principal amount of State of Washington Certificates of Participation, Series 2006G (State Board for Community and Technical Colleges for and on behalf of Shoreline Community College) (the "Certificates") pursuant to Chapter 39.94 of the Revised Code of Washington. In such connection, we have reviewed (i) the State Agency Financing Lease, dated as of August 16, 2006, by and between the Washington Finance Officers Association (the "Corporation") and the state of Washington (the "State"), acting by and through the State Treasurer (the "State Treasurer") and the State Board for Community and Technical Colleges (the "State Agency") (the "Lease"); (ii) the Site Lease, dated as of August 16, 2006, by and between the State, acting by and through the State Treasurer and the State Agency, and the Corporation, (the "Site Lease"); (iii) the Trust Agreement, dated as of August 16, 2006 (the "Trust Agreement"), among the Corporation, the State and The Bank of New York, as trustee and fiscal agent thereunder (the "Fiscal Agent"); (iv) the Assignment, dated as of August 16, 2006 between the Corporation and the Fiscal Agent (the "Assignment"); (v) certificates of the State (including certificates of the State Agency and the State Treasurer), the Corporation, the Fiscal Agent and others; and (vi) such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Lease.

Certain agreements, requirements and procedures contained or referred to in the Lease, the Site Lease, the Assignment, the Trust Agreement and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Certificates) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Certificate or the interest portion of any Base Rent Payment if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

August 16, 2006

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Our engagement with respect to the Certificates has concluded with their execution and delivery, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the State. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinion(s) referred to in the first paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Lease, the Site Lease, the Trust Agreement and the Assignment.

In addition, we call attention to the fact that the rights and obligations under the Certificates, the Lease, the Site Lease, the Trust Agreement and the Assignment and their enforceability are subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against the State and its agencies. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, waiver or non-substitution provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in or subject to the Lease, the Site Lease, the Assignment or the Trust Agreement or the accuracy or sufficiency of the description contained therein of, or scope of remedies available to enforce liens on, any such property. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Certificates and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Lease, the Site Lease and the Trust Agreement have been duly executed and delivered by, and constitute valid and binding obligations of, the State.

2. The obligation of the State to make the Base Rent Payments during the term of the Lease constitutes a valid and binding limited obligation of the State and is subject to appropriation by the State Legislature and to Executive Order reduction by the Governor of the State. Such obligation does not constitute a general obligation of the State, and neither the full faith and credit nor taxing power of the State is pledged to the payment thereof.

3. Assuming due authorization, execution and delivery of the Trust Agreement and the Certificates by the Fiscal Agent, the Certificates are entitled to the benefits of the Trust Agreement.

August 16, 2006

4. Interest represented by the Certificates is not excluded from gross income of the holders thereof under Section 103 of the Internal Revenue Code of 1986. We express no opinion regarding other tax consequences related to the accrual or receipt of such interest or the ownership or disposition of the Certificates.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

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APPENDIX D

EXCERPTS FROM THE STATE'S 2005 FINANCIAL STATEMENTS

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Washington State Auditor
Brian Sonntag

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

December 20, 2005

The Honorable Christine Gregoire
Governor, State of Washington

Dear Governor Gregoire:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component units and remaining fund information of the State of Washington as of and for the fiscal year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the state's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Department of Retirement Systems and the Local Government Investment Pool, which represent 12 percent and 49 percent, respectively of the assets and revenues/additions of the aggregate discretely presented component units and remaining fund information. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Department of Retirement Systems and the Local Government Investment Pool, is based upon their reports.

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

In our opinion, based on our report and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component units and remaining fund information of the State of Washington as of June 30, 2005, and the respective changes

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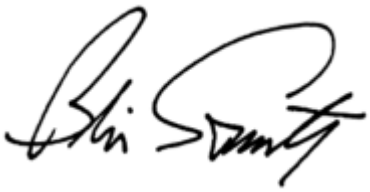
in financial position and cash flows where applicable, thereof, for the year then ended, in conformity with accounting principles generally accepted in the Unites States of America.

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

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

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



BRIAN SONNTAG, CGFM

STATE AUDITOR

Basic Financial Statements

Government-wide Financial Statements

State of Washington
Statement of Net Assets
June 30, 2005
(expressed in thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
ASSETS				
Cash and pooled investments	$ 4,854,666	$ 4,272,366	$ 9,127,032	$ 39,419
Taxes receivable (net of allowance)	2,647,232	4,841	2,652,073	-
Other receivables (net of allowance)	844,207	1,319,160	2,163,367	2,065
Internal balances (net)	(7,938)	7,938	-	-
Due from other governments	2,425,507	65,312	2,490,819	-
Inventories	82,150	77,593	159,743	-
Investments, noncurrent	3,387,938	11,401,658	14,789,596	26,005
Other assets	132,114	131,291	263,405	21,545
Capital assets (Note 6):				
Non-depreciable assets	15,897,768	171,249	16,069,017	34,677
Depreciable assets, net of depreciation	7,462,788	1,353,885	8,816,673	414,563
Total capital assets, net of depreciation	23,360,556	1,525,134	24,885,690	449,240
Total Assets	37,726,432	18,805,293	56,531,725	538,274
LIABILITIES				
Accounts payable	1,129,380	132,044	1,261,424	2,791
Contracts and retainage payable	93,172	31,993	125,165	2,342
Accrued liabilities	412,428	230,103	642,531	125
Obligations under securities lending	1,057,592	1,610,032	2,667,624	-
Due to other governments	539,986	42,739	582,725	-
Unearned revenue	511,735	44,214	555,949	767
Long-term liabilities (Note 7):				
Due within one year	749,335	1,854,262	2,603,597	-
Due in more than one year	11,393,539	17,641,257	29,034,796	37,000
Total Liabilities	15,887,167	21,586,644	37,473,811	43,025
NET ASSETS				
Invested in capital assets, net of related debt	8,654,757	510,264	9,165,021	409,898
Restricted for:				
Unemployment compensation	-	2,340,868	2,340,868	-
Other purposes	591,839	-	591,839	24,485
Capital projects	1,817,396	-	1,817,396	-
Expendable permanent fund principal	658,026	-	658,026	-
Nonexpendable permanent endowments	1,260,296	-	1,260,296	-
Unrestricted (deficit)	8,856,951	(5,632,483)	3,224,468	60,866
Total Net Assets	$ 21,839,265	$ (2,781,351)	$ 19,057,914	$ 495,249

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

State of Washington
Statement of Activities
For the Fiscal Year Ended June 30, 2005
(expressed in thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General government	$ 925,328	$ 439,389	$ 363,597	$ 2,385
Education--elementary and secondary (K-12)	6,283,426	13,652	730,385	
Education--higher education	4,454,542	1,315,617	1,585,850	29,258
Human services	9,851,651	310,695	5,355,294	12,572
Adult corrections	639,745	10,677	3,458	7,836
Natural resources and recreation	229,105	385,262	135,787	26,937
Transportation	1,456,646	685,519	63,539	596,428
Intergovernmental grants	334,762	-	-	-
Interest on long-term debt	504,756	-	-	-
Total governmental activities	24,679,961	3,160,811	8,237,910	675,416
Business-type Activities:				
Workers' compensation	2,406,679	1,718,680	7,835	-
Unemployment compensation	870,453	1,457,967	52,377	-
Higher education student services	1,170,310	1,187,524	10,987	-
Health insurance programs	1,137,668	1,200,239	-	-
Other	987,676	1,050,177	-	(2,223)
Total business-type activities	6,572,786	6,614,587	71,199	(2,223)
Total Primary Government	$ 31,252,747	$ 9,775,398	$ 8,309,109	$ 673,193
Total Component Units	$ 28,750	$ 11,600	$ 600	$ 562

General revenues:
- Taxes - sales and use taxes
- Taxes - business and occupation taxes
- Taxes - property
- Taxes - other
- Interest and investment earnings

Total general revenues

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

Contributions to endowments

Transfers

Change in net assets

Net assets -- beginning, as restated

Net assets -- ending

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

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
$ (119,957)	$ -	$ (119,957)	
(5,539,389)	-	(5,539,389)	
(1,523,817)	-	(1,523,817)	
(4,173,090)	-	(4,173,090)	
(617,774)	-	(617,774)	
318,881	-	318,881	
(111,160)	-	(111,160)	
(334,762)	-	(334,762)	
(504,756)	-	(504,756)	
(12,605,824)	-	(12,605,824)	
-	(680,164)	(680,164)	
-	639,891	639,891	
-	28,201	28,201	
-	62,571	62,571	
-	60,278	60,278	
-	110,777	110,777	
(12,605,824)	110,777	(12,495,047)	
			$ (15,988)
6,736,239	-	6,736,239	-
2,290,959	-	2,290,959	-
1,590,305	-	1,590,305	-
3,370,091	94,688	3,464,779	-
362,751	1,249,246	1,611,997	3,248
14,350,345	1,343,934	15,694,279	3,248
1,744,521	1,454,711	3,199,232	(12,740)
69,105	-	69,105	-
183,764	(183,764)	-	-
1,997,390	1,270,947	3,268,337	(12,740)
19,841,875	(4,052,298)	15,789,577	507,989
$ 21,839,265	$ (2,781,351)	$ 19,057,914	$ 495,249

Fund Financial Statements

GOVERNMENTAL FUNDS
Balance Sheet
June 30, 2005
(expressed in thousands)

	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	**Total**
Assets:					
Cash and pooled investments	$ 1,388,520	$ 205,706	$ 414,007	$ 2,664,572	$ 4,672,805
Investments	-	827,227	2,287,063	237,287	3,351,577
Taxes receivable (net of allowance)	2,539,239	-	-	107,993	2,647,232
Other receivables (net of allowance)	236,579	217,925	39,501	475,720	969,725
Due from other funds	191,050	109,480	14	279,671	580,215
Due from other governments	622,091	124,659	-	1,589,677	2,336,427
Inventories	20,082	8,996	-	32,918	61,996
Total Assets	$ 4,997,561	$ 1,493,993	$ 2,740,585	$ 5,387,838	$ 14,619,977
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	$ 729,756	$ 61,500	$ 5	$ 305,252	$ 1,096,513
Contracts and retainages payable	16,576	545	2,099	73,388	92,608
Accrued liabilities	120,649	90,800	13,110	82,616	307,175
Obligations under security lending agreements	382,259	110,056	351,596	213,017	1,056,928
Due to other funds	562,325	76,236	2,050	258,677	899,288
Due to other governments	81,871	12,504	-	106,150	200,525
Deferred revenues	1,158,276	149,267	14,525	543,312	1,865,380
Claims and judgments payable	20,673	-	-	7,211	27,884
Total Liabilities	3,072,385	500,908	383,385	1,589,623	5,546,301
Fund Balances:					
Reserved for:					
Encumbrances	4,216	2,383	-	343,060	349,659
Inventories	15,605	8,996	-	32,918	57,519
Permanent funds	-	-	2,357,200	172,009	2,529,209
Other specific purposes	35,781	252,451	-	1,377,246	1,665,478
Unreserved, designated for, reported in:					
Working capital	1,004,131	-	-	-	1,004,131
Higher education	-	155,679	-	-	155,679
Special revenue funds	-	-	-	165	165
Debt service funds	-	-	-	177,961	177,961
Unreserved, undesignated	865,443	573,576	-	-	1,439,019
Unreserved, undesignated reported in:					
Special revenue funds	-	-	-	1,528,463	1,528,463
Capital project funds	-	-	-	166,393	166,393
Total Fund Balances	1,925,176	993,085	2,357,200	3,798,215	9,073,676
Total Liabilities and Fund Balances	$ 4,997,561	$ 1,493,993	$ 2,740,585	$ 5,387,838	$ 14,619,977

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

State of Washington
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2005
(expressed in thousands)

Total fund balances for governmental funds		$ 9,073,676
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:		
Non-depreciable assets	$ 15,855,266	
Depreciable assets, net of depreciation	7,149,391	
Total capital assets		23,004,657
Some of the state's revenues will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.		1,355,940
Accrued current interest on general obligation bonds		(193,349)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		(51,759)
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
Bonds and notes payable	(10,614,974)	
Accrued interest on bonds	(203,752)	
Claims and judgments	(92,053)	
Other obligations	(439,121)	
Total long-term liabilities		(11,349,900)
Net assets of governmental activities		$ 21,839,265

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

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

For the Fiscal Year Ended June 30, 2005
(expressed in thousands)

	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	**Total**
Revenues:					
Retail sales and use taxes	$ 6,674,434	$ -	$ -	$ 61,805	$ 6,736,239
Business and occupation taxes	2,227,926	-	-	63,033	2,290,959
Property taxes	1,394,793	-	-	195,512	1,590,305
Excise taxes	807,749	-	-	93,763	901,512
Motor vehicle and fuel taxes	-	-	-	930,975	930,975
Other taxes	882,925	-	-	647,915	1,530,840
Licenses, permits, and fees	78,973	511	-	627,240	706,724
Timber sales	3,097	-	12,688	154,987	170,772
Other contracts and grants	272,762	537,501	-	17,010	827,273
Federal grants-in-aid	6,011,964	1,048,309	-	949,819	8,010,092
Charges for services	48,214	1,108,273	-	439,268	1,595,755
Investment income (loss)	35,750	60,866	193,655	72,480	362,751
Miscellaneous revenue	105,226	157,028	2,566	422,659	687,479
Contribution and donations	-	-	69,105	-	69,105
Total Revenues	18,543,813	2,912,488	278,014	4,676,466	26,410,781
Expenditures:					
Current:					
General government	552,382	-	-	381,525	933,907
Human services	9,518,818	-	-	967,062	10,485,880
Natural resources and recreation	271,090	-	-	432,974	704,064
Transportation	26,671	2,339	-	1,457,505	1,486,515
Education	7,243,096	2,751,789	88	543,746	10,538,719
Intergovernmental	27,665	-	-	307,097	334,762
Capital outlays	78,121	113,404	-	1,549,752	1,741,277
Debt service:					
Principal	12,363	13,109	-	435,358	460,830
Interest	2,262	6,119	-	488,699	497,080
Total Expenditures	17,732,468	2,886,760	88	6,563,718	27,183,034
Excess of Revenues Over (Under) Expenditures	811,345	25,728	277,926	(1,887,252)	(772,253)
Other Financing Sources (Uses):					
Bonds issued	-	2,918	-	1,141,700	1,144,618
Refunding bonds issued	-	-	-	439,399	439,399
Payment to refunded bond escrow agent	-	-	-	(462,495)	(462,495)
Notes issued	15,564	9,638	-	1,252	26,454
Bond issue premium (discount)	-	-	-	68,325	68,325
Capital lease acquisitions	-	75	-	-	75
Transfers in	524,365	182,266	3,883	2,060,851	2,771,365
Transfers (out)	(942,208)	(241,369)	(71,407)	(1,245,849)	(2,500,833)
Total Other Financing Sources (Uses)	(402,279)	(46,472)	(67,524)	2,003,183	1,486,908
Net change in fund balances	409,066	(20,744)	210,402	115,931	714,655
Fund Balances - Beginning, as restated	1,516,110	1,013,829	2,146,798	3,682,284	8,359,021
Fund Balances - Ending	$ 1,925,176	$ 993,085	$ 2,357,200	$ 3,798,215	$ 9,073,676

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

State of Washington

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

For the Fiscal Year Ended June 30, 2005
(expressed in thousands)

Net change in fund balances--total governmental funds	$ 714,655
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	2,034,599
Bond proceeds provide current financial resources to governmental funds, however, issuing debt increases long-term liabilities in the statement of net assets. Also, repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(756,113)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of the internal service funds is reported with governmental activities.	19,069
Because some revenues will not be collected for several months after the state's fiscal year end, they are not considered "available" revenues in the governmental funds. Deferred revenues increased by this amount this year.	(14,820)
Change in net assets of governmental activities	$ 1,997,390

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

PROPRIETARY FUNDS
Statement of Fund Net Assets

June 30, 2005
(expressed in thousands)

	Business-Type Activities Enterprise Funds					Governmental Activities
	Workers' Compensation	Unemployment Compensation	Higher Education Student Services	Nonmajor Enterprise Funds	Total	Internal Service Funds
Assets						
Current Assets:						
Cash and pooled investments	$ 21,590	$ 1,832,548	$ 332,117	$ 403,948	$ 2,590,203	$ 171,264
Investments	1,372,012	-	2,111	308,040	1,682,163	758
Taxes receivable (net of allowance)	-	-	-	4,841	4,841	-
Other receivables (net of allowance)	668,728	513,681	111,974	24,777	1,319,160	5,332
Due from other funds	1,210	2,552	49,728	42,223	95,713	72,660
Due from other governments	778	8,834	30,970	21,701	62,283	6,760
Inventories	181	-	31,298	46,114	77,593	20,152
Prepaid expenses	29	-	20,761	536	21,326	1,264
Total Current Assets	2,064,528	2,357,615	578,959	852,180	5,853,282	278,190
Noncurrent Assets:						
Investments, noncurrent	10,185,293	-	152,520	1,063,845	11,401,658	46,201
Other noncurrent assets	-	-	-	109,965	109,965	-
Capital Assets:						
Land	3,240	-	6,156	77,532	86,928	1,389
Buildings	62,441	-	1,181,790	394,483	1,638,714	63,806
Other improvements	1,020	-	31,491	12,602	45,113	21,452
Furnishings, equipment, and collections	50,927	-	250,853	62,892	364,672	601,113
Infrastructure	-	-	32,957	-	32,957	-
Accumulated depreciation	(30,212)	-	(586,149)	(111,210)	(727,571)	(372,974)
Construction in progress	-	-	84,073	248	84,321	41,113
Total Noncurrent Assets	10,272,709	-	1,153,691	1,610,357	13,036,757	402,100
Total Assets	$ 12,337,237	$ 2,357,615	$ 1,732,650	$ 2,462,537	$ 18,890,039	$ 680,290
Liabilities						
Current Liabilities:						
Accounts payable	$ 8,831	$ -	$ 61,638	$ 61,575	$ 132,044	$ 32,867
Contracts and retainages payable	2,119	-	7,415	22,459	31,993	499
Accrued liabilities	161,421	590	51,034	122,501	335,546	17,815
Obligations under security lending agreements	1,372,012	-	-	238,020	1,610,032	664
Bonds and notes payable	3,054	-	23,877	46,451	73,382	7,545
Due to other funds	6,934	1,043	39,166	61,716	108,859	20,214
Due to other governments	-	15,114	10	3,502	18,626	168
Unearned revenues	13,962	-	29,981	271	44,214	2,295
Claims and judgments payable	1,595,470	-	-	79,968	1,675,438	79,835
Total Current Liabilities	3,163,803	16,747	213,121	636,463	4,030,134	161,902
Non-Current Liabilities:						
Claims and judgments payable	15,683,425	-	-	2,403	15,685,828	464,491
Bonds and notes payable	36,832	-	622,746	274,496	934,074	84,511
Other long-term liabilities	11,257	-	8,919	1,001,178	1,021,354	21,145
Total Non-Current Liabilities	15,731,514	-	631,665	1,278,077	17,641,256	570,147
Total Liabilities	18,895,317	16,747	844,786	1,914,540	21,671,390	732,049
Net Assets:						
Invested in capital assets, net of related debt	47,530	-	321,591	141,143	510,264	263,844
Restricted for:						
Unemployment compensation	-	2,340,868	-	-	2,340,868	-
Unrestricted	(6,605,610)	-	566,273	406,854	(5,632,483)	(315,603)
Total Net Assets (Deficit)	$ (6,558,080)	$ 2,340,868	$ 887,864	$ 547,997	$ (2,781,351)	$ (51,759)

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

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

For the Fiscal Year Ended June 30, 2005
(expressed in thousands)

	Business-Type Activities Enterprise Funds					Governmental Activities
	Workers' Compensation	Unemployment Compensation	Higher Education Student Services	Nonmajor Enterprise Funds	Total	Internal Service Funds
Operating Revenues:						
Sales	$ -	$ -	$ 124,189	$ 495,947	$ 620,136	$ 133,290
Less: Cost of goods sold	-	-	82,522	340,065	422,587	117,031
Gross profit	-	-	41,667	155,882	197,549	16,259
Charges for services	27	-	975,519	70,750	1,046,296	529,842
Premiums and assessments	1,689,490	1,444,307	-	1,200,214	4,334,011	71,706
Federal aid for unemployment insurance benefits	-	52,377	-	-	52,377	-
Lottery ticket proceeds	-	-	-	458,132	458,132	-
Miscellaneous revenue	31,549	13,660	84,517	5,868	135,594	39,730
Total Operating Revenues	1,721,066	1,510,344	1,101,703	1,890,846	6,223,959	657,537
Operating Expenses:						
Salaries and wages	111,995	-	460,340	79,066	651,401	225,483
Employee benefits	29,247	-	81,859	23,274	134,380	54,194
Personal services	4,586	-	14,712	18,480	37,778	16,380
Goods and services	66,145	-	412,737	108,398	587,280	275,577
Travel	3,180	-	15,900	1,728	20,808	3,640
Premiums and claims	2,165,729	870,453	548	1,126,099	4,162,829	23,130
Lottery prize payments	-	-	-	280,863	280,863	-
Depreciation and amortization	3,202	-	54,934	15,173	73,309	52,789
Miscellaneous expenses	20,364	-	11,897	44,709	76,970	1,065
Total Operating Expenses	2,404,448	870,453	1,052,927	1,697,790	6,025,618	652,258
Operating Income (Loss)	(683,382)	639,891	48,776	193,056	198,341	5,279
Nonoperating Revenues (Expenses):						
Earnings (loss) on investments	1,065,226	76,677	16,173	91,170	1,249,246	4,257
Interest expense	(2,231)	-	(34,861)	(47,036)	(84,128)	(5,034)
Distributions to other governments	-	-	-	(40,451)	(40,451)	-
Other revenue (expenses)	5,449	-	14,286	114,193	133,928	321
Total Nonoperating Revenues (Expenses)	1,068,444	76,677	(4,402)	117,876	1,258,595	(456)
Income (Loss) Before Contributions and Transfers	385,062	716,568	44,374	310,932	1,456,936	4,823
Capital contributions (Return of capital contributions)	-	-	-	(2,223)	(2,223)	11,020
Transfers in	325,602	-	207,924	47,910	581,436	27,890
Transfers (out)	(326,724)	-	(196,685)	(241,793)	(765,202)	(24,664)
Net Contributions and Transfers	(1,122)	-	11,239	(196,106)	(185,989)	14,246
Change in Net Assets	383,940	716,568	55,613	114,826	1,270,947	19,069
Net Assets (Deficit) - Beginning, as restated	(6,942,020)	1,624,300	832,251	433,171	(4,052,298)	(70,828)
Net Assets (Deficit) - Ending	$ (6,558,080)	$ 2,340,868	$ 887,864	$ 547,997	$ (2,781,351)	$ (51,759)

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

PROPRIETARY FUNDS
Statement of Cash Flows

Continued

For the Fiscal Year Ended June 30, 2005
(expressed in thousands)

	Business-Type Activities Enterprise Funds					Governmental Activities
	Workers' Compensation	Unemployment Compensation	Higher Education Student Services	Nonmajor Enterprise Funds	Total	Internal Service Funds
Cash Flows from Operating Activities:						
Receipts from customers	$ 1,607,624	$ 1,425,626	$ 1,108,901	$ 2,204,084	$ 6,346,235	$ 720,697
Payments to suppliers	(1,526,994)	(854,723)	(577,731)	(1,827,221)	(4,786,669)	(438,447)
Payments to employees	(139,751)	-	(539,532)	(101,748)	(781,031)	(277,899)
Other receipts (payments)	31,549	58,870	84,518	5,863	180,800	39,234
Net Cash Provided (Used) by Operating Activities	(27,572)	629,773	76,156	280,978	959,335	43,585
Cash Flows from Noncapital Financing Activities:						
Transfers in	325,602	-	207,924	47,910	581,436	27,890
Transfers out	(326,724)	-	(196,685)	(241,793)	(765,202)	(24,664)
Operating grants and donations received	8,538	-	10,519	(6)	19,051	907
Taxes and license fees collected	5	-	-	114,254	114,259	-
Cash transfer related to a fund reclassification	-	(47)	-	-	(47)	-
Distributions to other governments	-	-	-	(40,451)	(40,451)	-
Net Cash Provided (Used) by Noncapital Financing Activities	7,421	(47)	21,758	(120,086)	(90,954)	4,133
Cash Flows from Capital and Related Financing Activities:						
Interest paid	(2,231)	-	(34,794)	(12,832)	(49,857)	(5,048)
Principal payments on long-term capital financing	(2,899)	-	(75,562)	(123,270)	(201,731)	(10,216)
Proceeds from long-term capital financing	-	-	112,078	118,596	230,674	50,629
Proceeds from sale of capital assets	-	-	53,568	8,286	61,854	7,051
Acquisitions of capital assets	(12,866)	-	(175,093)	(20,964)	(208,923)	(81,649)
Net Cash or Pooled Investments Provided by (Used in) Capital and Related Financing Activities	(17,996)	-	(119,803)	(30,184)	(167,983)	(39,233)
Cash Flows from Investing Activities:						
Receipt of interest	616,531	76,677	16,009	28,515	737,732	4,265
Proceeds from sale of investment securities	(7,046,684)	-	44,347	372,381	(6,629,956)	(8,319)
Purchases of investment securities	6,463,338	-	(48,785)	(455,173)	5,959,380	1,538
Net Cash Provided by (Used in) Investing Activities	33,185	76,677	11,571	(54,277)	67,156	(2,516)
Net Increase (Decrease) in Cash and Pooled Investments	(4,962)	706,403	(10,318)	76,431	767,554	5,969
Cash and Pooled Investments, July 1	26,552	1,126,145	342,435	327,517	1,822,649	165,295
Cash and Pooled Investments, June 30	$ 21,590	$ 1,832,548	$ 332,117	$ 403,948	$ 2,590,203	$ 171,264
Cash Flows from Operating Activities:						
Operating Income (Loss)	$ (683,382)	$ 639,891	$ 48,776	$ 193,056	$ 198,341	$ 5,279
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operations:						
Depreciation	3,202	-	54,934	15,173	73,309	52,789
Provision for uncollectible accounts	19,597	-	2,191	11	21,799	22
Other non-cash items	-	-	-	-	0	-
Change in Assets: Decrease (Increase)						
Receivables (net of allowance)	(82,308)	(25,847)	9,830	(21,145)	(119,470)	(15,195)
Inventories	(4)	-	801	(3,628)	(2,831)	96
Prepaid expenses	(28)	-	(15,448)	244	(15,232)	509
Change in Liabilities: Increase (Decrease)						
Payables	715,351	15,729	(24,928)	97,267	803,419	85
Net Cash or Cash Equivalents Provided by (Used in) Operating Activities	$ (27,572)	$ 629,773	$ 76,156	$ 280,978	$ 959,335	$ 43,585

PROPRIETARY FUNDS
Statement of Cash Flows

Concluded

For the Fiscal Year Ended June 30, 2005
(expressed in thousands)

	Business-Type Activities Enterprise Funds					Governmental Activities
	Workers' Compensation	Unemployment Compensation	Higher Education Student Services	Nonmajor Enterprise Funds	**Total**	Internal Service Funds
Noncash Investing, Capital and Financing Activities:						
Contributions of capital assets	$ -	$ -	$ -	$ 2,223	$ 2,223	$ 11,020
Amortization of long-term lotto prize liability	-	-	-	31,220	31,220	-
Increase (decrease) in fair value of investments	437,168	-	3	22,552	459,723	(12)
Refunding bonds issued	-	-	85,910	-	85,910	-
Refunded bonds redeemed	-	-	(79,480)	-	(79,480)	-
Gain (loss) on refunding activity	-	-	83	-	83	-
Amortization of debt premium (issue costs/discount)	-	-	153	-	153	-
Accretion of interest on zero coupon bonds	-	-	-	3,092	3,092	-

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

FIDUCIARY FUNDS
Statement of Fiduciary Net Assets

June 30, 2005
(expressed in thousands)

	Private-Purpose Trust	Local Government Investment Pool	Pension and Other Employee Benefit Plans	Agency Funds
Assets:				
Cash and pooled investments	$ 17,523	$ 3,312,778	$ 50,641	$ 262,240
Investments	-	1,296,448	-	1,980
Other receivables (net of allowance)	4,801	9,086	189,294	81,295
Due from other funds	337	-	26,284	375,857
Due from other governments	8	-	48,391	27,270
Total Current Assets	22,669	4,618,312	314,610	748,642
Noncurrent Assets:				
Investments, noncurrent	70,556	270,845	55,470,727	39,498
Other noncurrent assets	-	-	-	52,724
Capital Assets:				
Furnishings, equipment, and collections	86	-	-	-
Accumulated depreciation	(78)	-	-	-
Total Noncurrent Assets	70,564	270,845	55,470,727	92,222
Total Assets	$ 93,233	$ 4,889,157	$ 55,785,337	$ 840,864
Liabilities:				
Accounts payable	$ 3,763	$ -	$ -	$ 17,603
Contracts and retainages payable	-	-	-	18,263
Accrued liabilities	16,552	44,014	82,045	160,529
Obligations under security	-	80,900	4,376,381	26,497
Due to other funds	64	42	28,150	94,449
Due to other governments	-	-	-	461,735
Unearned revenues	-	-	847	-
Other long-term liabilities	70,579	-	-	61,788
Total Liabilities	90,958	124,956	4,487,423	$ 840,864
Net Assets:				
Net assets held in trust for:				
Pension benefits	-	-	49,374,891	
Deferred compensation participants	-	-	1,923,023	
Local government pool participants	-	4,764,201	-	
Individuals, organizations & other governments	2,275	-	-	
Total Net Assets	$ 2,275	$ 4,764,201	$ 51,297,914	

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

FIDUCIARY FUNDS
Statement of Changes in Fiduciary Net Assets

For the Fiscal Year Ended June 30, 2005
(expressed in thousands)

	Private-Purpose Trust	Local Government Investment Pool	Pension and Other Employee Benefit Plans
Additions:			
Contributions:			
Employers	$ -	$ -	$ 184,098
Members	-	-	521,511
State	-	-	32,201
Pool participants	-	10,627,232	160,029
Total Contributions	-	10,627,232	897,839
Investment Income:			
Net appreciation (depreciation) in fair value	-	-	4,727,107
Interest and dividends	-	100,137	1,241,542
Less: Investment expenses	-	-	(113,322)
Net Investment Income	-	100,137	5,855,327
Other additions:			
Transfers from other pension plans	-	-	5,469
Transfers in	28,237	-	-
Other contracts, grants and miscellaneous	93,441	2	2,320
Total other additions	121,678	2	7,789
Total Additions	121,678	10,727,371	6,760,955
Deductions:			
Pension benefits	-	-	2,087,258
Pension refunds	-	-	126,280
Transfers to other pension plans	-	-	5,469
Transfers out	118,229	-	-
Administrative expenses	3,169	4,085	1,308
Distributions to pool participants	-	10,724,648	83,741
Payments to or on behalf of individuals, organizations and other governments in accordance with trust agreements	445	-	-
Total Deductions	121,843	10,728,733	2,304,056
Net Increase (Decrease)	(165)	(1,362)	4,456,899
Net Assets - Beginning, as restated	2,440	4,765,563	46,841,015
Net Assets - Ending	$ 2,275	$ 4,764,201	$ 51,297,914

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

COMPONENT UNITS
Statement of Fund Net Assets
June 30, 2005
(expressed in thousands)

	Public Stadium	Nonmajor Component Units	Total
Assets			
Current Assets:			
Cash and pooled investments	$ 4,409	$ 3,971	$ 8,380
Investments	-	31,039	31,039
Other receivables (net of allowance)	551	1,514	2,065
Prepaid expenses	32	227	259
Total Current Assets	4,992	36,751	41,743
Noncurrent Assets:			
Investments, noncurrent	23,886	2,119	26,005
Other noncurrent assets	-	21,286	21,286
Capital Assets:			
Land	34,677	-	34,677
Buildings	451,174	-	451,174
Furnishings and equipment	25,616	1,075	26,691
Accumulated depreciation	(62,458)	(844)	(63,302)
Total Noncurrent Assets	472,895	23,636	496,531
Total Assets	$ 477,887	$ 60,387	$ 538,274
Liabilities			
Current Liabilities:			
Accounts payable	$ 694	$ 2,097	$ 2,791
Contracts and retainages payable	2,342	-	2,342
Accrued liabilities	41	84	125
Unearned revenues	-	767	767
Total Current Liabilities	3,077	2,948	6,025
Non-Current Liabilities:			
Other long-term liabilities	37,000	-	37,000
Total Non-Current Liabilities	37,000	-	37,000
Total Liabilities	40,077	2,948	43,025
Net Assets:			
Invested in capital assets, net of related debt	409,667	231	409,898
Restricted for deferred sales tax	23,885	-	23,885
Restricted for other purposes	-	600	600
Unrestricted	4,258	56,608	60,866
Total Net Assets (Deficit)	$ 437,810	$ 57,439	$ 495,249

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

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

For the Fiscal Year Ended June 30, 2005
(expressed in thousands)

	Public Stadium	Nonmajor Component Units	**Total**
Operating Revenues:			
Charges for services	$ 882	$ 10,718	$ 11,600
Total Operating Revenues	882	10,718	11,600
Operating Expenses:			
Salaries and wages	350	3,893	4,243
Employee benefits	52	999	1,051
Personal services	109	628	737
Goods and services	278	2,607	2,885
Travel	3	24	27
Depreciation and amortization	18,558	111	18,669
Miscellaneous expenses	-	462	462
Total Operating Expenses	19,350	8,724	28,074
Operating Income (Loss)	(18,468)	1,994	(16,474)
Nonoperating Revenues (Expenses):			
Earnings (loss) on investments	2,285	963	3,248
Interest expense	-	(76)	(76)
Operating grants and contributions	-	600	600
Distributions of operating grants	-	(600)	(600)
Total Nonoperating Revenues (Expenses)	2,285	887	3,172
Income(Loss) Before Contributions and Transfers	(16,183)	2,881	(13,302)
Capital grants and contributions	562	-	562
Total Contributions and Transfers	562	-	562
Change in Net Assets	(15,621)	2,881	(12,740)
Net Assets - Beginning	453,431	54,558	507,989
Net Assets - Ending	$ 437,810	$ 57,439	$ 495,249

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

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2005

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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 evaluating how to define the state of Washington, for financial reporting purposes, management has considered: 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 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. In November 2002, the TSA issued $517 million in bonds and transferred $450 million to the state in exchange for 29.2 percent of the state's tobacco settlement revenue stream for the estimated 17-year period that the bonds remain outstanding.

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 $449 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 563 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 collected 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 both the qualifying expenditures are made and the revenues are considered available. 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 one year.

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 collected 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 obligations 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 the incurrence of qualifying expenditures.

All proprietary and trust funds are accounted for on 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 are presented as 1) invested in capital assets, net of related debt, 2) restricted and 3) unrestricted.

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 funds 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.

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

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 $4.5 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 2003-2005 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 three 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 also available on a self-paid basis to eligible retirees, former employees, and employees who are temporarily not in pay status.

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 46 percent of the eligible subscribers in Fiscal Year 2005. 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 $126.9 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, 2004, has been restated as follows (expressed in thousands):

	Fund equity at June 30, 2004, as previously reported	Fund Reclassification	Prior Period Adjustment	Fund equity as restated, July 1, 2004
Governmental Funds:				
General	$ 1,516,110	-	-	$ 1,516,110
Higher Education Special Revenue	1,013,829	-	-	1,013,829
Higher Education Endowment	1,951,337	-	195,461	2,146,798
Nonmajor Governmental	3,682,237	47		3,682,284
Proprietary Funds:				
Enterprise Funds:				
Workers' Compensation	(6,942,020)	-	-	(6,942,020)
Unemployment Compensation	1,624,347	(47)	-	1,624,300
Higher Education Student Services	831,421	-	830	832,251
Nonmajor Enterprise	433,171	-	-	433,171
Internal Service Funds	(70,828)			(70,828)
Fiduciary Funds:				
Private Purpose Trust	2,440	-	-	2,440
Local Government Investment Pool	4,765,563	-	-	4,765,563
Pension and Other Employee Benefit Plans	46,841,015	-	-	46,841,015
Component Units:				
Public Stadium	453,431	-	-	453,431
Nonmajor Component Units	54,558	-	-	54,558

Reporting Changes

Effective for Fiscal Year 2005 reporting, the state implemented two new accounting standards issued by the Governmental Accounting Standards Board (GASB):

Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3,* and

Statement No. 44, *Economic Condition Reporting: The Statistical Section – an amendment of NCGA Statement 1.*

Fund Reclassification – It was discovered that activity of a certain Nonmajor Governmental Fund was incorrectly being reported within the Unemployment Compensation Fund. As a result, beginning fund balances were restated to effect proper fund classification.

Prior Period Adjustment –The Evergreen State College recorded a prior period adjustment in the Higher Education Student Services Fund to record infrastructure that had not been properly recorded in prior years.

Washington State University recorded a prior period adjustment in the Higher Education Endowment Fund to properly reflect the accounting for its foundation.

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, 2005, $1.9 billion of the state's deposits with financial institutions were either insured or collateralized, with the remaining $53.4 million uninsured/uncollateralized. The Federal Deposit Insurance Corporation (FDIC) covers the state's insured deposits and the PDPC provides collateral protection.

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

1. SUMMARY OF INVESTMENT POLICIES

The Washington State Investment Board (WSIB) has been authorized by statute as having the investment management responsibility for the pension trust funds. The WSIB manages pension fund assets to maximize return at a prudent level of risk (RCW 43.33A.110). 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 pension trust funds 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 entirely (100 percent) passively managed. Over time, the domestic equity portfolio should closely 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 is 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 that 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, 2005 were $4.4 billion and $4.3 billion respectively.

During Fiscal Year 2005, securities lending transactions could be terminated on demand by either the WSIB or the borrower. The average term of overall loans was 26 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 266 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 2005, 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 2005 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, 2005. 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, 2005
(expressed in thousands)

Investment Type	Fair Value	Maturity: Less than 1 year	Maturity: 1-5 years	Maturity: 6-10 years	Maturity: More than 10 years	Credit Rating
Asset Backed Securities	$ 29,967	$ 27,435	$ 2,532	$ -	$ -	Aaa
Mortgages:						
Collateralized Mortgage Obligations	973,944	95,544	418,114	363,768	96,518	Aaa
Pass Throughs	2,538,057	-	2,262,931	275,126	-	Aaa
Non-Standard Mortgages	5,340	-	1,418	3,922	-	Aaa
Commercial Mortgage Backed Securities	405,503	-	177,367	228,136	-	Multiple
Corporate Bonds - Domestic	4,035,134	435,391	1,481,297	1,434,490	683,956	Multiple
Government Securities - Domestic:						
US Government Treasuries	786,154	-	224,683	135,376	426,095	Aaa
Treasury Inflation Protected Securities	2,376,456	-	1,618,842	757,614		Aaa
Variable Rate Notes	334,665	70,364	264,301	-	-	Multiple
	$ 11,485,220	$ 628,734	$ 6,451,485	$ 3,198,432	$ 1,206,569	
Corporate Stock - Foreign	4,978,815					
Commingled Index Funds - Domestic	15,570,892					
Commingled Index Funds - Foreign	2,671,239					
Money Market Funds	1,284,315					
Private Equity	6,898,947					
Real Estate	4,423,171					
Currencies	27,403					
Securities Lending Collateral Balances	4,367,254					
Defined Contribution Plans Assets:						
Short-Horizon	36,780					
Mid-Horizon	114,397					
Long-Horizon	104,477					
Mutual Funds:						
Domestic Equity Passive	1,097,805					
Non-US Passive Developed	172,271					
Domestic Equity Active	958,850					
Non-US Active Developed	52,390					
Washington State Bond Fund	270,849					
Savings Pool	653,054					
Money Market Mutual Funds	292,098					
Total	**$ 55,460,227**					

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

Pension Trust Funds
Investments with Multiple Credit Ratings
(expressed in thousands)

	Investment Type			
Moody's Equivalent Credit Rating	Corporate Bonds - Domestic	Variable Rate Notes	Commercial Mortgage Backed Securities	**Total**
Aaa	$ 405,507	$ -	$ 382,673	$ 788,180
Aa1	21,400	-	22,830	44,230
Aa2	201,810	70,127	-	271,937
Aa3	417,339	114,818	-	532,157
A1	494,331	26,988	-	521,319
A2	258,929	50,138	-	309,067
A3	249,214	29,916	-	279,130
Baa1	598,979	-	-	598,979
Baa2	518,902	19,400	-	538,302
Baa3	450,902	-	-	450,902
Ba1	133,346	23,278	-	156,624
Ba2	47,539	-	-	47,539
Ba3	132,052	-	-	132,052
B1	21,375	-	-	21,375
B2	51,853	-	-	51,853
B3	10,239	-	-	10,239
D	21,417	-	-	21,417
Total	$ 4,035,134	$ 334,665	$ 405,503	$ 4,775,302

4. CREDIT RISK

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Rated debt investments of the pension trust funds as of June 30, 2005, 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, 2005.

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 $2.7 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
(expressed in thousands)

Foreign Currency Denomination	Investment Type: Short Term	Equity	Private Equity	Real Estate	Total
Australia-Dollar	$ 887	$ 228,856	$ -	$ -	$ 229,743
Austria-Schilling	-	60,894	-	-	60,894
Belgium-Franc	-	69,056	-	-	69,056
Brazil-Real	12	42,962	-	-	42,974
Britain-Pound	6,457	875,645	103,508	55,539	1,041,149
Bulgaria-Lev	8	-	-	-	8
Canada-Dollar	765	181,549	14,462	9,158	205,934
Chinese Yuan	-	-	-	1,831	1,831
Czech Kroner	-	-	-	258	258
Denmark-Krone	818	32,143	-	-	32,961
E.M.U.-Euro	11,502	64,401	547,596	209,502	833,001
Egypt-Pound	-	3,905	-	-	3,905
Finland-Markka	-	61,417	-	-	61,417
France-Franc	-	474,097	986	-	475,083
Germany-Mark	-	337,059	-	-	337,059
Greece-Drachma	-	23,545	-	-	23,545
Hong Kong-Dollar	720	101,769	-	13,639	116,128
Hungary-Forint	-	13,223	-	2,584	15,807
Indonesia-Rupiah	35	6,932	-	-	6,967
Ireland-Punt	-	5,968	-	-	5,968
Italy-Lira	-	169,215	-	-	169,215
Japan-Yen	3,830	889,995	-	222,199	1,116,024
Korean Won	-	-	-	7,452	7,452
Lithuania-Litas	-	194	-	-	194
Malaysia-Ringgit	-	2,215	-	-	2,215
Mexico-Peso	(22)	21,300	-	89,982	111,260
Netherland-Guilder	-	253,950	-	-	253,950
New Zealand-Dollar	16	18,711	-	-	18,727
Norway-Krone	211	127,349	-	-	127,560
Pakistan-Rupee	1	13,928	-	-	13,929
Philippines-Peso	21	1,344	-	-	1,365
Poland-Zloty	-	27,803	-	1,034	28,837
Portugal-Escudo	-	4,620	-	-	4,620
Singapore-Dollar	560	35,913	-	-	36,473
South Africa-Rand	-	20,052	-	-	20,052
South Korea-Won	1	31,940	-	-	31,941
Spain-Peseta	-	229,716	-	-	229,716
Sweden-Krona	414	154,254	92,140	-	246,808
Switzerland-Franc	1,166	225,164	-	-	226,330
Taiwan Dollar	-	-	-	2,498	2,498
Thai Baht	-	-	-	281	281
Turkey-Lira	2	26,277	-	-	26,279
Total	**$ 27,404**	**$ 4,837,361**	**$ 758,692**	**$ 615,957**	**$ 6,239,414**

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, 2005. 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, 2005, the only derivative securities held directly by WSIB were collateralized mortgage obligations (CMOs) of $973.9 million

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, 2005.

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, 2005 was $1.4 billion and $1.2 billion respectively.

During Fiscal Year 2005, securities lending transactions could be terminated on demand by either the WSIB or the borrower. The average term of overall loans was 26 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 266 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 2005, 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 2005 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, 2005, 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, 2005. 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, 2005
(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	$ 11,715	$ 4,360	$ 7,355	$ -	$ -	Aaa
Mortgages:						
Collateralized Mortgage Obligations	1,179,189	24,409	280,883	688,764	185,133	Aaa
Pass Throughs	16,905	-	644	277	15,984	Aaa
Non-Standard Mortgages	35,812	-	33,466	687	1,659	Aaa
Commercial Mortgage Backed Securities	521,281	-	276,540	244,741	-	Aaa
Corporate Bonds - Domestic	5,012,097	100,242	1,185,862	1,177,843	2,548,150	Multiple
Government Securities-Domestic:						
US Government Treasuries	1,055,322	6,965	75,667	31,976	940,714	Aaa
US Government Agencies	235,323	847	-	-	234,476	Aaa
Variable Rate Notes	158,375	33,100	125,275	-	-	Multiple
	8,226,019	$ 169,923	$ 1,985,692	$ 2,144,288	$ 3,926,116	
Commingled Index Funds-Domestic	1,521,613					
Commingled Index Funds-Foreign	285,755					
Money Market Funds	151,922					
Securities Lending Collateral Balances	1,371,104					
Total	**$ 11,556,413**					

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, 2005
(expressed in thousands)

Moody's Equivalent Credit Rating	Investment Type: Corporate Bonds - Domestic	Investment Type: Variable Rate Notes	Total
Aaa	$ 371,129.00	$ -	$ 371,129.00
Aa1	57,525	-	57,525
Aa2	109,836	22,966	132,802
Aa3	472,972	-	472,972
A1	635,389	103,515	738,904
A2	666,338	-	666,338
A3	446,534	22,960	469,494
Baa1	775,278	-	775,278
Baa2	886,173	8,934	895,107
Baa3	431,976	-	431,976
Ba1	88,402	-	88,402
Ba2	3,071	-	3,071
Ba3	46,218	-	46,218
B1	21,256	-	21,256
Total	$ 5,012,097	$ 158,375	$ 5,170,472

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 rated debt investments of the workers' compensation funds as of June 30, 2005, 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, 2005.

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 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 workers' compensation funds had $285.8 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, 2005. 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, 2005, the only derivative securities held directly by WSIB were collateralized mortgage obligations (CMOs) of $1.2 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 2005 and there were no liabilities outstanding as of June 30, 2005.

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 2005, 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, 2005, 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, 2005, the average life of both the loans and the investment of cash received as collateral was one day.

3. INTEREST RATE RISK

Interest rate risk is the risk that changes in interest rates of debt instruments will adversely affect the fair value of an investment. The 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, 2005, the LGIP had a weighted average maturity of 33 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, 2005.

Local Government Investment Pool (LGIP)
June 30, 2005
(expressed in thousands)

		Custodial Credit Risk	Maturity	
Investment Type	**Fair Value**	Insured or Held in state's name	Less than 1 year	1-5 years
U.S. Agency Obligations	$ 2,812,919	$ 2,812,919	$ 2,622,973	$ 189,946
U.S. Government Obligations	49,766	49,766	49,766	-
Certificates of Deposit	572,484	572,484	572,484	-
Repurchase Agreements	1,566,853	1,566,853	1,566,853	-
Securities Lending	80,899	-	80,899	-
Total	$ 5,082,921	$ 5,002,022	$ 4,892,975	$ 189,946

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.

On June 30, 2005, there were no obligations under reverse repurchase agreements.

E. Investments – Higher Education Special Revenue and Endowment Funds

1. SUMMARY OF INVESTMENT POLICIES

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

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

The University combines most short-term cash balances in the Invested Funds Pool. At June 30, 2005, the Invested Funds Pool totaled $646.4 million. The fund also owns units in the Consolidated Endowment Fund valued at $337.8 million on June 30, 2005. 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 3.5 percent for Fiscal Year 2005. Operating and plant fund balances of self-sustaining units received 3.2 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 $775 million permanent endowment funds (at market value) as of June 30, 2005, the aggregate amount of the deficiencies for all funds for

which the fair value of the assets is less than the original gifts is $2.8 million.

Funds in irrevocable trusts managed by trustees other than the University are not reported in the financial statements. The fair value of these funds was approximately $52 million at June 30, 2005. Income received from these trusts was $2 million for the year ended June 30, 2005.

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 87 days. Cash collateral is invested in a short-term investment pool that had an average weighted maturity of 28 days as of June 30, 2005. 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, 2005, was $35.7 million.

Securities on loan at June 30, 2005, totaled $360.9 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, 2005.

The following schedule presents the fair value of the University of Washington's investments by type at June 30, 2005.

University of Washington
June 30, 2005
(expressed in thousands)

Investment Type	Fair Value
Cash Equivalents	$ 76,919
Domestic Fixed Income	604,305
Domestic Fixed Income-Loaned	294,567
Foreign Fixed Income	48,358
Domestic Equity	518,615
Domestic Equity-Loaned	38,500
Foreign Equity	277,122
Foreign Equity-Loaned	27,812
Venture Capital	170,383
Buyout	243,350
Opportunistic	16,857
Marketable Alternatives	21
Real Estate	12,484
Miscellaneous	3
Total Investments	2,329,296
Collateral from Securities Lending - Cash	339,231
Total	**$ 2,668,527**

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 $166.5 million of additional domestic fixed income securities (including Loaned) and $6.9 million of additional foreign fixed income securities, which in total makeup 7.4 percent of the University's investments, are not included in the duration figures below. These investments, some of which are managed by the University and others by the University's affiliates, are not invested under the same investment strategy or with the same custodian as those detailed in the following schedule.

University of Washington
Interest Rate Risk
Duration as of June 30, 2005
(expressed in thousands, modified duration in years)

	Consolidated Endowment Fund		Invested Funds Pool		Other	
	Asset Value	Duration	Asset Value	Duration	Asset Value	Duration
Domestic Fixed Income						
Asset Backed	$ 7,029	1.73	$ 127,909	1.29	$ 2,525	1.36
Cash Equivalents (Short-term Money Market)	2,689	0.05	10,481	0.05	1,668	0.04
Corporate Bonds	12,420	4.44	20,249	2.22	13,841	6.08
Government & Agencies	42,921	6.15	296,738	3.92	9,218	5.83
Mortgage Related	26,167	2.87	153,790	1.83	4,727	2.85
Subtotal	91,226	4.46	609,167	2.72	31,979	4.84
Foreign Fixed Income						
International Fixed	37,367	6	1,201	4	2,891	6
Total	$ 128,593	4.93	$ 610,368	2.72	$ 34,870	4.91

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.

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, 2005, the University had net outstanding forward commitments to sell foreign currency with a total fair value of $32.7 million, which equals 1.4 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, 2005
(expressed in thousands)

Foreign Currency	Market Value
Euro	$ 63,907
British - Pound	43,280
Japan - Yen	37,641
Switzerland - Franc	15,832
South Korean - Won	14,232
Hong Kong Dollar	12,811
China - Rimenbi	11,412
Taiwan - NTD	11,221
Mexico - Pesc	10,634
Other (less than 3% each)	139,935
Total	$ 360,905

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, 2005, securities on loan approximated $620 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, 2005, the average life of both the loans and the investment of cash received as collateral was one day.

The OST investment policy requires that any securities on loan be made available by the lending agent for next day liquidity at the option of the OST. During Fiscal Year 2005, 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, 2005.

Office of the State Treasurer (OST)
Cash Management Account
June 30, 2005
(expressed in thousands)

		Custodial Credit Risk	Maturity		
Investment Type	**Fair Value**	Insured or Held in state's name	Less than 1 year	1-5 years	6-10 years
U.S. Government Obligations	$ 381,079	$ 381,079	$ 286,747	$ 94,332	$ -
U.S. Agency Obligations	2,108,922	2,108,922	1,425,227	673,704	9,991
Certificates of Deposit	719,263	719,263	719,263	-	-
Repurchase Agreements	869,000	869,000	869,000	-	-
Securities Lending	620,441	-	620,441	-	-
Total	$ 4,698,705	$ 4,078,264	$ 3,920,678	$ 768,036	$ 9,991

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. The OST limits its exposure to concentration of credit risk by restricting the amount of investments with a single issuer to a percentage of the total portfolio. Percentages are monitored on a daily basis. During Fiscal Year 2005, the Cash Management Account did not have more than 5 percent of total investments in a single issuer.

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 2005, 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, 2005, consisted of the following (expressed in thousands):

Taxes Receivable	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
Property	$ 838,470	$ -	$ -	$ 662	$ 839,132
Sales	1,231,478	-	-	17,030	1,248,508
Business and occupation	396,693	-	-	-	396,693
Estate	15,961	-	-	-	15,961
Fuel	-	-	-	83,166	83,166
Other	87,009	-	-	7,268	94,277
Subtotals	2,569,611	-	-	108,126	2,677,737
Less: Allowance for uncollectible receivables	30,372	-	-	133	30,505
Total Taxes Receivable	$ 2,539,239	$ -	$ -	$ 107,993	$ 2,647,232

Other Receivables

Other receivables at June 30, 2005, consisted of the following (expressed in thousands):

Other Receivables	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	**Total**
Public assistance (1)	$ 1,160,955	$ -	$ -	$ -	$ 1,160,955
Accounts receivable	22,388	91,996	612	57,895	172,891
Interest	-	7,156	7,487	4,648	19,291
Loans (2)	1,154	122,902	-	246,302	370,358
Long-term contracts (3)	444	-	13,865	109,898	124,207
Miscellaneous	7,135	12,991	17,611	80,855	118,592
Subtotals	1,192,076	235,045	39,575	499,598	1,966,294
Less: Allowance for uncollectible receivables (1)	955,497	17,120	74	23,878	996,569
Total Other Receivables	$ 236,579	$ 217,925	$ 39,501	$ 475,720	$ 969,725

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 $95 million in the Higher Education Special Revenue Fund for student loans and $239 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, 2005, consisted of the following (expressed in thousands):

Deferred Revenues	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
Property taxes	$ 814,948	$ -	$ -	$ -	$ 814,948
Other taxes	268,912	-	-	32	268,944
Timber sales	-	-	13,865	100,902	114,767
Charges for services	15,567	44,323	-	20,505	80,395
Donable goods	347	-	-	-	347
Miscellaneous	58,502	104,944	660	421,873	585,979
Total Deferred Revenues	$ 1,158,276	$ 149,267	$ 14,525	$ 543,312	$ 1,865,380

B. Proprietary Funds

Taxes Receivable

Taxes receivable at June 30, 2005, consisted of $4.8 million in liquor taxes reported in Nonmajor Enterprise Funds.

Other Receivables

Other receivables at June 30, 2005, 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	$ 100,064	$ -	$ 175,832	$ 21,223	$ 297,119	$ 3,646
Interest	101,694	-	522	2,984	105,200	384
Loans	-	-	4	-	4	-
Miscellaneous	544,879	621,895	2,509	690	1,169,973	1,454
Subtotals	746,637	621,895	178,867	24,897	1,572,296	5,484
Less: Allowance for uncollectible receivables	77,909	108,214	66,893	120	253,136	152
Total Other Receivables	$ 668,728	$ 513,681	$ 111,974	$ 24,777	$ 1,319,160	$ 5,332

Unearned Revenues

Unearned revenues at June 30, 2005, 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	$ -	$ -	$ 10,809	$ 268	$ 11,077	$ 1,927
Miscellaneous	13,962		19,172	3	33,137	368
Total Unearned Revenues	$ 13,962	$ -	$ 29,981	$ 271	$ 44,214	$ 2,295

C. Fiduciary Funds

Other Receivables

Other receivables at June 30, 2005, 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	$ -	$ 1,988	$ 10,415
Interest	-	9,086	136,449	25,709
Loans	-	-	-	16
Miscellaneous	4,798	-	50,980	45,841
Subtotals	4,801	9,086	189,417	81,981
Less: Allowance for uncollectible receivables	-	-	123	686
Total Other Receivables	$ 4,801	$ 9,086	$ 189,294	$ 81,295

Unearned Revenues

Unearned revenues at June 30, 2005, consisted of $.8 million for service credit restorations reported in Pension and Other Employee Benefit Plans Funds.

Note 5 - Interfund Balances and Transfers

A. Interfund Balances

The following balances at June 30, 2005, 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	$ 75,844	$ 7,585	$ -	$ 78,514	$ 305	$ -	$ -
Higher Educ. Special Revenue	26,589	26,984	-	18,010	243	-	7,986
Higher Education Endowment	-	-	-	-	-	-	-
Nonmajor Governmental Funds	124,990	112	2,050	99,954	391	1,043	-
Workers' Compensation	87	-	-	360	579	-	-
Unemployment Compensation	1,045	963	-	196	33	-	-
Higher Educ. Student Services	440	37,992	-	1,218	83	-	7,266
Nonmajor Enterprise Funds	13,743	25	-	4,391	318	-	54
Internal Service Funds	18,215	2,427	-	18,126	4,749	-	12
Fiduciary Funds	301,372	148	-	37,908	233	-	23,848
Totals	$ 562,325	$ 76,236	$ 2,050	$ 258,677	$ 6,934	$ 1,043	$ 39,166

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.

Nonmajor Enterprise Funds	Internal Service Funds	Fiduciary Funds	**Totals**
$ 12,030	$ 1,271	$ 15,501	$ 191,050
158	3,991	25,519	109,480
-	-	14	14
10,689	1,397	39,045	279,671
122	42	20	1,210
27	59	229	2,552
-	9	2,720	49,728
22,437	945	310	42,223
15,962	12,459	710	72,660
291	41	38,637	402,478
$ 61,716	$ 20,214	$ 122,705	$ 1,151,066

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, 2005, 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	$ 1,300	$ 12,043	$ -	$ 890,424	$ -	$ -	$ 780
Higher Educ. Special Revenue	456	84,132	2,863	113,835	-	38,392	-
Higher Education Endowment	-	44,678	19	26,707	-	3	-
Nonmajor Governmental Funds	346,560	13,962	1,001	882,944	-	-	1,129
Workers' Compensation	-	-	-	1,122	325,602	-	-
Higher Educ. Student Services	-	22,769	-	213	-	169,423	-
Nonmajor Enterprise Funds	57,820	-	-	137,972	-	-	46,001
Internal Service Funds	-	4,682	-	7,634	-	106	-
Private Purpose Trust	118,229	-	-	-	-	-	-
Totals	$ 524,365	$ 182,266	$ 3,883	$ 2,060,851	$ 325,602	$ 207,924	$ 47,910

Additionally, there are transfers within the state's Pension trust funds. The transfers from Pension trust funds are 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.

Internal Service Funds	Private Purpose Trust	**Totals**
$ 9,424	$ 28,237	$ 942,208
1,691	-	241,369
-	-	71,407
253	-	1,245,849
-	-	326,724
4,280	-	196,685
-	-	241,793
12,242	-	24,664
-	-	118,229
$ 27,890	$ 28,237	$ 3,408,928

Note 6 - Capital Assets

A. Governmental Capital Assets

The following is a summary of governmental capital asset activity for the year ended June 30, 2005 (expressed in thousands):

Capital Assets	Balances July 1, 2004	Additions	Deletions	Balances June 30, 2005
Capital assets, not being depreciated:				
Land	$ 1,184,360	27,270	(4,304)	$ 1,207,326
Highway System Infrastructure**	12,512,825	825,884	-	13,338,709
Construction in Progress	1,031,962	543,806	(324,372)	1,251,396
Art Collections, Library Reserves, and Museum and Historical Collections	104,716	1,515	(5,894)	100,337
Total capital assets, not being depreciated	14,833,863			15,897,768
Capital assets, being depreciated:				
Buildings	6,663,761	455,702	(20,866)	7,098,597
Accumulated depreciation*	(2,163,168)	(199,172)	881	(2,361,459)
Net buildings	4,500,593			4,737,138
Furnishings, equipment, and collections	3,123,156	242,374	(73,160)	3,292,370
Accumulated depreciation*	(1,809,481)	(175,531)	45,519	(1,939,493)
Net furnishings, equipment and collections	1,313,675			1,352,877
Other improvements	764,255	129,980	(1,187)	893,048
Accumulated depreciation*	(273,996)	(40,860)	180	(314,676)
Net other improvements	490,259			578,372
Infrastructure (other)**	315,734	599,739	-	915,473
Accumulated depreciation	(110,385)	(10,687)	-	(121,072)
Net infrastructure (other)	205,349			794,401
Total capital assets, being depreciated, net	6,509,876			7,462,788
Governmental activities capital assets, net	$ 21,343,739			$ 23,360,556

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

**The state first reported infrastructure under the new requirements of the Governmental Accounting Standards Board Statement Number 34 in Fiscal Year 2002. The state accounts for the state highway system and emergency airfields using the modified approach and reports them as non-depreciable highway system infrastructure. The state's short rail line is depreciated and is reported as depreciable infrastructure (other). Under the modified approach, rather than recording depreciation, asset condition is reported. The rating scales for pavements, bridges, and airfields are further explained in the Required Supplementary Information.

B. Business-type Capital Assets

The following is a summary of business-type capital asset activity for the year ended June 30, 2005, (expressed in thousands):

Capital Assets	Balances July 1, 2004	Additions	Deletions	Balances June 30, 2005
Capital assets, not being depreciated:				
Land	$ 100,626	5,484	(19,217)	$ 86,893
Construction in Progress	87,002	91,757	(94,438)	84,321
Art Collections	37	-	(2)	35
Total capital assets, not being depreciated	187,665			171,249
Capital assets, being depreciated:				
Buildings	1,533,326	134,459	(29,071)	1,638,714
Accumulated depreciation	(434,007)	(40,047)	1,352	(472,702)
Net buildings	1,099,319			1,166,012
Furnishings, equipment, and collections	326,602	49,445	(11,375)	364,672
Accumulated depreciation	(207,987)	(30,610)	8,582	(230,015)
Net furnishings, equipment, and collections	118,615			134,657
Other Improvements	35,567	11,803	(2,257)	45,113
Accumulated depreciation	(12,688)	(1,582)	51	(14,219)
Net other improvements	22,879			30,894
Infrastructure (other)	33,949	4,348	(5,340)	32,957
Accumulated depreciation	(10,393)	(1,070)	828	(10,635)
Net infrastructure (other)	23,556			22,322
Total capital assets, being depreciated, net	1,264,369			1,353,885
Business-type activities capital assets, net	$ 1,452,034			$ 1,525,134

C. Depreciation

Depreciation expense for the year ended June 30, 2005, was charged to functions of the primary government as follows (expressed in thousands):

	Amount
Governmental Activities:	
General Government	$ 38,741
Education - Elementary and Secondary (K-12)	2,837
Education - Higher Education	222,764
Human Services	26,724
Adult Corrections	24,212
Natural Resources and Recreation	42,882
Transportation	68,090
Total Depreciation Expense - Governmental Activities	$ 426,250 *
Business-Type Activities:	
Workers' Compensation	$ 3,202
Unemployment Compensation	-
Higher Education Student Services	54,934
Health Insurance Programs	201
Other	14,972
Total Depreciation Expense - Business-Type Activities	$ 73,309

*Includes $52.8 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, 2005, are as follows (expressed in thousands):

D. Construction in Progress

Agency/Project Commitments	Construction In Progress June 30, 2005	Remaining Project Commitments
Department of Personnel:		
Human resource management system	$ 31,699	$ 30,950
Department of General Administration:		
Legislative and other buildings rehab., repairs & expansion, and other projects	237,004	210,278
Military Department:		
Readiness centers and other projects	15,893	13,192
Department of Social and Health Services:		
State hospital & juvenile rehab construction & renovations, and other projects	107,433	11,004
Department of Corrections:		
Correctional centers construction, improvements, and other projects	243,219	187,180
Department of Transportation:		
State Highway System, maintenance facilities, and ferry vessels and terminals	199,138	965,966
Department of Fish and Wildlife:		
Hatchery renovations, site improvements, and other projects	20,742	8,174
Department of Natural Resources:		
Light industrial park	1,870	8,288
Higher Education Facilities:		
University of Washington	239,834	110,736
Washington State University	48,921	405,393
Eastern Washington University	28,483	13,346
Central Washington University	48,954	23,271
The Evergreen State College	7,268	12,590
Western Washington University	20,846	9,005
Community and Technical Colleges	77,868	248,148
Other Agencies Miscellaneous Projects	6,545	4,740
Total Construction in Progress	$ 1,335,717	$ 2,262,261

Note 7 – Long-Term Liabilities

A. Bonds Payable

Bonds payable at June 30, 2005, 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 2005 was $7.0 billion, under both the then current constitutional and statutory limitations. 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, 2005, did not exceed the authorized debt service limitation.

Authorized but unissued
The state had a total of $6.25 billion in bonds authorized but unissued as of June 30, 2005, 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 2.0 to 7.0 percent. Variable rate demand obligations (VRDO) of $168.2 million as of June 30, 2005, are remarketed on a weekly basis. Interest rates on revenue bonds range from 1.5 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 2005. 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, 2005, are as follows (expressed in thousands):

	Governmental Activities		Business-Type Activities		Totals	
General Obligation Bonds	Principal	Interest	Principal	Interest	Principal	Interest
By Fiscal Year:						
2006	$ 454,979	$ 458,460	$ 17,955	$ 5,451	$ 472,934	$ 463,911
2007	458,153	452,986	19,150	4,436	477,303	457,422
2008	476,116	430,329	20,655	3,333	496,771	433,662
2009	483,150	408,970	11,335	4,899	494,485	413,869
2010	465,825	390,057	8,987	4,432	474,812	394,489
2011-2015	2,321,894	1,659,028	30,951	12,288	2,352,845	1,671,316
2016-2020	2,435,367	1,258,797	29,366	61,951	2,464,733	1,320,748
2021-2025	1,823,851	670,863	-	-	1,823,851	670,863
2026-2030	922,336	344,494	-	-	922,336	344,494
2031-2035	-	-	-	-	-	-
Total Debt Service Requirements	$ 9,841,671	$ 6,073,984	$ 138,399	$ 96,790	$ 9,980,070	$ 6,170,774

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 Tobacco Settlement Authority (TSA), a blended component unit of the state, issued revenue bonds secured by the TSA's right to receive 29.2 percent of the state's tobacco settlement revenue stream. These bonds are reported within governmental activities. The state's Colleges and Universities issue revenue bonds for the purpose of housing, dining, parking, and student facilities construction. These bonds are reported within governmental and business-type activities as applicable.

Total debt service requirements for revenue bonds to maturity as of June 30, 2005, are as follows (expressed in thousands):

	Governmental Activities		Business-Type Activities		Totals	
Revenue Bonds	Principal	Interest	Principal	Interest	Principal	Interest
By Fiscal Year:						
2006	$ 110	$ 35,128	$ 13,934	$ 28,631	$ 14,044	$ 63,759
2007	-	35,053	16,133	28,079	16,133	63,132
2008	13,270.0	34,977	16,836	27,361	30,106	62,338
2009	12,750	34,359	17,690	26,595	30,440	60,954
2010	12,400	33,741	18,196	25,690	30,596	59,431
2011-2015	86,640	156,587	108,003	114,913	194,643	271,500
2016-2020	103,085	126,415	129,682	87,973	232,767	214,388
2021-2025	120,280	91,171	126,726	58,131	247,006	149,302
2026-2030	153,860	50,037	95,651	29,331	249,511	79,368
2031-2035	61,180	4,605	42,382	5,157	103,562	9,762
Total Debt Service Requirements	$ 563,575	$ 602,073	$ 585,233	$ 431,861	$ 1,148,808	$ 1,033,934

DEBT REFUNDINGS

When advantageous and permitted by statute and bond covenants, the State Finance Committee authorizes the refunding of outstanding 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 May 3, 2005, the state issued $343.6 million of Various Purpose General Obligation Refunding Bonds (Series R-2005A) with an average interest rate of 4.98 percent to refund $341.6 million of Various Purpose General Obligation Bonds from several different series with an average interest rate of 5.80 percent. The refunding resulted in a $40.7 million gross debt service savings over the next 20 years and an economic gain of $31.2 million.

On May 3, 2005, the state issued $95.8 million in Motor Vehicle Fuel Tax General Obligation Refunding Bonds (Series R-2005B) with an average interest rate of 4.14 percent to refund $90.8 million of Motor Vehicle Fuel Tax General Obligation bonds from several series with an average interest rate of 5.64 percent. The refunding resulted in an $11.8 million gross debt service savings over the next 20 years and an economic gain of $8.6 million.

Business-Type Activities:

On September 29, 2004, the University of Washington issued $4.57 million in Parking System Revenue and Refunding Bonds (Series 2004) with an average interest rate of 3.43 percent to refund $3.96 million of Parking System Revenue Bonds with an average interest rate of 6.13 percent. The refunding resulted in $4 thousand gross debt service savings over the next 11 years and an economic loss of $1 thousand.

On April 20, 2005, Washington State University issued $16.3 million in Housing and Dining Services Revenue and Refunding Bonds (Series 2005) with an average interest rate of 4.45 percent, to refund $14.73 million of Housing and Dining Services Revenue Bonds with an average interest rate of 5.85 percent. The refunding resulted in a $1.3 million gross debt service savings over the next 25 years and an economic gain of $829 thousand.

On May 11, 2005, Washington State University issued $8.84 million in Parking Services Revenue and Refunding Bonds (Series 2005), with an average interest rate of 4.12 percent, to refund $7.99 million of Parking Services Revenue Bonds with an average interest rate of 5.71 percent. The refunding resulted in $732 thousand gross debt service savings over the next 19 years and an economic gain of $513 thousand.

On May 24, 2005, Western Washington University issued $12.6 million in Housing and Dining Revenue and Refunding bonds (Series 2005), with an average interest rate of 3.88 percent, to refund $11.2 million of Housing and Dining Revenue Bonds with an average interest rate of 5.71 percent. The refunding resulted in $3.2 million gross debt service savings over the next 20 years and an economic gain of $2.8 million.

On June 7, 2005, the University of Washington issued $43.6 million in Student Facilities Fee Revenue and Refunding Bonds (Series 2005) with an average interest rate of 4.82 percent, to refund $41.6 million of Student Facilities Fee Revenue Bonds with an average interest rate of 5.77 percent. The refunding resulted in $3.6 million gross debt service savings over the next 25 years and an economic gain of $2.1 million.

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, 2005, $479.7 million of general obligation bonded debt outstanding is considered defeased.

Revenue Bond Debt:

On June 30, 2005, $69.5 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, 2005, are as follows (expressed in thousands):

	Governmental Activities		Business-Type Activities		Totals	
Certificates of Participation	Principal	Interest	Principal	Interest	Principal	Interest
By Fiscal Year:						
2006	$ 31,629	$ 15,340	$ 37,524	$ 18,198	$ 69,153	$ 33,538
2007	25,456	12,324	16,291	10,389	41,747	22,713
2008	23,150	11,337	15,678	9,718	38,828	21,055
2009	25,087	10,418	18,960	9,052	44,047	19,470
2010	23,097	9,365	17,761	8,222	40,858	17,587
2011-2015	129,800	34,760	92,012	24,640	221,812	59,400
2016-2020	45,761	6,967	42,218	6,651	87,979	13,618
2021-2025	10,538	875	10,203	847	20,741	1,722
2026-2030	-	-	-	-	-	-
2031-2035	-	-	-	-	-	-
Total Debt Service Requirements	$ 314,518	$ 101,386	$ 250,647	$ 87,717	$ 565,165	$ 189,103

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 2004 and 2005 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 2004	$ 15,863,852	2,267,506	(1,540,260)	$ 16,591,098
FY 2005	$ 16,591,098	2,289,923	(1,602,126)	$ 17,278,895

At June 30, 2005, $30.6 billion of unpaid claims and claim adjustment expenses are presented at their net present and settlement value of $17.3 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 $17.3 billion, as of June 30, 2005, include $8.7 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 $8.6 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 2004 and 2005 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 2004	$ 498,914	59,882	(29,755)	(15,710)	$ 513,331
FY 2005	$ 513,331	34,857	(23,130)	(16,945)	$ 508,113

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, 2005, outstanding and actuarially determined claims against the state and its public authorities were $508.1 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, 2005, the Risk Management Fund held $77.6 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 2004 and 2005 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 2004	$ 47,934	431,539	(412,594)	$ 66,879
FY 2005	$ 66,879	524,106	(512,556)	$ 78,429

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, 2005, health insurance claims liabilities totaling $78.4 million are fully funded with cash and investments, net of obligations under securities lending agreements

D. Leases

The state leases land, office facilities, office and computer equipment, and other assets under a variety of agreements. Although lease terms vary, most leases are subject to appropriation from the state Legislature to continue the obligation. If the possibility of receiving no funding from the Legislature is remote, leases are considered noncancelable for financial reporting purposes. Leases that represent acquisitions are classified as capital leases, and the related assets and liabilities are recorded in the financial records at the inception of the lease. Other leases are classified as operating leases with the lease payments recorded as expenditures or expenses during the life of the lease. Certain operating leases are renewable for specified periods. In most cases, management expects that the leases will be renewed or replaced by other leases.
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Leased land, buildings and equipment under capital leases as of June 30, 2005, include the following (expressed in thousands):

	Governmental Activities	Business-Type Activities
Land (non-depreciable)	$ 1,918	$ -
Buildings	4,258	6,271
Equipment	3,327	131
Less: Accumulated Depreciation	(1,927)	(944)
Totals	$ 7,576	$ 5,458

The following schedule presents future minimum payments for capital and operating leases as of June 30, 2005, (expressed in thousands):

	Capital Leases		Operating Leases	
Capital and Operating Leases	Governmental Activities	Business-Type Activities	Governmental Activities	Business-Type Activities
By Fiscal Year:				
2006	$ 6,397	$ 3,969	$ 113,429	$ 25,556
2007	5,219	4,554	100,256	24,265
2008	3,204	4,264	81,230	21,862
2009	3,256	4,141	71,327	20,803
2010	2,565	1,887	61,675	20,406
2011-2015	5,362	2,821	198,651	96,461
2016-2020	550	1,925	83,608	94,500
2021-2025	137	816	69,856	98,000
2026-2030	-	-	56,589	103,000
2031-2035	-	-	43,731	120,000
Total Future Minimum Payments	26,690	24,377	880,352	624,853
Less: Executory costs and interest costs	3,181	3,689	-	-
Net Present Value of future minimum lease payments	$ 23,509	$ 20,688	$ 880,352	$ 624,853

The total operating lease rental expense for Fiscal Year 2005 was $201.8 million.

E. Long-Term Liability Activity

Long-term liability activity for the Fiscal Year 2005 (expressed in thousands) was as follows:

Governmental Activities:	Beginning Balance July 1, 2004	Additions	Reductions	Ending Balance June 30, 2005	Amounts Due Within One Year
Long-term Debt:					
GO Bonds Payable -					
General obligation (GO) bonds	$ 8,522,375	1,413,295	838,990	$ 9,096,680	$ 443,245
GO - zero coupon bonds (principal)	651,006	110,002	16,017	744,991	11,734
Subtotal - GO Bonds payable	9,173,381	1,523,297	855,007	9,841,671	454,979
Accreted Interest - GO - zero coupon bonds	178,241	22,817	-	201,058	-
Revenue Bonds Payable	510,655	60,720	7,800	563,575	110
Less: Deferred amounts for issuance discounts	(12,770)	-	(773)	(11,997)	-
Less: Unamortized bond issuance costs	(2,152)	-	(131)	(2,021)	-
Total Bonds Payable	9,847,355	1,606,834	861,903	10,592,286	455,089
Other Liabilities -					
Certificates of participation	274,061	74,199	33,742	314,518	31,629
Claims and judgments	583,332	173,509	156,255	600,586	111,267
Installment contracts	221	-	110	111	111
Leases	27,743	680	4,914	23,509	6,397
Compensated absences	412,295	294,192	268,239	438,248	42,408
Unfunded pension obligations	55,500	11,725	-	67,225	-
Other	124,831	344,173	362,613	106,391	102,434
Total Other Liabilities	1,477,983	898,478	825,873	1,550,588	294,246
Total	$11,325,338	2,505,312	1,687,776	$ 12,142,874	$ 749,335

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.

Revenue bonds outstanding at June 30, 2005 of $502.9 million were 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.

Business-Type Activities	Beginning Balance July 1, 2004	Additions	Reductions	Ending Balance June 30, 2005	Amounts Due Within One Year
Long-term Debt:					
GO Bonds Payable					
General obligation (GO) bonds	$ 126,100	-	16,960	$ 109,140	$ 17,955
GO - zero coupon bonds (principal)	29,259	-	-	29,259	-
Subtotal - GO Bonds payable	155,359	-	16,960	138,399	17,955
Accreted Interest - GO - zero coupon bonds	20,744	3,092	-	23,836	-
Revenue Bonds Payable	520,179	144,470	79,416	585,233	13,934
Less: Deferred amounts on refunding	(3,891)	(5,790)	(273)	(9,408)	-
Plus: Unamortized amounts issuance premiums	1,616	4,833	2,734	3,715	-
Less: Deferred amounts for issuance discounts	(1,638)	(522)	(313)	(1,847)	-
Less: Unamortized bond issuance costs	(1,742)	(544)	(236)	(2,050)	-
Total Bonds Payable	690,627	145,539	98,288	737,878	31,889
Other liabilities -					
Certificates of participation	246,550	9,530	5,433	250,647	37,524
Less: Deferred amounts for issuance discounts	(1,904)	146	(1)	(1,757)	-
Claims and judgments	16,661,334	2,303,849	1,603,918	17,361,266	1,675,438
Lottery prize annuities payable	498,034	37,503	74,777	460,760	68,705
Tuition benefits payable	462,294	157,397	18,402	601,289	-
Leases	14,245	17,415	10,972	20,688	3,969
Compensated absences	41,564	24,591	20,840	45,315	17,986
Other	32,501	51,901	64,968	19,433	18,751
Total Other Liabilities	17,954,618	2,602,332	1,799,309	18,757,641	1,822,373
Total	$18,645,245	2,747,871	1,897,597	$ 19,495,519	$ 1,854,262

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 latest available balances for the "No Commitment" debt of the state's financing authorities (expressed in thousands):

Financing Authorities	Principal Balance
Washington State Housing Finance Commission	$ 2,422,245
Washington Higher Education Facilities Authority	382,206
Washington Health Care Facilities Authority	3,100,000
Washington Economic Development Finance Authority	376,020
Total No Commitment Debt	$ 6,280,471

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, 2005, 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	$ -	$ 95,099	$ -	$ -	$ 95,099
Investments with trustees	608	-	-	459	1,067
Long-term receivables	34,518	373	-	1,315,778	1,350,669
Long-term investments	-	152,620	-	60,174	212,794
Petty cash	655	4,359	-	835	5,849
Total Reserved for Other Specific Purposes	$ 35,781	$ 252,451	$ -	$ 1,377,246	$ 1,665,478

Note 10 - Deficit Net Assets

At June 30, 2005, there were two proprietary funds with deficit net assets.

The Workers' Compensation Fund, an enterprise fund, had deficit net assets of $6.6 billion at June 30, 2005. 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, 2005 (expressed in thousands):

Workers' Compensation Fund	Net Assets (Deficit)
Balance, July 1, 2004	$ (6,942,020)
Fiscal Year 2005 activity	383,940
Balance, June 30, 2005	$ (6,558,080)

The Risk Management Fund, an internal service fund, had deficit net assets of $430.8 million at June 30, 2005. 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, 2005 (expressed in thousands):

Risk Management Fund	Net Assets (Deficit)
Balance, July 1, 2004	$ (445,029)
Fiscal Year 2005 activity	14,224
Balance, June 30, 2005	$ (430,805)

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, 2004, the date of the latest actuarial valuation for all plans except for VFFRPF which had an actuarial valuation performed on December 31, 2004.

Number of Participating Members

Defined Benefit 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	54,568	2,993	16,605	1,224	75,390
PERS 2	12,106	16,754	76,987	41,585	147,432
PERS 3	222	1,284	9,447	10,408	21,361
TRS 1	34,624	1,475	9,617	245	45,961
TRS 2	1,127	2,510	6,835	635	11,107
TRS 3	541	2,761	19,979	29,323	52,604
SERS 2	1,097	2,428	15,880	4,544	23,949
SERS 3	481	2,035	11,060	18,370	31,946
LEOFF 1	8,110	7	848	0	8,965
LEOFF 2	432	521	11,231	3,523	15,707
WSPRS 1	762	100	855	142	1,859
WSPRS 2	-	-	-	60	60
JRS	127	2	19	-	148
Judges	16	-	-	-	16
JRA	2	16	197	-	215
VFFRPF	3,110	4,657	4,862	7,247	19,876
Total	117,325	37,543	184,422	117,306	456,596

Following is a summary of the number of government employers participating in state administered retirement plans as of June 30, 2005.

Number of Participating Employers

Plan	State Agencies	School Districts	Counties/ Municipalities	Other Political Subdivisions
PERS 1	153	241	202	230
PERS 2	167	-	270	454
PERS 3	148	-	183	233
TRS 1	81	281	-	-
TRS 2	33	270	-	-
TRS 3	40	292	-	-
SERS 2	9	289	-	-
SERS 3	10	289	-	-
LEOFF 1	-	-	91	20
LEOFF 2	8	-	220	141
WSPRS 1	1	-	-	-
WSPRS 2	1	-	-	-
JRS	3	-	-	-
Judges	-	-	-	-
JRA	3	-	-	-
VFFRPF	-	-	-	650

Employers can participate in multiple systems and/or plans.

B. Plan Description

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 2005, 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 51 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. 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. 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.) Plan 3 members become eligible for retirement if they have: at least ten years of service; or five years including 12 months that were earned after age 54; or five service credit years earned in PERS Plan 2 prior to June 1, 2003. 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 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.

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.

Legislation passed in the 2005 session, effective April 21, 2005, allows PERS Plan 2 and Plan 3 members to opt out of plan membership if deemed to be terminally ill, with less than five years to live (Chapter 131 Laws of 2005).

The PERS Plan 1 veteran's definition was expanded to include conflicts in the Persian Gulf and Afghanistan (Chapter 255, Laws of 2005).

Emergency Medical Technicians (EMTs) in PERS may transfer into LEOFF Plan 2 and have the option of transferring their past service (Chapter 459, Laws of 2005).

There were no other material changes in PERS benefit provisions for the fiscal year ended June 30, 2005.

PERS pension benefit provisions have been established by chapter 41.40 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 2005, 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 employee in grades K-12 in the public schools. 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.) Plan 3 members become eligible for retirement if they have: at least ten years of service; or five years including 12 months that were earned after age 54; or five service credit years earned in TRS Plan 2 by July 1, 1996, and transferred to Plan 3. 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.

Legislation passed in the 2005 session, effective April 21, 2005, allows TRS Plan 2 and Plan 3 members to opt out of plan membership if deemed to be terminally ill, with less than five years to live (Chapter 131, Laws of 2005).

The TRS Plan 1 Certified Educational Staff Associates (ESAs) benefit formula was improved by annualizing the salaries of part-time ESAs when calculating their average final compensation so they may receive proportionate retirement benefits (Chapter 23, Laws of 2005).

There were no other material changes in TRS benefit provisions for the fiscal year ended June 30, 2005.

TRS pension benefit provisions have been 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 2005, 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. 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.) Plan 3 members become eligible for retirement if they have: at least ten years of service; or five years including 12 months that were earned after age 54; or five service credit years earned in PERS Plan 2 prior to September 1, 2000. 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 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.

Legislation passed in the 2005 session, effective April 21, 2005, allows SERS Plan 2 and Plan 3 members to opt out of plan membership if deemed to be terminally ill, with less than five years to live (Chapter 131, Laws of 2005).

There were no other material changes in SERS benefit provisions for the fiscal year ended June 30, 2005.

SERS pension benefit provisions have been established by chapter 41.35 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 2005, 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 may be eligible to receive a retirement allowance of at least 10 percent of FAS. If the 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 the 2005 session, effective May 13, 2005, removed the actuarial reduction for the difference between age 53 and the age at retirement, if the disability was incurred in the line of duty (Chapter 451, Laws of 2005).

Emergency Medical Technicians (EMTs) in PERS may transfer into LEOFF Plan 2 and have the option of transferring their past service (Chapter 459, Laws of 2005).

LEOFF Plan 1 ex-spouse benefits were enhanced by allowing continuance after the death of the member (Chapter 62, Laws of 2005).

There were no other material changes in LEOFF benefit provisions for the fiscal year ended June 30, 2005.

LEOFF pension benefit provisions have been 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 2005, 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.

There were no material changes in WSPRS benefit provisions for the fiscal year ended June 30, 2005.

WSPRS pension benefit provisions have been 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 2005, 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 ten or more years of service. A monthly spousal benefit is provided which is equal to 50 percent of the benefit a member would have received if retired. If the member is retired, the surviving spouse receives the greater of 50 percent of the member's retirement benefit or 25 percent of the AFC. For members with ten or more years of service, a disability benefit of 50 percent of AFC is provided.

There were no material changes in JRS benefit provisions for the fiscal year ended June 30, 2005.

JRS pension benefit provisions have been 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, 2005.

Judges' pension benefit provisions have been 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.

As of July 24, 2005 the annual fee that each municipal corporation must pay for Relief Plan members increases from $10 to $30 (Chapter 37, Laws of 2005).

There were no other material changes in VFFRPF benefit provisions for the fiscal year ended June 30, 2005.

C. Funding Policies

Contributions towards the amortization of the PERS 1 and TRS 1 unfunded actuarial accrued liability are suspended for the 2003-2005 and 2005-2007 biennia.

The estimated value of future gain-sharing benefits is included in the liabilities for accounting disclosure purposes. However, the actual contribution rates at the close of the fiscal year ending 2005 were based on the 2003 actuarial valuations, which did not include the value of gain-sharing benefits.

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 2005 were as follows:

PERS Actual Contribution Rates

	PLAN 1	PLAN 2	PLAN 3
Employer Rates:			
State agencies*	1.38%	1.38%	1.38%**
Local governmental units*	1.38%	1.38%	1.38%**
State gov't elected officials*	1.98%	1.38%	1.38%**
Employee Rates:			
State agencies	6.00%	1.18%	***
Local governmental units	6.00%	1.18%	***
State gov't elected officials	7.50%	1.18%	***

*The employer rates include an administrative expense rate of 0.19 percent and 0.01 percent pay-as-you-go cost for Plan 1 minimum pension benefit.
**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 2005 were as follows:

TRS Actual Contribution Rates

	Plan 1	Plan 2	Plan 3
Employer Rates *	1.37%	1.37%	1.37%**
Employee Rates:			
State agencies	6.00%	0.87%	***
Local governmental units	6.00%	0.87%	***
State gov't elected officials	7.50%	0.87%	***

*The employer rates include an administrative expense rate of 0.19 percent and 0.01 percent pay-as-you-go cost for Plan 1 minimum pension benefit.
** 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 2005 were as follows:

SERS Actual Contribution Rates

	Plan 2	Plan 3
Employer Rates:		
State agencies*	1.04%	1.04% **
Local governmental units*	1.04%	1.04% **
Employee Rates:		
State agencies	0.85%	***
Local governmental units	0.85%	***

*The employer rates include an administrative expense rate of 0.19percent.
**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 2005 were as follows:

LEOFF Actual Contribution Rates

	Plan 1	Plan 2
Employer Rates:		
Ports and Universities*	NA	5.28%
Local governmental units* (cities, counties, fire districts, etc)	0.19%	3.25%
Employee Rates:		
Ports and Universities	NA	5.09%
Local governmental units (cities, counties, fire districts, etc)	NA	5.09%
State of Washington	NA	2.03%

*The employer rates include an administrative expense rate of 0.19 percent and 0.01 percent pay-as-you-go cost for Plan 1 minimum pension benefit

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 Plan 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 2005, the state contributed $21.3 million to LEOFF Plan 2.

Washington State Patrol Retirement System (WSPRS)

State statute (chapter 43.43 RCW) obligates employees to contribute at a fixed rate of 2 percent for Fiscal Year 2005. The Pension Funding Council in accordance with chapter 41.45 RCW adopts contribution rates for the employee and the state. The employee and the state 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 2005 were as follows:

WSPRS Actual Contribution Rates

	Plan 1	Plan 2
Employer rate	NA	NA
Employee rate	2.00%	2.00%

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 2005, the state contributed $6.2 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, 2005, 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 2005, the state contributed $0.5 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 has 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.

	2005	2004	2003
PERS Plan 1	$11.3	$11.5	$28.8
PERS Plan 2/3	36.7	34.3	18.5
TRS Plan 1	0.3	0.3	0.6
TRS Plan 2/3	0.2	0.2	0.1
SERS Plan 2/3	0.0	0.0	0.0
LEOFF Plan 1	0.0	0.0	0.0
LEOFF Plan 2	21.6	20.5	16.6
VFFRPF	4.4	4.4	3.3

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	$ 3.4	$21.7	$ 0.1
Interest on NPO	(2.0)	4.4	(0.2)
Adjustment to annual required contribution	3.0	(14.0)	0.6
Annual pension cost	4.4	12.1	0.5
Less contributions made	0.0	6.2	0.5
Increase (decrease) in NPO	4.4	6.0	0.0
NPO at beginning of year	(24.6)	55.5	(2.6)
NPO at end of year	(20.2)	61.4	(2.6)
Actuarial Assumptions:			
Valuation date	9/30/04	9/30/04	9/30/04
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:

	2005	2004	2003
WSPRS			
Annual Pension Cost	$4.4	$3.8	$1.2
% of APC contributed	0.0	0.0	0.0
NPO	$(20.2)	$(24.6)	$(28.4)
JRS			
Annual Pension Cost	$12.1	$11.8	$11.4
% of APC contributed	50.8	52.5	54.6
NPO	$61.4	$55.5	$49.9
Judges			
Annual Pension Cost	$0.5	$0.6	$0.4
% of APC contributed	100.0	83.3	75.0
NPO	$(2.6)	$(2.6)	$(2.7)

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 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.

The Plan 2/3 normal cost rates were determined without adjustment for the lag in time between the valuation date and the date the rates become effective.

The estimated value of future gain-sharing benefits is included in the liabilities for accounting disclosure purposes, but not for funding purposes.

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

H. Changes in Benefit Provisions

The 2005 legislative session provided the following changes in benefit provisions.

The PERS Plan 1 veteran's definition was expanded to include conflicts in the Persian Gulf and Afghanistan (Chapter 255, Laws of 2005).

Emergency Medical Technicians (EMTs) in PERS may transfer into LEOFF Plan 2 and have the option of transferring their past service (Chapter 459, Laws of 2005).

Legislation passed in the 2005 session, effective April 21, 2005, allows PERS 2/3, TRS 2/3, and SERS 2/3 members to opt out of plan membership if deemed to be terminally ill, with less than five years to live (Chapter 131, Laws of 2005).

The TRS Plan 1 certified Educational Staff Associates (ESAs) benefit formula was improved by annualizing the salaries of part-time ESAs when calculating their average final compensation so they may receive proportionate retirement benefits (Chapter 23, Laws of 2005).

Legislation passed in the 2005 session effective May 13, 2005 removed the actuarial reduction in LEOFF for the difference between age 53 and the age at retirement, if the disability was incurred in the line of duty (Chapter 451, Laws of 2005).

LEOFF Plan 1 ex-spouse benefits were enhanced by allowing continuance after the death of the member (Chapter 62, Laws of 2005).

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 2005, employee contributions required and made were $59 million, and plan refunds paid out were $25.5 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). Eligible employees include certificated employees in grades K-12 in the public schools. 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 2005, employee contributions required and made were $183.6 million and plan refunds paid out were $35.6 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 2005, employee contributions required and made were $46.7 million and plan refunds paid out were $21.5 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 $24.1 million for the fiscal year ended June 30, 2005. For Fiscal Year 2005, the contribution requirement for JRA was $1.2 million. Actual employer and employee contributions were $601.5 thousand each, for a total of $1.2 million. Plan benefits paid out for Fiscal Year 2005 totaled $411 thousand.

A JRA member who separates from judicial service for any reason is entitled to receive a lump-sum distribution of the accumulated contributions. 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 such a person or persons having an insurable interest in the member's life, per written designation of the member.

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 2005, 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 (UAL) 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 was covered under these plans during 2004 and 1999, respectively. The following table reflects the activity in the Net Pension Obligation for the year ended June 30, 2005 (in millions):

Balance as of July 1, 2003	$ 0.0
Annual Required Contribution FY 04	5.1
Payments to Beneficiaries FY 04	(2.2)
Balance as of June 30, 2004	(2.8)
Annual Required Contribution FY05	5.1
Payments to Beneficiaries FY 05	(2.1)
Balance as of June 30, 2005	$ 5.8

Annual payments for the Fiscal Years 2004 and 2003 were $2.2 million and $2.4 million, respectively, and approximated the ARC.

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, 2005

(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	$ 6,737	$ 3,752	$ 80	$ 5,600	$ 261	$ 2,985	$ 764
Receivables:							
Interest and dividends	27,605	34,625	1,463	23,331	12,222	4,149	4,926
Due from other funds	4	182	4,350	3	3,507	12,905	828
Due from other governments	3,935	8,043	3,168	3,323	3,058	16,111	1,167
Other (net of allowance)	10,848	13,036	548	9,087	4,575	1,552	1,844
Total Receivables	42,392	55,886	9,529	35,744	23,362	34,717	8,765
Investments, Noncurrent:							
Asset backed securities	6,049	7,622	322	5,114	2,686	914	1,082
Collateralized mort obligations	196,566	247,705	10,470	166,198	87,311	29,694	35,180
Corporate stock	1,625,823	2,048,804	86,602	1,374,642	722,164	245,610	290,974
Government bonds	5,531	6,970	295	4,676	2,457	836	990
Repurchase agreements	361,249	453,929	19,157	305,316	160,250	54,331	64,605
Certificates of deposit	97,779	123,218	5,208	82,673	43,432	14,771	17,500
Mutual funds	3,681,713	4,639,566	623,397	3,112,909	1,635,356	1,743,351	658,919
Mortgages	571,424	720,089	30,437	483,142	253,817	86,325	102,268
Real estate	892,705	1,124,956	47,552	754,787	396,525	134,859	159,768
Private equity	1,392,378	1,754,626	74,168	1,177,263	618,471	210,344	249,195
Investments on loan	855,445	1,078,001	45,567	723,284	379,975	129,232	153,099
Short term investments	744,011	941,524	39,578	632,708	341,559	113,211	137,497
Other noncurrent investments	-	-	-	-	-	-	-
Total Investments, Noncurrent	10,430,673	13,147,010	982,753	8,822,712	4,644,003	2,763,478	1,871,077
Total Assets	$ 10,479,802	$ 13,206,648	$ 992,362	$ 8,864,056	$ 4,667,626	$ 2,801,180	$ 1,880,606
Liabilities:							
Obligations under security lending agreements	$ 883,025	$ 1,111,470	$ 46,933	$ 746,481	$ 392,200	$ 132,969	$ 158,096
Accrued liabilities	23,458	15,485	599	19,320	5,378	1,699	2,186
Due to other funds	192	5,118	176	139	13,364	3,505	4,657
Deferred revenues	108	314	-	315	82	-	16
Total Liabilities	906,783	1,132,387	47,708	766,255	411,024	138,173	164,955
Net Assets							
Net Assets Held in Trust for:							
Pension Benefits (Schedule of funding progress by plan begins on page 130)	9,573,019	12,074,261	944,654	8,097,801	4,256,602	2,663,007	1,715,651
Deferred Compensation Participants	-	-	-	-	-	-	-
Total Net Assets	$ 9,573,019	$ 12,074,261	$ 944,654	$ 8,097,801	$ 4,256,602	$ 2,663,007	$ 1,715,651

SERS Plan 3 Defined Contribution	LEOFF Plan 1	LEOFF Plan 2	WSPRS Plan 1/2	JRS	JRA	Judges	VFFRPF	Deferred Compensation	**Total**
$ 710	$ 1,633	$ 1,068	$ 638	$ 491	$ 7	$ 4,283	$ 20,739	$ 893	$ 50,641
1,482	14,485	9,759	2,080	5	-	-	316	-	136,448
4,454	3	2	-	1	-	8	36	1	26,284
4,137	-	5,384	55	10	-	-	-	-	48,391
555	5,463	3,660	777	-	-	-	119	782	52,846
10,628	19,951	18,805	2,912	16	-	8	471	783	263,969
326	3,179	2,146	457	-	-	-	70	-	29,967
10,617	103,331	69,757	14,851	-	-	-	2,264	-	973,944
87,817	854,663	576,973	122,831	-	-	-	18,713	-	8,055,616
299	2,907	1,963	418	-	-	-	61	-	27,403
19,426	189,588	127,815	27,279	80	1	647	7,283	135	1,791,091
5,281	51,401	34,700	7,387	-	-	-	1,126	-	484,476
402,894	1,935,404	1,306,568	278,149	-	9,559	-	42,379	1,273,275	21,343,439
30,865	300,387	202,787	43,170	-	-	-	6,578	-	2,831,289
48,219	469,278	316,804	67,442	-	-	-	10,276	-	4,423,171
75,209	731,946	494,128	105,193	-	-	-	16,026	-	6,898,947
46,208	449,691	303,580	64,627	-	-	-	9,844	-	4,238,553
39,832	391,228	271,792	56,293	2,001	-	-	8,560	-	3,719,794
-	-	-	-	-	4,955	-	-	648,082	653,037
766,993	5,483,003	3,709,013	788,097	2,081	14,515	647	123,180	1,921,492	55,470,727
$ 778,331	$ 5,504,587	$ 3,728,886	$ 791,647	$ 2,588	$ 14,522	$ 4,938	$ 144,390	$ 1,923,168	$ 55,785,337
$ 47,501	$ 463,875	$ 312,982	$ 66,699	$ 80	$ 1	$ 647	$ 13,287	$ 135	$ 4,376,381
607	7,633	4,072	1,300	152	-	10	137	9	82,045
825	11	156	6	-	-	-	-	1	28,150
-	-	12	-	-	-	-	-	-	847
48,933	471,519	317,222	68,005	232	1	657	13,424	145	4,487,423
729,398	5,033,068	3,411,664	723,642	2,356	14,521	4,281	130,966	-	49,374,891
-	-	-	-	-	-	-	-	1,923,023	1,923,023
$ 729,398	$ 5,033,068	$ 3,411,664	$ 723,642	$ 2,356	$ 14,521	$ 4,281	$ 130,966	$ 1,923,023	$ 51,297,914

Combining Statement of Changes in Plan Net Assets

Pension and Other Employee Benefit Funds

For the Fiscal Year Ended June 30, 2005
(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	$ 22,361	$ 74,720	$ -	$ 8,792	$ 33,767	$ -	$ 10,160
Members	57,249	67,209	59,029	42,428	4,020	183,645	4,425
State	-	-	-	-	-	-	-
Participants	-	-	-	-	-	-	-
Total Contributions	79,610	141,929	59,029	51,220	37,787	183,645	14,585
Investment Income:							
Net appreciation (depreciation) in fair value	940,878	1,144,775	70,344	793,617	404,585	208,877	163,113
Interest and dividends	245,073	298,190	13,330	206,640	107,940	34,480	43,392
Less: Investment expenses	(22,154)	(27,829)	(815)	(18,700)	(12,093)	(2,264)	(4,782)
Net Investment Income	1,163,797	1,415,136	82,859	981,557	500,432	241,093	201,723
Transfers from other pension plans	242	254	1,337	168	500	604	1,959
Other additions	-	-	-	-	3	-	-
Total Additions	1,243,649	1,557,319	143,225	1,032,945	538,722	425,342	218,267
Deductions:							
Pension benefits	880,874	102,742	-	741,118	17,118	-	10,114
Pension refunds	5,143	24,086	25,533	1,180	3,109	35,583	2,190
Transfers to other pension plans	39	3,462	162	33	618	634	333
Administrative expenses	447	425	-	127	34	-	37
Distributions to participants	-	-	-	-	-	-	-
Total Deductions	886,503	130,715	25,695	742,458	20,879	36,217	12,674
Net Increase (Decrease)	357,146	1,426,604	117,530	290,487	517,843	389,125	205,593
Net Assets - Beginning	9,215,873	10,647,657	827,124	7,807,314	3,738,759	2,273,882	1,510,058
Net Assets - Ending	$ 9,573,019	$ 12,074,261	$ 944,654	$ 8,097,801	$ 4,256,602	$ 2,663,007	$ 1,715,651

SERS Plan 3 Defined Contribution	LEOFF Plan 1	LEOFF Plan 2	WSPRS Plan 1/2	JRS	JRA	Judges	VFFRPF	Deferred Compensation	**Total**
$ -	$ 9	$ 32,781	$ -	$ 155	$ 602	$ -	$ 751	$ -	$ 184,098
46,738	(1)	54,558	1,316	155	602	-	138	-	521,511
-	-	21,266	-	5,995	-	500	4,440	-	32,201
-	-	-	-	-	-	-	-	160,029	160,029
46,738	8	108,605	1,316	6,305	1,204	500	5,329	160,029	897,839
57,716	488,672	318,619	69,672	2	437	13	10,780	55,007	4,727,107
12,676	127,136	82,855	18,117	77	341	97	3,172	48,026	1,241,542
(438)	(11,505)	(8,346)	(1,640)	(5)	(19)	(24)	(348)	(2,360)	(113,322)
69,954	604,303	393,128	86,149	74	759	86	13,604	100,673	5,855,327
290	-	17	98	-	-	-	-	-	5,469
-	-	-	-	-	15	-	-	2,302	2,320
116,982	604,311	501,750	87,563	6,379	1,978	586	18,933	263,004	6,760,955
-	279,956	8,978	27,606	8,761	411	641	8,939	-	2,087,258
21,479	5	7,765	173	-	-	14	20	-	126,280
147	40	1	-	-	-	-	-	-	5,469
-	113	74	21	-	-	-	30	-	1,308
-	-	-	-	-	-	-	-	83,741	83,741
21,626	280,114	16,818	27,800	8,761	411	655	8,989	83,741	2,304,056
95,356	324,197	484,932	59,763	(2,382)	1,567	(69)	9,944	179,263	4,456,899
634,042	4,708,871	2,926,732	663,879	4,738	12,954	4,350	121,022	1,743,760	46,841,015
$ 729,398	$ 5,033,068	$ 3,411,664	$ 723,642	$ 2,356	$ 14,521	$ 4,281	$ 130,966	$ 1,923,023	$ 51,297,914

Note 12 - Commitments and Contingencies

A. Construction and Other Commitments

Outstanding commitments related to state infrastructure and facility construction, improvement, and/or renovation totaled $2.26 billion at June 30, 2005.

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 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, 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. The collective impact of these claims, however, is not likely to have a material impact on state revenues or expenditures.

Social and Health Services

During the reporting period, there have been additional challenges or developments in pending cases involving the administration of state social service programs. These include:

Arc of Washington v. Braddock. This is a class action lawsuit pending in the U.S. District Court. Plaintiffs allege that Medicaid eligible developmentally disabled clients are not receiving adequate services under state and federal Medicaid law. An additional class of plaintiffs failed to successfully intervene in the Arc case. 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. This ruling significantly reduced the potential exposure, but an updated figure has not been developed.

Pierce County, et al v. DSHS, et al. This is a case pending in Thurston County Superior Court. Plaintiffs seek injunctive relief and damages associated with an alleged failure on the part of the State to provide greater services at Western State Hospital (WSH) to persons who are civilly committed under the State's mental health laws. In late November, the trial court issued an oral ruling requiring WSH to promptly accept civilly committed patients or reimburse Pierce County for their care. The county also claimed breach of contract pertaining to the formulation of the contracts establishing Medicaid rates between 2001 and 2005 and asserted that the State illegally required Pierce County to use Medicaid savings to provide services to non-Medicaid eligible individuals. The trial court rejected these latter two claims. The oral ruling has not yet been reduced to an order, and appeals will be considered. New program costs alone could be as much as $5 million annually, and there will likely be some damages awarded.

Braam v. State. This class action is pending in Whatcom County Superior Court. Plaintiffs seek both damages and injunctive relief 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 mediation stipulation 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. Based on the current recommendations of the panel, estimated additional program costs will be at least $50 million. The panel's initial report setting forth benchmarks, professional standards, and action steps was released in late November 2005.

Townsend v. Braddock. In this federal class action lawsuit, Plaintiff class seeks declaratory and injunctive relief under the Americans with Disabilities Act establishing a substantial expansion of eligibility for elderly persons for certain home and community based care programs. The case is currently stayed while the parties attempt to reach a settlement. Potential costs are not yet quantifiable but, due to the small number of eligible clients, will probably not exceed $5 million per year.

Capital Medical Center, et al. v. DSHS. This is a class action pending in Thurston County involving various hospitals formerly participating in the Medically Indigent Program. Plaintiffs allege that the Department improperly deducted as much as $2,000 for every patient treated under the program. On summary judgment the Department failed to establish that it had the authority to engage in these deductions. The case is proceeding to final judgment on two other remaining issues. Potential damages could reach as much as $20 million depending on the exact terms of the final judgment.

Group Health Cooperative v. DSHS. In this Thurston County case, Group Health claims that the Department breached certain managed care contracts between 1992 and 2001 by failing to identify and decertify persons simultaneously receiving other public benefits while

enrolled in the Group Health Plan. There is no trial date set. Potential damages have been estimated at $14.6 million.

Transportation

Lower Elwha Klallam Tribe, et al. v. WSDOT, et al. Plaintiff Tribes have brought suit in Thurston County Superior Court alleging that the Washington State Department of Transportation and the State Department of Archaeology and Historic Preservation negligently disturbed a significant archaeology site during construction of a graving dock near Port Angeles. The complaint seeks cash damages and injunctive relief. The complaint does not specify the amount of damages sought but negotiations have indicated that the Tribe's claim exceeds $5 million. The court stayed the litigation until January 2006 to enable the parties to pursue settlement negotiations.

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 March of 2007.

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 state tax was on the tribal retailers and that therefore, the state tax was pre-empted. If upheld on appeal, this ruling for the two Plaintiff Tribes will likely reduce fuel tax revenues by at least $400,000 per year. A more significant impact on fuel tax revenues will follow if other Tribes seek similar exemptions based on this case.

Commencement Bay Superfund Site. The State of Washington was named a potentially responsible party in 1990 for sediment contamination at the Thea Foss Waterway in Tacoma. Seventy parties have assigned their claims against the State to three major utilities. The cleanup costs are estimated at approximately $60 million.

United States v. WSDOT & Southgate. 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. The lawsuit alleges that the WSDOT materials lab was the source of the contamination. The EPA seeks $11 million.

Personnel

Davis, et al. v. DOT. This lawsuit involves 400 class members who are current or former employees of the Washington State Ferries. Plaintiffs work twelve 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 claims of Plaintiff Class will likely exceed $12 million. Trial is scheduled for February of 2006.

Revenue

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

Estate of Hemphill. Class Plaintiffs prevailed in the Washington State Supreme Court on a claim involving the state estate tax in relation to the federal inheritance tax. The State must reimburse Class Plaintiffs for taxes collected under the state estate tax. The total amount of refunds is $167.7 million, of which $137.5 million was paid in Fiscal Year 2005.

Microsoft Corp. v. Department of Revenue. Microsoft seeks a refund of deferred sales and use taxes alleging that it does not owe such tax on retained software or software not sold for profit. Microsoft seeks a refund of at least $16 million, plus statutory interest.

Qwest Corp. v. Department of Revenue. Qwest seeks property tax refunds alleging that the Department's valuations of its operating property in Washington between 2001 and 2004 were excessive. The Department estimates that Qwest's refund claims total approximately $55 million, plus statutory interest. Trial is scheduled to begin on February 14, 2006.

Texaco Refining and Marketing, Inc. v. Department of Revenue. Texaco alleges that the Department overvalued exchanges of petroleum products it made with other oil companies. This case is currently on appeal to the Washington State Court of Appeals. Texaco seeks refunds of B&O, Hazardous Substances, and Petroleum Products Taxes totaling $5.7 million, plus statutory interest.

Washington State Farm Bureau Federation, et al. v. Gregoire. This action pending in Snohomish County Superior Court challenges 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. Revenues from these measures for the 2005-2007 biennium are projected to be approximately $401 million.

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 scheduled for October of 2006. Additional costs resulting from a ruling in plaintiffs' favor would be as much as $360 million per biennium.

General Government

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. Plaintiffs seek at least $67 million in back pay and $7 million a year in prospective wage adjustments. Wage claim statutes allow for double damages in certain circumstances so the $67 million could become $134 million.

Natural Resources

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' 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 a 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, a revised EIS would need to be developed, and a new harvest level decision based on the revised EIS would be required. 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 harvest 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.

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.

Tort Cases and Claims

Stephen Joyce v. DOC. Parolee, on a suspended driver's license, killed a young mother. The jury found for the plaintiff in September 2000 and Department of Corrections (DOC) appealed. The Court of Appeals, Division II, affirmed. The Washington State Supreme Court affirmed in part, reversed in part, and remanded to the trial court for further proceedings thereby overturning the nearly $22.5 million verdict. The State sought a ruling from the Supreme Court to limit DOC's liability for crimes unrelated to conditions of supervision of prior offenses, but was unsuccessful. Motions for Reconsideration filed by both parties are still pending in the Supreme Court.

Thelma Taylor/Amanda Morgan-Hayes/Karen Peterson v. DOC. Plaintiffs, in three separate lawsuits, claim substantial damages because DOC 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.

Aba Sheikh v. DSHS. Plaintiff was assaulted by four assailants, two of whom were dependent children in foster care. The jury awarded over $10 million, finding DSHS liable for about $8 million of the total. Department of Social and Health Service's (DSHS) appeal was certified for direct review by the State Supreme Court, which heard oral argument on June 9, 2005, and has yet to render a decision. (Note: the Court of Appeals, in Terrell C. v. DSHS (2004), review denied 2005, held that the purpose of DSHS's duty to control children was to protect the children, and not to protect third persons. The Aba Sheikh case, if allowed to stand,

would conflict with and constitute a reversal of Terrell C., creating a new cause of action against DSHS.)

Daniel Albertson, GAL v. DSHS and Ronald Young. Ronald Young was arrested and pled guilty to sexually abusing his foster children, which he photographed and posted on the internet. The present lawsuit involves seven allegedly injured children. The AGO is obtaining investigative reports from the criminal action. This matter is significant because potential damages exposure could be substantial if liability is proven against the State for placing children in his care.

WSP and Officer Idland. Trooper Idland is accused of sexually molesting female motorists after he pulled them over for driving under the influence of intoxicants. There are currently eight tort claims filed, with additional claims likely. Idland pled guilty to custodial sexual misconduct. Plaintiffs are claiming negligent hiring, retention, and supervision by the WSP. If the claims are successful, damages could be substantial.

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 2005, the state had guaranteed 172 school districts' voter-approved general obligation debt with a total outstanding principal of $4.6 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, 2005, outstanding certificates of participation notes totaled $53.5 million for 220 local governments participating in LOCAL. The state estimates that LOCAL program liability, if any, will be immaterial to its overall financial condition.

Office Building Lease

The 2001 Legislature authorized the state to lease-develop an office building in Tumwater, Washington. On October 23, 2003, the state entered into a ground lease and a lease agreement with Tumwater Office Properties (TOP), a Washington nonprofit corporation. The agreements call for TOP to design and construct an office building and to finance it with tax-exempt obligations that meet 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 that equal the required debt service on 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 and transfer ownership of the building to the state at the end of the lease. The office building was occupied starting in early fiscal year 2006.

Note 13 - Subsequent Events

A. Bond Issues

In July 2005, the state refunded $461.2 million in Various Purpose General Obligation bonds, series R-2006A.

In August 2005, the state issued $64.2 million in General Obligation Taxable Bonds, Series 2006T.

In August 2005, the state issued $229.9 million in Various Purpose General Obligation Bonds, Series 2006A and $197 million in Motor Vehicle Fuel Tax General Obligation Bonds, Series 2006B.

In September 2005, the state issued $55 million in Motor Vehicle Fuel Tax General Obligation Bonds, Series 2006C.

B. Certificates of Participation

In August 2005, the state issued $16.6 million in Certificates of Participation for various state and local government real estate purchases, Series 2005D.

In August 2005, the state issued $6.8 million in Certificates of Participation for various state and local government equipment purchases, Series 2005E.

In December 2005, the state plans to issue $11 million in Certificates of Participation for various state and local government equipment purchases, Series 2005F.

Required Supplementary Information

Budgetary Information

Budgetary Comparison Schedule

General Fund

For the Fiscal Year Ended June 30, 2005
(expressed in thousands)

	General Fund			
	Original Budget 2003-05 Biennium	Final Budget 2003-05 Biennium	Actual 2003-05 Biennium	Variance with Final Budget
Budgetary fund balance, July 1	$ 404,581	$ 404,581	$ 404,581	$ -
Resources:				
Taxes	22,791,756	22,830,612	23,158,534	327,922
Licenses, permits, and fees	156,491	155,089	154,486	(603)
Other contracts and grants	477,517	533,271	525,943	(7,328)
Timber sales	8,600	8,600	8,562	(38)
Federal grants-in-aid	10,630,943	11,271,670	10,726,343	(545,327)
Charges for services	78,120	89,321	92,718	3,397
Interest income	65,240	65,240	54,607	(10,633)
Miscellaneous revenue	86,885	103,589	87,175	(16,414)
Transfers from other funds	297,642	672,040	830,136	158,096
Total Resources	34,997,775	36,134,013	36,043,085	(90,928)
Charges to appropriations:				
General government	2,297,684	2,685,210	2,616,620	68,590
Human services	17,118,189	17,588,984	17,416,619	172,365
Natural resources and recreation	456,814	525,584	489,730	35,854
Transportation	54,139	57,521	53,640	3,881
Education	14,176,517	14,291,867	14,213,990	77,877
Capital outlays	244,073	275,637	115,289	160,348
Transfers to other funds	99,884	99,874	251,182	(151,308)
Total Charges to appropriations	34,447,300	35,524,677	35,157,070	367,607
Excess available for appropriation Over (Under) charges to appropriations	550,475	609,336	886,015	276,679
Reconciling Items:				
Changes in reserves (net)	-	-	(91,848)	(91,848)
Entity adjustments (net)	-	-	75,492	75,492
Total Reconciling Items	-	-	(16,356)	(16,356)
Budgetary Fund Balance, June 30	$ 550,475	$ 609,336	$ 869,659	$ 260,323

Budgetary Information

Budgetary Comparison Schedule

Budget to GAAP Reconciliation

General Fund

For the Fiscal Year Ended June 30, 2005

(expressed in thousands)

	General Fund
Sources/inflows of resources	
Actual amounts (budgetary basis) "Total Resources" from the Budgetary Comparison Schedule	$ 36,043,085
Differences - budget to GAAP:	
The following items are inflows of budgetary resources but are not revenue for financial reporting purposes:	
Transfers from other funds	(830,136)
Budgetary fund balance at the beginning of the year	(404,581)
The following items are not inflows of budgetary resources but are revenue for financial reporting purposes:	
Noncash commodities and electronic food stamp benefits	1,056,547
Unanticipated receipts	157,698
Noncash revenues	75,492
Revenues collected for other governments	55,644
Biennium total revenues	36,153,749
Fiscal Year 2004 total revenues	(17,609,936)
Total revenues (GAAP basis) as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	$ 18,543,813

Uses/outflows of resources	
Actual amounts (budgetary basis) "Total Charges to Appropriations" from the Budgetary Comparison Schedule.	$ 35,157,070
Differences - budget to GAAP:	
Budgeted expenditure transfers are recorded as expenditures in the budget statement but are recorded as other financing source (use) for financial reporting purposes.	(1,583,744)
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.	(251,182)
The following items are not outflows of budgetary resources but are recorded as current expenditures for financial reporting purposes.	
Noncash commodities and electronic food stamp benefits	1,056,547
Expenditures related to unanticipated receipts	157,698
Capital lease acquisitions	20,568
Distributions to other governments	55,644
Biennium total expenditures	34,612,601
Fiscal Year 2004 total expenditures	(16,880,133)
Total expenditures (GAAP basis) as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	$ 17,732,468

Budgetary Information

Notes to Required Supplementary Information

General Budgetary Policies and Procedures

The Governor is required to submit a budget to the state Legislature no later than December 20 of the year preceding odd-numbered year sessions of the Legislature. The budget is a proposal for expenditures in the ensuing biennial period based upon anticipated revenues from the sources and rates existing by law at the time of submission of the budget. The Governor may additionally submit, as an appendix to the budget, a proposal for expenditures in the ensuing biennium from revenue sources derived from proposed changes in existing statutes.

The appropriated budget and any necessary supplemental budgets are legally required to be adopted through the passage of appropriation bills by the Legislature and approved by the Governor. Operating appropriations are generally made at the fund/account and agency level; however, in a few cases, appropriations are made at the fund/account and agency/program level. Operating appropriations cover either the entire biennium or a single fiscal year within the biennium. Capital appropriations are biennial and are generally made at the fund/account, agency, and project level.

The legal level of budgetary control is at the fund/account, agency, and appropriation level, with administrative controls established at lower levels of detail in certain instances. The accompanying budgetary schedules are not presented at the legal level of budgetary control. This is due to the large number of appropriations within individual agencies that would make such a presentation in the accompanying financial schedules extremely cumbersome. Section 2400.121 of the GASB Codification of Governmental Accounting and Financial Reporting Standards provides for the preparation of a separate report in these extreme cases. For the state of Washington, a separate report has been prepared for the 2003-05 Biennium to illustrate legal budgetary compliance. Appropriated budget versus actual expenditures, and estimated versus actual revenues and other financing sources (uses) for appropriated funds at agency and appropriation level are presented in Report CAF1054 for governmental funds. A copy of this report is available at the Office of Financial Management, 6639 Capitol Boulevard, PO Box 43113, Olympia, Washington 98504-3113.

Legislative appropriations are strict legal limits on expenditures/expenses, and overexpenditures are prohibited. All appropriated and certain nonappropriated funds are further controlled by the executive branch through the allotment process. This process allocates the expenditure/expense plan into monthly allotments by program, source of funds, and object of expenditure. According to statute RCW 43.88.110(2), except under limited circumstances, the original allotments are approved by the Governor and may be revised on a quarterly basis and must be accompanied by an explanation of the reasons for significant changes. Because allotments are not the strict legal limit on expenditures/expenses, the budgetary schedules presented as required supplementary information (RSI) are shown on an appropriation versus actual comparison rather than an allotment versus actual comparison.

Proprietary funds typically earn revenues and incur expenses (i.e., depreciation or budgeted asset purchases) not covered by the allotment process. Budget estimates are generally made outside the allotment process according to prepared business plans. These proprietary fund business plan estimates are adjusted only at the beginning of each fiscal year.

Additional fiscal control is exercised through various means. OFM is authorized to make expenditure/expense allotments based on availability of unanticipated receipts, mainly federal government grant increases made during a fiscal year. State law does not preclude the over expenditure of allotments, although RCW 43.88.110(3) requires that the Legislature be provided an explanation of major variances.

Operating encumbrances lapse at the end of the applicable appropriation. Capital outlay encumbrances lapse at the end of the biennium unless reappropriated by the Legislature in the ensuing biennium. Encumbrances outstanding against continuing appropriations at fiscal year end are reported as reservations of fund balance.

Budgetary Reporting versus GAAP Reporting

Governmental funds are budgeted materially in conformance with GAAP. However, the presentation in the accompanying budgetary schedules is different in certain respects from the corresponding Statements of Revenues, Expenditures, and Changes in Fund Balance (governmental operating statement). In the accompanying budgetary schedules, budget and actual expenditures are reported only for appropriated activities. Expenditures are classified based on whether the appropriation is from the operating or capital budget. Expenditures funded by operating budget appropriations are reported as current expenditures classified by the function of the agency receiving the appropriation. Expenditures funded by capital budget appropriations are reported as capital outlays.

However, in the governmental operating statements, all governmental funds are included and expenditures are

classified according to what was actually purchased. Capital outlays are fixed asset acquisitions such as land, buildings, and equipment. Debt service expenditures are principal and interest payments. Current expenditures are all other governmental fund expenditures classified based on the function of the agency making the expenditures.

Additionally, certain governmental activities are excluded from the budgetary schedules because they are not appropriated. These activities include: activities designated as nonappropriated by the Legislature, such as the Higher Education Special Revenue Fund, Higher Education Endowment Fund, Tobacco Settlement Securitization Bond Debt Service Fund, federal surplus food commodities, electronic food stamp benefits, capital leases, note proceeds, and resources collected and distributed to other governments.

Further, certain expenditures are appropriated as operating transfers. These transfers are reported as operating transfers on the budgetary schedules and as expenditures on the governmental operating statements. The factors contributing to the differences between the Budgetary Comparison Schedule and the Statement of Revenues, Expenditures, and Changes in Fund Balance are noted in the previous Budget to GAAP reconciliation.

Budgetary Fund Balance includes the following as reported on the Governmental Funds Balance Sheet: Unreserved, undesignated fund balance; and Reserved for encumbrances.

Pension Plan Information

Public Employees' Retirement System - Plan 1

Schedule of Funding Progress

Valuation Years 2004 through 1999 (dollars in millions)

	2004	2003	2002	2001	2000	1999
Actuarial Valuation Date	9/30/2004	9/30/2003	9/30/2002	9/30/2001	12/31/2000	12/31/1999
Actuarial Value of Plan Assets	$ 9,928	$ 10,227	$ 10,757	$ 10,990	$ 11,111	$ 10,456
Actuarial Accrued Liability	12,855	12,692	12,560	12,088	11,695	11,636
Unfunded Actuarial Liability	2,927	2,465	1,803	1,098	584	1,180
Percentage Funded	77%	81%	86%	91%	95%	90%
Covered Payroll	863	945	1,023	1,085	1,132	1,184
Unfunded Actuarial Liability as a Percentage of Covered Payroll	339%	261%	176%	101%	52%	100%

Source: Washington State Office of the State Actuary

Teachers' Retirement System - Plan 1

Schedule of Funding Progress

Valuation Years 2004 through 1999 (dollars in millions)

	2004	2003	2002	2001	2000	1999
Actuarial Valuation Date	9/30/2004	9/30/2003	9/30/2002	9/30/2001	6/30/2000	6/30/1999
Actuarial Value of Plan Assets	$ 8,728	$ 9,086	$ 9,365	$ 9,342	$ 9,372	$ 8,696
Actuarial Accrued Liability	10,401	10,325	10,235	9,895	9,566	9,529
Unfunded Actuarial Liability	1,673	1,239	869	553	194	833
Percentage Funded	84%	88%	91%	94%	98%	91%
Covered Payroll	616	692	741	800	957	984
Unfunded Actuarial Liability as a Percentage of Covered Payroll	272%	179%	117%	69%	20%	85%

Source: Washington State Office of the State Actuary

Pension Plan Information

Law Enforcement Officers' and Fire Fighters' Retirement System- Plan 1

Schedule of Funding Progress

Valuation Years 2004 through 1999 (dollars in millions)

	2004	2003	2002	2001	2000	1999
Actuarial Valuation Date	9/30/2004	9/30/2003	9/30/2002	9/30/2001	12/31/2000	12/31/1999
Actuarial Value of Plan Assets	$ 4,666	$ 4,803	$ 5,095	$ 5,369	$ 5,440	$ 5,150
Actuarial Accrued Liability	4,266	4,275	4,259	4,153	4,002	4,125
Unfunded (Assets in Excess of)						
Actuarial Liability	(400)	(528)	(836)	(1,216)	(1,438)	(1,025)
Percentage Funded	109%	112%	120%	129%	136%	125%
Covered Payroll	64	71	80	87	95	106
Unfunded Actuarial Liability as a						
Percentage of Covered Payroll	N/A	N/A	N/A	N/A	N/A	N/A

Source: Washington State Office of the State Actuary

Judicial Retirement System

Schedule of Funding Progress

Valuation Years 2004 through 1999 (dollars in millions)

	2004	2003	2002	2001	2000	1999
Actuarial Valuation Date	9/30/2004	9/30/2003	9/30/2002	9/30/2001	12/31/2000	12/31/1999
Actuarial Value of Plan Assets	$ 4	$ 6	$ 8	$ 10	$ 10	$ 9
Actuarial Accrued Liability	89	91	92	92	93	94
Unfunded Actuarial Liability	85	85	84	82	83	85
Percentage Funded	4%	7%	9%	11%	11%	10%
Covered Payroll	2.4	2.6	3.0	3.0	4.0	4.0
Unfunded Actuarial Liability as a						
Percentage of Covered Payroll	3542%	3269%	2800%	2733%	2075%	2125%

Source: Washington State Office of the State Actuary

Pension Plan Information

Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund

Schedule of Funding Progress

Valuation Years 2004 through 1999 (dollars in millions)

	2004	2003	2002	2001	2000	1999
Actuarial Valuation Date	12/31/2004	12/31/2003	12/31/2002	12/31/2001	12/31/2000	12/31/1999
Actuarial Value of Plan Assets	$ 120	$ 120	$ 124	$ 129	$ 126	$ 118
Actuarial Accrued Liability*	115	112	110	99	96	98
Unfunded (Assets in Excess of)						
Actuarial Liability	(5)	(8)	(14)	(30)	(30)	(20)
Percentage Funded	104%	107%	113%	130%	131%	120%
Covered Payroll**	N/A	N/A	N/A	N/A	N/A	N/A
Unfunded Actuarial Liability as a						
Percentage of Covered Payroll	N/A	N/A	N/A	N/A	N/A	N/A

* Pension plan liability only - excludes Relief benefits.

**Covered Payroll is not presented because it is not applicable since this is a volunteer organization.

Source: Washington State Office of the State Actuary

Judges' Retirement Fund

Schedule of Funding Progress

Valuation Years 2004 through 1999 (dollars in millions)

	2004	2003	2002	2001	2000	1999
Actuarial Valuation Date	9/30/2004	9/30/2003	9/30/2002	9/30/2001	12/31/2000	12/31/1999
Actuarial Value of Plan Assets	$ 4.4	$ 4.5	$ 4.7	$ 4.9	$ 4.7	$ 4.4
Actuarial Accrued Liability	4.7	5.2	5.5	6.0	6.1	6.4
Unfunded Actuarial Liability	0.3	0.7	0.8	1.1	1.4	2.0
Percentage Funded	94%	87%	85%	82%	77%	69%
Covered Payroll	0.0	0.0	0.1	0.1	0.1	0.1
Unfunded Actuarial Liability as a						
Percentage of Covered Payroll	N/A	N/A	800%	1100%	1400%	2000%

Source: Washington State Office of the State Actuary

Pension Plan Information

Schedules of Contributions from Employers and Other Contributing Entities

For the Fiscal Years Ended June 30, 2005 through 2000

	2005	2004	2003	2002	2001	2000
Public Employees' Retirement System - Plan 1 (expressed in millions)						
Employers' Annual Required Contribution	$ 340.3	$ 295.1	$ 228.9	$ 164.3	$ 118.8	$ 199.2
Employers' Actual Contribution	22.4	22.8	56.6	68.6	181.7	200.2
Percentage Contributed	7%	8%	25%	42%	153%	101%
Public Employees' Retirement System - Plan 2/3 (expressed in millions)						
Employers' Annual Required Contribution	$ 227.7	$ 192.6	$ 141.7	$ 72.0	$ 55.6	$ 103.6
Employers' Actual Contribution	74.7	69.4	38.2	51.0	115.0	101.9
Percentage Contributed	33%	36%	27%	71%	207%	98%
Teachers' Retirement System - Plan 1 (expressed in millions)						
Employers' Annual Required Contribution	$ 224.3	$ 185.7	$ 153.4	$ 119.8	$ 90.6	$ 176.1
Employers' Actual Contribution	8.8	11.4	20.4	59.5	141.3	183.0
Percentage Contributed	4%	6%	13%	50%	156%	104%
Teachers' Retirement System - Plan 2/3 (expressed in millions)						
Employers' Annual Required Contribution	$ 117.4	$ 96.2	$ 79.5	$ 66.7	$ 40.4	$ 56.2
Employers' Actual Contribution	33.8	29.9	18.2	46.4	69.6	75.3
Percentage Contributed	29%	31%	23%	70%	172%	134%
School Employees' Retirement System - Plan 2/3 (expressed in millions)						
Employers' Annual Required Contribution	$ 64.0	$ 52.3	$ 44.2	$ 19.5	$ 6.7	**
Employers' Actual Contribution	10.2	9.1	6.2	11.3	19.9	**
Percentage Contributed	16%	17%	14%	58%	297%	**

Source: Washington State Office of the State Actuary

The Annual Required Contribution (ARC) changes each year with the experience of the plans. Factors influencing the experience include changes in funding methods, assumptions, plan provisions, and economic and demographic gains and losses. The methods used to derive the ARC for this accounting disclosure are different from that used to derive the actual contributions required by law. These differences include the use of different actuarial valuations (actual contributions may be based on an earlier valuation), and different actuarial cost methods. For these reasons the actual contributions will not match the Annual Required Contributions.

** SERS did not exist prior to 9/1/2000

Pension Plan Information

Schedules of Contributions from Employers and Other Contributing Entities

For the Fiscal Years Ended June 30, 2005 through 2000

	2005	2004	2003	2002	2001	2000
Law Enforcement Officers' and Fire Fighters' Retirement System - Plan 1 (expressed in millions)						
Employers' Annual Required Contribution	$ -	$ -	$ -	$ -	$ -	$ 6.3
Employers' Actual Contribution	-	-	0.1	0.1	0.1	6.3
Percentage Contributed	N/A	N/A	N/A	N/A	N/A	100%
State Annual Required Contribution	-	-	-	-	-	-
State Actual Contribution	-	-	-	-	-	-
Percentage Contributed	N/A	N/A	N/A	N/A	N/A	N/A
Law Enforcement Officers' and Fire Fighters' Retirement System - Plan 2 (expressed in millions)						
Employers' Annual Required Contribution	$ 48.5	$ 41.5	$ 34.1	$ 26.2	$ 20.3	$ 26.9
Employers' Actual Contribution	32.8	30.8	25.6	24.0	31.5	26.2
Percentage Contributed	68%	74%	75%	92%	155%	97%
State Annual Required Contribution	32.3	27.7	22.7	17.5	13.5	18.0
State Actual Contribution	21.3	20.2	16.4	15.6	20.9	17.1
Percentage Contributed	66%	73%	72%	89%	155%	95%
Washington State Patrol Retirement System (expressed in millions)						
Employers' Annual Required Contribution	$ 3.4	$ 2.6	$ -	$ -	$ -	$ -
Employers' Actual Contribution	-	-	-	-	-	-
Percentage Contributed	0%	0%	N/A	N/A	N/A	N/A

N/A indicates data not available.

Source: Washington State Office of the State Actuary

The Annual Required Contribution (ARC) changes each year with the experience of the plans. Factors influencing the experience include changes in funding methods, assumptions, plan provisions, and economic and demographic gains and losses. The methods used to derive the ARC for this accounting disclosure are different from that used to derive the actual contributions required by law. These differences include the use of different actuarial valuations (actual contributions may be based on an earlier valuation), and different actuarial cost methods. For these reasons the actual contributions will not match the Annual Required Contributions.

Pension Plan Information

Schedules of Contributions from Employers and Other Contributing Entities

For the Fiscal Years Ended June 30, 2005 through 2000

	2005	2004	2003	2002	2001	2000
Judicial Retirement System (expressed in millions)						
Employers' Annual Required Contribution	$ 21.7	$ 18.5	$ 16.2	$ 14.2	$ 13.3	$ 12.5
Employers' Actual Contribution	6.2	6.2	6.2	6.2	7.3	7.3
Percentage Contributed	29%	34%	38%	44%	55%	58%
Judges' Retirement Fund (expressed in millions)						
Employers' Annual Required Contribution	$ 0.1	$ 0.2	$ 0.1	$ 0.2	$ 0.2	$ 0.3
Employers' Actual Contribution	0.5	0.5	0.3	0.3	0.8	0.8
Percentage Contributed	500%	250%	300%	150%	400%	267%
Volunteer Fire Fighters' and and Reserve Officers' Relief and Pension Fund (expressed in millions)						
Employers' Annual Required Contribution	$ 0.7	$ 0.8	$ 0.8	$ 0.8	$ 0.7	$ 0.7
Employers' Actual Contribution	0.7	0.8	0.8	0.8	0.7	0.7
Percentage Contributed	100%	100%	100%	100%	100%	100%
State Annual Required Contribution	1.8	1.5	0.7	-	-	0.1
State Actual Contribution	4.4	4.4	3.3	3.3	3.3	2.7
Percentage Contributed	244%	293%	471%	N/A	N/A	2700%

N/A indicates data not available.

Source: Washington State Office of the State Actuary

The Annual Required Contribution (ARC) changes each year with the experience of the plans. Factors influencing the experience include changes in funding methods, assumptions, plan provisions, and economic and demographic gains and losses. The methods used to derive the ARC for this accounting disclosure are different from that used to derive the actual contributions required by law. These differences include the use of different actuarial valuations (actual contributions may be based on an earlier valuation), and different actuarial cost methods. For these reasons the actual contributions will not match

Pension Plan Information

Notes to the Required Supplementary Information
Defined Benefit Pension Plans

For the Fiscal Year Ended June 30, 2005

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated below. Additional information as of the latest valuation follows.

	PERS Plan 1	PERS Plan 2/3	TRS Plan 1	TRS Plan 2/3	SERS Plan 2/3
Valuation Date	9/30/2004	9/30/2004	9/30/2004	9/30/2004	9/30/2004
Actuarial Cost Method	entry age	aggregate***	entry age	aggregate***	aggregate***
Amortization Method					
Funding	level %	n/a	level %	n/a	n/a
GASB	level $	n/a	level $	n/a	n/a
Remaining amortization period (closed)	7/1/07-6/30/24	n/a	9/1/07-6/30/24	n/a	n/a
Asset valuation method	8-year graded smoothed fair value*	8-year graded smoothed fair value*	8-year graded smoothed fair value*	8-year graded smoothed fair value*	8-year graded smoothed fair value*
Actuarial assumptions:					
Investment Rate of Return	8.00%	8.00%	8.00%	8.00%	8.00%
Projected Salary Increases					
Salary Inflation at 4.5%, plus the merit increases described below:					
initial salary merit (grades down to 0%)	6.1%	6.1%	6.2%	6.2%	7.0%
merit period (years of service)	17 yrs	17 yrs	17 yrs	17 yrs	17 yrs
Includes inflation at		3.50%		3.50%	3.50%
Cost of living adjustments	Uniform COLA** Gainsharing COLA**	CPI increase, maximum 3%	Uniform COLA** Gainsharing COLA**	CPI increase, maximum 3%	CPI increase, maximum 3%

N/A indicates data not applicable.

* Asset Valuation Method (8 year smoothed fair value): The actuarial value of assets is calculated under an adjusted market value method by starting with the market value of assets. For subsequent years the actuarial value of assets is determined by adjusting the market value of assets to reflect the difference between the actual investment return and the expected investment return during each of the last 8 years or, if fewer, the completed years since adoption, at the following rates per year (annual recognition):

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

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

LEOFF Plan 1	LEOFF Plan 2	VFFRPF
9/30/2004	9/30/2004	12/31/2004
entry age	aggregate***	entry age
level %	n/a	level $
level $	n/a	level $
6/30/2024	n/a	12/31/2017
8-year graded smoothed fair value*	8-year graded smoothed fair value*	4-year smoothed fair value
8.00%	8.00%	8.00%
11.7% 21 yrs	11.7% 21 yrs	n/a
3.50% CPI increase	3.50% CPI increase, maximum 3%	n/a none

** The Uniform COLA and Gainsharing COLA.
Generally, all retirees over age 66 receive an increase in their monthly benefit at least once a year.
The Gainsharing COLA is added every even-numbered year if certain extraordinary investment gains are ach
In 1998 it was $0.11. On 1/1/2000 it was $0.28 per year of service. On 1/1/2002 and 1/1/2004 no Gainshar
was added.

The Uniform COLA increase is added every July. The next Uniform COLA amount is calculated as the last U
COLA amount plus any Gainsharing COLA amount, all increased by 3%.
On 7/1/2000, it was ($0.77+$0.28)x1.03 = $1.08. On 7/1/2001, it was ($1.08+$0.00)x1.03 = $1.11.
On 7/1/2002, it was ($1.11+$0.00)x1.03 = $1.14. On 7/1/2003, it was ($1.14+$0.00)x1.03 = $1.18.
On 7/1/2004, it was ($1.18+$0.00)x1.03 = $1.21. On 7/1/2005, it was ($1.21 = $0.00)x 1.03 = $1.25.

*** The aggregate cost method does not identify or separately amortize unfunded actuarial liabilities.
**** The method is pay-as-you-go for the funding of JRS and Judges.

Information about Infrastructure Assets Reported Using the Modified Approach

Condition Assessment

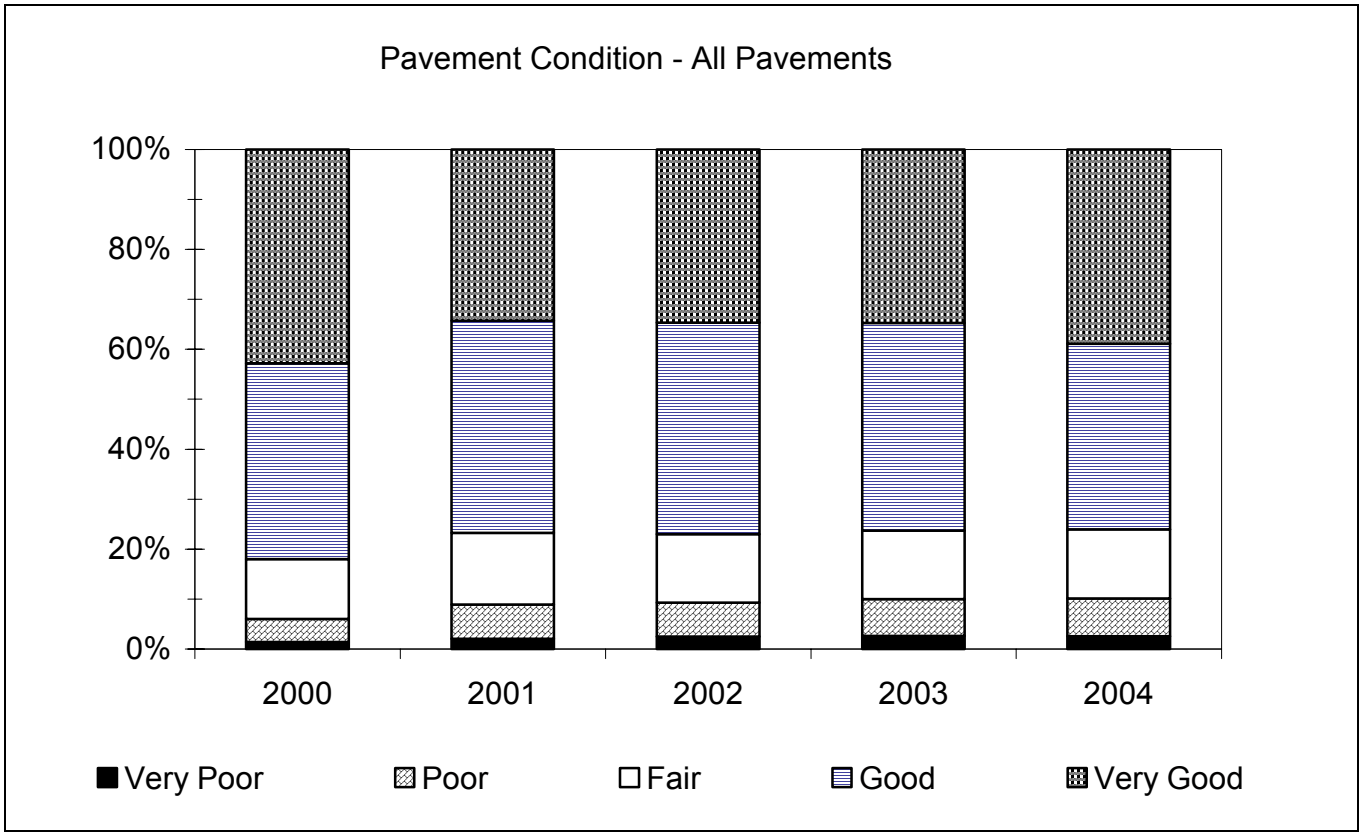
Pavement Condition

The Washington State Department of Transportation (WSDOT) owns and maintains 20,003 lane miles of highway, including ramps, collectors and special use lanes. Special use lanes include High Occupancy Vehicle (HOV), climbing, chain-up, holding, slow vehicle turnout, two-way turn, weaving/speed change, bicycle, transit, truck climbing shoulder, turn and acceleration lanes. Special use and ramp/collector lane miles make up 1,688 of the total lane miles. There are approximately 69 lane miles under construction.

WSDOT has been rating pavement condition since 1969. Pavement rated in *good* condition is smooth and has few defects. Pavement in *poor* condition is characterized by cracking, patching, roughness and rutting. Pavement condition is rated using three factors: Pavement Structural Condition (PSC), International Roughness Index (IRI), and Rutting.

In 1993 the Legislature required WSDOT to rehabilitate pavements at the Lowest Life Cycle Cost (LLCC), which has been determined to occur at a PSC range between 40 and 60, or when triggers for roughness or rutting are met. The trend over the last five years has shown that the percentage of pavements in poor or very poor condition has remained fairly stable at 9 to 10% except in 2000 when it was at 6%. WSDOT uses LLCC analysis to manage its pavement preservation program. The principles behind LLCC are basic – if rehabilitation is done too early, pavement life is wasted; if rehabilitation is done too late, very costly repair work may be required, especially if the underlying structure is compromised. WSDOT continually looks for ways to best strike the balance between these two basic principles.

While the goal for pavements is zero miles in 'poor' condition, marginally good pavements may deteriorate into poor condition during the lag time between assessment and actual rehabilitation. As a result, a small percentage of marginally good pavements will move into the 'poor' condition category for any given assessment period.



The Department of Transportation manages State Highways targeting the LLCC per the Pavement Management System due date. While the department has a long-term goal of no pavements in poor condition (a pavement condition index less than 40, on a 100 point scale), the current policy is to maintain 90 percent of all highway pavement types at a pavement condition index of 40 or better with no more than 10 percent of its highways at a pavement condition index below 40. The most recent assessment found that State Highways were within the prescribed parameters with only ten percent of all pavement types with a pavement condition index below 40.

WSDOT uses the following scale for Pavement Structural Condition (PSC):

Category	PSC Range	Description
Very Good	80 – 100	Little or no distress. Example: Flexible pavement with 5% of wheel track length having "hairline" severity alligator cracking will have a PSC of 80.
Good	60 - 80	Early stage deterioration. Example: Flexible pavement with 15% of wheel track length having "hairline" alligator cracking will have a PSC of 70.
Fair	40 - 60	This is the threshold value for rehabilitation. Example: Flexible pavement with 25% of wheel track length having "hairline" alligator cracking will have a PSC of 50.
Poor	20 - 40	Structural deterioration. Example: Flexible pavement with 25% of wheel track length having "medium (spalled)" severity alligator cracking will have a PSC of 30.
Very Poor	0 - 20	Advanced structural deterioration. Example: Flexible pavement with 40% of wheel track length having "medium (spalled)" severity alligator cracking will have a PSC of 10. May require extensive repair and thicker overlays.

The PSC is a measure based on distresses such as cracking and patching, which are related to the pavement's ability to carry loads. Pavements develop structural deficiencies due to truck traffic and cold weather. WSDOT attempts to program rehabilitation for pavement segments when they are projected to reach a PSC of 50. A PSC of 50 can occur due to various amounts and severity of distress. For rigid pavements (such as Portland cement concrete), a PSC of 50 represents 50 percent of the concrete slabs exhibiting joint faulting with a severity of 1/8 to 1/4 inch (faulting is the elevation difference at slab joints and results in a rough ride – particularly in large trucks). Further, a PSC of 50 can also be obtained if 25 percent of concrete slabs exhibit two to three cracks per panel.

The International Roughness Index (IRI) uses a scale in inches per mile. WSDOT considers pavements with a ride performance measures greater than 220 inches per mile to be in poor condition. For example, new asphalt overlays typically have ride values below 75 inches per mile, which is very smooth.

Rutting is measured in millimeters: a pavement with more than 12 millimeters of rutting is considered in poor condition. The three indices (PSC, IRI, and Rutting) are combined to rate a section of pavement, which is assigned the lowest category of any of the three ratings.

The following table shows the combined explanatory categories and the ratings for each index.

Category	PSC	IRI	Rutting
Very Good	100 – 80	< 95	< 4
Good	80 – 60	95 – 170	4 – 8
Fair	60 – 40	170 – 220	8 – 12
Poor	40 – 20	220 – 320	12 – 16
Very Poor	0 – 20	> 320	> 16

Since 1999, WSDOT has used an automated pavement distress survey procedure. In the automated survey, high-resolution video images are collected at highway speed and these video images are then rated on special workstations at 3-6 mph speed. This change has also resulted in a more detailed classification and recording of various distresses that are rated.

Pavement condition surveys are generally conducted in the fall of each year, then analyzed during the winter and spring, with the previous year's results available in July each year. In 2004, WSDOT rated pavement condition on 17,762 of the 20,003 lane miles of highway. The chart on the following page shows recent pavement condition ratings for the State Highway System, using the combination of the three indices described above.

Condition Rating of Washington State Department of Transportation's Pavement

Percentage of Pavement in Fair or Better Condition	2004*	2003*	2002*	2001*	2000*
Statewide - Chip Seals	86	86	89	89	92
Statewide - Asphalt	92	91	91	92	95
Statewide - Concrete	85	93	92	92	92
Statewide - All Pavements	90	90	91	91	94

Percentage of Pavement in Poor or Very Poor Condition	2004*	2003*	2002*	2001*	2000*
Statewide - Chip Seals	14	14	11	11	8
Statewide - Asphalt	8	9	9	8	5
Statewide - Concrete	15	7	8	8	8
Statewide - All Pavements	10	10	9	9	6

* Calendar year data. Assessments are typically made in the fall of each year, and verified during the winter and spring, with final results available in July. Years indicated are when the physical assessment was done in the fall.

Note: The All Pavements percentages are calculated from total database averages, not a statistical average of the three pavement type percentages. Numbers are rounded to full percentage points.

New for 2005 – IRI or rutting not used for sections identified as under construction in rating distress.

More information about pavement management at the Department of Transportation may be obtained at:
http://www.wsdot.wa.gov/biz/mats/pavement/structural.htm

Bridge Condition

During Fiscal Year 2005 there were 3,082 state-owned vehicular structures over twenty feet in length with a total area of 43,818,935 square feet. In addition to bridges, the 3,082 structures include 77 culverts and 30 ferry terminal structures. All bridges are inspected on a two to four year interval, with no more than 10 percent of the bridges inspected less than every three years. Divers inspect underwater bridge components at least once every five years in accordance with Federal Highway Administration (FHWA) requirements. Special emphasis is given to the ongoing inspection and maintenance of major bridges representing a significant public investment due to size, complexity or strategic location. Information related to public bridges is maintained in the Washington State Bridge Inventory System (WSBIS). This system is used to develop preservation strategies and comprehensive recommendations for maintenance and construction, and for reporting to the FHWA.

WSDOT's policy is to maintain 95 percent of its bridges at a structural condition of at least fair, meaning that all primary structural elements are sound. The most recent assessment found that state-owned bridges were within the prescribed parameters with 98 percent having a condition rating of fair or better and only 2 percent of bridges having a condition rating of poor. Bridges rated as poor may have structural deficiencies that restrict the weight and type of traffic allowed. No bridges that are currently rated as poor are unsafe for public travel. Any bridges determined to be unsafe are closed to traffic. WSDOT had no closed bridges as of June 30, 2005.

WSDOT's Bridge Seismic Retrofit Program prioritizes state bridges for seismic retrofit, and performs these retrofits as funding permits. Retrofit priorities are based on seismic risk of a site, structural detail deficiencies, and route importance. In 1991, 937 bridges were classified as needing retrofitting and were included in the Seismic Retrofit Program. From 1991 to the end of June 2005, WSDOT has fully or partially retrofitted 368 bridges. Of those, 191 are completely retrofitted, 162 are partially retrofitted, and 15 are under contract to be retrofitted.

The following condition rating data is based on the structural sufficiency standards established in the FHWA "Recording and Coding Guide for the Structural Inventory and Appraisal of the Nation's Bridges." This structural rating relates to the evaluation of bridge superstructure, deck, substructure, structural adequacy and waterway adequacy. Three categories of condition were established in relation to the FHWA criteria as follows:

Category	National Bridge Inventory Code	Description
Good	6, 7, or 8	A range from no problems noted to some minor deterioration of structural elements.
Fair	5	All primary structural elements are sound but may have deficiencies such as minor section loss, deterioration, cracking, spalling or scour.
Poor	4 or less	Advanced deficiencies such as section loss, deterioration, cracking, spalling, scour or seriously affected primary structural components.

Note: Bridges rated in poor condition may be restricted for the weight and type of traffic allowed.

Condition Rating of Washington State Department of Transportation's Bridges

Percentage of Bridges in Fair or Better Condition

Bridge Type	2005	2004	2003	2002	2001
Reinforced Concrete (1,300 bridges in FY 2005)	98.6	98	98	97	96
Prestressed Concrete (1,296 bridges in FY2005)	99.5	99.5	99.5	99.5	99
Steel (348 bridges* in FY 2005)	94.3	93	93	92	91
Timber (63 bridges in FY 2005)	69.2	70	69	70	71
Statewide - All Bridges (3,007 out of 3,082 bridges in FY 2005)	97.6	97.4	97	96.7	96

Percentage of Bridges in Poor Condition

Bridge Type	2005	2004	2003	2002	2001
Reinforced Concrete (19 bridges in FY 2005)	1.4	2	2	3	4
Prestressed Concrete (7 bridges in FY 2005)	0.5	0.5	0.5	0.5	1
Steel (21 bridges* in FY 2005)	5.7	6.5	7	8	9
Timber (28 bridges in FY 2005)	30.8	30	31	30	29
Statewide - All Bridges (75 out of 3,082 bridges in FY 2005)	2.4	2.6	3	3.3	4

*The steel bridge ratings for FY2005 include 24 ferry terminal structures rated as fair or better and six ferry terminal structures rated as poor. While the terminals are included in a depreciable asset category, they are included here with bridge condition information since they are evaluated by the WSDOT Bridge Office on a periodic basis.

Note: Bridges rated as poor may have structural deficiencies that restricted the weight and type of traffic allowed. WSDOT currently has 12 posted bridges and 146 restricted bridges. Posted bridges have signs posted which inform of legal weight limits. Restricted bridges are those where overweight permits will not be issued for travel by overweight vehicles. Refer to http://www.wsdot.wa.gov/freight/mcs/ for more information. Any bridges determined to be unsafe are closed to traffic. WSDOT had no closed bridges as of June 30, 2005.

Additional information regarding the Department of Transportation's bridge inspection program may be obtained at: http://www.wsdot.wa.gov/eesc/bridge/index.cfm

Emergency Air Field Condition

The Washington State Department of Transportation (WSDOT), through its Aviation Division is authorized by RCW 47.68.100 to acquire and maintain airports. Under this authority, WSDOT owns eight emergency airfields and leases several others. Most of the airfields are located near or adjacent to state highways and range in character from paved to gravel or turf. The prime task of the airfields is to provide emergency facilities. Two airfields are in operational condition 12 months of the year, with five operational from June to October each year. One is only available for emergency search and rescue use. In accordance with WSDOT policy, maintenance is done on each airfield annually to keep it at its existing condition of use. Each airfield is inspected a minimum of three times per year.

The definitions below form the rating criteria for the current airfield condition ratings which follow.

Category	Definition
General Use Community Airport	An airport with a paved runway capable of handling aircraft with a maximum gross certificated takeoff weight of 12,500 pounds.
Limited Use Community Airport	An airport with an unpaved runway capable of handling aircraft with a maximum gross certificated takeoff weight of 12,500 pounds.
General Recreational Use Airport	An airport with a turf (unpaved) runway near access to recreational opportunities with capacity for aircraft less than 12,500 pounds.
Limited Search and Rescue Forward Operating Location	An airport with a landing pad only capable of accommodating rotorcraft.

Condition Rating of Washington State Emergency Airfields

	Number of Airports
Owned airports:	
Acceptable for general use as a community airport	1
Acceptable for limited use as a community airport	1
Acceptable for general recreation use	5
Limited search and rescue forward operating location	1
Total owned airports	8

	2005	2004	2003	2002	2001
Percentage of airports acceptable for general recreational use or better	88	88	88	88	88
Percentage of airports not acceptable for general recreational use or better	12	12	12	12	12

Note: One airport is open only as a limited search and rescue operating location and is expected to remain in that status. For pictures of specific airfields, refer to the Department of Transportation's website at:

http://www.wsdot.wa.gov/Aviation/airports/default.htm

Information about Infrastructure Assets Reported Using the Modified Approach

Comparison of Budgeted-to-Actual Preservation and Maintenance

For the Fiscal Year Ended June 30, 2005
(expressed in thousands)

	FY 2002			FY 2003		
Pavements						
	Budget	Actual	Variance	Budget	Actual	Variance
Preservation	$ 134,810	$ 127,946	$ 6,864	$ 119,160	$ 123,883	$ (4,723)
Maintenance	23,746	19,485	4,261	22,796	24,123	(1,327)
Total	$ 158,556	$ 147,431	$ 11,125	$ 141,956	$ 148,006	$ (6,050)
Bridges						
Preservation	$ 24,270	$ 16,307	$ 7,963	$ 22,460	$ 23,988	$ (1,528)
Maintenance	11,430	11,012	418	11,222	12,853	(1,631)
Total	$ 35,700	$ 27,319	$ 8,381	$ 33,682	$ 36,841	$ (3,159)
Emergency Air Fields						
Preservation & Maint.	$ 70	$ 64	$ 6	$ 70	$ 58	$ 12

In addition to increasing and improving the state highway system, WSDOT places a high priority on preserving and maintaining the current highway system. WSDOT breaks out preservation and maintenance into two separate functions. Preservation can be described as projects that maintain the structural integrity of the existing highway system including roadway pavements, safety features, bridges, and other structures/facilities. The Maintenance function handles the day-to-day needs that occur such as guardrail replacement, patching pot holes, installing signs, vegetation control, etc.

In 1996 WSDOT embarked on an initiative to use outcome based performance measures for evaluating the effectiveness of the Maintenance Program. The Maintenance Accountability Process (MAP) is a comprehensive planning, measuring and managing process that provides a means for communicating the impacts of policy and budget decisions on program service delivery. WSDOT uses it to identify investment choices and affects of those choices in communicating with the legislature and other stakeholders. The MAP measures and communicates the outcomes of 34 distinct highway maintenance activities. Maintenance results are measured via field condition surveys and reported as Level of Service (LOS) ratings, which range from A to F. LOS targets are defined in terms of the condition of various highway features (i.e. percent of guardrail on the highway system that is damaged) and are set commensurate with the level of funding provided for the WSDOT highway maintenance program. More information about MAP may be obtained at: http://www.wsdot.wa.govaintenance/accountability.htm.

Notes: Numbers for the Pavement and Bridges budget amounts are calculated based on the 2003-2005 biennial plan as shown in the WSDOT May 2005 *Monthly Financial Report* for sub-programs P1 (Roadway Preservation), P2 (Structures Preservation), and M2 (Roadway, Bridge & Tunnel maintenance). For FY 2005, the annual budget amount was calculated as half the biennial amount plus any FY 2005 increase to the budget. The Preservation budgeted and actual amounts were adjusted for capitalized infrastructure and equipment in FY 2005.

The emergency airfields (program F3, State Airport Construction and Maintenance) budget amount came from the same sources as for pavements and bridges described above but is only one-fourth of the biennial total plus 1/2 of the FY 2005 increase to the budget.

The state implemented the requirements of Statement Number 34 of the Governmental Accounting Standards Board (GASB), including the provisions related to capitalizing and reporting infrastructure on the modified approach, in Fiscal Year 2002. While budget to actual information is not available for years prior to Fiscal Year 2002 using the GASB definitions of preservation and maintenance, historical budget to actual information for the entire Construction and Maintenance programs is available by contacting the WSDOT Budget Office at (360) 705-7500.

FY 2004			FY 2005		
Budget	Actual	Variance	Budget	Actual	Variance
$ 116,902	$ 107,229	$ 9,673	$ 118,055	$ 122,868	$ (4,813)
21,254	18,064	3,190	20,657	18,715	1,942
$ 138,156	$ 125,293	$ 12,863	$ 138,712	$ 141,583	$ (2,871)
$ 30,637	$ 24,780	$ 5,857	$ 16,768	$ 14,332	$ 2,436
11,292	11,267	25	11,159	11,151	8
$ 41,929	$ 36,047	$ 5,882	$ 27,927	$ 25,483	$ 2,444
$ 70	$ 71	$ (1)	$ 108	$ 129	$ (21)

APPENDIX E

BOOK-ENTRY TRANSFER SYSTEM

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BOOK-ENTRY TRANSFER SYSTEM

The following information has been provided by DTC. The state makes no representation as to the accuracy or completeness thereof. Beneficial Owners should confirm the following with DTC or the Participants (as hereinafter defined).

DTC will act as securities depository for the Certificates. The Certificates will be issued as fully registered Certificates, registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered certificate will be issued for each principal payment date of the Certificates, each in the aggregate principal amount of represented by such Certificates, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants (the "Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need of physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations ("Direct Participants"). DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of Certificates under the DTC system must be made by or through Direct Participants. Such Direct Participants will receive a credit for the Certificates on DTC's records. The ownership interest of each actual purchaser of each Certificate ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Certificates are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

To facilitate subsequent transfers, all Certificates deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Certificates with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices will be sent to Cede & Co. If less than all of the Certificates within a Series are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in Certificates to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to Certificates. Under its usual procedures, DTC mails an Omnibus Proxy to the state as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Certificates will be made to DTC. DTC's practice is to credit Direct Participants' accounts on payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Fiscal Agent or the state, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the state or the Fiscal Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Certificates at any time by giving reasonable notice to the state. Under such circumstances, in the event that a successor securities depository is not obtained, physical certificates are required to be printed and delivered.

The state may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, physical certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources the state believes to be reliable, but the state takes no responsibility for the accuracy or completeness thereof.

APPENDIX F

MUNICIPAL INSURANCE POLICY SPECIMEN

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XL CAPITAL ASSURANCE

1221 Avenue of the Americas
New York, New York 10020
Telephone: (212) 478-3400

MUNICIPAL BOND INSURANCE POLICY

ISSUER: [ ] **Policy No:** [ ]

BONDS: [ ] **Effective Date:** [ ]

XL Capital Assurance Inc. (XLCA), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy (which includes each endorsement attached hereto), hereby agrees unconditionally and irrevocably to pay to the trustee (the "Trustee") or the paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the benefit of the Owners of the Bonds or, at the election of XLCA, to each Owner, that portion of the principal and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment.

XLCA will pay such amounts to or for the benefit of the Owners on the later of the day on which such principal and interest becomes Due for Payment or one (1) Business Day following the Business Day on which XLCA shall have received Notice of Nonpayment (provided that Notice will be deemed received on a given Business Day if it is received prior to 10:00 a.m. New York time on such Business Day; otherwise it will be deemed received on the next Business Day), but only upon receipt by XLCA, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in XLCA. Upon such disbursement, XLCA shall become the owner of the Bond, any appurtenant coupon to the Bond or the right to receipt of payment of principal and interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by XLCA hereunder. Payment by XLCA to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of XLCA under this Policy.

In the event the Trustee or Paying Agent has notice that any payment of principal or interest on a Bond which has become Due for Payment and which is made to an Owner by or on behalf of the Issuer of the Bonds has been recovered from the Owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law, such Owner will be entitled to payment from XLCA to the extent of such recovery if sufficient funds are not otherwise available.

The following terms shall have the meanings specified for all purposes of this Policy, except to the extent such terms are expressly modified by an endorsement to this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment", when referring to the principal of Bonds, is when the stated maturity date or a mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity, unless XLCA shall elect, in its sole discretion, to pay such principal due upon such acceleration; and, when referring to interest on the Bonds, is when the stated date for payment of interest has been reached. "Nonpayment" means the failure of the Issuer to have provided sufficient funds to the Trustee or Paying Agent for payment in full of all principal and interest on the Bonds which are Due for Payment. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to XLCA which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

SPECIMEN

XLCA may, by giving written notice to the Trustee and the Paying Agent, appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy. From and after the date of receipt by the Trustee and the Paying Agent of such notice, which shall specify the name and notice address of the Insurer's Fiscal Agent, (a) copies of all notices required to be delivered to XLCA pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to XCLA and shall not be deemed received until received by both and (b) all payments required to be made by XLCA under this Policy may be made directly by XLCA or by the Insurer's Fiscal Agent on behalf of XLCA. The Insurer's Fiscal Agent is the agent of XLCA only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of XLCA to deposit or cause to be deposited sufficient funds to make payments due hereunder.

Except to the extent expressly modified by an endorsement hereto, (a) this Policy is non-cancelable by XLCA, and (b) the Premium on this Policy is not refundable for any reason. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Bond, other than at the sole option of XLCA, nor against any risk other than Nonpayment. This Policy sets forth the full undertaking of XLCA and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto.

THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, XLCA has caused this Policy to be executed on its behalf by its duly authorized officers.

Name:	Name:
Title:	Title:

SPECIMEN

XLCAP-005
Form of Municipal Policy [Specimen]